

**BUY** (From: SELL)**TP: Bt 46.00** (Unchanged)**30 MAY 2022**

Change in Recommendation

Upside : 24.3%

# Siam Makro Pcl (MAKRO TB)

## Boosting to BUY

MAKRO's share price is down 15% from its PO price of Bt43.5 in December 2021. We believe this reflects the dilution effect, which we expect to result in a 21% fall in EPS in 2022F. We upgrade the stock to BUY foreseeing a strong EPS turnaround of 41/27% in 2023-24F.

**PHANNARAI TIYAPITTAYARUT**

662-779-9109

phannarai.von@thanachartsec.co.th

### Upgrading to BUY from Sell

MAKRO's share price has fallen by 34% from its 2021 peak and is 15% below its public offering (PO) price in December 2021. We believe this reflects the weaker-than-expected earnings of its wholly owned Lotus's and PO dilution effect that we estimate to bring down 2022F core EPS by 21%. We cut our earnings by 26-32% in 2022-24F mainly on Lotus's high SG&A during its business transition on IT and rebranding and slower-than-expected debt repayment. Our DCF-based 12-month TP remains at Bt46 because of the rollover effect to a 2023F base year and 5% p.a. earnings hikes from 2025F onward to reflect expansion of wholesale and retail stores. We upgrade MAKRO to BUY (from Sell) as the bad news looks priced in and we project a strong EPS turnaround of 41/27% vs. 28.5/22.5x PE in 2023-24F.

### Lotus's sharp turnaround

Lotus's incurred a Bt495m loss in 2021 from Bt6.7bn in interest costs on the large debt incurred by its acquisition and weak business during the COVID period. With its business turnaround and the deleveraging effect, we estimate Lotus's earnings to turn to Bt2.4/5.4/7.8bn in 2022-24F. Operationally, we project Lotus's EBIT at Bt7.6/10.2/12.9bn vs. Bt6.9bn in 2021. Key drivers are improving sales from the better economy, store expansion, recovering rental income and the operating leverage effect.

### Lotus's business plan

We estimate the cash & carry business to make up 56% of total EBIT in 2022F and 44% of Lotus's. We expect this to be 48% wholesale vs. Lotus's 52% in 2025F. Lotus's plans are as follows. *First*, Lotus's targets to have three to four new hypermarkets, eight to 10 supermarkets and 150-250 mini-supermarkets p.a. in Thailand and eight to nine new supermarkets p.a. in Malaysia. *Second*, on a consolidated basis, MAKRO targets online sales to account for 15-20% of its total 2026F sales. Note that in 2021, cash & carry online sales stood at 11% of total sales vs. Lotus's online sales at only 2.7% with lots of room to grow. Lotus's SMART App was launched in March and wholesale Maknet B2B marketplace in April. *Third*, MAKRO could utilize its fresh food success to expand Lotus's fresh food sales.

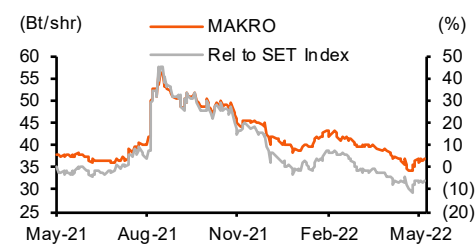
### Cash & carry expansion plan

For MAKRO's wholesale business, most domestic expansion each year comprises small-format stores focusing on HoReCa (hotels, restaurants, catering) customers; eight Foodservice and 10-25 Fresh@Makro outlets with a plan to open two large-sized stores (Eco Plus). Due to the easing COVID situation, store expansion abroad resumed from this year from a total of seven branches at present in Cambodia, Myanmar, India and China.

### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	265,545	457,902	500,418	548,945
Net profit	13,687	9,755	13,715	17,381
Consensus NP	—	11,359	15,754	18,355
Diff frm cons (%)	—	(14.1)	(12.9)	(5.3)
Norm profit	7,169	9,755	13,715	17,381
Prev. Norm profit	—	14,439	20,012	23,343
Chg frm prev (%)	—	(32.4)	(31.5)	(25.5)
Norm EPS (Bt)	1.2	0.9	1.3	1.6
Norm EPS grw (%)	(5.5)	(20.6)	40.6	26.7
Norm PE (x)	31.9	40.1	28.5	22.5
EV/EBITDA (x)	19.1	15.2	13.1	11.2
P/BV (x)	1.4	1.3	1.3	1.3
Div yield (%)	1.9	1.9	2.6	3.3
ROE (%)	4.6	3.3	4.6	5.7
Net D/E (%)	23.5	28.8	29.2	28.1

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price as of 30-May-22 (Bt)	37.00
Market Cap (US\$ m)	11,486.9
Listed Shares (m shares)	10,580.3
Free Float (%)	13.5
Avg Daily Turnover (US\$ m)	17.6
12M Price H/L (Bt)	56.25/34.00
Sector	Commerce
Major Shareholder	CP All 93.08%

Sources: Bloomberg, Company data, Thanachart estimates

## Upgrading to BUY

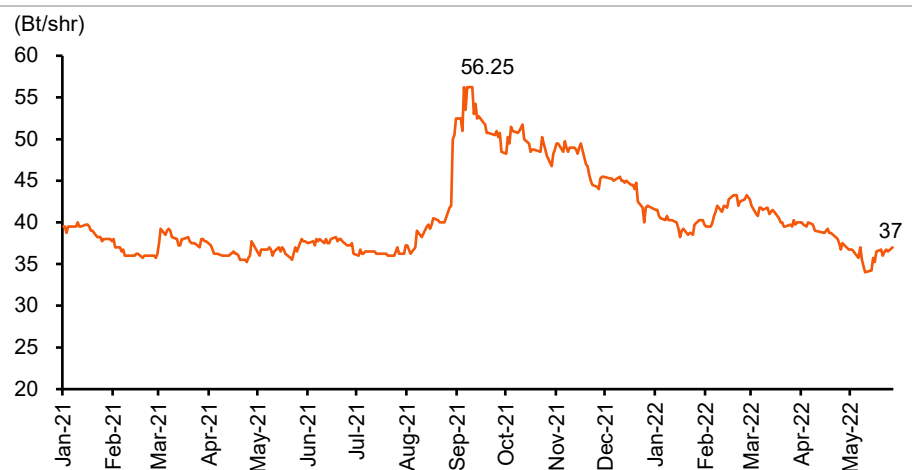
*We see an opportunity to get in after the share price decline*

Siam Makro Plc's (MAKRO) share price has corrected by 34% from its 2021 peak, partly because of market disappointment over its capital-raising plan for its public offering (PO) allotment in December 2021 that was cut to a smaller size than previously targeted, leading to lower cash proceeds and slower-than-expected repayment of the Bt128bn debt attached with the acquisition of Lotus's. To recap, it issued 5,010m new shares to CP Group of companies in exchange for Lotus's shares via the entire business transfer (EBT) on 25 October last year. Later on, it issued 770m new shares for the PO allotment in December at the Bt43.5 PO price. Total proceeds were then Bt33.5bn and half of this (along with some operating cash flow) was used to repay Bt18bn of Lotus's debt in April this year.

