BUY (From: SELL)

Change in Recommendation

TP: Bt 10.00 (From: Bt 5.50)

Upside : 32.5%

8 OCTOBER 2021

Siam Wellness Group (SPA TB)

Back to service

We upgrade SPA to BUY as we believe the worst is over since its spa shops are reopening given easing government COVID-19 curbs. Assuming a return of foreign tourists from 2H22F, we estimate SPA to turn profitable in 2023F. We lift our rolled-over DCF-based TP (2022F) to Bt10 on its brighter prospects and fewer COVID-related risks.

NUTTAPOP PRASITSUKSANT
662 – 483 8296
nuttapop.pra@thanachartsec.co.th

Thanachart Securities

Over the worst; upgrading to BUY

We upgrade SPA to BUY (from Sell) as 1) we expect no more lockdowns for spa shops after they were closed intermittently by the government to prevent the spread of COVID over the past two years, 2) we see SPA as one of the major beneficiaries from a resumption of foreign travelers to Thailand in 2H22F, with 75% of revenues coming from the tourists pre-COVID, and 3) we see low risks to its balance sheet and project its cash flow to turn positive again in 2022F. We lift our DCF-based TP to Bt10 as we factor in higher revenues from the local customers, better-than-expected cost control during COVID, and our rollover to a 2022F base year.

Shops reopening on easing COVID curbs

SPA resumed normal service at 36 of its shops (out of 57) from 1 October after the government's ban on spa and massage shops was lifted. This is a big relief for SPA after its shops were closed for 141 days in 9M21 to prevent the spread of COVID-19. As we expect no more spa shop closures by the government, we expect SPA's cash generation to turn positive again in 2022F despite serving only a small number of foreign tourists. This is driven by its success in growing revenues from locals via introducing new services (ie, stretching and facial treatment) to entice new clients and improving sales of its rebranded and imported spa products, both raising spending per visit from legacy visitors.

Turning to a profit in 2023F

We project SPA to turn profitable in 2023F based on our in-house assumptions of 6m/26m/39m foreign tourist arrivals in 2022-24F, vs. 40m in 2019 (See our *Hotel Sector report – **Delayed recovery,*** dated 27 September 2021 by Siriporn Arunothai). We translate this recovering tourism into SPA's revenues rising to 36%/71%/94% of its pre-COVID level (2019). But our expectation for profit of Bt243m in 2024F is nearly at the 2019 level, thanks to higher margins of its new services and rebranded spa products, and a larger ticket size/visit as SPA bundles new services with its flagship massage program, leading to higher scale benefits.

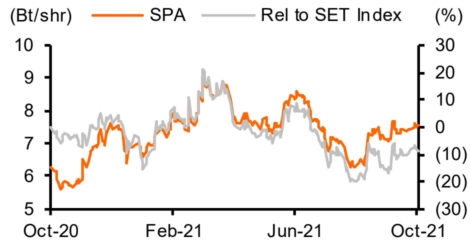
Healthy balance sheet

We maintain our view of low liquidity risk for SPA. Even after two years of negative cash generation, we project its net D/E to peak at only 1.3x in 2022F (from below 0.1x pre-COVID), thanks to its asset-light model and rental discounts from its landlords during lockdown. As its shops are reopening, we believe the worst is over for SPA and expect stronger market sentiment for tourism plays with an easing COVID situation being its key catalyst. Our TP implies 35x PE in 2024F, the first normalized year post-COVID, back to its historical trading range pre-COVID (2018-19).

