

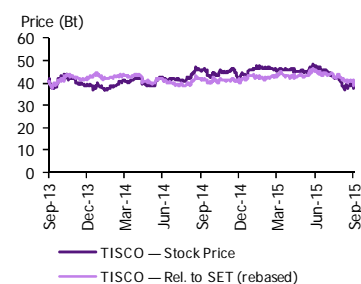
BUY

Stock Data

Last close (Sep 16) (Bt)	37.25
12-m target price (Bt)	53.00
Upside (Downside) to TP (%)	42.28
Mkt cap (Btbn)	29.82
Mkt cap (US\$mn)	828

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.23
Sector % SET	15.08
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	49.3 / 37
Avg. daily 6m (US\$mn)	1.71
Foreign limit / actual (%)	49 / 48
Free float (%)	75.0
Dividend policy (%)	50

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	(10.8)	(20.7)	(18.1)
Relative to SET	(9.0)	(13.1)	(6.9)

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

Fundamental Investment

Analyst on Securities

(66-2) 949-1003

kittima.sattayapan@scb.co.th

Bad news: SSI loan requires additional provisions

Additional provisions against SSI loan in 3Q15. TISCO has called a special analysts meeting on September 23 to clarify additional provisions against SSI loans that it is making in 3Q15. This suggests that SSI's other creditors, KTB and SCB, may also face additional provisions for SSI and may have to move SSI loans into the NPL column from special-mention, where they are now.

Provision history for SSI by TISCO. TISCO made Bt350mn in extra provisions in 2Q15 for SSI (UK), as a part of a 22% specific LLR on top of 36% LLR earlier set as general LLR. This was done to comply with the BoT requirement that provisions for its loan to SSI (UK) reflect losses at the forced-sale value of SSI (UK) if SSI defaulted. TISCO had 58% LLR against its Bt4bn exposure to SSI (US\$100mn for UK operations and Bt800mn for Thailand operations) of which 22% is specific LLR and 36% is general. Out of its Bt3.5bn excess LLR, Bt1.4bn is for SSI loans, now classified as special-mention loans.

Need more provisions? The worst case scenario is adding enough provisions to bring LLR coverage against SSI loans to 100% (i.e. 42% more). These loans are collateralized and are being rescheduled and restructured. Thus, if there is a default, the actual loss should be less than 100%. We estimate Bt1.7bn in added provisions for TISCO; we have no details for the other two banks but believe their LLR against exposure to SSI loans is 58%, the same as TISCO, lining up with 2Q15 BoT guidance. If so, they will need to add Bt8.4bn in provisions. However, all three banks have excess LLR that is larger than the additional provisions needed to cover 100% of the SSI loans. We believe they will use at least part of the excess LLR to bring provisions for SSI loans up to 100%, easing the need for new provisions. Of the three banks, TISCO will be hurt the most from the additional provisions as it has the lowest excess LLR and LLR coverage. For KTB, we have already factored in extra provisions of Bt5bn in 2H15.

Figure 1: Asset quality as of 2Q15

Unit: Btmn	Estimated loans to SSI	2Q15			2Q15 if SSI is reclassified as NPLs		
		NPLs	NPL ratio*	LLR/NPLs	NPLs	NPL ratio*	LLR/NPLs
KTB	20,000	67,551	3.41%	125%	87,551	4.42%	97%
SCB	20,000	46,003	2.53%	135%	66,003	3.64%	94%
TISCO	4,000	7,137	2.86%	107%	11,137	4.47%	69%

Source: Banks and SCBS Investment Research

Note: *We use total loans excluding interbank as the denominator for NPL ratio.

Figure 2: Estimated additional provision need for 100% LLR to SSI loans

Unit: Btmn	Existing LLR against SSI loans at 58%	Additional provision needed for 100% LLR against SSI loans	Excess LLR at 2Q15	Impact to 2015F earnings if make 100% provision
KTB	11,600	8,400	24,346	22%
SCB	11,600	8,400	17,620	13%
TISCO	2,320	1,680	3,467	30%

Source: SCBS Investment Research

Still cheap even in the worst-case scenario. We maintain Buy on TISCO but put TP under review as TISCO is trading at a cheap valuation of 9x PER and 1.1 PVB relative to 12% ROE for 2015F even in the worst case scenario of 100% provisions against SSI loans. TISCO share price fell 23% over the past three months (6% in the past 3 days), largely on the downside risk from SSI. We continue to expect earnings to recover in 2016F on decreasing losses on repossessed cars.

