

13 July 2012

Tisco Financial Group

Bank
Overweight

Earnings upgrade!

Investment thesis: We have upgraded our TISCO FY12-13 earnings projections by 3% and 10%, respectively, to Bt3.7bn and Bt4.4bn in anticipation that the firm will deliver FY12 lending growth of over 25% (we earlier expected 18%). However, we have raised our FY12 LLP assumption by 12% to Bt1.4bn, which reflects write-offs related to 4Q11 flooding and provisioning against the possibility of the SSI loan failing to perform. Due to our FY12-13 earnings forecast upgrades, we have raised our YE12 target price by 7% to Bt46, pegged to a justified PBV of 1.84x, and changed our call from HOLD to BUY.

FY12 loan growth targets raised: Management upped its FY12 loan growth guidance to 20% from 15%, due to strong 13.5% YTD lending expansion in 1H12. Thus, we have raised our FY12 loan growth projection to 25% from 18% formerly.

LLP setting will normalize in 2H12: Given strong lending growth and one-time write-offs related to the 4Q11 flooding, TISCO set heavy loan loss provisions of Bt857m for 1H12 (equal to 0.90% of total loans). Management said it will cut LLPs to a level equal to 0.7-0.80% of total loans in 2H12 (Bt280m-350m/quarter). We, however, have raised our FY12 LLP assumption to 12% to Bt1.4bn to fine-tune the bigger LLPs in 2Q12.

TISCO is prepared for an SSI worst-case scenario: TISCO's exposure to SSI is Bt4bn (its portion of a syndicated loan that financed SSI's purchase of a billet plant in the UK). Under the worst-case scenario in which SSI failed to start repaying the loan, management said the loan loss cushion ratio would drop to 130-140% from 171% currently.

3Q12 earnings should rise QoQ: Strong lending growth and good funding cost management will enable TISCO to sustain its 3Q12 NIM stable QoQ (it was 3.19% in 2Q12). Note that B/Es comprised only 50% of its funding mix at end-June, down from 75% at YE11. As such, we expect TISCO to deliver strong 3Q12 earnings. Besides, it plans to set normal loan loss provisions in 3Q12.

BUALUANG RESEARCH

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BUY

 (upgraded)

Target Price: Bt46.00
Price (12/07/12): Bt38.25
TISCO TB / TISC.BK

Key Ratios & Statistics

Market cap	Bt27.66bn		
12-mth price range	Bt29.50/Bt43.75		
3-mth avg daily volume	Bt93.18m		
# of shares (m)	727.9		
Est. free float (%)	72.5		
Foreign limit (%)	49.0		

Share price perf. (%)	1M	3M	12M
Relative to SET	(1.7)	(8.3)	(14.5)
Absolute	1.3	(5.0)	(3.8)

Financial summary

FY Ended 31 Dec	2010	2011	2012E	2013E
Revenues (Btm)	9,520	12,376	14,260	17,190
Net profit (Btm)	2,888	3,267	3,700	4,440
EPS (Bt)	3.98	4.51	5.10	6.12
BLS/Consensus (x)	n.m.	0.99	1.07	1.11
EPS Consensus (Bt)	n.m.	4.55	4.75	5.52
EPS growth (%)	+45.3%	+13.1%	+13.3%	+20.0%
Core profit (Btm)	4,626	4,550	5,076	6,078
Core EPS (Bt)	6.38	6.28	7.00	8.38
Core EPS growth (%)	+30.6%	-1.6%	+11.6%	+19.7%
PER (x)	9.5	8.4	7.4	6.2
Core PER (x)	6.0	6.1	5.4	4.5
P/PPPOP (x)	4.7	4.5	4.4	3.8
PABV (x)	1.9	1.7	1.5	1.3
Dividend (Bt)	2.25	2.35	2.25	2.25
Dividend yield (%)	5.9	6.2	5.9	5.9
ROE (%)	19.4	20.1	20.2	21.0

CG Rating - 2011



Company profile

Established in 1969 as Thailand's first investment bank, TISCO is the acronym of the company's original name—Thai Investment & Securities Co Ltd. It was the first finance company to receive approval from the Ministry of Finance to upgrade its status to a commercial bank in October 2004. TISCO commenced operating on June 30, 2010 with 46 branches. Lending grew by 16% YTD in end June-11 and accounts for 88% of assets. Retail loans made up 74% of total loans, followed by corporate and SME loans at 16% and 7%. As of end-December 2011, its CAR was 14.5% with 9.5% for Tier-1.

