

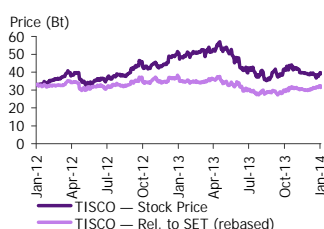
## BUY

## Stock Data

Last close (Jan 15) (Bt)	38.50
12-m target price (Bt)	48.00
Upside (Downside) to TP (%)	24.68
Mkt cap (Btbn)	30.83
Mkt cap (US\$mn)	938

Bloomberg code	TISCO TB
Reuters code	TISC.BK
Risk rating	M
Mkt cap (%) SET	0.27
Sector % SET	16.64
Shares issued (mn)	801
Par value (Bt)	10
12-m high / low (Bt)	60.8 / 34.5
Avg. daily 6m (US\$mn)	2.78
Foreign limit / actual (%)	49 / 43
Free float (%)	79.1
Dividend policy (%)	50

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	0.0	-6.1	-23.0
Relative to SET	4.0	7.7	-14.6

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

(66-2) 949-1003

kittima.sattayapan@scb.co.th

## Bumpy road longer, but share overly discounted

**Sharp slowdown in loan growth for 2014.** TISCO expects loan growth to brake to the low teens in 2014F from 18% in 2013. We maintain our 2014F loan growth at 10%, wary of downside risk from the political unrest. The bank expects only single-digit growth in auto loans (65% of total loans), a plunge from 16% in 2013 from the fall in domestic car sales from peak of ~1.3mn in 2013. This comes from two factors – no more first-car buyer scheme to push sales and a tightening in underwriting standards for used car loans following a sharp 30% fall in used car prices last year. It targets double-digit growth in 2014F (vs. 25% for 2013) for its corporate loans, backed up by the drawdown schedule for its existing corporate loans. Its goal is to expand consumer loans by at least 20% in 2014 from 35% in 2013.

**Upside risk to NIM.** As 65% of its loans are fixed-rate auto loans, the bank benefits from policy interest rate cuts, which is entirely possible as the central bank tries to cope with the slowing economy, which is beginning to feel the pain of the political unrest. TISCO expects a stable net interest margin (NIM) in 2014F. However, this will be offset by the planned launch of attractive deposit campaigns in order to expand its retail deposit base. We forecast a small 3bps squeeze in NIM in 2014F.

**Expect lower provisions after 4Q13 peak.** TISCO expects credit cost to step down in 2014 after its surprisingly sharp hike in provisions in 4Q13. It believes the 4Q13 provisions of Bt1.6bn (2.2% credit cost) is peak. This was comprised of Bt1.4bn (1.9% credit cost) in specific provisions for rising delinquencies and Bt230mn (0.3% credit cost) as general provisions. Its excess loan loss reserve (LLR) rose 11% or Bt228mn QoQ to Bt2.35bn in 4Q13. However, LLR coverage fell to 128% at 4Q13 from 136% at 3Q13. Management guides to normalized provisions of 1.1-1.2% of total loans in 2014. Taking in the downside risk from political unrest, we lift 2014F credit cost to 1.35% from 1.25% vs. 1.42% for 2013.

**NPLs not yet falling.** NPLs confounded expectations by rising 18% or Bt769mn QoQ in 4Q13, mainly used car loans. This was partly due to a delay in write-offs on slower sales of repossessed cars and a technical slippage as the cutoff date was over a long weekend. If write-offs are added back, the QoQ increase in NPLs would be Bt907mn in 4Q13, declining from Bt1.1bn in 3Q13 and Bt1.25bn in 2Q13. Although used car prices appeared to hit bottom in 4Q13, the current political unrest could delay the offloading of new car overstock. This means a delayed recovery in used car prices, probably into 2H14, and thus a delay in eased NPL formation.

