

Tisco Financial Group

(TISCO.BK/TISCO TB)*

Outperform (Maintained)

Price as of 11 Jan 2016	41.0
12M target price (Bt/shr)	48.0
Unchanged / Revised up (down) (%)	-
Upside/downside (%)	17.1%

Key messages

There were a number of good indicators in 4Q15 earnings; i) NPLs edged down slightly, putting less pressure on credit cost and indicates NPLs have already passed their peak, ii) increasing excise tax in January 2016 helped boost domestic car sales and hire-purchase (HP) loans to show positive growth, and the momentum should continue in 1Q16. With earnings growth forecast at 7% and lower than expected provisioning expense at 175bps to provide additional growth upside in 2016, we maintain a rating of Outperform with a target price of Bt48.00.

All fronts better

Event

TISCO posted 4Q15 earnings of Bt1.24bn, up 54% QoQ and 1% YoY, beating our forecast by 18% and the consensus by 6% due to lower-than-expected LLP. Full-year earnings were Bt4.2bn, flat YoY. The solid QoQ growth reflected low base earnings in 3Q15 on provisioning expense for Sahaviriya Steel (SSI.BK/SSI TB), while the YoY growth reflected margin improvement.

Impact

Loan growth turned positive

Loan growth turned slightly positive rising 0.4% QoQ, but was down 9% YoY. Lending was dominated by an increase in hire-purchase (HP) loans at 64% of total loans, as consumers bought cars in advance of the new excise tax adjustment that went into effect January 2016, and momentum should continue in 1Q16 due to late delivery of cars. Meanwhile, the improvement in margin gained pace, improving 10bps QoQ and 70bps YoY.

Softer non-NII on trading loss

On top of non-NII growth contraction, core banking fee improved further 9% QoQ and 7% YoY in 4Q15 due to loan related fees and bancassurance that grew along with the HP loan improvement. However, trading income and forex income showed slight loss.

Lower NPLs triggered lower provisioning expense

Overall gross NPLs edged down a slightly 1.2% QoQ, but rose 26% YoY (due to SSI-Thailand). Excluding SSI, overall NPLs were stable for four straight quarters. Easing NPL pressure resulted in credit cost returning to a normalized level of 150bps in 4Q15.

Valuation and action

TISCO's ability to maintain earnings during tough times and its undemanding valuation have us reiterate a rating of Outperform. Despite no margin improvement in 2016, we forecast net profit growth of 7% assuming loan growth at 2% and credit cost at 175bps (higher than normalized credit cost at 150bps). Our target price of Bt48.00 is based on PE 8.5x and PBV 1.3x.

Risks

Rising NPL to pressure LLP up, loss on portfolio investment.

Key financials and valuations

	Dec-12A	Dec-13A	Dec-14A	Dec-15A	Dec-16F	Dec-17F
Pre-pro. profit (Bt mn)	6,736	9,491	9,744	10,566	10,422	10,937
Pretax profit (Bt mn)	4,814	5,349	5,318	5,288	5,850	6,364
Net income (Bt mn)	3,705	4,249	4,250	4,250	4,657	5,067
EPS (Bt)	5.09	5.31	5.31	5.31	5.72	6.22
DPS	2.4	2.0	2.0	2.1	2.3	2.5
EPS Growth (%)	13.4	4.4	(0.1)	0.0	7.8	8.8
Dividend Yield (%)	4.6	5.2	4.4	5.1	5.5	6.0
P/E (x)	10.22	7.25	8.57	7.82	7.25	6.67
P/BV (x)	2.08	1.34	1.42	1.20	1.11	1.02
ROAA (%)	1.5	1.4	1.2	1.2	1.5	1.5
ROAE (%)	21.4	20.4	15.0	15.0	16.2	16.2

