

TISCO FINANCIAL GROUP PLC

No. 48/2018
25 April 2018

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
30/04/13	A-	Stable
13/05/11	A-	Positive

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RATIONALE

TRIS Rating affirms the company rating of TISCO Financial Group PLC (TISCO) at “A-” with “stable” outlook. The rating reflects TISCO’s creditworthiness as the holding company of TISCO Group whose main operating asset is TISCO Bank PLC (TISCOB) through a 99.99% equity stake. The rating is based on the stable stream of dividends it receives from TISCOB which has a strong market position in automobile hire-purchase lending. The rating also takes into consideration its diverse sources of income and strengthened capital base. These strengths, however, are constrained by TISCOB’s small market shares in loans and deposits, concentrated exposure in automobile hire-purchase (HP) loans, and reliance on wholesale funding.

KEY RATING CONSIDERATIONS

A financial institution non-operating financial holding company (NOHC)

TISCO’s company rating is one notch lower than that of its core bank subsidiary, TISCOB (“A”). This difference reflects the structural subordination of TISCO’s obligations to those of TISCOB, TISCO’s dependence on dividends from TISCOB, and the risk of regulatory barriers surrounding payment of dividends from TISCOB.

Diverse sources of income

TISCO has a relatively stable business profile based on its diverse business lines, comprising commercial banking, non-bank lending, securities brokerage and investment banking, and asset management.

The group ranked 8th among 11 listed Thai commercial banks based on consolidated asset size in 2017. Market share in loans was 2.2% and market share in deposits was 1.6%. The group’s net interest and dividend income was 62.9% and non-interest income was 37.1% of total revenue in 2017. Net fee and service income was 33.2% of total revenue, comprising mainly fees from bancassurance, securities brokerage, and fund management.

Acquired retail business from SCBT enhances business positions

TISCO acquired the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT) in 2017. This entailed a transfer of Bt33.7 billion of loan assets and Bt14.6 billion of deposits to TISCOB and All-Ways Co., Ltd., a subsidiary of TISCO. Around Bt31.4 billion were retail loans comprising mortgages, home-equity, personal, and credit-card loans¹. The remaining Bt2.2 billion were loans to small and medium-sized enterprises (SMEs).² The majority of deposits were retail current accounts and savings accounts (CASA).

The acquired business fits TISCO’s strategic push in retail banking, whilst gradually expanding its lending to other segments. An instant reach to a larger pool of mortgage and home-equity borrowers and depositors enhances the group’s competitive position in retail banking. TISCO expects to draw the new customer base to a range of banking and wealth management products.

A more diverse portfolio also helps lessen the group’s reliance on HP lending. At the end of 2017, HP loans accounted for 50.6% of total loans, down from

¹ Credit-card loans are transferred to All-Ways Co., Ltd. Subsequently in Q1/2018, TISCOB and All-Ways Co., Ltd. signed the agreement for the sale of personal loan portfolio and credit card business to Citibank N.A (Bangkok branch).

² These loans were largely small-sized SMEs.

61.1% a year earlier. Lending to corporate and SMEs was, respectively, 20.1% and 6.0%. Housing loans accounted for 8.3% of total loans, up from 0.4% a year earlier. At the same time, TISCO continues to capitalise on its expertise in auto lending on high-growth car-pledged loans.

Strong capital and earnings

TISCO has a strong capital position. The group's Basel-III compliant core equity tier-1 ratio was 14.96%, accounting for 77% of total capital at the end of 2017. TRIS Rating views the capital position is sufficient to support business expansion in the next few years, given a dividend payout in the range of 50-60%.

TISCO's earnings capacity is sufficient to withstand potential volatility across the business cycle. The group's profitability has outperformed its Thai bank peers as indicated by the ratios of its return on average asset (ROAA) of 2.13% in 2017. Contribution from fee and service income was above the average of Thai commercial banks. On a risk-adjusted basis, the bank's net interest margin (NIM) has been well above industry standards over recent years.³

Asset quality improves

TISCO's asset quality is on an improving trend. The group's credit cost lowered to 1.3% in 2017 after its peak of 2.1% in 2015. TISCO continues to add to its excess reserves for loan losses to mitigate the provisioning risk from an IFRS9 implementation.⁴ The non-performing loan (NPL) coverage ratio improved significantly to 183.6% at the end of 2017 from a low 80.1% at the end of 2015.

Despite the addition of SCBT portfolios with higher NPL ratios, the group's total NPL ratio continued on its downward trend. This was driven by a reduction of NPLs in HP and corporate lending. NPL ratio⁵ fell to 2.32% in 2017 from 3.22% in 2015, a respectable figure for Thai banks.

