

BUY

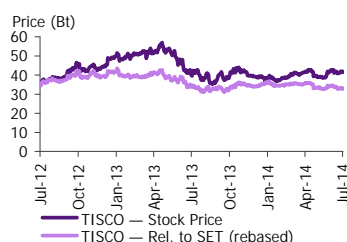
2Q14: Beat forecast, but asset quality worsening

Stock Data

Last close (Jul 10) (Bt)	42.00
12-m target price (Bt)	50.00
Upside (Downside) to TP (%)	19.05
Mkt cap (Btbn)	33.63
Mkt cap (US\$m)	1,045

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.25
Sector % SET	17.63
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	44 / 34.5
Avg. daily 6m (US\$m)	1.76
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	0.6	-0.6
Relative to SET	-5.3	-7.9	-5.2

Source: SET, SCBS Investment Research

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■ **2Q14 profit Bt992mn (-14% YoY, +6% QoQ), 6% above our forecast, but asset quality is still deteriorating.** The 26 bps improvement QoQ in net interest margin exceeded our expectations. However, a 19% QoQ rise in 2Q14 NPLs and 11 bps rise in credit cost to 1.75% were worse than expected. We believe deterioration in asset quality is at or close to nadir on an expected economic recovery in 2H14 and stabilizing used car prices in 1H14. 1H14 accounts for 47% of SCBS 2014 forecast. We expect a small HoH earnings recovery in 2H14 backed by a small pick-up in loan growth and a slight reduction in provisions. In 2015, we expect TISCO to show the strongest earnings recovery at 24%, driven by a strong recovery in loan growth (off a low base) and a material fall in credit cost from normalization. Key points:

1. Loan growth: As expected, -1.5% QoQ vs. -2.6% QoQ for 1Q14, bringing YTD growth to -4.1%. We maintain our full-year forecast of +2%, expecting a recovery of auto loans and sizable corporate loans. Corporate loans rose 3.4% QoQ, SME loans fell 8.6% QoQ, and retail loans dipped 1.8% QoQ.
2. Net interest margin (NIM): Better than expected, +26 bps QoQ to 2.95%. Yield on earning assets rose 9 bps QoQ. Cost of funds eased 17 bps QoQ. We expect a further improvement in 2H14, driven by rising loan to deposit ratio.
3. Non-interest income: In line, -3% YoY and +3% QoQ. The pick-up QoQ was mainly from fee income related to the capital market.
4. Cost to income ratio: As expected, down 214 bps YoY and 12 bps QoQ to 35.5%, reflecting its cost tightening policy.
5. Asset quality: Worse than expected: NPLs rose Bt1bn or 19% QoQ. NPL ratio rose to 2.27% from 1.89% in 1Q14, mainly from retail loans, particularly used car loans. Credit cost rose 11 bps QoQ to 1.75%, above the guidance of stable QoQ. LLR coverage continued falling to 105% from 121% at 1Q14.

