Siam Senses

The Thai standard

PIMPAKA NICHGAROON, CFA
Head of Research
662-779-9199
pimpaka.nic@thanachartsec.co.th

After two years of the Prayut II administration, Thailand seems to be confused about what economic model it is focusing on. *Siam Senses* in this report explains "The Thai standard", which ironically doesn't change our view on the bull market extending into next year.

Thanachart Securities

Directionless economic policies

Thailand had been left to its own devices with below-potential growth for a decade before the 2014 coup. Then came the Prayut I administration, from 2014-19, with the regime introducing a Keynesian-based spending grand plan. Now, two years into the Prayut II government, Thailand's economic policies seem directionless. This is "The Thai standard", as we call it, an unclear economic model which we see producing: 1) a reliance on an external-factors cyclical turnaround over the next two years at a below-potential growth rate and with a continuing output gap; 2) mediocre with low value-added welfare-based, consumption-tilted government spending; 3) ineffective monetary policy with an unresolved liquidity trap keeping investment weak amid elevating financial assets' valuations; and 4) tight in-disguise monetary policy that leads to a strong baht.

Bubble not bursting, in our view

If we simply take the high market PE as a sign of a bubble, then the Thai market is indeed bubbling. However, we still expect the bull market to extend into next year as "The Thai standard" continues to support financial asset prices while providing limited bursting factors. No key segments of the economy are overheating. Investors to us seem aware of weak market earnings but persistent excess savings continue to drive investment in financial assets. Large sectors aren't at high valuations while those with high valuations have strong growth prospects to back them up. Lastly, PE on a more normalized earnings outlook in 2022F is back to its historical range at 16.4x.

Themes from 'The Thai standard'

We see "The Thai standard" creating investment themes of a global turnaround benefiting the electronics and export sectors; the Thai provinces being a beneficiary of commodities reflation; government welfare schemes and populism benefiting provincial consumption; excess savings not being channeled into investments, prolonging low rates and high valuations; and the COVID situation and an uneven economic turnaround enhancing benefits for "big-fish" firms (see Ex 23).

Near-term view

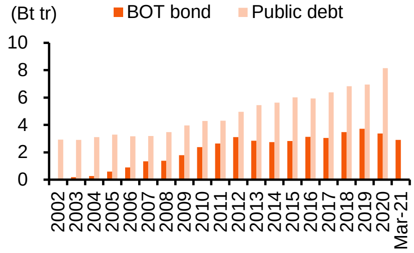
Without changing our longer-term bullish view on the SET on a cyclical economic turnaround into 2023F, our previous *Siam Senses – **Art of optimism***, dated 24 March 2021, expected some market respite on a temporary inflation scare in 2Q21F and advised more stock selection. Now, with the unexpected third COVID wave, we still foresee a market rest period in 2Q21F. But as our longer-term view is intact with many post-COVID plays having come back down, we believe it is time for stock accumulation. We make one change in our top picks, replacing MTC with MEGA.

Top Picks

	-EPS growth-		— PE —		Yield
	21F (%)	22F (%)	21F (x)	22F (x)	21F (%)
AOT	na	na	na	42.4	0.0
COM7	45.8	25.9	41.3	32.8	1.9
CRC	na	35.2	38.3	28.4	1.0
EA	15.3	32.6	38.8	29.3	0.8
GLOBAL	36.5	23.3	40.0	32.5	1.0
KCE	121.4	55.9	33.0	21.2	1.3
M	19.4	106.1	42.9	20.8	2.3
MEGA *	15.3	9.8	18.7	17.0	3.0
RS	34.6	31.6	31.9	24.2	2.5
TQM	29.9	30.9	39.0	29.8	2.3
Stock taken out					
MTC	10.7	25.6	20.7	16.5	0.7

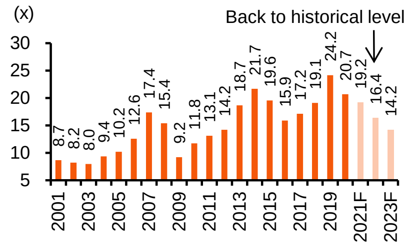
Source: Thanachart estimates
Note: *New addition.
Based on 12 May 2021 closing prices

Luxuries Of Sterilized Money (Page 7)



Sources: Bank of Thailand; Public Debt Management Office

Back To Historical PE Range In 2022F



Sources: Bloomberg; Thanachart estimates

The Thai standard

Recap of Prayut I government's Keynesian-model grand plan

Siam Senses updates its view on the Thai economy in this note. We use the title "The Thai standard" to represent the unclear economic model the Thai government and the central bank are implementing. With the economy having been left to its own devices for a decade prior to the 2014 coup at a below-potential growth rate, the coup-engineered Prayut I administration from 2014-19 introduced a grand spending plan in its economic roadmap to boost the G in the Keynesian-model's economic output formula (Y = C+I+G+[X-M]) to lift the base of the Thai economy. It also introduced another economic roadmap to raise private investment (I) in its flagship high-technology Eastern Economic Corridor (EEC) scheme that progressed quite far to create the EEC Act.

'G' lift and enactment of some difficult laws

We rate the coup government's performance as satisfactory at a low-bar level as it did promulgate many difficult laws and regulations that were necessary for the implementation of its economic roadmap. Some of those laws would, in our opinion, have been very difficult to be approved under a civilian government. Examples are the EEC Act, the new Public-Private Partnership Act (PPP), the Land & Building Tax Act and the Fiscal Responsibility Act, etc. Our satisfaction also extended to the fact that a total of Bt1.1tn (USD36bn or 7% of average GDP during 2014-19) in mega-infrastructure projects were bid out, though their construction spanned beyond the Prayut I administration's term. That said, as the government spending "G" base was so low in Thailand at 4.9% of GDP in 2014, sustainability of grand-scale spending was required to shift G up to be an important contributor to GDP. Despite the project bidding value being historically large during the period, the government-spending-to-GDP ratio rose to only 6.7% in 2020. We discuss our disappointment regarding this matter so far during the Prayut II administration later in this report where we estimate the G to be stagnant at 6.6% of GDP in 2023F.

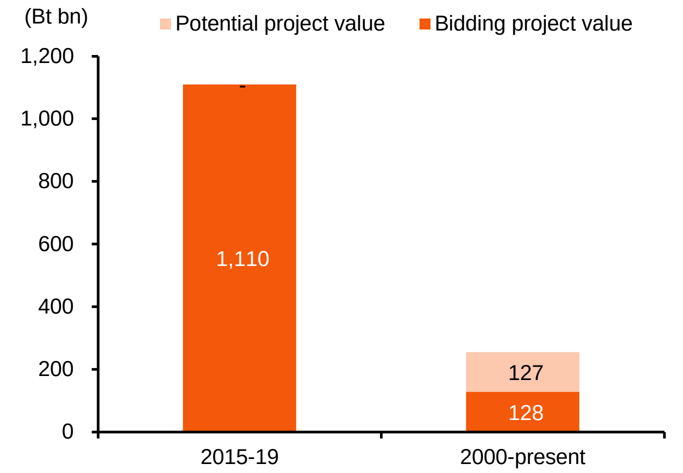
Boost to 'I' wasn't a success

What wasn't satisfactory to us was the implementation of the EEC scheme which, despite the powerful EEC Act, didn't really boost private investment (I) as intended. Starting also with the grand plan to identify five industry champions and another five new S-Curve industries, the scheme from a big-picture perspective hasn't yet been able to lift the private investment-to-GDP ratio, which was at 19.5% in 2014, vs. 17.4% in 2020. Impediments, in our view, were a not-so-well-planned ecosystem build-up for the new industries to make it clear that Thailand was competitive in those areas while the overly strong Thai baht rubbed salt into the wound.

