BUY (From: HOLD)

Change in Recommendation

TP: Bt 56.00 (From: Bt 57.00)

Upside : 38.3%

12 MAY 2022

Muangthai Capital Pcl (MTC TB)

A good bargain

We upgrade MTC to BUY from Hold after its 34% share price slump from this year's peak. With peaking NPLs for motorcycle HP loans and higher operating leverage, we expect 1Q22 to mark the beginning of a series of record profits. MTC looks cheap to us trading on a PEG of 0.6x and with 38% potential upside to our Bt56 TP.

SARACHADA SORNSONG
662 – 779 9106
sarachada.sor@thanachartsec.co.th

Thanachart Securities

Swifter resumption of record profits

Hit by higher expenses and provisions, MTC's profits had been on a declining trend since 1Q20. Loan growth has never been a problem for MTC. The company has been gaining market share in title loans and looks on track to achieve over 30% loan growth in 2022. This is while lending yield has started to normalize at 1Q22's level of 18%. From our previous expectation of 3Q22F, we expect 1Q22 to mark the start of a series of record earnings and an earnings growth turnaround. In addition to higher interest income as loans are gaining momentum, MTC is cutting excess provisions and enjoying higher operating leverage. We fine-tune our projections and are looking for earnings growth of 19% this year, 31% in 2023F and 28% in 2024F.

NPL resolution under way

After the end of COVID-19 forbearance programs and past the honeymoon period for motorcycle HP loans, MTC's NPLs have accelerated from less than 1% of total loans in 1Q21 to 1.3% in 2H21 and 1.7% in 1Q22. Title loan quality is stabilizing while MTC believes it is at the peak of motorcycle HP NPLs. In addition to a more prudent loan origination process, MTC plans to speed up write-offs and sales. This, along with too high provisions booked for 2H21, leads MTC to see credit costs of 1% as a normalized level. This is down from up to 1.5% and we lower our credit cost assumptions from 1.5-1.7% to 1-1.3% over 2022-24F.

Greater operating leverage

MTC has brought forward its branch opening schedule, achieving more than half of its full-year plan in 1Q22. As it already covers all provinces and districts, the new branches are smaller outlets in sub-districts with cheaper rental costs. This, together with higher interest income as loans are gaining more momentum, leads us to expect cost-to-income ratio to improve from 50% in 2021 to 49% in 2022F, 46% in 2023F and 44% in 2024F.

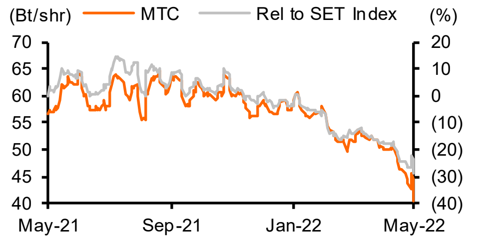
Upgrading to BUY

We fine-tune our forecasts to reflect lower provisions and yield. We trim our DDM-based TP to Bt56 from Bt57. After its 34% share price slump from January's Bt61 peak, there is 38% upside potential to our TP and we upgrade MTC from Hold to BUY. 1) MTC looks cheap at 2022F PE of 0.6x given a three-year EPS CAGR of 26%. 2) Given lower provisions and higher operating leverage, we think 1Q22 marks the start of record earnings and a turnaround in earnings growth. 3) As MTC plans to speed up NPL resolution, we believe it passed the worst of motorcycle HP NPLs in 1Q22. 3) We expect robust loan growth to continue as it is gaining market share and adding more products. MTC started buy-now-pay-later services and booked c.Bt1bn in 1Q22.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	6,930	8,404	11,379	14,508
Net profit	4,945	5,882	7,683	9,826
Consensus NP	—	5,635	7,123	8,644
Diff frm cons (%)	—	*4.4*	*7.9*	*13.7*
Norm profit	4,945	5,882	7,683	9,826
Prev. Norm profit	—	5,835	7,665	9,795
Chg frm prev (%)	—	*0.8*	*0.2*	*0.3*
Norm EPS (Bt)	2.3	2.8	3.6	4.6
Norm EPS grw (%)	(5.2)	19.0	30.6	27.9
Norm PE (x)	17.4	14.6	11.2	8.7
P/BV (x)	3.5	2.9	2.4	1.9
Div yield (%)	0.9	1.1	1.4	1.8
ROE (%)	21.7	21.5	23.2	24.3
ROA (%)	5.6	5.3	5.3	5.4

