

# TQM Alpha

TQM Alpha  
Public Company Limited

# TQM

Bloomberg TQM TB  
Reuters TQM.BK



## Recovering both topline and margin

**Post analyst meeting, we maintain our expectation of a moderate earnings growth from a recovery in fee & service income growth and improving gross margin from rising efficacy of sale staff. We keep our Neutral rating with an unchanged TP of Bt29 on the back of demanding valuation.**

**Raised 2024F fee & service income growth.** We raised 2024F fee & service income growth to 9% from 8% to fine tune with 1Q24 figure (+8% YoY, +14% QoQ), still in line with TQM's target of 5-10%. TQM expected a seasonal QoQ fall in fee & service income in 2Q24. It expects the growth in Thailand's electric vehicle (EV) market to help boost premium sales as insurance premium of EV are 30-40% higher than average.

**Improving gross margin.** Its gross margin rose 118 bps YoY to 51.58% as a result of higher sales staff efficiency after adding around 400 staff in 1Q23. We expect a sustainable improvement in gross margin in 2Q24. We expect gross margin to rise from 52.9% in 2023 to 53.1% in 2024.

**Rising contribution from lending business.** Easy Lending (its subsidiary)'s loans grew 73% YoY and 25% QoQ in 1Q24. Around 75% of loans are insurance premium loans. It is also expanding into car title loans and other types of secured loans such as consignment business for brand name merchandise. It has cautiously penetrated into car title loans since late 2023 with low 30% LTV. The company targets to increase new lending to Bt5bn (Bt3bn for insurance premium) by YE2024 from currently >Bt3bn. We forecast loan growth at 50% in 2024 and expect net interest income to grow 247% to Bt38mn in 2024.

**2Q24F and 2024F earnings outlook.** We preliminarily expect 2Q24 earnings to rise YoY (recovering fee & service income) but be flattish QoQ (seasonally lower fee & service income offset with better gross margin). We forecast 2024 earnings growth of 16%, underpinned by a forecast 9% growth in fee and service income, a 20 bps rise in gross margin to 51% and a 47 bps reduction in opex to income ratio.

**Potential M&A deals.** TQM currently has two M&A deals. One deal is in finance business. These deals are expected to be finalized in 2H24.

**Listing True Life Broker next year.** TQM plans to list True Life Broker (insurance broker its 51% owned subsidiary with Bt250mn investment cost) next year. True Life Broker is Thailand's biggest group life insurance broker. The company disclosed that True Life Broker had earnings of around Bt70mn in 2023.

**Maintain Neutral with an unchanged TP.** We maintain our Neutral rating with an unchanged TP of Bt29 (based on 6x PBV or 18.5x PE for 2024F).

**Key risks:** 1) Premium sales may be hit by an uneven economic recovery and slowing car sales, 2) there could be a fall in commission rate from a change in product mix and rising competition and 3) ESG risk on market conduct.

### Forecasts and valuation

Year to 31 Dec	Unit	2022	2023	2024F	2025F	2026F
Net profit	(Btmn)	809	816	941	1,040	1,168
EPS	(Bt)	1.35	1.36	1.57	1.73	1.95
BVPS	(Bt)	4.28	4.52	4.89	5.13	5.42
DPS	(Bt)	1.20	1.00	1.41	1.56	1.75
EPS growth	(%)	(9.11)	0.86	15.29	10.53	12.26
P/E	(%)	19.65	19.48	16.90	15.29	13.62
P/BV	(%)	6.19	5.86	5.42	5.16	4.89
ROE	(%)	30.85	30.89	33.33	34.60	36.86
Dividend yield	(%)	4.53	3.77	5.33	5.89	6.61

Source: InnovestX Research

## Tactical: NEUTRAL

(3-month)

### Stock data

Last close (May 15) (Bt)	26.75
Target price (Bt)	29.00
Mkt cap (Btbn)	16.05
Mkt cap (US\$mn)	442

