

## BUY

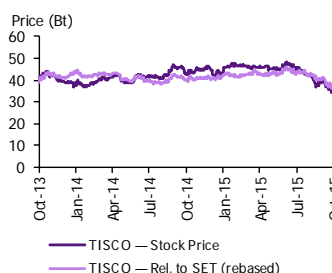
## 3Q15: Beat on lower opex; One-off hit by SSI

## Stock Data

Last close (Oct 9) (Bt)	36.00
12-m target price (Bt)	45.00
Upside (Downside) to TP (%)	25.00
Mkt cap (Btbn)	28.82
Mkt cap (US\$mn)	812

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.22
Sector % SET	14.91
Shares issued (mn)	801
Par value (Bt)	0.95
12-m high / low (Bt)	49.3 / 34
Avg. daily 6m (US\$mn)	1.80
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	(10.0)	(20.9)	(15.8)
Relative to SET	(11.0)	(16.8)	(7.4)

Source: SET, SCBS Investment Research

**Kittima Sattayapan, CFA**  
Fundamental Investment  
Analyst on Securities  
(66-2) 949-1003  
kittima.sattayapan@scb.co.th

**Provision for SSI loans largely offset by opex cut.** 3Q15 net profit fell 26% YoY and 19% QoQ to Bt810mn, in line with consensus but higher than our forecast of Bt677mn on lower cost of funds and opex than expected. In line with management guidance, 3Q15 reflected: 1) Bt1.4-1.5bn added provisions for SSI loans on top of 1.3-1.4% normalized credit cost due to a reclassification of SSI loans as NPLs; 2) loan growth contractions of 4.8% QoQ and 10% in 9M15 from continued contraction in auto loans, a large corporate repayment and a write-off of a US\$100mn loan to SSI UK; 3) 34 bps QoQ improvement in NIM mainly from a 31 bps QoQ fall in cost of funds; 4) QoQ stable non-NII, on loan prepayment and bancassurance fees; 5) a 35% QoQ reduction in opex to mitigate the additional provisions on SSI loans. Note that TISCO wrote off the US\$100mn loan to SSI UK and its NPLs rose by Bt704mn (10%) QoQ, solely from the reclassification of its Bt821mn loan to SSI Thailand. If exclude the effect of SSI loans, its NPLs would come down by 2% QoQ, mainly from auto loans, and its normalized provisions would be 1.3-1.4% of total loans, lower than the 1.5% in 1H15.

## Figure 1: Quarterly results

P & L (Bt mn)	3Q14	2Q15	3Q15	%YoY ch	%QoQ ch	9M14	9M15	% YoY ch	% full year
Interest income	4,670	4,263	4,176	(11)	(2)	14,361	12,813	(11)	77
Interest expense	2,214	1,815	1,559	(30)	(14)	7,262	5,349	(26)	79
Net interest income	2,456	2,448	2,617	7	7	7,099	7,465	5	76
Non-interest income	1,485	1,446	1,456	(2)	1	4,256	4,444	4	76
Operating expenses	1,440	1,434	928	(36)	(35)	4,081	3,862	(5)	71
Pre-provision profit	2,501	2,461	3,145	26	28	7,274	8,047	11	78
Less Provision	1,138	1,244	2,166	90	74	3,534	4,381	24	83
Pre-tax profit	1,363	1,217	979	(28)	(20)	3,740	3,666	(2)	73
Income tax	277	243	197	(29)	(19)	747	732	(2)	73
MI and equity	2	30	27	1,262	(9)	22	72	228	NA
Net profit	1,089	1,004	810	(26)	(19)	3,015	3,006	(0)	74
EPS (Bt)	1.36	1.25	1.01	(26)	(19)	3.77	3.75	(0)	74
B/S (Bt mn)	3Q14	2Q15	3Q15	%YoY ch	%QoQ ch	9M14	9M15	%YoY ch	% full year
Gross loans	267,576	249,341	237,260	(11)	(5)	267,576	237,260	(11)	NM
Deposits	207,075	184,354	162,105	(22)	(12)	207,075	162,105	(22)	NM
BVPS (Bt)	30.76	32.90	33.55	9	2	30.76	33.55	9	NM
Ratios (%)	3Q14	2Q15	3Q15	%YoY ch*	%QoQ ch*	9M14	9M15	YoY ch*	% full year
Yield on earn. asset	5.92	5.72	5.79	(0.13)	0.07	5.75	5.73	(0.02)	NM
Cost of funds	3.13	2.77	2.46	(0.67)	(0.31)	3.22	2.69	(0.53)	NM
Net interest margin	3.12	3.29	3.63	0.52	0.34	2.84	3.34	0.49	NM
Cost to income	36.5	36.8	22.8	(13.74)	(14.02)	35.94	32.43	(3.51)	NM
NPLs/total loans	2.42	2.86	3.30	0.89	0.44	2.42	3.30	0.89	NM
LLR/NPLs	105.2	107.2	74.1	(31.10)	(33.04)	105.2	74.1	(31.10)	NM

Source: SCBS Investment Research

Note: \* Percentage points

**Valuation over-penalized.** We Buy TISCO. 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 for auto loans, plus NIM is improving from lower cost of funds.

