

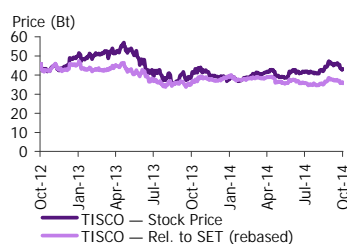
## BUY

## Stock Data

Last close (Oct 13) (Bt)	42.50
12-m target price (Bt)	50.00
Upside (Downside) to TP (%)	17.65
Mkt cap (Btbn)	34.03
Mkt cap (US\$mn)	1,050

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.24
Sector % SET	17.34
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	47.5 / 36
Avg. daily 6m (US\$mn)	1.51
Foreign limit / actual (%)	49 / 47
Free float (%)	74.3
Dividend policy (%)	50

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	-7.6	1.2	1.8
Relative to SET	-5.4	0.3	-3.6

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

Securities Fundamental

Investment Analyst

(66-2) 949-1003

kittima.sattayapan@scb.co.th

## 3Q14: Asset deterioration easing as expected

■ **3Q14 profit Bt1.1bn (-4% YoY, +10% QoQ), in line, confirming the worst is over**, with easing asset deterioration and good NIM improvement. However, loans still contracted QoQ. We expect earnings to continue to recover in 4Q14 and 2015, backed by a material fall in credit cost from normalization. Key points:

1. Loan growth: As expected, -2% QoQ vs. -1.5% QoQ in 2Q14, bringing YTD growth to -5.9%. There is downside risk to our full-year forecast of 0%. Corporate loans rose 0.6% QoQ, SME loans fell 11.6% QoQ, and retail loans (mainly auto loans) dipped 1.4% QoQ.
2. Net interest margin (NIM): Better than expected, +16 bps QoQ to 3.11%. Yield on earning assets rose 1 bps QoQ. Cost of funds eased 16 bps QoQ. We expect this good NIM to be sustainable until the interest rate hike (expected in 2H15).
3. Non-interest income: In line, +13% YoY and +6% QoQ. The pick-up QoQ was mainly from fee income related to the capital market.
4. Cost to income ratio: As expected, down 198 bps YoY but up 104 bps QoQ to 36.6% (mainly personnel expenses).
5. Asset quality: Better than expected, NPLs by amount rose only 1.6% QoQ, a much slower pace than the +19% QoQ in 2Q14. NPL ratio rose to 2.35% from 2.27% in 2Q14, mainly as a result of loan contraction. As expected, provisions came down 6% QoQ, reflecting a fall in credit cost to 1.67% from 1.75% in 2Q14. LLR coverage was stable at 106%.

Figure 1: Quarterly results

P & L (Bt mn)	3Q13	4Q13	1Q14	2Q14	3Q14	%YoY ch	%QoQ ch	9M13	9M14	% YoY ch	% full year
Interest income	4,944	5,095	4,998	4,858	4,757	(4)	(2)	14,177	14,613	3	74
Interest expense	2,627	2,776	2,692	2,435	2,255	(14)	(7)	7,528	7,382	(2)	74
Net interest income	2,317	2,319	2,306	2,423	2,502	8	3	6,649	7,231	9	74
Non-interest income	1,318	1,398	1,369	1,414	1,494	13	6	4,535	4,277	(6)	74
Operating expenses	1,401	1,102	1,310	1,363	1,461	4	7	4,238	4,134	(2)	75
Pre-provision profit	2,234	2,615	2,365	2,474	2,535	13	2	6,946	7,374	6	74
Less Provision	778	1,613	1,170	1,225	1,149	48	(6)	2,528	3,544	40	74
Pre-tax profit	1,456	1,001	1,195	1,249	1,386	(5)	11	4,418	3,830	(13)	74
Income tax	293	184	238	246	277	(5)	13	880	761	(14)	73
MI and equity	(31)	(13)	(22)	(11)	(20)	34	(78)	(94)	(54)	43	NA
Net profit	1,132	804	935	992	1,089	(4)	10	3,445	3,015	(12)	74
EPS (Bt)	1.41	1.00	1.17	1.24	1.36	(4)	10	4.30	3.77	(12)	74
B/S (Bt mn)	3Q13	4Q13	1Q14	2Q14	3Q14	%YoY ch	%QoQ ch	9M13	9M14	% YoY ch	% full year
Gross loans	284,855	292,151	284,655	280,276	274,779	(4)	(2)	284,855	274,779	(4)	NM
Deposits	257,217	264,641	227,611	226,736	207,075	(19)	(9)	257,217	207,075	(19)	NM
BVPS (Bt)	26.69	28.71	29.91	29.27	30.76	15	5	26.69	30.76	15	NM
Ratios (%)	3Q13	4Q13	1Q14	2Q14	3Q14	%YoY ch*	%QoQ ch*	9M13	9M14	YoY ch*	% full year
Yield on earn. asset	6.02	5.88	5.82	5.91	5.91	(0.11)	0.01	6.07	5.79	(0.28)	NM
Cost of funds	3.51	3.51	3.45	3.28	3.12	(0.39)	(0.16)	3.53	3.24	(0.30)	NM
Net interest margin	2.82	2.68	2.68	2.95	3.11	0.29	0.16	2.85	2.86	0.02	NM
Cost to income	38.6	29.7	35.6	35.5	36.6	(1.98)	1.04	37.89	35.93	(1.97)	NM
NPLs/total loans	1.47	1.70	1.89	2.27	2.35	0.88	0.08	1.47	2.35	0.88	NM
LLR/NPLs	136.1	127.9	120.7	105.3	105.8	(30.38)	0.48	136.1	105.8	(30.38)	NM

