

TISCO BANK PLC

No. 53/2020
17 April 2020

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 26/04/19

Company Rating History:

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

Contacts:

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Annop Supachayanont, CFA

annop@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on TISCO Bank PLC (TISCOB) and the ratings on its senior unsecured debentures of up to Bt70 billion, due within 2025, at “A” with a “stable” outlook. The ratings reflect TISCOB’s stable franchise in auto lending as well as strong capital and earnings. These strengths, however, are constrained by TISCOB’s relatively modest banking operations.

KEY RATING CONSIDERATIONS

Strength in auto lending with moderate revenue diversity

TISCOB’s business position is underpinned by its strength in auto hire-purchase (HP) lending. According to TRIS Rating’s database, TISCOB secured a 7.8% market share in 2018, ranking 4th out of 18 auto HP lenders in Thailand. However, its overall banking operation remains modest.

TISCOB’s revenue diversity is moderate, compared with peers, as the majority of income derives from lending business, with net interest and dividend income making up 78% of its total revenue in 2019. Nonetheless, net fees and service income constitute a large portion of non-interest income, at 32% in 2019. This mainly comprises fees from bancassurance (48% of total fee) that ties to its auto lending business.

Auto lending still dominates banking book

We expect the TISCO Group to continue to capitalize on its expertise in the auto HP lending and the high-yielding auto title loans. The title loan segment includes loans booked at TISCOB and TISCO Financial Group PLC’s (TISCO) subsidiary, Hi-Way Co., Ltd., under the brand “Somwang Ngern Sang Dai”. With its yield enhancement strategy, the bank has been focusing more on growing auto title loan portfolio in the recent years. The title loan segment booked at TISCOB has thus expanded more than the auto HP lending, up 11.3% in 2019, compared with a contraction of -1.3% for auto HP. We expect the bank to still emphasize secured lending, particularly the high-yield auto title loans, due to rising credit risk and the declining interest rate.

Solid capital

TISCOB’s capital position is strong relative to other Thai commercial banks, in TRIS Rating’s view. As of the end of 2019, TISCOB’s CET-1 was at 17.4%. We forecast TISCOB’s core equity tier-1 (CET-1) ratio in a range of 17%-18% over the next three years. The estimate is based on our assumption of a negative loan growth in 2020 and a growth of around 2% thereafter, and a dividend pay-out ratio in the range of 65%-75%. The CET-1 ratio accounted for 72% of total capital at the end of 2019, indicating an average quality of capital.

Healthy earning supports capital

We expect TISCOB to maintain its high profitability, sufficient to withstand potential volatility across credit cycles. Despite the declining interest rate environment, TISCOB’s loan yield has been relatively resilient due to its focused growth on the high-yielding auto title loan. The stronger loan yield and relatively well-controlled asset quality has resulted in a healthy risk-adjusted net interest margin (NIM). The risk-adjusted NIM of TISCOB was at 3.8% in

2019, well above the industry average of 2.1%.¹ We forecast TISCOB to maintain risk-adjusted NIM at around 3.1%-3.3% over the next few years. Moreover, the bank's low operating expenses have also helped support its profitability. Its average return on asset (ROAA) was at 1.8% in 2019, above the Thai commercial banks' average of 1.3%. We forecast its cost-to-income ratio to range 44%-45% and ROAA to be at 1.3%-1.5% in 2020-2022.

Asset quality deterioration likely to be contained

Although the full impact from the coronavirus (COVID-19) pandemic is still unclear, we believe TISCOB's prudent risk management and selective credit expansion strategy as well as the support from the Bank of Thailand (BOT) on debt relief measures may help alleviate the impact in terms of credit cost. In terms of asset quality, the non-performing loan (NPL) ratio of TISCOB was 2.4% in 2019, compared with 2.9% in 2018. The lower NPL ratio is attributed to the normalizing of NPL classification after the completion of revenue recognition system in the third quarter of 2019 (Q3/2019). We expect deterioration of asset quality to remain relatively contained in 2020 due to its modest exposure to vulnerable segments such as small and medium enterprises (SMEs) (5% of total loans). The majority of its HP lending include captive-financing for new cars which tends to have good asset quality.

Less reliance on wholesale funding

TISCOB's funding profile is considered below average of Thai banking sector, given a relatively lower proportion of retail deposits. Its current account-savings account (CASA) to total deposit continued to trend downward to 19% at the end of 2019 from 29% a year ago. On average, the deposit cost and funding cost of TISCOB remains above that of Thai commercial bank's average. Nevertheless, the bank's deposits as a percentage of total funding rose to 91% at the end of 2019, from 79% at the end of 2018. Although the growth in terms of deposits and lower borrowings may be caused by the need to comply with net stable funding ratio (NSFR) requirements, we view this as a positive move as it indicates that TISCOB has relied less on wholesale funding. The increase in deposits, together with the flat loan growth, has resulted in its loan-to-deposit ratio falling to 109% at the end of 2019 from 121% at the end of 2018.

