

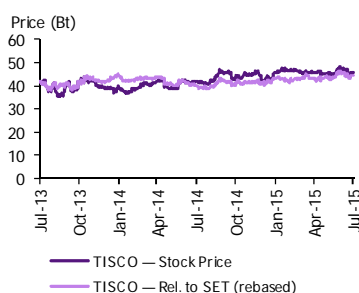
## BUY

## Stock Data

Last close (Jul 15) (Bt)	45.00
12-m target price (Bt)	53.00
Upside (Downside) to TP (%)	17.78
Mkt cap (Btbn)	36.03
Mkt cap (US\$mn)	1,055

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.26
Sector % SET	14.69
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	49.3 / 40.5
Avg. daily 6m (US\$mn)	2.05
Foreign limit / actual (%)	49 / 49
Free float (%)	75.0
Dividend policy (%)	50

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	(4.8)	(2.2)	8.4
Relative to SET	(3.7)	3.3	11.6

Source: SET, SCBS Investment Research

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## Gradual recovery ahead - and valuation cheap

The 2015 hike in its LLR coverage against SSI loans to 58% from 36% softens the SSI overhang. It is trading at a deep discount to valuation at 8x PER despite the fact that earnings are recovering in tandem with easing provisioning needs as losses on repossessed cars fall, plus improving NIM from lower cost of funds.

**Provisioning for SSI done.** TISCO made extra provisions in 2015 of Bt350mn for SSI (UK), as a part of a 22% specific LLR on top of 36% LLR earlier set aside as general LLR. This was done to comply with the BoT requirement to make provisions against its loan exposure to SSI (UK) to reflect losses at the forced-sale value of SSI (UK) if it defaulted. TISCO now has 58% LLR against its Bt4bn exposure to SSI (US\$100mn for UK operations and Bt800mn for Thailand operations) of which 22% is a specific LLR and 36% is a general LLR. Out of its Bt2.7bn excess LLR, Bt1.4bn is for SSI loans, which are now are classified as special-mention loans. If SSI loans go NPL, its NPL ratio will rise to 4.47% from 2.86% at 2Q15 and LLR coverage will fall to 66% from 107% at 2Q15.

**Easing provisions in 2H15 and 2016.** TISCO expects to make lower provisions in 2H15 and 2016 without the extra provisioning and lower losses on repossessed cars as used car prices gradually regain normal levels. TISCO maintains its credit cost target at 1.4-1.5% (1.5% SCBS forecast) in 2H15 vs. 1.78% in 1H15 (1.5% excluding extra provisions) in 1H15. It reports a gradual recovery in the prices of used pick-up trucks. A slight 6% QoQ increase in NPLs for 2Q15 reflected the long holidays in the quarter and a relapse of restructured SME loans for two companies in the transportation sector. TISCO expects its NPLs to fall in 3Q15. In 2016, the bank expects credit cost to ease to ~1.3% (1.4% SCBS forecast), underpinned by reduced losses on repossessed cars.

**Further NIM improvement in 2H15.** TISCO expects net interest margin (NIM) to continue to improve in 2H15 as cost of funds comes down further. Its NIM expanded an impressive 17 bps QoQ in 2Q15, mainly from the lower cost of funds. Its deposits will continue to be re-priced down in 3Q15. Cost of funds for new funding is now below 2.5%, 30 bps below the 2.8% in 2Q15. TISCO will benefit if the central bank cuts its policy rate again. We forecast its NIM to rise 36 bps this year, the most among peers.

**Loan growth to resume materially in 2017.** TISCO expects loans to be flat in 2016 followed by material growth in 2017 when loans extended in the 2012-2013 peak are paid off. In 2H15, the bank expects corporate loans to grow 4-5% (vs. -1.7% YTD), SME loans to be stagnant (vs. -11.6% YTD), and retail loans (vs. -4.8% YTD) to continue contracting on weak domestic car sales. We maintain our forecast of an 8% contraction in loans for 2015F vs. -5% YTD and loan growth of 2% in 2016F and 5% in 2017F.

**Maintain Buy.** We maintain Buy on TISCO with an unchanged TP of Bt53 (1.4x mid-2016F BVPS). It is trading at a deep discount to valuation at 8x PER despite the fact that earnings are recovering in tandem with easing provisioning needs as losses on repossessed cars fall, plus improving NIM from lower cost of funds.