Beta	L
Mkt cap (%) SET	0.09
Sector % SET	1.45
Shares issued (mn)	600
Par value (Bt)	0.50
12-m high / low (Bt)	35.5 / 24.8
Avg. daily 6m (US\$mn)	0.38
Foreign limit / actual (%)	49 / 4
Free float (%)	35.9
Dividend policy (%)	≥ 50

### Share performance

(%)	1M	3M	12M
Absolute	2.9	(2.7)	(3.6)
Relative to SET	4.8	(1.6)	8.3

Source: SET, InnovestX Research

### 2023 Sustainability / 2022 ESG Score

SET ESG Ratings	BBB
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### ESG Bloomberg Rank in the sector

ESG Score Rank	2/18
Environmental Score Rank	1/18
Social Score Rank	2/18
Governance Score Rank	2/18

### ESG Comment

TQM has a proper policy regarding to environmental and social issues with a decent board of directors.

Source: Bloomberg Finance L.P.

### Analyst

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### Value proposition

Established by the Punnipa family (which has been in the insurance business since 1953), TQM Alpha (TQM) is Thailand's largest insurance broker for both non-life and life insurance, with a focus on motor insurance, in a fragmented market of more than 743 players. It has a market share of ~10% in non-life insurance brokers (6% of non-life insurance premiums). Around 96% of its commission income came from non-life insurance.

### Business outlook

We forecast 2024 earnings growth of 16%, underpinned by a forecast 9% growth in fee and service income, a 20 bps rise in gross margin to 51% and a 47 bps reduction in opex to income ratio.

Bullish views	Bearish views
1. Recovering premium sales.	1. We expect a fall in commission rate due to a rising mix of corporate clients via M&A.
2. Easing cost to income ratio from economies of scale	2. Temporary fall in gross margin in 2023 from a major addition of salespersons.

### Key catalysts

Factor	Event	Impact	Comment
Inorganic growth	Two M&A and JV deals in the pipeline.	Positive premium growth	This will allow TQM to provide full business solutions with better growth prospects.
IPO of its subsidiaries during 2024-2026	IPO of insurance business subsidiaries in 2024, financial business in 2025 and tech platform business in 2026	Unlock the value of its subsidiaries	Potential realized and unrealized gain

### Sensitivity analysis

Factor	Earnings impact	TP impact
25 bps change in gross margin	4%	Bt1/sh.
1 ppt change in fee & service income growth	3%	Bt1/sh.
25 bps change in opex to income ratio	4%	Bt1/sh.

## Our view on ESG

**We view that TQM has a proper policy regarding to environmental and social issues but has provided a committed timeline and actual performance relative to its targets. We view its management and governance as satisfactory, reflecting a decent size and a diverse board of directors and transparency with stakeholders.**

### ESG Disclosure Score

<b>Bloomberg ESG Score</b>	<b>40.22 (2022)</b>
Rank in Sector	2/18

<b>CG Rating</b>	<b>DJSI</b>	<b>SETESG</b>	<b>SET ESG Ratings</b>
TQM	5	No	Yes
			BBB

Source: Thai Institute of Directors (IOD), SET

### Environmental Issue (E)

- 2023 performance: Electricity consumption decreased 25% (vs. 15% target) from the baseline year 2020; Water consumption decreased 64% (vs. 20% target) from the baseline year 2020; Total weight of collected garbage of 106.5 tons (vs. target of 120 tons); Infected waste of 0.042 tons (vs. target of 0.115 tons)
- The company's greenhouse gas emissions data is in the process of registering for a carbon footprint certification. The goal is to reduce greenhouse gas emissions by 3% by the year 2030, and there is a plan to manage flood problems to prepare for climate change conditions.

### Social Issue (S)

- 2023 performance: Customer satisfaction of 93.91% vs. 90% target; Zero complaints and legal actions regarding human rights violations; Employee engagement score of 72% vs. target of no less than 72%; Average training hours of 38 hours/person/year, in line with target.
- The company has guidelines and controls in place to ensure compliance with applicable laws and regulations, and it takes responsibility for contributing positively to society. This includes cooperation, support, assistance, and volunteering in activities beneficial to the community and society, aimed at promoting economic strength as well as the restoration of society and culture.