*Looking beyond dilution this year, a strong EPS turnaround from 2023F*

Compared to its PO price, the stock is now 15% lower due to MAKRO's weaker-than-expected 1Q22 profit owing to higher-than-expected SG&A at both its wholesale (Maknet B2B marketplace investment) and retail (IT, rebranding) businesses. With MAKRO's total capital increase in 4Q21 of 120% from 4,800m shares to 10,580m shares, the PO dilution effect would bring down 2022F core EPS by 21%. We cut our earnings for MAKRO by 26-32% in 2022-24F mainly on Lotus's high SG&A during its business transition on IT and rebranding and slower-than-expected debt repayment. However, our DCF-based 12-month TP remains unchanged at Bt46/share due to the rollover effect to a 2023F base year and 5% p.a. earnings increases from 2025-32F to reflect the expansion of its wholesale and retail stores. We upgrade MAKRO to BUY (from Sell) as the bad news already looks in the price and we estimate a strong EPS turnaround of 41/27% vs. 28.5/22.5x PE in 2023-24F. With Lotus's, MAKRO's business is extended from the wholesaling (cash & carry's B2B segment) to the retailing (Lotus's B2C segment) industry with expanding growth opportunities and a larger customer base.

**Ex 1: MAKRO's Share Price**



Source: Bloomberg

## Ex 2: Key Assumptions

	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F
<b>Lotus's profit (Bt m)</b>											
New	2,454	5,418	7,815	10,426	13,089	15,206	17,487	19,657	21,986	24,485	27,166
Old	6,692	11,312	13,279	14,103	14,965	15,868	16,814	17,806	18,846	19,937	21,083
Change (%)	(63)	(52)	(41)	(26)	(13)	(4)	4	10	17	23	29
<b>Wholesale business</b>											
SSS growth (%)	3	3	3	3	3	3	3	3	3	3	3
Gross margin on sales (%)	10.4	10.5	10.6	10.7	10.8	10.9	11.0	11.1	11.2	11.3	11.4
<b>Store expansion -Thailand</b>											
Classic + Eco Plus	2	2	2	2	2	2	2	2	2	2	2
Foodservice	8	8	8	8	8	8	8	8	8	8	8
Food shop	0	0	0	0	0	0	0	0	0	0	0
Frozen shop	0	0	0	0	0	0	0	0	0	0	0
Fresh@Makro	10	15	20	25	25	10	10	10	10	10	10
<b>Store number (YE) -Thailand</b>											
Classic + Eco Plus	96	98	100	102	104	106	108	110	112	114	116
Foodservice	43	51	59	67	75	83	91	99	107	115	123
Food shop	5	5	5	5	5	5	5	5	5	5	5
Frozen shop	7	7	7	7	7	7	7	7	7	7	7
Fresh@Makro	11	26	46	71	96	106	116	126	136	146	156
<b>Overseas store expansion</b>											
Cambodia	1	1	2	2	1	0	0	0	0	0	0
India	2	2	2	3	3	0	0	0	0	0	0
China	0	3	3	4	4	5	0	0	0	0	0
Myanmar	0	2	3	3	0	0	0	0	0	0	0
<b>Overseas stores (YE)</b>											
Cambodia	3	4	6	8	9	9	9	9	9	9	9
India	5	7	9	12	15	15	15	15	15	15	15
China	1	4	7	11	15	20	20	20	20	20	20
Myanmar	1	3	6	9	9	9	9	9	9	9	9
<b>Normalized profit (Bt m)</b>											
New	9,755	13,715	17,381	21,468	25,784	29,429	33,206	36,846	40,771	44,914	49,314
Old	14,439	20,012	23,343	25,691	27,795	29,710	31,712	33,797	35,965	38,229	40,596
Change (%)	(32)	(31)	(26)	(16)	(7)	(1)	5	9	13	17	21

Source: Thanachart estimates

## Lotus's sharp turnaround

### Strong recovery for Lotus's from last year's bottom

Lotus's reported a Bt495m net loss in 2021 as COVID led sales and rental income declined further from 2020 while the acquisition's IBD of Bt128bn incurred Bt6.7bn of interest expenses. With the economic recovery, store expansion, recovering rental income from both a higher occupancy rate and lower rent discounts, store rebranding from Tesco Lotus to Lotus's with the Go Fresh concept and deleveraging, we estimate Lotus's to turn a profit of Bt2.4/5.4/7.8bn in 2022-24F and generate a strong 20% five-year CAGR in 2024-29F. This year, Lotus's repaid Bt18bn in debt in April and we assume Bt5bn of debt repayment/year from next year. As for SG&A/sales, we project the ratio to reach its peak this year and fall thereafter as the huge IT investment should have been spent in 2021-22F and the rebranding should be completed in 3Q22F.

