Small Cap Research

Thanachart Securities

SELL (Unchanged)

Change in Numbers

TP: Bt 2.80 (Unchanged)

Downside : 13.6%

3 MARCH 2022

The Erawan Group Pcl (ERW TB)

More asset disposals

SIRIPORN ARUNOTHAI
662 – 779 9113
siriporn.aru@thanachartsec.co.th

ERW has announced a plan to sell three more hotels to reduce its debt and finance new expansion. This would result in higher earnings from falling interest expenses over the short term. However, the stock remains expensive, in our view, and we reaffirm our SELL rating.

Selling three Ibis hotels

ERW as a pure hotel operator is a direct victim of the COVID-19 crisis. The company increased capital, revalued its assets and sold two hotels on Samui island last year to improve its balance sheet and cash flow situation. The company recently announced a plan to sell three more hotels in 2Q22 to One Origin Hospitality Co., Ltd, a subsidiary of Origin Property Pcl. (ORI TB, not rated). The three hotels are Ibis Phuket Kata (258 rooms), Ibis Hua Hin (200 rooms) and Ibis Styles Krabi Ao Nang (206 rooms). These account for 7% of ERW's total hotel rooms and contributed 3% of 2019 revenue. We do not know the transaction value but the combined book value is Bt1bn. The company expects a slight gain from the asset sales.

A positive move

We see this as a positive move by ERW. *First,* ERW plans to use part of the proceeds to repay debt and this would help reduce interest expenses and improve earnings. We revise up our 2022-23F earnings (see Exhibit 1). We estimate net D/E ratio to fall from 2.8x in 2020 and 1.6x in 2021 to 1.6x in 2022F. Its debt covenant ratio is at 2.5x. *Second,* another part of the proceeds would be used to finance its new investment. ERW targets to spend c.Bt800m on nine new HOP INN hotels and existing hotels' maintenance this year. *Third,* the three hotels didn't contribute to 2019 earnings and made a slight loss in 2021.

Domestic tourism recovery

ERW's 4Q21 occupancy rate at 42% was the highest by quarter in 2021 while average room rate (ARR) also rose by 16% y-y, driven by domestic tourism stimulus schemes and the country's reopening from November 2021. We expect the trend to continue into this year, driven by the domestic tourism stimulus program ("We Travel Together – Phase 4" from February – May 2022), the resumption of the "Test & Go" scheme from 1 February 2022 and the Omicron COVID variant being less severe. We estimate ERW's occupancy rate at 48/69/77% over 2022-24F, vs. 76% in 2019, with ARR also growing by 26/20/14% in those years.

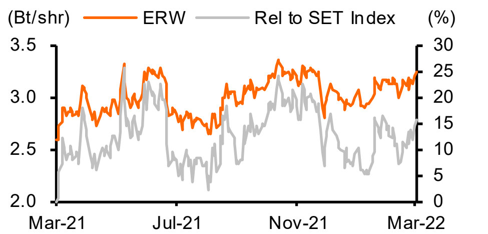
Reaffirming SELL call

We factor the asset disposals into our model and estimate ERW's losses to narrow from Bt919m to Bt802m in 2022F. We also raise our profit by 7% in 2023F and maintain our 2024F earnings. Our DCF-based 12-month TP (2022F base year) of Bt2.8 is also unchanged. Though we are relieved about ERW's balance sheet risk and cash flow situation, we reaffirm our SELL call as we still forecast a loss in 2022F and see its valuation of 72.9x EV/adj. EBITDA in 2022F as expensive vs. Minor International Pcl's (MINT TB, Bt31.75, BUY) 24.0x and Central Plaza Hotel's (CENTEL TB, Bt37.25, BUY) 38.4x.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	1,485	3,040	4,974	6,211
Net profit	(2,050)	(752)	237	657
Consensus NP	—	(703)	239	501
Diff frm cons (%)	—	*na*	*(0.7)*	*31.0*
Norm profit	(2,021)	(802)	237	657
Prev. Norm profit	—	(919)	222	659
Chg frm prev (%)	—	*na*	*6.9*	*(0.2)*
Norm EPS (Bt)	(0.48)	(0.18)	0.05	0.14
Norm EPS grw (%)	na	na	na	176.7
Norm PE (x)	na	na	61.8	22.3
EV/EBITDA (x)	na	40.1	12.9	9.7
P/BV (x)	2.4	2.8	2.7	2.5
Div yield (%)	0.0	0.0	0.3	1.8
ROE (%)	na	na	4.4	11.5
Net D/E (%)	164.5	163.6	149.2	117.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 3-Mar-22 (Bt)	3.24
Market Cap (US$ m)	450.1
Listed Shares (m shares)	4,531.6
Free Float (%)	61.3
Avg Daily Turnover (US$ m)	1.3
12M Price H/L (Bt)	3.36/2.58
Sector	Tourism
Major Shareholder	Vongkusolkit & Wattanavekin Group 55%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2020A	2021A	2022F	2023F	2024F
# of rooms					
- New	9,802	10,094	10,055	10,188	10,188
- Old			10,719	11,154	11,154
- Change (%)			*(6.2)*	*(8.7)*	*(8.7)*
Occupancy rate (%)					
- New	36.6	29.3	48.2	69.1	77.0
- Old			47.4	68.7	76.7
- Change (pp)			*0.8*	*0.4*	*0.3*
ARR (Bt/room/night)					
- New	1,136	913	1,155	1,389	1,590
- Old			1,131	1,391	1,589
- Change (%)			*2.2*	*(0.1)*	*0.0*
Gross margin (%)					
- New	36.5	13.6	49.4	54.1	54.4
- Old			48.9	53.7	53.9
- Change (pp)			*0.5*	*0.5*	*0.5*
SG&A to sales (%)					
- New	87.5	124.6	62.5	39.1	35.0
- Old			65.4	39.2	35.1
- Change (pp)			*(2.9)*	*(0.2)*	*(0.1)*
Interest expense (Bt m)					
- New	536	521	462	473	469
- Old			539	580	588
- Change (%)			*(14.3)*	*(18.4)*	*(20.1)*
Normalized profit (Bt m)					
- New	(1,585)	(2,021)	(802)	237	657
- Old			(919)	222	659
- Change (%)			*n.a.*	*6.9*	*(0.2)*

Sources: Company data, Thanachart estimates

Ex 2: 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	2033F	Terminal Value
EBITDA excl. depre from right of use	318	1,496	1,974	2,196	2,270	2,350	2,419	2,474	2,535	2,597	2,656	2,717	—
Free cash flow	(697)	381	1,269	1,481	1,634	1,676	1,625	1,671	1,722	1,773	1,823	1,873	33,267
PV of free cash flow	(695)	333	1,033	1,111	1,141	1,089	982	940	902	841	802	765	13,589

