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KEY HIGHLIGHTS

Update

TISCO Financial Group (TISCO TB/BUY/Bt90.50/Target: Bt104.00)

4Q20 results preview: Growth and dividend play.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,482.09	4.88	0.33
SET50	950.90	1.62	0.17
Value (Btm) - SET	97,300		
Top 5 Sector			
BANK	348.04	3.11	0.90
PETRO	1,009.57	(2.40)	(0.24)
PROP	225.31	3.00	1.35
ENERG	23,187.68	(20.75)	(0.09)
ICT	141.95	0.65	0.46

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
BANPU	10.10	10.99	452,999.4
CPALL	62.75	(1.95)	57,690.6
KBANK	120.50	2.99	26,393.2
BAM	23.50	2.62	126,737.4
PTTGC	59.25	(0.42)	46,337.0

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NOK	1.06	29.27	6,984.8
7UP	0.42	27.27	335,720.5
B52	0.33	26.92	21,889.9
NEW	58.00	25.41	0.2
MIPF	17.90	24.31	0.2

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
UWC	0.04	(20.00)	2,444.7
NUSA	0.30	(14.29)	46,739.0
OGC	24.60	(8.89)	2.0
DIMET	0.12	(7.69)	12,077.4
PRG	11.20	(7.44)	58.5

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	51.1	16.1	16.9	(15.6)
Dubai crude*	50.3	18.3	25.5	(23.0)
Baltic Dry Index	1,273.0	14.5	(1.6)	16.8
Gold Spot***	1,864.6	(0.8)	(4.1)	22.9

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY% (Mil US\$)
37.9	249.4	(8,118.8)	(6,995.5)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 30.00

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 5.25

COMPANY UPDATE

TISCO Financial Group (TISCO TB)

4Q20 Results Preview: Growth and Dividend Play

On the back of an improving economic outlook and TISCO's solid fundamentals (high loan-loss reserves and solid capital adequacy ratio), TISCO will resume growth going forward. We upgrade earnings projections by 2-6% for 2020-22, reflecting new loan growth and NIM assumptions. Earnings are expected to rebound by ~8% yoy in 2021-22 following a 16.7% decline in 2020. Dividend yield is high at 5.1-6.4% for 2020-21. Maintain BUY. Target price: Bt104.00.

WHAT'S NEW

- Earnings to decline yoy in 4Q20, but increase slightly qoq.** We expect Tisco Financial Group (TISCO) to post a net profit of Bt1.6b in 4Q20, down 13% yoy but up 1% qoq. The yoy decline is due to lower net interest income and weaker fee income as a result of the economic downturn and higher provisions. Despite higher provisions against elevated NPLs, the qoq rise in earnings would have been due to higher NIM on the back of good control over funding costs and higher fee income from brokerage and mutual fund businesses.
- Adequate reserves to withstand NPLs rise.** TISCO's loans are expected to be flat qoq in 4Q20 (3Q20: -1.4% qoq) as new demands from SME and corporate loans will be offset by repayment from retail loans (auto hire purchase and auto titled loans). Based on our channel check with TISCO, the majority of loans under the debt moratorium programme have serviced their debts after the programme ended in October. Some customers require further financial assistance, but some loans will be classified as NPLs amid economic challenges. With its high loan-loss reserves and high capital adequacy ratio, we believe TISCO's fundamentals are strong enough to withstand uncertainties. NPL ratio is expected to increase to 2.8% (3Q20: 2.6%) from higher retail NPLs. The loan-loss coverage ratio will remain high at 189% in 4Q20, the highest among Thai banks.
- Solid capital position to withstand uncertainties.** With a high tier-1 capital ratio of 17.5% and capital adequacy ratio of 21.8% in Sep 20 (vs the Bank of Thailand's (BOT) minimum requirement of 9.5% and 12% respectively), TISCO's capital adequacy ratio is adequate to support future growth and pay dividends. The BOT allows Thai financial institutions to pay dividends for 2020, but not exceeding 2019's payout ratio and 50% of 2020 net profit. However, TISCO could pay dividends at higher than 50% of its 2020 net profit as the BOT's orders apply for its subsidiary, TISCO Bank. To be conservative, we assume a dividend payout ratio of 60% for 2020 and a higher 70% in 2021 (vs 80-85% for 2018-19). We thus expect TISCO to pay dividends of Bt4.5-4.75 per share in 2020-21, representing a dividend yield of 5.1-6.4% respectively.