## Forecasts and valuation

FY Dec	Unit	2013	2014	2015F	2016F	2017F
Pre-provision profit	(Btmn)	8,390	8,676	9,329	8,176	8,307
Net profit	(Btmn)	4,249	4,250	4,079	4,682	4,883
PPP/Sh	(Bt)	10.48	10.84	11.65	10.21	10.37
EPS	(Bt)	5.31	5.31	5.09	5.85	6.10
BVPS	(Bt)	28.71	32.14	35.23	39.30	43.41
DPS	(Bt)	2.00	2.00	1.78	1.99	1.92
PER	(x)	6.78	6.78	7.07	6.16	5.90
P/PPP	(x)	3.44	3.32	3.09	3.53	3.47
EPS growth	(%)	4.26	0.02	(4.01)	14.78	4.28
PBV	(x)	1.25	1.12	1.02	0.92	0.83
ROE	(%)	20.63	17.45	15.13	15.69	14.75
Dividend yields	(%)	5.56	5.56	4.95	5.52	5.34

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	6,435	6,762
<b>Net interest income</b>	<b>8,968</b>	<b>9,540</b>	<b>9,876</b>	<b>9,131</b>	<b>9,168</b>
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	9,246	9,420
Tax	1,064	1,043	1,001	1,150	1,199
Equities & minority interest	107	(27)	(75)	(80)	(86)
Core pre-provision profit	8,390	8,676	9,329	8,176	8,307
Provision	4,141	4,426	5,250	3,494	3,424
<b>Core net profit</b>	<b>4,249</b>	<b>4,250</b>	<b>4,079</b>	<b>4,682</b>	<b>4,883</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>4,249</b>	<b>4,250</b>	<b>4,079</b>	<b>4,682</b>	<b>4,883</b>
<b>EPS (Bt)</b>	<b>5.31</b>	<b>5.31</b>	<b>5.09</b>	<b>5.85</b>	<b>6.10</b>
<b>DPS (Bt)</b>	<b>2.00</b>	<b>2.00</b>	<b>1.78</b>	<b>1.99</b>	<b>1.92</b>

## Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Cash	1,131	1,180	1,209	1,345	1,411
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>232,905</b>	<b>232,905</b>	<b>244,551</b>
Accrued interest receivable	536	556	556	556	556
Loan loss reserve	6,354	6,950	6,100	6,594	7,018
<b>Net loans</b>	<b>286,332</b>	<b>256,390</b>	<b>227,362</b>	<b>226,868</b>	<b>238,089</b>
<b>Total assets</b>	<b>359,263</b>	<b>317,657</b>	<b>284,237</b>	<b>283,963</b>	<b>294,578</b>
Deposits	264,641	205,384	176,918	172,318	178,461
Interbank liabilities	16,703	10,897	10,897	10,897	10,897
Borrowings	44,084	65,406	57,000	57,000	57,000
<b>Total liabilities</b>	<b>336,044</b>	<b>291,833</b>	<b>255,935</b>	<b>252,407</b>	<b>259,729</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>28,209</b>	<b>31,463</b>	<b>34,755</b>
<b>BVPS (Bt)</b>	<b>28.71</b>	<b>32.14</b>	<b>35.23</b>	<b>39.30</b>	<b>43.41</b>

## Key Assumptions and Financial Ratios

	2013	2014	2015F	2016F	2017F
<b>Growth</b>					
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
<b>Profitability</b>					
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	3.24	3.20
ROE (%)	20.63	17.45	15.13	15.69	14.75
<b>Asset Quality</b>					
NPLs/Total Loans(%)	1.76	2.61	3.42	3.42	3.42
LLR/NPLs(%)	128.01	102.97	76.66	82.86	84.00
Provision expense/Total loans (%)	1.42	1.68	2.25	1.50	1.40
<b>Liquidity</b>					
Loans/Deposits & borrowings (%)	94.63	97.04	99.57	101.56	103.86
<b>Efficiency</b>					
Cost to income ratio (%)	35.84	36.64	34.69	39.08	40.04
<b>Capital Fund</b>					
Capital adequacy ratio(%)	13.38	16.80	17.27	18.62	19.21
Tier-1(%)	9.15	12.56	12.59	13.93	14.72
Tier-2(%)	4.22	4.24	4.68	4.69	4.49

