

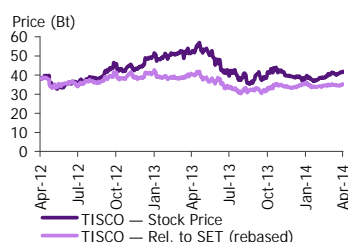
## BUY

## Stock Data

Last close (Apr 16) (Bt)	42.50
12-m target price (Bt)	47.00
Upside (Downside) to TP (%)	10.59
Mkt cap (Btbn)	34.03
Mkt cap (US\$mn)	1,055

Bloomberg code	TISCO TB
Reuters code	TISC.BK
Risk rating	M
Mkt cap (%) SET	0.28
Sector % SET	17.19
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	60.8 / 34.5
Avg. daily 6m (US\$mn)	1.94
Foreign limit / actual (%)	49 / 43
Free float (%)	79.1
Dividend policy (%)	50

## Price Performance



Source: SET, SCBS Investment Research

## Share performances

	1M	3M	12M
Absolute	3.0	11.1	-22.4
Relative to SET	1.2	2.7	-15.7

Source: SET, SCBS Investment Research

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## 1Q14 misses: cut 2014 EPS, TP by 3%

■ **1Q14 misses at Bt935mn (EPS Bt1.17)**, down 19% YoY but up 16% QoQ – both on provisions- higher YoY and lower QoQ. This was 15% below our Bt1.1bn on higher-than-expected provisions but in line with consensus' Bt962mn. 1Q14 was weaker operationally, with negative loan growth, falling non-interest income and a moderate rise in NPLs that led to higher provisions than expected. The high points were a stable net interest margin and lower cost to income ratio. Key points:

1. Loan growth: Worse than expected, -2.6% QoQ, with a fall in all segments – corporate loans -1.6%, SME loans -7%, and retail loans -2.3%. We expect a small recovery in 2Q14, driven by the Motor Show.
2. Net interest margin (NIM): In line, +1 bps QoQ to 2.68%. As a result of interest rate cuts, both yield on earning assets and cost of funds fell 6 bps QoQ. TISCO reduced low-yield excess liquidity to sustain NIM and we expect this to be stagnant in 1H14 before slowly recovering in 2H14 upon deposit re-pricing.
3. Non-interest income: In line, -22% YoY and -2% QoQ, with the expected lower fee income related to the capital market and lending.
4. Cost to income ratio: As expected, down YoY from 37.5% but a normalized QoQ rise to 35.6% from 29.7%. The YoY fall in cost to income ratio reflects its cost tightening policy. A reversal of accrued bonus made 4Q13 opex unusually low.
5. Asset quality: NPLs rose Bt400mn or 8% QoQ, slowed from 2013. NPL ratio rose to 1.89% from 1.70% in 4Q13, up in all segments – corporate loans +7.2%, SME loans +64%, and retail loans +6%. Credit cost was 1.64%, up YoY from 1.4% in 1Q13 but down QoQ from 2.21% in 4Q13, higher than we anticipated. LLR coverage continued falling to 121% from 128% at 4Q13.

Figure 1: Quarterly results

P & L (Bt mn)	1Q13	2Q13	3Q13	4Q13	1Q14	%YoY ch	%QoQ ch	% full year
Interest income	4,467	4,766	4,944	5,095	4,998	12	(2)	25
Interest expense	2,364	2,537	2,627	2,776	2,692	14	(3)	26
Net interest income	2,103	2,229	2,317	2,319	2,306	10	(1)	23
Non-interest income	1,761	1,456	1,318	1,398	1,369	(22)	(2)	24
Operating expenses	1,449	1,388	1,401	1,102	1,310	(10)	19	23
Pre-provision profit	2,416	2,297	2,234	2,615	2,365	(2)	(10)	24
Less Provision	940	810	778	1,613	1,170	24	(27)	26
Pre-tax profit	1,476	1,487	1,456	1,001	1,195	(19)	19	22
Income tax	284	303	293	184	238	(16)	29	21
MI and Equity	(38)	(25)	(31)	(13)	(22)	42	(73)	NA
Net profit	1,154	1,159	1,132	804	935	(19)	16	22
EPS (Bt)	1.58	1.45	1.41	1.00	1.17	(26)	16	22
B/S (Bt mn)	1Q13	2Q13	3Q13	4Q13	1Q14	%YoY ch	%QoQ ch	% full year
Gross loans	266,785	280,558	284,855	292,151	284,655	7	(3)	NM
Deposits	248,914	238,093	257,217	264,641	227,611	(9)	(14)	NM
BVPS (Bt)	26.52	25.24	26.69	28.71	29.91	13	4	NM
Ratios (%)	1Q13	2Q13	3Q13	4Q13	1Q14	%YoY ch*	%QoQ ch*	% full year
Yield on earn. asset	5.94	6.00	6.02	5.88	5.82	(0.12)	(0.06)	NM
Cost of funds	3.44	3.51	3.51	3.51	3.45	0.01	(0.06)	NM
Net interest margin	2.80	2.81	2.82	2.68	2.68	(0.11)	0.01	NM
Cost to income	37.5	37.7	38.6	29.7	35.6	(1.84)	5.99	NM
NPLs/total loans	1.28	1.45	1.47	1.70	1.89	0.61	0.19	NM
LLR/NPLs	167	145	136	128	121	(46.31)	(7.25)	NM

