Siam Senses

Weathering the storm

The spat between Russia and the West regarding Ukraine has come to dominate recent financial market movements. Despite the tension, we believe the Thai equity market is well placed to weather this crisis as Thailand has limited economic exposure to Russia/Ukraine while market valuations look attractive and the earnings growth outlook is strong.

CHAK REUNGSINPINYA
662-779-9104
chak.reu@thanachartsec.co.th

Thanachart Securities

SET well placed to weather geopolitical storm

The tension between the Western allies and Russia regarding Ukraine is likely to dominate the headlines for the next few weeks and possibly months. We acknowledge that the situation could quickly escalate into an armed conflict and that the end-game is highly uncertain, both in terms of the potential outcome and timeline. Still, we believe the Thai market is well placed to weather this geopolitical crisis as Thailand has limited direct economic exposure to either Russia or Ukraine while the market valuation looks attractive and the growth outlook seems strong.

Limited economic ties to Russia and Ukraine

Thailand has little direct economic exposure to both Russia and Ukraine. Last year, Russia accounted for just 0.4% of Thailand's total exports and 0.7% of total imports. Exposure to Ukraine is even smaller, with the country making up less than 0.1% of Thailand's external trade last year. Russia is also not a major investor in Thailand, making up less than USD100m in annual FDI. The one area where the Russian market is significant for Thailand is tourism. In 2019, 1.5m Russian tourists came to Thailand, accounting for 4% of total tourist arrivals and 5% of spending. However, that number has fallen from its peak in 2013 at 1.75m and the relative importance has shrunk. We believe border re-openings and lower case rates are bigger factors for Thai tourism.

Valuation and earnings growths provide cushion

We believe two factors will help the SET Index weather the crisis: an attractive valuation and strong earnings growth. The SET Index is trading at 17x forward PE, which is a meaningful discount to the about 19x average of the past 10 years. It's also trading at lower multiples than when the market was subject to the same pressure (rising rates, geopolitical risks) back in late 2013/early 2014. Earnings-wise, we expect growth to be strong at 15% and 16% y-y in 2022-23F based on the stocks under our coverage.

Domestic exposure the way to go

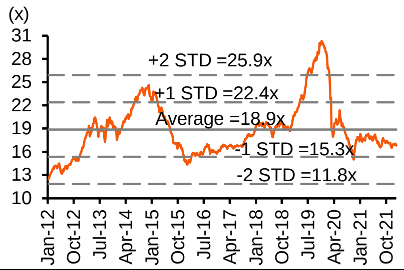
For the Thai market, our current top picks are mostly geared towards a domestic economic recovery and should perform well despite the ongoing conflict in Ukraine. Market and sector performances during the last Ukraine crisis (late 2013-mid 2014) also confirm our preferences for domestic exposure during periods of heightened geopolitical uncertainties. During that period, sectors that outperformed were retail, food & agri, construction materials, financials and utilities — sectors that dominate our current top picks as well. See *Siam Senses* – ***The bull forces***, dated 16 December 2021 by Pimpaka Nichgaroon for details.

Top Picks

Stock	-EPS growth-		—— PE ——		Yield
	21F (%)	22F (%)	21F (x)	22F (x)	22F (%)
CBG	(18.9)	55.3	35.0	22.5	3.0
COM7	67.3	37.8	38.5	27.9	2.9
CPN	(49.9)	163.1	87.7	33.3	1.5
EA	7.4	72.1	62.8	36.5	0.8
GLOBAL	64.0	18.0	26.3	22.3	1.8
GPSC	23.5	15.1	23.9	20.8	2.9
HMPRO	4.1	22.8	34.3	28.0	2.9
KBANK	29.0	1.7	9.3	9.1	2.2
M	(93.4)	na	778.0	25.8	3.9
SCB	30.8	(3.4)	11.9	12.3	2.4

Source: Thanachart estimates
Based on 27 January 2022 closing prices

SET Index Forward PE



Sources: Bloomberg, Thanachart estimates

SET well placed to weather geopolitical risks

The tension between the Western allies and Russia regarding Ukraine is likely to dominate the headlines for the next few weeks and possibly months. We acknowledge that the situation could quickly escalate into an armed conflict and that the end-game is highly uncertain, both in terms of the potential outcome and timeline. Still, we think the Thai market is well placed to weather this geopolitical crisis as Thailand has limited direct economic exposure to either Russia or Ukraine while the market valuation looks attractive and growth outlook seems strong.

