

TISCO FINANCIAL GROUP PLC

No. 59/2019
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FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 25/04/18

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 on TISCO Financial Group PLC (TISCO) at “A-” with a “stable” outlook. The rating reflects TISCO’s creditworthiness as a non-operating holding company of TISCO Group, whose main operating asset is TISCO Bank PLC (TISCOB) through a 99.99% equity stake, and the stable stream of dividends it receives from TISCOB. The rating also reflects diverse sources of income, stable franchise in auto lending, and strong capital and earnings. These strengths, however, are constrained by relatively modest banking operations, and a moderately high reliance on wholesale funding.

KEY RATING CONSIDERATIONS

A non-operating financial holding company (NOHC)

TISCO’s company rating is one notch lower than that of its core bank subsidiary, TISCOB (rated “A/Stable” by TRIS Rating). 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

Our assessment of TISCO’s business risk reflects its diverse business lines and earnings sources. The group’s key businesses comprise commercial banking, securities brokerage, investment banking, and asset management. Share of net fee and service income to total revenue of TISCO has been relatively high for a Thai commercial banking group. The figure stood at 30.4% in 2018, comprising mainly fees from bancassurance, securities brokerage, and fund management. Further, non-interest income made up 37.0% of TISCO’s total revenue in 2018.

Modest commercial bank franchise with strength in auto lending

The TISCO Group is a major provider of auto hire-purchase lending. According to TRIS Rating’s database, TISCO secured 8.6% of market share in 2017, ranking 4th out of 18 hire-purchase lenders in Thailand. However, TISCOB is a smaller-sized Thai commercial bank based on its consolidated asset size. Market share in loans was 2% and market share in deposits was 1.6% out of 11 listed Thai commercial banking groups.

Auto lending still dominates retail banking

We expect TISCO to continue capitalising on its expertise in auto lending and high-growth segment of auto title loans. The title loan segment includes loans booked at TISCOB and the loans booked at TISCO’s subsidiary Hi-Way Co., Ltd., under the brand “Somwang Ngern Sang Dai”. Altogether, the title loan segment grew at a compound annual growth rate (CAGR) of 18.5% over the past three years.

TISCOB’s initial strategy to diversify into other retail banking segments by acquiring the retail banking business from Standard Chartered Bank (Thai) PLC (SCBT) in 2017 appeared to be a positive move. The acquisition provided TISCOB an instant reach to a larger pool of retail loan customers, including credit card, personal loans, mortgage and home-equity loans, and retail depositors. This has helped enhance the Group’s retail banking franchise to some extent. While the recent sale of the acquired credit card and personal loans may limit the prospects for TISCOB’s retail banking expansion, we believe

it also helps limit credit risk for the bank.

Solid capital

In our opinion, TISCO's capital ratio is high relative to other Thai commercial banks. We forecast TISCOB's Basel-III compliant core equity tier-1 (CET-1) ratio in a range of 17%-18% over the next three years, sufficient to support its business expansion. We also assume the bank's annual loan growth of around 5%, and a dividend pay-out ratio in the range of 65%-75% over the same period. Its CET-1 ratio accounted for 78% of total capital at the end of 2018, indicating an average quality of capital.

Healthy earning supports capital

We expect TISCO to maintain its high profitability and diversified sources of earnings sufficient to withstand potential volatility across a business cycle. Healthy risk-adjusted net interest margin (NIM) and low operating expenses support the Group's healthy profitability. Moreover, contributions from fees and service income were above the average of Thai commercial banks.

TISCO's return on average asset (ROAA) was 2.3% in 2018, above the Thai commercial bank average of 1.3%. We expect TISCO to maintain its high NIM on a risk-adjusted basis in a range of 3.4%-3.5%, to reflect contributions from high-yield segments, a sale of its personal loan portfolio, and lower credit costs. The risk-adjusted NIM of TISCO was 3.2% in 2018, well above industry standards of 2.1%.¹ We also forecast its cost-to-income ratio in a range of 44%-45%, to reflect its planned investments in information technology (IT) system over the next three years.

Good asset quality

We think TISCO will be able to maintain a generally good asset quality. We factor in its prudent risk management and cautious loan growth strategy, which led to a relatively low non-performing loan (NPL) ratio and healthy loan-loss provision. The Group's reported NPL at the end of 2018 was 2.86%, up from 2.32%, reflecting in part a temporary effect from an internal NPL reclassification due to an upgrade in its revenue recognition system for its instalment loans, comprising mortgage, auto-cash, and hire purchase (HP) lending. The reclassification resulted in higher NPLs of instalment loans, but TISCO expects the figure to normalise by mid-2020 after the system upgrade is complete.

We also expect the pressure on TISCO's asset quality to remain relatively contained over the next three years. This is due to its relatively small exposure to vulnerable segments such as small and medium enterprises (SMEs) and mortgage lending as well as zero exposure to unsecured lending, i.e. credit cards and personal loans. The majority of its HP lending is captive-financing for new cars with an overall good asset quality.