## Ex 3: Our Profit Forecasts For Lotus's

Lotus's P&L (ended Dec) *2019-20 FY(ended Feb) (Bt m)	FY19 (end-Feb)	FY20 (end-Feb)	2021 (end-Dec)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
<b>Total revenues</b>	<b>220,032</b>	<b>208,648</b>	<b>204,631</b>	<b>218,857</b>	<b>240,662</b>	<b>263,932</b>	<b>286,005</b>	<b>307,465</b>	<b>329,016</b>	<b>351,477</b>	<b>375,181</b>
- Revenue from sales of goods	205,227	197,460	193,729	206,800	227,588	250,031	271,529	292,544	313,644	335,646	358,883
- Rental income and revenue from rendering of services	14,805	11,188	10,902	12,056	13,075	13,901	14,476	14,920	15,372	15,831	16,298
<b>COGS</b>	<b>171,708</b>	<b>166,313</b>	<b>162,496</b>	<b>172,746</b>	<b>189,402</b>	<b>207,340</b>	<b>224,498</b>	<b>241,324</b>	<b>258,190</b>	<b>275,756</b>	<b>294,287</b>
- Cost of sales	166,237	160,670	156,878	167,256	183,841	201,845	219,065	235,873	252,728	270,289	288,822
- Cost of rental and cost of rendering of services	5,471	5,643	5,618	5,489	5,561	5,495	5,433	5,451	5,462	5,467	5,465
<b>Gross profit</b>	<b>48,324</b>	<b>42,335</b>	<b>42,135</b>	<b>46,111</b>	<b>51,261</b>	<b>56,591</b>	<b>61,507</b>	<b>66,141</b>	<b>70,826</b>	<b>75,721</b>	<b>80,894</b>
- Gross profit on sales	38,990	36,790	36,851	39,544	43,747	48,186	52,465	56,672	60,916	65,357	70,061
- Gross profit on rental income	9,334	5,545	5,284	6,567	7,514	8,406	9,043	9,470	9,910	10,364	10,833
Gross profit (% to total revenues)	22.0	20.3	20.6	21.1	21.3	21.4	21.5	21.5	21.5	21.5	21.6
- Gross profit on sales (%)	19.0	18.6	19.02	19.12	19.22	19.27	19.32	19.37	19.42	19.47	19.52
- Gross profit on rental income (%)	63.0	49.6	48.5	54.47	57.47	60.47	62.47	63.47	64.47	65.47	66.47
<b>Other income</b>	<b>3,092</b>	<b>2,459</b>	<b>1,751</b>	<b>1,883</b>	<b>2,093</b>	<b>2,320</b>	<b>2,537</b>	<b>2,749</b>	<b>2,962</b>	<b>3,185</b>	<b>3,419</b>
- Gains (losses) on FX	(2)	87	(206)	(206)	(206)	(206)	(206)	(206)	(206)	(206)	(206)
- Net derivative gain	1	2	0	0	0	0	0	0	0	0	0
- Other income	3,093	2,370	1,957	2,089	2,299	2,526	2,743	2,955	3,168	3,391	3,625
<b>SG&amp;A</b>	<b>34,731</b>	<b>35,729</b>	<b>36,994</b>	<b>40,379</b>	<b>43,199</b>	<b>46,056</b>	<b>48,192</b>	<b>49,963</b>	<b>52,478</b>	<b>55,006</b>	<b>57,965</b>
- Distribution costs	29,136	29,295	29,917	32,938	35,498	38,138	39,898	41,354	43,595	45,868	48,586
- Administrative expenses	5,595	6,434	7,077	7,441	7,701	7,918	8,294	8,609	8,883	9,138	9,380
SG&A (% to total revenues)	15.8	17.1	18.1	18.5	18.0	17.5	16.9	16.3	16.0	15.7	15.5
- Distribution costs (% to total revenues)	13.2	14.0	14.6	15.1	14.8	14.5	14.0	13.5	13.3	13.1	13.0
- Administrative expenses (% to total revenues)	2.5	3.1	3.5	3.4	3.2	3.0	2.9	2.8	2.7	2.6	2.5
<b>Operating profit</b>	<b>16,685</b>	<b>9,065</b>	<b>6,892</b>	<b>7,615</b>	<b>10,155</b>	<b>12,855</b>	<b>15,852</b>	<b>18,927</b>	<b>21,310</b>	<b>23,900</b>	<b>26,348</b>
Interest expenses	6,363	6,399	6,761	4,980	4,600	4,400	4,200	4,000	3,800	3,600	3,400
<b>Pre-tax profit</b>	<b>10,322</b>	<b>2,666</b>	<b>131</b>	<b>2,635</b>	<b>5,554</b>	<b>8,455</b>	<b>11,652</b>	<b>14,927</b>	<b>17,510</b>	<b>20,299</b>	<b>22,947</b>
Income tax	3,068	1,934	1,457	1,599	2,132	2,700	3,329	3,975	4,475	5,019	5,533
Tax rate (%) as a % to operating profit (*int exp at SPV, CPRD)	18	21	21.14	21	21	21	21	21	21	21	21
<b>Share of profit from investment in joint ventures and an associate</b>	<b>815</b>	<b>782</b>	<b>831</b>	<b>919</b>	<b>997</b>	<b>1,060</b>	<b>1,103</b>	<b>1,137</b>	<b>1,172</b>	<b>1,207</b>	<b>1,242</b>
<b>Net profit</b>	<b>8,069</b>	<b>1,514</b>	<b>(495)</b>	<b>1,954</b>	<b>4,418</b>	<b>6,815</b>	<b>9,426</b>	<b>12,089</b>	<b>14,206</b>	<b>16,487</b>	<b>18,657</b>
<b>Net profit (plus synergies)</b>			<b>(495)</b>	<b>2,454</b>	<b>5,418</b>	<b>7,815</b>	<b>10,426</b>	<b>13,089</b>	<b>15,206</b>	<b>17,487</b>	<b>19,657</b>
<i>Profit before interest cost</i>	<i>14,432</i>	<i>7,913</i>	<i>6,266</i>	<i>7,435</i>	<i>10,019</i>	<i>12,215</i>	<i>14,627</i>	<i>17,090</i>	<i>19,007</i>	<i>21,087</i>	<i>23,057</i>

Sources: Company data, Thanachart estimates

## Ex 4: Our Key Assumptions For Lotus's

	FY19 (end-Feb)	FY20 (end-Feb)	2021 (end-Dec)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
<b>Sales of goods (Bt m)</b>											
- Thailand	171,326	162,962	159,272	168,646	184,364	201,304	217,524	232,971	248,171	263,858	280,268
- Malaysia	33,901	34,498	34,457	38,155	43,224	48,727	54,005	59,573	65,473	71,787	78,615
<b>Rental revenues (Bt m)</b>											
- Thailand	12,739	9,670	9,348	10,330	11,195	11,895	12,379	12,751	13,130	13,515	13,906
- Malaysia	2,066	1,518	1,555	1,727	1,880	2,007	2,097	2,169	2,242	2,317	2,392
IBD (YE) (Bt m)	120,823	120,823	128,261	110,261	105,261	100,261	95,261	90,261	85,261	80,261	75,261
<b>Lotus's Thailand</b>											
<b>SSSG (%)</b>											
- Hypermarkets	na	na	na	0	3	3	3	3	3	3	3
- Supermarkets	na	na	na	0	3	3	3	3	3	3	3
- Mini-supermarkets	na	na	na	5	10	10	7	5	3	3	3
<b>Store expansion</b>	<b>na</b>	<b>106</b>	<b>524</b>	<b>161</b>	<b>161</b>	<b>161</b>	<b>161</b>	<b>161</b>	<b>191</b>	<b>191</b>	<b>191</b>
- Hypermarkets	na	4	3	3	3	3	3	3	3	3	3
- Supermarkets	na	18	3	8	8	8	8	8	8	8	8
- Mini-supermarkets	na	84	518	150	150	150	150	150	180	180	180
<b>Store number (YE)</b>	<b>1,988</b>	<b>2,094</b>	<b>2,618</b>	<b>2,779</b>	<b>2,940</b>	<b>3,101</b>	<b>3,262</b>	<b>3,423</b>	<b>3,614</b>	<b>3,805</b>	<b>3,996</b>
- Hypermarkets	215	219	222	225	228	231	234	237	240	243	246
- Supermarkets	178	196	199	207	215	223	231	239	247	255	263
- Mini-supermarkets	1,595	1,679	2,197	2,347	2,497	2,647	2,797	2,947	3,127	3,307	3,487
Net leasable area (sqm)	na	na	717,224	732,724	748,224	763,724	779,224	794,724	810,224	825,724	841,224
Occupancy rate (%)	90	90	92	93	94	95	95	95	95	95	95
Average rental rate growth (%)	na	na	na	7	5	3	2	1	1	1	1
<b>Lotus's Malaysia</b>											
<b>SSSG (%)</b>											
- Hypermarkets	na	na	na	0	3	3	1	1	1	1	1
- Supermarkets	na	na	na	5	5	5	5	5	5	5	5
<b>Store expansion</b>	<b>na</b>	<b>(7)</b>	<b>0</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>
- Hypermarkets	na	0	0	0	0	0	0	0	0	0	0
- Supermarkets	na	2	0	8	8	8	8	8	8	8	8
- Express stores	na	(9)	0	0	0	0	0	0	0	0	0
<b>Store number (YE)</b>	<b>69</b>	<b>62</b>	<b>62</b>	<b>70</b>	<b>78</b>	<b>86</b>	<b>94</b>	<b>102</b>	<b>110</b>	<b>118</b>	<b>126</b>
- Hypermarkets	46	46	46	46	46	46	46	46	46	46	46
- Supermarkets	14	16	16	24	32	40	48	56	64	72	80
- Express stores	9	0	0	0	0	0	0	0	0	0	0
Net leasable area (sqm)	na	na	300,562	308,562	316,562	324,562	332,562	340,562	348,562	356,562	364,562
Occupancy rate (%)	92	92	92	93	94	95	95	95	95	95	95
Average rental rate growth (%)	na	na	na	7	5	3	2	1	1	1	1

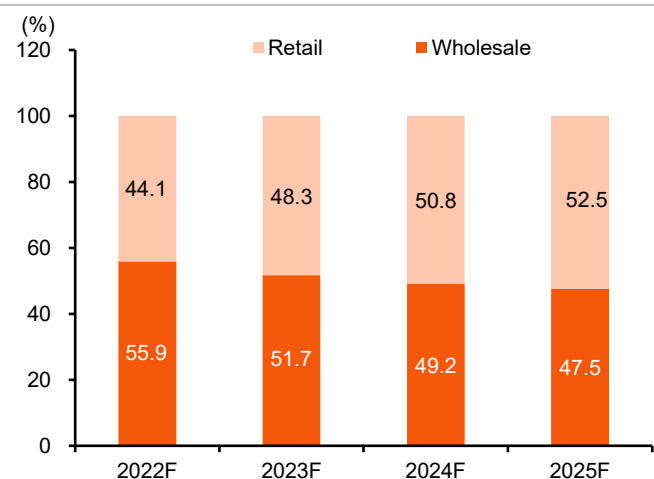
Sources: Company data, Thanachart estimates

### Lotus's business plan

**We expect Lotus's profit contribution to rise to 49% in 2025F from 25% in 2022F**

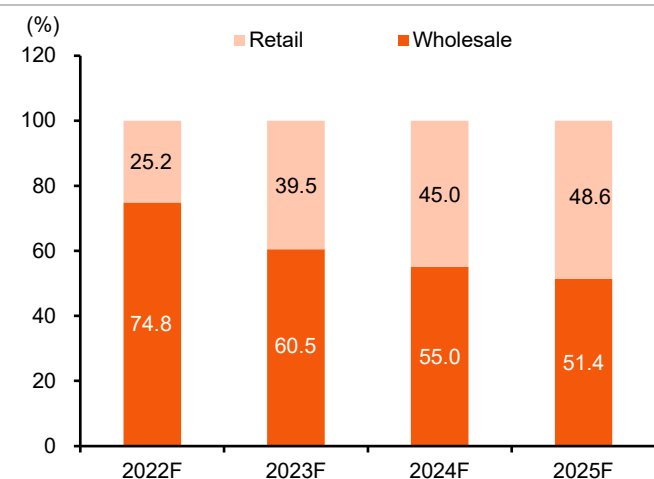
While the wholesale business's domestic expansion in large-sized formats is more mature and it has had to seek growth abroad, Lotus's has the No.1 market share in the grocery retail sector where the traditional share is high at 54% so it plans to expand in every format from hypermarkets to the smallest store, i.e., Lotus's Go Fresh. We estimate the cash & carry business to account for 56% of total EBIT in 2022F and 44% of Lotus's. We project stronger growth from Lotus's and expect EBIT contribution of 48% for wholesale vs. Lotus's 52% in 2025F. By profit, we foresee the retail business contributing a higher mix from 25% in 2022F to 49% in 2025F. Lotus's plans are as follows:

**Ex 5: EBIT Breakdown**



Source: Thanachart estimates

**Ex 6: Profit Breakdown**



Source: Thanachart estimates

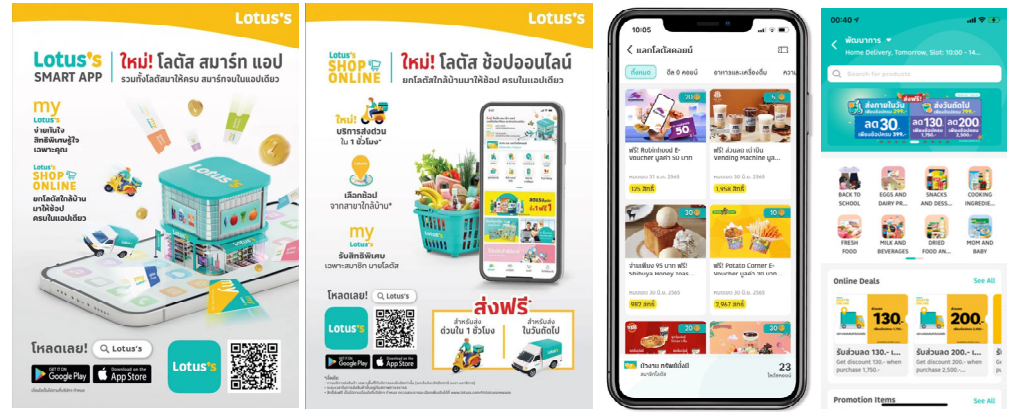
**Lotus's is expanding in all formats in Thailand**

First, Lotus's targets three to four new hypermarkets, eight to 10 supermarkets and 150-250 mini-supermarkets p.a. in Thailand, and eight to nine new supermarkets p.a. in Malaysia.

**Room to grow online sales from a low base**

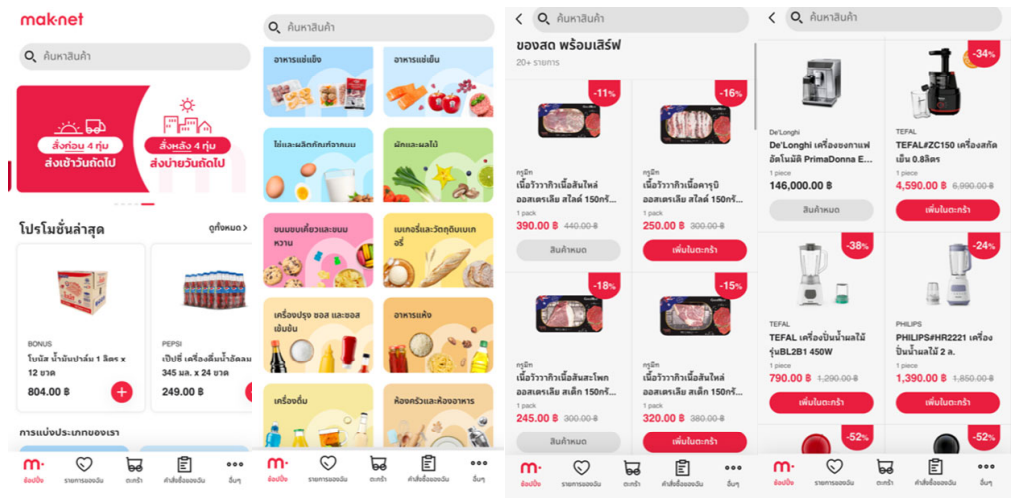
Second, on a consolidated basis, MAKRO targets online sales at 15-20% of total 2026F sales. Note that Lotus's online sales at 2.7% (2.3% in Thailand and 4.5% in Malaysia) in 2021 were far behind cash & carry's 11%. We expect an improvement this year from the launch of Lotus's SMART App in March and wholesale's Maknet B2B marketplace in April. Lotus's SMART App targets end users which in the past had very low online purchases with Lotus's. At end 2021, only 89 of its over 200 hypermarkets nationwide served online shopping. Now it plans to cover all branches and extend coverage to its more than 2,000 small-format stores with same-day or next-day delivery. Maknet is an online wholesale marketplace targeting professional HoReCa customers. It targets Magnet to boost cash & carry online sales participation to 30% in three years by 2025 and also generate commission fees it charges partners/third-party suppliers.

Ex 7: My Lotus's App



Source: Company data

Ex 8: Maknet B2B Marketplace

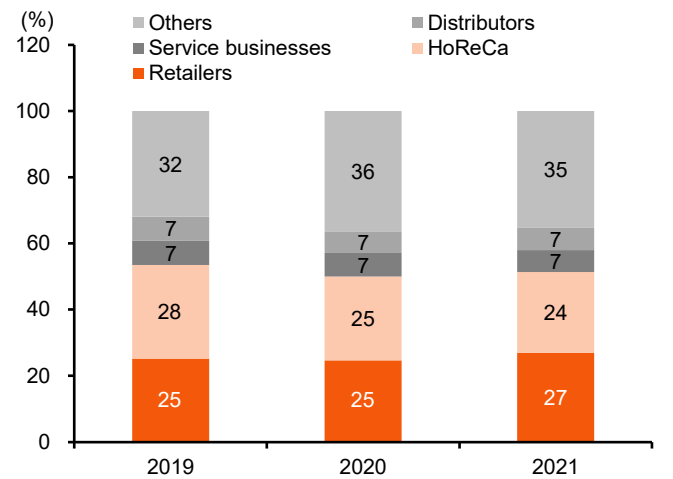


Source: Company data

More fresh food sales from store modernization and rebranding to Go Fresh

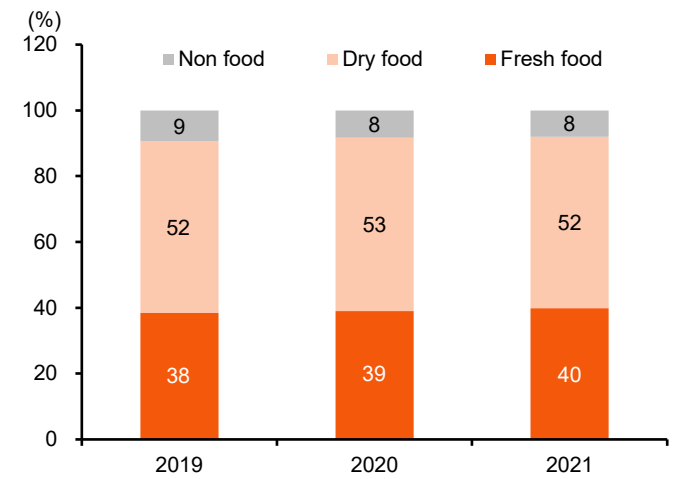
Third, MAKRO could utilize its fresh food success to expand Lotus's fresh food sales which were at 23% in Thailand and 19% in Malaysia vs. cash & carry's 40%.