Outlook

We have raised our FY12 loan growth forecast to 25%: Management upped its FY12 loan growth guidance to 20% from 15%, due to strong 13.5% YTD lending expansion in 1H12. Thus, we have raised our FY12 loan growth projection to 25% from 18% formerly. Lending growth will sustain momentum into 2H12, led by the corporate and SME portfolios. Retail loans (72% of total loans at end-June) will continue to rise in tandem with new car sales growth. Toyota Motor (Thailand) forecasts that new car sales will jump 38.5% to 1m units this year.

Note that TISCO's 2Q12 corporate lending expanded 24% QoQ, whereas its SME and retail portfolios grew by 24% QoQ and 6% QoQ, respectively. Because our expectations for loan growth have increased, we have raised our FY12-13 earnings projections by 3% and 10%, respectively to Bt3.7bn and Bt4.4bn.

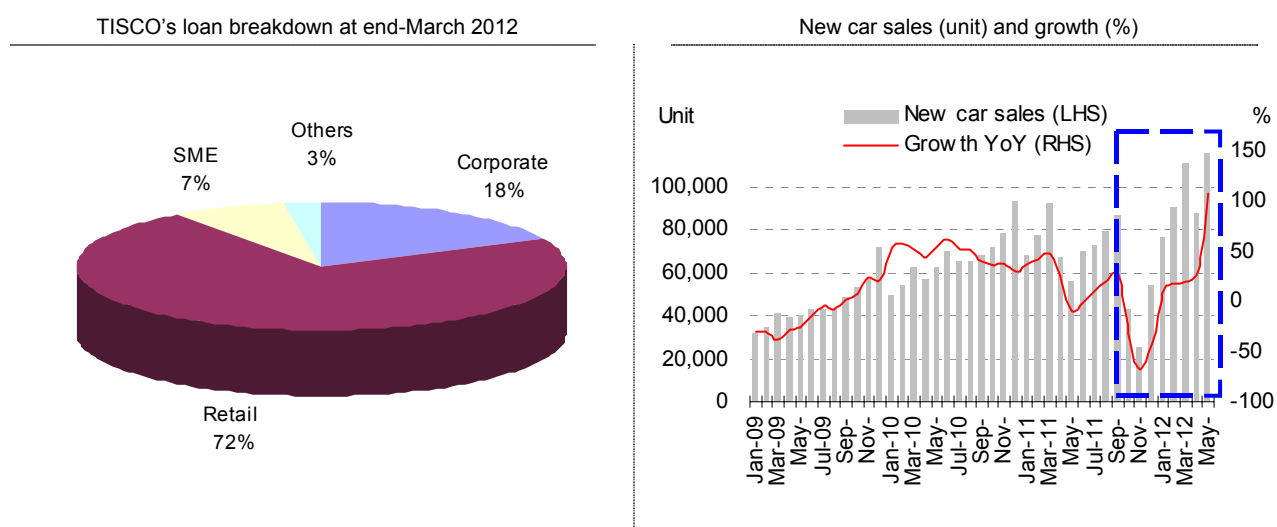
LLP setting will normalize in 2H12: Because of strong lending growth and one-time write-offs related to the 4Q11 flooding, TISCO set heavy loan loss provisions of Bt857m for 1H12 (equal to 0.90% of total loans). Management said it will cut LLPs to a level equal to 0.7-0.80% of total loans in 2H12 (Bt280m-350m/quarter). We, however, have raised our FY12 LLP assumption to 12% to Bt1.4bn to fine-tune the heavier LLPs in 2Q12. Note that its NPLs/loans ratio was the lowest in the sector at end-March at 1.3% with a big loan loss cushion ratio of 171% (the second-largest in the sector after BBL's 193%). We maintain our FY13 LLP assumption at Bt1.65bn.