KEY FINANCIALS

Year to 31 Dec (Btm)	2018	2019	2020F	2021F	2022F
Net interest income	12,615	12,792	13,139	13,457	13,594
Non-interest income	7,196	6,631	5,842	6,129	6,702
Net profit (rep./act.)	7,016	7,273	6,062	6,572	7,089
Net profit (adj.)	7,016	7,273	6,062	6,572	7,089
EPS (Bt)	8.8	9.1	7.6	8.2	8.9
PE (x)	10.4	10.0	12.0	11.1	10.2
P/B (x)	1.9	1.9	1.8	1.7	1.6
Dividend yield (%)	7.7	8.5	5.0	6.3	6.8
Net int margin (%)	4.2	4.3	4.6	4.9	4.9
Cost/income (%)	44.2	47.7	42.6	41.8	40.9
Loan loss cover (%)	169.8	176.6	182.0	182.1	195.5
Consensus net profit	-	-	5,938	6,313	6,943
UOBKH/Consensus (x)	-	-	1.02	1.04	1.02

Source: TISCO, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt90.50
Target Price	Bt104.00
Upside	+14.9%
(Previous TP)	Bt84.00

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	TISCO TB
Shares issued (m):	800.6
Market cap (Btm):	72,658.6
Market cap (US\$m):	2,416.2
3-mth avg daily t'over (US\$m):	17.4

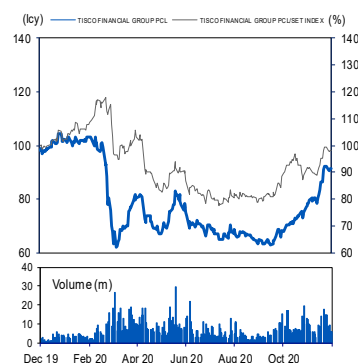
Price Performance (%)

52-week high/low	Bt104.50/Bt62.00			
1mth	3mth	6mth	1yr	YTD
21.0	41.2	16.3	(7.9)	(8.6)

Major Shareholders

NVDR	13.9
CDIB & Partners Investment Holding	10.0
State Street Bank EU	5.8
FY20 NAV/Share (Bt)	51.59
FY20 CAR Tier-1 (%)	17.59

PRICE CHART



Source: Bloomberg

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4Q20 RESULTS PREVIEW

Profit & Loss (Btm)	4Q19	3Q20	4Q20F	qoq % chg	yoy % chg
Net interest income	3,472	3,252	3,328	2%	(4%)
<i>Net interest margin</i>	<i>4.8%</i>	<i>4.8%</i>	<i>4.9%</i>		
Non-interest income	1,929	1,443	1,760	22%	(9%)
Operating income	5,401	4,696	5,088	8%	(6%)
Overhead expenses	(2,379)	(2,082)	(2,186)	5%	(8%)
<i>Cost-Income Ratio</i>	<i>44.0%</i>	<i>44.3%</i>	<i>43.0%</i>		
Pre-provision profit	3,022	2,614	2,902	11%	(4%)
Loan loss provision	(694)	(605)	(864)	43%	25%
<i>Credit cost - annualised (bps)</i>	<i>115</i>	<i>107</i>	<i>154</i>		
Pre-tax profit	2,328	2,009	2,037	1%	(12%)
Net profit	1,867	1,612	1,632	1%	(13%)
EPS (Bt)	2.3	2.0	2.0	1%	(13%)
BVS (Bt)	49.0	47.3	51.6	9%	5%
Financial Ratios (%)					
Loan growth yoy	0.9%	(6.6%)	(7.4%)		
Deposit growth yoy	6.6%	1.0%	(7.9%)		
Loan/deposit Ratio	112.4%	109.8%	113.0%		
NPL ratio	2.4%	2.6%	2.8%		
Loan loss coverage	176.6%	196.1%	182.0%		
Tier-1 CAR	16.4%	17.5%	17.5%		
Total CAR	20.8%	21.8%	21.8%		