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.2
WACC (%)	7.1
Terminal growth (%)	2.0
Enterprise value - add investments	22,833
Net debt (2021)	9,909
Minority interest	11
Equity value	12,913
# of shares	4,532
Target price/share (Bt)	**2.80**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 3: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
Accor SA	AC FP	France	(8.0)	266.6	97.0	26.5	2.0	1.9	18.1	12.2	1.0	2.4
Indian Hotels	IH IN	India	na	na	na	55.0	5.6	5.2	65.9	25.0	0.2	0.3
Resorttrust	4681 JP	Japan	na	14.1	30.0	26.3	1.8	1.7	12.5	10.8	1.5	1.7
Hotel Shilla	008770 KS	S. Korea	247.9	67.2	33.6	20.1	4.4	3.6	13.7	11.0	0.2	0.3
NH Hotel Group	NHH SM	Spain	na	na	na	25.5	2.3	2.1	10.5	8.3	0.0	0.1
Shanghai Jin Jiang Capital	2006 HK	Hong Kong	23.1	na	45.0	95.8	1.6	1.5	10.5	na	1.3	na
Hongkong & Shanghai	45 HK	Hong Kong	na	na	280.6	na	na	na	32.5	na	0.7	na
Shangri-La Asia	69 HK	Hong Kong	na	na	na	173.2	3.8	3.8	26.2	17.8	0.2	0.3
InterContinental Hotels	IHG US	US	na	26.7	26.0	20.5	na	na	16.4	14.0	1.5	1.9
Marriott International	MAR US	US	62.0	29.1	30.9	23.9	21.4	20.7	18.8	15.7	0.4	0.9
Hilton Worldwide Holdings	HLT US	US	179.5	33.8	35.5	26.5	na	593.1	20.5	17.0	0.3	0.4
Asset World Corp	AWC TB	Thailand	na	na	na	122.0	2.2	2.1	60.8	37.7	0.0	0.3
Central Plaza Hotel	CENTEL TB*	Thailand	na	na	na	34.3	2.9	2.7	19.4	12.5	0.0	0.6
Erawan Group	ERW TB*	Thailand	na	na	na	61.8	2.8	2.7	40.1	12.9	0.0	0.3
Minor International	MINT TB*	Thailand	na	na	727.2	32.2	2.7	2.9	13.7	11.0	0.0	1.1
Average			**100.9**	**72.9**	**145.1**	**53.1**	**4.5**	**49.5**	**25.3**	**15.8**	**0.5**	**0.8**

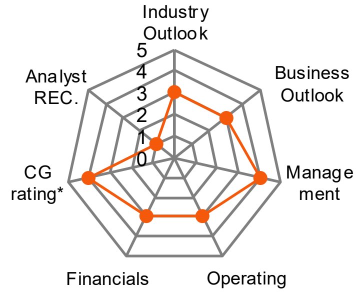
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 3-Mar-22 closing prices

COMPANY DESCRIPTION

The Erawan Group Public Co., Ltd. (ERW) was established on 29 December 1982. ERW's core businesses are investment, development and management of diversified hotel properties and segments (luxury, mid-scale, economy and budget) across Thailand's key destinations. Currently, ERW owns 72 hotels and operates other businesses including retail space rental and management of office buildings.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Well connected with strong hotel chains, ie, Hyatt, Marriott, Novotel, Holiday Inn, and Mercure as ERW's business allies in Thailand.
- Assets are strategically located in popular Thai tourist destinations.

W — Weakness

- Hotel footprint remains concentrated in Bangkok, Thailand.
- Luxury hotel oversupply in Thailand.

O — Opportunity

- Focuses on high-growth segments: mid-scale and economy and budget hotels (owned brand: HOP INN).
- Potential expansion in ASEAN.

T — Threat

- Fierce competition among hotel operators.
- ERW requires significant capital expenditure and financing to support its hotel investments and developments.
- Political unrest, natural disaster and pandemic outbreak

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.34	2.80	-16%
Net profit 22F (Bt m)	(703)	(752)	na
Net profit 23F (Bt m)	239	237	-1%
Consensus REC	**BUY: 10**	**HOLD: 6**	**SELL: 3**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our DCF-based TP is lower than the Bloomberg consensus, which we attribute to us having a more conservative view on ERW's earnings prospects over the longer term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- An improvement in Thailand's political situation and the COVID-19 pandemic are the key upside risks to our call.
- A faster-than-expected Thai and international tourist demand recovery represents a secondary upside risk.
- Lesser competition for tourists domestically and globally would provide upside potential to our numbers.

