

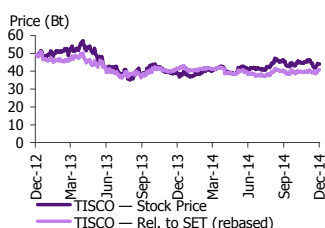
BUY

Stock Data

Last close (Dec 30) (Bt)	42.50
12-m target price (Bt)	55.00
Upside (Downside) to TP (%)	29.41
Mkt cap (Btbn)	34.03
Mkt cap (US\$mn)	1,035

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.25
Sector % SET	17.51
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	47.5 / 36
Avg. daily 6m (US\$mn)	1.29
Foreign limit / actual (%)	49 / 48
Free float (%)	74.3
Dividend policy (%)	50

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	(7.6)	(6.6)	15.6
Relative to SET	(1.7)	(1.0)	(5.0)

Source: SET, SCBS Investment Research

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Recovery coming, valuation cheap

Loan growth is recovering - back in the positives - and provisions simmering down in tandem with stabilizing used car loans as clients reach the “point of no return” in loan payments. NIM is stable and threats more distant. With all these positives, TISCO is trading at an overly steep discount to valuation and we continue to BUY.

Reducing provisions, key earnings driver for 2015. Earnings will be driven by lower credit cost (provisions/total loans) from 4Q14 through 2016 as provisions get back to normal with the normalization of the used car market and used car loans. Market prices for used cars stabilized in 2014 after plunging 30-40% in 2012-2013. We note that nearly all used car NPLs came from loans extended in 2012 and 1H13, which means that borrowers have reached the “point of no return”, with more than half the loans paid off. TISCO expects a slight reduction in credit cost to 1.5-1.6% in 4Q14 (1.53% SCBS forecast) from 1.67% for 3Q14 and a material fall in credit cost in 2015 to below 1.5%, but does not yet anticipate a return to a normal level of 1.2% (1.45% SCBS forecast).

Gradual loan growth recovery. Loan growth returned to a small positive of 0.2% MoM in November, backed by corporate and SME loans (mainly for auto dealers to finance inventories for the Motor Show). In November, corporate loans grew 2.1% MoM and SME loans 2.6% MoM but retail loans (mainly auto) contracted 0.9% MoM. This was not enough to pull loan growth out of the negatives YTD (-6.8%) or QTD (-0.95%). TISCO has set its initial 2015 loan growth target in the mid single digit range, in line with our forecast of 5%. In view of the country's high household debt and high repayments of loans extended in 2012-2013, auto loan growth is expected to be modest in 2015.

Good NIM sustainable. With inflation tamed and the economy needing stimulus, an interest rate cut – good news for HP banks - now seems more likely than an interest rate rise, distancing the threat to NIM from rate hikes. An interest rate cut aids HP banks like TISCO as the duration of their liabilities is shorter than their assets. We expect the good NIM of 3.1% in 3Q14 to be sustained in 4Q14 and 2015. In fact, TISCO expects NIM to expand 5-10 bps QoQ in 4Q14 upon a further fall in cost of funds.

4Q14F preview: Earnings recovery starting. Although loan growth is expected to remain negative in 4Q14, we expect NIM to improve. A pick-up in non-interest income and easing provisions are expected to boost 4Q14F earnings by 48% YoY and 10% QoQ to Bt1.2bn. We expect a QoQ improvement in net interest margin (NIM) in 4Q14, driven by easing cost of funds. Outlook for non-interest income is better, mainly from fees related to the capital market, i.e. brokerage income and asset management fees. Provisions are expected to decline on improving asset quality. Opex is expected to increase QoQ, mainly from marketing expenses.

Valuation over-penalized. We maintain Buy on TISCO. It is trading at a deep discount at 7x PER and 1.2x PBV relative to 18% ROE, reflecting the market's over-penalization for the deterioration in the auto hire-purchase business, which is beginning to get back on its feet after a poor 2014.

Forecasts and valuation

FY Dec	Unit	2012	2013	2014F	2015F	2016F
Pre-provision profit	(Btmn)	5,627	8,390	8,827	9,049	9,630
Net profit	(Btmn)	3,705	4,249	4,208	4,912	5,393
PPP/Sh	(Bt)	7.73	10.48	11.02	11.30	12.03
EPS	(Bt)	5.09	5.31	5.26	6.14	6.74
BVPS	(Bt)	25.00	28.71	32.07	36.52	41.10
DPS	(Bt)	2.40	2.00	2.00	2.15	2.29
PER	(x)	8.55	8.20	8.28	7.09	6.46
P/PPP	(x)	5.63	4.15	3.95	3.85	3.62
EPS growth	(%)	13.42	4.26	(0.96)	16.73	9.79
PBV	(x)	1.74	1.52	1.36	1.19	1.06
ROE	(%)	21.54	20.63	17.30	17.89	17.36
Dividend yields	(%)	5.52	4.60	4.60	4.94	5.26