Source: SCBS Investment Research

Note: \* Percentage points

■ **3% cut in 2014 forecast, TP (to Bt47)**, factoring in the hit to the economy from the prolonged political unrest and the miss in 1Q14. We cut net interest income to 11% from 17% (vs. +27% in 2013) after reducing loan growth to 3% from 11% (vs. 18% in 2013), accompanied by a small 1 bps rise in NIM (+1 bps YoY for 2014F vs. stagnant in 2013) to factor in the benefit from an expected 50 bps cut in policy rate in 1H14. We lower 2014F non-interest income growth to -4% from -1% (vs. +26% in 2013), mainly reflecting lower fee income related to loans and the capital market. We raised 2014F credit cost by 10 bps to 150 bps (vs. 142 bps for 2013).

Incorporating its cost control policy, we cut 2014F cost to income ratio to 35.7% from 37.2%, close to 2013's. This reduces our growth forecast to 2% from 5% vs. 4% in 2013. Target price is cut to Bt47 from Bt48.

**Figure 2: 2014F forecast change**

	Old	New	Change from old forecast
Loan growth (%)	11.0	3.0	(8)
YoY change in NIM (%)	(0.01)	0.00	0.01
NII growth (%)	17	11	(5.4)
Credit cost (%)	1.40	1.50	0.10
Non-NII growth (%)	(1)	(5)	(3)
Cost to income ratio (%)	37.2	35.7	(1)
Net profit (Btmn)	4,473	4,328	-3%
EPS (Bt)	5.6	5.4	-3%
EPS growth (%)	5.3	1.9	(3)
BVPS (Bt)	31.9	32.1	1%
ROE (%)	18.4	17.8	(1)
TP (Bt)	48	47	-3%

Source: SCBS Investment Research

- **Maintain Buy.** We maintain Buy on TISCO, seeing it as undervalued at this point. We believe the current share price already reflects the expected slowdown in loan growth and deterioration in asset quality. Among retail-oriented banks, we prefer TISCO, as it has the highest LLR coverage and lowest exposure to used car loans, where asset quality is worst of all loan segments.

#### Forecasts and valuation

FY Dec	Unit	2012	2013	2014F	2015F	2016F
Pre-provision profit	(Btmn)	5,627	8,390	8,842	9,256	10,253
Net profit	(Btmn)	3,705	4,249	4,328	5,212	5,723
PPP/Sh	(Bt)	7.73	10.48	11.04	11.56	12.80
EPS	(Bt)	5.09	5.31	5.41	6.51	7.15
BVPS	(Bt)	25.00	28.71	32.11	36.62	41.49
DPS	(Bt)	2.40	2.00	2.00	2.28	2.50
PER	(x)	8.35	8.01	7.86	6.53	5.95
P/PPP	(x)	5.50	4.06	3.85	3.68	3.32
EPS growth	(%)	13.42	4.26	1.86	20.43	9.80
PBV	(x)	1.70	1.48	1.32	1.16	1.02
ROE	(%)	21.54	20.63	17.77	18.94	18.30
Dividend yields	(%)	5.65	4.71	4.71	5.36	5.89

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Interest & dividend income	15,211	19,272	20,394	21,729	24,103
Interest expense	8,166	10,304	10,410	11,086	12,387
Net interest income	7,044	8,968	9,984	10,643	11,716
Non-interest income	4,715	5,933	5,665	6,208	6,816
Non-interest expenses	5,024	5,340	5,592	6,159	6,716
Earnings before tax & provision	6,736	9,561	10,057	10,693	11,817
Tax	1,081	1,064	1,109	1,330	1,457
Equities & minority interest	28	107	107	107	107
Core pre-provision profit	5,627	8,390	8,842	9,256	10,253
Provision	1,922	4,141	4,514	4,044	4,530
Core net profit	3,705	4,249	4,328	5,212	5,723
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,328	5,212	5,723
EPS (Bt)	5.09	5.31	5.41	6.51	7.15
DPS (Bt)	2.40	2.00	2.00	2.28	2.50

## Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,298	1,499	1,731
Interbank assets	31,196	53,242	46,187	48,266	50,438
Investments	7,016	11,490	11,490	11,490	11,490
Gross loans	248,316	292,151	300,915	337,025	377,468
Accrued interest receivable	353	536	536	536	536
Loan loss reserve	5,122	6,354	10,116	13,408	17,185
Net loans	243,547	286,332	291,335	324,153	360,819
Total assets	290,497	359,263	357,459	392,642	431,803
Deposits	219,823	264,641	259,083	289,526	323,545
Interbank liabilities	13,971	16,703	16,703	16,703	16,703
Borrowings	27,877	44,084	44,084	44,084	44,084
Total liabilities	272,117	336,044	331,514	363,087	398,349
Minority interest	184	231	231	231	231
Paid-up capital	7,279	8,007	8,007	8,007	8,007
Total Equities	18,196	22,987	25,714	29,325	33,223
BVPS (Bt)	25.00	28.71	32.11	36.62	41.49

## Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	34.21	17.65	3.00	12.00	12.00
YoY fee & insurance income growth	44.65	25.70	(0.79)	10.00	10.18
Profitability					
Yield on earn'g assets (%)	6.01	5.99	5.70	5.75	5.77
Cost on int-bear'g liab (%)	3.55	3.51	3.23	3.31	3.37
Spread (%)	2.46	2.48	2.47	2.44	2.39
Net interest margin(%)	2.78	2.79	2.79	2.82	2.80
ROE (%)	21.54	20.63	17.77	18.94	18.30
Asset Quality					
NPLs/Total Loans(%)	1.30	1.77	1.46	1.46	1.46
LLR/NPLs(%)	165.28	127.95	230.65	272.96	312.37
Provision expense/Total loans (%)	0.77	1.42	1.50	1.20	1.20
Liquidity					
Loans/Deposits & borrowings (%)	100.25	94.63	99.26	101.02	102.68
Efficiency					
Cost to income ratio (%)	42.72	35.84	35.73	36.55	36.24
Capital Fund					
Capital adequacy ratio(%)	12.79	13.38	15.62	15.63	15.61
Tier-1(%)	8.51	9.15	11.68	12.06	12.39
Tier-2(%)	4.28	4.22	3.94	3.56	3.22

## Profit and Loss Statement (Btmn)

FY December 31	1Q13	2Q13	3Q13	4Q13	1Q14
Interest & dividend income	4,467	4,766	4,944	5,095	4,998
Interest expense	2,364	2,537	2,627	2,776	2,692
Net interest income	2,103	2,229	2,317	2,319	2,306
Non-interest income	1,761	1,456	1,318	1,398	1,369
Non-interest expenses	1,449	1,388	1,401	1,102	1,310
Earnings before tax & provision	2,416	2,297	2,234	2,615	2,365
Tax	284	303	293	184	238
Equities & minority interest	38	25	31	13	22
Core pre-provision profit	2,094	1,969	1,910	2,418	2,105
Provision	940	810	778	1,613	1,170
Core net profit	1,154	1,159	1,132	804	935
Extra item	0	0	0	0	0
Net profit	1,154	1,159	1,132	804	935
EPS (Bt)	1.58	1.45	1.41	1.00	1.17

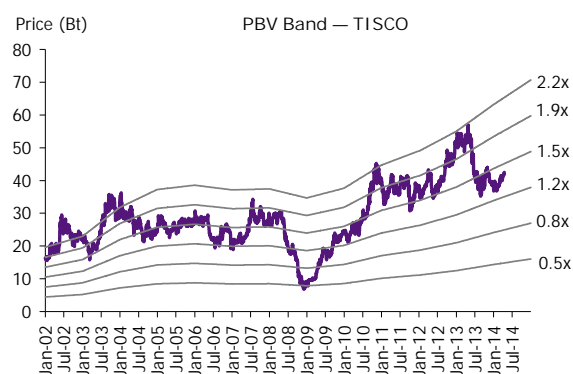
## Balance Sheet (Btmn)

FY December 31	1Q13	2Q13	3Q13	4Q13	1Q14
Cash	1,015	983	1,153	1,131	1,087
Interbank assets	41,625	32,376	41,605	53,242	29,554
Investments	6,703	7,640	9,991	11,490	16,354
Gross loans	266,785	280,558	284,855	292,151	284,655
Accrued interest receivable	351	394	384	536	407
Loan loss reserve	5,685	5,913	5,715	6,354	6,477
Net loans	261,451	275,039	279,524	286,332	278,586
Total assets	319,010	323,969	338,391	359,263	332,807
Deposits	248,914	238,093	257,217	264,641	227,611
Interbank liabilities	16,455	18,911	15,559	16,703	16,419
Borrowings	21,916	34,728	33,734	44,084	54,626
Total liabilities	299,482	303,525	316,756	336,044	308,606
Minority interest	225	238	269	231	255
Paid-up capital	7,279	8,007	8,007	8,007	8,007
Total Equities	19,303	20,207	21,366	22,987	23,946
BVPS (Bt)	26.52	25.24	26.69	28.71	29.91