No fix to savings vs. investment flaw

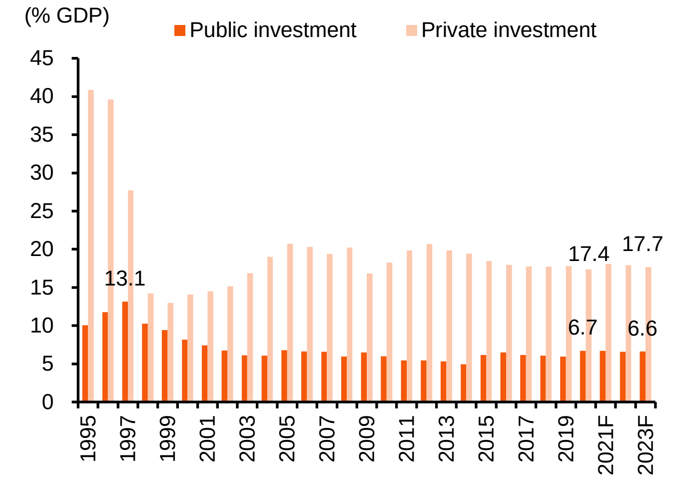
On the monetary front, we feel that the Thai central bank ignored the Keynesian belief that savings cannot be relied upon to turn into future private investment (I). Thailand has been a country with a high savings level and we believe these savings haven't been channeled enough into investment, resulting in a saving gap of around 7% to GDP p.a. The low interest rate environment has proven for years that it hasn't been able to boost private investment. There are other economic theories and models to try to fix this, including the monetarist school of thought with money supply management, but we still haven't seen the Thai central bank going beyond its conventional way of thinking.

Ex 1: Mega-project Bidding Value



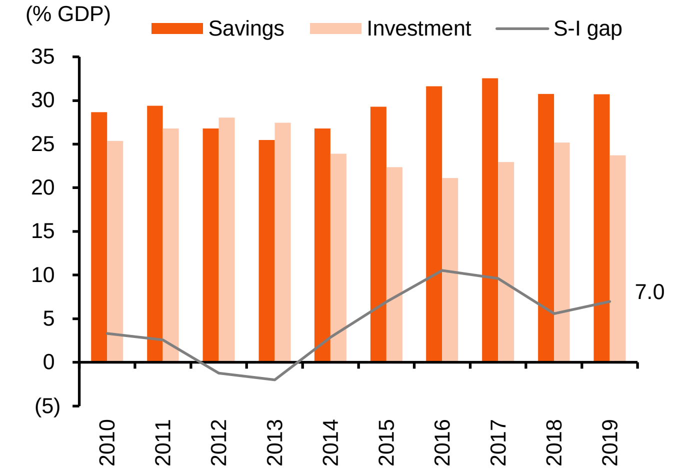
Source: Thanachart compilation

Ex 2: Low G And I Base, Thus Structural Growth Trap



Sources: NESDB, Thanachart estimates

Ex 3: Savings Fail To Boost 'I', Thus A Liquidity Trap



Source: NESDB

Ex 4: Strong Baht – Bad For Growth, Good Store Of Value

Source: Bloomberg

Prayut II government: directionless economic policies

Back to old-style civilian government with diverse interests

Thailand is now two years into Prayut II administration which started in the middle of 2019. Our view is that the government has lost its focus in terms of economic policy and that its policies are directionless. No new key policies have emerged, except for short-term COVID-fighting ones, while the old ones haven't made progress. Despite having the same prime minister, Gen Prayut Chan-o-cha, this administration is an elected one with a large portion of old-style politicians. It is a coalition government comprising most of the key political parties from the past, including the Democrats and Bhumjaithai. Even the military-backed Palang Pracharath Party (PPRP) consists of a large faction that switched camp from the Pheu Thai Party (PT), which originated with ex-PM Thaksin Shinawatra. We feel the Thai government is regressing to its old self of times long past of disunity in economic and public interest causing sluggishness and directionless policy making. We also blame some of it on the departure of the previous economic team of a group of economic ministers led by Dr. Somkid Jatusripitak.

Directionless economic policies, in our view

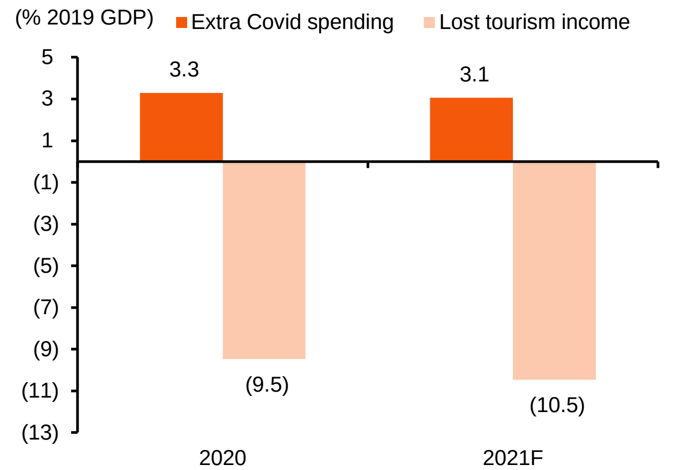
In terms of the government's economic policies, we are not clear about what economic models they are based on.

- Mega-project biddings have been very slow and the hopes of the Keynesian model working are dissipating, in our view.
- The EEC is still at only an organic level of new investments and is concentrated in the same old industries. The new S-Curve industries still require fixes, in our opinion.
- There are no new strategic economic policies for long-term economic development emerging from the government. Most of the new policies are short-term COVID-fighting ones which we also don't think are enough to fill the deeper output gap hole.
- With so much unpleasant historical evidence around the world, the Thai government seems to continue to apply a shade of socialism to its economic policies with its expanding state welfare burden and populist scheme. The caveat here is that the creation of the welfare card by the previous administration was a smart move politically and it helped reduce money leakage as the money was sent directly via the cards to the public.
- Monetary policy wise, there has been nothing new. Low interest rates continue to be ineffective in boosting consumption and private investment. Savings remain large, and are not turning into enough private investment.

Tight-in-disguise monetary policy

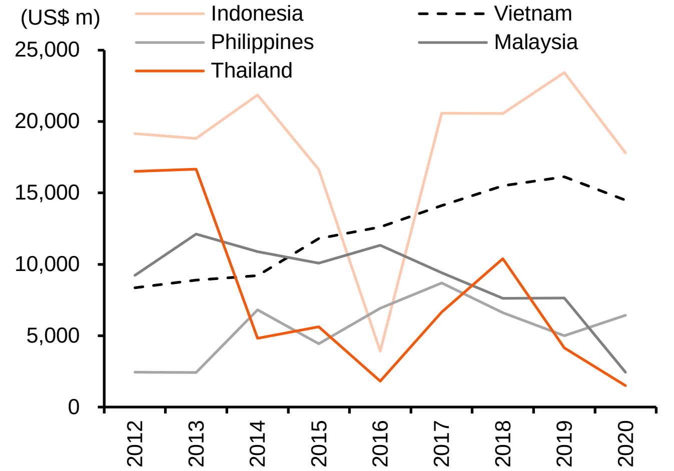
- Despite the lengthy experience of extremely low interests rate failing to spur sufficient consumption and investment, monetary policy has still never progressed further from just interest-rate setting with a range of inflation targets. The monetarist school's Quantity Theory of Money suggests that money supply can influence economic output via the formula of MV = PQ, where M is money supply, V is money velocity, P is the product price and Q is the product quantity. Going against the world's larger money supply from money-printing operations, Thailand has proceeded beyond the opposite of this as its international reserve money hasn't been fully released into the system via sterilization, which has led to a build-up of sterilized money, or hidden money supply, amounting to as much as Bt2.9tn, or USD97bn, or 18% GDP. We believe we can argue here that Thailand, compared to the rest of the world, is actually running a tight monetary policy.
- We believe the result of this policy is somewhat like the Gold Standard discipline, where the Thai baht is still on a structurally strengthening trend.