TISCO is prepared for an SSI worst-case scenario: TISCO's exposure to SSI is Bt4bn (its portion of a syndicated loan that financed SSI's purchase of a billet plant in the UK). The first repayment on the loan isn't scheduled till mid next year, so it is technically still performing, according to management. Under the worst-case scenario in which SSI failed to start repaying the loan, management said the loan loss cushion ratio would drop to 130-140% from 171% currently. Note that TISCO has an excess loan loss reserve of Bt2bn, which should be sufficient to handle SSI debt restructuring.

NIM should be sustained through 2H12: The bank holding company aims to cut the B/E proportion of its funding mix from 75% at YE11 to 20% at YE12 (it is currently 50%) and lend aggressively in 2H12, which it guides, would enable its to sustain its NIM at about 3.19%. We, conservatively, maintain our NIM assumptions at 3.12% for FY12 and 3.16% for FY13.

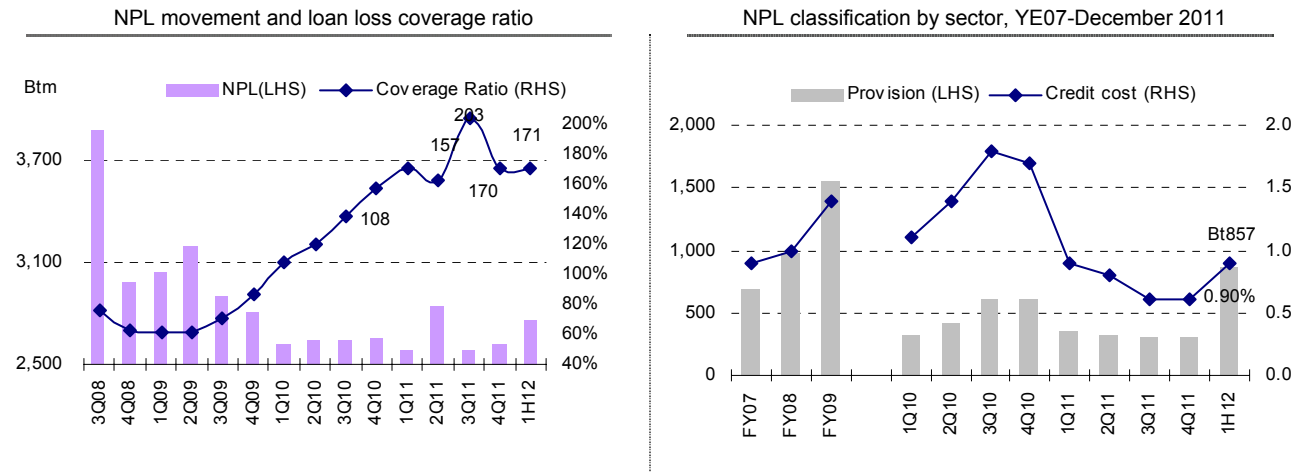
3Q12 earnings remains improving QoQ: Lending growth, a sustained NIM and lower loan loss provisioning should enable TISCO to deliver stronger QoQ earnings for 3Q12. We expect a cost/income ratio of 45% for 3Q12, flat QoQ. Note that its 1H12 cost/income ratio was 49%, due to NIM squeeze in 1Q12. We forecast an FY12 cost/income ratio of 46%.

