

TISCO FINANCIAL GROUP PLC

No. 60/2022
21 April 2022

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 21/04/21

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 Financial Group PLC (TISCO) at “A-” with a “stable” outlook. The company rating is derived from TISCO’s group credit profile (GCP) of “a”. The rating on TISCO, as a non-operating holding company of the group, is one notch below GCP. This reflects the degree of structural subordination of TISCO’s obligations to its operating subsidiaries’ obligations.

TISCO’s GCP mainly mirrors the credit profile of TISCO Bank PLC (TISCOB, rated “A/Stable” by TRIS Rating), given the bank’s core operating entity, with assets accounting for more than 90% of the group’s total assets. The stand-alone credit profile (SACP) of TISCOB reflects its strong market position in auto lending, solid capital position and above-average earnings capacity, and its prudent risk management.

KEY RATING CONSIDERATIONS

A non-operating financial holding company

TISCO is a non-operating financial holding company (NOHC) of TISCOB, its wholly-owned banking subsidiary, being its core operating entity. TISCOB’s consolidated assets represented 93.8% of the group’s consolidated assets at the end of 2021. Other operating entities within the group encompass TISCO Asset Management Co., Ltd. (TISCOAM) and TISCO Securities PLC (TISCO Sec).

As a NOHC, TISCO relies on dividends mainly from TISCOB to service its obligations. There is the risk of potential regulatory intervention on dividend payment from TISCOB to TISCO in a stress scenario. Anecdotally, the Bank of Thailand’s (BOT) has placed restriction on banks’ dividend payments for 2020-2021 to preserve the banks’ capital due to rising credit costs.

Strengthened non-banking operations support business stability

TISCO’s business position continues to be assessed as ‘moderate’. The business position reflects both business stability and business diversity. In terms of business stability, it reflects the overall market position and franchise strength of the major subsidiaries within the group. The strengthening of TISCOAM’s business has helped counterbalance TISCOB’s weakening of market position as seen in steady loan portfolio contraction over the past few years.

Strong revenue diversification underpins business diversity

TISCO remains superior to peers in terms of revenue diversification. Despite the loan contraction at TISCOB, the group has been able to maintain relatively stable fee income. Net fee and service income to total revenue made up 29.8% in 2021 and 27.2% in 2020 of total revenue, the highest among listed Thai commercial banks. This comprised mainly fees from bancassurance, fund management, and securities brokerage.

Non-interest income also contributed a large portion of about 34% of total revenue in 2021. Bancassurance has been strengthened by increased partnership with automakers to provide auto repair insurance services. Its business partners currently include GWM Group, Nissan Motor Group, Ford Group, and Mazda Group.

Solid position in managing provident funds

TISCOAM, the group's key subsidiary operating fund management, has consistently strengthened its franchise consistently, particularly in the provident fund management segment. The company had the highest market share of 16.9% in this segment at the end of 2021, with assets under management (AUM) of THB227 billion, up 10.3% from previous year. For mutual fund, AUM also expanded strongly by 25.7% to THB67 billion at the end of 2021. The growth resulted in TISCO's basic fee income from fund management business increasing at a compound annual growth rate (CAGR) of 12.3% over the past five years.

Robust capital position

Our assessment of TISCO's capital position mirrors that of TISCOB, which has been consistently strong and is likely to remain so in the next three years. The bank's common equity Tier 1 (CET1) ratio has gradually risen over the years to 20.16% at the end of 2021. This owes largely to a combination narrower asset base due to steady loan contraction and accumulation of retained earnings driven by healthy profitability. Meanwhile, quality of capital is at an average level, with CET1 accounting for 80% of the bank's total capital at the end of 2021. Based on our conservative loan growth assumptions and dividend pay-out ratio of 50%-90%, TISCOB's CET1 ratio should be between 19%-20% in 2022-2024.