Ex 5: Extra COVID Spending Vs. Lost Tourism Income



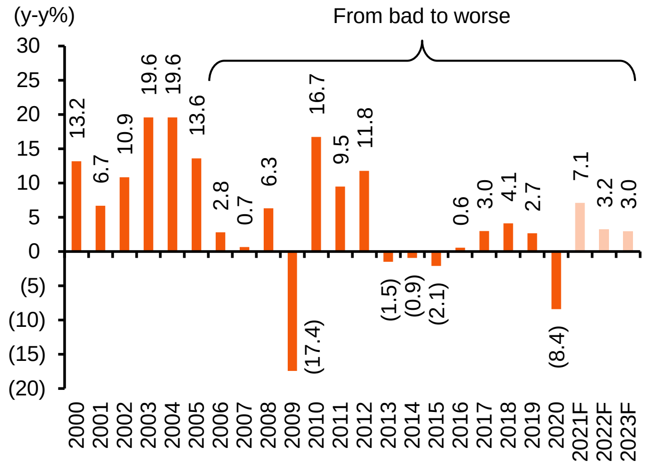
Sources: The Thai government; Tourism Authority of Thailand; Thanachart estimates

Ex 6: Thai FDIs Hopping At The Bottom Of The Range



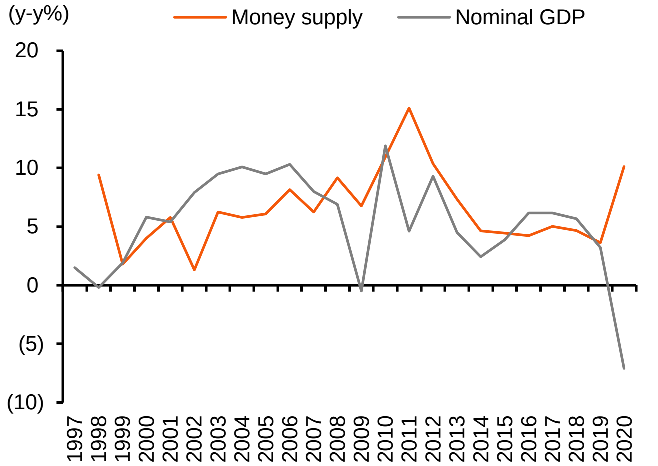
Source: UNCTAD

Ex 7: Low Rates Fail To Boost Private Investment



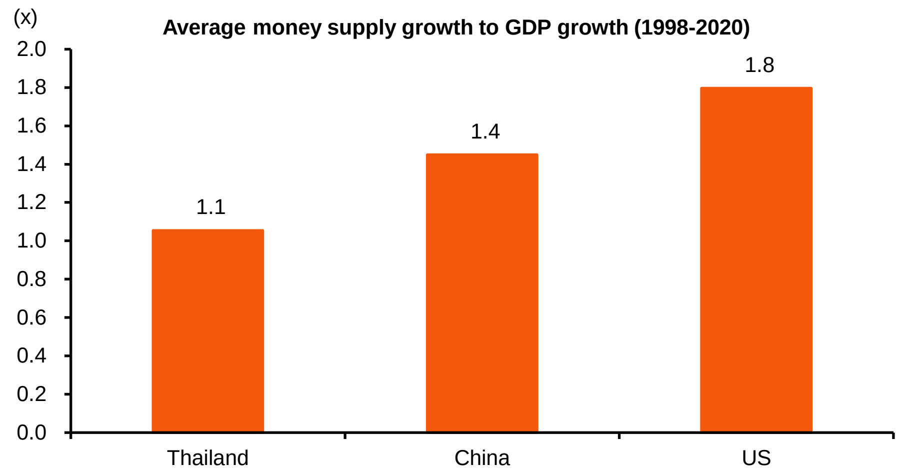
Sources: NESDB, Bloomberg

Ex 8: Hardly A Reflation Policy



Sources: Bank of Thailand; NESDB

Ex 9: Highly Conservative Monetary Policy



Sources: Bank of Thailand; Bloomberg

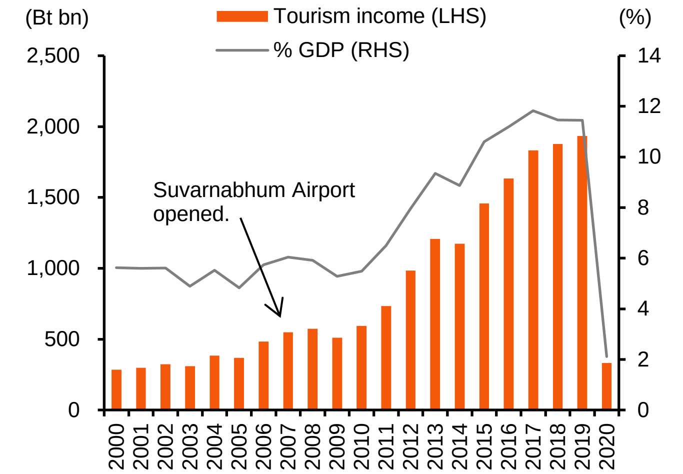
The Thai Standard's products

Below are what we see happening as products of "The Thai standard".

Still looks set to enjoy a cyclical turnaround from external factors

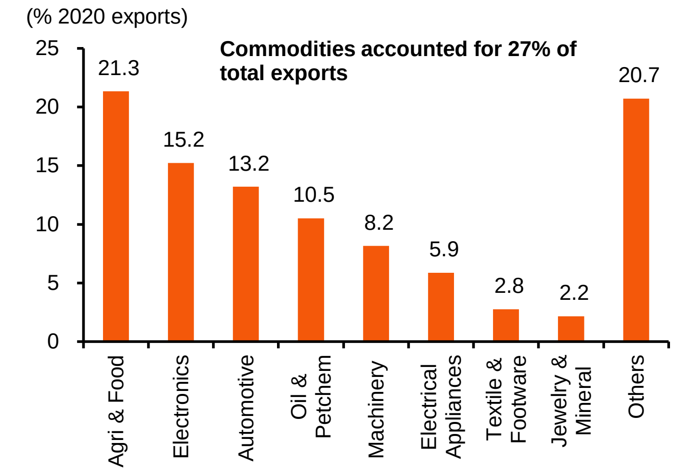
First, we expect Thailand to continue to enjoy cyclical economic growth for the next two to three years, but that is based on external factors rather than what might be engineered domestically by the government or the central bank. Thailand with large tourism, export and commodity exposure stands in the front line to benefit from a post-COVID global turnaround. Note that tourism accounted for 18% of GDP in 2019 (11% from foreigners and 7% from domestic travelers), with exports at 70%, of which 26% of the total was commodities- based.