Figure 2: Loan breakdown (%) at end-March 2012 and new car sales, 2009-May 2012



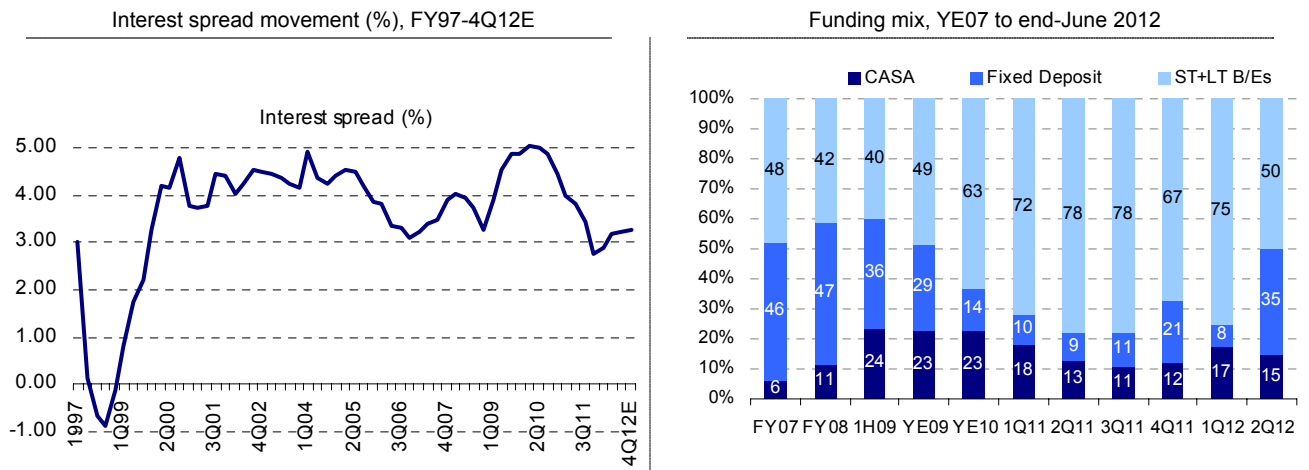
Sources: Company data, Bualuang Research

Figure 3: NPLs/loans ratio, loan loss coverage (%) and NPLs by classification (%)



Sources: Company data, Bualuang Research

Figure 4: Interest spread movement (%) and funding sources by classification (Btm)



Sources: Company data, Bualuang Research

Recommendation and valuation

Upgrade to BUY rating: Because we have raised our loan growth forecasts in anticipation of stronger HoH lending in 2H12, we have revised up our FY12-13 earnings projections by 3% and 10%, respectively, to Bt3.7bn and Bt4.4bn. The bank holding company should be broadly resilient to any external economic weakness, in part because it focuses on retail loans (especially HP). Its NPLs/loans ratio remains the lowest in the sector of 1.3% with a big loan loss cushion ratio of 171%.

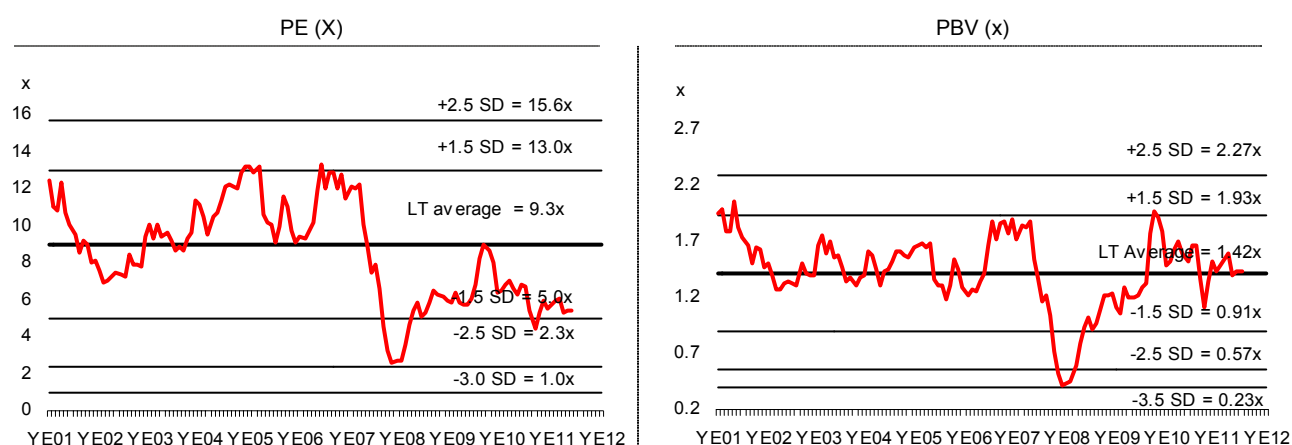
Given our earnings forecast upgrades for FY12 and FY13, we have raised our YE12 target price by 7% to Bt46, pegged to a PBV target of 1.84x, still far below its 2010 peak (PBV of 1.93x, up 1.5SDs). Given scope for lending growth upside and a favourable outlook for HP vendors, we have upgraded our TISCO rating from HOLD to BUY.