**Maintain Buy on undervalued position.** We maintain Buy on TISCO, as we believe the current share price has overdone the potential slowdown in loan growth and its deterioration in asset quality. There is upside risk from a further cut in the policy rate. TP is kept unchanged at Bt48 (1.5 x 2014F BVPS, vs. 18% ROE). Our roll-over of valuation base to YE2014 is offset with our upward revision of provision forecast.

## Forecasts and valuation

FY Dec	Unit	2012	2013	2014F	2015F	2016F
Pre-provision profit	(Btmn)	5,627	8,390	8,874	9,550	10,548
Net profit	(Btmn)	3,705	4,249	4,536	5,231	5,711
PPP/Sh	(Bt)	7.73	10.48	11.08	11.93	13.17
EPS	(Bt)	5.09	5.31	5.66	6.53	7.13
BVPS	(Bt)	25.00	28.71	31.97	36.11	40.30
DPS	(Bt)	2.40	2.40	2.40	2.94	3.21
PER	(x)	7.56	7.25	6.80	5.89	5.40
P/PPP	(x)	4.98	3.67	3.47	3.23	2.92
EPS growth	(%)	13.42	4.26	6.75	15.33	9.17
PBV	(x)	1.54	1.34	1.20	1.07	0.96
ROE	(%)	21.54	20.63	18.67	19.19	18.67
Dividend yields	(%)	6.23	6.23	6.23	7.64	8.34

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Interest & dividend income	15,211	19,272	21,938	24,248	26,996
Interest expense	8,166	10,304	11,596	13,000	14,660
Net interest income	7,044	8,968	10,342	11,248	12,336
Non-interest income	4,715	5,933	5,868	6,436	7,072
Non-interest expenses	5,024	5,340	6,069	6,693	7,299
Earnings before tax & provision	6,736	9,561	10,141	10,992	12,110
Tax	1,081	1,064	1,161	1,334	1,454
Equities & minority interest	28	107	107	107	107
Core pre-provision profit	5,627	8,390	8,874	9,550	10,548
Provision	1,922	4,141	4,338	4,319	4,837
Core net profit	3,705	4,249	4,536	5,231	5,711
Extra item	0	0	0	0	0
Net profit	3,705	4,249	4,536	5,231	5,711
EPS (Bt)	5.09	5.31	5.66	6.53	7.13
DPS (Bt)	2.40	2.40	2.40	2.94	3.21

## Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	1,046	1,131	1,353	1,701	2,001
Interbank assets	31,196	53,242	61,228	67,351	74,086
Investments	7,016	11,490	11,490	11,490	11,490
Gross loans	248,316	292,151	321,366	359,930	403,121
Accrued interest receivable	353	536	536	536	536
Loan loss reserve	5,122	6,354	9,889	13,405	17,439
Net loans	243,547	286,332	312,012	347,060	386,218
Total assets	290,497	359,263	393,232	434,838	481,120
Deposits	219,823	264,641	294,969	332,135	373,818
Interbank liabilities	13,971	16,703	16,703	16,703	16,703
Borrowings	27,877	44,084	44,084	44,084	44,084
Total liabilities	272,117	336,044	367,400	405,696	448,621
Minority interest	184	231	231	231	231
Paid-up capital	7,279	8,007	8,007	8,007	8,007
Total Equities	18,196	22,987	25,601	28,911	32,268
BVPS (Bt)	25.00	28.71	31.97	36.11	40.30

## Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	34.21	17.65	10.00	12.00	12.00
YoY fee & insurance income growth	44.65	25.70	3.13	10.07	10.25
Profitability					
Yield on earn'g assets (%)	6.01	5.99	5.84	5.82	5.82
Cost on int-bear'g liab (%)	3.55	3.51	3.40	3.47	3.54
Spread (%)	2.46	2.48	2.44	2.35	2.28
Net interest margin(%)	2.78	2.79	2.75	2.70	2.66
ROE (%)	21.54	20.63	18.67	19.19	18.67
Asset Quality					
NPLs/Total Loans(%)	1.30	1.70	1.47	1.47	1.47
LLR/NPLs(%)	165.28	127.95	209.99	254.14	295.20
Provision expense/Total loans (%)	0.77	1.42	1.35	1.20	1.20
Liquidity					
Loans/Deposits & borrowings (%)	100.25	94.63	94.78	95.67	96.46
Efficiency					
Cost to income ratio (%)	42.72	35.84	37.44	37.85	37.61
Capital Fund					
Capital adequacy ratio(%)	12.79	13.91	13.96	13.78	13.59
Tier-1(%)	8.51	10.31	10.65	10.79	10.90
Tier-2(%)	4.28	3.60	3.31	2.99	2.70

## Profit and Loss Statement (Btmn)

FY December 31	4Q12	1Q13	2Q13	3Q13	4Q13
Interest & dividend income	4,241	4,467	4,766	4,944	5,095
Interest expense	2,313	2,364	2,537	2,627	2,776
Net interest income	1,928	2,103	2,229	2,317	2,319
Non-interest income	1,333	1,761	1,456	1,318	1,398
Non-interest expenses	1,425	1,449	1,388	1,401	1,102
Earnings before tax & provision	1,836	2,416	2,297	2,234	2,615
Tax	300	284	303	293	184
Equities & minority interest	7	38	25	31	13
Core pre-provision profit	1,529	2,094	1,969	1,910	2,418
Provision	533	940	810	778	1,613
Core net profit	996	1,154	1,159	1,132	804
Extra item	0	0	0	0	0
Net profit	996	1,154	1,159	1,132	804
EPS (Bt)	1.37	1.58	1.45	1.41	1.00

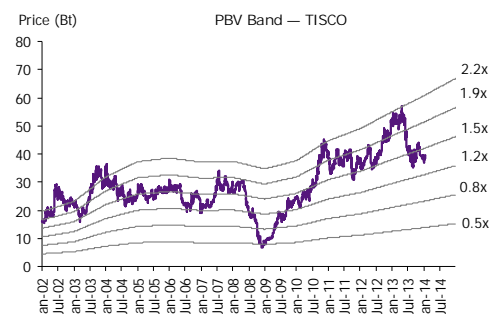
## Balance Sheet (Btmn)

FY December 31	4Q12	1Q13	2Q13	3Q13	4Q13
Cash	1,046	1,015	983	1,153	1,131
Interbank assets	31,196	41,625	32,376	41,605	53,242
Investments	7,016	6,703	7,640	9,991	11,490
Gross loans	248,316	266,785	280,558	284,855	292,151
Accrued interest receivable	353	351	394	384	536
Loan loss reserve	5,122	5,685	5,913	5,715	6,354
Net loans	243,547	261,451	275,039	279,524	286,332
Total assets	290,497	319,010	323,969	338,391	359,263
Deposits	219,823	248,914	238,093	257,217	264,641
Interbank liabilities	13,971	16,455	18,911	15,559	16,703
Borrowings	27,877	21,916	34,728	33,734	44,084
Total liabilities	272,117	299,482	303,525	316,756	336,044
Minority interest	184	225	238	269	231
Paid-up capital	7,279	7,279	8,007	8,007	8,007
Total Equities	18,196	19,303	20,207	21,366	22,987
BVPS (Bt)	25.00	26.52	25.24	26.69	28.71

