

COMPANY RESULTS

TISCO Financial Group (TISCO TB)

4Q22: Results Miss, But Strong Earnings Outlook Ahead

TISCO posted a 4Q22 net profit of Bt1.8b (+0.8% yoy, +2% qoq). The results were below our and consensus expectations by 13% and 5%, owing to higher-than-expected provisioning. Nevertheless, TISCO is well-prepared for the growth phase. We expect earnings to grow at an 8% CAGR over 2022-24. Maintain BUY. Target price: Bt121.00.

4Q22 RESULTS

Year to 31 Dec (Btm)	4Q22	3Q22	4Q21	qoq chg (%)	yoy chg (%)
Total gross loans	219,004	213,188	202,950	2.7	7.9
Net interest income	3,344	3,221	3,108	3.8	7.6
Non-interest income	1,466	1,221	1,687	20.1	(13.1)
Loan loss provision	(379)	(119)	(417)	219.3	(9.2)
Non-Interest Expenses	(2,250)	(2,155)	(2,167)	4.4	3.9
Pre-provision operating profit	2,629	2,323	2,668	13.2	(1.5)
Net income	1,804	1,771	1,791	2.0	0.8
EPS (Bt)	2.26	2.21	2.24	2.0	0.8
Ratio (%)					
NPL Ratio	2.1	2.1	2.4		
Loan loss coverage ratio (%)	259	248	237		
Net interest margin (NIM %)	5.2	5.2	5.1		
Credit cost (bp)	70	23	82		
Cost to income (%)	46.8	48.5	45.2		
Common equity tier 1 (CET1) ratio (%)	19.6	20.2	20.2		

Source: TISCO, UOB Kay Hian

RESULTS

- **4Q22 results miss.** TISCO Financial Group (TISCO) posted a 4Q22 net profit of Bt1.8b, flat yoy and qoq. The results were below our and consensus expectations by 13% and 5%, respectively. The key miss to our forecast was due to higher-than-expected provisioning. Excluding provision expenses, pre-provision operating profit (PPOP) was flat yoy because of the absence of performance fees from the asset management business of Bt490m. However, TISCO's PPOP grew decently by 13% qoq.
- **Credit cost jumped on prudent provisioning.** TISCO's provision expenses surged 219% qoq, implying a 4Q22 credit cost of 70bp (3Q22: 23bp). However, the company's asset quality remains robust, as evidenced by the relatively stable NPL ratio of 2.1% in 4Q22. As a result, TISCO's loan-loss-coverage (LLC) ratio has risen to a record high of 259%, the highest level in the banking sector. Management said it would be prudent on its provisioning to prepare for the aggressive loan expansion in 2023.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	12,460	12,734	13,396	14,802	16,182
Non-interest income	6,369	5,607	6,253	7,090	7,674
Net profit (rep./act.)	6,781	7,222	7,733	8,464	9,059
Net profit (adj.)	6,781	7,222	7,733	8,464	9,059
EPS (Bt)	8.5	9.0	9.7	10.6	11.3
PE (x)	12.0	11.3	10.6	9.6	9.0
P/B (x)	2.0	1.9	1.8	1.8	1.7
Dividend yield (%)	6.2	7.0	7.2	8.3	9.1
Net int margin (%)	4.8	5.0	4.9	5.0	5.1
Cost/income (%)	44.0	47.1	46.8	46.9	46.8
Loan loss cover (%)	236.7	258.8	198.0	167.0	150.0
Consensus net profit	-	-	7,289	7,437	7,682
UOBKH/Consensus (x)	-	-	1.06	1.14	1.18

Source: TISCO Financial Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt102.00
Target Price	Bt121.00
Upside	+18.6%
(Previous TP)	Bt119.00)

COMPANY DESCRIPTION

A small bank with roughly 2% of the credit market. The bank's strong focus is on auto HP lending, which accounts for 64% of its loan book.