## Profit and Loss Statement (Btmn)

FY December 31	4Q14	2,014	1Q15	2Q15	3Q15
Interest & dividend income	4,530	18,891	4,374	4,263	4,176
Interest expense	2,089	9,351	1,974	1,815	1,559
<b>Net interest income</b>	<b>2,441</b>	<b>9,540</b>	<b>2,400</b>	<b>2,448</b>	<b>2,617</b>
Non-interest income	1,501	5,757	1,542	1,446	1,456
Non-interest expenses	1,524	5,605	1,501	1,434	928
Earnings before tax & provision	2,418	9,692	2,441	2,461	3,145
Tax	297	1,043	292	243	197
Equities & minority interest	(5)	(27)	(15)	(30)	(27)
Core pre-provision profit	2,127	8,676	2,164	2,248	2,975
Provision	892	4,426	972	1,244	2,166
<b>Core net profit</b>	<b>1,234</b>	<b>4,250</b>	<b>1,192</b>	<b>1,004</b>	<b>810</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>1,234</b>	<b>4,250</b>	<b>1,192</b>	<b>1,004</b>	<b>810</b>
<b>EPS (Bt)</b>	<b>1.54</b>	<b>5.31</b>	<b>1.49</b>	<b>1.25</b>	<b>1.01</b>

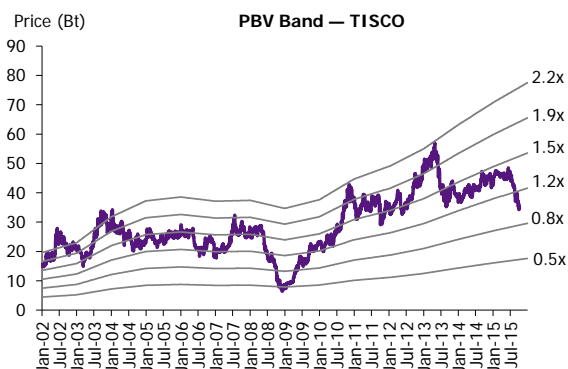
## Balance Sheet (Btmn)

FY December 31	4Q14	2,014	1Q15	2Q15	3Q15
Cash	1,180	1,180	1,082	1,022	955
Interbank assets	38,058	38,058	30,057	37,003	34,880
Investments	15,003	15,003	15,673	9,298	8,805
<b>Gross loans</b>	<b>262,784</b>	<b>262,784</b>	<b>254,437</b>	<b>249,341</b>	<b>237,260</b>
Accrued interest receivable	556	556	546	554	530
Loan loss reserve	6,950	6,950	7,096	7,650	5,813
<b>Net loans</b>	<b>256,390</b>	<b>256,390</b>	<b>247,887</b>	<b>242,245</b>	<b>231,976</b>
<b>Total assets</b>	<b>317,657</b>	<b>317,657</b>	<b>302,207</b>	<b>297,279</b>	<b>283,639</b>
Deposits	205,384	205,384	200,149	184,354	162,105
Interbank liabilities	10,897	10,897	11,305	12,917	9,207
Borrowings	65,406	65,406	52,927	62,733	76,438
<b>Total liabilities</b>	<b>291,833</b>	<b>291,833</b>	<b>275,215</b>	<b>270,833</b>	<b>256,679</b>
Minority interest	93	93	99	104	100
Paid-up capital	8,007	8,007	8,007	8,007	8,007
<b>Total Equities</b>	<b>25,731</b>	<b>25,731</b>	<b>26,893</b>	<b>26,342</b>	<b>26,860</b>
<b>BVPS (Bt)</b>	<b>32.14</b>	<b>32.14</b>	<b>33.59</b>	<b>32.90</b>	<b>33.55</b>

## Financial Ratios

	4Q14	2,014	1Q15	2Q15	3Q15
YoY loan growth	(10.05)	(10.05)	(8.78)	(9.12)	(11.33)
YoY fee & insurance income growth	2.55	(4.13)	0.72	4.02	(5.82)
Yield on earn'g assets (%)	5.80	5.62	5.68	5.72	5.79
Cost on int-bear'g liab (%)	3.00	3.08	2.89	2.77	2.46
Net interest margin(%)	3.12	2.84	3.12	3.29	3.63
Cost to income ratio (%)	38.66	36.64	38.07	36.81	22.79
NPLs/Total Loans(%)	2.57	2.57	2.65	2.86	3.30
LLR/NPLs(%)	102.97	102.97	105.24	107.18	74.14
Provision expense/Total loans (%)	1.36	6.74	1.53	2.00	3.65

