

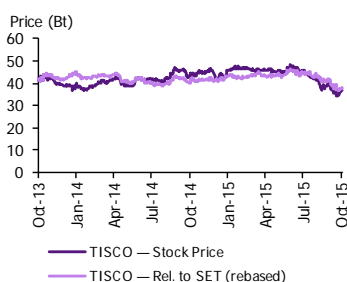
BUY

Stock Data

Last close (Oct 14) (Bt)	37.00
12-m target price (Bt)	45.00
Upside (Downside) to TP (%)	21.62
Mkt cap (Btbn)	29.62
Mkt cap (US\$mn)	835

Bloomberg code	TISCO TB
Reuters code	TISCO.BK
Risk rating	M
Mkt cap (%) SET	0.22
Sector % SET	15.14
Shares issued (mn)	801
Par value (Bt)	1.00
12-m high / low (Bt)	49.3 / 34
Avg. daily 6m (US\$mn)	1.82
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	(5.1)	(17.8)	(15.4)
Relative to SET	(7.5)	(13.0)	(6.9)

Source: SET, SCBS Investment Research

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Recovery in the wings as provisions step down

TISCO's earnings are recovering as provisioning on auto loans steps down - plus the lower cost of funds is giving it a better NIM. We see no catalyst from loan growth until 2017, but at the same time, its SSI overhang is fully priced in and it is trading deeply discounted to valuation. We continue to Buy with a target price of Bt45.

Easing NPLs and provisions for auto loans. At its 3Q15 wrap-up meeting, TISCO confirmed *reduction* in normalized credit cost to 1.3-1.4% of total loans in 2016 vs. 1.5% (2.46% including provisions for SSI loans) in 9M15. NPLs rose by Bt704mn (10% QoQ) in 3Q15 solely from reclassifying its Bt821mn loan to SSI Thailand. If this is removed, NPLs actually shrink 2% QoQ, mainly on auto loans, and normalized provisions would be 1.3-1.4% of total loans, lower than the 1.5% in 1H15. LLR coverage against NPLs fell to 74% at 3Q15 from 107% at 2Q15 as a result of the reclassification of Bt4.4bn SSI loans (Bt3.6bn for SSI UK and Bt821mn for SSI Thailand) as NPLs and a write off of the SSI UK loans. Although TISCO says its 153% LLR coverage against NPLs net of collateral is sufficient and it has no need to boost LLR coverage, we conservatively forecast credit cost at 1.5% in 4Q15F and 2016F as we believe it will gradually rebuild LLR coverage.

NIM to peak in 4Q15. Thanks to lower cost of funds, TISCO expects net interest margin (NIM) to improve another ~10 bps QoQ in 4Q15, following an impressive +34 bps QoQ in 3Q15 and +17 bps QoQ in 2Q15. The reduction in cost of funds comes primarily from stepping back from its savings deposit campaign ("diamond savings"). However, TISCO sees no room to bring cost of funds down any further in 2016 and expects to hold NIM at the 4Q15 peak in 2016. We thus expect a stable NIM in 2016.

Material loan growth to resume in 2017. TISCO expects loans to be flat in 2016 before returning to material growth in 2017 when loans extended in the 2012-2013 peak are paid off. In 9M15, loans contracted by 10% (or Bt23bn) vs. our full year forecast of -11%. Corporate loans fell 19% or Bt10bn YTD, half of which came from prepayment of one large corporate loan as the client shifted to the bond market to take advantage of low bond yield. Its SME loans fell 14% or Bt3.3bn YTD and retail loans contracted 7% or Bt12bn YTD, mainly auto loans. TISCO expects the contraction in auto loans to slow in 4Q15 as its captive brands become more active. We maintain our loan growth forecast of -11% in 2015F, 0% in 2016F and 5% in 2017F.

Opex to return to normal in 4Q15 and 2016. TISCO confirmed that its opex will return to normal in 4Q15 and 2016 after cutting this by 35% QoQ in 3Q15 in order to soften the impact of SSI provisions. TISCO reversed accrued bonus in 3Q15, bringing its cost to income ratio down to 23% in 3Q15 vs. the normal rate of 37%. We expect its cost to income ratio to rise to 40% in 2016F from 34% in 2015F.