Figure 1: Quarterly results

P & L (Bt mn)	2Q13	3Q13	4Q13	1Q14	2Q14	%YoY ch	%QoQ ch	1H13	1H14	%YoY ch	% full year
Interest income	4,766	4,944	5,095	4,998	4,858	2	(3)	9,233	9,856	7	48
Interest expense	2,537	2,627	2,776	2,692	2,435	(4)	(10)	4,901	5,127	5	49
Net interest income	2,229	2,317	2,319	2,306	2,423	9	5	4,332	4,729	9	47
Non-interest income	1,456	1,318	1,398	1,369	1,414	(3)	3	3,217	2,783	(13)	50
Operating expenses	1,388	1,401	1,102	1,310	1,363	(2)	4	2,837	2,673	(6)	48
Pre-provision profit	2,297	2,234	2,615	2,365	2,474	8	5	4,713	4,839	3	48
Less Provision	810	778	1,613	1,170	1,225	51	5	1,750	2,395	37	50
Pre-tax profit	1,487	1,456	1,001	1,195	1,249	(16)	5	2,963	2,444	(17)	47
Income tax	303	293	184	238	246	(19)	3	587	484	(18)	46
MI and equity	(25)	(31)	(13)	(22)	(11)	54	49	(63)	(34)	47	NA
Net profit	1,159	1,132	804	935	992	(14)	6	2,313	1,926	(17)	47
EPS (Bt)	1.45	1.41	1.00	1.17	1.24	(14)	6	2.89	2.41	(17)	47
B/S (Bt mn)	2Q13	3Q13	4Q13	1Q14	2Q14	%YoY ch	%QoQ ch	1H13	1H14	%YoY ch	% full year
Gross loans	280,558	284,855	292,151	284,655	280,276	(0)	(2)	280,558	280,276	(0)	NM
Deposits	238,093	257,217	264,641	227,611	226,736	(5)	(0)	238,093	226,736	(5)	NM
BVPS (Bt)	25.24	26.69	28.71	29.91	29.27	16	(2)	25.24	29.27	16	NM
Ratios (%)	2Q13	3Q13	4Q13	1Q14	2Q14	%YoY ch*	%QoQ ch*	1H13	1H14	YoY ch*	% full year
Yield on earn. asset	6.00	6.02	5.88	5.82	5.91	(0.09)	0.09	6.08	5.76	(0.32)	NM
Cost of funds	3.51	3.51	3.51	3.45	3.28	(0.23)	(0.17)	3.54	3.30	(0.24)	NM
Net interest margin	2.81	2.82	2.68	2.68	2.95	0.14	0.26	2.85	2.76	(0.09)	NM
Cost to income	37.7	38.6	29.7	35.6	35.5	(2.14)	(0.12)	37.57	35.58	(1.99)	NM
NPLs/total loans	1.45	1.47	1.70	1.89	2.27	0.82	0.39	1.45	-	(1.45)	NM
LLR/NPLs	145	136	128	121	105	(40.04)	(15.41)	145.33	105.29	(40.04)	NM

Source: SCBS Investment Research

Note: * Percentage points

- **Maintain top Buy as a laggard play.** TISCO is trading at the lowest PER of 6x 2015F (-1 SD below historical mean), a large discount to its superior ROE (3rd highest) and strongest 2015F earnings recovery at 24%, supported by normalizing credit cost and a turnaround in loan growth.

Forecasts and valuation

FY Dec	Unit	2012	2013	2014F	2015F	2016F
Pre-provision profit	(Btmn)	5,627	8,390	8,879	9,359	10,340
Net profit	(Btmn)	3,705	4,249	4,111	5,112	5,692
PPP/Sh	(Bt)	7.73	10.48	11.09	11.69	12.91
EPS	(Bt)	5.09	5.31	5.13	6.39	7.11
BVPS	(Bt)	25.00	28.71	31.95	36.33	41.21
DPS	(Bt)	2.40	2.00	2.00	2.23	2.49
PER	(x)	8.25	7.91	8.18	6.58	5.91
P/PPP	(x)	5.43	4.01	3.79	3.59	3.25
EPS growth	(%)	13.42	4.26	(3.26)	24.37	11.34
PBV	(x)	1.68	1.46	1.31	1.16	1.02
ROE	(%)	21.54	20.63	16.93	18.70	18.34
Dividend yields	(%)	5.71	4.76	4.76	5.32	5.92

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	20,327	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	5,617	6,296	7,079
Non-interest expenses	5,024	5,340	5,579	5,969	6,508
Earnings before tax & provision	6,736	9,561	10,000	10,731	11,856
Tax	1,081	1,064	1,046	1,297	1,442
Equities & minority interest	28	107	75	75	75
Core pre-provision profit	5,627	8,390	8,879	9,359	10,340
Provision	1,922	4,141	4,768	4,246	4,647
Core net profit	3,705	4,249	4,111	5,112	5,692
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,111	5,112	5,692
EPS (Bt)	5.09	5.31	5.13	6.39	7.11
DPS (Bt)	2.40	2.00	2.00	2.23	2.49

Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,489	1,778	2,002
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	10,377	13,879	17,781
Net loans	243,547	286,332	288,152	326,370	370,027
Total assets	290,497	359,263	354,468	392,136	435,203
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	401,976
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	25,581	29,092	32,995
BVPS (Bt)	25.00	28.71	31.95	36.33	41.21

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	16.93	18.70	18.34
Asset Quality					
NPLs/Total Loans(%)	1.30	1.77	1.46	1.46	1.46
LLR/NPLs(%)	165.28	127.95	238.93	280.31	315.02
Provision expense/Total loans (%)	0.77	1.42	1.60	1.25	1.20
Liquidity					
Loans/Deposits & borrowings (%)	100.25	94.63	99.23	101.91	104.31
Efficiency					
Cost to income ratio (%)	42.72	35.84	35.81	35.74	35.44
Capital Fund					
Capital adequacy ratio(%)	12.79	13.38	15.71	15.48	15.23
Tier-1(%)	8.51	9.15	11.74	11.93	12.06
Tier-2(%)	4.28	4.22	3.98	3.55	3.16

