

TISCO BANK PLC

No. 61/2021
21 April 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 17/04/20

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 Bank PLC (TISCOB) and the ratings on its senior unsecured debentures at “A” with a “stable” outlook. The ratings continue to reflect its strong position in auto lending, solid capital position and earnings capacity, as well as prudent risk management. These strengths, however, are constrained by TISCOB’s relatively modest banking franchise.

KEY RATING CONSIDERATIONS

Modest banking franchise

Our assessment of TISCOB’s business position reflects the bank’s relatively modest banking franchise. As of the end of 2020, TISCOB ranked ninth among Thai commercial banks by asset size, with shares of 1.7% and 1.4% in loans and deposits, respectively.

TISCOB’s revenue diversification is comparable to the industry average. Net interest income and non-interest income constituted 85% and 15% of total revenue in 2020, respectively. Net fee and service income made up 13% of total revenue, on par with the industry average. We expect its revenue diversification to remain relatively unchanged over the next few years.

Retail-focused commercial bank with strength in auto lending

TISCOB predominately focuses on retail banking which made up 78% of its total loan portfolio at the end of 2020. We expect TISCOB to maintain its strong position in auto hire purchase (HP) lending despite a gradual decline in penetration rate over past years. According to TRIS Rating’s database, the bank secured a 7.2% market share in auto HP lending as of the end of 2019, ranking 4th out of 18 auto HP lenders in Thailand. Given the bank’s tightening lending policies, its penetration rate fell to 5.3% during the first 11 months of 2020, compared with its peak in the last five years of 8.0% in 2016.

In the auto title loan segment, TISCOB has been focusing on expanding its portfolio with a compound annual growth rate (CAGR) of 7% in 2018-2020. The auto-cash loan segment includes loans booked at TISCOB and Hi-Way Co., Ltd., a subsidiary of TISCO Financial Group PLC’s (TISCO), under the brand “Somwang Ngern Sang Dai”. TISCO’s auto title loan portfolio ranked 4th among auto title loan lenders in TRIS Rating’s database as of the end of 2019.

Strong capitalization

We assess TISCOB’s capital position as strong. Its Common Equity Tier-1 ratio (CET-1) has gradually increased due to steady loan portfolio contraction in recent years. Its CET-1 ratio remained strong at 18.1% as of the end of 2020. TISCOB’s strong capitalization provides a robust earnings buffer to absorb potential losses in times of stress. We forecast its CET-1 ratio to be in the range of 18%-19% over the next three years. The figures incorporate our assumptions of a flat loan growth in 2021 with growth of around 2% thereafter, and a dividend payout ratio in the range of 50%-85%. The CET-1 accounted for 79% of total capital at the end of 2020, indicating an average quality of capital.

Lower credit cost to support earnings

We expect TISCOB to maintain its strong earnings capacity over the next few years. Similar to peers, TISCOB’s profitability was negatively impacted by the

higher provision expenses against the likelihood of an increase in non-performing loans (NPLs). However, TISCOB's return on average asset (ROAA) of 1.4% in 2020 remained well above the Thai commercial banks' average of 0.9%. This was underpinned by its focus on high-yielding loans and its relatively well-controlled asset quality. TISCOB's risk-adjusted net interest margin (NIM) was at 3.4% in 2020, above the industry average of 1.9%.

We forecast the bank's ROAA to improve to 1.6%-1.7% and risk-adjusted NIM to be in the range of 3.6%-3.7% over the next three years. On the back of economic recovery and our view that its asset quality is likely to improve, we expect its credit cost to ease to its normalized level of 0.8%-0.9% in 2021-2022 after a significant increase to 1.1% in 2020. We forecast the bank's risk-adjusted cost-to-income ratio to stay at around 32%-35% over the next three years.

Prudent risk management

In our view, TISCOB has prudent risk management, evidenced by its relatively better asset quality shown amid the challenging credit environment induced by the Coronavirus Disease 2019 (COVID-19). The bank's NPL ratio (excluding interbank assets) was 2.2% at the end of 2020, lower than the industry average of 3.9%. Approximately 21% of total loans participated in its debt relief program at the end of June 2020, with 4% of total loans remaining in the program as of the end of 2020. The level was significantly lower than the average of Thai commercial banks. In our view, its stringent underwriting standards and focus on secured lending support its strong asset quality. However, we expect TISCOB will likely face some weakened asset quality after the expiration of debt relief measures, similar to other Thai commercial banks. We also believe the bank's prudent lending policies and proactive asset quality management will likely mitigate the impact from COVID-19.

Improved funding structure but retail deposits remain modest

We expect TISCOB's funding profile will remain below the average of Thai commercial banks over the next few years. This is due to its relatively lower proportion of retail deposits at 53% of total deposits as of the end of 2020. As a result, its deposit cost is generally higher than the industry average. On a positive note, TISCOB's funding mix continued to improve with decreasing reliance on wholesale funding. As of the end of 2020, its deposits represented 92.5% of total funding, slightly up from 90.6% at the end of 2019. The loan-to-deposit ratio stood at 108.9% as of the end of 2020, higher than the industry average of 96.8% at the same period.

