

TISCO FINANCIAL GROUP PLC

No. 62/2024
24 April 2024

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 18/04/23

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. As a non-operating holding company (NOHC) of TISCO Group, the rating on TISCO is one notch below the group credit profile (GCP), assessed at “a”. This reflects the degree of structural subordination of TISCO’s obligations to its operating subsidiaries’ obligations.

Our assessment of the GCP of TISCO Group is based on the consolidated credit profile of TISCO Bank PLC (TISCOB, rated “A/Stable”) and other operating entities. The GCP largely reflects TISCOB’s credit profile as the bank’s assets represent more than 90% of the group’s total assets.

KEY RATING CONSIDERATIONS

Structural subordination due to NOHC status

TISCO operates the commercial banking business through its wholly-owned banking subsidiary, TISCOB, whose consolidated assets represent around 95% of the group’s consolidated assets. Other key operating entities under the TISCO Group comprise TISCO Asset Management Co., Ltd. (TISCOAM) and TISCO Securities PLC (TISCO Sec).

The rating assigned to TISCO is one notch below the GCP of TISCO Group. This reflects the structural subordination of TISCO’s obligations to those of its subsidiaries regarding claims against the operating assets at subsidiary level.

As an NOHC, TISCO relies on dividends mainly from TISCOB to service its debt. There is also the risk of potential regulatory intervention surrounding payments of dividends from TISCOB to TISCO in a stress scenario.

Diversifying away from new auto loans

TISCO ranks as the fifth largest auto lender among Thai commercial banks. Its outstanding auto loans, comprising both auto hire purchase (HP) and auto title loans, amounted to THB149 billion at end-2023, up 1.3% year-on-year (y-o-y) increase.

With its selective growth strategy since 2020, TISCO has been scaling back its new auto HP lending while diversifying further into auto title loans under the “Somwang” brand. This was due to its focus on high risk-adjusted return lending.

TISCO also reported decent growth in its corporate loans, rising to THB59 billion by the end of 2023 from THB44 billion at the end of 2022 with the focus still on property and utility segments.

Strong capital position

TISCO’s capital position remains its key rating strength, thanks to solid earnings accumulation and loan contraction in 2018-2021.

Consolidated common equity Tier-1 (CET-1) ratio stood at 16.3% at end-2023, a slight decrease from 17.2% at end-2022. The decline was attributed to its resumption of loan growth since late 2022 and high dividend payout policy. Despite the decline, its CET-1 ratio remains higher than the industry average of 16%.

Given TISCO’s prudent business strategy, we believe TISCO will continue to maintain its strong capitalization and efficiently manage credit risk over the

next three years. We project TISCO's CET-1 ratio to decline moderately to the 15%-16% range in 2024-2026, assuming 3%-4% loan growth per annum and a high level of dividend payout ratio.

Strong profitability

TISCO's earnings capacity, measured by return on average assets (ROAA), remains the highest among Thai commercial banks. The company's ROAA was 2.6% in 2023, compared with the industry average of 1.1%. TISCO's strong profitability is underpinned by its stringent underwriting criteria which focuses on risk-adjusted returns.

Despite higher funding costs compared with major commercial banks, TISCO's risk-adjusted net interest margin (NIM), at 4.8% in 2023, was well above the industry average of 2.2%. This has been a result of lower credit cost, evidenced particularly during the recent asset quality deterioration seen across the banking sector. TISCO has managed to mitigate credit risk more effectively compared with its peers, thanks to its conservative growth strategy over the past few years.

We project TISCO's ROAA to range between 2.3%-2.4% in 2024-2026. In our base-case scenario, we expect TISCO to maintain its NIM at around 5% over the next three years. This will be supported by a higher proportion of high-yielding loans and its well-managed funding costs. However, given the persistently uneven economic recovery and weakened credit profile of borrowers, we expect TISCO's credit cost to increase to 0.5%-0.8% of average loans, gradually increasing from 0.2%-0.3% of average loans in 2022-2023.

Prudent risk management policy

We consider TISCO to have a prudent risk management framework which places strict emphasis on risk-adjusted returns. This has led to the contraction of its auto loan portfolio in recent years. Its prudent risk management is evidenced by the relatively low non-performing loan (NPL) ratio of 2.2% at end-2023, compared with the industry average of 2.7%. We expect TISCO to maintain its manageable asset quality, thanks to the cautious growth strategy. However, we expect TISCO's NPL ratio to slightly increase to the 2.5%-2.6% range in 2024-2025 due to the waning debt serviceability of retail customers.

