

TQM Alpha

TQM Alpha
Public Company Limited

TQM

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3Q22: Recovery, but slower than expected

Slightly below expectations, 3Q22 reflected slower-than-expected recovery in fee & service income, QoQ slip in gross margin and QoQ ease in cost to income ratio. We cut 2022F earnings by 5% and 2023F by 4%, mainly lowering fee & service income growth. In 4Q22F, we expect earnings to be stable YoY and recover slightly QoQ. We keep our Neutral rating with a cut in TP to Bt40.

3Q22: Slight miss on gross margin. TQM's 3Q22 earnings fell 15% YoY (+7% if the 3Q22 one-off gain on investment is excluded) but rose 15% QoQ to Bt207mn, 10% below our estimate. The miss came on lower-than-expected fee & service income growth.

Highlights:

1. Fee & service income rose 16% and 6% QoQ, slightly below our expectation. In 9M22 fee & service income grew 7%, below our forecast of 12%. We thus cut fee & service income growth to 9%, expecting a QoQ seasonal rise in 4Q22.
2. Gross margin rose 62 bps YoY but slipped 50 bps QoQ to 51.72%, slightly below our forecast.
3. Opex to income ratio rose 22 bps YoY but eased 181 bps (due to well controlled opex) to 24.95%.

4Q22F earnings. 9M22 earnings accounted for 73% of our full-year forecast. We cut 2022F earnings by 5% and 2023F by 4%, mainly adjusting down our fee & service income growth assumption. In 4Q22F, we expect earnings to be stable YoY (larger topline will be wiped out by lower gross margin and higher opex to income ratio) and recover slightly QoQ (seasonal rise in fee & service income).

Maintain Neutral with a TP cut. We maintain our Neutral rating but cut TP Bt40 (8x PBV or 25x 2023F PE) from Bt50 to reflect the lower growth potential and profitability than anticipated. We expect earnings growth in 2022-2023 to suffer a temporary drag from the rapid rise in opex from IT and staff expansion done to undergird future growth.

Key risks: 1) Premium sales may be hit by a slower-than-expected economic recovery, 2) potential fall in commission rate due to a change in product mix and rising competition and 3) a resumption of capex cycle to upgrade IT to support an enlarging customer base and a shift more toward online channels.

Forecasts and valuation

Year to 31 Dec	Unit	2020	2021	2022F	2023F	2024F
Net profit	(Btmn)	702	890	823	973	1,116
EPS	(Bt)	1.17	1.48	1.37	1.62	1.86
BVPS	(Bt)	4.00	4.46	4.63	4.99	5.28
DPS	(Bt)	1.08	1.23	1.23	1.46	1.67
EPS growth	(%)	38.40	26.84	(7.56)	18.16	14.76
P/E	(%)	33.12	26.11	28.25	23.90	20.83
P/BV	(%)	9.69	8.69	8.36	7.77	7.33
ROE	(%)	29.56	35.08	30.17	33.69	36.22
Dividend yield	(%)	2.77	3.16	3.19	3.76	4.32

Source: InnovestX Research

Tactical: NEUTRAL

(3-month)

Stock data

Last close (Nov 14) (Bt)	38.75
Target price (Bt)	40.00
Mkt cap (Btbn)	23.25
Mkt cap (US\$m)	648

Beta	L
Mkt cap (%) SET	0.12
Sector % SET	1.87
Shares issued (mn)	600
Par value (Bt)	0.50
12-m high / low (Bt)	57 / 33.3
Avg. daily 6m (US\$m)	4.01
Foreign limit / actual (%)	49 / 4
Free float (%)	41.4
Dividend policy (%)	≥ 50

2022 Sustainability / 2021 ESG Score

Sustainability Index (THSI)	Included
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ESG Bloomberg Score	35.34
Environmental Score	17.12
Social Score	20.19
Governance Score	68.57

Source: Bloomberg Finance L.P.