Valuation over-penalized. We Buy TISCO. It is trading at a deep discount to valuation at 7x 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	9,471	8,209	8,389
Net profit	(Btmn)	4,249	4,250	4,221	4,715	4,965
PPP/Sh	(Bt)	10.48	10.84	11.83	10.25	10.48
EPS	(Bt)	5.31	5.31	5.27	5.89	6.20
BVPS	(Bt)	28.71	32.14	35.41	39.45	43.65
DPS	(Bt)	2.00	2.00	1.85	2.00	1.95
PER	(x)	6.97	6.97	7.02	6.28	5.97
P/PPP	(x)	3.53	3.41	3.13	3.61	3.53
EPS growth	(%)	4.26	0.02	(0.66)	11.70	5.31
PBV	(x)	1.29	1.15	1.04	0.94	0.85
ROE	(%)	20.63	17.45	15.61	15.73	14.92
Dividend yields	(%)	5.41	5.41	4.99	5.41	5.28

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	16,880	15,723	16,093
Interest expense	10,304	9,351	6,762	6,221	6,544
Net interest income	8,968	9,540	10,119	9,503	9,549
Non-interest income	5,933	5,757	5,720	5,885	6,365
Non-interest expenses	5,340	5,605	5,407	6,100	6,390
Earnings before tax & provision	9,561	9,692	10,432	9,287	9,523
Tax	1,064	1,043	1,036	1,159	1,220
Equities & minority interest	107	-27	-75	-80	-86
Core pre-provision profit	8,390	8,676	9,471	8,209	8,389
Provision	4,141	4,426	5,250	3,494	3,424
Core net profit	4,249	4,250	4,221	4,715	4,965
Extra item	0	0	0	0	0
Net profit	4,249	4,250	4,221	4,715	4,965
EPS (Bt)	5.31	5.31	5.27	5.89	6.20
DPS (Bt)	2.00	2.00	1.85	2.00	1.95

Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Cash	1,131	1,180	1,166	1,113	1,212
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	6,594	7,018
Net loans	286,332	256,390	227,362	226,868	238,089
Total assets	359,263	317,657	284,194	283,732	294,379
Deposits	264,641	205,384	176,733	171,961	178,066
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	255,750	252,050	259,334
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	28,351	31,588	34,951
BVPS (Bt)	28.71	32.14	35.41	39.45	43.65

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)	(0.89)	3.80	8.38
Profitability					
Yield on earn'g assets (%)	5.99	5.62	5.65	5.59	5.61
Cost on int-bear'g liab (%)	3.51	3.08	2.57	2.57	2.69
Spread (%)	2.48	2.54	3.08	3.02	2.92
Net interest margin(%)	2.79	2.84	3.39	3.38	3.33
ROE (%)	20.63	17.45	15.61	15.73	14.92
Asset Quality					
NPLs/Total Loans(%)	1.76	2.61	3.33	3.33	3.33
LLR/NPLs(%)	128.01	102.97	78.64	85.00	86.17
Provision expense/Total loans (%)	1.42	1.68	2.25	1.50	1.40
Liquidity					
Loans/Deposits & borrowings (%)	94.63	97.04	99.65	101.72	104.04
Efficiency					
Cost to income ratio (%)	35.84	36.64	34.14	39.65	40.15
Capital Fund					
Capital adequacy ratio(%)	13.38	16.80	17.31	18.67	19.28
Tier-1(%)	9.15	12.56	12.63	13.98	14.79
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
Net interest income	2,441	9,540	2,400	2,448	2,617
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
Core net profit	1,234	4,250	1,192	1,004	810
Extra item	0	0	0	0	0
Net profit	1,234	4,250	1,192	1,004	810
EPS (Bt)	1.54	5.31	1.49	1.25	1.01