Sufficient liquidity

We expect TISCOB to maintain its adequate liquidity profile over the next few years. At the end of 2020, the bank's liquid asset to total deposits ratio was at 23.0%, sufficient and above our cautionary threshold of 20%. The liquidity coverage ratio (LCR) stood at the average of 156% as of June 2020, above the regulatory requirement albeit weaker than the average for Thai banks of 182% reported by the Bank of Thailand (BOT).

Thai banking system remained resilient with strong capital base and high level of provisioning buffer

Thai commercial banks still registered strong loan growth of 5.1% in 2020 despite the impact of COVID-19. This was mainly driven by the surge of loan assets in large corporate segment. Meanwhile, overall asset quality weakened but remained manageable, partly supported by the regulatory forbearance announced by the BOT. The NPL ratio of commercial banks rose to 3.12% as of the end of 2020 from 2.98% as of the end of 2019.

In our view, the potential impacts of increased credit costs on profitability and capital after the expiration of debt relief measures should be manageable given the high level of provisioning buffer and strong capital base of Thai commercial banks. Moreover, the high liquidity in the banking system provides a strong funding base to support economic recovery in the coming years.

BASE-CASE ASSUMPTIONS

The followings are our base-case assumptions for TISCOB's operations during 2021-2023:

- Flat loan growth in 2021 and 2% growth thereafter.
- Credit cost of 0.8%-0.9%.
- NPL ratio of 2.4%-2.5%.
- CET-1 ratio at 18%-19%.
- Risk-adjusted NIM at 3.6%-3.7%.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade will depend on TISCOB's ability to at least maintain its franchise relative to the industry and further diversify revenue structure. Moreover, asset quality and capital position should remain strong, while funding profile gradually improves. A downgrade scenario would emerge if there were 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 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, 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 totaling THB5.2 billion were later sold to Citibank N.A., Bangkok branch.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Total assets	264,921	285,265	290,698	288,275	260,742
Average assets	275,093	287,982	289,487	274,509	265,271
Investment in securities	10,191	7,672	6,994	5,932	5,553
Loans and receivables	224,740	239,272	237,209	245,607	221,978
Allowance for doubtful accounts	10,938	10,081	11,052	10,709	7,501
Deposits	204,859	218,433	195,216	181,499	155,951
Borrowings ²	16,714	22,549	53,590	67,492	69,370
Shareholders' equities	32,656	31,303	30,323	28,925	27,444
Average equities	31,979	30,813	29,624	28,184	26,629
Net interest income	11,879	11,761	11,794	10,848	10,236
Non-interest income ³	2,148	3,185	4,129	3,791	3,561
Total revenue	14,027	14,946	15,923	14,639	13,797
Operating expenses ⁴	6,854	7,809	7,396	6,495	5,406
Pre-provision operating profit (PPOP)	7,173	7,137	8,527	8,121	8,362
Expected credit loss	2,437	636	2,390	2,760	3,740
Net income	3,786	5,204	4,910	4,301	3,688
Net fee and service income	1,794	2,741	3,126	3,182	3,043
Gains on investments	11	7	440	20	12

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 -----				
	2020	2019	2018	2017	2016
Earnings					
Return on average assets	1.38	1.81	1.70	1.57	1.39
Net interest margins	4.24	4.01	3.99	3.89	3.82
Risk-adjusted net interest margins	3.37	3.79	3.18	2.90	2.43
Net interest income/average assets	4.32	4.08	4.07	3.95	3.86
Non-interest income ⁵ /average assets	0.78	1.11	1.43	1.38	1.34
Net fee and service income/total revenue	12.79	18.34	19.63	21.74	22.06
Cost-to-income	48.86	52.25	46.45	44.44	39.27
Capitalization					
CET-1 ratio ⁶	18.07	17.37	17.85	15.98	14.73
Tier-1 ratio ⁶	18.07	17.37	17.85	15.98	14.73
BIS ratio ⁶	22.78	22.10	22.91	20.72	19.59
CET-1/BIS ratio ⁶	79.33	78.58	77.92	77.12	75.19
Asset Quality					
Credit costs	1.06	0.27	0.99	1.18	1.64
Non-performing loans/total loans ⁷	2.22	2.22	2.67	2.16	2.31
Allowance for expected credit loss/total loans ⁷	4.90	4.23	4.67	4.37	3.39
Allowance for expected credit loss/non-performing loans	221.14	190.50	175.05	201.89	146.28
Funding & Liquidity					
CASA/total deposits	26.40	18.69	29.39	37.73	35.73
Loan/total deposits ⁸	108.89	109.03	121.49	135.29	142.31
Deposits/total liabilities	88.20	86.01	74.97	69.98	66.85
Liquid assets/total deposits ⁸	22.99	23.76	30.77	27.20	27.19

5 Net of fee and service expenses

6 Consolidated basis

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

8 Including interbank borrowing

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

- Banks Rating Methodology, 3 March 2020

TISCO Bank PLC (TISCOB)

Company Rating:	A
Issue Ratings:	
Up to THB70,000 million senior unsecured debentures due within 2025	A
- TISCO223B: THB2,220 million senior unsecured debentures due 2022	A
Rating Outlook:	Stable

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