Ex 9: Cash & Carry's Customer Breakdown



Source: Company data

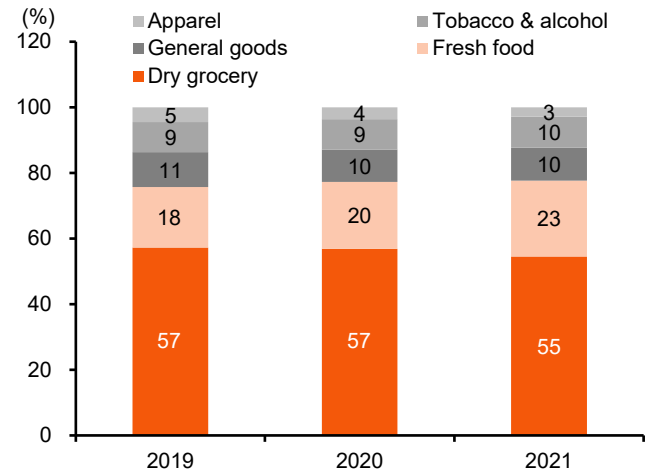
Ex 10: Cash & Carry Sales Mix



Source: Company data

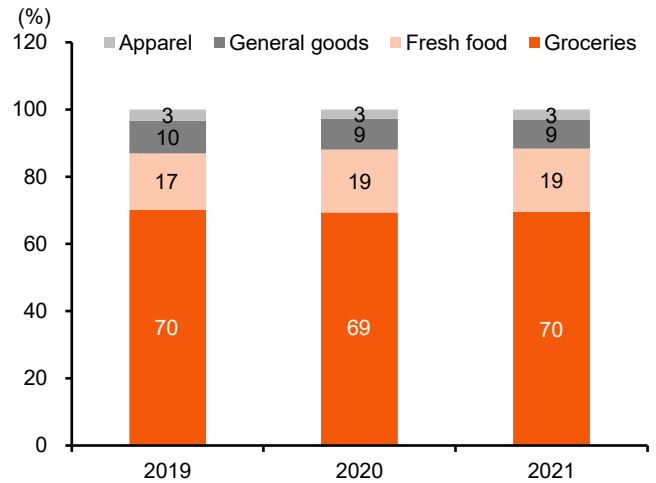


Ex 11: Lotus Thailand's Sales Mix



Source: Company data

Ex 12: Lotus Malaysia's Sales Mix



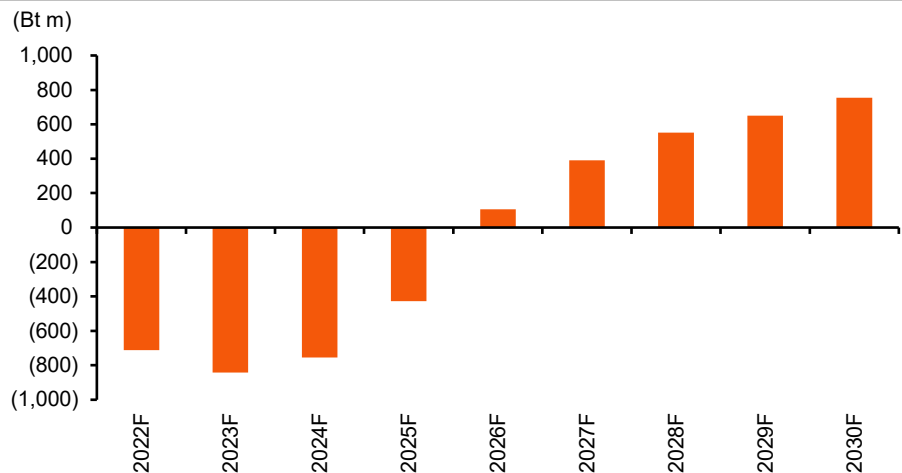
Source: Company data

**Launching more small-format stores in Thailand targeting HoReCa**

### Cash & carry expansion plan

For MAKRO's wholesale business, most domestic expansion each year has been of small-format stores focusing on HoReCa (hotels, restaurants, catering) customers; eight Foodservice and 10-25 Fresh@Makro outlets with a plan to open two large-sized stores (Eco Plus). As a result of the easing COVID situation, it resumed store expansion abroad from this year from a total of seven branches at present in Cambodia, Myanmar, India and China. Entering Cambodia with its first branch launched in 2017 and with two stores currently, the Cambodia business has been contributing profits for two quarters. The only branch opened in Myanmar in 2020 is now at cash break-even level. Nonetheless, with more branch openings planned abroad from next year, we expect larger overseas losses and for profits to start being made from 2026F.

Ex 13: Wholesale's Overseas Profit (Loss)



Source: Thanachart estimates



**Ex 14: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F**

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA	32,909	38,679	43,930	50,368	55,794	59,963	65,116	70,588	74,812	80,852	87,267	
Free cash flow	7,753	13,775	17,950	26,366	31,279	34,915	41,271	45,911	49,239	54,316	59,692	899,797
PV of free cash flow	7,732	11,850	14,323	19,513	21,003	21,646	23,627	24,271	24,037	24,480	23,674	356,857
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	7.8											
Terminal growth (%)	2.0											
Enterprise value - add investments	573,012											
Net debt (end-2022F)	85,844											
Minority interest	485											
Equity value	486,682											
# of shares (m)	10,580											
<b>Equity value/share (Bt)</b>	<b>46.00</b>											

Sources: Company data, Thanachart estimates

## Valuation Comparison

### Ex 15: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div. yield	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Marks & Spencer	MKS LN	Britain	na	(19.8)	6.5	8.1	1.1	1.0	4.5	4.9	0.0	0.6
J Sainsbury PLC	SBRY LN	Britain	109.1	(6.1)	9.2	9.8	0.7	0.6	5.3	5.5	6.8	5.8
Tesco	TSCO LN	Britain	110.8	(1.4)	11.0	11.1	1.4	1.1	6.7	6.8	3.4	4.5
Carrefour SA	CA FP	France	20.1	14.2	11.1	9.7	1.3	1.2	5.6	5.2	2.9	3.2
Casino Guichard	CO FP	France	1.6	52.2	12.9	8.5	0.6	0.6	6.5	6.0	3.5	1.7
L'Oreal SA	OR FP	France	17.3	8.3	32.6	30.1	7.2	6.5	20.8	19.4	1.4	1.6
Alimentation Couche	ATD/B CN	Canada	7.8	1.9	na	na	na	na	10.4	10.7	na	na
Aeon	8267 JP	Japan	na	118.6	172.9	79.1	2.1	2.2	9.1	8.4	1.5	1.5
Kao Corporation	4452 JP	Japan	(4.4)	12.5	21.5	19.1	2.5	2.4	10.5	9.6	2.8	2.8
Lion Corporation	4912 JP	Japan	(6.9)	(0.7)	19.9	20.0	1.5	1.4	8.1	7.7	1.7	1.8
Shiseido Co. Ltd	4911 JP	Japan	21.0	66.7	50.9	30.5	3.9	3.6	18.3	13.3	0.9	1.8
Lawson	2651 JP	Japan	105.8	16.3	24.9	21.4	1.7	1.7	3.6	3.4	3.3	3.3
Seven & I Holdings	3382 JP	Japan	36.3	20.2	22.2	18.4	1.7	1.6	8.7	7.3	1.8	1.9
Lotte Corp	004990 KS	South Korea	(4.1)	33.8	12.2	9.1	0.6	0.5	11.2	10.7	3.1	4.3
Shinsegae	004170 KS	South Korea	17.2	16.9	7.2	6.1	0.6	0.6	6.4	6.0	0.7	1.1
Amore Pacific Group	002790 KS	South Korea	(23.7)	32.9	22.9	17.3	1.4	1.3	7.2	5.8	1.1	0.9
Best Buy Co Inc	BBY US	USA	(13.2)	14.9	9.7	8.4	6.5	6.2	5.6	5.2	2.6	3.3
Wal-Mart Stores	WMT US	USA	0.5	8.8	19.9	18.3	4.1	3.8	10.9	10.4	1.7	1.7
Home Depot Inc	HD US	USA	6.8	5.9	18.6	17.5	na	na	13.3	12.9	1.9	2.1
Yonghui Superstores	601933 CH	China	na	56.1	52.9	33.9	3.6	3.1	20.4	16.2	1.2	0.5
Sa International	178 HK	Hong Kong	na	na	na	51.1	3.9	3.6	na	25.7	0.0	0.0
Dairy Farm Intl Hldgs	DFI SP	Hong Kong	12.2	66.4	24.7	14.9	2.9	2.7	8.9	8.3	3.3	3.9
President Chain Store	2912 TT	Taiwan	20.0	9.9	26.0	23.6	7.5	7.1	12.0	11.7	2.9	3.3
7-Eleven Malaysia	SEM MK	Malaysia	174.1	9.5	18.9	17.3	12.2	9.3	7.1	7.1	1.9	2.7
Berli Jucker *	BJC TB	Thailand	47.9	10.7	28.1	25.4	1.2	1.2	13.9	13.4	2.7	3.0
COM7 *	COM7 TB	Thailand	28.4	22.5	27.2	22.2	12.0	9.9	19.1	15.8	1.7	3.7
CP All *	CPALL TB	Thailand	121.5	43.0	34.6	24.2	5.3	4.7	15.4	13.0	1.4	2.1
Central Pattana *	CPN TB	Thailand	146.0	34.3	34.0	25.3	3.6	3.2	19.7	15.9	1.4	1.8
Central Retail Corp. *	CRC TB	Thailand	na	40.3	42.8	30.5	3.8	3.5	10.4	9.4	0.9	1.3
Siam Global House *	GLOBAL TB	Thailand	15.9	21.4	26.0	21.4	4.5	4.0	20.6	17.1	1.5	1.9
Home Product*	HMPRO TB	Thailand	21.1	20.5	29.1	24.2	8.0	7.4	16.7	14.4	2.7	3.3
Siam Makro *	MAKRO TB	Thailand	(20.6)	40.6	40.1	28.5	1.3	1.3	15.2	13.1	1.9	2.6
Mc Group *	MC TB**	Thailand	9.6	25.0	15.2	12.1	2.1	2.0	5.5	4.8	6.6	8.2
<b>Average</b>			<b>34.9</b>	<b>24.9</b>	<b>28.6</b>	<b>21.8</b>	<b>3.6</b>	<b>3.2</b>	<b>11.2</b>	<b>10.5</b>	<b>2.2</b>	<b>2.6</b>

