

TISCO FINANCIAL GROUP PLC

No. 52/2020
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FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 26/04/19

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 rating reflects TISCO’s creditworthiness as a non-operating holding company of the TISCO Group, whose main operating entities include TISCO Bank PLC (TISCOB) and other major subsidiaries engaged in the asset management and securities brokerage businesses. The rating also incorporates TISCO’s strong capital and earnings on a consolidated basis.

These strengths, however, are constrained by its reliance on major subsidiaries, particularly TISCOB, for dividend streams, the structural subordination of TISCO’s debt obligations to that of TISCOB’s and the risk of regulatory barriers surrounding payment of dividends from TISCOB. These factors resulted in TISCO’s rating being one notch lower than that of TISCOB.

KEY RATING CONSIDERATIONS

Diversified earnings sources

TISCO’s business position reflects diverse earnings from its major subsidiaries. The Group’s key businesses comprise commercial banking (TISCOB), securities brokerage (TISCO Securities Co., Ltd. -- TISCOS), and asset management (TISCO Asset Management Co., Ltd. -- TISCOASSET). These subsidiaries have generated healthy fee and operating profit for TISCO. Consolidated net fee income to total revenue of TISCO remained relatively high at 32% in 2019. These comprise fees mainly from banking operation (56% of total net fee before inter-group adjustment), fund management fee (21%) and securities brokerage fee (11%). In terms of pre-tax operating profit (before inter-group transaction adjustment), the majority were from its banking operation (50% of total) and asset management business (7%) in 2019.

TISCOB’s operations drive TISCO’s performance

TISCO’s performance is largely driven by TISCOB, given that TISCOB’s consolidated assets represent 96% of TISCO’s consolidated assets as of the end of 2019. TISCOB’s strength lies in the auto hire-purchase (HP) lending business. According to TRIS Rating’s database, TISCOB secured a 7.8% market share in 2018, ranking 4th out of 18 auto HP lenders in Thailand. However, TISCOB’s overall banking operation remains modest, compared with other commercial banks in Thailand.

As for securities business, TISCOS reported brokerage revenue fell by 14% year-on-year (y-o-y) to Bt178 million, largely due to the drop in average trading volume of the Thai stock market in 2019. TISCOS’ overall market share in trading volume also declined to 2.1% from 2.5%. TISCOS’ client base includes local institutions (40%), foreign investors (26%), and retail investors (34%).

For asset management, the asset under management (AUM) of TISCOASSET increased by 16.5% in 2019 to Bt290 billion. Its asset management fee rose by 15.7% to Bt1.76 billion due partly to the positive impact from the Thai Financial Reporting Standard no. 15 (TFRS 15). TISCOASSET’s managed assets included 63% provident funds, 20% private funds, and 17% mutual funds at the end of 2019.

Robust capital position

TISCO’s capital ratio is strong, with consolidated core equity Tier 1 capital (CET-1) ratio at the group level of 16.4% at the end of 2019. This is influenced by the

capital position of TISCOB, whose CET-1 ratio was at 17.4%. For TISCOB, we estimate its CET-1 ratio to be in a range of 17%-18% in 2020-2022, with TISCO's CET-1 being similar range, at 17%-18%, incorporating the risk-weighted assets of TISCO's subsidiaries. Our CET-1 estimate for TISCOB is based on our assumption that TISCOB's negative loan growth in 2020 and a growth of around 2% thereafter. We estimate TISCOB to pay dividend to TISCO in the range of 65%-75% of net profit and TISCO to pay dividend to its shareholders in a similar range. For 2019, TISCOB's dividend pay-out ratio was at 73.2%, while TISCO's dividend pay-out ratio was at 79.6%.

Low leverage on a stand-alone basis

TISCO's funding on a consolidated basis comprises mainly TISCOB's funding, which included deposits of Bt216 billion, interbank liabilities of Bt4.6 billion, debt issued and borrowings of Bt25 billion as of the end of 2019. On a stand-alone basis, TISCO had Bt6.3 billion short-term senior unsecured debentures outstanding at the end of 2019. As of current, TISCO has Bt370 million of short-term debentures outstanding, all of which will expire by the end of April 2020.