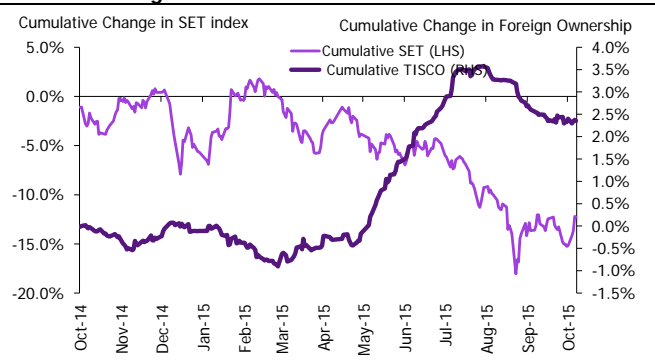
## PBV Band Chart



## 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** (Closing price as of Oct 9, 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	30.75	30.0	(0.2)	13.2	13.5	11.8	19	(3)	14	1.4	1.2	1.1	11	10	9	2.3	2.2	2.5
BBL	Buy	166.50	190.0	18.0	8.8	9.9	9.5	1	(12)	4	1.0	0.9	0.8	12	9	9	3.9	3.9	3.8
KBANK	Buy	184.50	225.0	24.4	9.6	10.7	8.7	12	(10)	22	1.7	1.5	1.3	19	15	16	2.2	2.4	2.7
KKP	Neutral	31.75	34.0	12.1	10.2	9.9	9.3	(41)	2	7	0.7	0.7	0.7	7	7	8	4.9	5.0	5.4
KTB	Buy	17.60	22.0	29.4	7.2	8.3	7.6	0	(13)	10	1.1	1.0	0.9	16	12	13	5.1	4.4	4.9
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	6.9	(45)	14	3	0.8	0.7	0.7	10	11	11	5.0	5.0	5.0
TISCO	Buy	36.00	45.0	30.0	6.8	7.1	6.2	0	(4)	15	1.1	1.0	0.9	17	15	16	5.6	5.0	5.5
TMB	Sell	2.60	2.4	(5.6)	11.9	14.0	11.6	66	(15)	21	1.6	1.5	1.4	15	11	12	2.5	2.1	2.6
<b>Average</b>					<b>10.3</b>	<b>10.6</b>	<b>9.6</b>	<b>4</b>	<b>(10)</b>	<b>14</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>14</b>	<b>12</b>	<b>12</b>	<b>3.6</b>	<b>3.6</b>	<b>3.9</b>

Source: SCBS Investment Research

**CG Rating 2014 Companies with CG Rating**

BAIS, BOP, BTS, CPN, EGO, GRAMMY, HANA, INTUCH, IRPC, IWL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTCG, SAMART, SAMTEL, SAT, SC, SCB, SE-ED, SIM, SPALL, TISCO, TMB, TOP

AAV, ACAP, ADVANC, AIAIAN, AOT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BEOL, BIOC, BKI, BLA, BMCL, BROOK, CENTEL, CFRESH, CMBI, CK, CNT, CPE, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GFT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCO, NBC, NCH, NINE, NKI, NMG, NSI, OOC, OFM, PAP, PE, PG, PHOL, PJW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SOC, SINGER, SIS, SITHAI, SNC, SNP, SPI, SSF, SSL, SSSC, STA, SVI, TCAP, TF, THAI, THANI, THCOM, TIP, TIPCO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSTE, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WAOAL

2S, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APCO, APCS, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BFT, BH, BJC, BICI, BOL, BTNC, BWG, CCE, CGD, CGS, CHOW, CI, CKP, CM, CMR, CSC, CSP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOTPOT, HTC, HTECH, HYDRO, IFS, IHL, INET, IRC, IRCP, ITD, KBS, KGI, KKC, KTC, L&E, LRH, LST, MAJOR, MAKRO, MATCH, MBK, MBKET, MEGA, MFC, MFEC, MJD, MODERN, MONO, MOONG, MPG, MTI, NC, NTV, NUSA, NWR, NYT, OGC, OISHI, PACE, PATO, PB, PDI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, OLT, OTC, RCL, SABINA, SALLEE, SCLIF, SCCO, SCG, SEAFOD, SEADIL, SPP, SIAM, SIRI, SKR, SMG, SMK, SMPK, SMT, SOLAR, SPC, SPOG, SPPT, SST, STANLY, STEC, STPI, SUC, SWC, SYMC, SYNEX, SYNTec, TASCO, TBSP, TEAM, TFD, TFI, 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, VHI, WAVE, WHA, WIN, WINNER, YUASA, ZMCO

**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.