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 12-May-22 (Bt)	40.50
Market Cap (US$ m)	2,473.4
Listed Shares (m shares)	2,120.0
Free Float (%)	32.1
Avg Daily Turnover (US$ m)	12.5
12M Price H/L (Bt)	64.75/42.50
Sector	Finance
Major Shareholder	Petaumpai Family 67.45%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
Net profits (Bt bn)					
- New	5.21	4.94	5.88	7.68	9.83
- Old			5.84	7.66	9.79
- Change (%)			*0.80*	*0.24*	*0.32*
Loan growth (%)					
- New	17.62	29.37	31.26	20.93	16.46
- Old			31.29	24.23	16.89
- Change (pp)			*(0.03)*	*(3.30)*	*(0.44)*
Lending yield (%)					
- New	21.77	19.04	18.02	18.10	18.09
- Old			18.52	18.54	18.55
- Change (pp)			*(0.50)*	*(0.44)*	*(0.46)*
Average funding costs (%)					
- New	3.74	3.53	3.44	3.65	3.66
- Old			3.44	3.60	3.66
- Change (pp)			*0.00*	*0.05*	*(0.00)*
Opex (Bt bn)					
- New	6.14	6.96	8.14	9.77	11.73
- Old			8.10	9.88	11.96
- Change (%)			*0.55*	*(1.09)*	*(1.91)*
Credit costs (%)					
- New	0.39	0.90	1.00	1.30	1.30
- Old			1.50	1.60	1.70
- Change (pp)			*(0.50)*	*(0.30)*	*(0.40)*

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based Valuation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
Dividend of common shares	941	1,229	1,572	1,882	2,738	6,263	8,803	9,786	12,886	14,140	23,303	23,303
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	941	1,229	1,572	1,882	2,738	6,263	8,803	9,786	12,886	14,140	23,303	250,198

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	10.7
Cost of equity	10.7
Terminal growth (%)	2.0
Equity value	119,451
No. of shares (m)	2,120
Equity value / share (Bt)	**56.00**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 3: Valuation Comparison With Regional Peers

