

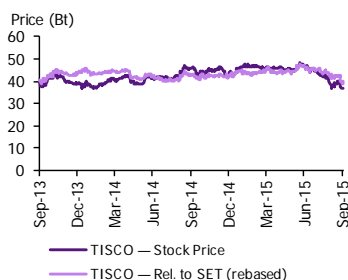
BUY

Stock Data

| | |
|-----------------------------|-------|
| Last close (Sep 23) (Bt) | 36.75 |
| 12-m target price (Bt) | 45.00 |
| Upside (Downside) to TP (%) | 22.45 |
| Mkt cap (Btbn) | 29.42 |
| Mkt cap (US\$m) | 813 |

| | |
|----------------------------|-----------|
| Bloomberg code | TISCO TB |
| Reuters code | TISCO.BK |
| Risk rating | M |
| Mkt cap (%) SET | 0.23 |
| Sector % SET | 14.89 |
| Shares issued (mn) | 801 |
| Par value (Bt) | 10 |
| 12-m high / low (Bt) | 49.3 / 36 |
| Avg. daily 6m (US\$m) | 1.73 |
| 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 | (3.3) | (20.5) | (19.7) |
| Relative to SET | (8.5) | (12.3) | (7.0) |

Source: SET, SCBS Investment Research

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The worst priced in; recovery will come

TISCO is biting the bullet and making full provisions on its Bt4.4bn loans to SSI. This will weaken LLR coverage and slash excess LLR. At the same time, a cut in opex and early payment of a corporate loan will soften the impact. We have cut our forecasts and TP to Bt45 but maintain Buy.

SSI provisions slash LLR coverage and excess LLR. TISCO is adding Bt1.4-1.5bn in provisions on its Bt4.4bn loans to SSI (Bt821mn) and its UK subsidiary (US\$100mn) in 3Q15, setting the value of collateral for SSI UK to zero. This will give it 100% coverage against the US\$100mn loan to SSI UK (vs. 58% at 2Q15) and 30% against the Bt820mn SSI loans. The SSI UK loan will be written off so it can deduct the provisions from taxes. This will raise NPLs slightly since the SSI loan is ~0.34% of total loans. Writing off the SSI UK loans will cut LLR coverage to ~74% from 107% at 2Q15 and excess LLR to Bt872mn at 3Q15 from Bt3.5bn at 2Q15. Management says it has no need to rebuild LLR coverage and excess LLR; we are more conservative and raise not only 2015F provisions to factor in higher loss on the SSI loans but also raise 2016F and 2017F provisions to cover a rebuild in LLR coverage. We raise credit cost forecast by 60 bps to 225 bps for 2015F as well as by 10 bps to 150 bps for 2016F and 140 bps for 2017F. At the same time, normalized provisions should ease in line with fewer hire-purchase loan NPLs. It estimates regular provisions of ~1.3% of total loans in 2H15F and 2016F.

Opex cut to mitigate impact. At the analyst meeting, TISCO says it will temporarily cut opex (mainly personnel expenses) by 30% QoQ (or ~Bt400mn) in 3Q15 to mitigate the additional provisions for SSI loans. Opex will return to normal in 4Q15 and 2016.

Widening loan spread. TISCO expects loan spread to widen ~40 bps QoQ to almost 4% in 3Q15, helping soften the impact from provisioning for SSI loans. TISCO benefits from the low interest rate environment and expects loan spread to peak in 4Q15.

Extra income, another aid. TISCO will book extra income of ~Bt100mn from the prepayment of Bt5bn in corporate loans in August plus Bt50mn from a 1% prepayment penalty. It will then reverse ~Bt60mn in provisions related to this loan into income. (The client wanted to shift to the bond market to take advantage of low bond yield.)

Cut 2015F and 2016F loan growth: 2015F to -11% from -8% to factor in the Bt5bn prepayment in August and the write-off of Bt3.6bn SSI UK loans and 2016 to 0% from 2%. Hire-purchase loan repayments are expected to ease in 2016 and 2017 as the 2012-13 loans mature. Meanwhile, new loans are expected to come back gradually, but not sufficient to generate loan growth until 2017.

3Q15F preview. We expect a 38% YoY and 33% QoQ drop to Bt677mn, basing our forecast on the following guidance: Bt1.4-1.5bn added provisions for SSI loans on top of 1.3% normalized credit cost, -8% 8M15 YTD loan growth, sizable NIM improvement, Bt100mn extra income and 30% QoQ reduction in opex.