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	427	142	500	989
Net profit	(209)	(332)	(119)	96
Consensus NP	—	(293)	(30)	170
Diff frm cons (%)	—	*na*	*na*	*(43.4)*
Norm profit	(204)	(332)	(119)	96
Prev. Norm profit	—	(325)	(60)	143
Chg frm prev (%)	—	*na*	*na*	*(32.7)*
Norm EPS (Bt)	(0.2)	(0.4)	(0.1)	0.1
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	66.9
EV/EBITDA (x)	57.9	184.0	33.5	15.9
P/BV (x)	7.1	11.3	14.2	12.2
Div yield (%)	0.0	0.0	0.0	0.6
ROE (%)	na	na	na	19.6
Net D/E (%)	30.6	96.0	131.0	85.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 8-Oct-21 (Bt)	7.55
Market Cap (US$ m)	190.7
Listed Shares (m shares)	855.0
Free Float (%)	55.9
Avg Daily Turnover (US$ m)	0.2
12M Price H/L (Bt)	9.05/5.60
Sector	MAI
Major Shareholder	Jiravanstit family 16.13%

Sources: Bloomberg, Company data, Thanachart estimates

Over the worst; upgrading to BUY

Upgrade to BUY as we think the worst is over

We upgrade our recommendation on Siam Wellness Group Pcl (SPA) to BUY based on three significant improvements in its prospects:

1) We expect no more closures of spa shops

- **First,** we don't expect any more closures of its spa shops. This had been one of the curbs imposed by the Thai government to prevent the spread of COVID over the past two years. Now, it is easing COVID-19 restrictions to revive the country's economy. Spa and massage businesses were allowed to resume operations from 1 October 2021, while SPA is gradually reopening its shops to match recovering demand.

2) SPA to turn profitable again in 2023F as foreign tourists return

- **Second,** we see SPA as being one of the major beneficiaries of the return of foreign tourists to Thailand, with 75% of its revenues coming from tourists pre-COVID. We now assume foreign tourist arrivals restart at 6m visitors in 2H22F, ramping up to 26m and 39m in 2023-24F, and therefore project SPA to turn profitable again in 2023F.

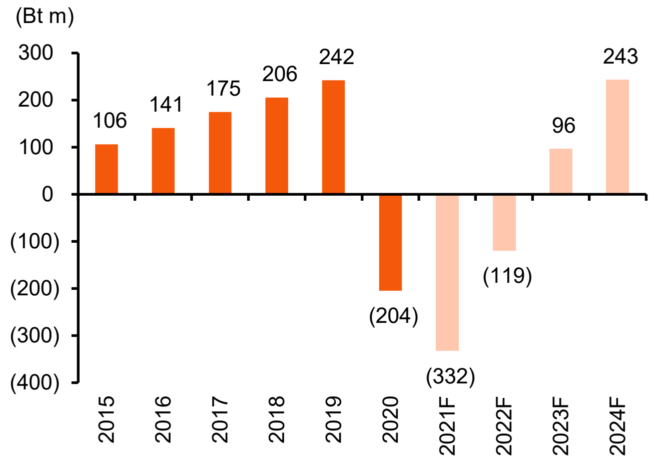
3) Low balance sheet risk

- **Third,** as we expect SPA's cash generation to turn positive again in 2022F, even with local customers alone, we project its net gearing (D/E) to peak at only 1.3x in 2023F. We therefore see no repayment issues or capital call risks for SPA.

Our TP is lifted to Bt10 to reflect its better outlook

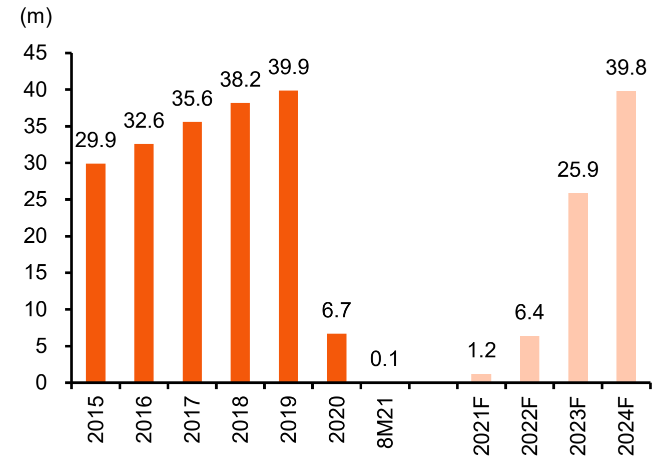
We lift our DCF-based 12-month TP to Bt10.0/share (from Bt5.5) to reflect our higher assumption for SPA's revenue from the local customers given its success in introducing new services to attract more Thai customers, better-than-expected cost controls during the COVID period, and the impact from rolling over to a 2022F base year. This is despite lowering our earnings in 2021-23F as we assume the return of foreign tourists to Thailand is delayed to 2H22F (from 2H21F earlier) due to the renewed wave of COVID-19 in mid-2021.