Ex 10: Tourism Bounce From Depths Could Be Powerful



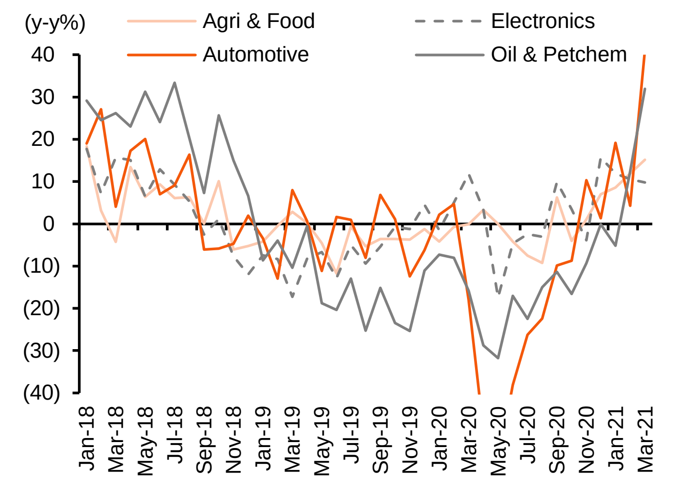
Source: Tourism Authority of Thailand

Ex 11: Good Exposure To Cyclicals And Commodities



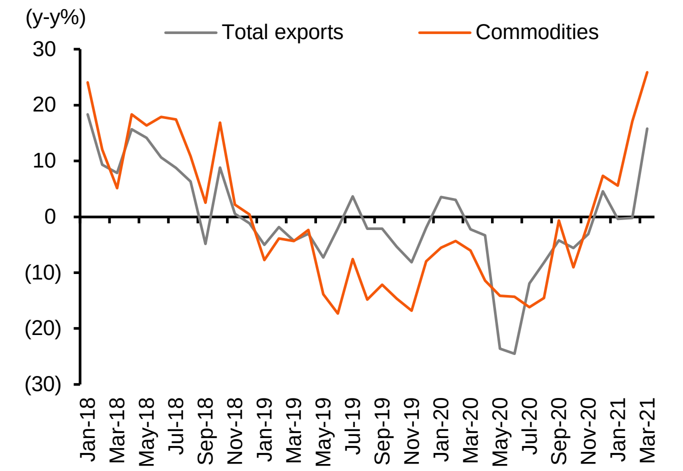
Source: Bank of Thailand

Ex 12: Export Turnaround…



Source: Bank of Thailand

Ex 13: …Also Drives Commodities



Source: Bank of Thailand

Mediocre government spending

Second, we expect mediocre government spending compared to the rest of the world. As shown in Exhibit 5, the extra stimulus was only one-third of the tourism loss in 2020 and we also foresee the same small-scale stimulus this year. Will the third wave result in extra government spending? So far, the government has already announced many cash-handout schemes in both 1Q21 and 2Q21 that will utilize all the leftover budget from last year's Bt1tn special borrowing decree. If the third wave is prolonged or escalates and the government wants to spend more, it has only about Bt100bn left from the 2021 mid-year budget. To do something with a more meaningful impact, it would have to ask parliament to approve a higher public debt ceiling, which is now at 60% of GDP.

Constraints of its own making

The anticipated mediocre spending is the reason why we forecast the Thai economy to only get back to the 2019 output level in 2023. One factor is the conservative culture of the Thai government that favors a small budget deficit and setting its sights on when it can reach a balanced budget again. It also limits itself in the Fiscal Responsibility Act with a 60% public debt ceiling. We foresee continued mediocre government spending in the long run. This culture is tilted toward a conservative, classical economic model rather than the more liberal Keynesian model. This is especially true given the persistently (excluding the COVID years) large current account surplus, which should have easily helped justify a larger budget deficit. This year, with the severe third wave, we expect the government to seek parliamentary votes to unlock the 60% debt ceiling. Debt reached 53% in March 2021 and we assume 59% by year end, while it could surpass the 60%-ceiling in 2022F.

A high enough unlocking of the debt ceiling would be welcome

Our hope is that the debt ceiling will be raised high enough to give the government room to resume its grand-scale mega-project spending for the next five years. In doing so Thailand wouldn't have to print money like in the US as it could make use of the large amount of sterilized money that is sitting idly at the Bank of Thailand (BOT). In this way, G could increase along with money supply (M) in the market without much inflation risk. GDP could rise based on both the Keynesian formula of Y=C+I+G+(X-M) and the monetarist school's MV = PQ. Without money printing, the baht should continue to be able to hold its value, though we would welcome some baht weakness from larger import bills to make exports more competitive and FDI cheaper.

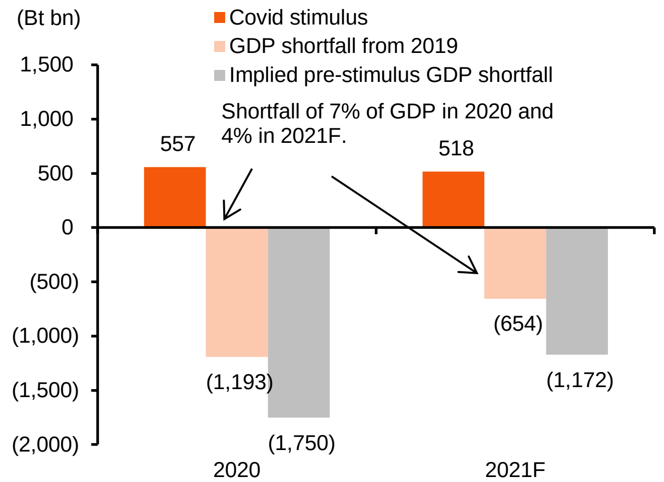
Three luxuries for hefty government spending in Thailand

Exhibit 17 helps explain the above, ie, that government debt can rise without money-printing operations and without crowding out effect from private sector's borrowing as the BOT can release its sterilized money, or BOT bonds, into the system to finance that. In a way, the BOT's sterilized money offers the luxury of substantial government spending *without* 1) money-printing operations that could reduce the baht's value and increase inflation; 2) inducing a rising interest rate environment as the BOT releases more money into the system; and 3) generating a crowding out effect as government debt doesn't have to compete with the private sector's borrowing.

Wasting advantages, in our view

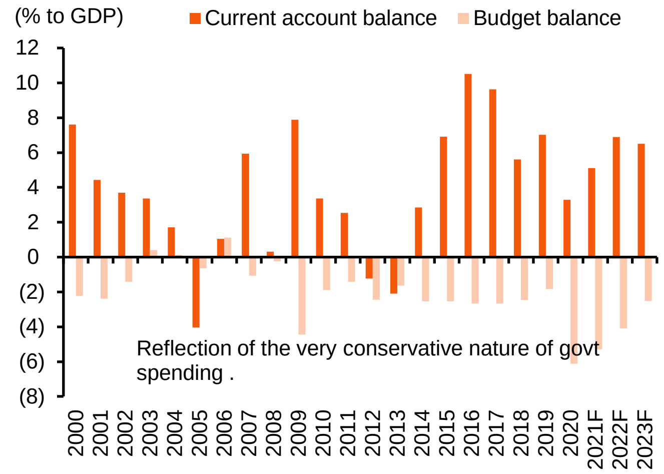
In our view, Thailand is badly wasting its advantages of growth creation among with the lack of necessity to print money. The US is pushing both "G" and "M" as aggressively as it can with M also being printed. Thailand, having the luxury of M rising without printing, has so far not decided to go for this option. Without printing M, the baht in theory should be a much better store of value than the US dollar. Another perspective to gauge how conservative Thailand has been in terms of government spending is to look at the budget deficit vs. the current account balance in Exhibit 15. Countries with large current account deficits should avoid aggressive budget deficit policies as prolonged twin deficits can weaken a country's balance sheet, international reserves and then the value of its currency. For Thailand, it has had a persistently large current account surplus because of the sustainability of its large tourism industry. Exhibit 15 shows that Thailand has been running a far lower budget deficit, say at an average of 1.5-2.5% against a 5-10% current account surplus for a long time. That gap is one of the reasons contributing to the BOT's money sterilization.

Ex 14: Not Enough Spending To Fill The Output Hole



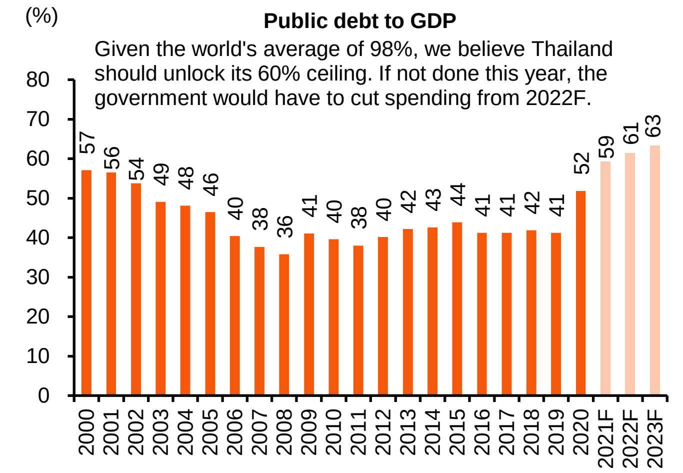
Sources: Cabinet resolutions; Thanachart estimates

