

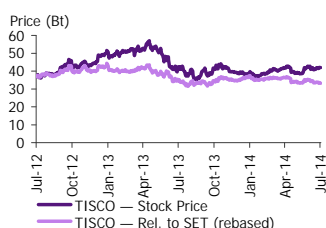
BUY

Stock Data

Last close (Jul 15) (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)	1,047

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.24
Sector % SET	17.68
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	44 / 34.5
Avg. daily 6m (US\$mn)	1.73
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	2.4
Relative to SET	-5.1	-9.1	-2.5

Source: SET, SCBS Investment Research

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Bottoming after auto scene hit bottom

Continued rise in NPLs for the next 2-3 quarters. TISCO expects deterioration in auto loans to continue for the next two to three quarters, but at a slower rate, since it will take some time for the oversupply of cars to be taken up. Its NPLs rose Bt1bn or 19% QoQ in 2Q14, bringing NPL ratio up to 2.27% from 1.89% in 1Q14. The majority of the NPLs responsible for the rise continue to be from used car loans, with a small amount of new car loans in the high-yield segment. Since 2013, used car NPLs have been primarily loans taken out in 2012 and 1H13. Around 90% of these were because the clients abandoned their depreciating cars after a sharp 30-40% fall in used car prices from the 2012 peak rather than because they could not afford to make the payments. We believe clients are much less likely to abandon their cars after making two years of payments (around half of their loans), which means that new NPLs from loans made in 2012 and 1H13 should ease in 2015. Used car prices began stabilizing in 1H14 but there is as yet no clear sign of recovery and in fact TISCO does not expect recovery in used car prices until late 2015. We do see one positive sign that the excess supply of autos is easing: auto sales began to exceed auto production in April. However, it is still far too early to bank on a recovery in used car prices.

... But easing provisions in 2H14 and 2015. Credit cost (provision/total loans) rose to 1.75% in 2Q14 from 1.64% in 1Q14, mostly from losses on repossessed cars. TISCO expects a slight reduction in credit cost to 1.5-1.6% in 2H14 from 1.71% for 1H14 and a material fall in credit cost in 2015 to below 1.5%, but no return to a normal level of 1.2% yet. We raised credit cost by 5 bps to 1.65% for 2014F and 1.35% for 2015F to take into account continued high losses on repossessed cars until 1H15.

Loan growth recovering. TISCO expects loan growth to recover in 2H14 to bring its 2014F loan growth out of the hole (-4.1% in 1H14), backed mainly by corporate and new car loans. It expects loan growth to be flat in 2014 (1% SCBS forecast). It estimates 2015 domestic car sales at ~1mn, up from 800,000-900,000 in 2014, translating to 7-8% loan growth in 2015 (vs. 12% SCBS forecast).

Sustainable NIM recovery. NIM improved an impressive 26 bps QoQ to 2.95% in 2Q14 as a result of rising yield on earning assets (+9 bps QoQ) and lower cost of funds (-17 bps QoQ). TISCO expects a further fall in cost of funds in 3Q14. The yield enhancement was a positive surprise and was made possible by the shifting of its new car loans toward higher-risk, high-return segments and reducing excess liquidity. We raised our NIM estimate by 3 bps to 2.8% (+1 bps YoY) for 2014F and 2.83% (+3 bps YoY) for 2015F vs. 2.76% for 1H14.

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% (from being the worst in 2014F), 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	8,911	9,492	10,405
Net profit	(Btmn)	3,705	4,249	4,042	5,030	5,778
PPP/Sh	(Bt)	7.73	10.48	11.13	11.85	13.00
EPS	(Bt)	5.09	5.31	5.05	6.28	7.22
BVPS	(Bt)	25.00	28.71	31.86	36.14	41.16
DPS	(Bt)	2.40	2.00	2.00	2.20	2.45
PER	(x)	8.20	7.87	8.27	6.65	5.79
P/PPP	(x)	5.40	3.98	3.75	3.52	3.21
EPS growth	(%)	13.42	4.26	(4.88)	24.46	14.87
PBV	(x)	1.67	1.45	1.31	1.16	1.01
ROE	(%)	21.54	20.63	16.67	18.48	18.67
Dividend yields	(%)	5.75	4.79	4.79	5.27	5.88

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	19,941	20,810	22,907
Interest expense	8,166	10,304	10,118	10,553	11,928
Net interest income	7,044	8,968	9,823	10,258	10,979
Non-interest income	4,715	5,933	5,726	6,431	7,219
Non-interest expenses	5,024	5,340	5,553	5,864	6,274
Earnings before tax & provision	6,736	9,561	9,996	10,824	11,925
Tax	1,081	1,064	1,025	1,273	1,460
Equities & minority interest	28	107	60	60	60
Core pre-provision profit	5,627	8,390	8,911	9,492	10,405
Provision	1,922	4,141	4,869	4,461	4,627
Core net profit	3,705	4,249	4,042	5,030	5,778
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,042	5,030	5,778
EPS (Bt)	5.09	5.31	5.05	6.28	7.22
DPS (Bt)	2.40	2.00	2.00	2.20	2.45

Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,392	1,516	1,694
Interbank assets	31,196	53,242	31,945	31,306	30,680
Investments	7,016	11,490	17,490	17,490	17,490
Gross loans	248,316	292,151	295,072	330,481	370,139
Accrued interest receivable	353	536	536	536	536
Loan loss reserve	5,122	6,354	10,485	14,209	18,098
Net loans	243,547	286,332	285,123	316,808	352,576
Total assets	290,497	359,263	343,099	374,355	409,765
Deposits	219,823	264,641	244,925	271,622	301,772
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	317,356	345,183	376,576
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	25,512	28,941	32,959
BVPS (Bt)	25.00	28.71	31.86	36.14	41.16

Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	34.21	17.65	1.00	12.00	12.00
YoY fee & insurance income growth	44.65	25.70	(0.79)	12.49	12.77
Profitability					
Yield on earn'g assets (%)	6.01	5.99	5.69	5.75	5.74
Cost on int-bear'g liab (%)	3.55	3.51	3.21	3.31	3.43
Spread (%)	2.46	2.48	2.48	2.44	2.31
Net interest margin(%)	2.78	2.79	2.80	2.83	2.75
ROE (%)	21.54	20.63	16.67	18.48	18.67
Asset Quality					
NPLs/Total Loans(%)	1.30	1.77	1.46	1.46	1.46
LLR/NPLs(%)	165.28	127.95	243.81	295.00	335.48
Provision expense/Total loans (%)	0.77	1.42	1.65	1.35	1.25
Liquidity					
Loans/Deposits & borrowings (%)	100.25	94.63	102.10	104.68	107.02
Efficiency					
Cost to income ratio (%)	42.72	35.84	35.71	35.14	34.48
Capital Fund					
Capital adequacy ratio(%)	12.79	13.38	15.82	15.84	15.91
Tier-1(%)	8.51	9.15	11.81	12.19	12.60
Tier-2(%)	4.28	4.22	4.01	3.65	3.30

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

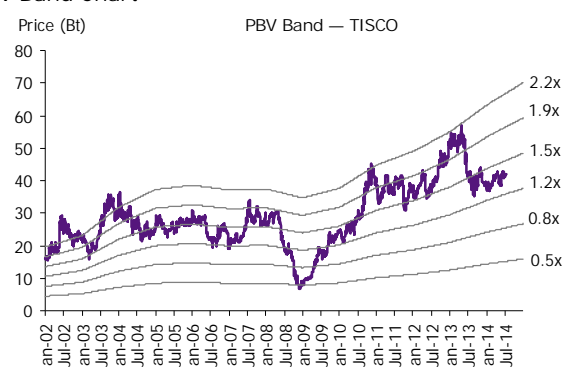
Balance Sheet (Btmn)

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

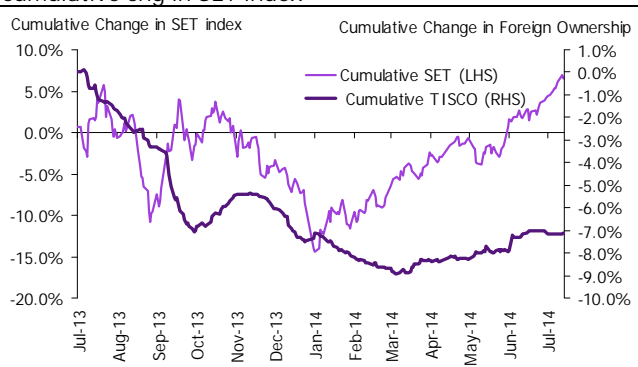
PBV Band Chart



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 1: Valuation summary (price as of Jul 15, 2014)

	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	47.00	30.0	(34.7)	24.1	20.1	16.8	(18.9)	19.9	19.5	2.35	2.18	1.99	10.1	11.3	12.4	1.7	1.5	1.8
BBL	Buy	199.00	240.0	24.2	10.6	10.6	9.3	8.7	(0.2)	13.6	1.28	1.17	1.08	12.6	11.5	12.0	3.3	3.5	4.0
KBANK	Buy	214.00	245.0	16.4	12.4	11.3	9.8	17.2	10.1	15.1	2.34	1.99	1.70	20.4	19.1	18.8	1.6	1.9	2.3
KKP	Buy	46.25	52.0	17.3	8.8	10.3	8.6	29.3	(14.9)	20.1	1.11	1.06	0.99	13.0	10.5	11.9	5.8	4.8	5.8
KTB	Buy	22.90	25.0	12.9	9.4	10.2	8.8	45.2	(7.1)	15.3	1.55	1.42	1.28	17.4	14.6	15.3	3.8	3.7	4.3
LHBANK	Sell	1.62	1.2	(24.1)	23.1	22.4	20.8	23.3	3.2	7.7	1.37	1.36	1.30	6.1	6.1	6.4	3.6	1.8	1.9
TCAP	Buy	35.75	40.0	15.3	4.9	8.8	7.3	68.4	(43.7)	20.4	0.96	0.90	0.82	20.5	10.6	11.7	4.5	3.4	3.4
TISCO	Buy	42.00	50.0	23.8	7.9	8.3	6.7	4.3	(4.9)	24.5	1.46	1.32	1.16	20.6	16.7	18.5	4.8	4.8	5.2
TMB	Sell	2.58	2.3	(8.8)	19.6	14.5	12.9	354.3	35.2	12.3	1.82	1.66	1.52	9.6	12.0	12.3	1.5	2.1	2.3
Average					13.3	12.8	11.1	21.6	3.2	15.4	1.68	1.53	1.38	15.2	13.3	14.0	3.4	3.1	3.5

