

TISCO BANK PLC

No. 53/2018

25 July 2018

FINANCIAL INSTITUTIONS

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

Company Rating History:

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

Contacts:

Annop Supachayanont, CFA
annop@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on TISCO Bank PLC (TISCOB) at “A” with “stable” outlook. At the same time, TRIS Rating assigns a rating of “A” to TISCOB’s proposed issuance limit of up to Bt100 billion in senior unsecured debentures due within 5 years under the Medium Term Notes Program (MTN). The proposed issuance limit of up to Bt100 billion is an increase from the previous limit of up to Bt70 billion. The assigned issue rating replaces the rating of the issuance limit of up to Bt70 billion announced on 24 May 2016.

The ratings reflect TISCOB’s strong competitive position in automobile hire-purchase (HP) lending and its strong capital and earnings position. However, the ratings are constrained by the bank’s small market shares in loans and deposits, concentrated loan exposure in the automobile HP loan segment, and reliance on wholesale funding.

TISCOB is a 99.99% owned core banking subsidiary of TISCO Financial Group PLC (TISCO). TISCOB was ranked 8th among 11 listed Thai commercial banks in terms of asset size, with a 2.1% market share in loans and a 1.5% share in deposits at the end of March 2018.

In TRIS Rating’s view, the acquisition of the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT) in 2017 by TISCO could potentially enhance TISCOB’s retail banking franchise.¹ With the transaction, TISCOB also acquired a customer base of mortgage loans and home-equity loans as well as retail depositors. The bank has offered its banking and wealth management products to these acquired customers. This lowered the bank’s reliance on HP lending to 54.1% of total loans at the end of March 2018, from 60.7% a year earlier. Housing loans increased to 8.1% of total loans, up from 0.4% in a previous year. The bank will build on its expertise in auto lending by focusing on car-pledged loans.

We expect TISCOB to maintain strong capital and profitability. At the end of March 2018, the bank’s Basel-III compliant core equity tier-1 (CET-1) ratio was 16.60%, a strong figure for Thai commercial banks. The CET-1 accounted for 77% of total capital. In our view, the capital is sufficient to support business expansion over the next few years, taking into account our assumption of a dividend payout in the range of 50-60%.

The bank’s earning capacity is sufficient to withstand potential volatility across the business cycle. Profitability has been on the high side relative to Thai bank peers, as indicated by its annualised return on average assets (ROAA) of 1.73% in the first quarter of 2018 (Q1/2018), compared with a peer average of 1.36%.

Contributions from fee and service income, an indicator of quality of earnings, were comparable to the average of other Thai banks. Net interest and dividend income represented 71% of total revenue in Q1/2018. Net fees and service income represented 21% of total revenue. The bank’s risk-adjusted net interest margin (NIM) was 0.80%, well above the industry average of 0.52% in Q1/2018.

¹ The acquisition entailed a transfer of Bt33.7 billion of loan assets and Bt14.6 billion of deposits to TISCOB and All-Ways Co., Ltd. (All-Ways), a subsidiary of TISCO. Of the total loan amount, around Bt31.4 billion were retail loans comprising mortgage, home-equity, personal, and credit-card loans. In Q1/2018, TISCOB and All-Ways signed an agreement for the sale of their personal loan portfolio and credit card business to Citibank N.A (Bangkok branch).

We expect the bank's credit cost to decline to a normalised level in the average of 1.0%-1.1% in 2018-2020, below its peak of 2.0% in 2015. The figure rose due to its exposure to a large corporate customer in the steel industry. Annualised credit cost declined to 1.4% in 1Q/2018 and 1.2% in 2017. These remained above the normalised level, in part, due to loans acquired from SCBT. Over the past three years, TISCOB's asset quality is on an improving trend. The reported non-performing loan (NPL) ratio² fell steadily from 2.9% in 2015 to 2.2% at the end of March 2018, lower than peers' average of 3.8%. The NPL coverage ratio improved to 212% at the end of March 2018 from a low of 81% at the end of 2015.

TISCOB's ratings remain constrained by its relatively weak funding profile, typical of smaller Thai banks. These banks tend to have a relatively lower proportion of sticky retail deposits and a higher reliance on wholesale funding. Deposits as a percentage of total funding were 72% at the end of March 2018, below the Thai banks' average of 86%. Current account savings account (CASA) to total deposits of 31% over the same period stayed below peers' average at around 60%. The loan-to-deposit ratio was down to 134.4% at the end of March 2018 from 138.5% in the same period last year, also well above the Thai bank average of around 100%.