Source: Thanachart

Revenue rebound from Thailand's tourism recovery from 2022F

Plans to open nine new HOP INN hotels over 2022-23

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	2,306	1,485	3,040	4,974	6,211
Cost of sales	1,465	1,284	1,540	2,281	2,834
Gross profit	**841**	**201**	**1,501**	**2,693**	**3,377**
% gross margin	36.5%	13.6%	49.4%	54.1%	54.4%
Selling & administration expenses	2,017	1,850	1,900	1,943	2,171
Operating profit	**(1,176)**	**(1,649)**	**(399)**	**751**	**1,206**
% operating margin	-51.0%	-111.0%	-13.1%	15.1%	19.4%
Depreciation & amortization	1,012	936	979	1,016	1,045
EBITDA	**(164)**	**(713)**	**579**	**1,767**	**2,250**
% EBITDA margin	-7.1%	-48.0%	19.1%	35.5%	36.2%
Non-operating income	42	80	51	49	53
Non-operating expenses	0	0	0	0	0
Interest expense	(536)	(521)	(462)	(473)	(469)
Pre-tax profit	**(1,669)**	**(2,090)**	**(811)**	**326**	**789**
Income tax	(39)	46	49	59	67
After-tax profit	**(1,630)**	**(2,136)**	**(859)**	**267**	**722**
% net margin	-70.7%	-143.8%	-28.3%	5.4%	11.6%
Shares in affiliates' Earnings	(18)	9	0	0	0
Minority interests	63	105	57	(30)	(65)
Extraordinary items	(130)	(29)	50	0	0
NET PROFIT	**(1,715)**	**(2,050)**	**(752)**	**237**	**657**
Normalized profit	**(1,585)**	**(2,021)**	**(802)**	**237**	**657**
EPS (Bt)	(0.4)	(0.5)	(0.2)	0.1	0.1
Normalized EPS (Bt)	(0.4)	(0.5)	(0.2)	0.1	0.1

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,962	2,655	1,491	1,565	1,562
Cash & cash equivalent	1,623	1,242	1,000	1,000	1,000
Account receivables	77	100	167	204	170
Inventories	46	39	46	69	85
Others	217	1,274	278	292	307
Investments & loans	48	48	48	48	48
Net fixed assets	14,281	14,494	14,576	14,631	14,362
Other assets	4,923	5,252	5,208	5,156	4,948
Total assets	**21,215**	**22,450**	**21,324**	**21,399**	**20,920**
LIABILITIES:					
Current liabilities:	2,812	1,489	1,420	1,647	1,867
Account payables	145	143	169	219	272
Bank overdraft & ST loans	1,410	690	476	640	809
Current LT debt	726	105	181	170	146
Others current liabilities	532	551	594	618	640
Total LT debt	**10,551**	**10,356**	**8,871**	**8,331**	**7,134**
Others LT liabilities	3,923	4,582	5,819	5,964	5,896
Total liabilities	**17,286**	**16,427**	**16,110**	**15,942**	**14,896**
Minority interest	116	11	(46)	(16)	49
Preferreds shares	0	0	0	0	0
Paid-up capital	2,518	4,532	4,532	4,532	4,532
Share premium	910	910	910	910	910
Warrants	0	0	0	0	0
Surplus	(133)	2,058	2,058	2,058	2,058
Retained earnings	**519**	**(1,488)**	**(2,240)**	**(2,026)**	**(1,524)**
Shareholders' equity	3,813	6,012	5,260	5,474	5,975
Liabilities & equity	**21,215**	**22,450**	**21,324**	**21,399**	**20,920**

Sources: Company data, Thanachart estimates

Selling three Ibis hotels to strengthen cash inflow streams

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(1,669)	(2,090)	(811)	326	789
Tax paid	39	(45)	(49)	(58)	(67)
Depreciation & amortization	1,012	936	979	1,016	1,045
Chg In w orking capital	25	(18)	(48)	(10)	71
Chg In other CA & CL / minorities	(543)	(1,029)	1,015	(15)	(17)
Cash flow from operations	**(1,136)**	**(2,247)**	**1,087**	**1,259**	**1,820**
Capex	(637)	(909)	(800)	(800)	(500)
Right of use	(4,619)	(749)	(200)	(200)	(50)
ST loans & investments	0	0	0	0	0
LT loans & investments	31	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	4,725	811	1,294	153	(63)
Cash flow from investments	**(500)**	**(847)**	**294**	**(847)**	**(613)**
Debt financing	2,524	(1,536)	(1,623)	(387)	(1,052)
Capital increase	0	2,014	(0)	0	0
Dividends paid	(176)	0	0	(24)	(155)
Warrants & other surplus	(58)	2,236	0	0	0
Cash flow from financing	**2,290**	**2,714**	**(1,623)**	**(411)**	**(1,207)**
Free cash flow	**(1,774)**	**(3,156)**	**287**	**459**	**1,320**