			EPS growth		PE		P/BV		ROE		Div. yield	
Name	**BBG code**	**Country**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**	**22F**	**23F**
Afterpay Ltd	APT AU	Australia	na	na	na	na	na	na	(0.4)	6.6	na	na
Finvolution Group	FINV US	China	375.6	10.2	0.4	0.4	0.1	0.1	21.1	18.8	21.9	42.0
Mahindra & Mahindra Fin Secs	MMFS IN	India	(28.5)	127.9	24.8	10.9	1.3	1.2	5.7	10.8	0.9	2.3
Bajaj Finance Ltd	BAF IN	India	(0.5)	52.1	48.4	31.8	7.9	6.4	17.4	21.7	0.2	0.4
Manappuram Finance Ltd	MGFL IN	India	(22.1)	17.8	6.3	5.4	1.0	0.9	17.2	17.8	2.9	3.3
GMO Payment Gateway Inc.	3769 JP	Japan	28.9	15.3	60.8	52.8	11.3	10.1	20.7	19.9	0.7	0.9
Infomart Corp.	2492 JP	Japan	na	201.7	603.9	200.2	9.3	8.9	2.0	5.5	0.1	0.2
Ally Financial Inc	ALLY US	US	(7.5)	(0.2)	5.0	5.0	0.8	0.7	17.4	16.6	3.1	3.4
World Acceptance Corp	WRLD US	US	37.1	(39.9)	12.7	21.1	2.2	1.9	17.3	8.4	na	na
Navient Corp	NAVI US	US	(23.3)	(6.5)	4.7	5.0	0.7	0.6	17.4	13.8	4.2	4.2
SLM Corp	SLM US	US	(20.8)	7.8	5.4	5.0	2.1	1.9	38.1	35.6	2.8	2.7
Amanah Leasing	AMANAH TB	Thailand	7.7	17.6	14.7	12.5	2.6	2.3	18.5	19.5	3.3	4.0
Asia Sermkij Leasing *	ASK TB	Thailand	21.4	32.2	12.4	9.4	2.0	1.8	16.7	20.1	4.0	5.3
Bangkok Commercial Asset Mgt.	BAM TB	Thailand	25.3	17.6	17.7	15.0	1.3	1.3	7.5	8.6	4.0	4.7
Chayo Group	CHAYO TB	Thailand	88.8	(4.2)	27.3	28.5	3.1	2.7	14.3	11.0	0.8	0.8
JMT Network Services *	JMT TB	Thailand	24.6	49.6	48.8	32.6	4.2	4.0	9.6	12.6	1.6	2.5
Krungthai Card *	KTC TB	Thailand	7.2	16.0	23.7	20.5	4.9	4.3	22.0	22.3	1.9	2.2
Muangthai Capital *	MTC TB	Thailand	19.0	30.6	14.6	11.2	2.9	2.4	21.5	23.2	1.1	1.4
Saksiam Leasing *	SAK TB	Thailand	36.1	35.5	20.5	15.2	3.1	2.8	16.1	19.5	1.9	2.6
Srisawad Corporation *	SAWAD TB	Thailand	16.1	28.0	12.0	9.4	2.3	2.0	20.3	23.1	4.2	5.3
Ratchthani Leasing *	THANI TB	Thailand	9.6	12.8	12.3	10.9	1.9	1.7	15.7	16.6	4.9	5.5
Ngern Tid Lor *	TIDLOR TB	Thailand	15.9	27.4	22.5	17.7	3.3	2.9	15.8	17.6	0.9	1.1
Average			**30.5**	**30.9**	**47.6**	**24.8**	**3.3**	**2.9**	**16.0**	**16.8**	**3.3**	**4.7**

Source: Bloomberg
Note: * Thanachart estimates using normalized EPS growth
Based on 12 May 2022 closing price

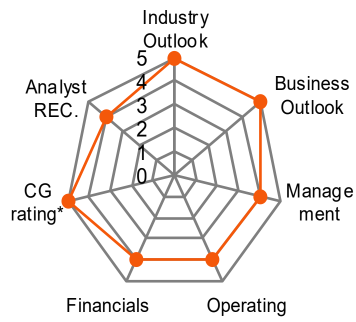
Our major shareholder TCAP (Thanachart Capital Pcl) holds 50.96% of Thanachart Securities. TCAP also holds 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd holds 60% stake in THANI and is the major shareholder of THANI.

COMPANY DESCRIPTION

Muangthai Capital Pcl (MTC), originally D.S. Leasing, was founded by Mr. Chuchart Petampai and Mrs. Daonapa Petampai in 1992. MTC started off as a motorcycle hire-purchase company in northern Thailand, and later expanded into the micro-financing business as a supplementary service to its customers. By 1998, MTC had shifted its focus to be a pure micro-financing firm. It operates as a commercial lending bank, offering collateral-backed auto loans and personal unsecured loan services, with the focus being motorcycle title loans.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Scale benefits.
- Well-recognized brand.
- Expertise and substantial experience in running its business.

W — Weakness

- Reliant on external funding.

O — Opportunity

- New lending products.
- Expanding into neighbouring countries.

T — Threat

- Changes in regulations.
- Increasing penetration by commercial banks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	61.09	56.00	-8%
Net profit 22F (Bt m)	5,635	5,882	4%
Net profit 23F (Bt m)	7,123	7,683	8%
Consensus REC	**BUY: 13**	**HOLD: 4**	**SELL: 2**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts are higher as we are ahead of market in incorporating lower credit costs.
- However, our TP is lower than the Bloomberg consensus, which we attribute to us being more conservative than the market on MTC's valuation multiple.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If MTC is not able to sustain its robust loan growth while improving asset quality as expected, this represents the key downside risk to our earnings forecasts and BUY recommendation.
- Increases in MTC's cost-to-income ratio and funding costs would present further downside risks to our earnings forecasts and TP.