### Governance Issue (G)

- As of 31 December 2023, the Board of Directors comprises 11 directors: 5 independent directors (45%), 1 (9%) non-executive director, and 5 (45%) executive Directors. Female directors comprised 45% of the board.
- Although the Chairman of the Board is not an independent director, the Board of Directors appointed another independent director to work jointly in considering and setting agendas of Board meetings, encouraging balance between the Board of Directors and management according to good corporate governance for listed companies.

### ESG Disclosure Score

	2021	2022
<b>ESG Disclosure Score</b>	<b>41.64</b>	<b>40.22</b>
<b>Environment</b>	<b>30.08</b>	<b>25.82</b>
Emissions Reduction Initiatives	Yes	Yes
Climate Change Policy	Yes	Yes
Biodiversity Policy	No	No
Energy Efficiency Policy	Yes	Yes
Waste Reduction Policy	Yes	Yes
Water Policy	Yes	Yes
<b>Social</b>	<b>26.15</b>	<b>26.15</b>
Human Rights Policy	Yes	Yes
Equal Opportunity Policy	Yes	Yes
Business Ethics Policy	Yes	Yes
Health and Safety Policy	Yes	Yes
Training Policy	Yes	Yes
Fair Remuneration Policy	No	No
<b>Governance</b>	<b>68.57</b>	<b>68.57</b>
Size of the Board	10	11
Number of Board Meetings for the Year	7	9
Board Meeting Attendance Pct	100	97
Number of Female Executives	4	5
Number of Independent Directors	5	5
% Independent directors to total board members	50	45

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. 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

### Profit and Loss Statement

FY December 31	Unit	2019	2020	2021	2022	2023	2024F	2025F	2026F
Fee & service income	(Btmn)	2,712	3,083	3,498	3,590	3,685	4,019	4,308	4,619
Cost of service	(Btmn)	1,414	1,517	1,606	1,691	1,735	1,885	2,021	2,166
<b>Gross income</b>	(Btmn)	<b>1,298</b>	<b>1,565</b>	<b>1,893</b>	<b>1,899</b>	<b>1,950</b>	<b>2,134</b>	<b>2,288</b>	<b>2,452</b>
Other income	(Btmn)	72	54	184	138	77	127	182	260
Total operating expenses	(Btmn)	0	2	2	2	25	48	69	90
<b>Income before tax</b>	(Btmn)	<b>746</b>	<b>747</b>	<b>855</b>	<b>924</b>	<b>917</b>	<b>981</b>	<b>1,045</b>	<b>1,108</b>
Income tax	(Btmn)	<b>624</b>	<b>869</b>	<b>1,219</b>	<b>1,111</b>	<b>1,084</b>	<b>1,232</b>	<b>1,355</b>	<b>1,515</b>
<b>Core net profit</b>	(Btmn)	<b>116</b>	<b>167</b>	<b>230</b>	<b>226</b>	<b>224</b>	<b>246</b>	<b>271</b>	<b>303</b>
Minority interest	(Btmn)	<b>507</b>	<b>702</b>	<b>989</b>	<b>886</b>	<b>860</b>	<b>985</b>	<b>1,084</b>	<b>1,212</b>
<b>Net profit</b>	(Btmn)	<b>0</b>	<b>0</b>	<b>99</b>	<b>76</b>	<b>43</b>	<b>44</b>	<b>44</b>	<b>44</b>
<b>EPS</b>	(Bt)	<b>507</b>	<b>702</b>	<b>890</b>	<b>809</b>	<b>816</b>	<b>941</b>	<b>1,040</b>	<b>1,168</b>
DPS	(Bt)	<b>0.85</b>	<b>1.17</b>	<b>1.48</b>	<b>1.35</b>	<b>1.36</b>	<b>1.57</b>	<b>1.73</b>	<b>1.95</b>

