

19 January 2021

Financial Services | Banks

## TISCO Financial (TISCO TB)

**Buy** (Maintained)

Treading Cautiously Into 2021; BUY

Target Price (Return): THB108.00 (+18%)  
 Price: THB91.80  
 Market Cap: USD2,439m  
 Avg Daily Turnover (THB/USD) 613m/20.2m

- Stay BUY, unchanged THB108.00 TP offers 18% upside with c.6% yield.** TISCO Financial Group's FY20 results are within expectations, improved asset quality and NIM uptick being the key standouts. We believe the stock will continue to undergo a positive re-rating as business confidence continues to improve, with the lifting of lockdown measures and the rollout of COVID-19 vaccines. Still, potential speed bumps along the road to recovery will see TISCO commanding a premium valuation for its defensive qualities – solid asset quality and robust capital.
- FY20 results in line.** TISCO's net profit of THB1,636m (+1.5% QoQ, -12% YoY) for 4Q20 lifted FY20 earnings to THB6,063m (-17% YoY). FY20 results are in line with our and consensus estimates. FY20 ROE was at 15.4% (FY19: 18.9%). Its capital position is solid, with the CET-1 ratio at 18.1%.
- 4Q20 earnings moderated by higher expected credit loss (ECL).** PIOP rose 8% QoQ, helped by a 16% QoQ rise in non-interest income (non-II) and positive jaws from a very constrained 2% QoQ uptick in opex. CIR improved to 43.0% (3Q20: 44.3%). The boost in non-II came mainly from the THB229.5m gains from trading and investments. Net interest income (NII) was flat QoQ with the 6bps QoQ recovery in NIM from effective funding cost management offset by the flatish loans. Opex growth was subdued on improved efficiency, lower marketing expense and the 1.5% QoQ decline in staff costs. Pretax profit, however, was rose by a mild 1.7% QoQ, as ECL increased by 27% QoQ – as management set aside pre-emptive provisions, given the resurgence in COVID-19 cases towards end-2020. Annualised credit cost was 137bps, compared with 107bps in 3Q20.
- Asset quality.** Gross NPLs, which fell 21% QoQ in 3Q20, declined by another 5% QoQ in 4Q20. Management attributed the improvement to better-than-expected loan repayments that led to the 9% QoQ drop in auto hire purchase NPLs. Its gross NPL ratio ended the year at 2.50%, slightly higher than 4Q19's 2.40%. With the higher ECL in 4Q20, LLR strengthened to 210.5%, from 196.1% in 3Q20. Loans under debt relief programmes have dropped to 2% of total loans at end-2020 (3Q20: 24%), with the expiry of phase 1 of the Bank of Thailand (BoT)-led financial assistance programme. Management believes this could rise again – as retail borrowers have until June to apply for phase 2 of the financial assistance package announced on 12 Jan.
- 2021 guidance.** Management expects NIM to be stable-to-slightly better, premised on efforts to manage funding costs. Meanwhile, it anticipates loans to be flat YoY, credit cost to be lower at 100-120bps, and ROE at c.15%. On dividend, TISCO intends to pay the maximum 50% of FY20 net profit as allowed by BoT. Our FY21F-22F earnings are trimmed by 2% (Figure 2). Key downside risks to our view is higher-than-expected ECL and a weaker-than-expected NIM. Our THB108.00 TP, based on a GGM-derived P/BV of 1.98x, is above +1SD from the historical mean.

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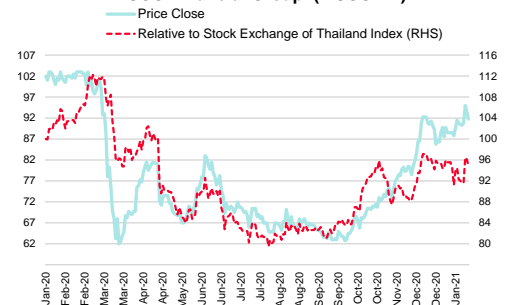
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.7	2.8	34.4	30.1	(10.5)
Relative	(0.5)	0.9	12.0	19.0	(4.8)
52-wk Price low/high (THB)					62.0 – 103