Share performance

(%)	1M	3M	12M
Absolute	13.1	(11.4)	(27.2)
Relative to SET	8.8	(11.3)	(26.5)

Source: SET, InnovestX Research

Analyst

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ESG Disclosure Score

Bloomberg ESG Score	35.34 (2021)	CG Rating 0-5	DJSI	SETTHSI	THSI	
Rank in Sector	1/19	TQM	5	No	Yes	Yes

Source: Thai Institute of Directors (IOD), SET

Environmental Issue (E)

- TQM has a policy to save energy, control water usage and electricity consumption including changing indoor light bulbs to energy-saving lamps.
- TQM has organized an E-Document project to reduce the use of paper and campaigns for all departments to reuse paper and reduce the use of plastic bags.
- TQM has also formulated a greenhouse gas management plan.

Social Issue (S)

- TQM operates its business in accordance with human rights principles, with fair and equitable treatment for its stakeholders and employees.
- It has a systematic action plan to participate in public activities such as giving scholarships to schools around the office, providing life insurance policies to police officers, and participating in traditional merit-making with various temples during various festivals.

Governance Issue (G)

- As of 31 December 2021, its Board of Directors had 10 members, with five independent directors.
- TQM achieved the Corporate Governance rating of five stars or “Excellent” in 2021.
- TQM was listed in 2021 Thailand Sustainability Investment (THSI).

ESG Disclosure Score

	2021
ESG Disclosure Score	35.34
Environment	17.12
Emissions Reduction Initiatives	Yes
Climate Change Policy	Yes
Biodiversity Policy	No
Energy Efficiency Policy	Yes
Waste Reduction Policy	Yes
Water Policy	Yes
Social	20.19
Human Rights Policy	Yes
Equal Opportunity Policy	Yes
Business Ethics Policy	Yes
Health and Safety Policy	Yes
Training Policy	Yes
Fair Remuneration Policy	No
Governance	68.57
Size of the Board	10
Number of Board Meetings for the Year	7
Board Meeting Attendance Pct	100
Number of Female Executives	4
Number of Independent Directors	5
% Independent directors to total board members	50

Source: Bloomberg Finance L.P.

Disclaimer

Bloomberg ESG Disclosure Scores rate companies on their level of disclosure of ESG data. Bloomberg offers four disclosure scores, for overall ESG, as well as Environmental, Social, and Governance such as energy consumption, board composition, and workforce accidents.

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To review the fully transparent methodology, calculate disclosure scores for any company, and compare a company's scores vs its peers, see ESG Disclosure Score Model in Bloomberg.

Financial statement

FY December 31	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F
Fee & service income	(Btmn)	2,258	2,501	2,712	3,083	3,274	3,575	4,067	4,505
Cost of service	(Btmn)	1,172	1,287	1,414	1,517	1,545	1,707	1,952	2,153
Gross income	(Btmn)	1,086	1,214	1,298	1,565	1,729	1,868	2,115	2,351
Other income	(Btmn)	24	23	72	54	152	119	150	173
Total operating expenses	(Btmn)	775	736	746	747	781	914	1,005	1,086
Income before tax	(Btmn)	334	501	624	871	1,100	1,073	1,260	1,439
Income tax	(Btmn)	66	96	116	167	206	215	252	288
Core net profit	(Btmn)	268	404	507	704	893	858	1,008	1,151
Minority interest	(Btmn)	0	0	0	0	1	35	35	35
Net profit	(Btmn)	268	404	507	704	892	823	973	1,116
EPS	(Bt)	0.60	0.67	0.85	1.17	1.48	1.37	1.62	1.86
DPS	(Bt)	NA.	0.41	0.88	1.08	1.23	1.23	1.46	1.67