Ex 15: Large Gap Of C/A Surplus And Budget Deficit



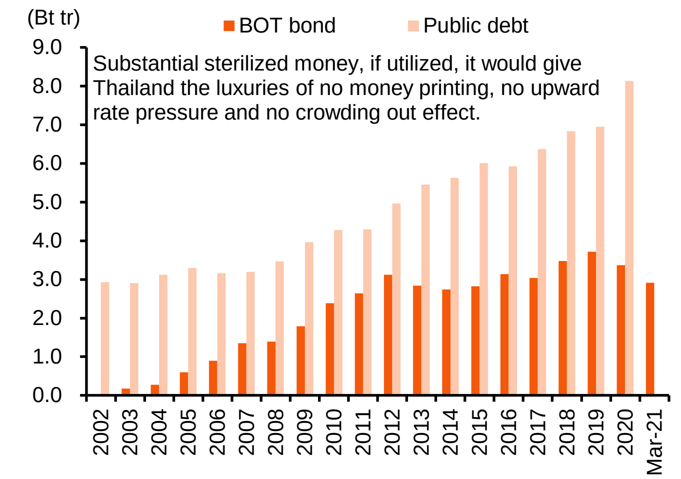
Source: Bank of Thailand, Budget Bureau, Thanachart estimates

Ex 16: Public Debt Ceiling Needs To Be Unlocked



Sources: Public Debt Management Office, NESDB, Thanachart estimates

Ex 17: Sterilized Money Vs. Government Debt



Sources: Bank of Thailand; Public Debt Management Office

Ex 18: Covid-fighting Stimulus Measures

Key Covid Stimulus Measures	Budget (Bt bn)
Bt5,000 per month for 3 months for 25m people	375
Bt1,000 per month for 3 months for 7m elderly, children and disabled people	21
50% co-pay of Bt3,000 for consumer products at small shops for 10m people	30
Additional Bt500 per month for 3 months for 14m poor people holding welfare cards	21
Shopping tax allowance of Bt30,000	22
2020 announced spending	**530**
50% co-pay phase 2 for 5m people	22
Extra Bt500 per month for 3 months in 1Q21 for 14m welfare card holders	21
Bt3,500 per month for 2 months for 30m people outside social security scheme	210
Bt1,000 per week for 4 weeks for 10m people under social security scheme	40
1Q21 announced spending	**293**
50% co-pay phase 3 for 31m people (3,000 each) to spend between July-December 2021	93
Extra Bt200 per month for 6 months from July-December 2021 for 16m welfare card holders	19
Bt1,000 per week for 2 weeks for 33m people to spend within June this year	66
Bt1,000 per week for 2 weeks for 9.3m people under social security scheme to spend by June this year	19
Bt7,000 E-Voucher for consumer goods spending for 4m people to spend between August-December 2021	28
2Q21 announced spending	**225**
2020 as % of GDP	**3.4%**
2021 so far announcement as % of GDP	**3.2%**

Sources: Cabinet resolutions, Thanachart compilation

Continued welfare and populist spending burden

Third, we expect Thai people to become addicted to populist benefits via their welfare cards and that the government will have to maintain this spending at the expense of higher value-added investment spending. We actually foresee welfare spending rising heading towards the next election year in 2023. Of the total 67m population, around 15m are welfare card holders. This spending is not actually a waste as people do spend money. However, it is traded off against a higher multiplier effect, and investment-based and infrastructure spending.

Persistent liquidity trap to support high valuation

Fourth, without large government spending that would help unleash more money into the market, we see a high risk of a continuing unresolved liquidity trap situation where low interest rates fail to boost private investment. And more savings, due to low deposit rates, would flow to invest in higher-risk financial assets, in turn resulting in elevated asset valuations.

Long-term baht strength

Fifth, the baht remains in a structural strengthening trend given 1) a likely resumption of the large current account surplus when exports and tourism turn around; 2) weak private investment resulting in low import bills; and 3) no money-printing operations in Thailand vs. the grand scale of those in the US and some other economies. The baht has weakened slightly so far this year due to the US's new stimulus policies that have built up market expectations of growth and a faster-than-expected interest rate increase, encouraging fund inflows into the US. However, we still expect the US dollar to weaken over the long term as the fundamentals of money-printing operations pushing down the currency value will likely take their toll.

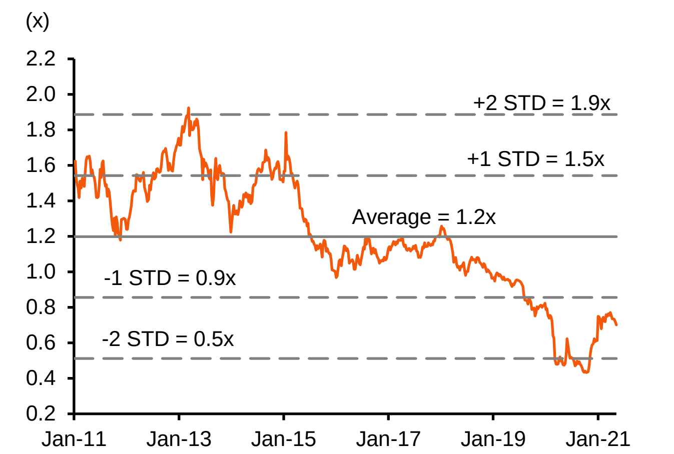
Bubble not bursting, in our view

Bubble or not, we see limited burst factors and stay bullish into next year

It is never an easy task to identify a bubble and even more difficult to detect it before it bursts. This time around, if we simply take a high PE multiple as a sign of a bubble, then the Thai market is indeed bubbling at current PE of near 20x. However, we still expect the bull market to carry on into next year as "The Thai standard" continues to support financial asset prices while providing limited burst factors.

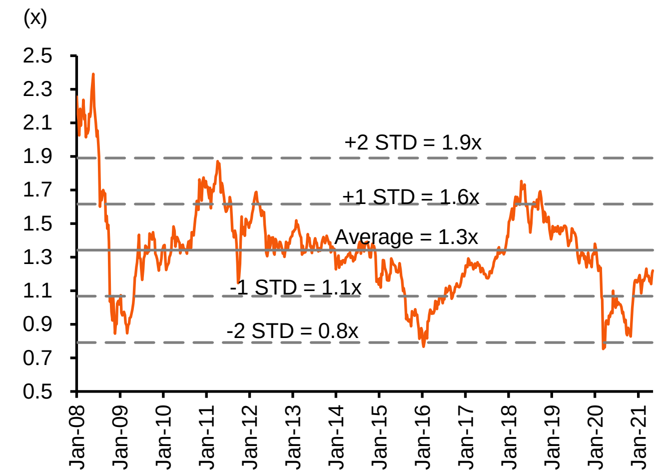
- There are no key segments of the economy that are overheating, which would result in a bursting of economic activities.
- Investors, in our view, seem aware of weak market earnings but substantial excess savings will likely drive them to invest in financial assets.
- Large market-cap sectors aren't at too high valuations, in our view. Banks (0.6x P/BV) have been significantly de-rated with low expectations and the same goes for the energy sector (1.2x P/BV). The share prices of telecom stocks have been de-rated and haven't gone anywhere for the past two years. These sectors account for 34% of the SET, so we therefore see only a low risk of the SET collapsing.
- Thai baht's fundamentals appear to be on a secular strengthening trend and we believe this makes it a good store of value for foreign investors, in our view.
- It is a key market argument that the lower base of interest (discount) rates boosts the DCF value of stocks, thus giving higher PEs. This leads to companies with strong future growth potential having even higher PE multiples. Thailand, with such a large pool of excess liquidity as mentioned many times earlier, has very good prospects of a prolonged low interest rate environment, implying a low risk of valuations bursting.
- We believe many investors are looking beyond 2021F to more normalized years in 2022-23F for valuations. This is why new waves of COVID-19 around the world have failed to crash the markets like they did last year, in our opinion. For the SET, it is trading on 16.4x PE on 2022F earnings and 14.2x on 2023F numbers, which we see don't see as excessive. That multiple level is actually below the average level the SET had been trading for the past seven years, prior to COVID-19 years in 2020-21x, of around 18x. It is trading on a 19.2x PE multiple in 2021F even when the tourism industry has still pretty much disappeared.