Figure 3: Sensitivity analysis on TISCO's forecast and valuation

FY Dec	Current forecast		Base-case		Worst-case	
	2015F	2016F	2015F	2016F	2015F	2016F
Net profit	4,556	4,803	3,884	4,803	3,212	4,803
EPS	5.69	6.00	4.85	6.00	4.01	6.00
BVPS	35.83	39.83	34.99	39.29	34.15	38.74
PER	6.55	6.21	7.68	6.21	9.29	6.21
EPS growth	7.20	5.43	(8.61)	23.67	(24.42)	49.55
PBV	1.04	0.94	1.06	0.95	1.09	0.96
ROE	16.74	15.86	14.45	16.15	12.10	16.46

Source: SCBS Investment Research

Note: Base case assumes 21% additional provisions for SSI loans. Worst case assumes 42% additional provisions for SSI loans.

Important note: SCBS is a wholly-owned subsidiary of SCB. Any information related to SCB is for sector comparison purposes.

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
Net interest income	8,968	9,540	9,698	9,451	9,601
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
Core net profit	4,249	4,250	4,556	4,803	5,088
Extra item	0	0	0	0	0
Net profit	4,249	4,250	4,556	4,803	5,088
EPS (Bt)	5.31	5.31	5.69	6.00	6.35
DPS (Bt)	2.00	2.00	1.99	2.04	2.00

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
Net interest income	2,456	2,441	9,540	2,400	2,448
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
Core net profit	1,089	1,234	4,250	1,192	1,004
Extra item	0	0	0	0	0
Net profit	1,089	1,234	4,250	1,192	1,004
EPS (Bt)	1.36	1.54	5.31	1.49	1.25
	-	-	-	-	-

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
Gross loans	292,151	262,784	241,761	246,596	258,926
Accrued interest receivable	536	556	556	556	556
Loan loss reserve	6,354	6,950	8,451	9,403	10,270
Net loans	286,332	256,390	233,867	237,749	249,212
Total assets	359,263	317,657	290,542	294,645	305,566
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
Total liabilities	336,044	291,833	261,764	262,658	270,123
Minority interest	231	93	93	93	93
Paid-up capital	8,007	8,007	8,007	8,007	8,007
Total Equities	22,987	25,731	28,685	31,893	35,349
BVPS (Bt)	28.71	32.14	35.83	39.83	44.15

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
Gross loans	267,576	262,784	262,784	254,437	249,341
Accrued interest receivable	425	556	556	546	554
Loan loss reserve	6,809	6,950	6,950	7,096	7,650
Net loans	261,191	256,390	256,390	247,887	242,245
Total assets	310,505	317,657	317,657	302,207	297,279
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
Total liabilities	285,791	291,833	291,833	275,215	270,833
Minority interest	86	93	93	99	104
Paid-up capital	8,007	8,007	8,007	8,007	8,007
Total Equities	24,628	25,731	25,731	26,893	26,342
BVPS (Bt)	30.76	32.14	32.14	33.59	32.90

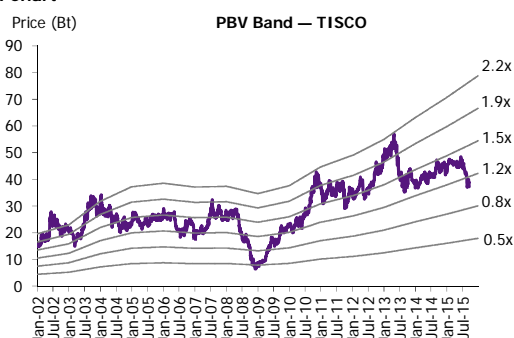
Key Assumptions and Financial Ratios

	2013	2014	2015F	2016F	2017F
Growth					
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
Profitability					
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
Asset Quality					
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
Liquidity					
Loans/Deposits & borrowings (%)	94.63	97.04	100.84	102.93	105.32
Efficiency					
Cost to income ratio (%)	35.84	36.64	37.77	39.55	40.29
Capital Fund					
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