Summary of the current situation

We believe the Thai equity market is well placed to weather this geopolitical crisis

We believe the current situation in Ukraine is a continuation of the Russian annexation of Crimea in 2014. That crisis ended with the signing of the Minsk Protocol between Ukraine and Russian-controlled separatists in the Donbass region of Eastern Ukraine. Despite the Minsk Protocol, and the subsequent Minsk Protocol II, fighting has been ongoing since then and Russia continues to exert great influence in eastern Ukraine.

Ex 1: Map Of Minsk Protocol

Source: Wikipedia

What triggered the current crisis started with Russia's demand in late 2021 that the US and NATO give it an explicit guarantee that Ukraine would never be allowed to join NATO. This was a non-starter for the US and its Western allies as NATO has an open-door policy. Following this demand, Russia has been building up its military presence along its border with Ukraine. Most media quote a figure of 100,000 or more Russian troops being stationed near Ukrainian border, both in Russia and Belarus.

Up until last week, the US response had been to *not* provoke Russia into action. This meant it has not talked up any military action but rather tried to dissuade Russia via threats of severe economic sanctions. However, the US is now changing its tactics, planning to have as many as 8,500 troops on high alert and ready to be deployed to NATO's so-called Eastern flank (Poland, Romania and the Baltic states). In fact, President Joe Biden said that some of those troops could be deployed soon.

The responses by European allies have been more mixed. While some countries, such as Spain and Denmark, are sending warships and fighter jets to the Baltic states, others such as Germany and France seem to prefer a more restrained response. Both Germany and France continue to pursue dialogue via the so-called "Normandy Format" — four-party talks involving Russia and Ukraine with Germany and France acting as mediators. This forum has not had much success since it began in 2014 and we doubt it will lead to any concrete diplomatic breakthrough. Meanwhile, Germany is still refusing to sign off on German-made weapons which Estonia wants to send to Ukraine as part of an aid effort. Besides military and diplomatic responses, the European Parliament has also passed an economic aid package totaling EUR1.2bn to help Ukraine weather the economic pressure.

Russia's likely course of action

Most security analysts in the West believe Russia's demand serves only as a pretext for military action and that a ground attack by Russia is all but inevitable. The US and UK's recent decisions to evacuate families of diplomats and non-essential personnel from Kiev (the Ukrainian capital) seem to lend credibility to this view. What is still unknown is when, where, and how far will Russia go. This could range from a small incursion into eastern Ukraine (which is a natural extension of the Russian-controlled Donbass region) to a direct attack on Kiev.

Potential Western responses

Western responses are likely to involve a combination of economic sanctions and potential arms support to Ukraine. NATO members are also likely to reinforce their military presence on its eastern flank. However, we believe a direct confrontation between NATO and Russian troops is highly unlikely as the US and its allies want to avoid a shooting war with a nuclear power.

Potential timeline

Many commentators on Western media believe Russia will take no action prior to the conclusion of the Winter Olympics in China. Their reasoning is that President Vladimir Putin will be mindful of China's response and does not want the Ukrainian conflict to overshadow Beijing's effort to promote the event. At the same time, if Russia were to launch a large-scale attack, it may need to do so before the ground thaws. This is because the ground may not be able to support large armored units once it becomes muddy, making movement all but impossible. By most accounts, the ground in Ukraine may start thawing by mid-March. As such, the most likely time frame for any offensive by Russia is 20 February to the middle of March. Having said that, we caution that the element of surprise is one of the key advantages Russia holds and we would not rule out an attack prior to the Olympics. We also note that there can be many forms of offensives, meaning Russia may not need to rely solely on its armored units to invade Ukraine. This means it may be willing to wait longer.