Balance Sheet

FY December 31	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F
Cash & cash equivalent	(Btmn)	1,055	2,651	2,758	2,167	804	1,318	1,532	1,697
Other current assets	(Btmn)	560	636	731	1,310	567	567	567	567
Premises & equipment	(Btmn)	125	92	80	94	79	391	441	491
Other non-current assets	(Btmn)	167	446	688	801	1,885	1,885	1,885	1,885
Total assets	(Btmn)	1,906	3,825	4,257	4,954	4,436	4,660	4,925	5,139
Total current liabilities	(Btmn)	1,478	1,622	1,816	1,957	729	850	900	938
Total non-current liabilities	(Btmn)	52	58	91	597	697	697	697	697
Total liabilities	(Btmn)	1,530	1,680	1,907	2,554	1,426	1,546	1,597	1,635
Paid-up capital	(Btmn)	225	300	300	300	300	300	300	300
Total Equities	(Btmn)	376	2,145	2,350	2,400	2,676	2,780	2,994	3,170
BVPS	(Bt)	0.84	3.58	3.92	4.00	4.46	4.63	4.99	5.28

Key Financial Ratios

FY December 31	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F
Revenue growth	(%)	3.05	10.78	8.41	13.68	6.20	9.21	13.75	10.77
Gross margin	(%)	48.08	48.53	47.86	50.77	52.82	52.25	52.00	52.20
Opex to income ratio	(%)	34.33	29.44	27.50	24.25	23.86	25.56	24.72	24.10
Cost to income ratio	(%)	85.35	80.17	77.60	72.22	69.18	70.95	70.13	69.24
Net profit margin	(%)	11.88	16.16	18.71	22.77	27.20	23.02	23.92	24.78
ROE	(%)	75.35	32.06	22.57	29.56	35.08	30.17	33.69	36.22
ROA	(%)	14.21	14.11	12.55	15.24	18.96	18.10	20.30	22.18
D/E	(x)	4.06	0.78	0.81	1.06	0.53	0.56	0.53	0.52

Financial statement

Profit and Loss Statement

FY December 31	Unit	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Fee & service income	(Btmn)	780	829	836	769	840	876	845	895
Cost of service	(Btmn)	368	402	392	376	374	403	404	432
Gross income	(Btmn)	411	427	443	393	466	473	441	463
Other income	(Btmn)	12	17	23	83	30	17	29	30
Total operating expenses	(Btmn)	187	190	188	190	213	224	226	223
Income before tax	(Btmn)	236	254	278	285	282	265	244	270
Income tax	(Btmn)	46	52	55	43	56	54	49	56
Core net profit	(Btmn)	190	202	223	242	227	212	195	214
Minority interest	(Btmn)	0	0	1	(1)	2	(2)	15	7
Net profit	(Btmn)	190	202	222	243	225	214	180	207
EPS	(Bt)	0.32	0.34	0.37	0.40	0.37	0.36	0.30	0.34

Balance Sheet

FY December 31	Unit	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Cash & cash equivalent	(Btmn)	2,167	1,371	1,240	486	804	1,638	1,281	607
Other current assets	(Btmn)	1,310	483	374	626	567	388	551	807
Premises & equipment	(Btmn)	94	92	91	86	79	77	79	82
Other non-current assets	(Btmn)	801	806	851	1,682	1,885	1,760	1,635	1,913
Total assets	(Btmn)	4,954	3,826	3,584	3,905	4,436	4,593	4,457	4,419
Total current liabilities	(Btmn)	1,957	645	540	578	729	774	834	913
Total non-current liabilities	(Btmn)	597	573	558	690	697	656	658	661
Total liabilities	(Btmn)	2,554	1,218	1,098	1,268	1,426	1,430	1,493	1,575
Paid-up capital	(Btmn)	300	300	300	300	300	300	300	300
Total Equities	(Btmn)	2,400	2,608	2,483	2,318	2,676	2,832	2,402	2,290
BVPS	(Bt)	4.00	4.35	4.14	3.86	4.46	4.72	4.00	3.82