Strong profitability

TISCO's profitability has been substantially stronger than the industry average. This is evidenced by the company's return on average assets (ROAA) of 2.11% and 2.61% in 2020 and 2021, respectively, compared with 0.69% and 0.81% for the industry. This follows the company's focus on high-yielding retail lending, well-managed funding cost, strong fee income, and sound asset quality. TISCO's risk-adjusted net interest margin (NIM) widened to 4.01% in 2021 from 3.41% in 2020, also higher than industry average of 1.7% in both years.

We expect TISCO to maintain its strong profitability over the next three years. In our base-case projection, we forecast TISCO's ROAA will be between 2.8%-2.9% in 2022-2024. The improvement will be mainly driven by an expansion of risk-adjusted NIM and net fee and services income growth.

Low financial leverage

On a consolidated basis, TISCO's funding profile largely reflects that of TISCOB which included deposits of THB168 billion, interbank and money-market liabilities of THB7.9 billion, as well as debt issues and borrowings of THB8.9 billion at the end of 2021. On a stand-alone basis, its financial leverage remains low. At the end of 2021, TISCO had THB6.6 billion debt obligations due over the next 12 months, increasing from THB5.4 billion at the end of 2020.

BASE-CASE ASSUMPTIONS

Our base-case assumptions for TISCO during 2022-2024 are as follows:

- Loan growth: flat in 2022 and 2% per annum thereafter
- Net interest margin: 4.70%-4.96%
- Cost-to-income: 43.5%
- Credit cost: 0.8%-0.9%
- Non-performing loan (NPL) ratio (excluding interbank assets): 2.35%-2.43%

RATING OUTLOOK

The "stable" rating outlook reflects the rating outlook on TISCOB as the core operating subsidiary of TISCO.

RATING SENSITIVITIES

The ratings and/or outlook on TISCO move in tandem with the ratings and/or outlook on TISCOB. Rating upside for TISCO could derive from significant and sustained enhancement of TISCOB's market position, while maintaining sound capital position and asset quality.