Sources: Bloomberg, Thanachart estimates

Note: \* Thanachart estimates using normalized EPS growth

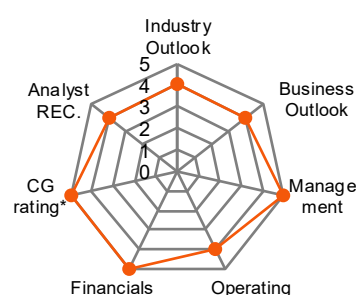
Based on 30 May 2022 closing price

## COMPANY DESCRIPTION

Siam Makro Pcl (MAKRO) operates the Makro discount store chain, selling food and consumer products to its registered customers comprising wholesalers, retailers, small businesses, caterers and private individuals. It was operating 142 MAKRO stores as of 2021 (including small food-service stores, food shops, frozen shops, Fresh@Makro) in Thailand, two wholesale stores in Cambodia, three eco-plus branches in India, one branch in China and one branch in Myanmar. In 4Q21, Lotus's in Thailand and Malaysia became a wholly-owned subsidiary of MAKRO.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- The sole cash-and-carry wholesale operator in Thailand selling food and non-food products to registered customers.
- Strong product niche with premium food and frozen foods targeting professional customers.
- A significantly higher grocery market share after Lotus's acquisition.

### O — Opportunity

- Room to open more medium- or small-sized HORECA stores offering fresh and frozen foods to hotels, restaurants and catering customers.
- Further product assortment changes geared toward higher-margin items ie fresh food, private labels.

### W — Weakness

- Low concentration of retail customers and end-users.
- Very efficient inventory management is required given thin net margin.

### T — Threat

- Risks and challenges in overseas market penetration.

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	46.29	46.00	-1%
<b>Net profit 22F (Bt m)</b>	11,359	9,755	-14%
<b>Net profit 23F (Bt m)</b>	15,754	13,715	-13%
<b>Consensus REC</b>	<b>BUY: 17</b>	<b>HOLD: 1</b>	<b>SELL: 2</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our net profits for 2022-23F are 13-14% below the Bloomberg consensus estimates, which we attribute to us factoring in high SG&A during the business transition.
- Our DCF-based TP is similar to the Street's as we have rolled over our base year to 2023F.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- The key downside risk to our earnings forecasts would be a weaker domestic economy and tourism recovery that could dampen overall consumption.
- Another downside risk would be lower-than-expected synergies from the acquisition of Lotus's.

Source: Thanachart

## INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	218,259	265,545	457,902	500,418	548,945
Cost of sales	192,072	229,451	382,722	417,382	457,293
<b>Gross profit</b>	<b>26,186</b>	<b>36,094</b>	<b>75,180</b>	<b>83,037</b>	<b>91,652</b>
% gross margin	12.0%	13.6%	16.4%	16.6%	16.7%
Selling & administration expenses	17,731	26,293	60,184	64,513	69,059
<b>Operating profit</b>	<b>8,957</b>	<b>10,691</b>	<b>17,283</b>	<b>21,024</b>	<b>25,323</b>
% operating margin	4.1%	4.0%	3.8%	4.2%	4.6%
Depreciation & amortization	3,215	4,842	14,020	15,663	17,224
<b>EBITDA</b>	<b>12,171</b>	<b>15,533</b>	<b>31,303</b>	<b>36,686</b>	<b>42,548</b>
% EBITDA margin	5.6%	5.8%	6.8%	7.3%	7.8%
Non-operating income	502	890	2,287	2,500	2,730
Non-operating expenses	0	0	0	0	0
Interest expense	(619)	(1,557)	(5,426)	(5,020)	(4,813)
<b>Pre-tax profit</b>	<b>8,337</b>	<b>9,134</b>	<b>11,856</b>	<b>16,003</b>	<b>20,511</b>
Income tax	1,813	2,128	3,536	4,327	5,231
<b>After-tax profit</b>	<b>6,524</b>	<b>7,007</b>	<b>8,320</b>	<b>11,677</b>	<b>15,279</b>
% net margin	3.0%	2.6%	1.8%	2.3%	2.8%
Shares in affiliates' Earnings	0	149	1,419	1,997	2,060
Minority interests	39	14	16	42	42
Extraordinary items	0	6,517	0	0	0
<b>NET PROFIT</b>	<b>6,563</b>	<b>13,687</b>	<b>9,755</b>	<b>13,715</b>	<b>17,381</b>
<b>Normalized profit</b>	<b>6,563</b>	<b>7,169</b>	<b>9,755</b>	<b>13,715</b>	<b>17,381</b>
EPS (Bt)	1.2	2.2	0.9	1.3	1.6
Normalized EPS (Bt)	1.2	1.2	0.9	1.3	1.6

*We project 36% core profit growth this year but a 21% EPS fall on the dilution effect*

## BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<b>ASSETS:</b>					
Current assets:	28,251	110,000	75,907	71,726	74,115
Cash & cash equivalent	10,518	68,530	33,975	25,975	23,975
Account receivables	945	2,301	2,007	2,194	2,406
Inventories	14,478	31,967	32,505	35,449	38,839
Others	2,310	7,203	7,420	8,109	8,895
Investments & loans	85,552	14,310	14,310	14,310	14,310
Net fixed assets	30,564	118,444	130,369	139,235	145,872
Other assets	15,219	326,737	324,823	322,711	320,672
<b>Total assets</b>	<b>159,587</b>	<b>569,490</b>	<b>545,409</b>	<b>547,981</b>	<b>554,968</b>
<b>LIABILITIES:</b>					
Current liabilities:	40,475	118,211	111,888	114,618	119,535
Account payables	25,804	54,845	52,428	57,176	62,643
Bank overdraft & ST loans	1,050	29,198	23,964	22,850	22,096
Current LT debt	5,001	2,001	4,793	4,570	4,419
Others current liabilities	8,619	32,167	30,704	30,023	30,378
<b>Total LT debt</b>	<b>2,002</b>	<b>105,120</b>	<b>91,062</b>	<b>86,828</b>	<b>83,963</b>
Others LT liabilities	8,847	57,661	44,814	44,019	43,275
<b>Total liabilities</b>	<b>51,324</b>	<b>280,992</b>	<b>247,765</b>	<b>245,465</b>	<b>246,774</b>
Minority interest	86,024	501	485	443	402
Preferreds shares	0	0	0	0	0
Paid-up capital	2,400	5,290	5,290	5,290	5,290
Share premium	3,290	263,882	263,882	263,882	263,882
Warrants	0	0	0	0	0
Surplus	(202)	(6,874)	0	0	0
<b>Retained earnings</b>	<b>16,751</b>	<b>25,700</b>	<b>27,988</b>	<b>32,901</b>	<b>38,621</b>
Shareholders' equity	22,239	287,997	297,160	302,073	307,793
<b>Liabilities &amp; equity</b>	<b>159,587</b>	<b>569,490</b>	<b>545,409</b>	<b>547,981</b>	<b>554,968</b>