Ex 1: Turning Profitable Again In 2023F



Sources: Company data; Thanachart estimates

Ex 2: We Assume Foreign Tourists Return In 2H22F



Sources: Tourism Authority of Thailand (TAT), Thanachart estimates

Shops reopening on easing COVID curbs

SPA was hit hard by the closure of spa shops to prevent COVID

We project SPA's operating cash flow to turn positive again in 2022F, expecting all of its shops to resume services. Spa and massage shops in Thailand have been hit hard by the government's measures to prevent the spread of COVID in Thailand from March 2020. They were repeatedly forced to cease operations over the past two years (see Exhibit 3). That situation was worse than it would have been if they had been shut for the entire period, since SPA had to maintain its shops and therapists to stay open for business, but customer confidence was too low to meet the required usage rate, thereby leading to losses.

With no more closures, we project SPA's cash flow to turn positive in 2022F

However, we don't expect there to be further hard lockdowns by the government going forward, including of spa and massage services, given that the COVID-19 vaccination rate (first dose) has reached nearly 50% of the Thai population while the government also wants to promote the country for tourism again to revive the economy. Since before COVID in late-2019, SPA has been introducing new services and treatments to attract more local clients (ie, stretching therapy, facial care and treatments, and imported and rebranded spa products for sale) in order to raise the portion of revenue from locals to diversify itself away from its dependency on foreign tourists, especially Chinese travelers. We now project that revenue from local customers will be able to turn SPA's cash generation positive again in 2022F, despite it still making a loss in that year.

Ex 3: Government Measures Intermittently Locked Down Spa Shops During 2020-21

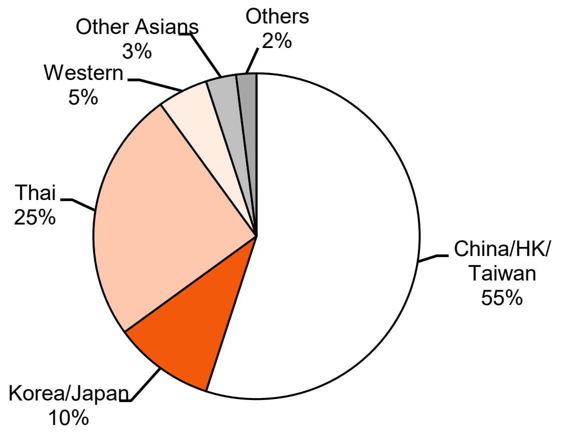
Period	Closure dates	Total number of days
1Q20	18 March - 31 March	14
2Q20	1 April - 31 May	51
	** Suspended international inbound flights from 31 May 2020*	
4Q20	*Slight impact from political protests in Bangkok during Nov - Dec*	
1Q21	1 January - 22 January	22
2Q21	26 April - 31 May	36
3Q21	10 July - 30 September	83

Source: The Center for Covid-19 Situation Administration (CCSA)