Figure 7: Valuation comparisons with regional peers

Company	Ticker	PER			2-Yr EPS	PBV		Div Yld (%)		ROE (%)	
		FY11	FY12E	FY13E	Growth (%)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Hang Seng Bank	11 HK	12.7	11.9	10.8	8.8%	2.4	2.2	5.0%	5.1%	20.6	21.7
BOC Hong Kong	2388 HK	12.8	13.4	12.0	3.3%	1.8	1.7	4.7%	5.3%	13.9	15.0
Wing Hang Bank	302 HK	13.7	12.4	11.3	10.6%	1.3	1.2	2.4%	2.8%	10.4	11.0
DBS group Holding	DBS SP	11.2	11.3	10.4	3.8%	1.1	1.0	4.4%	4.6%	10.0	10.2
UOB	UOB SP	12.9	12.5	11.3	7.0%	1.3	1.2	3.7%	4.0%	10.8	10.9
Malayan Bank	MAY MK	12.2	13.3	12.3	-0.4%	1.9	1.7	6.0%	6.2%	14.6	14.7
CIMB Group Holding Bhd	CIMB MK	14.6	13.9	12.0	10.8%	2.1	1.9	3.8%	4.4%	15.5	16.6
China Citic Bank	601998 CH	6.0	5.1	4.5	15.8%	0.9	0.8	5.2%	6.1%	19.4	18.7
China Construction Bank	601939 CH	6.1	5.1	4.4	18.1%	1.1	1.0	7.2%	8.2%	22.9	23.4
Bank Rakyat	BBRI IJ	12.3	10.6	9.0	18.2%	2.7	2.2	2.0%	2.4%	28.9	27.8
Bank of Philippines	BPI PM	21.6	18.9	16.1	16.9%	2.9	2.6	2.6%	2.7%	15.2	16.6
ICICI Bank LTD	ICICIB IN	18.8	15.9	14.0	17.2%	1.8	1.7	1.7%	2.0%	12.6	12.7
AXIS Bank Ltd	AXSB IN	13.0	10.9	9.1	21.9%	1.9	1.6	1.6%	1.7%	19.9	20.4
Bank Mandiri Tbk PT	BMRI IJ	13.1	11.8	9.8	17.0%	2.3	2.0	2.8%	3.2%	21.3	21.9
Bank Central Asia Tbk PT	BBCA IJ	18.2	15.9	13.5	17.5%	3.8	3.2	2.0%	2.4%	25.4	25.0
Bangkok Bank	BBL TB	13.4	10.5	8.6	27.7%	1.4	1.3	3.6%	4.2%	13.2	14.5
KASIKORN BANK	KBANK TB	15.9	11.8	9.0	38.1%	2.0	1.6	1.7%	1.9%	18.2	18.8
Siam Commercial Bank	SCB TB	14.1	12.2	10.4	17.9%	2.4	2.0	2.3%	2.5%	19.4	19.5
Krung Thai Bank	KTB TB	10.3	8.2	7.3	20.7%	1.3	1.1	4.9%	5.5%	15.6	15.6
Bank of Ayudhya	BAY TB	21.2	13.5	10.9	47.4%	1.7	1.6	2.6%	3.2%	13.5	15.1
Thanachart Capital	TCAP TB	7.7	6.9	5.9	15.0%	0.9	0.8	5.2%	5.2%	13.6	14.3
TMB Bank	TMB TB	16.4	13.7	11.3	22.8%	1.2	1.1	2.6%	3.3%	8.7	9.9
TISCO Financial Group	TISCO TB	8.4	7.5	6.2	17.9%	1.5	1.3	5.9%	5.9%	20.2	21.0
Kiatnakin Bank	KK TB	8.0	8.8	7.3	4.5%	0.9	0.9	6.9%	6.9%	10.6	11.9
Avg 24 regional banks		13.1	11.5	9.9	16.6%	1.8	1.6	3.8%	4.1%	16.4	17.0
Avg only 9 Thai banks		12.8	10.3	8.6	23.6%	1.5	1.3	4.0%	4.3%	14.8	15.6