## Forecasts and valuation

FY Dec	Unit	2013	2014	2015F	2016F	2017F
Pre-provision profit	(Btmn)	8,390	8,676	8,556	8,255	8,454
Net profit	(Btmn)	4,249	4,250	4,556	4,803	5,088
PPP/Sh	(Bt)	10.48	10.84	10.69	10.31	10.56
EPS	(Bt)	5.31	5.31	5.69	6.00	6.35
BVPS	(Bt)	28.71	32.14	35.83	39.83	44.15
DPS	(Bt)	2.00	2.00	1.99	2.04	2.00
PER	(x)	8.48	8.48	7.91	7.50	7.08
P/PPP	(x)	4.29	4.15	4.21	4.36	4.26
EPS growth	(%)	4.26	0.02	7.20	5.43	5.93
PBV	(x)	1.57	1.40	1.26	1.13	1.02
ROE	(%)	20.63	17.45	16.74	15.86	15.13
Dividend yields	(%)	4.44	4.44	4.43	4.53	4.45

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Interest & dividend income	19,272	18,891	16,918	16,476	17,025
Interest expense	10,304	9,351	7,220	7,024	7,424
<b>Net interest income</b>	<b>8,968</b>	<b>9,540</b>	<b>9,698</b>	<b>9,451</b>	<b>9,601</b>
Non-interest income	5,933	5,757	5,821	6,123	6,613
Non-interest expenses	5,340	5,605	5,862	6,159	6,534
Earnings before tax & provision	9,561	9,692	9,657	9,415	9,681
Tax	1,064	1,043	1,131	1,192	1,263
Equities & minority interest	107	(27)	(30)	(33)	(36)
Core pre-provision profit	8,390	8,676	8,556	8,255	8,454
Provision	4,141	4,426	4,001	3,452	3,366
<b>Core net profit</b>	<b>4,249</b>	<b>4,250</b>	<b>4,556</b>	<b>4,803</b>	<b>5,088</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>4,249</b>	<b>4,250</b>	<b>4,556</b>	<b>4,803</b>	<b>5,088</b>
<b>EPS (Bt)</b>	<b>5.31</b>	<b>5.31</b>	<b>5.69</b>	<b>6.00</b>	<b>6.35</b>
<b>DPS (Bt)</b>	<b>2.00</b>	<b>2.00</b>	<b>1.99</b>	<b>2.04</b>	<b>2.00</b>

## Profit and Loss Statement (Btmn)

FY December 31	3Q14	4Q14	2,014	1Q15	2Q15
Interest & dividend income	4,670	4,530	18,891	4,374	4,263
Interest expense	2,214	2,089	9,351	1,974	1,815
<b>Net interest income</b>	<b>2,456</b>	<b>2,441</b>	<b>9,540</b>	<b>2,400</b>	<b>2,448</b>
Non-interest income	1,485	1,501	5,757	1,542	1,446
Non-interest expenses	1,440	1,524	5,605	1,501	1,434
Earnings before tax & provision	2,501	2,418	9,692	2,441	2,461
Tax	277	297	1,043	292	243
Equities & minority interest	(2)	(5)	(27)	(15)	(30)
Core pre-provision profit	2,227	2,127	8,676	2,164	2,248
Provision	1,138	892	4,426	972	1,244
<b>Core net profit</b>	<b>1,089</b>	<b>1,234</b>	<b>4,250</b>	<b>1,192</b>	<b>1,004</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>1,089</b>	<b>1,234</b>	<b>4,250</b>	<b>1,192</b>	<b>1,004</b>
<b>EPS (Bt)</b>	<b>1.36</b>	<b>1.54</b>	<b>5.31</b>	<b>1.49</b>	<b>1.25</b>
	-	-	-	-	-

## Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Cash	1,131	1,180	1,009	1,145	1,275
Interbank assets	53,242	38,058	38,058	38,058	37,297
Investments	11,490	15,003	10,502	10,502	10,502
<b>Gross loans</b>	<b>292,151</b>	<b>262,784</b>	<b>241,761</b>	<b>246,596</b>	<b>258,926</b>
Accrued interest receivable	536	556	556	556	556
Loan loss reserve	6,354	6,950	8,451	9,403	10,270
<b>Net loans</b>	<b>286,332</b>	<b>256,390</b>	<b>233,867</b>	<b>237,749</b>	<b>249,212</b>
<b>Total assets</b>	<b>359,263</b>	<b>317,657</b>	<b>290,542</b>	<b>294,645</b>	<b>305,566</b>
Deposits	264,641	205,384	177,246	177,069	183,355
Interbank liabilities	16,703	10,897	10,897	10,897	10,897
Borrowings	44,084	65,406	62,500	62,500	62,500
<b>Total liabilities</b>	<b>336,044</b>	<b>291,833</b>	<b>261,764</b>	<b>262,658</b>	<b>270,123</b>
Minority interest	231	93	93	93	93
Paid-up capital	8,007	8,007	8,007	8,007	8,007
<b>Total Equities</b>	<b>22,987</b>	<b>25,731</b>	<b>28,685</b>	<b>31,893</b>	<b>35,349</b>
<b>BVPS (Bt)</b>	<b>28.71</b>	<b>32.14</b>	<b>35.83</b>	<b>39.83</b>	<b>44.15</b>

## Balance Sheet (Btmn)

FY December 31	3Q14	4Q14	2,014	1Q15	2Q15
Cash	1,012	1,180	1,180	1,082	1,022
Interbank assets	29,405	38,058	38,058	30,057	37,003
Investments	12,167	15,003	15,003	15,673	9,298
<b>Gross loans</b>	<b>267,576</b>	<b>262,784</b>	<b>262,784</b>	<b>254,437</b>	<b>249,341</b>
Accrued interest receivable	425	556	556	546	554
Loan loss reserve	6,809	6,950	6,950	7,096	7,650
<b>Net loans</b>	<b>261,191</b>	<b>256,390</b>	<b>256,390</b>	<b>247,887</b>	<b>242,245</b>
<b>Total assets</b>	<b>310,505</b>	<b>317,657</b>	<b>317,657</b>	<b>302,207</b>	<b>297,279</b>
Deposits	207,075	205,384	205,384	200,149	184,354
Interbank liabilities	12,332	10,897	10,897	11,305	12,917
Borrowings	56,759	65,406	65,406	52,927	62,733
<b>Total liabilities</b>	<b>285,791</b>	<b>291,833</b>	<b>291,833</b>	<b>275,215</b>	<b>270,833</b>
Minority interest	86	93	93	99	104
Paid-up capital	8,007	8,007	8,007	8,007	8,007
<b>Total Equities</b>	<b>24,628</b>	<b>25,731</b>	<b>25,731</b>	<b>26,893</b>	<b>26,342</b>
<b>BVPS (Bt)</b>	<b>30.76</b>	<b>32.14</b>	<b>32.14</b>	<b>33.59</b>	<b>32.90</b>

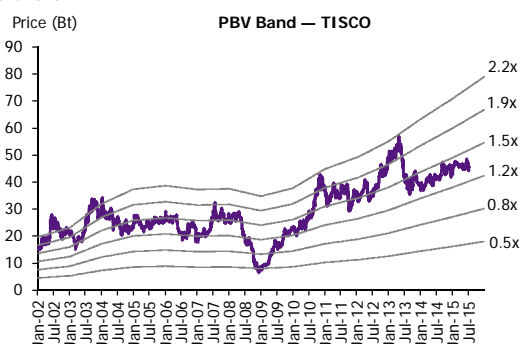
## Key Assumptions and Financial Ratios

	2013	2014	2015F	2016F	2017F
<b>Growth</b>					
YoY loan growth	17.65	(10.05)	(8.00)	2.00	5.00
YoY fee & insurance income growth	25.70	(4.13)	1.24	5.01	8.26
<b>Profitability</b>					
Yield on earn'g assets (%)	5.99	5.62	5.58	5.63	5.66
Cost on int-bear'g liab (%)	3.51	3.08	2.71	2.80	2.93
Spread (%)	2.48	2.54	2.87	2.82	2.73
Net interest margin(%)	2.79	2.84	3.20	3.23	3.19
ROE (%)	20.63	17.45	16.74	15.86	15.13
<b>Asset Quality</b>					
NPLs/Total Loans(%)	1.76	2.61	3.07	3.16	3.16
LLR/NPLs(%)	128.01	102.97	113.82	120.61	125.46
Provision expense/Total loans (%)	1.42	1.68	1.65	1.40	1.30
<b>Liquidity</b>					
Loans/Deposits & borrowings (%)	94.63	97.04	100.84	102.93	105.32
<b>Efficiency</b>					
Cost to income ratio (%)	35.84	36.64	37.77	39.55	40.29
<b>Capital Fund</b>					
Capital adequacy ratio(%)	13.38	16.80	16.96	18.01	18.64
Tier-1(%)	9.15	12.56	12.40	13.52	14.34
Tier-2(%)	4.22	4.24	4.56	4.49	4.31

## Financial Ratios

	3Q14	4Q14	2,014	1Q15	2Q15
YoY loan growth	(6.07)	(10.05)	(10.05)	(8.78)	(9.12)
YoY fee & insurance income growth	4.20	2.55	(4.13)	0.72	4.02
Yield on earn'g assets (%)	5.92	5.80	5.62	5.68	5.72
Cost on int-bear'g liab (%)	3.13	3.00	3.08	2.89	2.77
Net interest margin(%)	3.12	3.12	2.84	3.12	3.29
Cost to income ratio (%)	36.53	38.66	36.64	38.07	36.81
NPLs/Total Loans(%)	2.42	2.57	2.57	2.65	2.86
LLR/NPLs(%)	105.24	102.97	102.97	105.24	107.18
Provision expense/Total loans (%)	1.70	1.36	6.74	1.53	2.00

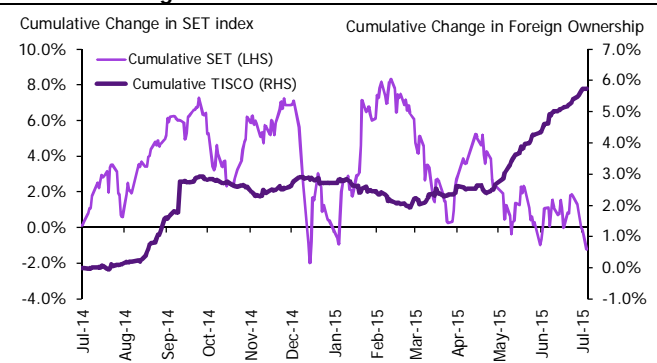
## PBV Band Chart



## 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 Jul 15, 2015)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F
BAY	Sell	33.00	32.0	(1.1)	14.1	15.3	11.1	19	(7)	37	1.5	1.2	1.1	11	10	11	2.1	2.0	2.7
BBL	Buy	173.00	208.0	24.0	9.1	9.9	9.3	1	(9)	8	1.0	1.0	0.9	12	10	10	3.8	3.8	4.0
KBANK	Buy	190.00	225.0	20.8	9.9	11.0	8.6	12	(11)	29	1.8	1.6	1.4	19	15	17	2.1	2.4	2.6
KKP	Neutral	33.75	40.0	23.6	10.8	9.9	9.1	(41)	9	10	0.8	0.8	0.7	7	8	8	4.6	5.0	5.5
KTB	Buy	17.30	22.0	31.8	7.3	8.0	7.1	(2)	(9)	12	1.0	1.0	0.9	15	13	13	5.2	4.6	5.2
LHBANK	Sell	1.84	1.3	(28.0)	20.2	21.8	21.0	30	(7)	4	1.5	1.4	1.4	8	7	7	0.2	1.4	1.4
TCAP	Buy	33.25	44.0	37.1	8.3	7.3	7.1	(45)	13	3	0.8	0.8	0.7	10	11	10	4.8	4.8	4.8
TISCO	Buy	45.00	53.0	22.2	8.5	7.9	7.5	0	7	5	1.4	1.3	1.1	17	17	16	4.4	4.4	4.5
TMB	Sell	2.40	2.5	6.6	11.0	12.5	11.3	66	(12)	11	1.5	1.4	1.3	15	12	12	2.7	2.4	2.7
<b>Average</b>					<b>10.9</b>	<b>11.4</b>	<b>10.1</b>	<b>3</b>	<b>(7)</b>	<b>17</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>3.4</b>	<b>3.5</b>	<b>3.8</b>

Source: SCBS Investment Research

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