Russia and Ukraine together make up less than 1% of Thailand's external trade

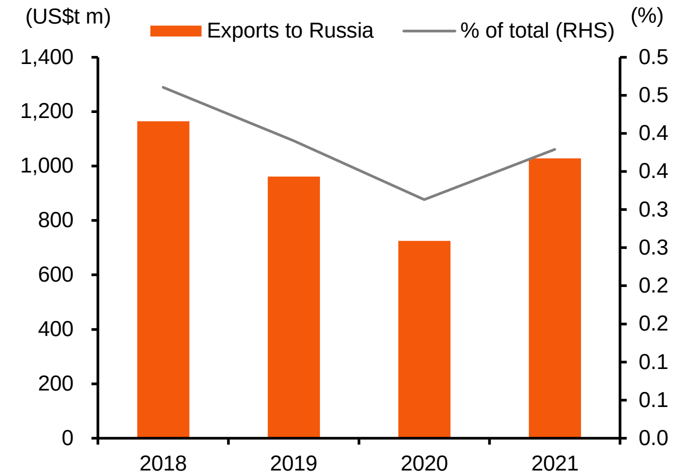
What about a diplomatic off-ramp?

At this point, we do not believe a diplomatic solution is likely prior to any Russian invasion. Post-invasion, Russia may be able to extract concessions from the West including greater encroachment into Ukraine's territory or greater influence over Ukraine's leadership (such as a pro-Russia or more neutral president).

Limited economic ties to Russia and Ukraine

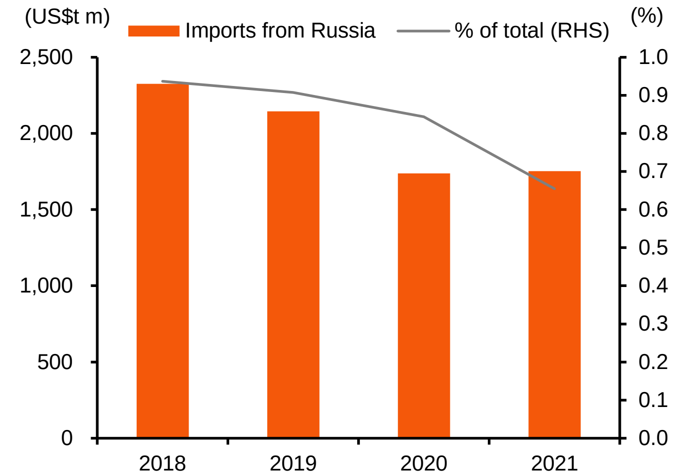
Russia and Ukraine are not major trading or economic partners for Thailand. Russia made up less than 0.5% of Thailand's total export value in 2018-21. Likewise, the country accounted for about 1% or less of Thailand's total imports over the same period.

Ex 2: Thailand's Goods Exports To Russia



Sources: Company data; Thanachart

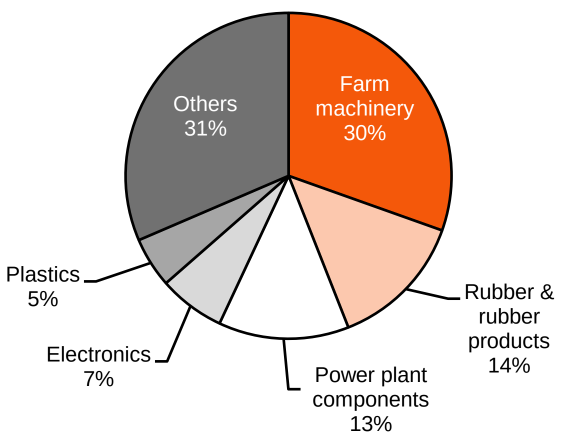
Ex 3: Thailand's Goods Imports From Russia



Sources: Company data; Thanachart

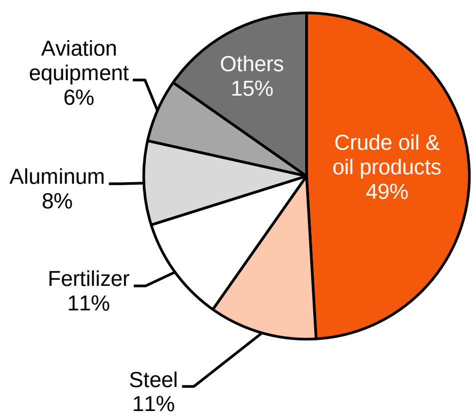
The majority of Thailand's exports to Russia are farm machinery, rubber products, and power plant equipment. Crude oil and oil products make up half of total imports from Russia. Even so, Russian crude accounts for less than 3% of Thailand's total crude oil and oil product imports. We believe Thailand can readily replace this with imports from other countries should the need arise.