Ex 19: Bank Sector's P/BV



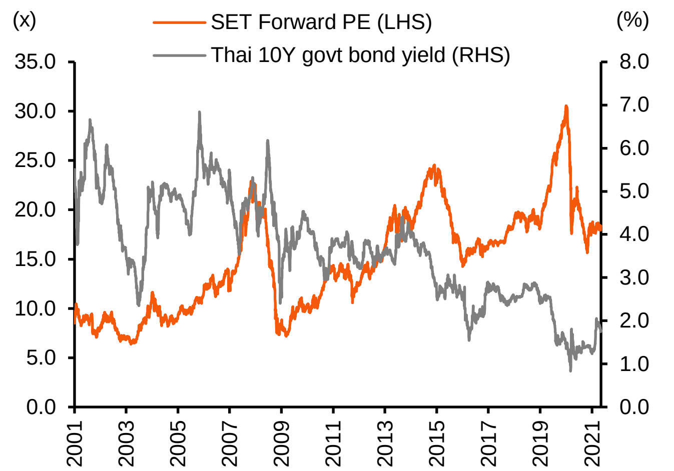
Sources: Bloomberg; Thanachart estimates

Ex 20: Energy Sector's P/BV



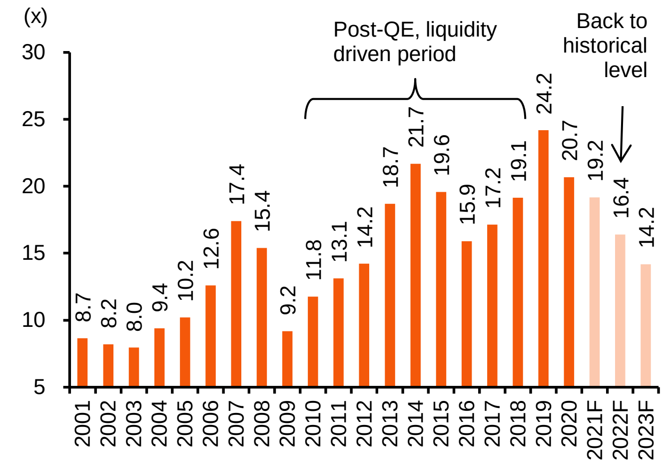
Sources: Bloomberg; Thanachart estimates

Ex 21: Lower Rate Pushes Up Valuation



Sources: Bloomberg; Thanachart estimates

Ex 22: SET PE Not Excessive In Normalized 2022-23F



Source: Bloomberg; Thanachart estimates

The Thai standard's themes

We see the Thai standard creating the following investment themes as shown in Exhibit 23.

Ex 23: Investment Themes

Themes	Benefit To	Stocks We Like
Global turnaround	Electronics, exports, commodities	KCE, PTTGC, SCC, PSL
Commodities reflation	Provincial economy	GLOBAL, MC, COM7, HMPRO, M, RS, CRC, SABINA
Welfare and populism	Provincial economy	GLOBAL, MC
Unsolved liquidity trap	Stock valuation	KCE, COM7, RS
Covid damage and fewer business boundaries	Big-fish companies	COM7, TQM, EA, RS

Source: Thanachart estimates

Ex 24: Theme Stocks We Like

Ticker	Rating	Current price	Target price	*Upside*	Market cap	Norm EPS growth		— Norm PE —		EV/EBITDA or P/BV of Bank		— Yield —	
						2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
		(Bt/shr)	(Bt/shr)	*(%)*	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
COM7 TB	BUY	72.75	70.00	(3.8)	2,796	45.8	25.9	41.3	32.8	27.3	22.2	1.9	2.5
CRC TB	BUY	32.50	38.00	16.9	6,277	na	35.2	38.3	28.4	9.4	7.9	1.0	1.4
EA TB	BUY	61.50	95.00	54.5	7,347	15.3	32.6	38.8	29.3	23.0	17.7	0.8	1.0
GLOBAL TB	BUY	23.30	25.00	7.3	3,434	36.5	23.3	40.0	32.5	28.7	23.7	1.0	1.2
HMPRO TB	BUY	13.70	19.00	38.7	5,770	18.6	15.8	29.5	25.5	16.6	14.8	2.7	3.1
KCE TB	BUY	63.00	68.00	7.9	2,381	121.4	55.9	33.0	21.2	21.2	14.7	1.3	2.1
M TB	BUY	50.50	64.00	26.7	1,489	19.4	106.1	42.9	20.8	12.3	8.7	2.3	4.8
MC TB	BUY	9.60	14.00	45.8	246	28.6	21.3	13.5	11.1	8.2	6.8	7.3	8.9
PSL TB	BUY	17.50	17.00	(2.9)	874	na	6.2	14.0	13.2	9.2	8.3	0.0	0.0
PTTGC TB	BUY	67.25	86.00	27.9	9,711	219.4	(1.2)	12.4	12.6	7.4	7.2	4.8	4.8
RS TB	BUY	23.30	34.00	45.9	726	34.6	31.6	31.9	24.2	14.4	11.2	2.5	3.5
SABINA TB	BUY	20.40	25.00	22.5	227	22.4	27.3	20.9	16.4	11.8	8.8	4.8	6.1
SCC TB	BUY	462.00	460.00	(0.4)	17,755	23.6	(8.6)	11.9	13.0	9.4	10.3	3.8	4.0
TQM TB	BUY	118.50	160.00	35.0	1,139	29.9	30.9	39.0	29.8	26.6	20.7	2.3	3.0

Sources: Company data, Thanachart estimates
Based on 12 May 2021 closing prices

Global turnaround has started and should last into 2023F

Global turnaround: Thailand will likely enjoy this via its export, commodities and tourism exposure. However, tourism is facing short-term uncertainty with a recovery postponed to next year. Vaccination is very slow in Thailand amid the serious third COVID wave while infection cases in many countries in the world remain high. The hotel sector is also already at very high valuations that we see as getting too far ahead of itself in reflecting a substantial turnaround.

Commodities reflation more of a base adjustment than years of price rises

Commodities reflation: We prefer to call it reflation instead of inflation as we don't expect continued growth at such an extent next year, when we foresee stimulus doses around the world starting to subside. We see rising commodities prices this year as a base adjustment from a lengthy down cycle that started in the latter part of 2011. This new base adjustment is positive for Thailand via its commodities exports and farm income, which in turn benefits the provincial economy. The three biggest crops in Thailand are rice, rubber and sugar.

More free money with less leakage

Welfare and populism: Most governments over the past two decades have already made Thai people addicted to populism. And the coup regime and this government too have made it even more convenient to enjoy these benefits via the welfare care scheme and mobile applications. A positive side to this is also much less leakage of these payments as they are paid directly into the hands of the people via welfare cards and bank accounts. In the past, a lot of populist money had to go through various politicians and government units, including community heads and the like. These money sources to the poor are sustainable with less leakage in our view and they should support the provincial economy. With COVID still set to hurt for longer, we expect the spending level to be high into next year.

Liquidity trap keeps rates low and valuations high

Unresolved liquidity trap: With conventional monetary policies continuing, no new ideas from the government about how to boost private investment and the conservativeness on public debt that will likely prevent grand-scale government spending, we see Thailand suffering a liquidity trap for years to come. Low interest rates cannot channel savings into investments. The savings then go to financial assets instead, driving up valuations.

Covid raises opportunities for the "big fish" names

COVID damage and lower business boundaries: Damage from COVID has hit both big and small companies but big ones have more tolerance via deeper pockets, stronger financial power and larger business scale in order to survive. While a lot of the big ones are likely to come back and turn around, many of the smaller firms, including SMEs, may not be able to. The big companies can then gain market share from the smaller ones and become even bigger fish. Together with the era of prosperous and more affordable technology coming to the mass market, opportunities extend beyond existing business lines. So the big fish that have a vision will likely expand to enjoy new business opportunities.