TISCO Financial Group (TISCO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	7,270	6,063	6,493	7,200	7,973
Net profit growth (%)	3.6	(16.6)	7.1	10.9	10.7
Recurring net profit (THBm)	7,270	6,063	6,493	7,200	7,973
Recurring EPS (THB)	9.08	7.57	8.11	8.99	9.96
BVPS (THB)	48.95	49.28	54.46	56.79	59.21
DPS (THB)	7.75	4.54	5.27	6.74	7.54
Recurring P/E (x)	10.10	12.12	11.31	10.20	9.21
P/B (x)	1.87	1.86	1.68	1.62	1.55
Dividend Yield (%)	8.4	5.0	5.7	7.4	8.2
Return on average equity (%)	18.9	15.4	15.6	16.2	17.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	9.08	7.57	8.11	8.99	9.96
Financial Services	Recurring EPS	9.08	7.57	8.11	8.99	9.96
<b>TISCO Financial</b>	DPS	7.75	4.54	5.27	6.74	7.54
TISCO TB	BVPS	48.95	49.28	54.46	56.79	59.21
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	10.10	12.12	11.31	10.20	9.21
Our GGM assumptions include:	P/B (x)	1.9	1.9	1.7	1.6	1.5
i. COE of 9.1%;	Dividend Yield (%)	8.4	5.0	5.7	7.4	8.2
ii. ROE of 16.1%;						
iii. Long-term growth of 2%.						
	<b>Income statement (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key drivers</b>	Interest income	17,881	16,757	16,306	17,432	18,685
Our forecasts are most sensitive to changes in:	Interest expense	(5,089)	(3,659)	(3,280)	(3,856)	(4,329)
i. Impairment allowance;	<b>Net interest income</b>	<b>12,792</b>	<b>13,098</b>	<b>13,026</b>	<b>13,575</b>	<b>14,355</b>
ii. Domestic car sales; and	Non interest income	6,643	5,806	5,851	6,090	6,418
iii. Stimulus measures that could mitigate NPL risks and lift loan growth.	<b>Total operating income</b>	<b>19,436</b>	<b>18,904</b>	<b>18,877</b>	<b>19,665</b>	<b>20,773</b>
	Overheads	(9,271)	(8,012)	(8,105)	(8,335)	(8,619)
	<b>Pre-provision operating profit</b>	<b>10,165</b>	<b>10,892</b>	<b>10,771</b>	<b>11,331</b>	<b>12,155</b>
	Loan impairment allowances	(1,109)	(3,331)	(2,615)	(2,325)	(2,182)
	<b>Pre-tax profit</b>	<b>9,056</b>	<b>7,562</b>	<b>8,157</b>	<b>9,006</b>	<b>9,973</b>
	Taxation	(1,783)	(1,498)	(1,660)	(1,801)	(1,995)
	Minority interests	(3)	(0)	(3)	(5)	(5)
	<b>Reported net profit</b>	<b>7,270</b>	<b>6,063</b>	<b>6,493</b>	<b>7,200</b>	<b>7,973</b>
	<b>Recurring net profit</b>	<b>7,270</b>	<b>6,063</b>	<b>6,493</b>	<b>7,200</b>	<b>7,973</b>
	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Company Profile</b>	Return on average assets (%)	2.4	2.1	2.3	2.5	2.6
TISCO Financial Group is a holding company, with TISCO Bank as its core business. The bank specialises in auto hire purchase loans, which accounts for 70% of total loans. It also engages in retail and small and medium enterprise (SME) lending, corporate loans, and private banking.	Return on average equity (%)	18.9	15.4	15.6	16.2	17.2
	Return on IEAs (%)	5.9	5.9	5.8	6.0	6.1
	Cost of funds (%)	2.0	1.6	1.5	1.7	1.8
	Net interest spread (%)	3.9	4.3	4.4	4.3	4.3
	Net interest margin (%)	4.3	4.6	4.7	4.7	4.7
	Non-interest income / total income (%)	34.2	30.7	31.0	31.0	30.9
	Cost to income ratio (%)	47.7	42.4	42.9	42.4	41.5
	Credit cost (bps)	45.9	142.4	116.0	100.0	89.0
	<b>Balance sheet (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Total gross loans	242,826	224,812	226,000	238,920	251,385
	Other interest earning assets	54,685	50,400	56,500	58,905	61,490
	Total gross IEAs	297,511	275,212	282,500	297,825	312,875
	Total provisions	(10,717)	(11,826)	(13,429)	(12,619)	(12,033)
	Net loans to customers	232,109	212,986	212,571	226,301	239,353
	Total net IEAs	286,795	263,386	269,071	285,206	300,842
	Total non-IEAs	11,510	12,057	11,849	11,483	10,786
	Total assets	298,304	275,443	280,919	296,689	311,628
	Customer deposits	216,085	203,473	205,000	217,710	230,228
	Other interest-bearing liabilities	29,980	19,918	19,310	20,054	19,932
	Total IBLs	246,064	223,391	224,310	237,764	250,160
	Total non-IBLs	13,044	12,590	13,000	13,455	14,060
	Total liabilities	259,108	235,981	237,310	251,219	264,221
	Share capital	8,007	8,007	8,007	8,007	8,007
	Shareholders' equity	39,193	39,459	43,606	45,466	47,404
	Minority interests	3	3	4	4	4
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	2.4	2.5	3.0	2.8	2.6
	Total provisions / reported NPLs (%)	183.7	210.5	198.1	185.4	184.2
	CET-1 ratio (%)	16.4	17.8	18.6	18.3	18.2
	Tier-1 ratio (%)	16.4	17.8	18.6	18.3	18.2
	Total capital ratio (%)	20.8	22.5	23.4	23.1	23.0