RATING OUTLOOK

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

RATING SENSITIVITIES

The ratings 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 the bank's ability to sustainably gain market shares, significantly diversify its loan portfolio, and improve its funding capability.

² Excluding interbank.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹
Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Total assets	283,464	288,275	260,742	269,800	305,886
Average Assets	285,870	274,509	265,271	287,843	323,958
Investment in securities	6,605	5,932	5,553	7,185	13,309
Loans and receivables	237,757	245,607	221,978	234,769	258,569
Allowance for doubtful accounts	10,852	10,709	7,501	5,570	6,380
Deposits	176,919	181,499	155,951	159,046	206,391
Borrowings ²	68,219	67,492	69,370	77,582	68,089
Shareholders' Equities	30,092	28,925	27,444	25,815	24,004
Average Equities	29,508	28,184	26,629	24,909	21,788
Net interest income	3,049	10,848	10,236	9,440	8,860
Non-interest income ³	1,276	3,791	3,561	3,695	3,609
Total revenue	4,325	14,639	13,797	13,135	12,469
Operating expenses ⁴	2,014	6,518	5,435	4,634	4,625
Pre-provision operating profit (PPOP)	2,311	8,121	8,362	8,500	7,845
Impairment losses on loans and securities	851	2,760	3,740	4,870	3,978
Net income	1,170	4,301	3,688	2,914	3,098
Net fee and service income	927	3,182	3,043	3,068	3,003
Gains on investments	198	20	12	24	142

¹ Consolidated financial statements

² Including interbank and money market

³ Net of fees and service expense

⁴ Excluding fees and service expense

Unit: %

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Earnings					
Return on average assets	1.64 ⁶	1.57	1.39	1.01	0.96
Interest spread	3.87 ⁶	3.55	3.50	2.92	2.39
Net interest margins	4.18 ⁶	3.86	3.80	3.24	2.70
Net interest income/average assets	4.27 ⁶	3.95	3.86	3.28	2.73
Non-interest income ⁵ /average assets	1.82 ⁶	1.42	1.38	1.31	1.13
Net fee and service income/total revenue	21.45	21.74	22.06	23.36	24.09
Cost-to-income	46.56	44.52	39.39	35.28	37.09
Capitalisation					
CET-1 ratio ⁷	16.60	15.98	14.73	13.98	12.55
Tier-1 ratio ⁷	16.60	15.98	14.73	13.98	12.55
BIS ratio ⁷	21.51	20.72	19.59	18.01	16.79
CET-1/BIS ratio ⁷	77.17	77.12	75.19	77.62	74.75
Asset Quality					
Credit costs	1.41 ⁶	1.18	1.64	1.97	1.47
Non-performing loans/total loans ⁸	1.83	1.84	1.98	2.62	2.00
Non-performing assets/total assets	3.33	3.45	3.99	3.97	2.34
Allowance for loan losses /non-performing loans	211.53	201.89	146.28	80.65	108.10
Funding & Liquidity					
CASA/total deposits ⁹	30.95	37.73	35.73	32.38	25.61
Loan/total deposits ⁹	134.36	135.29	142.31	147.58	125.26
Deposits ⁹ /total liabilities	69.84	70.00	66.86	65.20	73.23
Liquid assets/total deposits ¹⁰	27.80	27.20	27.19	22.45	23.68
Liquid assets/short-term liabilities ¹¹	n.a. ¹²	20.22	19.40	16.01	18.67

5 Net of fee and service expenses

6 Annualised

7 Consolidated basis

8 Including interbank; excluding accrued interests

9 Including bills of exchange

10 Including bills of exchange and interbank borrowing

11 Financial liabilities with maturity less than one year

12 Not available

TISCO Bank PLC (TISCOB)

Company Rating: A

Issue Ratings:

Up to Bt100,000 million senior unsecured debentures due within 5 years under the MTN program:	A
- TISCO18NA: Bt5,000 million senior unsecured debentures due 2018	A
- TISCO191A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO193A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO194A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO195B: Bt8,000 million senior unsecured debentures due 2019	A
- TISCO197A: Bt5,000 million senior unsecured debentures due 2019	A
- TISCO198A: Bt3,000 million senior unsecured debentures due 2019	A
- TISCO204A: Bt4,000 million senior unsecured debentures due 2020	A
- TISCO205B: Bt6,000 million senior unsecured debentures due 2020	A

Rating Outlook: Stable

TRIS Rating Co., Ltd.

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

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria