BUY (Unchanged) | **TP: Bt 22.00** (From: Bt 24.00)

Change in Numbers | **Upside : 15.8%** | **26 MAY 2022**

Small Cap Research

CPN Retail Growth Leasehold (CPNREIT TB)

On a recovery path

Despite the businesses of its assets in tourist locations seeing slow growth momentum, we expect the country's full reopening to boost activity in 2H22F. We reaffirm our BUY on CPNREIT for 6/8% dividend yields while our TP of Bt22 is rolled over to a 2023F base year.

RATA LIMSUTHIWANPOOM
662 – 483 8297
rata.lim@thanachartsec.co.th

Thanachart Securities

Reaffirming BUY

CPNREIT is a leasehold REIT with the strong-brand "Central" shopping malls (82% of 2022F revenue), offices (14%) and hotels (4%). We reaffirm our BUY call on the stock. *First*, we expect a robust post-COVID earnings turnaround of 69/30/13% in 2022-24F driven by recovering economic activity. *Second*, 14% of CPNREIT's revenue comes from malls and hotels in tourist areas and it should benefit from the country's reopening. *Third*, CPNREIT offers decent cash dividend yields of 6/8% in 2022-23F with 16% potential upside to our TP. In this report we cut our earnings estimates by 14/10/6% to reflect the weak office market and delayed return of Chinese tourists. We roll over our DDM-based TP to a 2023F base year and our new TP is Bt22 (from Bt24).

On the road to recovery

Shopping malls are a way of life for Thais, living in a hot country. This has been reflected in a swift recovery of mall traffic with same-store rent growth of 16% y-y in 1Q22 (vs. -31/-23% in 2020-21) despite the Omicron COVID wave. Food, fashion and entertainment are the key segments of improvement. With stronger reopening momentum ahead, we see recovery momentum continuing and expect CPNREIT's 2024F EPS to surpass the pre-COVID level by 9%. This is on the back of same-store rent growth assumptions of 52/22/8% in 2022-24F.

Decent dividend yields

Rising bond yields globally and the expectation of BoT rate hikes next year may keep bond yields elevated. Despite that, we still expect CPNREIT's dividend yields to be at decent levels of 6.0/7.8/8.8% (at a 91% payout ratio) in 2022-24F. In 2023F, which we consider as a more normal year for CPNREIT, dividend yield gap over the 10-year government bond remains high at 4.7%. This is still above the elevated yield in 2013-14 of 3.9%.

Delayed capital increase

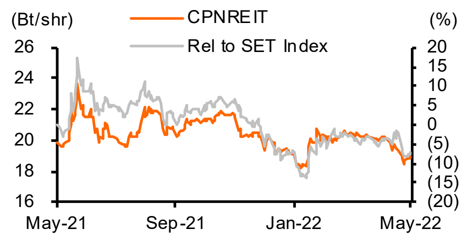
Due to poor market sentiment, CPNREIT has continued to put off its capital increase plan to finance the purchase of two new malls from its parent company Central Pattana (CPN TB, BUY, Bt60.5). The malls are Central Suratthani and Central Ubonratchathani with a combined maximum value of around Bt17bn. The previously announced plan was to comprise new equity of 414m new units (14% share dilution) and debt financing. This has already been approved by shareholders. We have not factored this into our numbers and we don't foresee significant EPS accretion.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	3,385	4,878	6,012	6,617
Net profit	866	3,274	2,448	1,828
Consensus NP	—	2,108	2,631	2,237
Diff frm cons (%)	—	*55.3*	*(7.0)*	*(18.3)*
Norm profit	1,869	3,214	4,184	4,738
Prev. Norm profit	—	3,724	4,660	5,061
Chg frm prev (%)	—	*(13.7)*	*(10.2)*	*(6.4)*
Norm EPS (Bt)	0.7	1.3	1.6	1.8
Norm EPS grw (%)	(31.6)	68.6	30.2	13.2
Norm PE (x)	25.6	15.2	11.7	10.3
EV/EBITDA (x)	28.5	18.7	14.9	13.3
P/NAV (x)	1.4	1.4	1.4	1.4
Cash div yield (%)*	3.2	6.0	7.8	8.8
Effective yield (%)**	0.3	5.1	6.5	3.7
ROE (%)	6.0	9.3	11.9	13.6
Net D/E (%)	63.3	62.2	64.8	62.9

Note: * Dividend from operations and capital reduction
** Dividend from operations

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 26-May-22 (Bt)	19.00
Market Cap (US$ m)	1,428.1
Listed Shares (m shares)	2,568.0
Free Float (%)	69.6
Avg Daily Turnover (US$ m)	0.7
12M Price H/L (Bt)	23.70/18.20
Sector	Property Fund
Major Shareholder	CPN 26.7%

Sources: Bloomberg, Company data, Thanachart estimates

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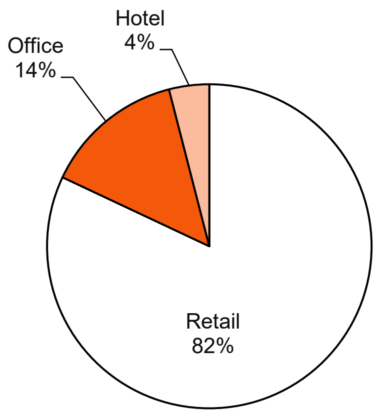
Mall performance has continued to improve

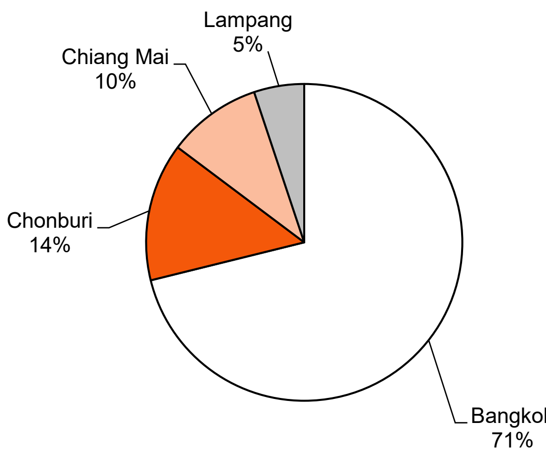
CPN Retail Growth Leasehold Pcl's (CPNREIT) shopping malls have shifted towards lifestyle and being more service-based, so they are threatened much less by e-commerce. The performance of its seven malls has proved to be resilient with high 92-94% occupancy rates during the COVID spread period. Spending time at shopping malls seems to be a way of life for Thais as reflected in the swift turnaround of mall traffic, which rebounded to 60% of 2019's level in 1Q22 vs. 10-20% during the July-August 2021 lockdown. The situation in 2Q22 is gradually getting back to normal with local people living their lives and going out, which is positive for the shopping mall business. Thailand fully reopened on 1 May which should boost traffic, especially to malls in tourist destinations where CPNREIT has two malls and one hotel in Chonburi province accounting for 14% of 2023F revenue. The rental discount was at 54% during the lockdown in 3Q21. This fell sharply to 27% post-lockdown in 4Q21 and further to 17% in 1Q22 despite the Omicron wave. We expect the full-year rental discount to decline to 12% this year (vs. 37% in 2021) before disappearing altogether in 1H23F.