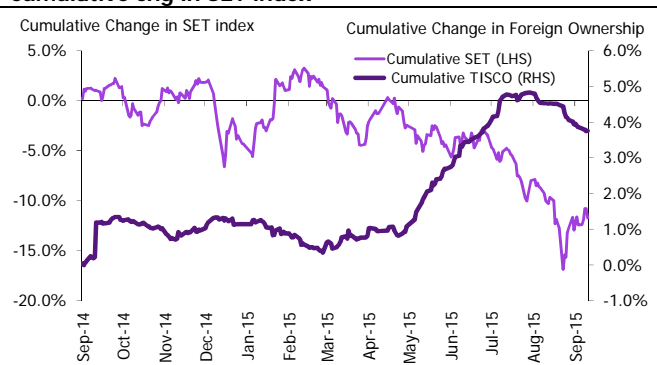
PBV Band Chart



12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research

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)	7.02	7.02	6.55	6.21	5.86
P/PPP	(x)	3.55	3.44	3.49	3.61	3.53
EPS growth	(%)	4.26	0.02	7.20	5.43	5.93
PBV	(x)	1.30	1.16	1.04	0.94	0.84
ROE	(%)	20.63	17.45	16.74	15.86	15.13
Dividend yields	(%)	5.37	5.37	5.35	5.48	5.37

Source: SCBS Investment Research

Figure 4: Valuation summary (Closing price as of Sep 16, 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	31.00	30.0	(1.0)	13.3	13.6	12.0	19	(3)	14	1.4	1.2	1.1	11	10	9	2.3	2.2	2.5
BBL	Buy	165.50	205.0	27.8	8.7	9.6	8.9	1	(9)	7	1.0	0.9	0.8	12	10	10	4.0	3.9	4.1
KBANK	Buy	179.00	225.0	28.2	9.3	10.4	8.2	12	(11)	27	1.7	1.5	1.3	19	15	17	2.2	2.5	2.8
KKP	Neutral	31.00	34.0	14.9	9.9	9.7	8.9	(41)	3	9	0.7	0.7	0.7	7	7	8	5.0	5.2	5.6
KTB	Buy	17.90	22.0	27.5	7.5	8.1	7.5	(2)	(7)	8	1.1	1.0	0.9	15	13	13	5.0	4.6	5.0
LHKBANK	Sell	1.58	1.3	(15.8)	17.4	15.3	15.0	30	14	1	1.3	1.2	1.2	8	8	8	0.2	2.0	2.0
TCAP	Buy	31.25	42.0	39.5	7.8	6.9	6.8	(45)	13	1	0.8	0.7	0.7	10	11	10	5.1	5.1	5.1
TISCO	Buy	37.25	53.0	47.6	7.0	6.5	6.2	0	7	5	1.2	1.0	0.9	17	17	16	5.4	5.3	5.5
TMB	Sell	2.46	2.4	(0.2)	11.3	13.3	10.9	66	(15)	21	1.5	1.4	1.3	15	11	12	2.7	2.3	2.7
Average					10.1	10.3	9.3	3	(7)	14	1.2	1.1	1.0	13	12	12	3.6	3.7	4.0

Source: SCBS Investment Research

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★★★★	AAV, ACAP, ADVANC, ANAN, AOT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BECL, BIGC, BKI, BLA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, CK, CNT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GFPT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNA, LH, LHKBANK, LOXLEY, LPN, MACO, MC, MDO, NBC, NCH, NINE, NIKI, NMG, NSI, OGC, OFM, PAP, PE, PG, PHOL, PIW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SCC, SINGER, SIS, SITHAI, SNC, SNP, SPI, SSI, SSSC, STA, SVI, TCAP, TF, THAI, THANI, THOOM, TIP, TIPOO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSTE, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WAOAL
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