Source: SCBS Investment Research

Note: \* Percentage points

- **Confirmation the worst is over.** We see the 3Q14 results as confirmation that for TISCO the worst is over, primarily in terms of asset deterioration. TISCO's earnings are set to jump 17% in 2015. The key driver will be lower provisioning needs as used car prices have stabilized and most borrowers will have paid off more than half of their loans by now. TISCO's rising non-NII, thanks to a strong capital market, will provide yet another boost to earnings. We expect rate hikes in 2H15 - but their impact on TISCO's NIM will be modest as the pace is likely to be stepped and is in addition widely anticipated, giving management ample time to adjust.
- **Sector pick as an over-penalized laggard.** TISCO has underperformed the SET banking index by 13% YTD (+25% YTD vs. +38% YTD for SET Bank) to now trade at the lowest PE in the sector (8x 2015F) with the largest PBV discount to ROE (1.3x PBV vs. 18% ROE). With provisions now easing, we expect TISCO's strong 17% earnings growth in 2015 to be a key share price catalyst.

#### Forecasts and valuation

FY Dec	Unit	2012	2013	2014F	2015F	2016F
Pre-provision profit	(Btmn)	5,627	8,390	8,922	9,140	9,662
Net profit	(Btmn)	3,705	4,249	4,101	4,805	5,234
PPP/Sh	(Bt)	7.73	10.48	11.14	11.42	12.07
EPS	(Bt)	5.09	5.31	5.12	6.00	6.54
BVPS	(Bt)	25.00	28.71	31.94	35.94	40.37
DPS	(Bt)	2.40	2.00	2.00	2.10	2.22
PER	(x)	8.35	8.01	8.30	7.08	6.50
P/PPP	(x)	5.50	4.06	3.81	3.72	3.52
EPS growth	(%)	13.42	4.26	(3.48)	17.14	8.93
PBV	(x)	1.70	1.48	1.33	1.18	1.05
ROE	(%)	21.54	20.63	16.89	17.68	17.13
Dividend yields	(%)	5.65	4.71	4.71	4.94	5.23

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	19,685	20,134	21,664
Interest expense	8,166	10,304	9,943	10,387	11,705
Net interest income	7,044	8,968	9,742	9,747	9,958
Non-interest income	4,715	5,933	5,804	6,394	7,172
Non-interest expenses	5,024	5,340	5,524	5,724	6,085
Earnings before tax & provision	6,736	9,561	10,022	10,416	11,045
Tax	1,081	1,064	1,040	1,216	1,323
Equities & minority interest	28	107	60	60	60
Core pre-provision profit	5,627	8,390	8,922	9,140	9,662
Provision	1,922	4,141	4,820	4,336	4,428
Core net profit	3,705	4,249	4,101	4,805	5,234
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,101	4,805	5,234
EPS (Bt)	5.09	5.31	5.12	6.00	6.54
DPS (Bt)	2.40	2.00	2.00	2.10	2.22

## Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,289	1,443	1,598
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	292,151	309,680	340,648
Accrued interest receivable	353	536	536	536	536
Loan loss reserve	5,122	6,354	10,444	14,050	17,748
Net loans	243,547	286,332	282,242	296,166	323,436
Total assets	290,497	359,263	340,115	353,640	380,529
Deposits	219,823	264,641	241,882	251,073	273,168
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	314,313	324,634	347,971
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	25,571	28,775	32,327
BVPS (Bt)	25.00	28.71	31.94	35.94	40.37

## Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	34.21	17.65	-	6.00	10.00
YoY fee & insurance income growth	44.65	25.70	0.70	8.21	12.51
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	3Q13	4Q13	1Q14	2Q14	2Q14
Interest & dividend income	4,944	5,095	4,998	4,858	4,858
Interest expense	2,627	2,776	2,692	2,435	2,435
Net interest income	2,317	2,319	2,306	2,423	2,423
Non-interest income	1,318	1,398	1,369	1,414	1,414
Non-interest expenses	1,401	1,102	1,310	1,363	1,363
Earnings before tax & provision	2,234	2,615	2,365	2,474	2,474
Tax	293	184	238	246	246
Equities & minority interest	31	13	22	11	11
Core pre-provision profit	1,910	2,418	2,105	2,217	2,217
Provision	778	1,613	1,170	1,225	1,225
Core net profit	1,132	804	935	992	992
Extra item	0	0	0	0	0
Net profit	1,132	804	935	992	992
EPS (Bt)	1.41	1.00	1.17	1.24	1.24

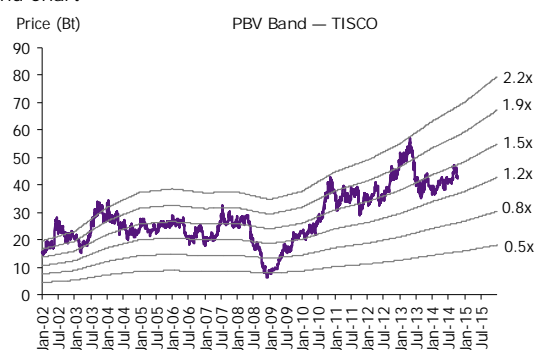
## Balance Sheet (Btmn)

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

## Financial Ratios

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

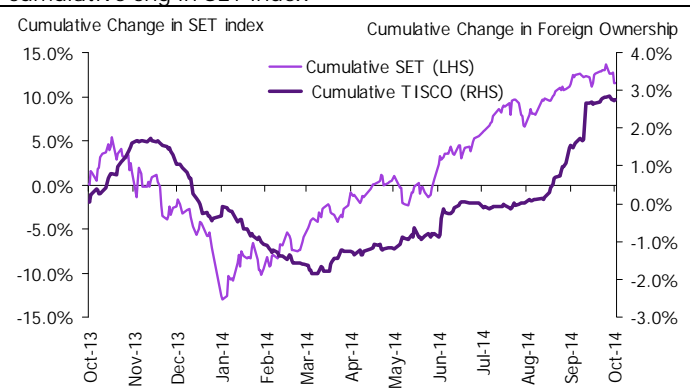
## PBV Band Chart



## 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 13 Oct 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	47.50	30.0	(35.4)	24.3	20.3	17.0	(19)	20	20	2.4	2.2	2.0	10	11	12	1.7	1.5	1.8
BBL	Buy	196.00	245.0	28.6	10.4	10.3	9.3	9	1	11	1.3	1.1	1.0	13	12	12	3.4	3.6	4.1
KBANK	Buy	224.00	250.0	13.4	13.0	11.3	9.7	17	15	16	2.4	2.1	1.8	20	20	20	1.6	1.8	2.2
KKP	Buy	40.00	50.0	29.4	7.6	11.4	7.9	29	(33)	44	1.0	0.9	0.9	13	8	11	6.8	4.4	6.3
KTB	Buy	23.20	25.0	11.5	9.6	10.1	8.9	45	(6)	14	1.6	1.4	1.3	17	15	15	3.8	3.7	4.3
LHBANK	Sell	1.79	1.2	(31.2)	25.5	22.5	21.3	23	13	6	1.5	1.5	1.4	6	7	7	3.2	1.8	1.9
TCAP	Buy	35.00	40.0	17.7	4.8	8.7	7.4	68	(44)	17	0.9	0.9	0.8	20	11	11	4.6	3.4	3.4
TISCO	Buy	42.50	50.0	22.4	8.0	8.3	7.1	4	(3)	17	1.5	1.3	1.2	21	17	18	4.7	4.7	4.9
TMB	Sell	2.98	2.6	(10.8)	22.6	15.2	13.1	354	49	16	2.1	1.9	1.7	10	13	14	1.3	2.0	2.3
Average					13.8	12.9	11.1	22	5	15	1.7	1.5	1.4	15	13	14	3.4	3.1	3.5

Source: SCBS Investment Research

**Disclaimer**

SCB SECURITIES COMPANY LIMITED ("SCBS") ACTS AS MARKET MAKER AND ISSUER OF DERIVATIVE WARRANTS on the ordinary shares of ADVANC, AOT, BANPU, BAY, BBL, BCH, BCP, BGH, BLA, BLAND, BMCL, CK, DELTA, DTAC, HMPRO, INTUCH, ITD, IVL, JAS, KBANK, KKP, KTB, PS, PTT, PTTEP, PTTGC, QH, SAMART, SCC, SRICHA, STEC, STPI, TCAP, THAI, TICON, TISCO, TMB, TOP, TPIPL, TRUE, TTA, UV.