Ex 1: 2023F Revenue Breakdown By Asset



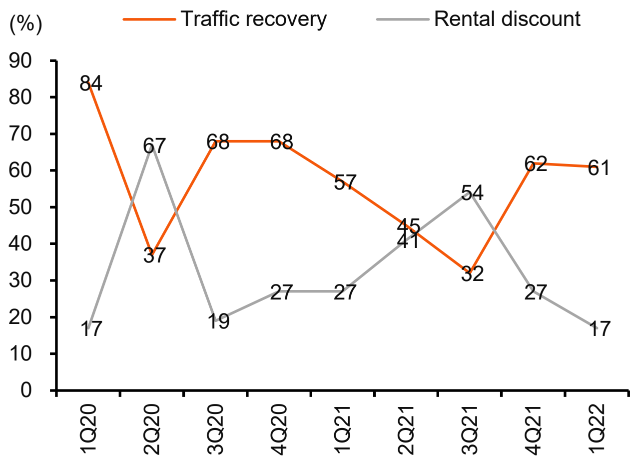
Source: Thanachart estimates

Ex 2: 2023F Revenue Breakdown By Location



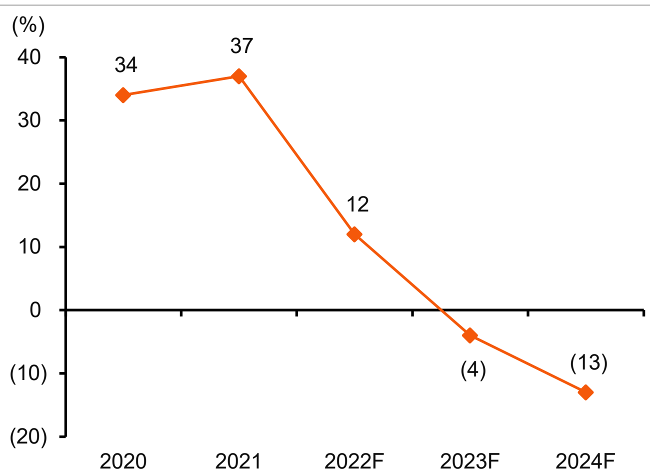
Source: Thanachart estimates

Ex 3: Swift Mall Traffic Recovery Post-COVID



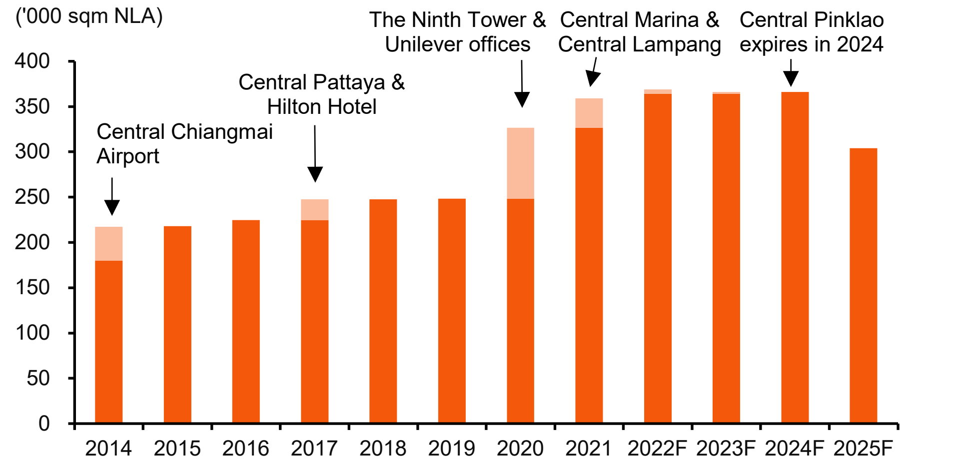
Source: Company data

Ex 4: We Forecast Falling Rental Discounts



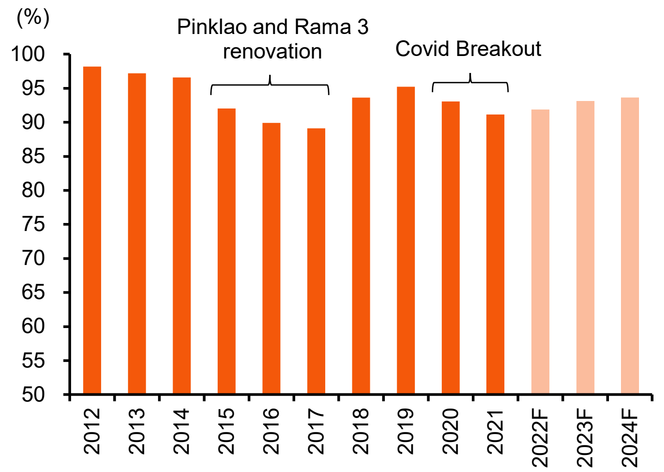
Sources: Company data , Thanachart estimates

Ex 5: Our Forecasts For CPNREIT's Net Leasable Area (NLA)