COM7 is a perfect big-fish case, in our view

The big fish have been our long-term investment themes and we want to give some updates and examples. COM7, in our view, fits this theme perfectly and COVID-19 has sped up its growth opportunities. COM7 is the biggest mobile phone and IT chain store in Thailand and it has kept gaining market share for years from smaller players and independent shops. During the COVID years when some smaller players have disappeared or not expanded, COM7 has accelerated its market share gains. The company has taken the opportunity to expand its stores more swiftly too with new 124 stores or 16% in 2020. Recently, COM7 expanded into the micro-financing market of the motorcycle hire-purchase segment via its 34%-owned Next Capital (NCAP). And this year the company plans to expand into new territory, starting with smart home appliances. It also intends to open many Xiaomi shops and, given the variety of Xiaomi products, COM7 would then broaden its client base beyond mobile phone users. We also expect the company to start offering on-credit financing to its clients this year.

RS is a good example of a company with expanding business boundaries

While not a perfect case as a big fish, we believe RS Pcl is still a very good example of a company that can keep expanding its boundaries. RS transformed itself from being a media to a commerce company over five years ago. While it has been building up its sales platforms, the company this year is expanding into new territory to become a product brand owner at the more mass-market level. Its two new business lines are beverages, starting with functional drinks, and pet food. RS has also recently acquired a debt-management company, which RS expects to provide business synergies.

2Q21 an accumulation period

Intermission from the third wave but our longer-term view stays intact

In *Siam Senses – **Art of optimism***, dated 24 March 2021, we expected the market to have something of a time-out period on the temporary inflation scare in 2Q21F and we suggested more stock selection. Now that the US bond yield has already softened from its peak, the local third COVID wave has emerged as a real threat to the economy and we continue to see the market idling this quarter. However, our longer-term view stays intact and with many stocks' share prices having already come down, we regard this as a stock accumulation period.

BUY now = KCE, COM7 and GLOBAL; Accumulate = M, EA, AOT

The stocks that are in our portfolio and have seen their share prices down to what we see as already entry levels are **MK Restaurant Group (M)**, **Energy Absolute (EA)** and **Airports of Thailand (AOT)**. The stocks that we see having set new bases for themselves with strong earnings momentum to take them to higher levels, thus suggesting BUYs, are **KCE Electronics (KCE), COM7 Pcl. (COM7)** and **Siam Global House (GLOBAL)**, though the last one has a more cyclical story (also linked to steel prices) than the other two.

We replace MTC with MEGA

We make one change to our top picks list by replacing Muangthai Capital (MTC) with **Mega Lifesciences (MEGA)**. Please refer to Sarachada Sornsong's report downgrading MTC in *MTC – **Greater margin pressure**, dated 29 April 2021* and Pattadol Bunnak reaffirming his BUY call on MEGA in *MEGA – **Surviving Myanmar**, dated 6 May 2021*. Briefly here, while MTC is facing stronger competition leading to lower product yields and thus weaker forecast earnings growth of only 11% this year, MEGA is experiencing Myanmar's coup with limited business interruption and no earnings downgrades (+15% in 2021F). MEGA's share price, on the other hand, has come down by 16% from its peak on Myanmar concerns. Note that Myanmar accounts for around 24% of its profit while businesses elsewhere, including Thailand, have seen an upswing from COVID-19.

Ex 25: Thanachart's Top Picks

Ticker	Rating	Current price	Target price	*Upside*	Market cap	Norm EPS growth		— Norm PE —		EV/EBITDA or P/BV of Bank		— Yield —	
						2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
		(Bt/shr)	(Bt/shr)	*(%)*	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
AOT TB	BUY	60.00	72.00	20.0	27,451	na	na	na	42.4	na	29.0	0.0	1.4
COM7 TB	BUY	72.75	70.00	(3.8)	2,796	45.8	25.9	41.3	32.8	27.3	22.2	1.9	2.5
CRC TB	BUY	32.50	38.00	16.9	6,277	na	35.2	38.3	28.4	9.4	7.9	1.0	1.4
EA TB	BUY	61.50	95.00	54.5	7,347	15.3	32.6	38.8	29.3	23.0	17.7	0.8	1.0
GLOBAL TB	BUY	23.30	25.00	7.3	3,434	36.5	23.3	40.0	32.5	28.7	23.7	1.0	1.2
KCE TB	BUY	63.00	68.00	7.9	2,381	121.4	55.9	33.0	21.2	21.2	14.7	1.3	2.1
M TB	BUY	50.50	64.00	26.7	1,489	19.4	106.1	42.9	20.8	12.3	8.7	2.3	4.8
MEGA TB *	BUY	35.00	47.00	34.3	977	15.3	9.8	18.7	17.0	13.5	12.0	3.0	3.2
RS TB	BUY	23.30	34.00	45.9	726	34.6	31.6	31.9	24.2	14.4	11.2	2.5	3.5
TQM TB	BUY	118.50	160.00	35.0	1,139	29.9	30.9	39.0	29.8	26.6	20.7	2.3	3.0
Stock taken out													
MTC TB	HOLD	56.50	70.00	23.9	3,836	10.7	25.6	20.7	16.5	4.7	3.7	0.7	0.9

Sources: Company data, Thanachart estimates
Note: * New additions
Based on 12 May 2021 closing prices

APPENDIX 1: Top picks' financials

Ex 1: Airports of Thailand Pcl (AOT TB)

Y/E Sep (Bt m)	2020	2021F	2022F	2023F
Sales	31,179	10,948	52,153	82,253
Net profit	4,321	(10,975)	20,237	33,122
Norm profit	5,403	(10,975)	20,237	33,122
Norm EPS (Bt)	0.4	(0.8)	1.4	2.3
Norm EPS grw (%)	(78.0)	na	na	63.7
Norm PE (x)	158.6	na	42.4	25.9
EV/EBITDA (x)	78.1	na	29.0	17.4
P/BV (x)	6.0	6.4	5.7	5.1
Div yield (%)	0.3	0.0	1.4	2.3
ROE (%)	3.6	na	14.3	20.8
Net D/E (%)	(22.7)	(9.2)	(1.4)	(0.4)

Sources: Company data; Thanachart estimates

Ex 2: COM7 Pcl (COM7 TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	37,306	45,706	51,851	59,356
Net profit	1,491	2,113	2,660	3,380
Norm profit	1,449	2,113	2,660	3,380
Norm EPS (Bt)	1.2	1.8	2.2	2.8
Norm EPS grw (%)	19.1	45.8	25.9	27.1
Norm PE (x)	60.2	41.3	32.8	25.8
EV/EBITDA (x)	37.5	27.3	22.2	18.0
P/BV (x)	22.7	19.3	16.7	14.4
Div yield (%)	1.4	1.9	2.5	3.4
ROE (%)	40.1	50.5	54.6	59.9
Net D/E (%)	22.4	4.7	(2.6)	(7.7)

Sources: Company data; Thanachart estimates

Ex 3: Central Retail Corp. Pcl (CRC TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	179,947	211,664	238,381	259,373
Net profit	46	5,113	6,912	8,671
Norm profit	46	5,113	6,912	8,671
Norm EPS (Bt)	0.0	0.8	1.1	1.4
Norm EPS grw (%)	(99.5)	na	35.2	25.5
Norm PE (x)	na	38.3	28.4	22.6
EV/EBITDA (x)	12.7	9.4	7.9	7.0
P/BV (x)	3.7	3.0	2.8	2.6
Div yield (%)	1.2	1.0	1.4	1.8
ROE (%)	0.1	8.7	10.3	12.1
Net D/E (%)	82.8	75.0	64.5	52.4