High reliance on wholesale funding

TISCO's funding reflects that of smaller-sized Thai commercial banks, with a relatively low proportion of sticky retail deposits. TISCO's deposit as a percentage of total funding rose to 76.3% at the end of 2018, from 70.7% in the previous year. Current account-savings account (CASA) to total deposits was also down to 29.6% from 37.8% over the same period, as fixed deposits grew. The loan-to-deposit ratio was down to 125% in 2018 from 139% in the prior year, remaining above the Thai commercial bank's average. However, we notice a recent growth in terms of deposits away from wholesale funding. We believe the move was to comply with net stable funding ratio (NSFR) requirements by the Bank of Thailand (BOT) and to lock in long-term funding costs.

Adequate liquidity

TISCO's liquidity is adequate. The liquid asset to total asset ratio was 21.2% at the end of 2018, comparable to other Thai banks. The liquidity coverage ratio (LCR) is above the regulatory requirement², but weaker than the 158% average for smaller banks and 183% for commercial banks reported by the BOT.

BASE-CASE ASSUMPTIONS

The following are our assumptions for TISCO's performance during 2019-2021:

- Loan growth at 5%-5.5%
- Credit cost of 0.6%-0.8%
- NPL ratio of 2.3%-2.6%
- CET-1 ratio (TISCOB) of 17%-18%
- Risk-adjusted NIM at 3.4%-3.5%

¹ This is net interest income less credit cost divided by average earnings assets.

² The regulatory requirement of a liquidity coverage ratio (LCR) is 90% in 2019 and 100% in 2020.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TISCO will maintain its strength in auto lending, good asset quality, high earnings capacity, and strong capital.

RATING SENSITIVITIES

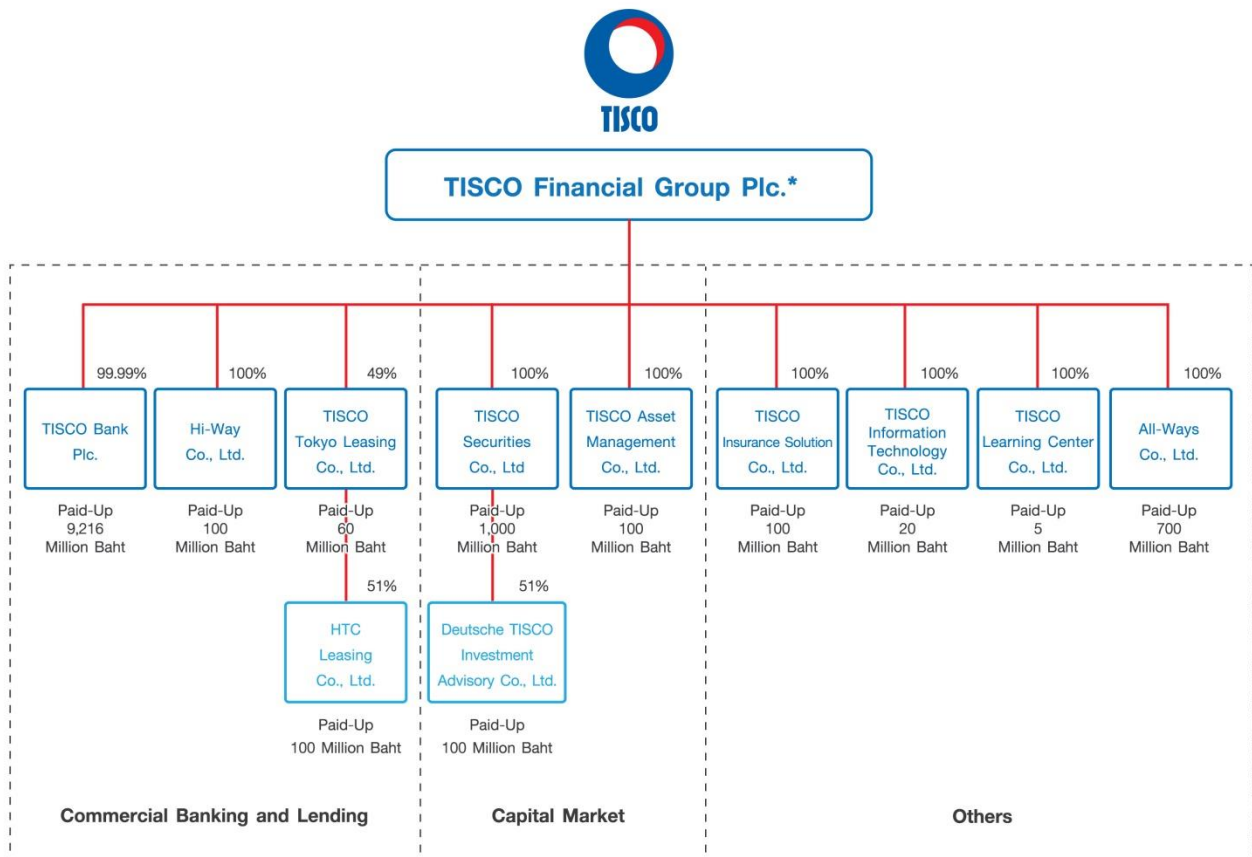
A rating upgrade will depend on TISCO’s ability to sustain its strong capital, diversify its banking businesses, and/or improve its funding. We could revise a rating downward if there is material weakness in TISCO’s asset quality, capital, and/or profitability.