Source: Company data, RHB

## Results At a Glance

Figure 1: TISCO's 4Q20 and FY20 results summary

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments FY20 vs. FY19
NII	3,472	3,252	3,259	0.2	-6.1	12,792	13,098	2.4	Up YoY, mainly on expansion in NIM.
<i>NIM (%) - reported</i>	4.20%	4.70%	4.76%			4.26%	4.57%		NIM expanded YoY due to a change in income recognition under TFRS 9 (to the "Effective Interest Rate" principle from the accrual of interest income of non-performing loans. Separately, funding cost was lowered by the cuts in FIDF rate in 1Q20.
Non-II	1,964	1,443	1,675	16.0	-14.8	6,643	5,806	-12.6	Down YoY, mainly because fees from core businesses fell 12% YoY largely on lower loan-related fees and bancassurance that offset higher fee income from capital market businesses (+13% YoY). Gains from trading and investments rose 44% YoY.
<i>Non-II/total income (%)</i>	36.1%	30.7%	33.9%			34.2%	30.7%		
Operating income	<b>5,436</b>	<b>4,696</b>	<b>4,934</b>	<b>5.1</b>	<b>-9.2</b>	<b>19,436</b>	<b>18,904</b>	<b>-2.7</b>	
Overhead expenses	(2,379)	(2,082)	(2,120)	1.8	-10.9	(9,271)	(8,012)	-13.6	Lower YoY, mainly on the 18% YoY decline in staff cost and 7% YoY drop in other expenses.
<i>CIR (%)</i>	43.8%	44.3%	43.0%			47.7%	42.4%		
<b>PIOP</b>	<b>3,057</b>	<b>2,614</b>	<b>2,814</b>	<b>7.6</b>	<b>-8.0</b>	<b>10,165</b>	<b>10,892</b>	<b>7.2</b>	
Expected credit loss	(738)	(605)	(771)	27.4	4.4	(1,109)	(3,331)	200.3	The increase was due to the adoption of ECL models under TFRS 9, as well as additional allowance for the deterioration in economic outlook.
<i>Annualised credit cost (bps)</i>	122	107	137			45	140		
<b>Pretax profit</b>	<b>2,319</b>	<b>2,009</b>	<b>2,043</b>	<b>1.7</b>	<b>-11.9</b>	<b>9,056</b>	<b>7,562</b>	<b>-16.5</b>	
Tax	(454)	(397)	(406)			(1,783)	(1,498)		
<i>Effective tax rate (%)</i>	19.6%	19.8%	19.9%			19.7%	19.8%		
Minority interest	(0)	(0)	(0)			(3)	(0)		
<b>Net profit</b>	<b>1,865</b>	<b>1,612</b>	<b>1,636</b>	<b>1.5</b>	<b>-12.2</b>	<b>7,270</b>	<b>6,063</b>	<b>-16.6</b>	
<b>Other key data and ratios</b>									
Gross loans (THBbn)	242,826	224,900	224,812	0.0	-7.4				Down 7% YoY, with retail lending down 8% YoY and commercial loans falling 24% YoY. Its hire purchase loans dropped 8% YoY, and loans against auto licenses fell 5% YoY.
Customer deposits	216,085	204,756	203,473	-0.6	-5.8				Down 6% YoY, mainly on the 11% YoY decline in NCDs and 22% YoY fall in fixed deposits. CASA deposits were up 32% YoY, raising the CASA ratio to 26.3%. Down 4% YoY, as one corporate client resumed debt repayment. NPLs of loans against auto licenses surged 53% YoY.
Non-performing loans	5,834	5,918	5,618	-5.1	-3.7				
Total assets	298,304	275,949	275,443	-0.2	-7.7				
Shareholders' funds	39,193	37,842	39,459	4.3	0.7				
ROAA (%)	2.56	2.34	2.37			2.42	2.11		
ROAE (%)	19.5	17.4	16.9			18.9	15.4		
LDR (%)	112.4	109.8	110.5						
NPL ratio (%)	2.40	2.63	2.50						
Loan loss reserves (%)	183.7	196.1	210.5						
Tier-1 capital ratio (%)	16.3	17.5	17.6						
Total capital ratio	20.7	21.8	22.0						