Profit and Loss Statement (Btmn)

FY December 31	2Q13	3Q13	4Q13	1Q14	2Q14
Interest & dividend income	4,766	4,944	5,095	4,998	4,858
Interest expense	2,537	2,627	2,776	2,692	2,435
Net interest income	2,229	2,317	2,319	2,306	2,423
Non-interest income	1,456	1,318	1,398	1,369	1,414
Non-interest expenses	1,388	1,401	1,102	1,310	1,363
Earnings before tax & provision	2,297	2,234	2,615	2,365	2,474
Tax	303	293	184	238	246
Equities & minority interest	25	31	13	22	11
Core pre-provision profit	1,969	1,910	2,418	2,105	2,217
Provision	810	778	1,613	1,170	1,225
Core net profit	1,159	1,132	804	935	992
Extra item	0	0	0	0	0
Net profit	1,159	1,132	804	935	992
EPS (Bt)	1.45	1.41	1.00	1.17	1.24
	-	-	-	-	-

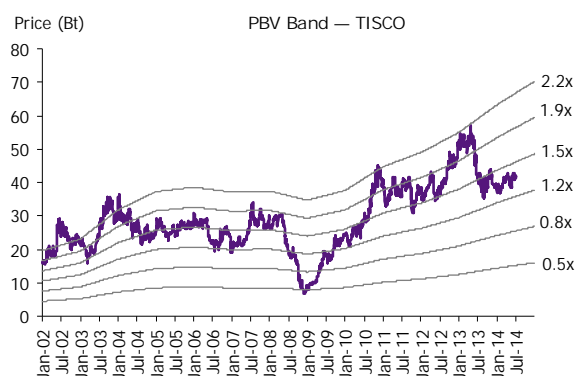
Balance Sheet (Btmn)

FY December 31	2Q13	3Q13	4Q13	1Q14	2Q14
Cash	983	1,153	1,131	1,087	1,094
Interbank assets	32,376	41,605	53,242	29,554	29,445
Investments	7,640	9,991	11,490	16,354	17,605
Gross loans	280,558	284,855	292,151	284,655	280,276
Accrued interest receivable	394	384	536	407	424
Loan loss reserve	5,913	5,715	6,354	6,477	6,702
Net loans	275,039	279,524	286,332	278,586	273,998
Total assets	323,969	338,391	359,263	332,807	329,483
Deposits	238,093	257,217	264,641	227,611	226,736
Interbank liabilities	18,911	15,559	16,703	16,419	19,367
Borrowings	34,728	33,734	44,084	54,626	49,452
Total liabilities	303,525	316,756	336,044	308,606	305,776
Minority interest	238	269	231	255	269
Paid-up capital	8,007	8,007	8,007	8,007	8,007
Total Equities	20,207	21,366	22,987	23,946	23,438
BVPS (Bt)	25.24	26.69	28.71	29.91	29.27

Financial Ratios

	2Q13	3Q13	4Q13	1Q14	2Q14
YoY loan growth	33.62	24.82	17.65	6.70	(0.10)
YoY fee & insurance income growth	30.95	15.27	(3.92)	(21.47)	3.04
Yield on earn'g assets (%)	6.00	6.02	5.88	5.82	5.91
Cost on int-bear'g liab (%)	3.51	3.51	3.51	3.45	3.28
Net interest margin(%)	2.81	2.82	2.68	2.68	2.95
Cost to income ratio (%)	37.67	38.55	29.66	35.65	35.52
NPLs/Total Loans(%)	1.45	1.47	1.70	1.89	2.27
LLR/NPLs(%)	145.33	136.15	127.95	120.70	105.29
Provision expense/Total loans (%)	1.16	1.09	2.21	1.64	1.75