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	19,322	19,036	20,389
Interest expense	8,166	10,304	9,543	9,152	10,213
Net interest income	7,044	8,968	9,779	9,883	10,176
Non-interest income	4,715	5,933	5,820	6,326	7,097
Non-interest expenses	5,024	5,340	5,644	5,858	6,220
Earnings before tax & provision	6,736	9,561	9,954	10,352	11,053
Tax	1,081	1,064	1,067	1,243	1,363
Equities & minority interest	28	107	60	60	60
Core pre-provision profit	5,627	8,390	8,827	9,049	9,630
Provision	1,922	4,141	4,619	4,137	4,236
Core net profit	3,705	4,249	4,208	4,912	5,393
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,208	4,912	5,393
EPS (Bt)	5.09	5.31	5.26	6.14	6.74
DPS (Bt)	2.40	2.00	2.00	2.15	2.29

Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,278	1,299	1,179
Interbank assets	31,196	53,242	29,283	28,697	28,123
Investments	7,016	11,490	17,490	17,490	17,490
Gross loans	248,316	292,151	271,700	285,285	313,814
Accrued interest receivable	353	536	536	536	536
Loan loss reserve	5,122	6,354	10,294	13,751	17,309
Net loans	243,547	286,332	261,942	272,070	297,041
Total assets	290,497	359,263	317,142	326,790	351,159
Deposits	219,823	264,641	208,802	213,761	233,213
Interbank liabilities	13,971	16,703	16,703	16,703	16,703
Borrowings	27,877	44,084	54,084	54,084	54,084
Total liabilities	272,117	336,044	291,233	297,322	318,017
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	25,678	29,238	32,911
BVPS (Bt)	25.00	28.71	32.07	36.52	41.10

Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	34.21	17.65	(7.00)	5.00	10.00
YoY fee & insurance income growth	44.65	25.70	(0.14)	8.19	12.49
Profitability					
Yield on earn'g assets (%)	6.01	5.99	5.72	5.86	5.90
Cost on int-bear'g liab (%)	3.55	3.51	3.15	3.24	3.47
Spread (%)	2.46	2.48	2.57	2.61	2.43
Net interest margin(%)	2.78	2.79	2.90	3.04	2.95
ROE (%)	21.54	20.63	17.30	17.89	17.36
Asset Quality					
NPLs/Total Loans(%)	1.30	1.77	2.69	2.82	2.69
LLR/NPLs(%)	165.28	127.95	140.61	170.76	204.70
Provision expense/Total loans (%)	0.77	1.42	1.70	1.45	1.35
Liquidity					
Loans/Deposits & borrowings (%)	100.25	94.63	103.35	106.51	109.23
Efficiency					
Cost to income ratio (%)	42.72	35.84	36.18	36.14	36.01
Capital Fund					
Capital adequacy ratio(%)	12.79	13.38	13.93	14.61	14.68
Tier-1(%)	8.51	9.15	9.58	10.42	10.81
Tier-2(%)	4.28	4.22	4.34	4.20	3.88

Profit and Loss Statement (Btmn)

FY December 31	3Q13	4Q13	1Q14	2Q14	3Q14
Interest & dividend income	4,944	5,095	4,998	4,858	4,757
Interest expense	2,627	2,776	2,692	2,435	2,255
Net interest income	2,317	2,319	2,306	2,423	2,502
Non-interest income	1,318	1,398	1,369	1,414	1,494
Non-interest expenses	1,401	1,102	1,310	1,363	1,461
Earnings before tax & provision	2,234	2,615	2,365	2,474	2,535
Tax	293	184	238	246	277
Equities & minority interest	31	13	22	11	20
Core pre-provision profit	1,910	2,418	2,105	2,217	2,238
Provision	778	1,613	1,170	1,225	1,149
Core net profit	1,132	804	935	992	1,089
Extra item	0	0	0	0	0
Net profit	1,132	804	935	992	1,089
EPS (Bt)	1.41	1.00	1.17	1.24	1.36

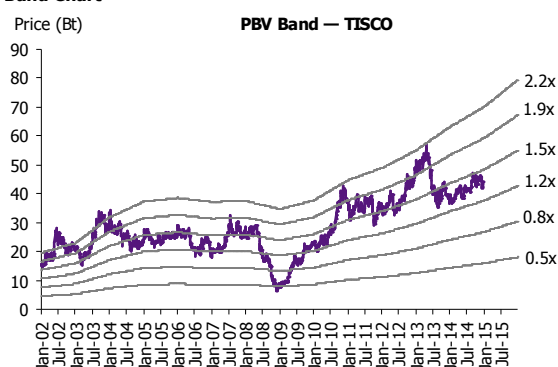
Balance Sheet (Btmn)