### Balance Sheet

FY December 31	Unit	2019	2020	2021	2022	2023	2024F	2025F	2026F
Cash & cash equivalent	(Btmn)	2,758	2,167	804	729	1,187	1,492	1,626	1,705
Other current assets	(Btmn)	731	1,310	567	909	1,039	1,039	1,039	1,039
Premises & equipment	(Btmn)	80	94	79	99	123	491	541	591
Other non-current assets	(Btmn)	688	801	1,885	1,949	1,595	1,595	1,595	1,595
<b>Total assets</b>	(Btmn)	<b>4,257</b>	<b>4,954</b>	<b>4,436</b>	<b>4,903</b>	<b>5,459</b>	<b>5,975</b>	<b>6,523</b>	<b>7,096</b>
Total current liabilities	(Btmn)	1,816	1,957	729	1,110	1,341	1,639	2,038	2,437
Total non-current liabilities	(Btmn)	91	597	697	635	844	844	844	844
<b>Total liabilities</b>	(Btmn)	<b>1,907</b>	<b>2,554</b>	<b>1,426</b>	<b>1,745</b>	<b>2,185</b>	<b>2,484</b>	<b>2,883</b>	<b>3,282</b>
Paid-up capital	(Btmn)	300	300	300	300	300	300	300	300
<b>Total Equities</b>	(Btmn)	<b>2,350</b>	<b>2,400</b>	<b>2,676</b>	<b>2,570</b>	<b>2,714</b>	<b>2,932</b>	<b>3,081</b>	<b>3,255</b>
<b>BVPS</b>	(Bt)	<b>3.92</b>	<b>4.00</b>	<b>4.46</b>	<b>4.28</b>	<b>4.52</b>	<b>4.89</b>	<b>5.13</b>	<b>5.42</b>

### Key Financial Ratios

FY December 31	Unit	2019	2020	2021	2022	2023	2024F	2025F	2026F
Revenue growth	(%)	8.41	13.68	13.49	2.62	2.65	9.07	7.20	7.20
Gross margin	(%)	47.86	50.77	54.10	52.89	52.90	53.10	53.10	53.10
Opex to income ratio	(%)	27.50	24.25	24.43	25.73	24.88	24.41	24.25	23.98
Cost to income ratio	(%)	77.60	72.22	68.00	70.14	70.51	69.13	68.27	67.10
Net profit margin	(%)	18.71	22.77	25.45	22.54	22.15	23.42	24.14	25.28
ROE	(%)	22.57	29.56	35.08	30.85	30.89	33.33	34.60	36.86
ROA	(%)	12.55	15.24	18.96	17.33	15.75	16.46	16.65	17.15
D/E	(x)	0.81	1.06	0.53	0.68	0.81	0.85	0.94	1.01

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Fee & service income	(Btmn)	845	895	974	984	898	871	931	1,066
Cost of service	(Btmn)	404	432	452	488	423	407	418	516
<b>Gross income</b>	(Btmn)	<b>441</b>	<b>463</b>	<b>521</b>	<b>496</b>	<b>475</b>	<b>464</b>	<b>514</b>	<b>550</b>
Other income	(Btmn)	30	30	61	14	23	41	(1)	25
Total operating expenses	(Btmn)	1	1	(1)	3	3	6	13	13
<b>Income before tax</b>	(Btmn)	<b>226</b>	<b>223</b>	<b>250</b>	<b>242</b>	<b>247</b>	<b>232</b>	<b>195</b>	<b>263</b>
Income tax	(Btmn)	<b>244</b>	<b>269</b>	<b>334</b>	<b>264</b>	<b>248</b>	<b>267</b>	<b>305</b>	<b>298</b>
<b>Core net profit</b>	(Btmn)	<b>49</b>	<b>56</b>	<b>67</b>	<b>55</b>	<b>56</b>	<b>55</b>	<b>59</b>	<b>58</b>
Minority interest	(Btmn)	<b>195</b>	<b>213</b>	<b>267</b>	<b>209</b>	<b>192</b>	<b>212</b>	<b>246</b>	<b>240</b>
<b>Net profit</b>	(Btmn)	<b>15</b>	<b>7</b>	<b>57</b>	<b>14</b>	<b>(5)</b>	<b>5</b>	<b>29</b>	<b>15</b>
<b>EPS</b>	(Bt)	<b>180</b>	<b>206</b>	<b>210</b>	<b>195</b>	<b>197</b>	<b>207</b>	<b>217</b>	<b>226</b>