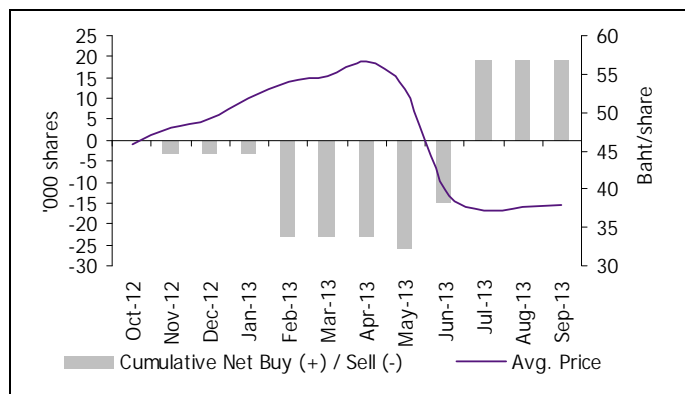
## Financial Ratios

	4Q12	1Q13	2Q13	3Q13	4Q13
YoY loan growth	25.57	34.21	37.12	33.62	24.82
YoY fee & insurance income growth	33.02	44.65	72.67	51.66	38.34
Yield on earn'g assets (%)	5.99	6.01	5.94	6.08	6.07
Cost on int-bear'g liab (%)	3.53	3.55	3.44	3.54	3.53
Net interest margin(%)	2.79	2.78	2.80	2.85	2.85
Cost to income ratio (%)	42.35	42.72	37.48	37.57	37.89
NPLs/Total Loans(%)	1.19	1.25	1.28	1.45	1.47
LLR/NPLs(%)	180.01	165.28	167.01	145.33	136.15
Provision expense/Total loans (%)	2.44	3.10	1.41	2.50	3.55

## PBV Band Chart

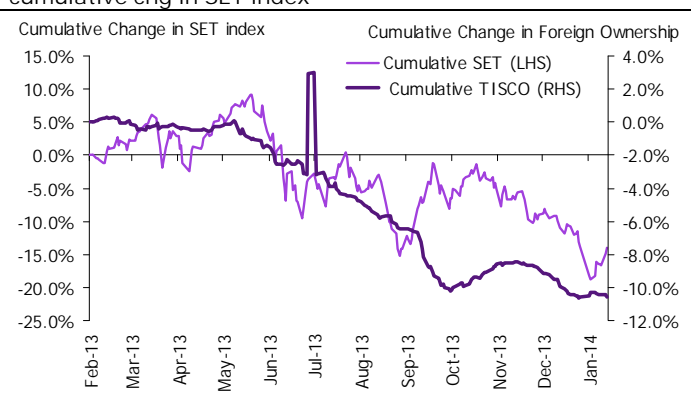


## 12-Month Cumulative directors trade



Source: SEC

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



Source: SET, SCBS Investment Research

SCB SECURITIES COMPANY LIMITED ("SCBS") ACTS AS MARKET MAKER AND ISSUER OF DERIVATIVE WARRANTS on the ordinary shares of ADVANC, AOT, BANPU, BAY, BBL, BCP, BEC, BGH, BJC, BTS, CENTEL, CK, CPN, DTAC, GLOBAL, HMPRO, INTUCH, IVL, JAS, KBANK, KKP, KTB, MINT, PS, PTT, PTTEP, PTTGC, SCC, TCAP, THAI, THCOM, TISCO, TMB, TOP, TRUE, VGI.

Before making an investment decision over a derivative warrant, an investor should carefully read the prospectus for the details of the said derivative warrants. Any opinion, news, research, analyse, price, statement, forecast, projection and/or other information contained in this document (the "Information") is provided as general purpose information only, and shall not be construed as a recommendation to any person of an offer to buy or sell, or the solicitation of an offer to buy or sell, any securities. SCBS and/or its directors, officers, employees, and agents shall not be liable for any direct, indirect, incidental, special or consequential loss or damage, resulting from the use of, or reliance on, the Information, including without limitation, damages for loss of profits. The investor should use the Information in association with other information and opinion, including his/her own judgment in making investment decision. The Information is obtained from sources believed to be reliable, and SCBS cannot guarantee the accuracy, completeness and/or correctness of the Information.

SCBS reserves the right to modify the Information from time to time at its sole discretion without giving any notice. This document is delivered to intended recipient(s) only and is not permitted to reproduce, retransmit, disseminate, sell, distribute, republish, circulate or commercially exploit the information in any manner without the prior written consent of SCBS.

[illegible]

**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.