FY December 31	3Q13	4Q13	1Q14	2Q14	3Q14
Cash	1,153	1,131	1,087	1,094	1,012
Interbank assets	41,605	53,242	29,554	29,445	29,440
Investments	9,991	11,490	16,354	17,605	11,972
Gross loans	284,855	292,151	284,655	280,276	274,779
Accrued interest receivable	384	536	407	424	425
Loan loss reserve	5,715	6,354	6,477	6,702	6,843
Net loans	279,524	286,332	278,586	273,998	268,360
Total assets	338,391	359,263	332,807	329,483	317,658
Deposits	257,217	264,641	227,611	226,736	207,075
Interbank liabilities	15,559	16,703	16,419	19,367	18,117
Borrowings	33,734	44,084	54,626	49,452	57,759
Total liabilities	316,756	336,044	308,606	305,776	292,740
Minority interest	269	231	255	269	290
Paid-up capital	8,007	8,007	8,007	8,007	8,007
Total Equities	21,366	22,987	23,946	23,438	24,628
BVPS (Bt)	26.69	28.71	29.91	29.27	30.76

Financial Ratios

	3Q13	4Q13	1Q14	2Q14	3Q14
YoY loan growth	24.82	17.65	6.70	(0.10)	(3.54)
YoY fee & insurance income growth	15.27	(3.92)	(21.47)	3.04	4.20
Yield on earn'g assets (%)	6.02	5.88	5.82	5.91	5.91
Cost on int-bear'g liab (%)	3.51	3.51	3.45	3.28	3.12
Net interest margin(%)	2.82	2.68	2.68	2.95	3.11
Cost to income ratio (%)	38.55	29.66	35.65	35.52	36.57
NPLs/Total Loans(%)	1.47	1.70	1.89	2.27	2.35
LLR/NPLs(%)	136.15	127.95	120.70	105.29	105.77
Provision expense/Total loans (%)	1.09	2.21	1.64	1.75	1.67

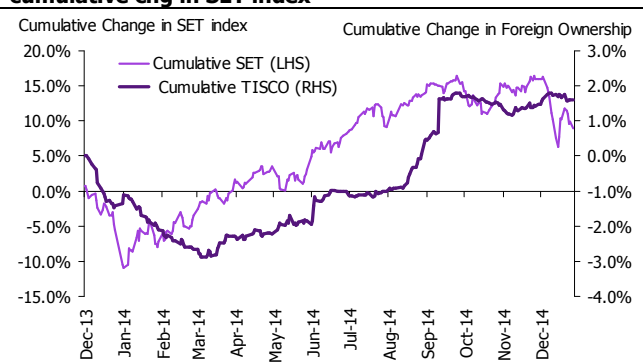
PBV Band Chart



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 (Closing price as of Dec 30, 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	44.75	33.0	(24.8)	22.9	19.9	16.6	(19)	15	20	2.2	2.1	1.9	10	11	12	1.8	1.5	1.8
BBL	Buy	194.00	255.0	35.1	10.3	10.2	9.2	9	1	11	1.3	1.1	1.0	13	12	12	3.4	3.7	4.1
KBANK	Buy	229.00	275.0	21.8	13.3	11.7	10.7	17	13	9	2.5	2.1	1.8	20	20	18	1.5	1.7	2.2
KKP	Buy	39.50	46.0	20.8	7.5	11.5	9.0	29	(35)	29	0.9	0.9	0.9	13	8	10	6.8	4.3	5.6
KTB	Buy	22.70	27.0	22.6	9.4	10.3	9.0	45	(9)	14	1.5	1.4	1.3	17	14	15	3.9	3.7	4.2
LHBANK	Sell	1.96	1.3	(31.7)	27.9	20.6	18.9	23	35	9	1.7	1.6	1.5	6	8	8	3.0	1.9	2.1
TCAP	Buy	31.75	44.0	42.4	4.4	7.8	7.0	68	(43)	10	0.9	0.8	0.7	20	11	11	5.0	3.8	3.6
TISCO	Buy	42.50	55.0	34.1	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	2.92	3.0	4.7	22.2	15.1	12.9	354	47	17	2.1	1.9	1.7	10	13	14	1.4	2.0	2.3
Average					13.8	12.6	11.0	22	4	13	1.7	1.5	1.4	15	13	14	3.5	3.1	3.5

Source: SCBS Investment Research

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