Maintain Buy but cut TP to Bt45 (1.2x mid 2016 BVPS) from Bt53 after lowering forecast 10% for 2015F and 4-6% for 2016F-2017F. It has been overly punished for the SSI loans to where it is trading at a cheap valuation of 7x PER and 1x PVB against 15% ROE in 2015F. We expect recovery in 2016-2017 as auto loans recover in terms of asset quality and growth.

Forecasts and valuation

| FY Dec | Unit | 2013 | 2014 | 2015F | 2016F | 2017F |
|----------------------|--------|-------|-------|--------|-------|-------|
| Pre-provision profit | (Btmn) | 8,390 | 8,676 | 9,329 | 8,141 | 8,195 |
| Net profit | (Btmn) | 4,249 | 4,250 | 4,079 | 4,648 | 4,771 |
| PPP/Sh | (Bt) | 10.48 | 10.84 | 11.65 | 10.17 | 10.24 |
| EPS | (Bt) | 5.31 | 5.31 | 5.09 | 5.80 | 5.96 |
| BVPS | (Bt) | 28.71 | 32.14 | 35.23 | 39.25 | 43.24 |
| DPS | (Bt) | 2.00 | 2.00 | 1.78 | 1.97 | 1.88 |
| PER | (x) | 6.93 | 6.92 | 7.21 | 6.33 | 6.17 |
| P/PPP | (x) | 3.51 | 3.39 | 3.15 | 3.61 | 3.59 |
| EPS growth | (%) | 4.26 | 0.02 | (4.01) | 13.93 | 2.66 |
| PBV | (x) | 1.28 | 1.14 | 1.04 | 0.94 | 0.85 |
| ROE | (%) | 20.63 | 17.45 | 15.13 | 15.59 | 14.45 |
| Dividend yields | (%) | 5.44 | 5.44 | 4.85 | 5.37 | 5.11 |

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 | 16,630 | 15,566 | 15,931 |
| Interest expense | 10,304 | 9,351 | 6,753 | 6,478 | 6,902 |
| Net interest income | 8,968 | 9,540 | 9,876 | 9,087 | 9,029 |
| Non-interest income | 5,933 | 5,757 | 5,826 | 6,048 | 6,543 |
| Non-interest expenses | 5,340 | 5,605 | 5,448 | 5,932 | 6,291 |
| Earnings before tax & provision | 9,561 | 9,692 | 10,255 | 9,203 | 9,281 |
| Tax | 1,064 | 1,043 | 1,001 | 1,142 | 1,171 |
| Equities & minority interest | 107 | (27) | (75) | (80) | (86) |
| Core pre-provision profit | 8,390 | 8,676 | 9,329 | 8,141 | 8,195 |
| Provision | 4,141 | 4,426 | 5,250 | 3,494 | 3,424 |
| Core net profit | 4,249 | 4,250 | 4,079 | 4,648 | 4,771 |
| Extra item | 0 | 0 | 0 | 0 | 0 |
| Net profit | 4,249 | 4,250 | 4,079 | 4,648 | 4,771 |
| EPS (Bt) | 5.31 | 5.31 | 5.09 | 5.80 | 5.96 |
| DPS (Bt) | 2.00 | 2.00 | 1.78 | 1.97 | 1.88 |

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 | 1,209 | 1,466 | 1,669 |
| 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 | 232,905 | 232,905 | 244,551 |
| Accrued interest receivable | 536 | 556 | 556 | 556 | 556 |
| Loan loss reserve | 6,354 | 6,950 | 6,100 | 3,494 | 818 |
| Net loans | 286,332 | 256,390 | 227,362 | 229,968 | 244,289 |
| Total assets | 359,263 | 317,657 | 284,237 | 287,184 | 301,036 |
| Deposits | 264,641 | 205,384 | 176,918 | 175,573 | 185,054 |
| Interbank liabilities | 16,703 | 10,897 | 10,897 | 10,897 | 10,897 |
| Borrowings | 44,084 | 65,406 | 57,000 | 57,000 | 57,000 |
| Total liabilities | 336,044 | 291,833 | 255,935 | 255,662 | 266,323 |
| 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 | 28,209 | 31,429 | 34,621 |
| BVPS (Bt) | 28.71 | 32.14 | 35.23 | 39.25 | 43.24 |