Ex 4: Thailand's Exports To Russia (2021)



Sources: Ministry of Commerce; Thanachart

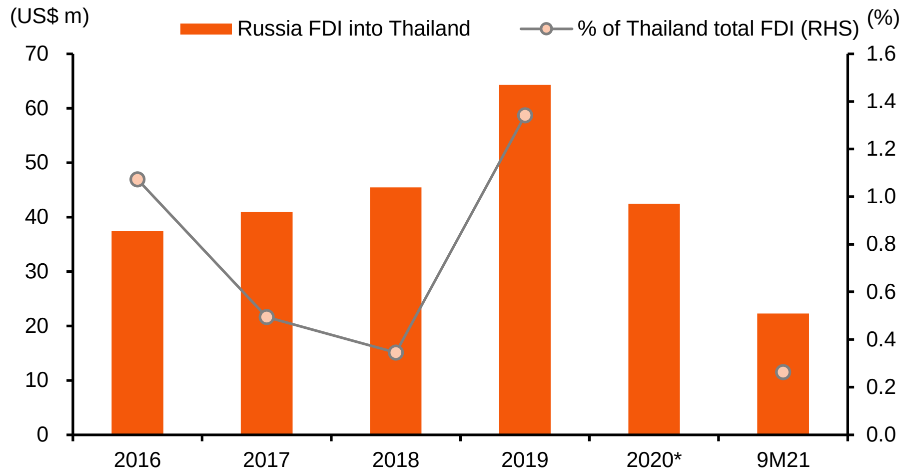
Ex 5: Thailand's Imports From Russia (2021)



Sources: Ministry of Commerce; Thanachart

Russia is also not an important source of foreign direct investment (FDI) into Thailand. The country contributed less than USD100m in annual FDI to Thailand, equating to just 0.3-1.3% of Thailand's total FDI over 2016-9M21.

Ex 6: Foreign Direct Investment From Russia Into Thailand



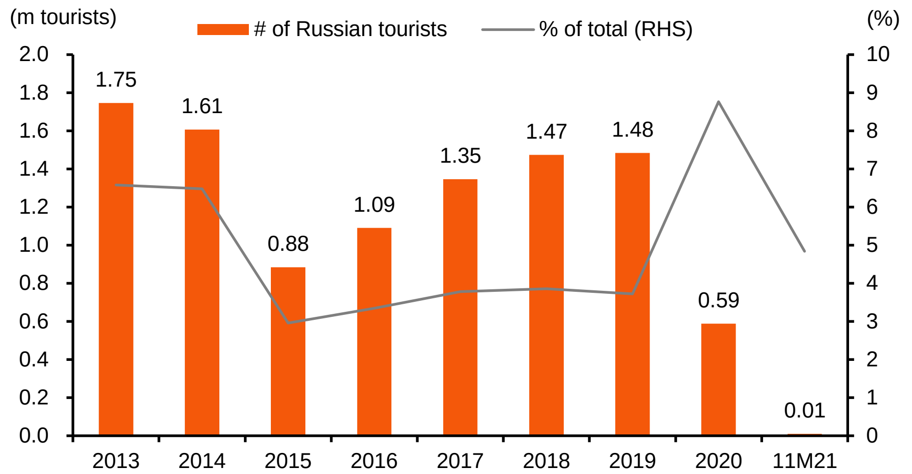
Sources: Bank of Thailand, Thanachart

Note: *Thailand's total FDI in 2020 was negative (i.e., a net outflow)

Russia has become less relevant as a source of tourists for Thailand

The one area where the Russian market is significant for Thailand is tourism. In 2019, there were nearly 1.5m Russian tourists in Thailand, accounting for 4% of total tourist arrivals and 5% of spending. However, that number has fallen from its peak in 2013 at 1.75m and the relative importance has shrunk. With COVID-19 having already decimated Thailand's tourism industry, we see no immediate downside risks to the industry even if Russia were to face severe sanctions from the West.