Source: KGI Research

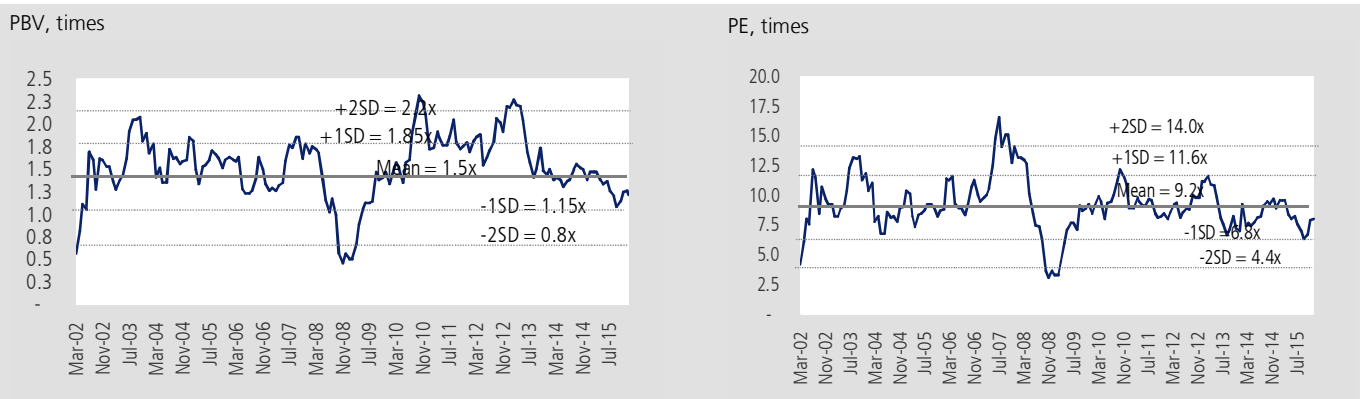
Figure 1: TISCO's quarter earnings

Bt mn	4Q15	3Q14	% ch YoY	3Q15	QoQ	2014	2015	% chg Y-o-Y
NII	2,665	2,396	11.2	2,617	1.8	9,540	10,130	6.2
Non-NII	1,353	1,687	(19.8)	1,526	(11.3)	6,296	6,162	(2.1)
Total revenue	4,018	4,083	(1.6)	4,143	(3.0)	15,835	16,292	2.9
Opex	1,579	1,671	(5.6)	974	62.0	6,091	5,726	(6.0)
PPOP	2,439	2,411	1.2	3,168	(23.0)	9,744	10,566	8.4
LLP	896	883	1.6	2,166	(58.6)	4,426	5,277	19.2
Income tax	301	297	1.3	197	52.8	1,043	1,032	(1.1)
MI	(1.6)	(2.0)	(22.3)	(3.9)	(60.3)	25	6	(77.3)
Net profit	1,244	1,234	0.8	810	53.6	4,250	4,250	0.0
EPS (Bt/sh)	1.6	1.54	0.8	1.0	53.6	5.3	5.3	0.0
BV (Bt/sh)	35.1	32.1		33.5				
Key figures & ratios								
Loan (Bt bn)	238.8	263.3	(9.3)	237.8	0.4	263.3	238.8	
Deposit & Bor (Bt bn)	232.6	270.8	(14.1)	238.5	(2.5)	270.8	232.6	
LDR (incl. borrowing)	111.6	106		108.4		105.6	111.6	
Gross NPLs (Bt bn)	7.7	6.8	14.1	7.8	(1.8)	6.8	7.7	
% to loans	3.2	2.6		3.3		2.6	3.2	
NPL coverage (%)	88.2	103		82.1		103	88	
Credit cost (bps)	150.1	134		364.3		160	216	
Asset yield (%)	5.1	4.9		5.2		5.4	5.1	
Cost of fund (%)	2.1	2.7		2.4		3.2	2.5	
NIM (%)	3.3	2.6		3.2		2.7	3.1	
Cost-to-income (%)	39.3	40.9		23.5		38.4	35.2	
ROAA (%)	1.7	1.5		1.1		1.3	1.4	
ROAE (%)	18.4	20.1		12.5		18.5	16.4	

Source: Company data, KGI Research estimates

QoQ growth jump reflected low base earnings in 3Q15 from huge provisioning expense.

Regarding huge personnel expense cut in 3Q15, this expense item turned back to normal level in 4Q15

Figure 2: Bank sector - Trailing valuation


Source: SET, KGI Research

Peer comparison – Key valuation stats

Bank	Rating	Target Price		Upside (%)	Target PBV (x)	EPS (Bt)			EPS growth (%)			PE (x)			PBV (x)			Div yield (%)		ROAE (%)		
		Price Bt	Mkt Price Bt			14	15F	16F	15F	16F	14	15F	16F	14	15F	16F	14	15F	14	15F	16F	
BBL*	N	195.00	145.50	34.0	1.0	169.5	19.0	18.9	18.0	(0.8)	(4.8)	7.7	7.7	8.1	0.9	0.8	0.7	4.5	4.9	11.7	11.2	11.0
KBANK*	N	187.00	147.50	26.8	1.5	107.5	19.3	17.2	17.9	(10.7)	3.9	7.7	8.6	8.2	1.4	1.2	1.1	2.7	2.9	19.4	15.1	14.5
KKP*	OP	40.50	36.00	12.5	0.9	42.8	3.1	3.2	4.2	1.6	32.6	11.6	11.4	8.6	0.8	0.8	0.8	5.1	4.4	7.5	11.2	11.0
KTB*	N	18.30	15.70	16.6	1.0	16.6	2.4	2.1	2.2	(13.0)	6.3	6.6	7.6	7.1	0.9	0.9	0.8	5.7	4.5	15.1	12.4	12.5
SCB*	UP	140.00	113.50	23.3	1.5	84.2	15.7	13.0	14.0	(17.2)	7.9	7.2	8.7	8.1	1.3	1.2	1.1	4.0	3.4	20.1	14.7	14.8
TCAP*	N	36.00	36.75	(2.0)	0.8	40.2	4.0	4.1	4.4	3.3	6.3	9.2	8.9	8.3	0.9	0.9	0.8	4.4	5.1	10.4	12.6	12.2
TISCO*	OP	48.00	40.50	18.5	1.3	32.1	5.3	5.3	5.7	0.1	7.8	7.6	7.6	7.1	1.3	1.2	1.1	4.9	5.2	16.3	15.0	16.5
TMB*	N	2.64	2.28	15.8	1.4	1.68	0.2	0.2	0.2	(12.5)	9.5	9.5	10.9	9.9	1.4	1.3	1.2	2.6	2.8	14.8	13.1	14.1

Source: KGI Research

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Rating	Definition
Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
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Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.

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