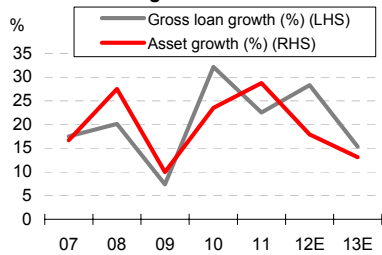
Sources: Bualuang Research estimates

Figure 8: Valuation multiples

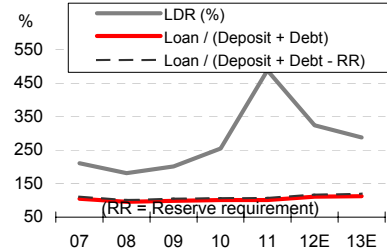


Sources: Company data, Bualuang Research, Bloomberg, Reuters

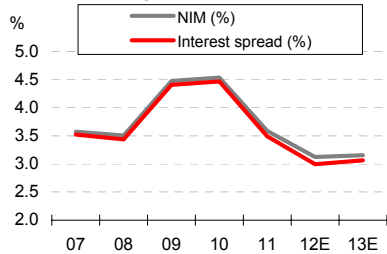
Loan and assets growth



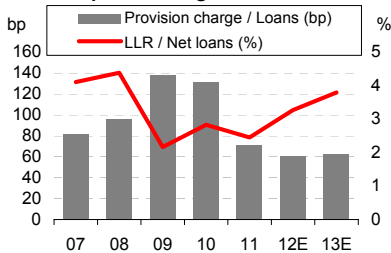
LDR and Loan to deposit +debt



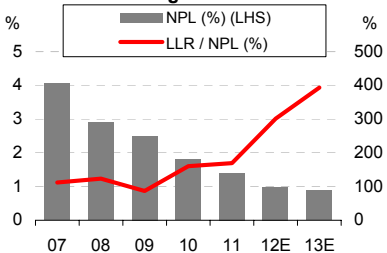
Net interest margin and interest spread



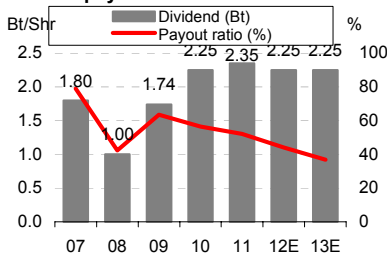
Loan loss provisioning



NPL and Reserve against NPL



Dividend payout



Financial tables

	2009	2010	2011	2012E	2013E
PROFIT & LOSS (Btm)					
Interest income	8,473	9,520	12,376	14,260	17,190
Interest expense	-2,492	-2,674	-5,460	-7,063	-8,694
Net interest income	5,981	6,845	6,916	7,197	8,496
Fee & service income	2,078	2,921	2,854	3,197	3,580
Total non-interest income	2,864	3,666	4,131	4,554	5,008
Operating income	8,844	10,512	11,047	11,751	13,504
Operating expenses	-4,461	-4,630	-4,935	-5,479	-6,163
Operating profit before provision	4,384	5,882	6,112	6,272	7,341
Provisioning charges	-1,548	-1,933	-1,291	-1,400	-1,650
Operating profit after provision	2,836	3,949	4,821	4,872	5,691
Exceptional items	10	210	34	50	50
Tax	-840	-1,256	-1,563	-1,196	-1,263
Minority interest	-16	-14	-26	-26	-38
Net profit (loss)	1,988	2,888	3,267	3,700	4,440
Reported EPS	2.74	3.98	4.51	5.10	6.12
Fully diluted EPS	2.74	3.98	4.51	5.10	6.12
Core net profit	3,543	4,626	4,550	5,076	6,078
Core EPS	4.89	6.38	6.28	7.00	8.38
PPOP	4,384	5,882	6,112	6,272	7,341