### Balance Sheet

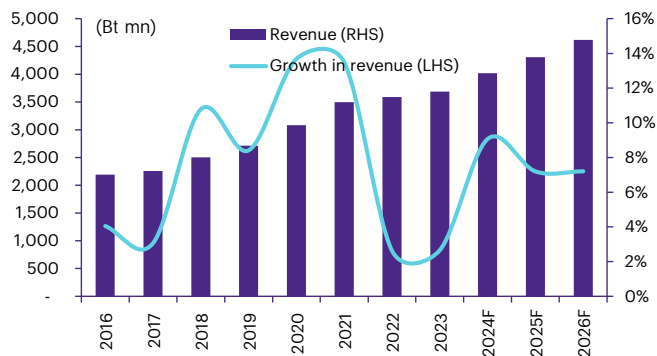
FY December 31	Unit	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Cash & cash equivalent	(Btmn)	1,281	607	729	902	820	715	1,187	1,459
Other current assets	(Btmn)	551	807	909	955	1,066	1,029	1,039	1,082
Premises & equipment	(Btmn)	79	82	99	116	127	128	123	120
Other non-current assets	(Btmn)	1,635	1,913	1,949	1,854	1,696	1,633	1,595	1,448
<b>Total assets</b>	(Btmn)	<b>4,457</b>	<b>4,419</b>	<b>4,903</b>	<b>5,072</b>	<b>4,847</b>	<b>5,154</b>	<b>5,459</b>	<b>5,859</b>
Total current liabilities	(Btmn)	834	913	1,110	1,125	1,103	1,186	1,341	1,525
Total non-current liabilities	(Btmn)	658	661	635	632	573	891	844	812
<b>Total liabilities</b>	(Btmn)	<b>1,493</b>	<b>1,575</b>	<b>1,745</b>	<b>1,757</b>	<b>1,676</b>	<b>2,077</b>	<b>2,185</b>	<b>2,337</b>
Paid-up capital	(Btmn)	300	300	300	300	300	300	300	300
<b>Total Equities</b>	(Btmn)	<b>2,402</b>	<b>2,290</b>	<b>2,570</b>	<b>2,714</b>	<b>2,613</b>	<b>2,537</b>	<b>2,714</b>	<b>2,932</b>
<b>BVPS</b>	(Bt)	<b>4.00</b>	<b>3.82</b>	<b>4.28</b>	<b>4.52</b>	<b>4.36</b>	<b>4.23</b>	<b>4.52</b>	<b>4.89</b>

### Key Financial Ratios

FY December 31	Unit	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
YoY Revenue growth	(%)	1.08	16.39	(8.52)	12.33	6.33	(2.67)	(4.34)	8.38
Gross margin	(%)	52.22	51.72	53.55	50.40	52.94	53.28	55.17	51.58
Opex to income ratio	(%)	26.76	24.95	25.65	24.62	27.54	26.62	20.98	24.69
Cost to income ratio	(%)	72.02	70.83	67.83	73.22	72.73	70.08	65.85	71.44
Net profit margin	(%)	21.30	22.99	21.53	19.82	21.93	23.74	23.35	21.15
ROE	(%)	27.49	35.10	34.51	29.52	29.57	32.14	33.13	31.95
ROA	(%)	15.90	18.55	17.99	15.64	15.88	16.55	16.39	15.94
D/E	(x)	0.62	0.69	0.68	0.65	0.64	0.82	0.81	0.80