Turning a profit in 2023F

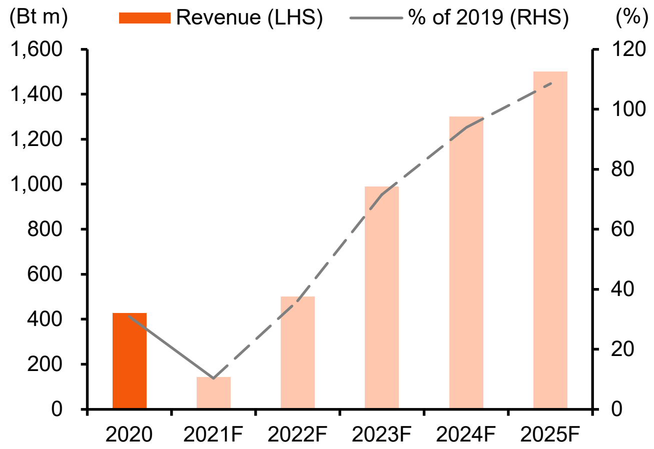
We estimate SPA to turn a profit of Bt96m in 2023F and Bt243m in 2024F, at 40% and 100% of its pre-COVID base in 2019. This is based on our key in-house assumptions that Thailand will reopen to international tourists from 2H22F and the number of tourists arriving in the country is at 6m and 26m, respectively, in 2022-23F, before approaching the pre-COVID level of 40m in 2024F. Based on the 75% portion of SPA's revenue mix coming from foreign travelers pre-COVID, we see it as one of the key beneficiaries from a recovery of the tourism industry in Thailand. Our projected revenue trend for SPA is in line with the number of tourist arrivals at 70% and 95%, respectively, of the 2019 revenue level in 2023-24F, respectively. Beyond that, we estimate SPA to return to its strong earnings growth trend with a three-year EPS CAGR of 25% during 2025-27F, backed by a resumption of branch expansion, higher service margin from larger ticket sizes per visit and higher value-added new services, along with operating leverage benefits.

Ex 4: SPA's Revenue Breakdown Pre-COVID (2019)



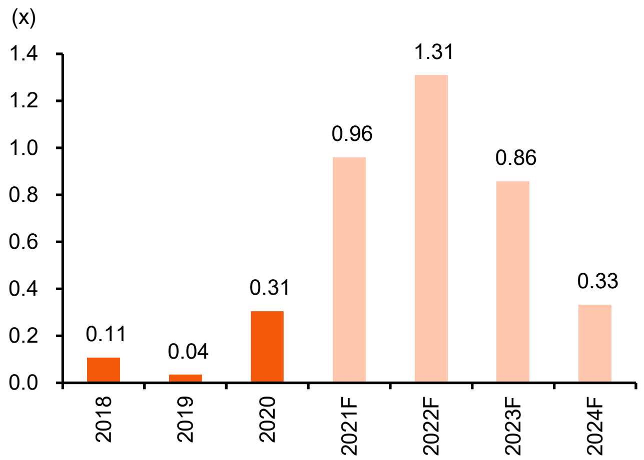
Source: Company data

Ex 5: Normalizing Revenue Base On Recovering Tourism



Sources: Company data; Thanachart estimates

Ex 6: Improving Net D/E As Services Resume In Shops



Sources: Company data; Thanachart estimates

Ex 7: Historical Trading PE Range Pre-COVID (2017-19)

Source: Bloomberg

Ex 8: 12-month DCF-based TP Calculation, Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
EBITDA excl. depre from right of use	19	243	410	523	619	667	710	755	804	857	912	—
Free cash flow	(36)	139	281	379	468	511	547	588	635	679	726	13,557
PV of free cash flow	(34)	122	233	294	334	340	340	342	345	345	329	6,140