KEY RATIOS

	2009	2010	2011	2012E	2013E
Revenue Growth (%)	10.52	17.92	22.42	14.62	18.98
PPOP Growth (%)	33.00	34.19	3.92	2.62	17.03
EPS Growth (%)	16.13	45.26	13.10	13.27	20.00
Net Loan Growth (%)	9.68	31.32	23.03	27.30	14.75
Cum. LLRs to Net loans (%)	2.17	2.83	2.45	3.27	3.79
Provision charge to loans (%)	1.38	1.32	0.71	0.61	0.62
Yield on Average Assets (%)	6.24	6.37	6.20	5.93	6.20
Cost of Funds (%)	1.84	1.76	2.71	2.94	3.14
Interest Spread (%)	4.40	4.47	3.49	2.99	3.06
Net Interest Margin: NIM (%)	4.48	4.54	3.59	3.12	3.16
Effective tax rate (%)	29.54	30.21	32.18	24.30	22.00
Asset growth (%)	9.97	23.54	28.76	17.91	13.11

BALANCE SHEET (Btm)

	2009	2010	2011	2012E	2013E
Cash	827	903	903	200	350
Interbank & securities	12,708	12,545	30,722	13,000	13,000
Investment in securities	9,438	6,481	3,706	11,900	11,900
Net Loan & accrued interests	111,941	146,997	180,851	230,218	264,168
Other assets	3,834	4,481	4,526	4,917	4,940
Total assets	138,748	171,408	220,709	260,235	294,358
Deposits	56,808	59,378	37,979	73,369	95,274
ST debts, REPO & current portion	53,699	75,313	145,397	135,139	141,727
Long-term debt	5,430	15,460	0	6,200	6,500
Other liabilities	10,292	6,398	21,044	27,218	29,704
Total liabilities	126,229	156,550	204,420	241,925	273,205
Paid-up capital	7,269	7,279	7,279	7,279	7,279
Share premium	672	679	988	988	988
Retained earnings	4,462	6,448	7,632	9,626	12,432
Shareholders' equity	12,430	14,773	16,199	18,193	21,000
Minority interests	89	84	90	117	154
Total Liab.&Shareholders' equity	138,748	171,408	220,709	260,235	294,358
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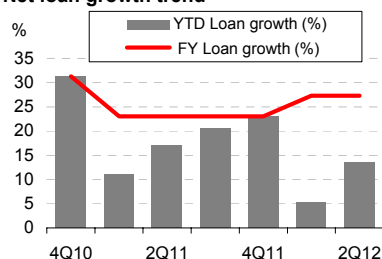
Asset quality

	2009	2010	2011	2012E	2013E
Loan loss reserve	2,425	4,162	4,428	7,525	10,025
Average interest earnings assets	133,646	150,920	207,926	235,775	272,368
Average interest bearing liabilities	119,876	133,407	192,119	199,301	229,710

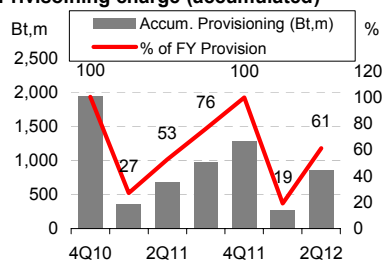
	2009	2010	2011	2012E	2013E
BV per share	17.03	20.22	22.34	25.09	28.96
ABV per share	17.53	20.72	22.84	25.59	29.46
NPL amounts	2,807	2,600	2,612	2,500	2,550
NPL (%)	2.50	1.80	1.40	0.98	0.88
Equity/loans	11.10	10.05	8.96	7.90	7.95
Equity/NPLs	442.82	568.21	620.18	727.72	823.51
Loan loss reserve/NPL (%)	86	160	170	301	393

Sources: Company data, Bualuang Research estimates

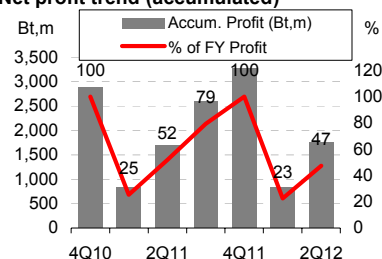
Net loan growth trend



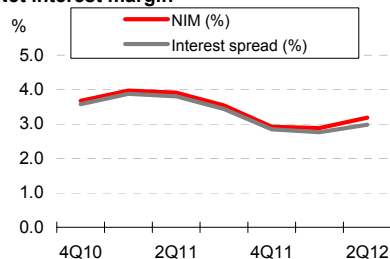
Provisioning charge (accumulated)



Net profit trend (accumulated)