High reliance on wholesale funding

TISCO's rating remains constrained by its weak funding profile. Small-sized Thai banks tend to have a relatively low proportion of sticky retail deposits and a high reliance on wholesale funding. A large share of borrowings reflects TISCO's strategy towards more flexible funding sources.

Notwithstanding, an addition of new retail deposits from SCBT enhances the group's funding. Deposits as a percentage of total funding rose to 70.7% at the end of 2017, from 67.3% the previous year. CASA to total deposits were also up from 35.9% to 37.8% in that period. The loan-to-deposit ratio was down to 139.4% from 145.4%, still well above the Thai bank average.

RATING OUTLOOK

The "stable" outlook reflects the expectation that the group will maintain its strong competitive position in retail banking and a strong capital and earnings position.

RATING SENSITIVITIES

The rating could be revised downward in the case of a sustained period of substantially weakened profitability and severe deterioration of asset quality. A rating upgrade will depend on TISCOB's ability to sustainably gain market shares, significantly diversify its loan portfolio, and materially improve its funding capability.

COMPANY OVERVIEW

TISCO was established in 2008 as a holding company, replacing TISCOB as the parent company of the TISCO Group. The change took place after the holding company restructuring plan, under the consolidated supervision scheme, was approved by the Bank of Thailand (BOT) in November 2008. TISCO made a tender offer for 99.99% shares of TISCOB in exchange for its own newly-issued shares. The swap ratio was 1:1. TISCO commenced operations on 1 January 2009, with registered capital of Bt11 billion and paid-up capital of Bt7.2 billion. On 15 January 2009, TISCO was listed on the Stock Exchange of Thailand (SET) as TISCOB was simultaneously delisted from the SET. TISCO later acquired 99.99% shares of TISCOB and its subsidiaries (i.e., TISCO Securities Co., Ltd., (TSC), TISCO Asset Management Co., Ltd. (TISCOASSET), Hi-Way Co., Ltd. (Hi-Way), TISCO Insurance Solution Co., Ltd., and TISCO Information Technology Co., Ltd. (TISCOIT). As of December 2017, TISCO's issued and paid-up capital was Bt8 billion.

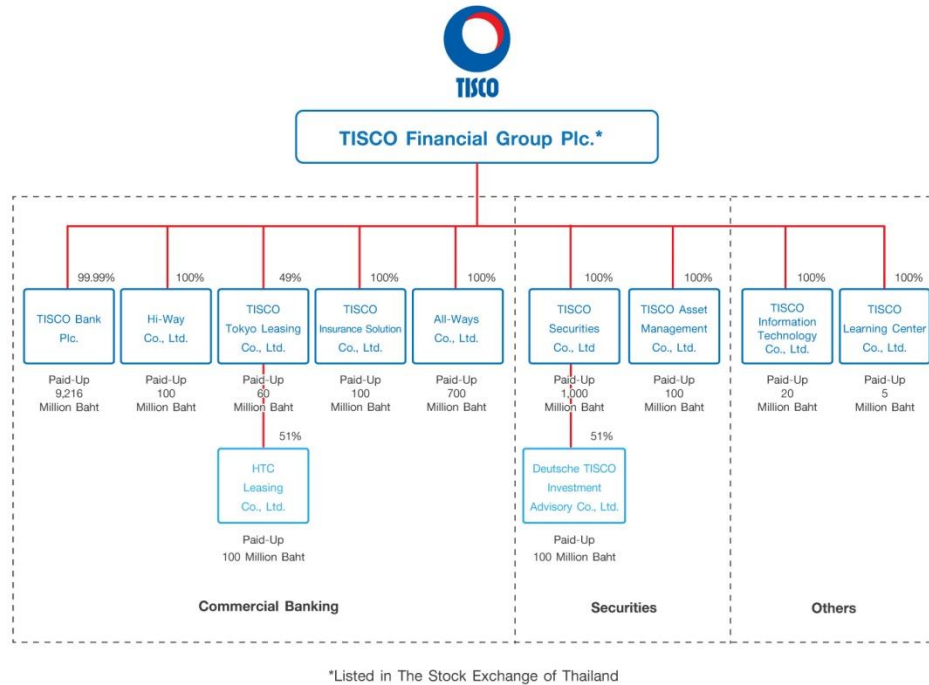
³ This is net interest income less credit cost divided by average earnings assets.

⁴ Scheduled for implementation on 1 Jan 2019.

⁵ Excluding interbank.

TISCO Group has entered into an agreement to acquire the retail banking business of SCBT in 2016. Towards the end of 2017, the group completed the transfer. The transaction entailed transfers of loan assets and liabilities from SCBT’s retail banking operation to TISCOB and All-Ways.

