

TISCO FINANCIAL GROUP PLC

No. 61/2023
18 April 2023

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 21/04/22

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. As a non-operating holding company (NOHC) of the group, the rating on TISCO is one notch below the group credit profile (GCP) of TISCO Group, assessed at “a”. This reflects the degree of structural subordination of TISCO’s obligations to its operating subsidiaries’ obligations.

Our assessment of the GCP of TISCO Group is based on the consolidated credit profile of TISCO Bank PLC (TISCOB, rated “A/stable”) and other operating entities. The GCP largely reflects TISCOB’s credit profile as the bank’s assets represent more than 90% of the group’s total assets.

KEY RATING CONSIDERATIONS

A non-operating financial holding company (NOHC)

The rating on TISCO is one notch below the GCP of TISCO Group. This reflects the structural subordination of TISCO’s obligations to those of its subsidiaries with respect to claims against the operating assets at its subsidiaries. TISCO operates the commercial banking business through TISCOB, its wholly-owned banking subsidiary. Other major operating entities under the group comprise 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 debt. There is the risk of potential regulatory intervention surrounding payments of dividends from TISCOB to TISCO in a stress scenario.

Strength in auto lending with modest operating scale

TISCO’s banking subsidiary, TISCOB, is the fifth largest auto lender among Thai commercial banks. TISCOB’s outstanding auto loans, including auto hire purchase (HP) and auto title loans, amounted to THB140 billion at the end of 2022, up 2.3% year-on-year (y-o-y). Despite its strength in auto lending, the bank has been scaling back on new auto HP lending since the start of COVID-19 in 2020. This is due to selective growth strategy which focuses on quality credit and high risk-adjusted return lending. The bank has only started booking new loans more actively in the second half of 2022. We expect market position to be maintained, given the moderate growth strategy starting in 2023.

Extensive financial service provider

TISCO is one of the leaders in the financial advisory industry under the “TISCO Wealth” brand. In our view, TISCO’s competitive edge is due to its highly experienced relationship managers and strong research team. The company focuses on providing comprehensive retirement planning services, covering both wealth creation and wealth protection, through its open architecture platform. Also, TISCO has recently strengthened its service capability by collaborating with leading insurance companies to develop retirement insurance solutions. We expect wealth management and bancassurance businesses to be the key growth drivers of TISCO’s fee-based business over the next three years.

Strong capital position

We consider TISCO’s capitalization a key rating strength, underpinned by its strong consolidated common equity Tier-1 (CET-1) ratio of 17.2% at the end of 2022. The figure was well above the industry average of 15.3%. TISCO’s strong capital position has been a result of loan portfolio contraction in the past few

years, but more crucially, it has also been attributable to its robust capital accretion given the highest earnings generation among full commercial banks in Thailand.

We anticipate TISCO's CET-1 ratio to decrease slightly to the 16%-17% range in 2023-2025 due to its strategy to revive loan growth. We assume TISCO will pursue moderate loan growth of 5% per year and maintain a dividend payout ratio at high level over the next three years. We believe TISCO's prudent capital management and strong earnings generation capacity will allow the company to sustain its strong capitalization and withstand the uncertainty over the next three years.

Solid earnings capacity to continue

We expect TISCO to maintain superior profitability, as measured by return on average assets (ROAA), over the next three years. We estimate TISCO's ROAA to be 2.4% in 2023-2025. TISCO's ROAA was 2.84% in 2022, the highest among Thai commercial banks. This was attributed to the company's superior risk-adjusted net interest margin (NIM) and flexible operating cost structure. TISCO's risk-adjusted NIM was 4.7% in 2022, well above the industry average of 1.9%. Also, TISCO's relatively well-managed asset quality and prudent provisioning policy have helped reduce provisioning risk, resulting in improved profitability in recent years.

In a base-case scenario, we forecast TISCO's NIM to decline slightly from 5% in 2022. This will mainly be due to elevated funding costs and the Financial Institutions Development Fund (FIDF) fee, which will rise to a normalized level after the 50% reduction in 2020-2022. We also estimate TISCO's credit cost to be at 0.5% of average loans, more than the 2022 level but still below its normalized level of 0.7%-0.8%.