Adequate liquidity

We assess TISCO to have adequate liquidity over the next 12 months. On a consolidated basis, liquid assets to total asset ratio was 18.7% at the end of 2019, a decline from 21.2% at the end of 2018. The liquid assets comprised mainly Bt45 billion of interbank assets and Bt9.4 billion of net investments. On a stand-alone basis, TISCO's short-term debts are well covered by its liquid assets.

BASE-CASE ASSUMPTIONS

The following are our assumptions for TISCO's performance during 2020-2022:

- TISCO's loan growth to turn negative in 2020 and increase to around 2% thereafter.
- TISCO's credit cost to range between 1.0%-1.3%.
- TISCO's risk-adjusted NIM at 3.4%-3.6%.
- CET-1 ratio of 17%-18%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TISCOB will maintain its strength in auto lending, good asset quality, high earnings capacity, and strong capital. The outlook is also based on our presumption that TISCO's other major subsidiaries will continue to contribute healthy earnings to TISCO.

RATING SENSITIVITIES

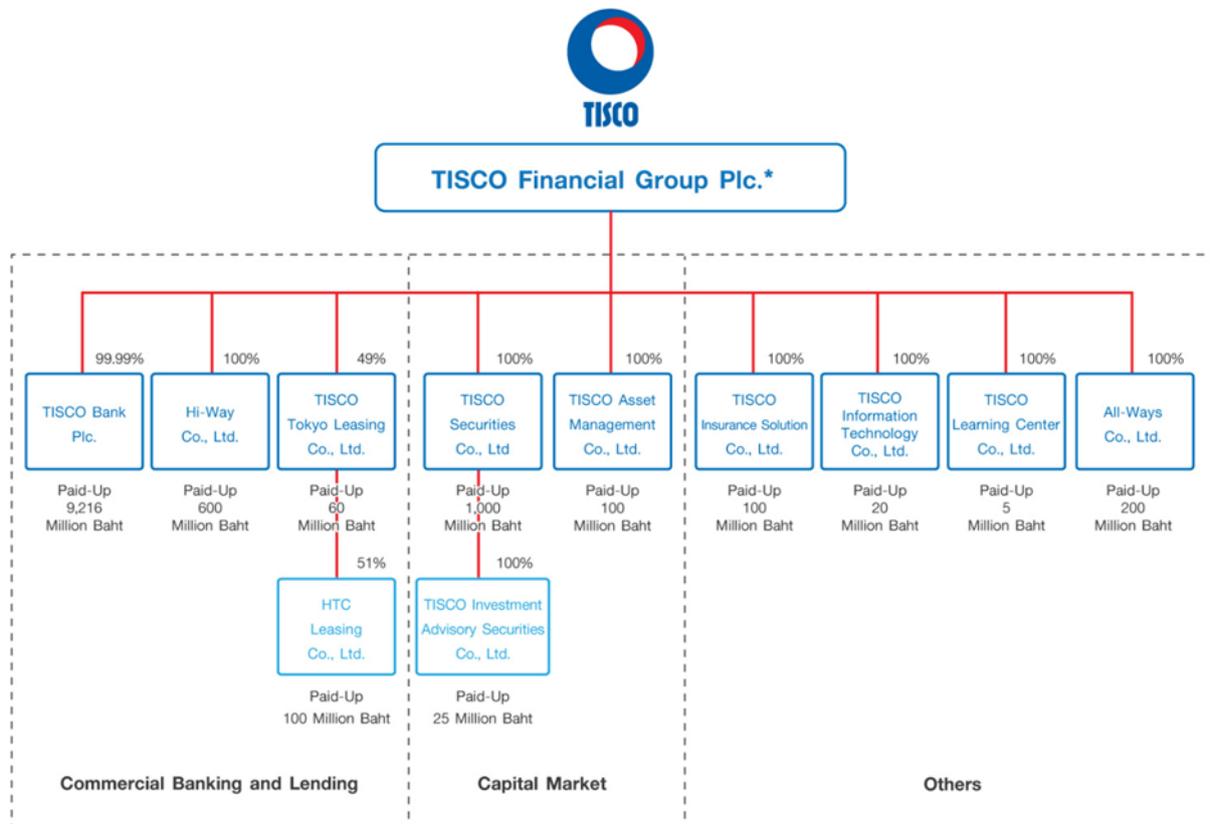
TISCO's rating is closely linked to that of TISCOB, which is the main operating bank of the TISCO Group. A change in TISCOB's rating will impact TISCO's rating. A change in group structure that results in weakening relationship between TISCOB and TISCO may also lead to a rating action.