Table 1: TISCO Group Structure



Source: TISCO

TISCOB is the core bank of the TISCO Group. TISCOB, formerly named “TISCO Finance PLC”, was established in 1969 as a finance company. TISCOB was listed on the SET in 1983. In October 2004, TISCOB received approval from the Ministry of Finance (MOF) to upgrade its status to a commercial bank. TISCOB commenced banking operations on 1 July 2005 and changed its name to “TISCO Bank PLC”.

TSC, formerly named “Thai Securities Co., Ltd.”, was founded in 1975 as a subsidiary of the TISCO Group. TSC provides securities brokerage and investment banking services. In March 2011, TISCO Investment Advisory Co., Ltd. (TISCOIA) was established. TISCOIA was later renamed Deutsche TISCO Investment Advisory (DTIA), after TSC partnered with Deutsche Bank in 2012. TSC holds a 51% stake in DTIA, while the remainder is owned by Deutsche Bank. DTIA was granted approval from the MOF and the Securities and Exchange Commission (SEC) to operate an investment advisory business.

TISCOASSET, a fund management subsidiary, was established in 1992. TISCOASSET offers a complete line of asset management services, including provident funds, private funds, and mutual funds.

In 2017, TISCO, its commercial banking operation, contributed more than 87% of TISCO’s total net interest income and non-interest income. The remaining portion of TISCO’s revenue came from its other subsidiaries and affiliates in securities brokerage and asset management businesses - TISCOASSET, TSC, and Hi-Way.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Bt million

	Year Ended 31 December				
	2017	2016	2015	2014	2013
Total assets	303,388	271,272	280,294	317,674	353,406
Average Assets	287,330	275,783	298,984	335,540	321,952
Investment in securities	8,121	7,632	8,617	15,003	11,647
Loans and receivables	252,099	225,455	238,802	263,356	286,951
Allowance for doubtful accounts	11,456	7,984	6,168	6,950	6,331
Deposits	180,804	155,068	158,344	205,589	264,642
Borrowings ²	75,096	75,526	84,549	76,099	55,267
Shareholders' Equities	34,732	31,326	28,194	25,824	23,054
Average Equities	33,029	29,760	27,009	24,439	20,717
Net interest income	11,655	10,920	10,130	9,540	8,817
Non-interest income ³	6,871	5,866	6,011	5,816	6,101
Total revenue	18,526	16,786	16,141	15,355	14,918
Operating expenses ⁴	7,784	6,570	5,575	5,611	5,429
Pre-provision operating profit (PPOP)	10,742	10,216	10,566	9,744	9,490
Impairment losses on loans and securities	3,098	3,972	5,277	4,426	4,141
Net income	6,117	5,023	4,256	4,274	4,308
Net fee and service income	6,146	5,167	5,057	4,976	5,191
Gains on investments	42	13	129	264	354

1 Consolidated financial statements

2 Including interbank and money market

3 Net of fees and service expense

4 Excluding fees and service expense

Unit: %

	Year Ended 31 December				
	2017	2016	2015	2014	2013
Earnings					
Return on average assets	2.13	1.82	1.42	1.27	1.34
Interest spread	3.71	3.65	3.08	2.52	2.43
Net interest margins	4.03	3.96	3.39	2.84	2.75
Net interest income/average assets	4.06	3.96	3.39	2.84	2.74
Non-interest income ⁵ /average assets	2.48	2.21	2.08	1.80	1.97
Net fee and service income/total revenue	33.17	30.78	31.33	32.40	34.80
Cost-to-income	42.02	39.14	34.54	36.54	36.39
Capitalisation					
CET-1 ratio ⁶	14.96	13.77	12.71	11.31	n.a.
Tier-1 ratio ⁶	14.96	13.77	12.71	11.31	9.13
BIS ratio ⁶	19.39	18.36	16.48	15.27	13.26
CET-1/BIS ratio ⁶	77.15	75.00	77.12	74.07	n.a.
Asset Quality					
Credit costs	1.30	1.71	2.10	1.61	1.55
Non-performing loans/total loans ⁷	1.97	2.17	2.86	2.24	1.46
Non-performing assets/total assets	3.28	3.84	3.82	2.26	1.35
Allowance for loan losses /non-performing loans	183.55	131.19	80.10	102.97	127.48
Funding & Liquidity					
CASA/total deposits ⁸	36.29	34.54	31.10	24.72	15.96
Loan/total deposits ⁸	133.90	140.00	144.48	123.47	105.92
Deposits ⁸ /total liabilities	70.08	67.11	65.56	73.08	82.01
Liquid assets/total deposits ⁹	27.83	27.92	23.16	24.12	23.26
Liquid assets/short-term liabilities ¹⁰	20.69	19.97	16.59	19.01	20.42

5 Net of fee and service expenses

6 Consolidated basis

7 Including interbank; excluding accrued interests

8 Including bills of exchange

9 Including bills of exchange and interbank borrowing

10 Financial liabilities with maturity less than one year

n.a. Not available

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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