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’s 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 Leasing Co., Ltd. (TISCOL), and TISCO Information Technology Co., Ltd. (TISCOIT). As of December 2017, TISCO’s issued and paid-up capital was Bt8 billion.

TISCO Group 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 Co., Ltd.

Table 1: TISCO Group Structure



*Listed in The Stock Exchange of Thailand

Source: TISCO’s company website

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.

In the same year, TISCO acquired the retail banking business of SCBT. 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 loans. The remaining Bt2.2 billion were loans to small and medium-sized enterprises (SMEs). The majority of deposits were retail current accounts and savings accounts (CASA).

In 2018, TISCOB and All-Ways Co., Ltd., respectively, completed a sale of personal loan portfolios and credit card business to Citibank N.A., Bangkok Branch. The combined portfolios totalled an approximate of Bt5.2 billion.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	302,545	303,388	271,272	280,294	317,674
Average assets	302,967	287,330	275,783	298,984	335,540
Investment in securities	9,812	8,121	7,632	8,617	15,003
Loans and receivables	241,297	252,099	225,455	238,802	263,356
Allowance for doubtful accounts	11,674	11,456	7,984	6,168	6,950
Deposits	193,108	180,804	155,068	158,344	205,589
Borrowings ²	59,932	75,096	75,526	84,549	76,099
Shareholders' equities	37,829	34,732	31,326	28,194	25,824
Average equities	36,281	33,029	29,760	27,009	24,439
Net interest income	12,615	11,655	10,920	10,130	9,540
Non-interest income ³	7,418	6,871	5,866	6,011	5,816
Total revenue	20,033	18,526	16,786	16,141	15,355
Operating expenses ⁴	8,753	7,784	6,570	5,575	5,611
Pre-provision operating profit (PPOP)	11,280	10,742	10,216	10,566	9,744
Impairment losses on loans and securities	2,701	3,098	3,972	5,277	4,426
Net income	6,915	6,117	5,023	4,256	4,274
Net fee and service income	6,095	6,146	5,167	5,057	4,976
Gains on investments	496	42	13	129	264

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 -----				
	2018	2017	2016	2015	2014
Earnings					
Return on average assets	2.28	2.13	1.82	1.42	1.27
Interest spread	3.78	3.71	3.65	3.08	2.52
Net interest margins	4.12	4.03	3.96	3.39	2.84
Net interest income/average assets	4.16	4.06	3.96	3.39	2.84
Non-interest income ⁵ /average assets	2.45	2.39	2.13	2.01	1.73
Net fee and service income/total revenue	30.43	33.17	30.78	31.33	32.40
Cost-to-income	43.69	42.02	39.14	34.54	36.54
Capitalisation					
CET-1 ratio ⁶	16.75	14.96	13.77	12.71	11.31
Tier-1 ratio ⁶	16.75	14.96	13.77	12.71	11.31
BIS ratio ⁶	21.46	19.39	18.36	16.48	15.27
CET-1/BIS ratio ⁶	78.08	77.15	75.00	77.12	74.07
Asset Quality					
Credit costs	1.10	1.30	1.71	2.10	1.61
Non-performing loans/total loans ⁷	2.86	2.32	2.54	3.23	2.57
Non-performing assets/total assets	2.40	3.28	3.84	3.82	2.26
Allowance for loan losses /non-performing loans	160.60	183.55	131.19	80.10	102.97
Funding & Liquidity					
CASA/total deposits ⁸	28.73	36.29	34.54	31.10	24.72
Loan/total deposits ⁸	121.26	133.90	140.00	144.48	123.47
Deposits ⁸ /total liabilities	75.17	70.08	67.11	65.56	73.08
Liquid assets/total deposits ⁹	31.61	27.83	27.92	23.16	24.12
Liquid assets/short-term liabilities ¹⁰	28.01	23.65	22.45	18.53	19.51

5 Net of fee and service expenses

6 Consolidated basis

7 Based on reported NPL ratio

8 Including bills of exchange

9 Including bills of exchange and interbank borrowing

10 Financial liabilities with maturity less than one year

RELATED CRITERIA

- Commercial Banks, 30 March 2017
- Group Rating Methodology, 10 July 2015

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

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