Source: Company data, RHB

## Earnings estimate revisions

We made the following revisions for FY21F-22F:

- Higher NII, as the quarterly NIM trend has been better than expected. Furthermore, management expects a slight uptick in NIM, helped by continued efforts to manage funding costs;
- Higher non-II, on expectations of better fee income from capital market activities; and
- Higher credit cost to reflect management's guidance – 114bps (from 104bps) for FY21F, and 102bps (from 82bps) for FY22F.

Overall, earnings for FY21F and FY22F are trimmed by 2%, as the upward revision in operating income was offset by assumptions of higher provisions. We have also introduced forecasts for FY23F.

Figure 2: TISCO – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	6,639	6,493	-2.2	8.29	8.11	-2.2	5.39	5.27	-2.2
2022F	7,371	7,200	-2.3	9.21	8.99	-2.3	6.91	6.74	-2.3
2023F	new	7,973	n.m.	new	9.96	n.m.	new	7.54	n.m.

Source: RHB

## Valuation

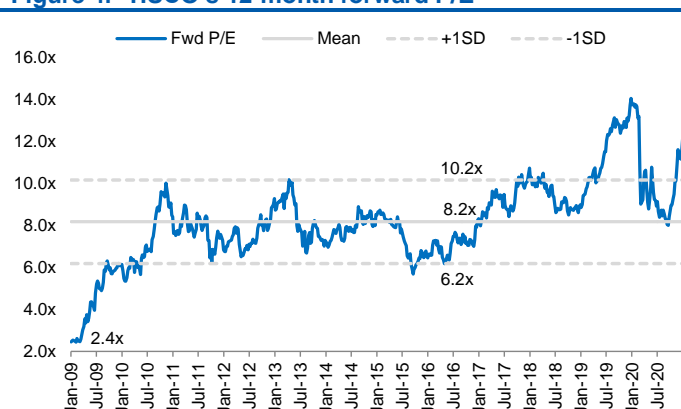
**TP maintained.** Our TP is unchanged at THB108.00, based on a GGM-derived P/BV of 1.98x, which is above +1SD from the historical mean.

Figure 3: TISCO – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	16.1
Risk free rate (%)	1.30	COE (%)	9.13
Equity premium (%)	7.15	Long-term growth (g)	2.0
Beta (x)	1.10	Implied P/BV (x)	1.98
Cost of equity - CAPM (%)	9.13	BVPS – FY20F-21F average	THB54.46
		Target price	THB107.65
		<b>TP (rounded)</b>	<b>THB108.00</b>

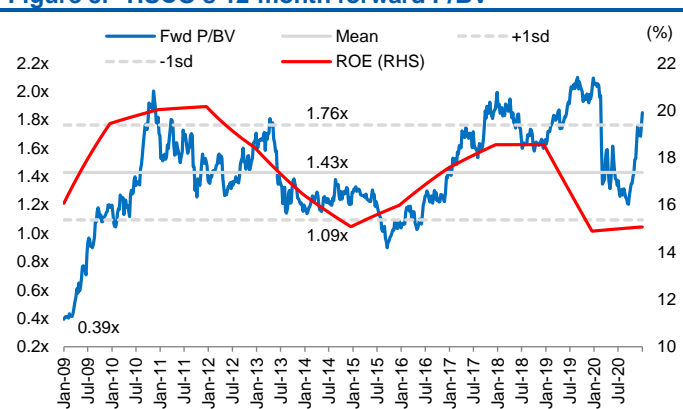
Source: Company data, RHB

Figure 4: TISCO's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: TISCO's 12-month forward P/BV



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Buy	108	90
2020-11-13	Buy	85	75
2020-10-19	Buy	82	68
2020-07-20	Neutral	74	69
2020-04-21	Neutral	84	82
2019-09-09	Neutral	108	104
2019-07-17	Buy	105	97
2019-02-13	Neutral	89	85
2018-10-16	Buy	93	79
2018-07-13	Buy	100	81

Source: RHB, Bloomberg

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