Source: SCBS Investment Research

Rating 2013 Companies with CG Rating

★★★★ ADVANC, AOT, ASIMAR, BAFS, BANPU, BAY, BBL, BCP, BECL, BKI, BROOK, BTS, CIMBT, CK, CPF, CPN, CSL, DRT, DTAC, EASTW, EGCO, ERW, GRAMMY, HANA, HEMRAJ, ICC, INTUCH, IRPC, IVL, KBANK, KKP, KTB, LPN, MCOT, MINT, NKI, NOBLE, PAP, PG, PHOL, PR, PRANDA, PS, PSL, PTT, PITTEP, PITTCG, QH, RATCH, ROBINS, RS, S&J, SAMART, SAMTEL, SAT, SC, SCB, SCC, SCSCMG, SE-ED, SIM, SIS, SITHAI, SNC, SPALL, SPI, SSI, SSSC, SVI, SYMC, TCAP, THAI, THCOM, THRE, TIP, TISCO, TKT, TMB, TNITY, TOP, TRC, TRUE, TTW, TVO, UV, VGI, WAOAL

★★★★ 25, ACAP, AF, AHC, AIT, AKP, AMANAH, AMARIN, AMATA, AP, APCO, APCS, ASIA, ASK, ASP, AYUD, BEC, BFTI, BH, BIGC, BJC, BLA, BMCL, BWG, C&T, CENTEL, CRESH, CCS, CHOW, CM, CNT, CPALL, CSC, DCC, DELTA, DTC, ECL, EE, EC, ESSO, FE, FORTH, GBK, GC, GPPT, GL, GLOW, GOLD, GSTEL, GUNKUL, HMPRO, HTC, IFEC, INET, ITD, JAS, JUBILE, KBS, KCE, KGI, KKC, KSL, KYC, L&E, LANNA, LH, LHBANK, LHK, LIVE, LOWEY, LRA, LST, MACO, MAJOR, MAKRO, MBK, MBKET, MFC, MFGC, MODERN, MTL, NBC, NCH, NINE, NMIC, NSI, NWR, OCC, OFM, OGC, OISHI, PB, PDI, PE, PF, PJW, PM, PPM, PPP, PREB, PRG, PT, PYLON, QTC, RASA, SABINA, SAMCO, SCC, SCG, SEACO, SFP, SIAM, SINGER, SIRI, SKR, SMT, SNP, SPCG, SPPT, SSF, STANLY, STEC, SUC, SUSCO, SYNTec, TASCO, TCP, TF, TFD, TRI, THANA, THANI, THIP, TICON, TIPCO, TK, TLUXE, TMILL, TMT, TNL, TOG, TPC, TPCORP, TPIPL, TRT, TRU, TSC, TSTE, TSTH, TTA, TTCL, TUF, TWFP, TYM, UAC, UMI, UMS, UP, UPOIC, UT, VIBHA, VIH, VNG, VNT, YUASA, ZMICO

★★★ A, AAV, AEC, AEONTS, AFC, AGE, AH, AJ, AJ, AKR, ALUCON, ANAN, ARIP, AS, BAT-3K, BCH, BEAUTY, BGT, BLAND, BOL, BROCK, B5BM, CHARAN, CHUO, CI, CIG, CITY, CMR, CNS, CPL, CRANE, CSP, CSR, CTW, DEMCO, DNA, DRACO, EA, EARTH, EASON, EMC, EPCO, 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, NTY, OSK, PAE, PATO, PICO, PL, POST, PRECHA, PRIN, Q-CON, QLT, RCI, RCL, ROJNA, RRC, SCBLF, SCP, SENA, SF, SGP, SIMAT, SLG, SMT, SMK, SOLAR, SPC, SPG, SRICHA, SSC, STA, SUPER, SVDA, SWC, SYNEX, TBSP, TCCG, TEAM, TGGI, TIC, TIES, TIW, TKS, TMC, TMD, TMI, TNDT, TNPC, TOPP, TPA, TPP, TR, TTI, TVD, TVI, TWZ, UBIS, UEC, UOBKH, UPP, UWC, VARO, VTE, WAVE, WG, WIN, WORK

Corporate Governance Report disclaimer

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