Prudent risk management policy

TISCO's asset quality has remained resilient in previous years. This is evidenced by its low non-performing loan (NPL) formation rate of 0.1% in 2022, the lowest among Thai commercial banks with the industry average being around 1%. As for auto loans classified in Stage 2, the ratio has been higher than its direct peers, but has been trending downward, supported by assistance programs offered to borrowers with financial difficulties. Meanwhile, the NPL ratio dropped to 2.1% at the end of 2022 from 2.4% at the end of 2021. Although there remains the risk of asset quality deteriorating given the uneven economic recovery and high inflation, we expect TISCO to still manage its asset quality, with the NPL ratio projected to remain stable at around 2.0% over the next three years. TISCO also has strong reserves to cushion against uncertainty with a robust loan loss coverage ratio of around 260% at the end of 2022, the second highest among our rated peers.

Reliance on high-cost deposit

We continue to view TISCO's funding profile as below average, in line with other non-domestic systemically important (DSIB) banks. Total deposits made up about 80% of total funding at the end of 2022. Although the proportion of deposits to funding is lower than the 90% figure for the major banks, the overall funding profile is appropriate for its loan mix, in our view. With fixed-rate auto HP loans comprising 67% of total loans at the end of 2022, the reliance on wholesale funding and term deposits helps mitigate asset-liability mismatch.

That said, with its deposits comprising largely high-cost fixed deposits from high-net-worth individuals, this resulted in relatively high funding costs and concentration of funding, similar to other non-DSIB banks. Its deposit cost was 0.98% while total funding cost was 1.09% in 2022, compared with the industry average of 0.67% and 0.78%, respectively. TISCO has the lowest current account-savings account (CASA) at 23.8% of total deposits of at the end of 2022.

Sound liquidity

TISCO's liquidity position reflects that of TISCOB, which we consider adequate. Liquidity coverage ratio (LCR) has improved in recent years to 155% at the end of 2022 from 168% at the end of 2021. This level is considered moderate compared to banking peers but well above the minimum regulatory requirement of 100%. The ratio of liquid assets to total deposits was at 17.9% at the end of 2022, while short-term wholesale funding was at a healthy level of 5.2 times.

BASE-CASE ASSUMPTIONS

The following are our base-case assumptions for TISCO in 2023-2025:

- Loan growth: 5% per annum
- Net interest margin: 4.6%-4.7%
- Cost-to-income: 47%-48%
- Credit cost: 0.5%
- NPL ratio (excluding interbank assets): 2%
- CET-1 ratio: 16.6%-17.2%

RATING OUTLOOK

The “stable” outlook reflects our expectation that TISCO will maintain its superior earnings capability and relatively strong franchise in auto lending, well-managed asset quality, and strong capital.

RATING SENSITIVITIES

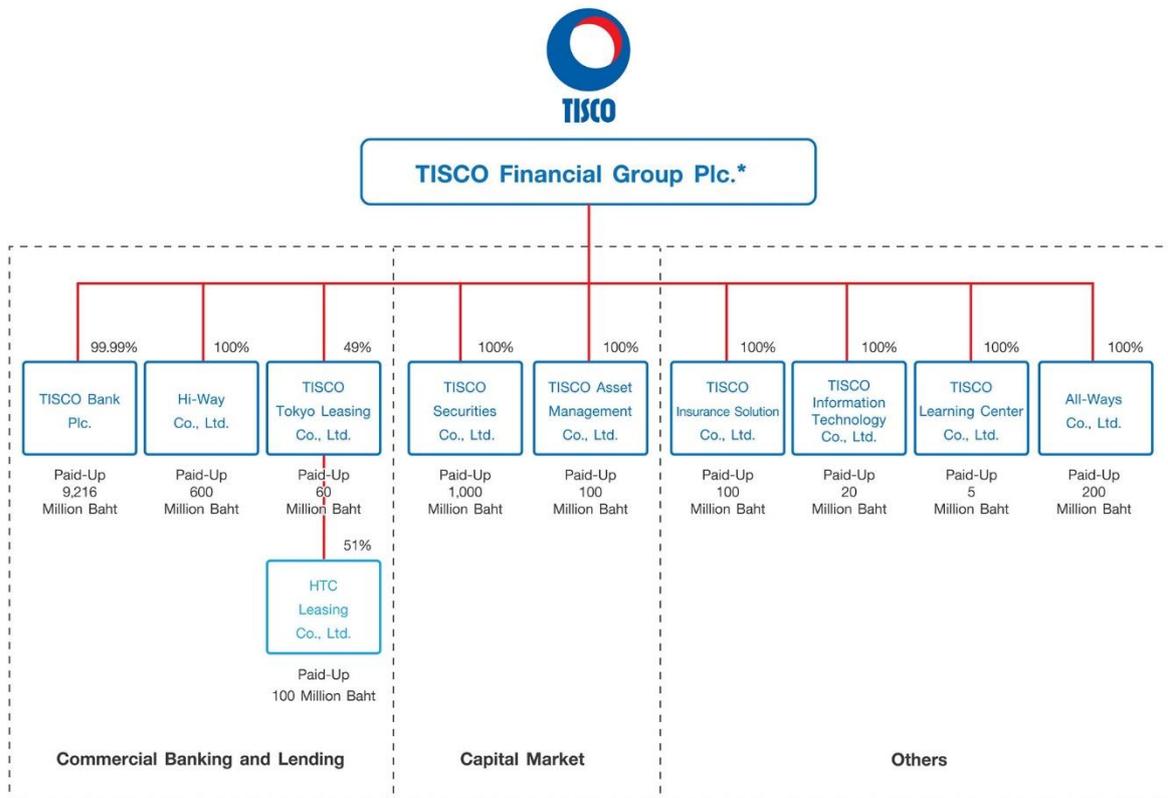
A rating upgrade will depend on TISCO’s ability to at least maintain its franchise relative to the industry and further diversify asset mix and revenue structure. Also, strong asset quality and capital position should be maintained, while funding profile notably improves. A downgrade scenario would emerge if there were any material weaknesses in TISCO’s asset quality, capital, and profitability.