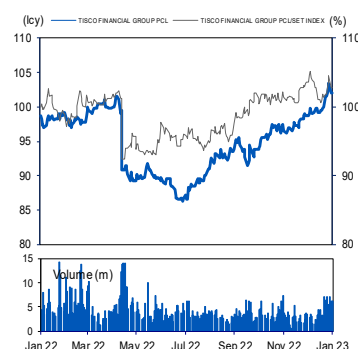
STOCK DATA

GICS sector	Financials
Bloomberg ticker:	TISCO TB
Shares issued (m):	800.6
Market cap (Btm):	81,665.9
Market cap (US\$m):	2,476.1
3-mth avg daily t'over (US\$m):	10.4

Price Performance (%)

52-week high/low	Bt103.50/Bt86.25				
1mth	3mth	6mth	1yr	YTD	
3.3	8.8	17.6	3.0	2.8	
Major Shareholders					%
NVDR					13.9
CDIB & Partners Investment Holding					10.0
State Street Bank EU					5.8
FY23 NAV/Share (Bt)					55.77
FY23 CAR Tier-1 (%)					18.16

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **NII grew well on loan growth.** TISCO's net interest income (NII) rose 8% yoy and 4% qoq, supported by a decent loan growth in 4Q22 of 8% yoy, which is higher than management's 2022 target of 3-5% yoy. Meanwhile, NIM declined slightly by 2bp qoq to 5.17%. Although loan yield improved by 5bp qoq, it was offset by a higher cost of fund (+15bp qoq).

STOCK IMPACT

- **Well-prepared for upcoming growth phase.** Starting from 2023, the company is adopting a more aggressive loan portfolio expansion and raising its high-risk/high-return loan mix. Management targets loan growth of 5-10% yoy for 2023 with auto-title loans as its primary focus as they provide a loan yield of 10-17% (vs TISCO's average loan yield in 2022 of 6.9%). TISCO plans to expand its auto-title loans network branches under the brand called Somwang by 200 stores in 2023 (pre-COVID-19: 50 stores/year). Typically, aggressive business strategies like this would translate to higher credit costs. However, TISCO has an outstandingly high LLC ratio to cushion against the higher default credit risk, and management hinted that the credit cost for 2022 has yet to be a record low (2022: 34bp).
- **Decent earnings growth outlook and high dividend play.** TISCO is more susceptible to the expiry of the Financial Institutions Development Fund (FIDF) fee waiver than the big banks as 50% of TISCO's loan mix is fixed rates, where it is difficult to raise its interest rates given the policy rate uptrend. However, we expect TISCO's earnings to grow at an 8% CAGR in 2022-24 (2019-22: -0.2% earnings growth), supported by decent loan growth and poorer credit costs outlook in 2022-24. Also, TISCO has the highest total capital fund ratio in the sector at 24.3%, which should allow it to maintain its high dividend yield of 7-8%.

EARNINGS REVISION/RISK

NET PROFIT FORECASTS

	2023F	2024F	2025F
Old	7,951	8,418	-
New	7,733	8,464	9,059
% chg	-2.7	+0.1	-

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- We fine-tune our 2023-24 earnings forecasts by -2.7% and +0.1%, respectively, to reflect its 2022 actual results.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of Bt121.00** based on the Gordon Growth Method (cost of equity: 11.50%, long-term growth rate: 2.0%). Our target price implies 2.2x 2023F P/B, equivalent to +2SD to its five-year mean.

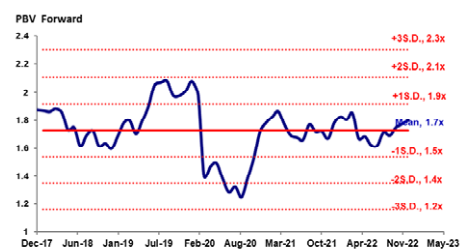
SHARE PRICE CATALYST

- Better-than-expected 1Q23 results.