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 Bt11 billion and paid-up capital of Bt7.2 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 Bt8 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, 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 Bt33.7 billion of loan assets and Bt14.6 billion of deposits to TISCOB and All-Ways, a subsidiary of TISCO. Around Bt31.4 billion were retail loans comprising mortgages, home-equity, personal, and credit-card loans. The remaining Bt2.2 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 totalled an approximate Bt5.2 billion.

On 4 September 4 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: Bt million

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total assets	298,304	302,545	303,388	271,272	280,294
Average assets	300,424	302,967	287,330	275,783	298,984
Investment in securities	10,177	9,812	8,121	7,632	8,617
Loans and receivables	244,067	241,297	252,099	225,455	238,802
Allowance for doubtful accounts	10,717	11,674	11,456	7,984	6,168
Deposits	216,085	193,108	180,804	155,068	158,344
Borrowings ²	29,673	59,932	75,096	75,526	84,549
Shareholders' equities	39,196	37,829	34,732	31,326	28,194
Average equities	38,513	36,281	33,029	29,760	27,009
Net interest income	12,792	12,615	11,655	10,920	10,130
Non-interest income ³	6,643	7,418	6,871	5,866	6,011
Total revenue	19,436	20,033	18,526	16,786	16,141
Operating expenses ⁴	9,271	8,753	7,671	6,541	5,527
Pre-provision operating profit (PPOP)	10,165	11,280	10,742	10,216	10,566
Impairment losses on loans and securities	1,109	2,701	3,098	3,972	5,277
Net income	7,273	6,915	6,117	5,023	4,256
Net fee and service income	6,185	6,095	6,146	5,167	5,057
Gains on investments	7	496	42	13	129

1 Consolidated financial statements

2 Including interbank and money market

3 Net of fees and service expenses

4 Excluding fees and service expense

Unit: %

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Earnings					
Return on average assets	2.42	2.28	2.13	1.82	1.42
Interest spread	3.87	3.78	3.71	3.65	3.08
Net interest margins	4.23	4.12	4.01	3.96	3.39
Net interest income/average assets	4.26	4.16	4.06	3.96	3.39
Non-interest income ⁵ /average assets	2.21	2.45	2.39	2.13	2.01
Net fee and service income/total revenue	31.82	30.43	33.17	30.78	31.33
Cost-to-income	47.70	43.69	41.70	39.03	34.35
Capitalisation					
CET-1 ratio ⁶	16.38	16.75	14.96	13.77	12.71
Tier-1 ratio ⁶	16.38	16.75	14.96	13.77	12.71
BIS ratio ⁶	20.78	21.46	19.39	18.36	16.48
CET-1/BIS ratio ⁶	78.82	78.08	77.15	75.00	77.12
Asset Quality					
Credit costs	0.46	1.10	1.30	1.71	2.10
Non-performing loans/total loans ⁷	2.40	2.86	2.32	2.54	3.23
Non-performing assets/total assets	1.78	2.09	1.75	1.89	2.48
Allowance for loan losses/non-performing loans	183.68	169.77	196.52	139.82	80.10
Funding & Liquidity					
CASA/total deposits	18.71	29.60	37.79	35.87	32.46
Loan/total deposits	112.38	124.62	139.04	145.06	150.47
Deposits/total liabilities	83.40	72.95	67.30	64.63	62.81
Liquid assets/total deposits ⁸	25.26	32.55	28.96	28.96	24.11
Liquid assets/short-term liabilities ⁹	23.48	28.01	23.65	22.45	18.53

5 Net of fee and service expenses

6 Consolidated basis

7 Based on reported NPL ratio

8 Including interbank borrowing

9 Financial liabilities with maturity less than one year

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020

- Group Rating Methodology, 10 July 2015

TISCO Financial Group PLC (TISCO)

Company Rating:	A-
Rating Outlook:	Stable

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