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.9
WACC (%)	6.5
Terminal growth (%)	2.0
Enterprise value - add investments	9,131
Net debt (2021F)	550
Minority interest	–
Equity value	8,581
# of shares (m)	855
Target price/share (Bt)	**10.00**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div Yield 21F (%)	Div Yield 22F (%)
Emei Shan Tourism	000888 CH	China	na	54.8	24.2	15.7	1.3	1.2	na	na	0.6	0.9
Shanghai Jin Jiang Int'l	2006 HK	China	(62.7)	na	78.5	na	0.9	0.8	na	na	0.0	0.0
Hongkong & Shanghai	45 HK	Hong Kong	na	na	na	na	na	na	na	na	na	na
Shangri-La Asia	69 HK	Hong Kong	na	na	na	232.9	na	na	158.9	29.8	na	0.8
IGB Corp Bhd	IGB MK	Malaysia	(80.4)	180.0	na	na	na	na	na	na	na	na
Genting Malaysia Bhd	GENM MK	Malaysia	na	na	na	23.0	1.3	1.3	133.4	10.6	2.8	5.0
Mirvac Group	MGR AU	Australia	(41.5)	13.4	21.5	18.9	1.1	1.0	22.0	20.0	3.4	3.6
Indian Hotels	IH IN	India	na	na	na	na	6.6	7.2	na	74.9	0.0	0.3
Mandarin Oriental Int'l	MAND SP	Singapore	na	na	na	na	na	na	na	na	na	na
Hotel Shilla	008770 KS	South Korea	na	142.7	53.9	22.2	5.3	4.3	15.0	11.7	0.2	0.3
Resorttrust Inc	4681 JP	Japan	na	84.4	69.9	37.9	1.7	1.9	11.3	14.8	1.5	1.4
Central Plaza Hotel	CENTEL TB*	Thailand	na	na	na	na	2.9	2.9	43.4	19.3	0.0	0.0
Erawan Group	ERW TB*	Thailand	na	na	na	na	2.4	2.8	na	44.3	0.0	0.0
Minor International	MINT TB*	Thailand	na	na	na	773.0	2.9	2.9	49.4	14.3	0.0	0.0
Siam Wellness Group	SPA TB*	Thailand	na	na	na	na	11.3	14.2	184.0	33.5	0.0	0.0
Average			**(61.5)**	**95.9**	**48.4**	**143.1**	**3.3**	**3.6**	**71.3**	**26.1**	**0.7**	**1.0**

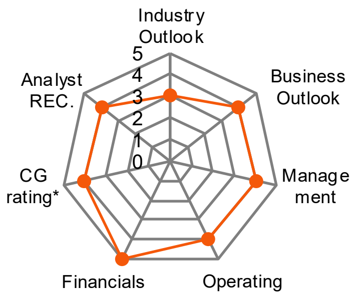
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 8 Oct 2021 closing prices

COMPANY DESCRIPTION

Siam Wellness Group Pcl operates wellness spas and other related businesses, with four main operations: 1) Spas under the brands "Let's Relax", "Rarin-Jinda Wellness Spa" & "Baan-Suan Massage". 2) Hotel & Restaurants: A boutique resort hotel in Chiang Mai under the name "Rarin-Jinda Wellness Spa Resort" and the “Deck 1” and “D Bistro” restaurants. 3) Spa products: Distributes and sells spa-related products under the "Blooming" brand. 4) Traditional Thai massage school "Blooming Thai Massage School" to train therapists in massage and spa services to support its business expansion.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	**5**
Good	**4**
Fair	**3**
Weak	**2**
Very Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART’S SWOT ANALYSIS

S — Strength

- Strong brand recognition, especially among Chinese and other Asian tourists
- Its own upstream business helps provide sufficient therapists and products for rapid expansion
- Asset-light business model

W — Weakness

- Relies heavily on expansion to grow, due to limited capacity of service hours per branch
- Highly dependent on tourist traffic

O — Opportunity

- Gaining market share from smaller local players via both organic and inorganic expansion
- Expansion of its business overseas
- Adding more services as bundled packages to increase ticket size

T — Threat

- Extraordinary and uncontrollable events, i.e. geopolitical disturbances, natural disasters, etc. could disrupt its operations and decrease tourist traffic
- Large network but only a small management team

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	8.13	10.00	23%
Net profit 21F (Bt m)	(293)	(332)	na
Net profit 22F (Bt m)	(30)	(119)	na
Consensus REC	**BUY: 5**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- We project larger losses for SPA in 2021-22F compared to the Bloomberg consensus, likely since we assume a slower return of foreign tourists to the country.
- But our DCF-based TP is higher which we attribute to our ore positive view on SPA’s long-term growth potential.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A slower-than-expected resumption of tourism to Thailand or another round of COVID-19 in the country would be the key downside risks to our bullish view on SPA.
- A slower pace of branch expansion represents another downside risk to our earnings forecasts.
- Any events causing a downturn in Thailand’s tourism industry, eg, involving politics, the global economy or natural disasters, would be negative for our numbers.