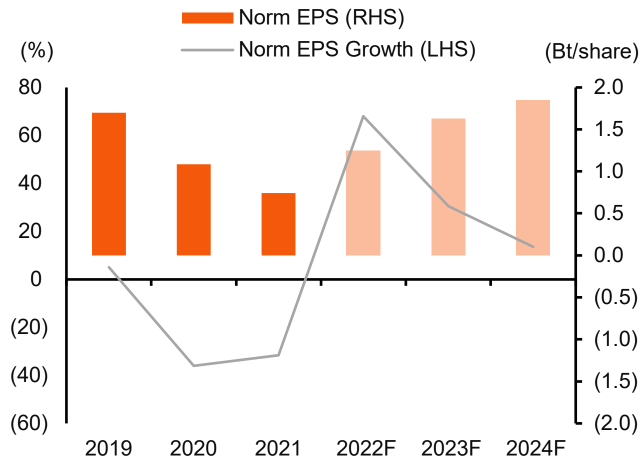
Sources: Company data, Thanachart estimates

Ex 6: Occupancy Rate Looks Set To Rebound



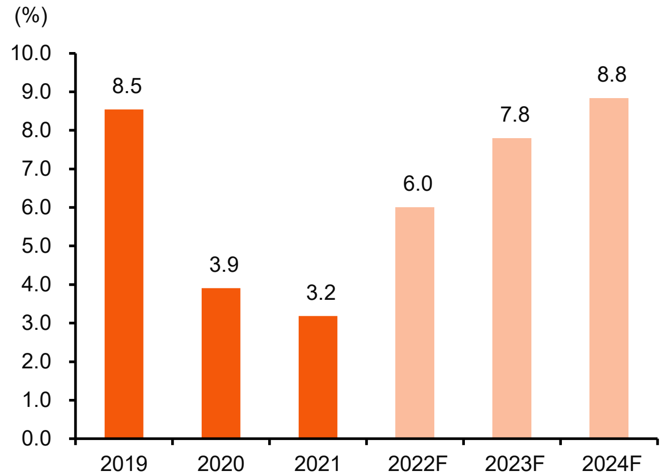
Sources: Company data, Thanachart estimates

Ex 7: Earnings Turnaround



Sources: Company data, Thanachart estimates

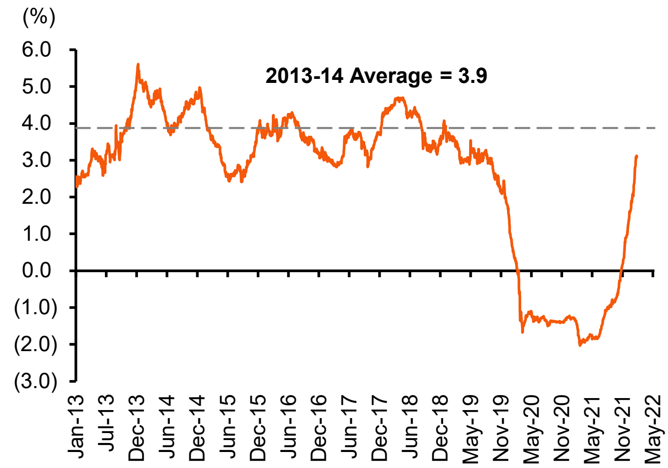
Ex 8: Cash Dividend Yield Swings Back Up



Sources: Company data; Thanachart estimates

Note: Our cash dividend yield (dividend plus capital reduction) calculations are based on a closing price of Bt19

Ex 9: 2023F Dividend Yield Gap Remains Hight At 4.7%



Sources: Bloomberg, Company data

Ex 10: Key Assumption Changes

	2019	2020	2021	2022F	2023F	2024F
Mall same-store rental revenue growth (%)						
New	8	(36)	(18)	52	22	8
Old			(18)	64	20	8
Total revenue (Bt m)						
New	5,111	4,041	3,502	4,878	6,012	6,617
Old				5,482	6,586	7,074
Change (%)				*(11.0)*	*(8.7)*	*(6.5)*
Average gross margin (%)						
New	97.6	96.7	92.6	93.0	93.5	94.0
Old			96.5	93.5	94.0	94.4
Normalized EPS (Bt/share)						
New	1.70	1.09	0.74	1.25	1.63	1.84
Old				1.45	1.81	1.97
Change (%)				*(13.7)*	*(10.2)*	*(6.4)*