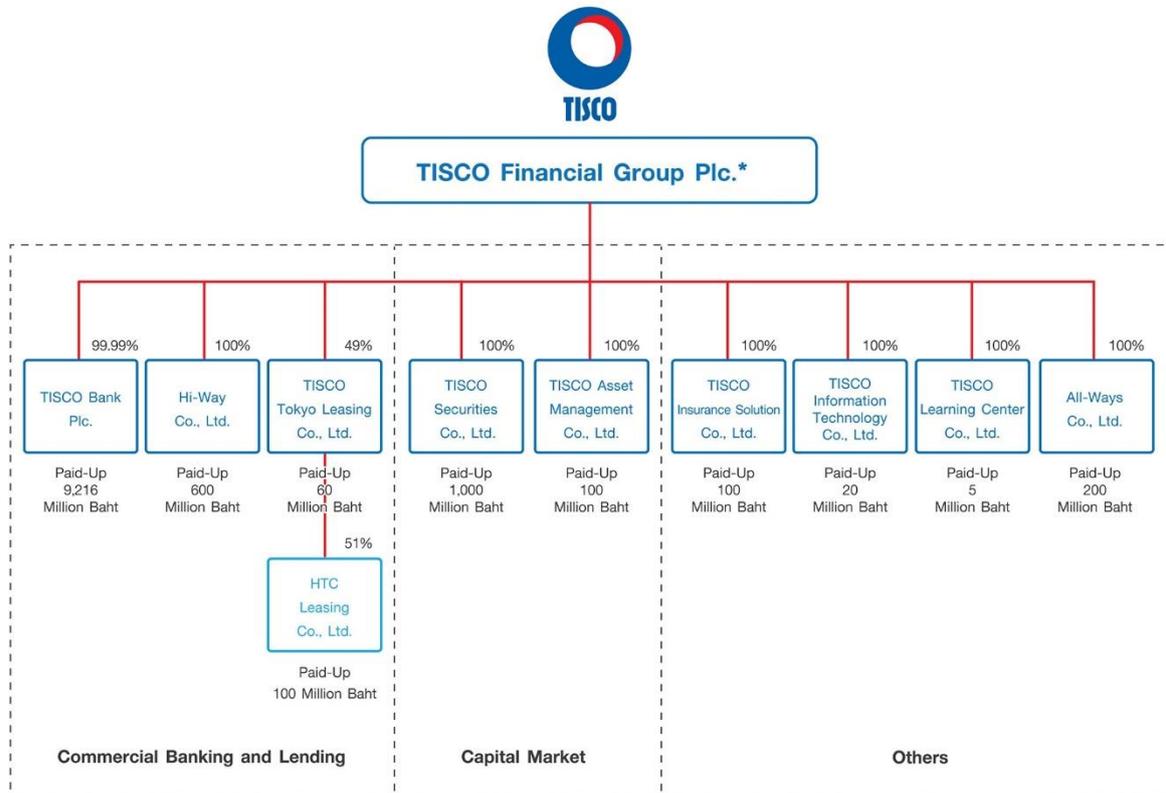
COMPANY OVERVIEW

TISCO was established in 2008 as a holding company, replacing TISCOB as the parent company of the TISCO Group. The change took place after the holding company's restructuring plan, under the consolidated supervision scheme, was approved by the Bank of Thailand (BOT) in November 2008. TISCO made a tender offer for 99.99% shares of TISCOB in exchange for its own newly-issued shares. The swap ratio was 1:1. TISCO commenced operations on 1 January 2009, with registered capital of THB11 billion and paid-up capital of THB7.2 billion. On 15 January 2009, TISCO was listed on the Stock Exchange of Thailand (SET) 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 Leasing Co., Ltd. (TISCOL), and TISCO Information Technology Co., Ltd. (TISCOIT). As of December 2017, TISCO’s issued and paid-up capital was THB8 billion.

The TISCO Group entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT) in 2016. Towards the end of 2017, the Group completed the transfer. The transaction entailed transfers of loan assets and liabilities from SCBT’s retail banking operation to TISCOB and All-Ways Co., Ltd.

Table 1: TISCO Group Structure



*Listed in The Stock Exchange of Thailand

Source: TISCO’s company website

TISCOB is the core bank of the TISCO Group. TISCOB, formerly named “TISCO Finance PLC”, was established in 1969 as a finance company. TISCOB was listed on the SET in 1983. In October 2004, TISCOB received approval from the Ministry of Finance (MOF) to upgrade its status to a commercial bank. TISCOB commenced banking operations on 1 July 2005 and changed its name to “TISCO Bank PLC”.

TSC, formerly named “Thai Securities Co., Ltd.”, was founded in 1975 as a subsidiary of the TISCO Group. TSC provides securities brokerage and investment banking services. In March 2011, TISCO Investment Advisory Co., Ltd. (TISCOIA) was established. TISCOIA was later renamed Deutsche TISCO Investment Advisory Co., Ltd. (DTIA), after TSC partnered with Deutsche Bank in 2012. TSC holds a 51% stake in DTIA, while the remainder is owned by Deutsche Bank. DTIA was granted approval from the MOF and the Securities and Exchange Commission (SEC) to operate an investment advisory business.

TISCOASSET, a fund management subsidiary, was established in 1992. TISCOASSET offers a complete line of asset management services, including provident funds, private funds, and mutual funds.

In 2017, TISCOB, its commercial banking operation unit, contributed more than 87% of TISCO’s total net interest income and non-interest income. The remaining portion of TISCO’s revenue came from its other subsidiaries and affiliates in securities brokerage and asset management businesses - TISCOASSET, TSC, and Hi-Way.

In the same year, TISCO acquired the retail banking business of SCBT. This entailed a transfer of THB33.7 billion of loan assets and THB14.6 billion of deposits to TISCOB and All-Ways, a subsidiary of TISCO. Around THB31.4 billion were retail loans comprising mortgages, home-equity, personal, and credit-card loans. The remaining THB2.2 billion were loans to small and medium-sized enterprises (SMEs). The majority of deposits were retail current accounts and savings accounts (CASA).