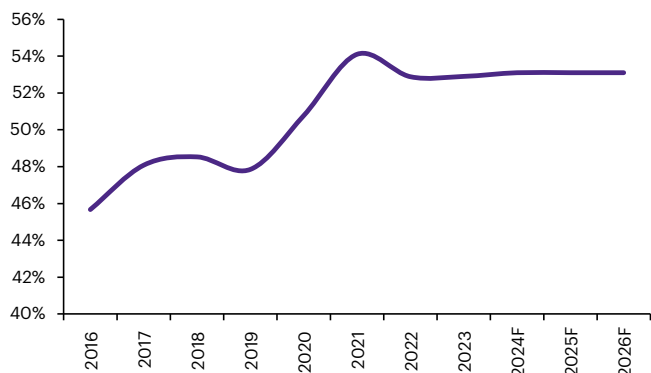
## Appendix

**Figure 1: Fee & service income growth**



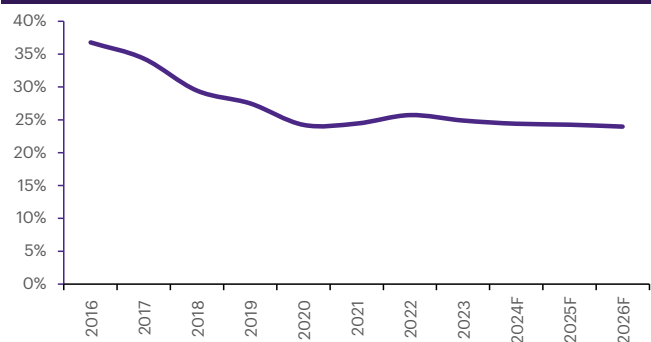
Source: TQM and InnovestX Research

**Figure 2: Gross margin**



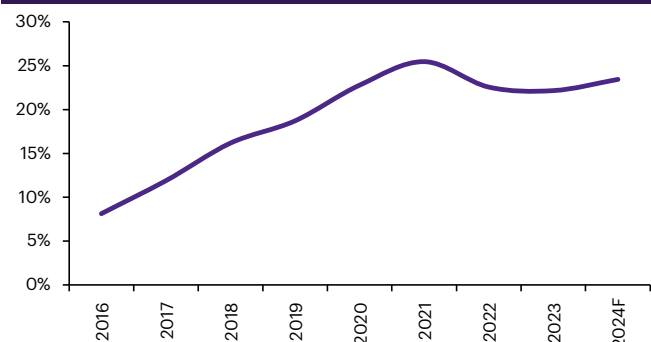
Source: TQM and InnovestX Research

**Figure 3: Opex to income ratio**



Source: TQM and InnovestX Research

**Figure 4: Net profit margin**



Source: TQM and InnovestX Research

**Figure 2: Valuation summary** (price as of May 15, 2024)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F	23A	24F	25F
BLA	Outperform	20.00	23.0	17.7	13.4	9.2	7.6	(21)	46	21	0.8	0.7	0.7	6	8	9	1.0	2.7	3.3
THRE	Outperform	0.77	1.1	38.0	15.5	12.0	9.9	n.m.	29	21	0.9	0.8	0.8	6	7	8	0.0	1.7	3.0
THREL	Underperform	1.78	1.6	(12.7)	17.5	n.m.	17.6	(60)	n.m.	n.m.	0.8	0.9	0.8	4	(4)	5	3.9	(2.6)	4.0
TLI	Neutral	9.10	10.0	13.4	10.7	10.0	9.4	5	8	6	1.0	0.9	0.9	10	0	0	5.5	3.5	3.7
TQM	Neutral	26.75	29.0	13.7	19.7	17.0	14.9	1	15	14	5.9	5.5	5.2	31	33	36	3.7	5.3	6.0
<b>Average</b>					<b>15.4</b>	<b>12.0</b>	<b>11.9</b>	<b>(18.8)</b>	<b>24.7</b>	<b>15.5</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>11</b>	<b>9</b>	<b>12</b>	<b>2.8</b>	<b>2.1</b>	<b>4.0</b>

Source: InnovestX Research

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