Adequate liquidity

We assess TISCOB's liquidity as adequate. The liquid asset to total asset ratio was 19% at the end of 2019. The liquidity coverage ratio (LCR) stood at 134% at the end of the first half of 2019, above the regulatory requirement² but weaker than the average for Thai banks of 179% reported by BOT.

BASE-CASE ASSUMPTIONS

The followings are our base-case assumptions for TISCOB's performance during 2020-2022:

- Loan growth to be negative in 2020 and increase to around 2% thereafter.
- Credit cost of 1.0%-1.2%.
- NPL ratio of 2.2%-2.4%.
- CET-1 ratio at 17%-18%.
- Risk-adjusted NIM at 3.1%-3.3%.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade will depend on TISCOB's ability to sustain its strong capital, diversify its banking businesses and/or improve its funding. A downgrade scenario would emerge if there is material weakness in TISCOB's asset quality, capital, and profitability.

COMPANY OVERVIEW

TISCOB, formerly named "TISCO Finance PLC", was established in 1969 and was listed on the Stock Exchange of Thailand (SET) in 1983. In the aftermath of the 1997 financial crisis, TISCO Finance entered into the Tier 1 capital support scheme offered by the Ministry of Finance (MOF) in 1999. As a result, the MOF became a major shareholder with a 42.84% stake in TISCO Finance. The MOF's shareholding in TISCO Finance was later reduced to 0.05%. In October 2004, TISCO Finance

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

² Minimum liquidity coverage ratio (LCR) was at 90% in 2019 and 100% in 2020.

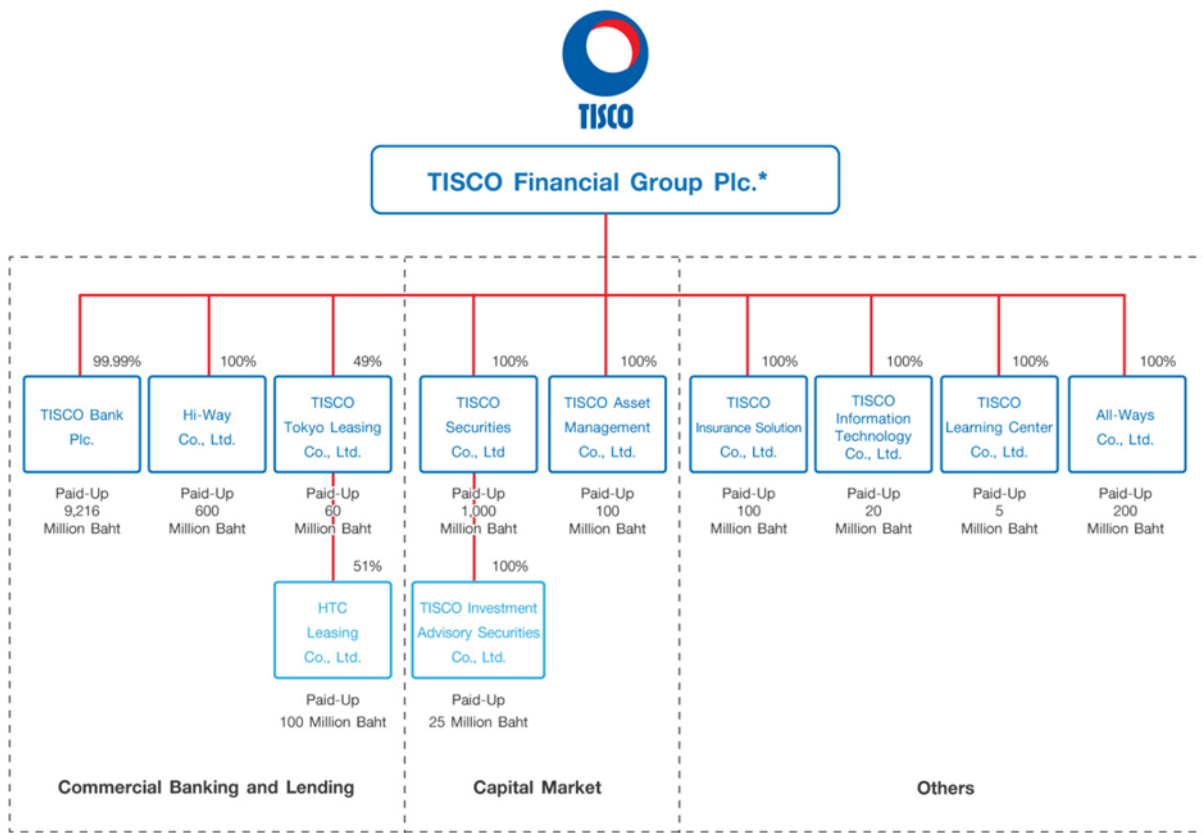
received approval from the MOF to upgrade its status to a commercial bank. TISCO Finance commenced its banking operations on 1 July 2005, and changed its name to “TISCO Bank PLC”.