Still expensive valuation, in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	na	61.8	22.3
Normalized PE - at target price (x)	na	na	na	53.4	19.3
PE (x)	na	na	na	61.83	22.3
PE - at target price (x)	na	na	na	53.44	19.3
EV/EBITDA (x)	na	na	40.06	12.9	9.7
EV/EBITDA - at target price (x)	na	na	36.61	11.8	8.8
P/BV (x)	3.3	2.4	2.8	2.7	2.5
P/BV - at target price (x)	2.8	2.1	2.4	2.3	2.1
P/CFO (x)	(11.0)	(6.1)	13.5	11.7	8.1
Price/sales (x)	6.4	9.9	4.8	3.0	2.4
Dividend yield (%)	0.0	0.0	0.0	0.3	1.8
FCF Yield (%)	(14.2)	(23.2)	2.0	3.1	9.0
(Bt)					
Normalized EPS	(0.4)	(0.5)	(0.2)	0.1	0.1
EPS	(0.4)	(0.5)	(0.2)	0.1	0.1
DPS	0.0	0.0	0.0	0.0	0.1
BV/share	1.0	1.3	1.2	1.2	1.3
CFO/share	(0.3)	(0.5)	0.2	0.3	0.4
FCF/share	(0.5)	(0.8)	0.1	0.1	0.3

Sources: Company data, Thanachart estimates

Improving financial status is a positive

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(63.9)	(35.6)	104.7	63.6	24.9
Net profit (%)	na	na	na	na	176.68
EPS (%)	na	na	na	na	176.68
Normalized profit (%)	na	na	na	na	176.68
Normalized EPS (%)	na	na	na	na	176.68
Dividend payout ratio (%)	0.0	0.0	0.0	20.0	40.0
Operating performance					
Gross margin (%)	36.5	13.6	49.4	54.1	54.4
Operating margin (%)	(51.0)	(111.0)	(13.1)	15.1	19.4
EBITDA margin (%)	(7.1)	(48.0)	19.1	35.5	36.2
Net margin (%)	(70.7)	(143.8)	(28.3)	5.4	11.6
D/E (incl. minor) (x)	3.2	1.9	1.8	1.7	1.3
Net D/E (incl. minor) (x)	2.8	1.6	1.6	1.5	1.2
Interest coverage - EBIT (x)	na	na	na	1.59	2.6
Interest coverage - EBITDA (x)	na	na	1.25	3.7	4.8
ROA - using norm profit (%)	na	na	na	1.1	3.1
ROE - using norm profit (%)	na	na	na	4.4	11.5
DuPont					
ROE - using after tax profit (%)	na	na	na	5.0	12.6
- asset turnover (x)	0.1	0.1	0.1	0.2	0.3
- operating margin (%)	na	na	na	16.1	20.3
- leverage (x)	4.1	4.4	3.9	4.0	3.7
- interest burden (%)	147.3	133.2	232.7	40.8	62.7
- tax burden (%)	na	na	na	82.0	91.5
WACC (%)	7.1	7.1	7.1	7.1	7.1
ROIC (%)	(7.9)	(11.1)	(2.7)	4.5	8.1
NOPAT (Bt m)	(1,176)	(1,649.1)	(423.3)	615.4	1,103
invested capital (Bt m)	14,877	15,921.4	13,787.9	13,614.2	13,064

Sources: Company data, Thanachart estimates

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

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), SCG Packaging Pcl (SCGP 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

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