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 |

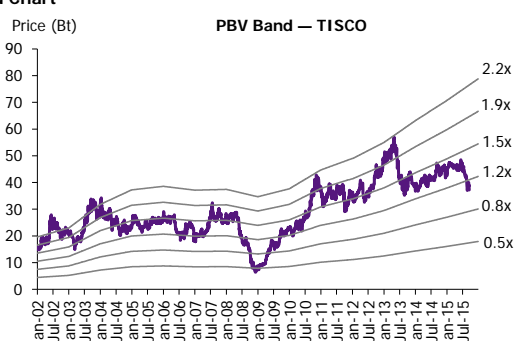
Key Assumptions and Financial Ratios

| | 2013 | 2014 | 2015F | 2016F | 2017F |
|-----------------------------------|--------|---------|---------|--------|--------|
| Growth | | | | | |
| YoY loan growth | 17.65 | (10.05) | (11.37) | 0.00 | 5.00 |
| YoY fee & insurance income growth | 25.70 | (4.13) | 2.54 | 3.38 | 8.38 |
| Profitability | | | | | |
| Yield on earn'g assets (%) | 5.99 | 5.62 | 5.57 | 5.53 | 5.55 |
| Cost on int-bear'g liab (%) | 3.51 | 3.08 | 2.57 | 2.65 | 2.78 |
| Spread (%) | 2.48 | 2.54 | 3.00 | 2.88 | 2.77 |
| Net interest margin(%) | 2.79 | 2.84 | 3.31 | 3.23 | 3.15 |
| ROE (%) | 20.63 | 17.45 | 15.13 | 15.59 | 14.45 |
| Asset Quality | | | | | |
| NPLs/Total Loans(%) | 1.76 | 2.61 | 3.19 | 3.35 | 3.35 |
| LLR/NPLs(%) | 128.01 | 102.97 | 82.16 | 44.81 | 10.00 |
| Provision expense/Total loans (%) | 1.42 | 1.68 | 2.25 | 1.50 | 1.40 |
| Liquidity | | | | | |
| Loans/Deposits & borrowings (%) | 94.63 | 97.04 | 99.57 | 100.14 | 101.03 |
| Efficiency | | | | | |
| Cost to income ratio (%) | 35.84 | 36.64 | 34.69 | 39.20 | 40.40 |
| Capital Fund | | | | | |
| Capital adequacy ratio(%) | 13.38 | 16.80 | 17.27 | 18.38 | 18.73 |
| Tier-1(%) | 9.15 | 12.56 | 12.59 | 13.76 | 14.35 |
| Tier-2(%) | 4.22 | 4.24 | 4.68 | 4.63 | 4.38 |

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 |

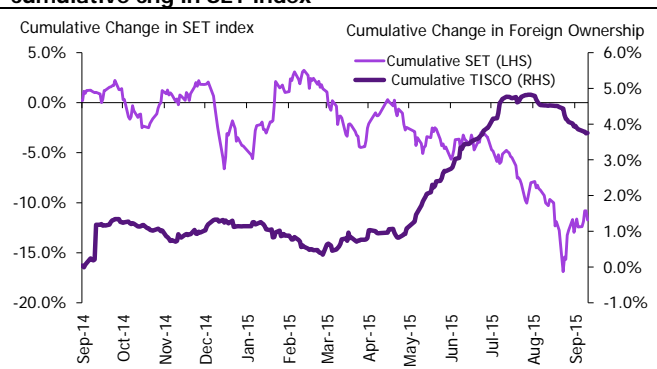
PBV Band Chart



12-Month Cumulative directors trade

NA

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



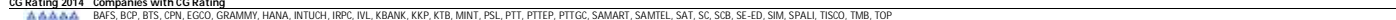
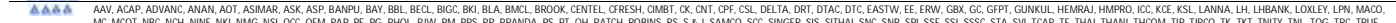
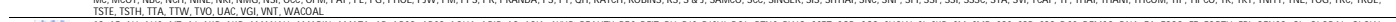
Source: SET, SCBS Investment Research