In 2018, TISCOB and All-Ways, respectively, completed a sale of personal loan portfolios and credit card business to Citibank N.A., Bangkok branch. The combined portfolios totaled an approximate THB5.2 billion.

On 4 September 2019, TISCO and TISCOS, which is a subsidiary in the TISCO Group, signed an agreement to terminate the joint venture agreement in “DTIA”, a joint venture between TISCOS and Deutsche Bank Group that operated under an investment advisory license in Thailand. The agreement was effective from 9 September 2019 onward. Subsequent to the termination, TISCOS will continue its businesses to provide securities brokerage service and equity research as usual.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	243,622	275,443	298,143	302,545	303,388
Average assets	259,533	286,846	300,344	302,967	287,334
Interbank and money market items	30,489	38,212	45,300	54,071	44,647
Investments	10,124	12,126	9,363	9,012	7,547
Loans and receivables	204,662	226,714	244,067	241,297	252,099
Loan loss reserves	11,740	11,826	10,717	11,674	11,456
Deposits	166,542	203,473	216,085	193,108	180,804
Borrowings ²	23,043	18,634	29,673	59,932	75,097
Shareholders' equities	41,200	39,462	39,196	37,829	34,732
Average equities	40,331	39,329	38,512	36,280	33,029
Net interest income	12,460	13,098	12,792	12,615	11,567
Net fees and service income	5,615	5,146	6,185	6,095	6,099
Non-interest income ³	6,376	5,806	6,643	7,418	6,827
Total revenue	18,836	18,904	19,436	20,033	18,394
Operating expenses ⁴	8,279	8,012	9,271	8,753	7,671
Pre-provision operating profit (PPOP)	10,557	10,892	10,165	11,280	10,723
Expected credit loss	2,064	3,331	1,109	2,701	3,079
Net income	6,785	6,064	7,273	6,915	6,158

- 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 -----				
	2021	2020	2019	2018	2017
Earnings					
Return on average assets	2.61	2.11	2.42	2.31	2.13
Net interest margins	4.80	4.57	4.26	4.15	4.03
Risk-adjusted net interest margins	4.01	3.41	3.89	3.26	2.96
Net interest income/average assets	4.80	4.57	4.26	4.16	4.03
Non-interest income ⁵ /average assets	2.46	2.02	2.21	2.45	2.36
Net fees and service income/total revenue	29.81	27.22	31.82	30.23	33.23
Cost-to-income	43.95	42.38	47.70	43.42	41.79
Capitalization					
CET1 ratio ⁶	18.56	17.48	16.34	16.75	14.96
Total capital ratio ⁶	23.18	21.86	20.73	21.46	19.39
CET1/Total capital ⁶	80.09	79.97	78.82	78.08	77.15
Asset Quality					
Credit costs	0.97	1.42	0.46	1.10	1.30
Non-performing loans/total loans ⁷	2.44	2.50	2.40	2.86	2.32
Loan loss reserves/non-performing loans ⁷	236.74	210.48	183.68	169.77	196.54
Funding & Liquidity					
CASA/total deposit ⁸	29.48	26.30	18.71	29.60	37.79
Loan/total deposits ⁸	121.86	110.49	112.38	124.62	139.04
Deposits ⁹ /total liabilities	82.27	86.22	83.45	72.95	67.30
Liquidity coverage ratio	168.4	138.5	N.A.	N.A.	N.A.
Liquid assets/total assets	17.12	18.72	18.70	21.24	17.64
Liquid assets/total deposits ⁹	23.89	24.64	25.26	32.55	28.96

5 Net of fee and service expenses

6 Bank-only

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

8 Excluding bills of exchange and interbank borrowing

9 Including bills of exchange and interbank borrowing

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

- Banks Rating Methodology, 3 March 2020

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

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