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 RATIOS¹

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	265,414	243,622	275,443	298,143	302,545
Average assets	254,518	259,533	286,793	300,344	302,967
Interbank and money market items	40,272	30,489	38,212	45,300	54,071
Investments	6,162	10,124	12,126	9,363	9,012
Loans and receivables	220,726	204,662	226,714	244,067	241,297
Loan loss reserves	11,845	11,740	11,826	10,717	11,674
Deposits	188,266	166,542	203,473	216,085	193,108
Borrowings ²	21,952	23,043	18,634	29,673	59,932
Shareholders' equities	42,791	41,200	39,462	39,196	37,829
Average equities	41,996	40,331	39,329	38,512	36,280
Net interest income	12,734	12,460	13,098	12,792	12,615
Net fees and service income	5,046	5,603	5,146	6,185	6,095
Non-interest income ³	5,571	6,363	5,806	6,643	7,418
Total revenue	18,305	18,823	18,904	19,436	20,033
Operating expenses ⁴	8,591	8,267	8,012	9,271	8,753
Pre-provision operating profit (PPOP)	9,714	10,557	10,892	10,165	11,280
Expected credit loss	723	2,064	3,331	1,109	2,701
Net income	7,225	6,785	6,064	7,273	6,915

- 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 -----				
	2022	2021	2020	2019	2018
Earnings					
Return on average assets	2.84	2.61	2.11	2.42	2.31
Net interest margins	5.00	4.80	4.57	4.26	4.15
Risk-adjusted net interest margins	4.72	4.01	3.41	3.89	3.26
Net interest income/average assets	5.00	4.80	4.57	4.26	4.16
Non-interest income ⁵ /average assets	2.19	2.45	2.02	2.21	2.45
Net fees and service income/total revenue	27.56	29.77	27.22	31.82	30.23
Cost-to-income	46.93	43.92	42.38	47.70	43.69
Capitalization					
CET-1 ratio ⁶	17.15	18.56	17.48	16.38	16.75
Total capital ratio	20.62	23.18	21.86	20.78	21.46
CET-1/Total capital	83.18	80.09	79.97	78.82	78.08
Asset Quality					
Credit costs	0.34	0.97	1.42	0.46	1.10
Non-performing loans/total loans ⁶	2.09	2.44	2.50	2.40	2.86
Loan loss reserves/non-performing loans ⁶	258.82	236.83	210.48	183.68	169.77
Funding & Liquidity					
CASA/total deposit ⁷	23.77	29.48	26.30	18.71	29.60
Loan/total deposits ⁷	116.33	121.86	110.49	112.38	124.62
Deposits ⁸ /total liabilities	84.57	82.27	86.22	83.45	72.95
Liquidity coverage ratio	154.6	168.4	138.5	N.A.	N.A.
Liquid assets/total assets	17.87	17.12	18.72	18.70	21.24
Liquid assets/total deposits ⁸	24.40	23.89	24.64	25.26	32.55

5 Net of fee and service expenses

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

7 Excluding bills of exchange and interbank borrowing

8 Including bills of exchange and interbank borrowing

RELATED CRITERIA

- Bank Rating Methodology, 20 March 2023
- Group Rating Methodology, 7 September 2022

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

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