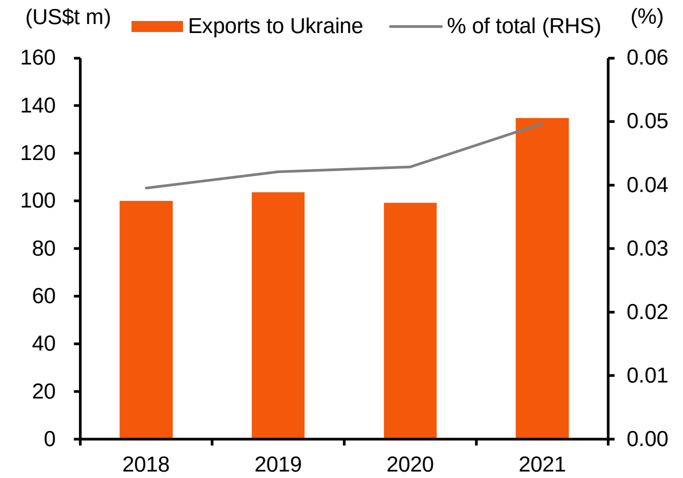
Ex 7: Number Of Russian Tourists And As % Of Total Tourist Arrivals In Thailand



Sources: Company data, Thanachart

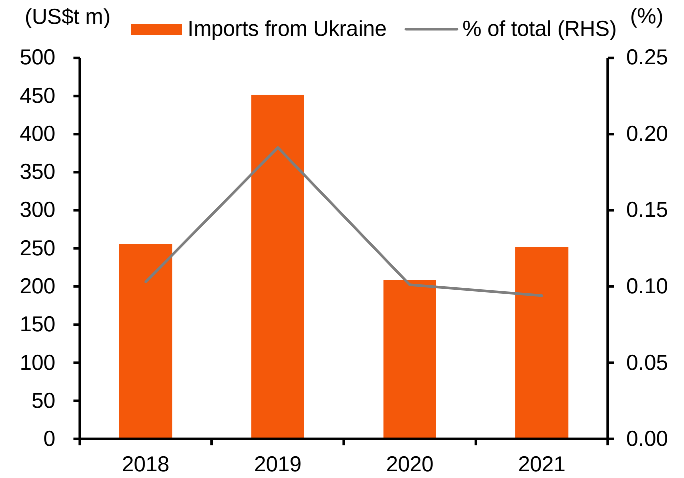
Ukraine is an even smaller trading partner for Thailand. Exports to Ukraine account for less than 0.05% of Thailand's total whereas imports from Ukraine make up only 0.1-0.2% of Thailand's total. Contributions to the Thai economy either in the form of FDI or tourism are also negligible.

Ex 8: Thailand's Exports To Ukraine



Sources: Ministry of Commerce; Thanachart

Ex 9: Thailand's Imports From Ukraine



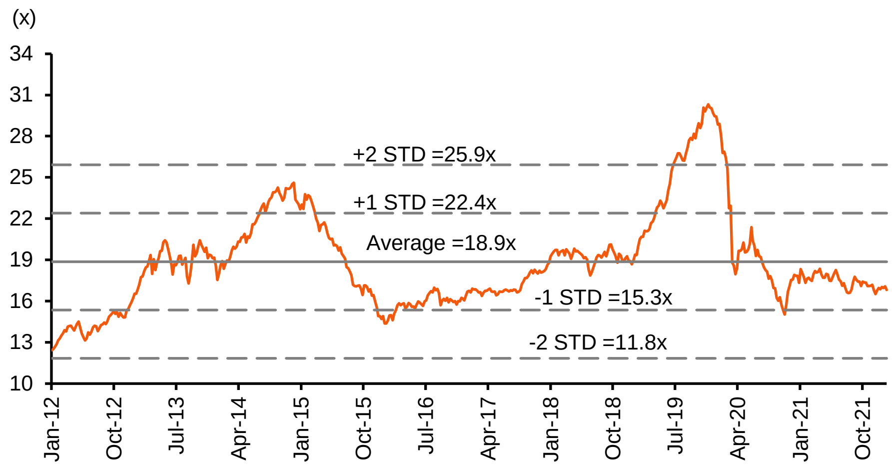
Sources: Ministry of Commerce; Thanachart

Valuation and earnings growths provide a cushion

We believe two items will help the SET Index weather the global geopolitical crisis: an attractive valuation and strong earnings growth. The SET Index is trading at just 17x forward PE, which is a meaningful discount to about the 19x average of the past 10 years. It's also trading at a lower multiple than when the market was subject to the same pressure (ie, rising rates, geopolitical risks) back in late 2013/early 2014.