Net interest margin



Financial tables

QUARTERLY PROFIT & LOSS (Btm)	2Q11	3Q11	4Q11	1Q12	2Q12
Interest Income	3,010	3,312	3,342	3,413	3,617
Interest Expense	1,135	1,570	1,823	1,848	1,888
Net interest income	1,875	1,741	1,520	1,566	1,729
Fee & service income	718	728	697	911	924
Other income & MI	247	325	489	256	384
Total non-interest income	964	1,054	1,186	1,167	1,307
Operating inc	2,840	2,795	2,706	2,732	3,036
Operating expenses	1,343	1,258	1,152	1,448	1,420
Operating profit before provision	1,497	1,537	1,554	1,284	1,616
Provisioning charges	328	302	310	269	589
Operating profit after provision	1,168	1,235	1,244	1,016	1,027
Exceptional items	57	39	(74)	76	160
Profit before tax	1,225	1,274	1,170	1,091	1,187
Tax	358	370	481	248	261
Minority Interest	(3.84)	(4.84)	(12.66)	(6.32)	(6.46)
Net profit (loss)	863	899	676	837	920
EPS	1.19	1.24	0.93	1.15	1.27
Core profit	1,135	1,162	1,060	1,030	1,348
Core EPS	1.57	1.60	1.46	1.42	1.86

KEY RATIOS	2Q11	3Q11	4Q11	1Q12	2Q12
Yield on Average Assets (%)	6.11	6.54	6.25	6.02	6.24
Cost of Funds (%)	2.30	3.10	3.41	3.26	3.26
Interest Spread (%)	3.81	3.44	2.84	2.76	2.98
Net Interest Margin (%)	3.91	3.54	2.92	2.89	3.19
Fee income/total operating income (%)	25.3	26.1	25.8	33.3	30.4
BV (Bt)	20.23	21.37	22.48	22.48	22.48
ROE (%)	22.9	23.9	17.0	20.0	22.0
ROA (%)	1.8	1.8	1.3	1.5	1.6
Assets to Equities (X)	13.6	13.4	13.6	13.6	14.3
Cost to Income (%)	47.3	45.0	42.6	53.0	46.8
Est CAR (%)	14.2	14.1	14.1	13.9	14.2

QUARTERLY BALANCE SHEET (Btm)	2Q11	3Q11	4Q11	1Q12	2Q12
Cash & Equivalent	849	980	903	871	793
Interbank & securities	16,882	18,749	30,722	30,899	14,520
Investment in securities	4,426	4,482	3,706	4,769	4,354
Net Loan & accrued interests	171,959	177,298	180,851	190,256	205,499
Other assets	4,305	5,360	4,526	6,176	5,737
Total assets	198,421	206,869	220,709	232,971	230,903
Deposits	35,018	37,914	37,979	41,696	81,428
ST debts, REPO & current portion	142,240	147,254	159,875	165,839	125,904
Long-term debt	0	0	0	0	0
Other liabilities	6,502	6,216	6,565	8,249	7,330
Total liabilities	183,760	191,384	204,420	215,785	214,662
Paid-up capital	7,279	7,279	7,279	7,279	7,279
Share premium	902	829	988	988	988
Retained earnings	6,179	7,078	7,632	8,471	7,664
Shareholders' equity	14,573	15,399	16,199	17,092	16,146
Minority interests	89	87	90	94	95
Total Liab.&Shareholders' equity	198,421	206,869	220,709	232,971	230,903
	0	(0)	(0)	0	(0)

Asset quality

Loan loss reserve (net write-off)	4,605	4,616	4,428	4,524	4,714
Average interest earnings assets	191,927	196,907	207,926	221,501	220,687
Average interest bearing liabilities	177,588	182,878	192,131	203,537	202,886
BV per share	20.23	21.37	22.34	22.48	22.48
ABV per share	20.73	21.87	22.84	22.98	22.98
NPL amounts	2,835	2,274	2,612	2,820	2,761
NPL (%)	1.60	1.20	1.40	1.40	1.30
Equity/loans	8.30	8.51	8.79	8.82	7.73
Equity/NPLs	5.17	6.81	6.24	6.09	5.88

Sources: Company data, Bualuang Research

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Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.