TISCO has strong reserves to cushion against uncertainty with a robust loan loss coverage ratio of around 190% at end-2023, compared with the industry average of 179%. This could mean a lower provisioning risk for TISCO in the medium term.

Reliance on high-cost deposit

TISCO's funding profile is likely to remain moderate, similar to other non-domestic systemically important banks (non-DSIB). As of end-2023, total deposits constituted around 80% of TISCO's total funding. While this proportion was below the 90% average observed among major commercial banks, we believe the overall funding structure of TISCO aligns well with its loan composition. With fixed-rate auto loans representing 63% of total loans as of end-2023, TISCO's reliance on wholesale funding and term deposits helps mitigate asset-liability mismatches.

Sufficient liquidity

TISCO's liquidity position mirrors that of TISCOB, which we consider adequate. The liquidity coverage ratio (LCR) stood on average at 150% as of the second quarter of 2023 (2Q23). While this is considered moderate compared with other banking peers, it comfortably exceeds the minimum regulatory requirement of 100%. The ratio of liquid assets to total deposits was at 26.3% at end-2023, while short-term wholesale funding was at a healthy 1.5 times.

BASE-CASE ASSUMPTIONS

The following are our base-case assumptions for TISCO in 2024-2026:

- Loan growth: 3%-4% per annum
- Net interest margin: 5%
- Cost-to-income: 48%-49%
- Credit cost: 0.5%-0.8%
- NPL ratio (excluding interbank assets): 2.5%-2.6%
- NPL formation rate: 1%-1.4%
- CET-1 ratio: 15.2%-15.7%

RATING OUTLOOK

The "stable" outlook reflects our expectation that TISCO will maintain its strong earnings capability and relatively strong franchise in auto lending, well-managed asset quality, and strong capital.

RATING SENSITIVITIES

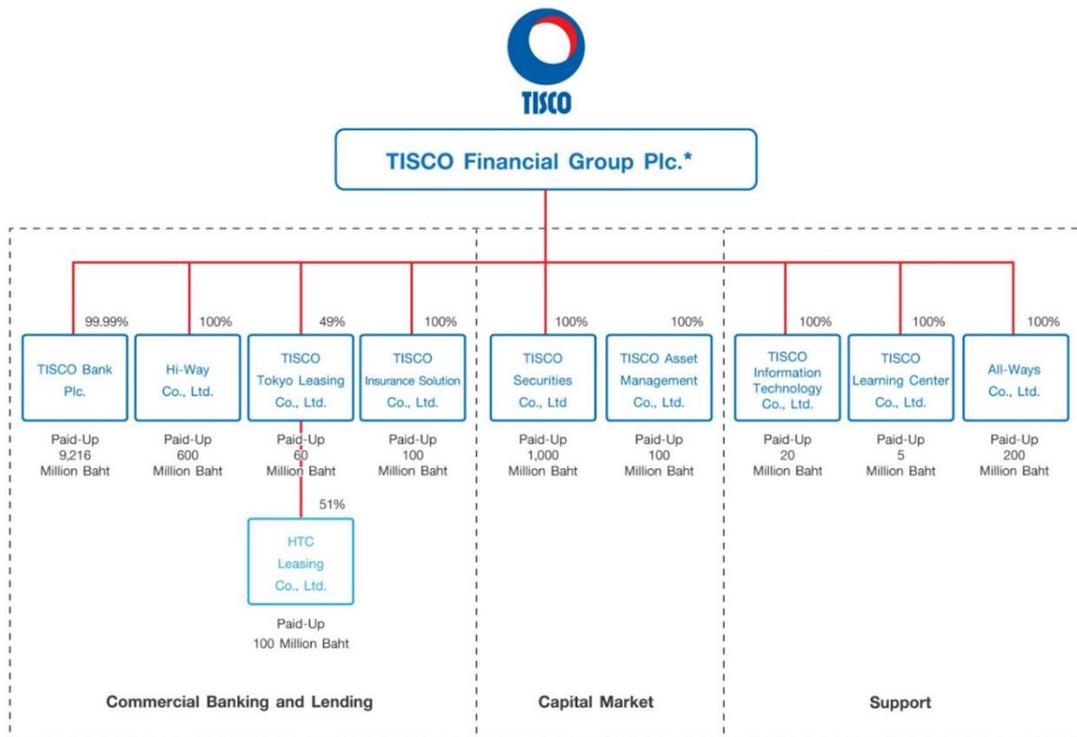
A rating upgrade will depend on TISCO’s ability to at least maintain its franchise relative to the industry and further diversify asset mix and revenue structure. Also, a strong asset quality and capital position should be maintained, while funding profile notably improves. A downgrade scenario could emerge if there were any material weaknesses in TISCO’s asset quality, capital, and 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 THB11 billion and paid-up capital of THB7.2 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 THB8 billion.