Figure 1: Valuation summary (Closing price as of Sep 23, 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 | 163.00 | 205.0 | 29.8 | 8.6 | 9.4 | 8.8 | 1 | (9) | 7 | 1.0 | 0.9 | 0.8 | 12 | 10 | 10 | 4.1 | 4.0 | 4.2 |
| KBANK | Buy | 182.50 | 225.0 | 25.8 | 9.5 | 10.6 | 8.3 | 12 | (11) | 27 | 1.7 | 1.5 | 1.3 | 19 | 15 | 17 | 2.2 | 2.5 | 2.7 |
| KKP | Neutral | 30.25 | 34.0 | 17.7 | 9.7 | 9.4 | 8.6 | (41) | 3 | 9 | 0.7 | 0.7 | 0.7 | 7 | 7 | 8 | 5.2 | 5.3 | 5.8 |
| KTB | Buy | 17.10 | 22.0 | 33.4 | 7.2 | 7.7 | 7.1 | (2) | (7) | 8 | 1.0 | 1.0 | 0.9 | 15 | 13 | 13 | 5.3 | 4.8 | 5.2 |
| LHBANK | Sell | 1.60 | 1.3 | (16.8) | 17.6 | 15.5 | 15.2 | 30 | 14 | 1 | 1.3 | 1.2 | 1.2 | 8 | 8 | 8 | 0.2 | 1.9 | 2.0 |
| TCAP | Buy | 32.25 | 42.0 | 35.2 | 8.0 | 7.1 | 7.1 | (45) | 13 | 1 | 0.8 | 0.7 | 0.7 | 10 | 11 | 10 | 5.0 | 5.0 | 5.0 |
| TISCO | Buy | 36.75 | 45.0 | 27.3 | 6.9 | 7.2 | 6.3 | 0 | (4) | 14 | 1.1 | 1.0 | 0.9 | 17 | 15 | 16 | 5.4 | 4.9 | 5.4 |
| TMB | Sell | 2.48 | 2.4 | (1.0) | 11.4 | 13.4 | 11.0 | 66 | (15) | 21 | 1.6 | 1.4 | 1.3 | 15 | 11 | 12 | 2.6 | 2.2 | 2.7 |
| Average | | | | | 10.1 | 10.3 | 9.2 | 3 | (7) | 14 | 1.2 | 1.1 | 1.0 | 13 | 12 | 12 | 3.7 | 3.7 | 4.1 |

Source: SCBS Investment Research

CG Rating 2014 Companies with CG Rating


 BAFS, BCP, BTS, CPN, EGCO, GRAMMY, HANA, INTUCH, IRPC, IVL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTGC, SAMART, SAMTEL, SAT, SC, SOB, SE-ED, SIM, SPALL, TISCO, TMB, TOP

 AAV, ACAP, ADVANC, ANAN, AOT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BEDL, BIGC, BKI, BIA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, OK, ONT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GFPT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOI, NBC, NCH, NINE, NKI, NMG, NSI, OCC, OFM, PAP, PE, PG, PHOL, PJW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SCC, SINGER, SIS, SITHAI, SNC, SNP, SPI, SSF, SSI, SSSC, STA, SVI, TCAP, TF, THAI, THANI, THCOM, TIP, TIPCO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSIE, TSITH, ITA, ITW, JVO, UAC, VGI, VNT, WACOL

 ZS, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APDO, APSC, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BFT, BH, BJC, BICHI, BOL, BTNC, BWG, C&T, CGD, CCS, CHOW, CI, CKP, CM, CMR, CSC, CSP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOTPRO, HTC, HTECH, HYDRO, IFS, IHL, INET, IRC, IRCP, ITD, KBS, KGI, KKC, KTC, LAE, LRH, LST, MAJOR, MAKRO, MATCH, MBK, MBKET, MEGA, MFC, MFE, MJ, MODERN, MONO, MOONG, MPG, MTI, NC, NTV, NUSA, NWR, NYT, OGC, OISHI, PACE, PATO, PB, POI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, OLT, OTC, RCL, SABINA, SALEE, SOBJIF, SCC, SCG, SEAFCO, SEAOIL, SFP, SIAM, SIRI, SKR, SMG, SMK, SMP, SMT, SOLAR, SPC, SPOG, SPPT, SST, STANLY, STEC, STPL, SUC, SWC, SYMC, SYNEX, SYNTEC, TASCO, TBSP, TEAM, TFD, TF, THANA, THIP, THREL, TIC, TICON, TIW, TKS, TLUXE, TMI, TMT, TNDI, TPC, TPCORP, TRT, TRU, TSC, TTCL, TUF, TVD, TWFP, UMI, UP, UPF, UPOIC, UT, UV, UWC, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMICO

Corporate Governance Report disclaimer

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