Source: Thanachart

Recovering revenue trend backed by a resumption of Thai tourism

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	1,384	427	142	500	989
Cost of sales	943	507	332	484	723
Gross profit	**441**	**(80)**	**(189)**	**16**	**266**
% gross margin	31.9%	-18.7%	-133.3%	3.2%	26.9%
Selling & administration expenses	163	113	97	118	146
Operating profit	**279**	**(192)**	**(287)**	**(102)**	**120**
% operating margin	20.1%	-45.1%	-201.7%	-20.4%	12.1%
Depreciation & amortization	118	309	325	313	315
EBITDA	**396**	**116**	**38**	**211**	**435**
% EBITDA margin	28.6%	27.2%	26.8%	42.1%	43.9%
Non-operating income	19	9	3	9	16
Non-operating expenses	0	0	0	0	0
Interest expense	(10)	(21)	(49)	(26)	(22)
Pre-tax profit	**288**	**(205)**	**(332)**	**(119)**	**114**
Income tax	45	(1)	0	0	18
After-tax profit	**242**	**(204)**	**(332)**	**(119)**	**96**
% net margin	17.5%	-47.9%	-233.9%	-23.9%	9.8%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	4	(5)	0	0	0
NET PROFIT	**246**	**(209)**	**(332)**	**(119)**	**96**
Normalized profit	**242**	**(204)**	**(332)**	**(119)**	**96**
EPS (Bt)	0.4	(0.2)	(0.4)	(0.1)	0.1
Normalized EPS (Bt)	0.4	(0.2)	(0.4)	(0.1)	0.1

Asset-light balance sheet was key for SPA surviving during COVID

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	289	231	203	259	482
Cash & cash equivalent	126	115	150	150	300
Account receivables	37	22	6	16	27
Inventories	40	40	32	40	50
Others	86	55	15	53	105
Investments & loans	0	0	0	0	0
Net fixed assets	1,083	1,075	969	913	875
Other assets	144	1,326	51	(33)	(166)
Total assets	**1,516**	**2,632**	**1,223**	**1,139**	**1,190**
LIABILITIES:					
Current liabilities:	245	361	235	281	319
Account payables	97	45	27	40	59
Bank overdraft & ST loans	5	0	4	4	4
Current LT debt	80	103	209	222	226
Others current liabilities	63	213	(5)	15	30
Total LT debt	**80**	**288**	**488**	**518**	**526**
Others LT liabilities	59	1,078	(72)	(113)	(186)
Total liabilities	**384**	**1,727**	**650**	**686**	**659**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	143	214	214	214	214
Share premium	279	279	279	279	279
Warrants	0	0	0	0	0
Surplus	44	44	44	44	44
Retained earnings	**666**	**368**	**36**	**(84)**	**(6)**
Shareholders' equity	1,132	905	573	453	531
Liabilities & equity	**1,516**	**2,632**	**1,223**	**1,139**	**1,190**

Sources: Company data, Thanachart estimates

We project operating cash flow to turn positive again in 2022F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	288	(205)	(332)	(119)	114
Tax paid	(37)	(21)	(1)	3	(11)
Depreciation & amortization	118	309	325	313	315
Chg In w orking capital	(9)	(37)	7	(6)	(1)
Chg In other CA & CL / minorities	(32)	173	(186)	(21)	(43)
Cash flow from operations	**326**	**219**	**(189)**	**169**	**374**
Capex	(133)	(119)	(15)	(65)	(85)
Right of use	0	(1,352)	1,070	(100)	(50)
ST loans & investments	(39)	30	9	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(4)	1,002	(1,149)	(48)	(81)
Cash flow from investments	**(177)**	**(439)**	**(84)**	**(213)**	**(216)**
Debt financing	(51)	226	309	44	12
Capital increase	0	71	0	0	0
Dividends paid	(86)	(17)	0	0	(19)
Warrants & other surplus	1	(72)	0	0	0
Cash flow from financing	**(135)**	**208**	**309**	**44**	**(7)**
Free cash flow	**193**	**100**	**(204)**	**104**	**289**