*Capital increase to acquire Lotus's in 4Q21*

Sources: Company data, Thanachart estimates

## CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	8,337	9,134	11,856	16,003	20,511
Tax paid	(1,730)	(1,929)	(2,718)	(4,147)	(5,025)
Depreciation & amortization	3,215	4,842	14,020	15,663	17,224
Chg In working capital	1,741	10,195	(2,662)	1,618	1,865
Chg In other CA & CL / minorities	87,366	(68,234)	(1,190)	447	1,422
<b>Cash flow from operations</b>	<b>98,929</b>	<b>(45,991)</b>	<b>19,307</b>	<b>29,583</b>	<b>35,997</b>
Capex	(1,254)	(91,201)	(22,620)	(21,090)	(20,310)
Right of use	(11,150)	(28,147)	(1,407)	(1,407)	(1,407)
ST loans & investments	0	0	0	0	0
LT loans & investments	(85,552)	71,243	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	2,045	(228,230)	(12,741)	(713)	(849)
<b>Cash flow from investments</b>	<b>(95,912)</b>	<b>(276,335)</b>	<b>(36,768)</b>	<b>(23,211)</b>	<b>(22,566)</b>
Debt financing	7,225	128,266	(16,500)	(5,571)	(3,770)
Capital increase	0	263,482	0	0	0
Dividends paid	(4,608)	(4,800)	(7,467)	(8,801)	(11,661)
Warrants & other surplus	41	(6,610)	6,874	0	0
<b>Cash flow from financing</b>	<b>2,658</b>	<b>380,338</b>	<b>(17,093)</b>	<b>(14,372)</b>	<b>(15,431)</b>
<b>Free cash flow</b>	<b>97,675</b>	<b>(137,192)</b>	<b>(3,313)</b>	<b>8,493</b>	<b>15,687</b>

## VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	30.1	31.9	40.1	28.5	22.5
Normalized PE - at target price (x)	37.4	39.6	49.9	35.5	28.0
PE (x)	30.1	16.7	40.1	28.5	22.5
PE - at target price (x)	37.4	20.8	49.9	35.5	28.0
EV/EBITDA (x)	16.0	19.1	15.2	13.1	11.2
EV/EBITDA - at target price (x)	20.0	22.7	18.3	15.7	13.5
P/BV (x)	8.9	1.4	1.3	1.3	1.3
P/BV - at target price (x)	11.0	1.7	1.6	1.6	1.6
P/CFO (x)	2.0	(5.0)	20.3	13.2	10.9
Price/sales (x)	1.8	1.5	0.9	0.8	0.7
Dividend yield (%)	2.4	1.9	1.9	2.6	3.3
FCF Yield (%)	49.4	(60.0)	(0.8)	2.2	4.0
<b>(Bt)</b>					
Normalized EPS	1.2	1.2	0.9	1.3	1.6
EPS	1.2	2.2	0.9	1.3	1.6
DPS	0.9	0.7	0.7	1.0	1.2
BV/share	4.2	27.2	28.1	28.6	29.1
CFO/share	18.5	(7.4)	1.8	2.8	3.4
FCF/share	18.3	(22.2)	(0.3)	0.8	1.5

Sources: Company data, Thanachart estimates

*EPS turnaround for many years justifies high 2022-23F PE, in our view*

## FINANCIAL RATIOS

	FY ending Dec	2020A	2021A	2022F	2023F	2024F	
<b>Growth Rate</b>							
<i>Strong profit growth from 2022F due to contribution from Lotus's</i>	Sales (%)	4.0	21.7	72.4	9.3	9.7	
	Net profit (%)	5.1	108.6	(28.7)	40.6	26.7	
	EPS (%)	5.1	80.3	(58.4)	40.6	26.7	
	Normalized profit (%)	5.1	9.2	36.1	40.6	26.7	
	Normalized EPS (%)	5.1	(5.5)	(20.6)	40.6	26.7	
	Dividend payout ratio (%)	73.1	55.7	75.0	75.0	75.0	
<b>Operating performance</b>							
<i>Deteriorating ROE due to share dilution from capital increase to acquire Lotus's</i>	Gross margin (%)	12.0	13.6	16.4	16.6	16.7	
	Operating margin (%)	4.1	4.0	3.8	4.2	4.6	
	EBITDA margin (%)	5.6	5.8	6.8	7.3	7.8	
	Net margin (%)	3.0	2.6	1.8	2.3	2.8	
	D/E (incl. minor) (x)	0.1	0.5	0.4	0.4	0.4	
	Net D/E (incl. minor) (x)	(0.0)	0.2	0.3	0.3	0.3	
	Interest coverage - EBIT (x)	14.5	6.9	3.2	4.2	5.3	
	Interest coverage - EBITDA (x)	19.6	10.0	5.8	7.3	8.8	
	ROA - using norm profit (%)	5.9	2.0	1.7	2.5	3.2	
	ROE - using norm profit (%)	30.9	4.6	3.3	4.6	5.7	
	<b>DuPont</b>						
	ROE - using after tax profit (%)	30.7	4.5	2.8	3.9	5.0	
	- asset turnover (x)	2.0	0.7	0.8	0.9	1.0	
	- operating margin (%)	4.1	4.0	3.8	4.2	4.6	
- leverage (x)	5.2	2.4	1.9	1.8	1.8		
- interest burden (%)	93.1	85.4	68.6	76.1	81.0		
- tax burden (%)	78.3	76.7	70.2	73.0	74.5		
WACC (%)	7.8	7.8	7.8	7.8	7.8		
ROIC (%)	43.2	41.5	3.4	4.0	4.8		
NOPAT (Bt m)	7,009	8,201	12,129	15,340	18,865		
invested capital (Bt m)	19,774	355,787	383,004	390,346	394,296		

Sources: Company data, Thanachart estimates

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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

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 Limsuthiwanoom

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 Phadthanarak

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