

BUY

The cheapest – but with the strongest recovery

Investment thesis. We rate TISCO as the sector's top pick for three reasons.

- 1) TISCO is the most undervalued bank, trading at the lowest 6x 2015F PER and 1.1x 2015F PBV, a big discount to its strong 18% ROE
- 2) We expect TISCO to see the largest fall in credit cost in 2015F on normalization to 120 bps from 150 bps in 2014F as the worst of deterioration in used car loans is over, rescued by the stabilization of used car prices in 1H14.
- 3) We expect a turnaround in loan growth from 3% in 2014F to a normalized 14% for 2015F as it is planning to shift focus to corporate and SME loans plus will benefit from the resumption of domestic car sales growth of 7-10%.

Forecast changes. We raised TISCO's earnings forecast by 5% for 2015F and 11% for 2016F with these key changes: 1) Raise loan growth to 14% from 10% for 2015F and 15% to 12% for 2016F to take into account the upcoming investment upcycle and consumption recovery; 2) raise NIM forecast by 1 bps for 2014F to factor in the end of the BoT's easing monetary policy; and 3) raise 2015F and 2016F non-interest income growth to 12% from 8% to factor in higher fee income related to lending and capital market activities.

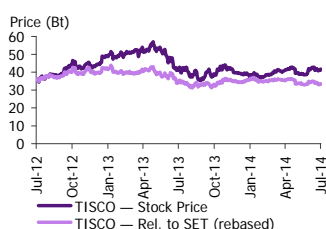
Valuation. We raise target price by 6% to Bt50 from Bt47 as we change our valuation base to mid-2015 and to accommodate the upward revision of earnings forecast. Our target price is set at 1.45x average 2014F & 2015F BVPS, equating to 8.5x average 2014F & 2015F EPS and at its historical PBV mean since 2003 (excluding the 2009 outlier). The target PBV is based on L-T ROE of 16.3%, 3% L-T growth and 12.1% cost of equity.

Stock Data

Last close (Jul 4) (Bt)	42.00
12-m target price (Bt)	50.00
Upside (Downside) to TP (%)	19.05
Mkt cap (Btbn)	33.63
Mkt cap (US\$mn)	1,039

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.25
Sector % SET	17.62
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	44 / 34.5
Avg. daily 6m (US\$mn)	1.77
Foreign limit / actual (%)	49 / 45
Free float (%)	74.3
Dividend policy (%)	50

Price Performance



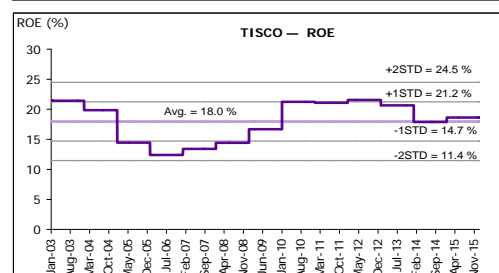
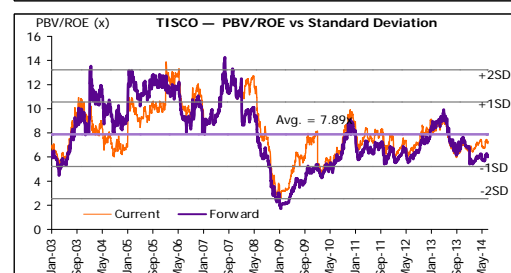
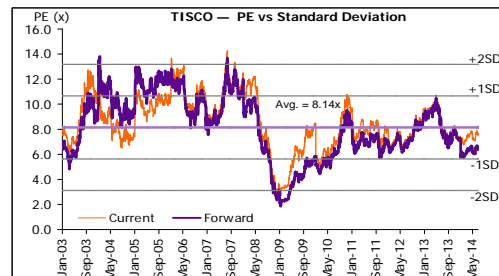
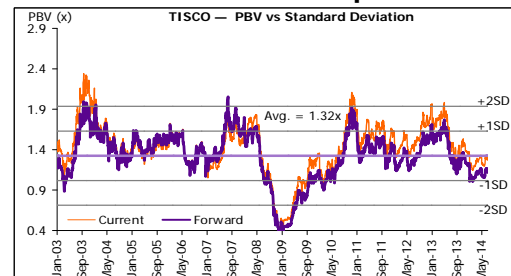
Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	1.8	1.2	-1.8
Relative to SET	-1.1	-6.7	-5.3

Source: SET, SCBS Investment Research

TISCO's historical valuation performance



Source: SCBS Investment Research

Forecasts and valuation

FY Dec	Unit	2012	2013	2014F	2015F	2016F
Pre-provision profit	(Bt mn)	5,627	8,390	8,802	9,304	10,274
Net profit	(Bt mn)	3,705	4,249	4,332	5,227	5,821
PPP/Sh	(Bt)	7.73	10.48	10.99	11.62	12.83
EPS	(Bt)	5.09	5.31	5.41	6.53	7.27
BVPS	(Bt)	25.00	28.71	32.12	36.65	41.63
DPS	(Bt)	2.40	2.00	2.00	2.28	2.54
PER	(x)	8.25	7.91	7.76	6.43	5.78
P/PPP	(x)	5.43	4.01	3.82	3.61	3.27
EPS growth	(%)	13.42	4.26	1.96	20.66	11.35
PBV	(x)	1.68	1.46	1.31	1.15	1.01
ROE	(%)	21.54	20.63	17.79	18.99	18.57
Dividend yields	(%)	5.71	4.76	4.76	5.44	6.06