Sources: Company data, Thanachart estimates

Ex 11: 12-month DDM-based Valuation, Using A 2023F Base Year

(Bt m)		2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Dividend of common shares		3,003	2,167	857	2,219	3,210	3,367	4,272	4,561	4,580	4,617	4,634	4,622
Dividend from capital reduction		466	625	2,684	3,357	819	445	0	0	99	290	483	714
Dividend payment		3,469	2,792	3,540	5,577	4,030	3,812	4,272	4,561	4,679	4,907	5,116	5,336
Cost of equity (%)	5.3												
Terminal growth (%)	2.0												
PV of dividend - existing assets		**3,459**	**2,518**	**3,032**	**4,536**	**3,040**	**2,718**	**2,878**	**2,904**	**2,817**	**2,792**	**2,612**	**2,724**
Total asset equity value	**67,126**												
No. of shares (m)*	**3,118**												
Equity value / share (Bt)	**22**												

Sources: Company data, Thanachart estimates

*Note: Share count includes potential new shares issued to acquire new assets

Valuation Comparison

Ex 12: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPU growth 22F (%)	EPU growth 23F (%)	PE 22F (x)	PE 23F (x)	P/NAV 22F (x)	P/NAV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
Link REIT/The	823 HK	Hong Kong	444.9	3.9	22.5	21.7	0.9	0.9	21.7	20.3	4.5	4.6
Yuexiu Real Estate	405 HK	Hong Kong	(38.2)	(0.5)	16.6	16.7	0.5	0.5	18.8	18.5	6.1	6.3
Fortune Real Estate	778 HK	Hong Kong	(7.9)	5.7	17.6	16.6	0.8	0.8	22.1	21.6	7.0	7.0
CapitaLand Mall Trust	CT SP	Singapore	na	8.6	na	na	na	na	na	na	na	na
Frasers Centrepoint Trust	FCT SP	Singapore	23.8	3.2	18.2	17.7	1.0	1.0	24.5	23.8	5.6	5.6
Mapletree Commercial	MCT SP	Singapore	(19.6)	13.1	20.7	18.3	1.0	1.0	24.6	20.0	5.3	5.6
Suntec Real Estate	SUN SP	Singapore	(51.7)	1.3	21.1	20.9	0.8	0.8	35.5	34.1	5.6	5.8
Starhill Global REIT	SGREIT SP	Singapore	66.0	2.4	13.9	13.6	0.7	0.7	17.9	17.2	6.8	7.4
CapitaLand Commercial	CCT SP	Singapore	(24.0)	14.9	na	na	na	na	na	na	na	na
Keppel REIT	KREIT SP	Singapore	(18.4)	1.9	22.1	21.7	0.9	0.9	48.2	45.1	5.2	5.3
CapitaLand Retail China	CRCT SP	Singapore	na	43.1	na	na	na	na	15.3	14.3	na	na
Ascendas Real Estate	AREIT SP	Singapore	(30.3)	3.8	16.8	16.1	1.1	1.1	20.7	19.7	6.0	6.2
Mapletree Industrial Trust	MINT SP	Singapore	(17.0)	(10.7)	17.2	19.3	1.3	1.3	22.2	20.7	5.7	5.8
Mapletree Logistics Trust	MLT SP	Singapore	(55.3)	9.1	20.6	18.9	1.2	1.1	25.7	22.7	5.5	5.7
Ascott Residence Trust	ART SP	Singapore	(67.9)	53.3	37.3	24.3	1.0	1.0	29.3	23.2	4.9	5.8
CDL Hospitality Trusts	CDREIT SP	Singapore	(0.5)	20.0	22.5	18.8	0.9	0.9	29.4	22.8	4.6	5.7
Axis Real Estate	AXRB MK	Malaysia	(29.7)	7.2	19.6	18.3	1.2	1.2	19.5	18.2	5.0	5.3
Sunway Real Estate	SREIT MK	Malaysia	170.4	10.8	18.8	17.0	1.0	1.0	20.8	19.3	4.9	5.5
KLCCP Stapled Group	KLCCSS MK	Malaysia	431.1	7.3	18.3	17.0	0.9	0.9	23.9	22.8	5.1	5.5
IGB Real Estate	IGBREIT MK	Malaysia	49.7	8.3	19.4	17.9	1.5	1.5	19.6	18.3	5.0	5.4
Pavilion Real Estate	PREIT MK	Malaysia	77.6	6.8	18.8	17.6	1.1	1.1	20.0	19.0	5.3	5.7
BTS Rail Mass Transit **	BTSGIF TB	Thailand	186.9	27.4	6.5	5.1	0.6	0.6	6.5	5.1	15.4	19.6
Digital Telecom Int. *	DIF TB	Thailand	(0.9)	0.9	11.9	11.8	0.8	0.8	12.1	12.0	7.4	7.4
Jasmine Broadband Int. *	JASIF TB	Thailand	(1.2)	1.1	10.1	10.0	0.9	0.9	10.1	10.1	9.1	9.2
IMPACT Growth REIT **	IMPACT TB	Thailand	558.4	14.4	23.0	20.1	1.5	1.5	23.3	20.7	4.2	4.8
Frasers Property Thailand *	FTREIT TB	Thailand	(7.3)	3.2	14.5	14.1	1.0	1.0	17.4	17.0	6.4	7.1
WHA Premium Growth *	WHART TB	Thailand	13.4	0.9	14.3	14.2	1.1	1.0	18.4	17.9	6.4	6.7
CPN Retail Growth *	CPNREIT TB	Thailand	68.6	30.2	15.2	11.7	1.4	1.4	18.7	14.9	6.0	7.8
Lotus's Retail Growth**	LPF TB	Thailand	15.5	14.8	15.9	13.9	1.1	1.1	16.5	14.3	5.6	6.5
Average			**64.3**	**10.6**	**18.2**	**16.7**	**1.0**	**1.0**	**21.6**	**19.8**	**6.1**	**6.7**