We believe its multiples could return to pre-COVID level in 2024F

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	17.8	na	na	na	66.9
Normalized PE - at target price (x)	23.5	na	na	na	88.6
PE (x)	17.5	na	na	na	66.9
PE - at target price (x)	23.2	na	na	na	88.6
EV/EBITDA (x)	11.0	57.9	184.0	33.5	15.9
EV/EBITDA - at target price (x)	14.5	75.9	239.0	43.4	20.7
P/BV (x)	3.8	7.1	11.3	14.2	12.2
P/BV - at target price (x)	5.0	9.4	14.9	18.9	16.1
P/CFO (x)	13.2	29.5	(34.2)	38.1	17.3
Price/sales (x)	4.7	15.1	45.4	12.9	6.5
Dividend yield (%)	2.1	0.0	0.0	0.0	0.6
FCF Yield (%)	4.5	1.6	(3.2)	1.6	4.5
(Bt)					
Normalized EPS	0.4	(0.2)	(0.4)	(0.1)	0.1
EPS	0.4	(0.2)	(0.4)	(0.1)	0.1
DPS	0.2	0.0	0.0	0.0	0.0
BV/share	2.0	1.1	0.7	0.5	0.6
CFO/share	0.6	0.3	(0.2)	0.2	0.4
FCF/share	0.3	0.1	(0.2)	0.1	0.3

Sources: Company data, Thanachart estimates

SPA is a high-profitability company, thanks to its asset-light model

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	22.0	(69.1)	(66.7)	252.0	97.7
Net profit (%)	19.6	na	na	na	na
EPS (%)	19.6	na	na	na	na
Normalized profit (%)	17.9	na	na	na	na
Normalized EPS (%)	17.9	na	na	na	na
Dividend payout ratio (%)	35.9	0.0	0.0	0.0	40.0
Operating performance					
Gross margin (%)	31.9	(18.7)	(133.3)	3.2	26.9
Operating margin (%)	20.1	(45.1)	(201.7)	(20.4)	12.1
EBITDA margin (%)	28.6	27.2	26.8	42.1	43.9
Net margin (%)	17.5	(47.9)	(233.9)	(23.9)	9.8
D/E (incl. minor) (x)	0.1	0.4	1.2	1.6	1.4
Net D/E (incl. minor) (x)	0.0	0.3	1.0	1.3	0.9
Interest coverage - EBIT (x)	26.6	na	na	na	5.5
Interest coverage - EBITDA (x)	37.8	5.4	0.8	8.2	20.0
ROA - using norm profit (%)	16.8	na	na	na	8.3
ROE - using norm profit (%)	23.1	na	na	na	19.6
DuPont					
ROE - using after tax profit (%)	23.1	na	na	na	19.6
- asset turnover (x)	1.0	0.2	0.1	0.4	0.8
- operating margin (%)	21.5	na	na	na	13.7
- leverage (x)	1.4	2.0	2.6	2.3	2.4
- interest burden (%)	96.5	111.7	117.4	127.5	84.0
- tax burden (%)	84.3	na	na	na	84.5
WACC (%)	6.5	6.5	6.5	6.5	6.5
ROIC (%)	21.8	(16.4)	(20.5)	(7.7)	9.7
NOPAT (Bt m)	235	(192)	(242)	(86)	101
invested capital (Bt m)	1,172	1,182	1,123	1,047	986

Sources: Company data, Thanachart estimates

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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