Sources: TISCO, UOB Kay Hian

NET PROFIT FORECAST

(Btm)	2020F	2021F	2022F
Old	5,945	6,292	6,694
New	6,062	6,572	7,089
% chg	2.0%	4.5%	5.9%

Source: UOB Kay Hian

- Upgrade earnings projections.** Given better-than-expected 3Q20 Thai GDP and our channel check with TISCO, we increase our earnings projections by 2%/4.5%/5.9% for 2020/21/22. Our earnings revisions reflect new loan growth assumptions of -7.4%/1.6%/3% for 2020/21/22. In addition, we have revised up NIM assumptions by roughly 20-25bp to reflect better-than-expected funding cost control and low interest rate environment. Based on these new assumptions, net profit is expected to decrease 16.7% yoy for 2020 and then report a positive growth of 8.4% for 2021 and 7.9% for 2022. Growth will be largely due to higher net interest income from loans, and NIM expansion and higher fee income in tandem with the economic recovery.

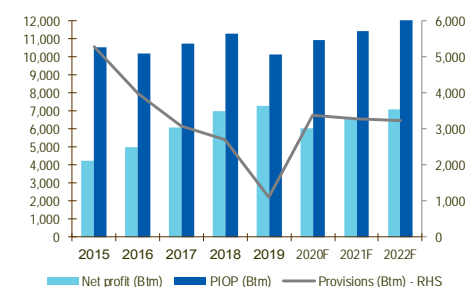
VALUATION/RECOMMENDATION

- Maintain BUY with a new target price of Bt104.00 (from Bt84.00)**, pegged at 1.9x 2021F P/B, +0.5SD to the historical mean in 2015-19. Our new valuation reflects earnings upgrade. We like TISCO given its strong balance sheet (high loan-loss reserves and solid capital adequacy ratio), moderate earnings rebound in 2021-22 and high dividend payment amid a low interest rate environment.

SHARE PRICE CATALYST

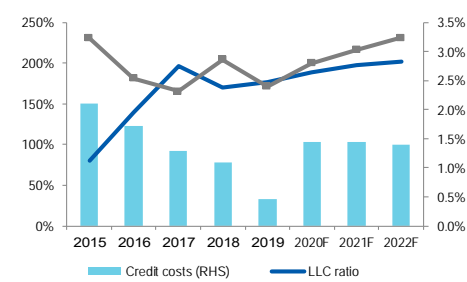
- Improving economic outlook to shore up loan demand.
- Low interest rates environment would lower funding costs and increase NIM.