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS,
** Fiscal year ends in February for LPF, March for IMPACT and BTSGIF, and we use one-year forward numbers for 23-24F.

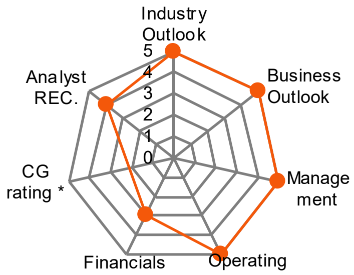
Based on 26 May 2022 closing prices

FUND DETAILS

Name	: CPN Retail Growth Leasehold Property Fund
Ticker	: CPNREIT TB
Listed date	: 23 August 2005
Fund size	: Bt30bn (2,212m units)
Type	: Closed-end property fund
Investment A/S	: Shopping malls
Project life	: One shopping complex has leasehold rights ending in 2095
Sponsor	: Central Pattana (CPN TB)
Fund manager	: SCB Asset Management
Dividend policy	: No less than 90% of distributable income
Payment date	: Four times a year
Foreign limit	: No limit

Source: SET

COMPANY RATING



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

Source: Thanachart; * No CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong sponsor with CPN, the shopping mall market leader.
- Good locations in areas with growing populations in Bangkok and Chiang Mai province.

W — Weakness

- Long payback period.
- Highly capital-intensive business.

O — Opportunity

- Potential new asset injections after conversion to a REIT which CPN plans at the earliest by next year.

T — Threat

- Indirect competition from hypermarkets, especially upcountry.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	19.80	22.00	11%
Net profit 22F (Bt m)	2,108	3,274	55%
Net profit 23F (Bt m)	2,631	2,448	-7%
Consensus REC	**BUY: 5**	**HOLD: 2**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F net profit and TP are higher than the Bloomberg consensus numbers, which we attribute to our expectation of strong reopening momentum benefiting shopping malls and our exclusion of non-cash interest expense accounting impact from Rama 2 renewal contract.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- An unexpected period of economic weakness would negatively affect purchasing power, CPNREIT's average occupancy rate and its ability to raise rents.
- Lower operating leverage benefits would negatively affect our gross margin and SG&A/sales assumptions.

