

TISCO BANK PLC

No. 61/2022
21 April 2022

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Rating:	
Senior unsecured	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 Bank PLC (TISCOB) at “A” and the rating on its senior unsecured debentures at “A” with a “stable” outlook. The ratings on TISCOB are equivalent to the group credit profile (GCP) of TISCO Financial Group PLC (TISCO) at “a” due to the bank’s status as a core entity of the group.

TISCOB’s stand-alone credit profile (SACP) of “a” reflects its strong franchise in auto lending, solid capital position and earnings capacity, and its prudent risk management. These strengths are constrained by TISCOB’s modest banking franchise, and its relatively weak funding profile compared to peers.

KEY RATING CONSIDERATIONS

Auto lending franchise remains strong despite loan contraction

TISCOB’s business position is anchored by its established franchise as the fifth largest auto hire purchase (HP) lender (including auto title loans). This is despite its penetration rate declining gradually over recent years owing to its conservative growth strategy. The bank’s penetration rate fell to 4.5% in 2021, compared with its peak in the last five years of 7.2% in 2017.

Loan expansion in other segments have also been less active over the last four years compared to growth in preceding years. TISCOB’s loan portfolio hence remains concentrated in auto lending, which still represented a major portion of 71% of its loan portfolio at the end of 2021.

Solid capital position

TISCOB’s capital position remains strong and 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 the combination of a narrower asset base due to steady loan contraction and the accumulation of retained earnings driven by healthy profitability.

Meanwhile, quality of capital is at an average level, with CET-1 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 CET-1 ratio should be between 19%-20% in 2022-2024.

Strong earnings capacity supports capital generation

We expect TISCOB to maintain its strong earnings capacity over the next three years. TISCOB’s return on average asset (ROAA) in 2021 was 1.62%, up from 1.38% in 2020. The improvement was backed by wider net interest margin (NIM) and lower provisions for expected credit loss (credit cost). The figure remained well above the Thai commercial banks average of 0.81% during the same period.

TISCOB has been able to sustain its net interest income of around THB11 billion per annum despite a loan contraction of 19.4% over the past four years. TISCOB’s risk-adjusted net interest margin (NIM) rose to 3.91% in 2021 from 3.37% in 2020, supported by high-yielding retail loans, lower funding cost, and strong fee income. The bank’s high-yielding retail loans, which accounted for 23.2% of total loans at the end of 2021, comprise auto title loans, used car HP loans, and motorcycle HP loans. Over the next three years, TISCOB’s ROAA is likely to improve to 1.7%, buoyed by its ability to sustain healthy profitability and well managed asset quality.

Strong asset quality and reserves

TISCOB has maintained strong asset quality throughout the Coronavirus Disease 2019 (COVID-19) pandemic, thanks to its prudent risk management and cautious growth strategy. This is reflected in its relatively low non-performing loan (NPL) and loans under relief programs together with high loan loss reserves. TISCOB's NPL ratio (excluding interbank assets) fell to 2.18% at the end of 2021 from 2.22% at the end of 2020, compared with the industry average of 3.7% at the same period.

The bank's loan under relief programs also declined from its peak of 24% at the end of June 2020 to 8% at the end of 2021, a lower level compared to the industry average of 14%. Its NPL coverage ratio also hit a record high of 247.8% at the end of 2021, the highest among Thai commercial banks. TISCOB's asset quality should remain relatively stable in 2022 given its selective credit expansion strategy and modest exposure in vulnerable segments such as small and medium enterprises (SMEs) (4.2% of total loans).

Reliance on high-cost retail deposits

TISCOB's funding profile continues to be assessed as "below average" compared to that of major Thai commercial banks, despite TISCOB's deposit mix improving over the past few years. At the end of 2021, the proportion of retail deposits was at a record high of 71% of total deposits, a significant increase from 59% at the end of 2020. Its funding profile remains constrained by reliance on high-cost fixed deposits from high-net-worth individuals, similar to other small-size banks. This is reflected in its deposit cost of 1.05% in 2021, which is higher than the industry average of 0.67%.

In 2021, TISCOB's total customer deposits decreased by 18% due to its funding management policy aligned with its cautious growth strategy. Nonetheless, TISCOB's customer deposits made up a major portion of 90.9% of its total funding at the end of 2021, in line with an industry average of 86.9%. Loan-to-deposit ratio remains the highest in the industry, rising to 117.6% as of the end of 2021 from 108.9% at the end of 2020, compared with the industry average of 94.2%.

Sufficient liquidity

We expect TISCOB to maintain its adequate liquidity profile over the next few years. At the end of 2021, the bank's liquid asset to total deposits ratio was at 22.5%, sufficient and above our cautionary threshold of 20%. The liquidity coverage ratio (LCR) stood at the average of 168.4% during the fourth quarter of 2021, above the regulatory requirement, albeit weaker than the average for Thai banks of 189.2% reported by the Bank of Thailand (BOT).