Key Financial Ratios

FY December 31	Unit	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
YoY Revenue growth	(%)	8.62	1.82	14.64	1.22	7.73	5.68	1.08	16.39
Gross margin	(%)	52.77	51.52	53.05	51.10	55.44	53.99	52.22	51.72
Opex to income ratio	(%)	23.99	22.88	22.50	24.73	25.37	25.63	26.76	24.95
Cost to income ratio	(%)	70.15	69.95	67.61	71.87	67.54	70.28	72.09	70.83
Net profit margin	(%)	24.32	24.33	26.47	31.58	26.75	24.42	21.20	22.99
ROE	(%)	33.02	32.22	34.76	40.48	35.98	31.06	27.36	35.10
ROA	(%)	16.04	18.38	23.88	25.95	21.54	18.95	15.83	18.55
D/E	(x)	1.06	0.47	0.44	0.55	0.53	0.50	0.62	0.69

Figure 1: Quarterly results

P & L (Bt mn)	3Q21	2Q22	3Q22	%YoY ch	%QoQ ch	9M21	9M22	% YoY ch	% full year
Fee & service income	769	845	895	16	6	2,434	2,616	7	73
Cost of service	376	404	432	15	7	1,170	1,239	6	73
Gross income	393	441	463	18	5	1,263	1,377	9	74
Other income	83	29	30	(63)	6	122	76	(38)	64
Total operating expenses	190	226	223	17	(1)	568	674	19	74
Income before tax	285	244	270	(5)	11	818	779	(5)	73
Income tax	43	49	56	28	13	151	158	5	74
Minority Interest	(1)	15	7	NM.	(51)	(0)	19	NM.	55
Net profit	243	180	207	(15)	15	667	602	(10)	73
EPS	0.40	0.30	0.34	(15)	15	1.11	1.00	(10)	73
Key Financial Ratios	3Q21	2Q22	3Q22	%YoY ch*	%QoQ ch*	9M21	9M22	% YoY ch	% full year
Gross margin (%)	51.10	52.22	51.72	0.62	(0.50)	51.91	52.64	0.73	NM
Opex to income ratio (%)	24.73	26.76	24.95	0.22	(1.81)	23.33	25.76	2.43	NM
Cost to income ratio (%)	71.87	72.09	70.83	(1.05)	(1.26)	69.75	71.05	1.30	NM
Net profit margin (%)	31.58	21.20	22.99	(8.59)	1.79	27.36	22.89	(4.47)	NM
D/E	0.55	0.62	0.69	0.14	0.07	0.55	0.69	0.14	NM

Source: The company and InnovestX Research

Note: * Percentage points

Figure 2: Valuation summary (price as of Nov 14, 2022)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					21A	22F	23F	21A	22F	23F	21A	22F	23F	21A	22F	23F	21A	22F	23F
BLA	Outperform	30.75	49.0	61.2	16.4	13.5	8.7	99	22	55	1.1	1.2	1.1	7	8	13	1.8	1.8	2.9
THRE	Underperform	1.03	1.0	(2.9)	n.m.	n.m.	36.2	n.m.	43	n.m.	1.3	1.4	1.3	(10)	(6)	4	0.0	0.0	1.9
THREL	Outperform	4.38	6.0	42.1	26.7	13.7	11.9	(19)	95	15	1.8	1.7	1.6	7	13	14	2.7	5.1	5.9
TLI	Outperform	14.70	19.0	31.1	18.6	16.4	15.1	9	13	9	1.8	1.8	1.6	10	11	11	1.7	1.8	2.0
TQM	Neutral	38.75	40.0	6.4	26.1	28.2	23.9	27	(8)	18	8.7	8.4	7.8	35	30	34	3.2	3.2	3.8
Average					21.9	18.0	19.1	29	33	24	2.9	2.9	2.7	10	11	15	1.9	2.4	3.3

Source: InnovestX Research

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