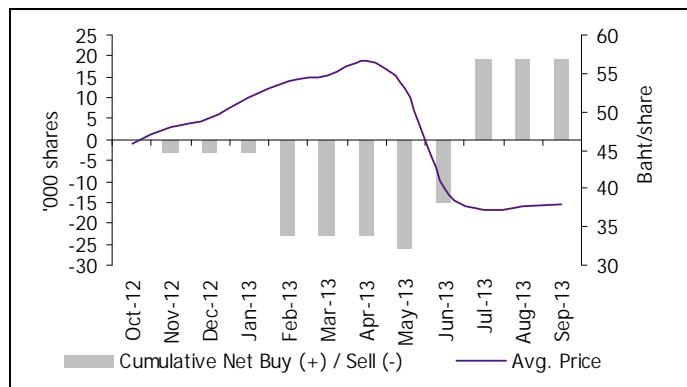
## Financial Ratios

	1Q13	2Q13	3Q13	4Q13	1Q14
YoY loan growth	37.12	33.62	24.82	17.65	6.70
YoY fee & insurance income growth	72.67	30.95	15.27	(3.92)	(21.47)
Yield on earn'g assets (%)	5.94	6.00	6.02	5.88	5.82
Cost on int-bear'g liab (%)	3.44	3.51	3.51	3.51	3.45
Net interest margin(%)	2.80	2.81	2.82	2.68	2.68
Cost to income ratio (%)	37.48	37.67	38.55	29.66	35.65
NPLs/Total Loans(%)	1.28	1.45	1.47	1.70	1.89
LLR/NPLs(%)	167.01	145.33	136.15	127.95	120.70
Provision expense/Total loans (%)	1.41	1.16	1.09	2.21	1.64

## PBV Band Chart

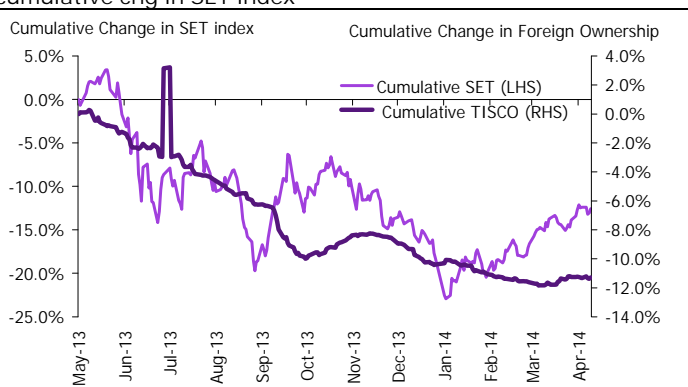


## 12-Month Cumulative directors trade



Source: SEC

## 12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

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A, AAV, AEC, AEONIS, AFC, AGE, AH, AI, AJ, AKR, ALUCON, ANAN, ARIP, AS, BAT-3K, BCH, BEAUTY, BGT, BLAND, BOL, BROCK, BSM, CHARAN, CHUD, CI, CIG, CITY, CMR, CNS, CPL, CRANE, CSP, CSR, CTW, DEMCO, DNA, DRACO, EA, EARTH, EASON, EMC, EPCC, F&D, FNS, FOCUS, FPI, FSS, GENCO, GFM, GIS, GLOBAL, HFT, HTECH, HYDRO, IFS, IHL, ILINK, INOX, IRC, IRCP, IT, JAMART, JMT, JTS, JUTHA, KASET, KC, KCAR, KDH, KTC, KWH, LALIN, LEE, MATCH, MATI, MBAX, MDX, PRINC, MJD, MK, MOONG, MPE, MSC, NC, NIPPON, NNCL, NTV, OSA, PAE, PATO, PICO, PL, POST, PRECHA, PRIN, Q-CON, QLT, RCL, RCL, ROINA, RPC, SCBLIF, SCP, SENA, SF, SGP, SIMAT, SLC, SMT, SMK, SOLAR, SPC, SPG, SRECHA, SSC, STA, SUPER, SYDA, SVC, SYNER, TRIP, TCCG, TEAM, TGCL, TIC, TFS, TIV, TKO, TMC, TMD, TMI, TNDT, TNP, TPA, TPP, TB, TTI, TUD, TH, TVZ, UBS, UEC, UOBKH, UPF, UWC, VARD, VTE, WAVE, WGS, WIN, WORE.

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