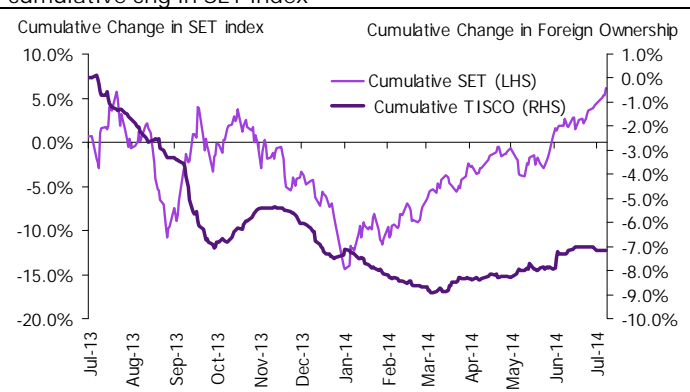
PBV Band Chart



12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research

Figure 2: Valuation summary (price as of 10 Jul 14)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F
BAY	Sell	46.50	30.0	(34.0)	23.8	19.9	16.6	(18.9)	19.9	19.5	2.33	2.16	1.97	10.1	11.3	12.4	1.7	1.5	1.8
BBL	Buy	203.00	240.0	21.7	10.8	10.8	9.5	8.7	(0.2)	13.6	1.31	1.19	1.10	12.6	11.5	12.0	3.3	3.5	4.0
KBANK	Buy	213.00	245.0	16.9	12.3	11.2	9.7	17.2	10.1	15.1	2.33	1.98	1.70	20.4	19.1	18.8	1.6	1.9	2.4
KKP	Buy	47.00	52.0	15.4	8.9	10.5	8.7	29.3	(14.9)	20.1	1.13	1.08	1.00	13.0	10.5	11.9	5.7	4.8	5.7
KTB	Buy	22.60	25.0	14.4	9.3	10.0	8.7	45.2	(7.1)	15.3	1.53	1.40	1.27	17.4	14.6	15.3	3.9	3.8	4.4
LHBANK	Sell	1.61	1.2	(23.7)	22.9	22.2	20.6	23.3	3.2	7.7	1.36	1.35	1.29	6.1	6.1	6.4	3.6	1.8	1.9
TCAP	Buy	36.00	40.0	14.5	5.0	8.9	7.4	68.4	(43.7)	20.4	0.97	0.91	0.83	20.5	10.6	11.7	4.4	3.4	3.4
TISCO	Buy	42.00	50.0	23.8	7.9	8.2	6.6	4.3	(3.3)	24.4	1.46	1.31	1.16	20.6	16.9	18.7	4.8	4.8	5.3
TMB	Sell	2.50	2.3	(6.0)	19.0	14.6	12.4	354.3	29.8	17.8	1.77	1.62	1.47	9.6	11.5	12.4	1.6	2.0	2.4
Average					13.2	12.7	11.0	21.6	3.1	15.7	1.67	1.52	1.37	15.2	13.3	14.1	3.4	3.1	3.5

Source: SCBS Investment Research

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A, AAV, AEC, AEDNTS, AFC, AGE, AH, AJ, AKR, ALUCON, ANAN, ARIP, AS, BAT-3K, BCH, BEAUTY, BGT, BLAND, BOL, BROCK, BSBM, CHARAN, CHUO, CI, CIG, CITY, CMR, CNS, CPL, CRANE, CSP, CSR, CTW, DEMCO, DNA, DRACO, EA, EARTH, EASON, EMC, EPICO, F&D, FNS, FOCUS, FPI, FSS, GENCO, GFM, GJS, GLOBAL, HFT, HTECH, HYDRO, IFS, IHL, ILINK, INOX, IRC, IRCP, IT, JMART, JMT, JTS, JUTHA, KASET, KC, KCAR, KDH, KTC, KWH, LALIN, LEE, MATCH, MATI, MBAX, MDX, PRINC, MJD, MK, MOONG, MPIC, MSC, NC, NIPPON, NNCL, NTV, OSK, PAE, PATO, PICO, PL, POST, PRECHA, PRIN, Q-CON, QLT, RCI, RCL, ROJNA, RPC, SCBLIF, SCP, SENA, SF, SGP, SIMAT, SLG, SMT, SMK, SOLAR, SPC, SPG, SRICHA, SSC, STA, SUPER, SVOA, SWC, SYNEK, TBSP, TCCC, TEAM, TGGI, TIC, TIES, TIW, TKS, TMC, TMD, TMI, TNDT, TNPC, TOPP, TPA, TPP, TR, TTI, TVD, TVI, TVW, UBIS, UEC, UOBKH, UPF, UWC, VARO, VTE, WAVE, WG, WIN, WORK

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