The TISCO Group entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (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. (All-Ways).

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 Co., Ltd. (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, TISCOB, its commercial banking operation unit, 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 THB33.7 billion of loan assets and THB14.6 billion of deposits to TISCOB and All-Ways, a subsidiary of TISCO. Around THB31.4 billion were retail loans comprising mortgages, home-equity, personal, and credit-card loans. The remaining THB2.2 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, respectively, completed a sale of personal loan portfolios and credit card business to Citibank N.A., Bangkok branch. The combined portfolios totaled an approximate THB5.2 billion.

On 4 September 2019, TISCO and TISCOS, which is a subsidiary in the TISCO Group, signed an agreement to terminate the joint venture agreement in "DTIA", a joint venture between TISCOS and Deutsche Bank Group that operated under an investment advisory license in Thailand. The agreement was effective from 9 September 2019 onward. Subsequent to the termination, TISCOS will continue its businesses to provide securities brokerage service and equity research as usual.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	290,724	265,414	243,622	275,443	298,143
Average assets	278,069	254,518	259,533	286,793	300,344
Interbank and money market items	48,490	40,272	30,489	38,212	45,300
Investments	5,395	6,162	10,124	12,126	9,363
Loans and receivables	236,744	220,726	204,662	226,714	244,067
Loan loss reserves	9,916	11,845	11,740	11,826	10,717
Deposits	208,645	188,266	166,542	203,473	216,085
Borrowings ²	25,792	21,952	23,043	18,634	29,673
Shareholders' equities	42,448	42,791	41,200	39,462	39,196
Average equities	42,619	41,996	40,331	39,329	38,512
Net interest income	13,829	12,734	12,460	13,098	12,792
Net fees and service income	4,867	5,046	5,603	5,146	6,185
Non-interest income ³	5,217	5,571	6,363	5,806	6,643
Total revenue	19,046	18,305	18,823	18,904	19,436
Operating expenses ⁴	9,340	8,591	8,267	8,012	9,271
Pre-provision operating profit (PPOP)	9,705	9,714	10,557	10,892	10,165
Expected credit loss	615	723	2,064	3,331	1,109
Net income	7,302	7,225	6,785	6,064	7,273

1 Consolidated financial statements

2 Including interbank and money market

3 Net of fee and service expenses

4 Excluding fee and service expenses

Unit: %

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Earnings					
Return on average assets	2.63	2.84	2.61	2.11	2.42
Net interest margins	4.99	5.00	4.80	4.57	4.26
Risk-adjusted net interest margins	4.77	4.72	4.01	3.41	3.89
Net interest income/average assets	4.97	5.00	4.80	4.57	4.26
Non-interest income ⁵ /average assets	1.88	2.19	2.45	2.02	2.21
Net fees and service income/total revenue	25.56	27.56	29.77	27.22	31.82
Cost-to-income	49.04	46.93	43.92	42.38	47.70
Capitalization					
CET-1 ratio ⁶	16.29	17.15	18.56	17.48	16.38
Total capital ratio	19.51	20.62	23.18	21.86	20.78
CET-1/total capital	83.49	83.18	80.09	79.97	78.82
Asset Quality					
Credit costs	0.27	0.34	0.97	1.42	0.46
Non-performing loans/total loans ⁶	2.22	2.09	2.44	2.50	2.40
Loan loss reserves/non-performing loans ⁶	189.86	258.82	236.83	210.48	183.68
Funding & Liquidity					
CASA/total deposit ⁷	14.63	23.77	29.48	26.30	18.71
Loan/total deposits ⁷	112.54	116.33	121.86	110.49	112.38
Deposits ⁸ /total liabilities	84.04	84.57	82.27	86.22	83.45
Liquidity coverage ratio	N.A.	154.6	168.4	138.5	N.A.
Liquid assets/total assets	18.85	17.87	17.12	18.72	18.70
Liquid assets/total deposits ⁸	25.24	24.40	23.89	24.64	25.26

5 Net of fee and service expenses

6 Based on reported NPL, excluding accrued interests and interbank assets

7 Excluding bills of exchange and interbank borrowing

8 Including bills of exchange and interbank borrowing

N.A. Not available

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023

- Group Rating Methodology, 7 September 2022

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

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