BASE-CASE ASSUMPTIONS

The following are our base-case assumptions for TISCOB during 2022-2024:

- Loan growth: flat in 2022 and 2% per annum thereafter
- Net interest margin: 4.24%-4.59%
- Credit cost: 0.5%-0.6% of average loans
- NPL ratio (excluding POCl): 2.1%-2.17%
- CET1 ratio: 19.76%-20.97%

RATING OUTLOOK

The "stable" outlook reflects our expectation that TISCOB will maintain its earnings capability and strong franchise in auto lending, well-managed asset quality, and strong capital.

RATING SENSITIVITIES

A rating upgrade will depend on TISCOB's ability to at least maintain its franchise relative to the industry and further diversify revenue structure. Moreover, asset quality and capital position should remain strong, while funding profile gradually improves. A downgrade scenario would emerge if there were material weakness in TISCOB's asset quality, capital, and profitability.

COMPANY OVERVIEW

TISCOB, formerly named "TISCO Finance PLC", was established in 1969 and was listed on the Stock Exchange of Thailand (SET) in 1983. In the aftermath of the 1997 financial crisis, TISCO Finance entered into the Tier 1 capital support scheme offered by the Ministry of Finance (MOF) in 1999. As a result, the MOF became a major shareholder with a 42.84% stake in TISCO Finance. The MOF's shareholding in TISCO Finance was later reduced to 0.05%. In October 2004, TISCO Finance received approval from the MOF to upgrade its status to a commercial bank. TISCO Finance commenced its banking operations on 1 July 2005 and changed its name to "TISCO Bank PLC".

In accordance with the consolidated supervision regulatory framework of the BOT, in November 2008 the restructuring plan of TISCOB's holding company was approved by the MOF. TISCO was established in 2008 as a holding company and the parent company of the TISCO Group in place of TISCOB. On 15 January 2009, TISCO was listed on the SET in place of TISCOB 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, TISCO Insurance Solution Co., Ltd., and TISCO Information Technology Co., Ltd. (TISCOIT)). The TISCO Group now offers all major types of financial services including banking, HP lending, securities brokerage, and asset management.

In 2016, the TISCO Group entered into an agreement to acquire the retail banking business of Standard Chartered Bank (Thai) PLC (SCBT). The unsecured consumer loans (credit card loans and personal loans) with combined portfolios totaling THB5.2 billion were later sold to Citibank N.A., Bangkok branch.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	228,615	264,921	285,265	290,698	288,275
Average assets	246,768	275,093	287,982	289,487	274,509
Interbank and money market items	29,062	36,961	44,050	53,089	43,177
Investments	7,650	10,191	7,672	6,994	5,932
Loans and receivables	198,881	224,740	239,272	237,209	245,607
Loan loss reserves	10,666	10,938	10,081	11,052	10,709
Deposits	167,925	204,859	218,433	195,216	181,499
Borrowings ²	16,829	16,714	22,549	53,590	67,492
Shareholders' equities	34,665	32,656	31,303	30,323	28,925
Average equities	33,660	31,979	30,813	29,624	28,184
Net interest income	11,153	11,879	11,761	11,794	10,848
Net fees and service income	1,615	1,794	2,741	3,126	3,182
Non-interest income ³	1,978	2,148	3,185	4,129	3,791
Total revenue	13,131	14,027	14,946	15,923	14,639
Operating expenses ⁴	6,815	6,854	7,809	7,396	6,495
Pre-provision operating profit (PPOP)	6,316	7,173	7,137	8,527	8,121
Expected credit loss	1,300	2,437	636	2,390	2,760
Net income	4,002	3,786	5,204	4,910	4,301

- 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	1.62	1.38	1.81	1.70	1.57
Net interest margins	4.42	4.24	4.01	3.99	3.89
Risk-adjusted net interest margins	3.91	3.37	3.79	3.18	2.90
Net interest income/average assets	4.52	4.32	4.08	4.07	3.95
Non-interest income ⁵ /average assets	0.80	0.78	1.11	1.43	1.38
Net fees and service income/total revenue	12.30	12.79	18.34	19.63	21.74
Cost-to-income	51.90	48.86	52.25	46.45	44.44
Capitalization					
CET-1 ratio ⁶	20.16	18.07	17.33	17.85	15.98
Total capital ratio ⁶	25.20	22.78	22.06	22.91	20.72
CET-1/Total capital ⁶	80.00	79.33	78.58	77.92	77.12
Asset Quality					
Credit costs	0.62	1.06	0.27	0.99	1.18
Non-performing loans/total loans ⁷	2.18	2.22	2.22	2.67	2.16
Loan loss reserves/non-performing loans ⁷	247.77	221.14	190.50	175.05	201.89
Funding & Liquidity					
CASA/total deposit ⁸	29.96	26.40	18.69	29.39	37.73
Loan/total deposits ⁸	117.55	108.89	109.03	121.49	135.29
Deposits ⁸ /total liabilities	86.58	88.20	86.01	74.97	69.98
Liquidity coverage ratio	168.4	138.5	N.A.	N.A.	N.A.
Liquid assets/total assets	16.54	18.26	18.52	21.08	17.49
Liquid assets/total deposits ⁹	21.50	22.99	23.76	30.77	27.20

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 Bank PLC (TISCOB)

Company Rating:	A
Issue Rating:	
TISCO243A: THB2,800 million senior unsecured debentures due 2024	A
Rating Outlook:	Stable

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