EARNINGS OUTLOOK



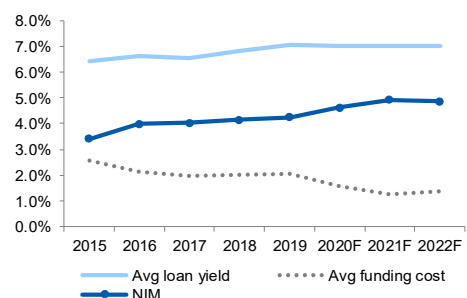
Source: TISCO, UOB Kay Hian

NPL RATIO AND LLC RATIO



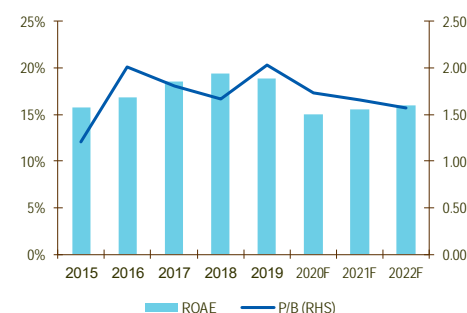
Source: TISCO, UOB Kay Hian

NIM OUTLOOK



Source: TISCO, UOB Kay Hian

ROE AND P/B



Source: TISCO, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2019	2020F	2021F	2022F
Interest income	17,881	16,812	16,235	16,630
Interest expense	(5,089)	(3,674)	(2,778)	(3,037)
Net interest income	12,792	13,139	13,457	13,594
Fees & commissions	3,056	2,661	2,806	3,106
Other income	3,575	3,181	3,323	3,595
Non-interest income	6,631	5,842	6,129	6,702
Income from islamic banking	0	0	0	0
Total income	19,424	18,981	19,586	20,295
Staff costs	(6,410)	(5,385)	(5,546)	(5,713)
Other operating expense	(2,860)	(2,696)	(2,638)	(2,581)
Pre-provision profit	10,153	10,900	11,401	12,002
Loan loss provision	(1,109)	(3,392)	(3,287)	(3,246)
Other provisions	0	0	0	0
Associated companies	12	50	50	50
Other non-operating income	0	0	0	0
Pre-tax profit	9,056	7,558	8,164	8,806
Tax	(1,783)	(1,497)	(1,592)	(1,717)
Minorities	0	0	0	0
Net profit	7,273	6,062	6,572	7,089
Net profit (adj.)	7,273	6,062	6,572	7,089

BALANCE SHEET

Year to 31 Dec (Btm)	2019	2020F	2021F	2022F
Cash with central bank	1,103	1,098	1,109	1,131
Govt treasury bills & securities	8,801	12,896	13,025	13,286
Interbank loans	45,300	32,927	33,256	33,921
Customer loans	233,396	214,801	216,580	221,742
Investment securities	562	823	831	848
Derivative receivables	22	22	22	22
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	3,003	3,155	3,187	3,251
Other assets	6,064	8,668	9,124	8,476
Total assets	298,250	274,390	277,134	282,676
Interbank deposits	4,656	5,488	5,543	5,654
Customer deposits	216,085	199,033	200,390	204,607
Derivative payables	0	0	0	0
Debt equivalents	25,017	15,017	14,017	13,017
Other liabilities	13,296	13,546	13,868	13,918
Total liabilities	259,054	233,083	233,818	237,196
Shareholders' funds	39,193	41,304	43,313	45,477
Minority interest - accumulated	3	3	3	3
Total equity & liabilities	298,250	274,390	277,134	282,676

OPERATING RATIOS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Capital Adequacy				
Tier-1 CAR	16.4	17.6	17.9	18.7
Total CAR	20.8	22.2	22.7	23.5
Total assets/equity (x)	7.6	6.6	6.4	6.2
Tangible assets/tangible common equity (x)	7.6	6.6	6.4	6.2
Asset Quality				
NPL ratio	2.4	2.8	3.0	3.2
Loan loss coverage	176.6	188.8	197.4	202.3
Loan loss reserve/gross loans	4.2	5.3	6.0	6.6
Increase in NPLs	(15.1)	8.0	10.0	10.0
Credit cost (bp)	45.9	145.0	145.0	140.0
Liquidity				
Loan/deposit ratio	86.9	88.5	89.0	90.0
Liquid assets/short-term liabilities	25.0	22.9	23.0	23.0
Liquid assets/total assets	18.5	17.1	17.1	17.1

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Growth				
Net interest income, yoy chg	1.4	2.7	2.4	1.0
Fees & commissions, yoy chg	(5.6)	(12.9)	5.5	10.7
Pre-provision profit, yoy chg	(8.2)	7.4	4.6	5.3
Net profit, yoy chg	3.7	(16.7)	8.4	7.9
Net profit (adj.), yoy chg	3.7	(16.7)	8.4	7.9
Customer loans, yoy chg	1.6	(8.0)	0.8	2.4
Customer deposits, yoy chg	11.9	(7.9)	0.7	2.1
Profitability				
Net interest margin	4.3	4.6	4.9	4.9
Cost/income ratio	47.7	42.6	41.8	40.9
Adjusted ROA	2.4	2.1	2.4	2.5
Reported ROE	18.9	15.1	15.5	16.0
Adjusted ROE	18.9	15.1	15.5	16.0
Valuation				
P/BV (x)	1.9	1.8	1.7	1.6
P/NTA (x)	1.9	1.8	1.7	1.6
Adjusted P/E (x)	10.0	12.0	11.1	10.2
Dividend Yield	8.5	5.0	6.3	6.8
Payout ratio	85.3	60.0	70.0	70.0

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