Source: Thanachart

We expect a swift recovery for shopping malls

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Revenue	3,801	3,385	4,878	6,012	6,617
Selling & administration expenses	694	708	741	842	908
Operating profit	**2,983**	**2,427**	**3,795**	**4,779**	**5,311**
% operating margin	78.5%	71.7%	77.8%	79.5%	80.3%
Depreciation & amortization	0	0	0	0	0
EBITDA	**2,983**	**2,427**	**3,795**	**4,779**	**5,311**
% EBITDA margin	78.5%	71.7%	77.8%	79.5%	80.3%
Non-operating income	28	26	28	34	37
Non-operating expenses	0	0	0	0	0
Interest expense	(608)	(584)	(610)	(629)	(610)
Pre-tax profit	**2,403**	**1,869**	**3,214**	**4,184**	**4,738**
Income tax	0	0	0	0	0
After-tax profit	**2,403**	**1,869**	**3,214**	**4,184**	**4,738**
% net margin	63.2%	55.2%	65.9%	69.6%	71.6%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	(2,098)	(1,004)	60	(1,736)	(2,909)
NET INVESTMENT INCOME	**305**	**866**	**3,274**	**2,448**	**1,828**
Normalized Net Invest. Income	**2,403**	**1,869**	**3,214**	**4,184**	**4,738**
EPS (Bt)	0.1	0.3	1.3	1.0	0.7
Normalized EPS (Bt)	1.1	0.7	1.3	1.6	1.8

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,807	2,052	2,085	2,303	2,419
Cash & cash equivalent	1,162	1,159	1,150	1,150	1,150
Account receivables	644	893	935	1,153	1,269
Inventories	0	0	0	0	0
Others	0	0	0	0	0
Investments & loans	52,630	58,231	60,652	61,091	60,233
Net fixed assets	0	0	0	0	0
Other assets	17,141	18,688	20,255	22,111	24,080
Total assets	**71,577**	**78,971**	**82,993**	**85,505**	**86,733**
LIABILITIES:					
Current liabilities:	2,524	2,913	3,877	4,481	4,911
Account payables	167	158	215	246	250
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	0	0	0	0	0
Others current liabilities	2,357	2,755	3,662	4,235	4,661
Total LT debt	**23,035**	**22,561**	**23,236**	**23,790**	**22,913**
Others LT liabilities	17,974	19,678	20,377	22,286	24,299
Total liabilities	**43,533**	**45,153**	**47,489**	**50,557**	**52,123**
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	28,552	31,475	31,771	31,771	31,771
Share premium	0	0	0	0	0
Warrants	0	0	0	0	0
Surplus	216	2,201	2,201	2,201	2,201
Retained earnings	**(724)**	**142**	**1,531**	**975**	**637**
Net Assets	28,044	33,819	35,504	34,948	34,610

Sources: Company data, Thanachart estimates

Dividend yield to swing back up

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	2,403	1,869	3,214	4,184	4,738
Tax paid	(68)	(1)	0	0	0
Depreciation & amortization	0	0	0	0	0
Chg In w orking capital	(424)	(258)	15	(186)	(112)
Chg In other CA & CL / minorities	(414)	(952)	(862)	(1,307)	(1,619)
Cash flow from operations	**1,496**	**659**	**2,366**	**2,691**	**3,006**
Capex	0	0	0	0	0
Right of use	(16,713)	(1,500)	(1,640)	(1,787)	(1,948)
ST loans & investments	0	0	0	0	0
LT loans & investments	(7,256)	(5,601)	(2,422)	(439)	858
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	16,320	1,903	2,599	1,991	1,144
Cash flow from investments	**(7,649)**	**(5,198)**	**(1,462)**	**(235)**	**54**
Debt financing	8,767	(372)	675	547	(893)
Capital increase	(465)	2,924	296	0	0
Dividends paid	(1,497)	0	(1,885)	(3,003)	(2,167)
Warrants & other surplus	(0)	1,985	0	0	0
Cash flow from financing	**6,805**	**4,537**	**(914)**	**(2,456)**	**(3,060)**
Free cash flow	**1,496**	**659**	**2,366**	**2,691**	**3,006**