PE BAND



P/B BAND



PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Interest income	14,904	16,802	18,913	20,630
Interest expense	(2,171)	(3,406)	(4,111)	(4,447)
Net interest income	12,734	13,396	14,802	16,182
Fees & commissions	5,081	5,551	6,369	6,932
Other income	526	702	721	741
Non-interest income	5,607	6,253	7,090	7,674
Total income	18,341	19,649	21,892	23,856
Staff costs	(6,107)	(6,375)	(7,230)	(7,860)
Other operating expense	(2,523)	(2,827)	(3,043)	(3,295)
Pre-provision profit	9,711	10,447	11,620	12,701
Loan loss provision	(723)	(780)	(1,039)	(1,377)
Pre-tax profit	8,988	9,667	10,581	11,325
Tax	(1,766)	(1,933)	(2,116)	(2,265)
Minorities	0	(1)	(1)	(1)
Net profit	7,222	7,733	8,464	9,059
Net profit (adj.)	7,222	7,733	8,464	9,059

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Cash with central bank	1,005	1,184	1,275	1,371
Govt treasury bills & securities	3,990	10,654	11,474	12,341
Interbank loans	40,272	36,697	39,520	42,508
Customer loans	208,881	227,646	246,782	266,311
Investment securities	2,172	2,368	2,550	2,742
Derivative receivables	147	0	0	0
Associates & JVs	873	873	873	873
Fixed assets (incl. prop.)	2,820	2,562	2,301	2,127
Other assets	5,253	5,945	6,273	6,620
Total assets	265,414	287,930	311,048	334,895
Interbank deposits	6,195	9,470	10,199	10,970
Customer deposits	188,266	194,141	209,075	224,882
Derivative payables	0	0	0	0
Debt equivalents	15,757	25,801	30,817	35,674
Other liabilities	12,405	13,859	14,623	15,433
Total liabilities	222,623	243,270	264,713	286,959
Shareholders' funds	42,788	44,656	46,330	47,931
Minority interest - accumulated	3	4	4	5
Total equity & liabilities	265,414	287,930	311,048	334,895

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	18.2	18.2	18.0	17.4
Total CAR	22.7	22.6	22.4	21.5
Total assets/equity (x)	6.2	6.4	6.7	7.0
Tangible assets/tangible common equity (x)	6.3	6.6	6.8	7.1
Asset Quality				
NPL ratio	2.1	2.3	2.3	2.3
Loan loss coverage	258.8	198.0	167.0	150.0
Loan loss reserve/gross loans	5.4	4.6	3.9	3.5
Increase in NPLs	(7.7)	19.2	8.4	8.5
Credit cost (bp)	34.3	34.2	42.3	52.0
Liquidity				
Loan/deposit ratio	111.0	117.3	118.0	118.4
Liquid assets/short-term liabilities	23.2	23.8	23.8	23.8
Liquid assets/total assets	17.1	16.9	16.8	16.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	2.2	5.2	10.5	9.3
Fees & commissions, yoy chg	(9.4)	9.2	14.7	8.8
Pre-provision profit, yoy chg	(7.9)	7.6	11.2	9.3
Net profit, yoy chg	6.5	7.1	9.5	7.0
Net profit (adj.), yoy chg	6.5	7.1	9.5	7.0
Customer loans, yoy chg	8.3	9.0	8.4	7.9
Profitability				
Net interest margin	5.0	4.9	5.0	5.1
Cost/income ratio	47.1	46.8	46.9	46.8
Adjusted ROA	2.8	2.8	2.8	2.8
Reported ROE	17.2	17.7	18.6	19.2
Adjusted ROE	17.2	17.7	18.6	19.2
Valuation				
P/BV (x)	1.9	1.8	1.8	1.7
P/NTA (x)	1.9	1.9	1.8	1.7
Adjusted P/E (x)	11.3	10.6	9.6	9.0
Dividend Yield	7.0	7.2	8.3	9.1
Payout ratio	79.3	75.8	80.2	82.3

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