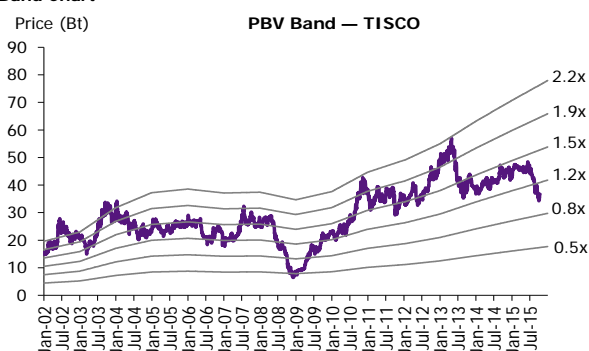
Balance Sheet (Btmn)

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
Gross loans	262,784	262,784	254,437	249,341	237,260
Accrued interest receivable	556	556	546	554	530
Loan loss reserve	6,950	6,950	7,096	7,650	5,813
Net loans	256,390	256,390	247,887	242,245	231,976
Total assets	317,657	317,657	302,207	297,279	283,639
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
Total liabilities	291,833	291,833	275,215	270,833	256,679
Minority interest	93	93	99	104	100
Paid-up capital	8,007	8,007	8,007	8,007	8,007
Total Equities	25,731	25,731	26,893	26,342	26,860
BVPS (Bt)	32.14	32.14	33.59	32.90	33.55

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

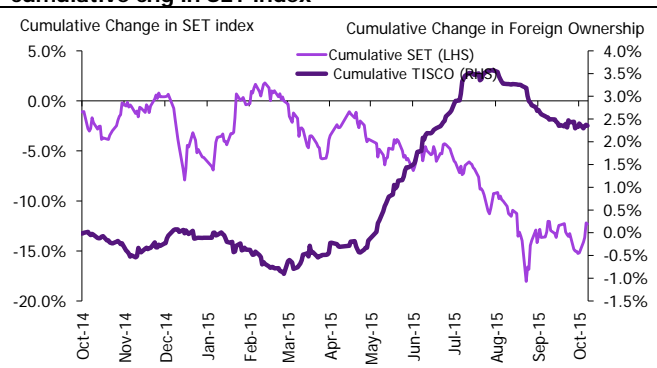
PBV Band Chart



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 1: Valuation summary (Closing price as of Oct 14, 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	35.75	30.0	(14.2)	15.3	15.7	13.8	19	(3)	14	1.7	1.3	1.3	11	10	9	2.0	1.9	2.2
BBL	Buy	167.00	190.0	17.7	8.8	9.9	9.6	1	(12)	4	1.0	0.9	0.8	12	9	9	3.9	3.9	3.8
KBANK	Buy	183.00	225.0	25.4	9.5	10.6	8.7	12	(10)	22	1.7	1.5	1.3	19	15	16	2.2	2.5	2.7
KKP	Neutral	32.00	34.0	11.2	10.2	10.0	9.3	(41)	2	7	0.7	0.7	0.7	7	7	8	4.9	5.0	5.4
KTB	Buy	17.70	22.0	28.7	7.3	8.4	7.6	0	(13)	10	1.1	1.0	0.9	16	12	13	5.1	4.4	4.8
LHBANK	Sell	1.62	1.4	(11.4)	17.8	13.7	12.8	30	29	7	1.3	1.2	1.2	8	9	9	0.2	2.2	2.3
TCAP	Buy	32.50	42.0	34.2	8.1	7.1	6.9	(45)	14	3	0.8	0.8	0.7	10	11	11	4.9	4.9	4.9
TISCO	Buy	37.00	45.0	26.6	7.0	7.0	6.3	0	(1)	12	1.2	1.0	0.9	17	16	16	5.4	5.0	5.4
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
Average					10.5	10.7	9.5	4	(10)	14	1.3	1.2	1.1	14	12	12	3.5	3.6	3.9

Source: SCBS Investment Research

CG Rating 2014 Companies with CG Rating

 BAFS, BCP, BTS, CPN, EGO, GRAMMY, HANA, INTUCH, IRPC, IVL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTC, 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, BLA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, OK, ONT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GPPT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOT, 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, TIPOO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSIE, TSITH, ITA, TIVO, UAC, VGL, VNT, WACOL
 25, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APDO, APCS, 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, SEACO, 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, 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, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMICO

Corporate Governance Report disclaimer

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