Before making an investment decision over a derivative warrant, an investor should carefully read the prospectus for the details of the said derivative warrants. Any opinion, news, research, analyse, price, statement, forecast, projection and/or other information contained in this document (the "Information") is provided as general purpose information only, and shall not be construed as a recommendation to any person of an offer to buy or sell, or the solicitation of an offer to buy or sell, any securities. SCBS and/or its directors, officers, employees, and agents shall not be liable for any direct, indirect, incidental, special or consequential loss or damage, resulting from the use of, or reliance on, the Information, including without limitation, damages for loss of profits. The investor should use the Information in association with other information and opinion, including his/her own judgment in making investment decision. The Information is obtained from sources believed to be reliable, and SCBS cannot guarantee the accuracy, completeness and/or correctness of the Information.

SCBS reserves the right to modify the Information from time to time at its sole discretion without giving any notice. This document is delivered to intended recipient(s) only and is not permitted to reproduce, retransmit, disseminate, sell, distribute, republish, circulate or commercially exploit the Information in any manner without the prior written consent of SCBS.

**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, KCC, INTUCH, IRPC, IVL, KBANK, KKP, KTB, LPN, MCOT, MINT, NIKI, NOBLE, PAP, PG, PHOL, PR, PRANDA, PS, PSL, PTT, PTTEP, PTTGC, QH, RATCH, ROBINS, RS, S&J, SAMART, SAMTEL, SAT, SC, SCB, SCC, SC5MG, SE-ED, SIM, SIS, SITHAI, SNG, SPALI, SPI, SSI, SSSC, SVI, SYMC, TCAP, THAI, THCOM, THRE, TIP, TISCO, TKT, TMB, TNITY, TOP, TRC, TRUE, TTW, TVO, UV, VGI, WAOAL

2S, ACAP, AF, AHC, AIT, AKP, AMANAH, AMARIN, AMATA, AP, APCO, APSC, ASIA, ASK, ASP, AYUD, BEC, BFT, BH, BIGC, BJC, BLA, BMCL, BWG, CCET, CENTEL, CFRESH, CGS, CHOW, CM, CNT, CPALL, CSC, DCC, DELTA, DTC, ECL, EE, EIC, ESSO, FE, FORTH, GBX, GC, GPPT, GL, GLOW, GOLD, GSTEL, GUNKUL, HMPRO, HTC, IFC, INET, ITD, JAS, JUBILE, KBS, KCE, KGI, KKC, KSL, KWC, L&E, LANNA, LH, LHBANK, LHK, LIVE, LOXLEY, LRH, LST, MACO, MAJOR, MAKRO, MBK, MBKET, MFC, MFE, MODERN, MTL, NBC, NCH, NINE, NMG, NSI, NWR, OCC, OFM, OGC, OISHI, PB, PDI, PE, PF, PJW, PM, PPM, PPP, PREB, PRG, PT, PPLON, QTC, RASA, SABINA, SANCO, SCC, SCG, SEAFED, SFP, SIAM, SINGER, SIRI, SKR, SMT, SNP, SPCG, SPPT, SSF, STANLY, STEC, SUG, SUSCO, SYNTAC, TACSO, TCF, TF, TFD, TH, THANA, THANI, THIP, TICON, TIPCO, TK, TLUXE, TMILL, TMT, TNL, TOG, TPC, TPCORP, TPIPL, TRT, TRU, TSC, TSTC, TSTH, TTA, TTCL, TUE, TWFP, TYM, UAC, UMI, UMS, UP, UPOIC, UT, VIBHA, VIH, VNG, VNT, YUASA, ZMCO

A, AAV, AEC, AEONTS, AFC, AGE, AH, AJ, AKR, ALUCON, ANAN, ARIIP, 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, 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, KTH, 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, ROJINA, RPC, SCBLIF, SCP, SENA, SF, SGP, SIMAT, SLC, SMIT, SMK, SOLAR, SPC, SPG, SRICHA, SSC, STA, SUPER, SVOA, SWC, SYNEX, TBSF, TCCC, TEAM, TGGI, TIC, TIES, TIV, TKS, TMC, TMD, TMI, TNDT, TNPC, TOPP, TPA, TPP, TR, TTI, TVD, TVI, TVZ, UBIS, UEC, UOBKH, UPF, UWC, VARO, VTE, WAVE, WIG, WIN, WORK

**Corporate Governance Report disclaimer**

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not conform nor certify the accuracy of such survey result.