Sources: Company data; Thanachart estimates

Ex 4: Energy Absolute Pcl (EA TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	17,080	25,342	41,384	51,815
Net profit	5,205	5,911	7,839	10,941
Norm profit	5,127	5,911	7,839	10,941
Norm EPS (Bt)	1.4	1.6	2.1	2.9
Norm EPS grw (%)	(13.4)	15.3	32.6	39.6
Norm PE (x)	44.7	38.8	29.3	21.0
EV/EBITDA (x)	28.8	23.0	17.7	13.9
P/BV (x)	8.2	7.1	6.0	5.0
Div yield (%)	0.5	0.8	1.0	1.9
ROE (%)	20.0	19.7	22.3	26.1
Net D/E (%)	135.5	117.7	87.2	57.7

Sources: Company data; Thanachart estimates

Ex 5: Siam Global House Pcl (GLOBAL TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	26,803	30,968	34,558	38,433
Net profit	1,956	2,676	3,302	3,974
Norm profit	1,956	2,676	3,302	3,974
Norm EPS (Bt)	0.4	0.6	0.7	0.9
Norm EPS grw (%)	(6.9)	36.5	23.3	20.4
Norm PE (x)	54.6	40.0	32.5	27.0
EV/EBITDA (x)	36.8	28.7	23.7	19.8
P/BV (x)	6.3	5.7	5.1	4.6
Div yield (%)	0.9	1.0	1.2	1.5
ROE (%)	11.9	15.0	16.6	17.9
Net D/E (%)	76.4	66.7	55.5	43.9

Sources: Company data; Thanachart estimates

Ex 6: KCE Electronics Pcl (KCE TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	11,527	14,289	16,948	20,214
Net profit	1,127	2,255	3,514	5,058
Norm profit	1,018	2,255	3,514	5,058
Norm EPS (Bt)	0.9	1.9	3.0	4.3
Norm EPS grw (%)	15.6	121.4	55.9	43.9
Norm PE (x)	73.0	33.0	21.2	14.7
EV/EBITDA (x)	35.2	21.2	14.7	10.6
P/BV (x)	6.2	5.5	4.7	4.0
Div yield (%)	0.6	1.3	2.1	3.4
ROE (%)	8.6	17.6	23.9	29.2
Net D/E (%)	(0.0)	(2.3)	(8.8)	(15.7)

Sources: Company data; Thanachart estimates

Ex 7: MK Restaurant Group Pcl (M TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	13,361	14,353	16,612	18,905
Net profit	907	1,083	2,233	2,812
Norm profit	907	1,083	2,233	2,812
Norm EPS (Bt)	1.0	1.2	2.4	3.1
Norm EPS grw (%)	(65.1)	19.4	106.1	25.9
Norm PE (x)	51.3	42.9	20.8	16.5
EV/EBITDA (x)	13.1	12.3	8.7	7.7
P/BV (x)	3.4	3.4	3.3	3.2
Div yield (%)	2.0	2.3	4.8	5.6
ROE (%)	6.5	8.0	16.1	19.6
Net D/E (%)	(55.2)	(59.2)	(58.9)	(57.8)

Sources: Company data; Thanachart estimates

Ex 8: Mega Lifesciences Pcl (MEGA TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	12,589	13,994	15,079	16,158
Net profit	1,393	1,632	1,792	1,964
Norm profit	1,416	1,632	1,792	1,964
Norm EPS (Bt)	1.6	1.9	2.1	2.3
Norm EPS grw (%)	16.3	15.3	9.8	9.6
Norm PE (x)	21.6	18.7	17.0	15.5
EV/EBITDA (x)	15.3	13.5	12.0	10.8
P/BV (x)	4.4	3.9	3.6	3.2
Div yield (%)	2.6	3.0	3.2	4.2
ROE (%)	21.6	22.2	22.0	21.8
Net D/E (%)	(10.3)	(11.9)	(16.7)	(23.2)

Sources: Company data; Thanachart estimates

Ex 9: RS Pcl (RS TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	3,774	4,566	5,311	5,758
Net profit	528	711	935	1,066
Norm profit	528	711	935	1,066
Norm EPS (Bt)	0.5	0.7	1.0	1.1
Norm EPS grw (%)	37.4	34.6	31.6	14.0
Norm PE (x)	42.9	31.9	24.2	21.3
EV/EBITDA (x)	19.0	14.4	11.2	10.4
P/BV (x)	11.3	9.3	8.4	7.8
Div yield (%)	0.0	2.5	3.5	4.0
ROE (%)	28.4	32.1	36.6	38.2
Net D/E (%)	28.7	47.1	34.2	12.4

Sources: Company data; Thanachart estimates

Ex 10: TQM Corporation Pcl (TQM TB)

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Sales	3,083	3,432	3,859	4,320
Net profit	702	912	1,194	1,485
Norm profit	702	912	1,194	1,485
Norm EPS (Bt)	2.3	3.0	4.0	5.0
Norm EPS grw (%)	38.4	29.9	30.9	24.4
Norm PE (x)	50.6	39.0	29.8	23.9
EV/EBITDA (x)	34.0	26.6	20.7	16.7
P/BV (x)	14.8	12.3	11.9	10.8
Div yield (%)	1.8	2.3	3.0	3.8
ROE (%)	29.6	34.6	40.6	47.3
Net D/E (%)	(112.3)	(112.4)	(112.4)	(113.8)

Sources: Company data; Thanachart estimates

General Disclaimers And Disclosures:

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

Note: Thanachart Securities Public Company Limited act as a Market Maker and Derivative Warrants Issuer. At present, TNS has issued 64 Derivative Warrants which are ADVA16C2105A, ADVA16C2107A, AEON16C2108A, AEON16C2105A, AOT16C2106A, BAM16C2107A, BANP16C2107A, BBL16C2106A, BDMS16C2107A, BGRI16C2105A, BPP16C2106A, CBG16C2109A, CBG16C2108A, COM716C2107A, CPAL16C2106A, CPF16C2108A, CPF16C2107A, DELT16C2108A, EA16C2108A, EA16C2107A, GLOB16C2105A, GPSC16C2109A, GPSC16C2106A, GULF16C2107A, GUNK16C2108A, HANA16C2107A, IRPC16C2108A, IRPC16C2105A, IVL16C2107A, KBAN16C2108A, KBAN16C2107A, KCE16C2109A, KCE16C2106A, KKP16C2105A, KTC16C2105A, KTC16C2106A, MINT16C2107A, MTC16C2108A, OR16C2108A, OR16C2106A, OR16C2107A, PRM16C2105A, PTG16C2105A, PTG16C2107A, PTT16C2109A, PTT16C2105A, PTTE16C2105A, PTTG16C2108A, RS16C2108A, S5016P2109A, S5016C2109A, S5016C2106B, S5016P2106C, S5016C2106A, S5016P2106A, S5016P2106B, SAWA16C2105A, SAWA16C2107A, SCB16C2106A, SCGP16C2107A, STA16C2107A, TASC16C2107A, TISC16C2105A, TQM16C2108A (underlying securities are ADVANC, AEONTS, AOT, BAM, BANPU, BBL, BDMS, BGRIM, BPP, CBG, COM7, CPALL, CPF, DELTA, EA, GLOBAL, GPSC, GULF, GUNKUL, HANA, IRPC, IVL, KBANK, KCE, KKP, KTC, MINT, MTC, OR, PRM, PTG, PTT, PTTEP, PTTGC, RS, SAWAD, SCB, SCGP, STA, SET50, TASCO, TISCO, TQM). Since TNS covers those underlying securities in research report, consequently TNS incurs conflicts of interest. Moreover, Investors are advised to carefully review the details and information in the prospectus before making investment decisions.

Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 100% of Thanachart Securities, TCAP has stake in THANI for more than 65% and being the major shareholder of THANI.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMTED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

Disclosure of Interest of Thanachart Securities

Investment Banking Relationship

Within the preceding 12 months, Thanachart Securities has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Saksiam Leasing Pcl. (SAK TB)

Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance, Insurance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya
Energy, Petrochemical, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th