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Source: Thanachart

Yield is normalizing while loans are gaining momentum

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Interest Income	13,962	15,195	18,592	24,321	30,398
Interest Expenses	1,817	2,127	2,722	3,888	4,925
Net Interest Income	**12,145**	**13,068**	**15,869**	**20,432**	**25,474**
% of total income	94.0%	94.1%	95.9%	96.6%	97.1%
Fee income	726	769	615	646	678
% of total income	5.6%	5.5%	3.7%	3.1%	2.6%
Other income	45	55	65	75	85
% of total income	0.3%	0.4%	0.4%	0.4%	0.3%
Non-interest Income	**771**	**824**	**680**	**721**	**763**
% of total income	6.0%	5.9%	4.1%	3.4%	2.9%
Total Income	**12,916**	**13,891**	**16,549**	**21,153**	**26,236**
Operating Expenses	6,144	6,961	8,145	9,774	11,729
Pre-provisioning Profit	**6,771**	**6,930**	**8,404**	**11,379**	**14,508**
Bad debt expenses	255	728	1,052	1,775	2,226
Pre-tax Profit	**6,516**	**6,201**	**7,352**	**9,604**	**12,282**
Income Tax	1,303	1,257	1,470	1,921	2,456
After Tax Profit	**5,214**	**4,945**	**5,882**	**7,683**	**9,826**
Equity Income	0	0	0	0	0
Minority Interest	0	0	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	**5,214**	**4,945**	**5,882**	**7,683**	**9,826**
Normalized Profit	**5,214**	**4,945**	**5,882**	**7,683**	**9,826**
EPS (Bt)	2.5	2.3	2.8	3.6	4.6
Normalized EPS (Bt)	2.5	2.3	2.8	3.6	4.6

Cutting excess provisions

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Cash and ST investments	1,378	1,306	1,000	1,000	1,000
Other current assets	225	397	415	438	461
Total current assets	**1,603**	**1,703**	**1,415**	**1,438**	**1,461**
Gross loans & accr. interest	70,152	92,353	118,079	154,990	187,430
Provisions	1,328	1,832	2,409	3,560	4,843
Net loans	**69,640**	**89,981**	**116,370**	**152,349**	**183,698**
Fixed assets	1,928	2,054	2,058	6,278	6,774
Other assets	4,050	4,652	5,172	5,594	6,009
Total assets	**77,222**	**98,390**	**125,015**	**165,659**	**197,942**
Short term borrowing	19,243	28,793	37,884	61,484	75,981
A/P & notes payables	1,075	1,237	1,337	1,437	1,537
Other current liabilities	1,633	1,672	2,133	2,055	2,912
Long term borrowing	31,732	38,521	50,368	60,442	68,299
Total borrowings	**50,975**	**67,314**	**88,252**	**121,926**	**144,280**
Other L-T liabilities	2,858	3,299	3,462	3,936	4,632
Minority interest	0	0	0	0	0
Shareholders' equity	**20,682**	**24,869**	**29,830**	**36,305**	**44,580**
Total Liab. & Equity	**77,222**	**98,390**	**125,015**	**165,659**	**197,942**