SET Index valuation at a discount to its long-term average, providing cushion to potential downside risk

Ex 10: SET Index Forward PE: Valuation Is Undemanding In Our View

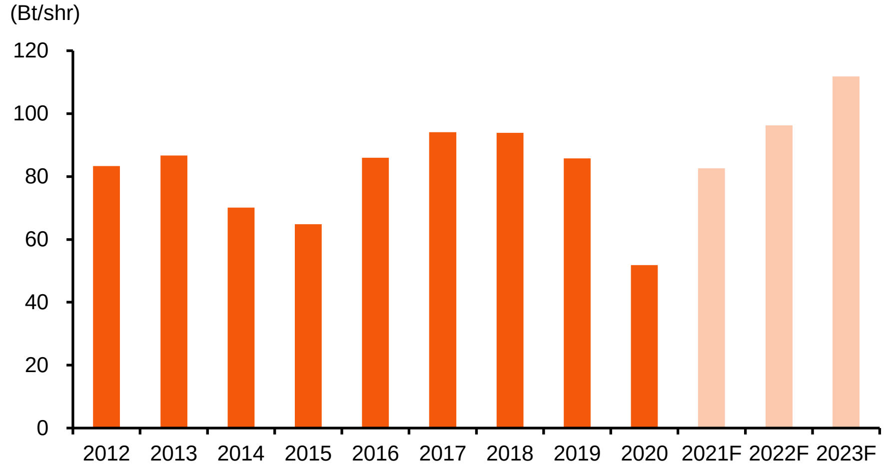


Sources: Company data, Thanachart estimates

For the market, we expect 15% and 16% y-y aggregate earnings growth in 2022-23F. This follows a strong turnaround of over 50% in 2021F.

We expect strong earnings growth for the SET in 2022-23F following a sharp recovery in 2021F

Ex 11: SET Index Earnings Growth

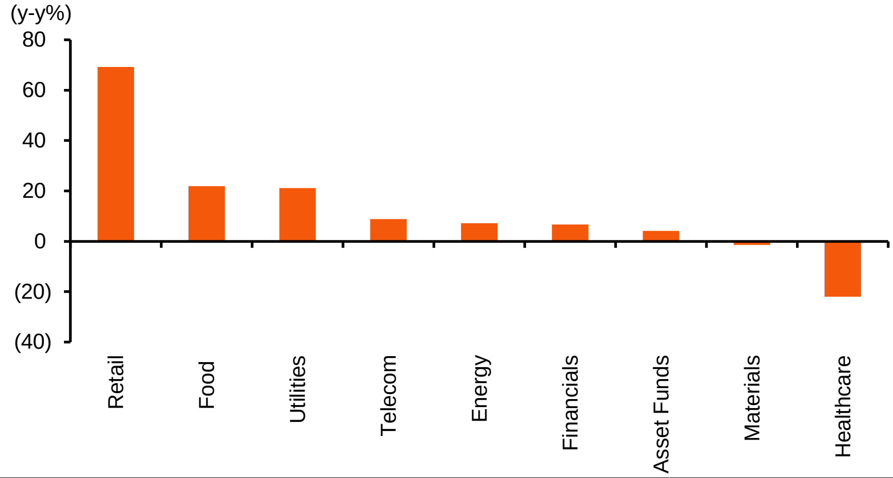


Sources: Company data, Thanachart estimates

Of the ten biggest sectors, the retail sector is likely to deliver the strongest earnings growth at almost 70% y-y in 2022F. This is followed by food and utilities at over 20% each. While we expect an improvement for the transportation sector, we believe earnings will still be in negative territory due to a potentially slow recovery in tourism. Only two major sectors are likely to see earnings declines in 2022F: healthcare (due to the high base from COVID-related revenue in 2021F) and materials (just a 1% drop).