In accordance with the consolidated supervision regulatory framework of the BOT, in November 2008 the restructuring plan of TISCOB’s holding company was approved by the MOF. TISCO was established in 2008 as a holding company and the parent company of the TISCO Group in place of TISCOB. On 15 January 2009, TISCO was listed on the SET in place of TISCOB 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)). The TISCO Group now offers all major types of financial services including banking, HP lending, securities brokerage, and asset management.

In 2016, the TISCO Group entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT). The unsecured consumer loans (credit card loans and personal loans) with combined portfolios totalling Bt5.2 billion were later sold to Citibank N.A., Bangkok branch.

TISCOB is a small commercial bank with asset size of Bt285 billion at the end of 2019 and a 1.8% market share in loans and a 1.7% share in deposits.

Table 1: TISCO Group Structure



*Listed in The Stock Exchange of Thailand

Source: TISCO’s company website

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Bt million

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total assets	285,288	290,698	288,275	260,742	269,800
Average assets	287,993	289,487	274,509	265,271	287,843
Investment in securities	7,672	6,994	5,932	5,553	7,185
Loans and receivables	239,272	237,209	245,607	221,978	234,769
Allowance for doubtful accounts	10,081	11,052	10,709	7,501	5,570
Deposits	218,433	195,216	181,499	155,951	159,046
Borrowings ²	22,549	53,590	67,492	69,370	77,582
Shareholders' equities	31,303	30,323	28,925	27,444	25,815
Average equities	30,813	29,624	28,184	26,629	24,909
Net interest income	11,761	11,794	10,848	10,236	9,440
Non-interest income ³	3,185	4,129	3,791	3,561	3,695
Total revenue	14,946	15,923	14,639	13,797	13,135
Operating expenses ⁴	7,809	7,396	6,495	5,406	4,586
Pre-provision operating profit (PPOP)	7,137	8,527	8,121	8,362	8,500
Impairment losses on loans and securities	636	2,390	2,760	3,740	4,870
Net income	5,204	4,910	4,301	3,688	2,914
Net fee and service income	2,741	3,126	3,182	3,043	3,068
Gains on investments	7	440	20	12	24

- 1 Consolidated financial statements
 2 Including interbank and money market
 3 Net of fee and service expenses
 4 Excluding fees and service expense

Unit: %

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Earnings					
Return on average assets	1.81	1.70	1.57	1.39	1.01
Interest spread	3.65	3.65	3.55	3.50	2.92
Net interest margins	3.99	3.97	3.86	3.80	3.24
Net interest income/average assets	4.08	4.07	3.95	3.86	3.28
Non-interest income ⁵ /average assets	1.11	1.43	1.38	1.34	1.28
Net fee and service income/total revenue	18.34	19.63	21.74	22.06	23.36
Cost-to-income	52.25	46.45	44.44	39.27	35.05
Capitalisation					
CET-1 ratio ⁶	17.37	17.85	15.98	14.73	13.98
Tier-1 ratio ⁶	17.37	17.85	15.98	14.73	13.98
BIS ratio ⁶	22.10	22.91	20.72	19.59	18.01
CET-1/BIS ratio ⁶	78.58	77.92	77.12	75.19	77.62
Asset Quality					
Credit costs	0.27	0.99	1.18	1.64	1.97
Non-performing loans/total loans ⁷	1.88	2.18	1.84	1.98	2.62
Non-performing assets/total assets	1.86	2.17	1.84	1.97	2.58
Allowance for loan losses/non-performing loans	190.50	175.05	201.89	146.28	80.65
Funding & Liquidity					
CASA/total deposits	18.69	29.39	37.73	35.73	32.38
Loan/total deposits ⁸	109.03	121.49	135.29	142.31	147.58
Deposits/total liabilities	86.00	74.99	70.00	66.86	65.20
Liquid assets/total deposits ⁸	23.76	30.77	27.20	27.19	22.45
Liquid assets/short-term liabilities ⁹	22.81	27.33	23.23	21.89	17.95

 5 *Net of fee and service expenses*

 6 *Consolidated basis*

 7 *Including interbank borrowing; excluding accrued interests*

 8 *Including interbank borrowing*

 9 *Financial liabilities with maturity less than one year*

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020

- Group Rating Methodology, 10 July 2015

TISCO Bank PLC (TISCOB)

Company Rating:	A
Issue Ratings:	
Up to Bt70,000 million senior unsecured debentures due within 2025	A
- TISCO205B: Bt6,000 million senior unsecured debentures due 2020	A
- TISCO208A: Bt2,000 million senior unsecured debentures due 2020	A
- TISCO213A: Bt2,320 million senior unsecured debentures due 2021	A
- TISCO223B: Bt2,220 million senior unsecured debentures due 2022	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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