Sources: Company data, Thanachart estimates

Share price is at a two-year low

Higher funding costs factored in

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	16.5	17.4	14.6	11.2	8.7
Normalized PE - at target price (x)	22.8	24.0	20.2	15.5	12.1
PE (x)	16.5	17.4	14.6	11.2	8.7
PE - at target price (x)	22.8	24.0	20.2	15.5	12.1
P/PPP (x)	12.7	12.4	10.2	7.5	5.9
P/PPP - at target price (x)	17.5	17.1	14.1	10.4	8.2
P/BV (x)	4.2	3.5	2.9	2.4	1.9
P/BV - at target price (x)	5.7	4.8	4.0	3.3	2.7
Dividend yield (%)	0.9	0.9	1.1	1.4	1.8
Normalized EPS (Bt)	2.5	2.3	2.8	3.6	4.6
EPS (Bt)	2.5	2.3	2.8	3.6	4.6
DPS (Bt)	0.4	0.4	0.4	0.6	0.7
PPP/Share (Bt)	3.2	3.3	4.0	5.4	6.8
BV/share (Bt)	9.8	11.7	14.1	17.1	21.0
P/BV to ROE (x)	0.1	0.2	0.1	0.1	0.1

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate (%)					
Net interest income (NII)	17.3	7.6	21.4	28.8	24.7
Non-interest income (Non-II)	(4.6)	6.8	(17.5)	6.0	5.9
Operating expenses	15.6	13.3	17.0	20.0	20.0
Pre-provisioning profit (PPP)	15.8	2.3	21.3	35.4	27.5
Net profit	23.0	(5.2)	19.0	30.6	27.9
Normalized profit growth	23.0	(5.2)	19.0	30.6	27.9
EPS	23.0	(5.2)	19.0	30.6	27.9
Normalized EPS	23.0	(5.2)	19.0	30.6	27.9
Dividend payout ratio	15.0	15.9	16.0	16.0	16.0
Loan - gross	18.0	31.6	27.9	31.3	20.9
Loan - net	18.8	29.2	29.3	30.9	20.6
Borrowings	8.8	25.3	35.3	17.4	13.8
NPLs	20.3	70.7	48.9	39.5	28.0
Total assets	24.8	27.4	27.1	32.5	19.5
Total equity	29.5	20.2	20.0	21.7	22.8
Operating Ratios (%)					
Net interest margin (NIM)	17.5	16.1	14.2	14.1	14.0
Net interest spread	17.9	15.4	14.5	14.4	14.4
Yield on earnings assets	21.2	18.6	17.6	17.7	17.6
Avg cost of fund	3.7	3.5	3.4	3.7	3.7
NII / operating income	94.0	94.1	95.9	96.6	97.1
Non-II / operating income	6.0	5.9	4.1	3.4	2.9
Fee Income / Opt Income	5.6	5.5	3.7	3.1	2.6
Norm Net Margin	40.4	35.6	35.5	36.3	37.5
Cost-to-income	47.6	50.1	49.2	46.2	44.7
Credit cost - provision exp / loans	0.4	0.9	1.0	1.3	1.3
PPP / total assets	9.7	7.9	7.5	7.8	8.0
PPP / total equity	36.9	30.4	30.7	34.4	35.9
Avg assets/avg equity (leverage)	3.8	3.9	4.1	4.4	4.5
ROA	7.5	5.6	5.3	5.3	5.4
ROE	28.4	21.7	21.5	23.2	24.3

Sources: Company data, Thanachart estimates

Peaking motorcycle HP NPLs

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrow ings	205.6	216.0	204.1	228.2	242.5
Net Loan / Borrow ings	204.1	210.5	201.2	224.3	237.7
Net Loan / Assets	90.2	91.5	93.1	92.0	92.8
Net Loan / Equity	336.7	361.8	390.1	419.6	412.1
S-T / L-T Borrow ings	7.0	9.9	12.9	11.0	11.6
Borrow ings / Liabilities	60.4	58.2	60.8	52.5	50.4
Interest-bearing Debt / Equity	251.7	275.7	300.3	339.8	327.1
Liabilities / Equity	273.4	295.6	319.1	356.3	344.0
Equity/ Gross loans	29.5	26.9	25.3	23.4	23.8
NPLs	747.4	1,275.9	1,900.5	2,650.5	3,393.7
NPLs / Total Loans (NPL Ratio)	1.1	1.4	1.6	1.7	1.8
Loan-Loss-Coverage (Provision / NPLs)	177.6	143.6	126.8	134.3	142.7

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

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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: 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
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