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	17.5	25.6	15.2	11.7	10.3
Normalized PE - at target price (x)	20.3	29.6	17.6	13.5	11.9
PE (x)	138.0	55.3	14.9	19.9	26.7
PE - at target price (x)	159.8	64.0	17.3	23.1	30.9
EV/EBITDA (x)	21.4	28.5	18.7	14.9	13.3
EV/EBITDA - at target price (x)	23.7	31.6	20.7	16.6	14.7
P/NAV (x)	1.5	1.4	1.4	1.4	1.4
P/NAV - at target price (x)	1.7	1.7	1.6	1.6	1.6
P/CFO (x)	28.1	72.7	20.6	18.1	16.2
Price/sales (x)	12.8	14.4	10.0	8.1	7.4
Effective dividend yield (%)	1.4	0.3	5.1	6.5	3.7
Capital reduction yield (%)	2.5	2.9	1.0	1.3	5.1
Cash dividend yield (%)	3.9	3.2	6.0	7.8	8.8
FCF Yield (%)	3.6	1.4	4.8	5.5	6.2
(Bt)					
Normalized EPS	1.1	0.7	1.3	1.6	1.8
EPS	0.1	0.3	1.3	1.0	0.7
Effective dividend *	0.3	0.1	1.0	1.2	0.7
Capital reduction dividend	0.5	0.5	0.2	0.2	1.0
Cash dividend **	0.7	0.6	1.1	1.5	1.7
NAV/unit	12.7	13.2	13.8	13.6	13.5
CFO/unit	0.7	0.3	0.9	1.0	1.2
FCF/unit	0.7	0.3	0.9	1.0	1.2

Sources: Company data, Thanachart estimates

Falling rental discounts and occupancy rate recovery to support earnings rebound

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(25.6)	(11.0)	44.1	23.2	10.1
Net profit (%)	(90.8)	184.2	278.1	(25.2)	(25.3)
EPS (%)	(90.8)	149.7	270.8	(25.2)	(25.3)
Normalized profit (%)	(36.0)	(22.2)	71.9	30.2	13.2
Normalized EPS (%)	(36.0)	(31.6)	68.6	30.2	13.2
Dividend payout ratio (%)***	196.6	16.4	75.3	130.0	100.0
Operating performance					
Gross margin (%)	96.7	92.6	93.0	93.5	94.0
Operating margin (%)	78.5	71.7	77.8	79.5	80.3
EBITDA margin (%)	78.5	71.7	77.8	79.5	80.3
Net margin (%)	63.2	55.2	65.9	69.6	71.6
Interest bearing debt to NAV (%)	82.1	66.7	65.4	68.1	66.2
D/E (incl. minor) (x)	0.8	0.7	0.7	0.7	0.7
Net D/E (incl. minor) (x)	0.8	0.6	0.6	0.6	0.6
Interest coverage - EBIT (x)	4.9	4.2	6.2	7.6	8.7
Interest coverage - EBITDA (x)	4.9	4.2	6.2	7.6	8.7
Interest bearing debt to total asset (	32.2	28.6	28.0	27.8	26.4
ROA - using norm profit (%)	4.1	2.5	4.0	5.0	5.5
ROE - using norm profit (%)	8.3	6.0	9.3	11.9	13.6
DuPont					
ROE - using after tax profit (%)	8.3	6.0	9.3	11.9	13.6
- asset turnover (x)	0.1	0.0	0.1	0.1	0.1
- operating margin (%)	79.2	72.5	78.4	80.1	80.8
- leverage (x)	2.0	2.4	2.3	2.4	2.5
- interest burden (%)	79.8	76.2	84.1	86.9	88.6
- tax burden (%)	100.0	100.0	100.0	100.0	100.0
Cost of equity (%)	7.7	7.7	7.7	7.7	7.7
ROIC (%)	6.8	4.9	6.9	8.3	9.2
NOPAT (Bt m)	2,983	2,427	3,795	4,779	5,311

Sources: Company data, Thanachart estimates
Note: * Dividend from operations
** Dividend from operations and capital reduction

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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
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