Source: SCBS Investment Research

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Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Interest & dividend income	15,211	19,272	20,327	21,587	24,130
Interest expense	8,166	10,304	10,364	11,184	12,844
Net interest income	7,044	8,968	9,962	10,403	11,286
Non-interest income	4,715	5,933	5,665	6,342	7,122
Non-interest expenses	5,024	5,340	5,608	6,001	6,545
Earnings before tax & provision	6,736	9,561	10,019	10,744	11,863
Tax	1,081	1,064	1,110	1,334	1,482
Equities & minority interest	28	107	107	107	107
Core pre-provision profit	5,627	8,390	8,802	9,304	10,274
Provision	1,922	4,141	4,470	4,077	4,454
Core net profit	3,705	4,249	4,332	5,227	5,821
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,332	5,227	5,821
EPS (Bt)	5.09	5.31	5.41	6.53	7.27
DPS (Bt)	2.40	2.00	2.00	2.28	2.54

Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,329	1,563	1,681
Interbank assets	31,196	53,242	46,187	45,264	44,358
Investments	7,016	11,490	11,490	11,490	11,490
Gross loans	248,316	292,151	297,994	339,713	387,273
Accrued interest receivable	353	536	536	536	536
Loan loss reserve	5,122	6,354	10,079	13,411	17,119
Net loans	243,547	286,332	288,450	326,838	370,689
Total assets	290,497	359,263	354,606	392,389	435,544
Deposits	219,823	264,641	256,225	289,253	327,174
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	328,656	362,814	401,978
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	25,718	29,344	33,335
BVPS (Bt)	25.00	28.71	32.12	36.65	41.63

Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	34.21	17.65	2.00	14.00	14.00
YoY fee & insurance income growth	44.65	25.70	(0.79)	12.59	12.91
Profitability					
Yield on earn'g assets (%)	6.01	5.99	5.71	5.74	5.75
Cost on int-bear'g liab (%)	3.55	3.51	3.23	3.35	3.48
Spread (%)	2.46	2.48	2.48	2.39	2.27
Net interest margin(%)	2.78	2.79	2.80	2.77	2.69
ROE (%)	21.54	20.63	17.79	18.99	18.57
Asset Quality					
NPLs/Total Loans(%)	1.30	1.77	1.46	1.46	1.46
LLR/NPLs(%)	165.28	127.95	232.07	270.86	303.30
Provision expense/Total loans (%)	0.77	1.42	1.50	1.20	1.15
Liquidity					
Loans/Deposits & borrowings (%)	100.25	94.63	99.23	101.91	104.31
Efficiency					
Cost to income ratio (%)	42.72	35.84	35.89	35.84	35.56
Capital Fund					
Capital adequacy ratio(%)	12.79	13.38	15.77	15.55	15.32
Tier-1(%)	8.51	9.15	11.79	12.00	12.16
Tier-2(%)	4.28	4.22	3.97	3.55	3.16

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

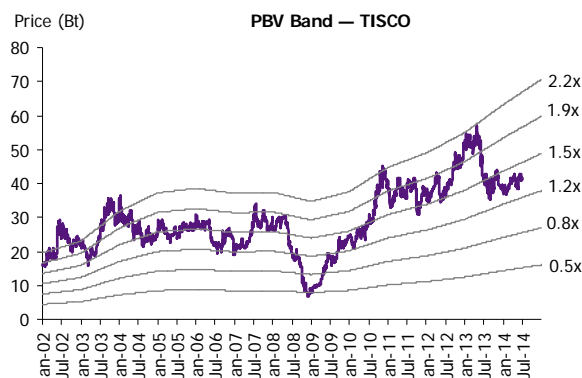
Balance Sheet (Btmn)

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

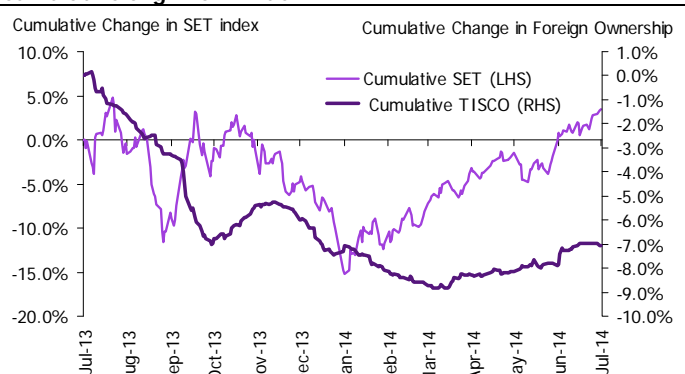
PBV Band Chart



12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research

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