Domestically focused sectors likely to deliver stronger earnings growths

Ex 12: 2022F Earnings Growth By Sector



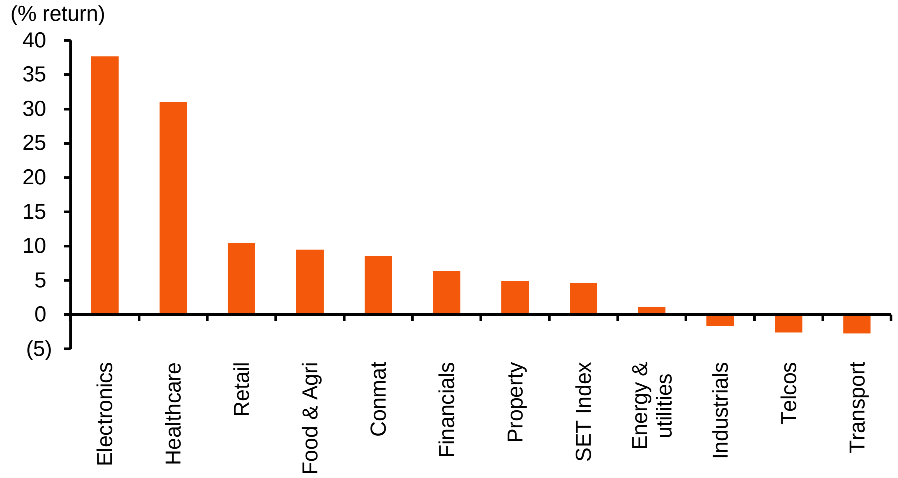
Sources: Company data, Thanachart estimates

Domestic exposure the way to go

Taking cues from market performance during Russia's annexation of Crimea, we also believe sectors geared towards domestic consumption and economic recovery will outperform during the period of heightened geopolitical tension. We examine the performances of each sector during mid-November 2013 (when tensions first arose in Ukraine) to the end of June 2014 (when relations were beginning to normalize). During this period, sectors that outperformed were all domestically focused with the only exception being electronics (likely due in part to a weakening Thai baht). Sectors like healthcare, retail, food & agri, as well as financials and property all outperformed the market. On the other hand, energy and industrials (which are more heavily exposed to global events) underperformed. We also note that utilities as a sub-index of energy also outperformed during this period whereas oil & gas underperformed.

Sectors geared towards Thailand's domestic recovery also outperformed during last crisis in Ukraine

Ex 13: Returns By Sector During Mid-November 2013 – June 2014



Sources: Bloomberg, Thanachart estimates

Siam Senses' top picks comprise mainly retail/consumer, financials and utilities stocks. This follows our revisions back in December when we further increased exposure to domestic sectors at the expense of electronics and industrials (see *Siam Senses* – ***The bull forces***, dated 16 December 2021 by Pimpaka Nichgaroon for details). We believe our current top picks offer attractive earnings growth and are well placed to weather the geopolitical uncertainties.

Ex 14: 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)	(%)	(%)
CBG TB	BUY	100.00	147.00	*47.0*	3,013	(18.9)	55.3	35.0	22.5	25.3	17.0	1.9	3.0
COM7 TB	BUY	77.75	95.00	*22.2*	2,811	67.3	37.8	38.5	27.9	26.3	19.8	2.1	2.9
CPN TB	BUY	51.50	64.00	*24.3*	6,963	(49.9)	163.1	87.7	33.3	21.8	15.2	1.0	1.5
EA TB	BUY	92.75	120.00	*29.4*	10,422	7.4	72.1	62.8	36.5	37.2	23.3	0.5	0.8
GLOBAL TB	BUY	18.40	30.00	*63.0*	2,551	64.0	18.0	26.3	22.3	20.9	17.7	1.5	1.8
GPSC TB	BUY	78.75	92.00	*16.8*	6,689	23.5	15.1	23.9	20.8	15.6	14.4	2.5	2.9
HMPRO TB	BUY	14.00	19.00	*35.7*	5,547	4.1	22.8	34.3	28.0	18.4	15.8	2.3	2.9
KBANK TB	BUY	147.50	160.00	*8.5*	10,528	29.0	1.7	9.3	9.1	0.7	0.7	2.0	2.2
M TB	BUY	50.75	68.00	*34.0*	1,408	(93.4)	na	778.0	25.8	21.9	10.0	0.1	3.9
SCB TB	BUY	125.00	150.00	*20.0*	12,787	30.8	(3.4)	11.9	12.3	1.0	0.9	2.2	2.4

Sources: Bloomberg, Thanachart estimates
Note: Based on 27 January 2022 closing prices

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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

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

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

Chak Reungsinpinya
Thematic Research, 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

Yupapan Polpornprasert
Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

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