Thanachart Securities

Siam Senses

Agri angles

We see opportunities for investors to play rising agricultural prices in Thailand. Directly, we flag some agro-industry names to watch on the theme of higher prices and margins. Indirectly, we see several finance, consumer and retail stocks benefiting from strong farm income growth.

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Rising global agricultural prices

We believe global agricultural prices may remain elevated for the rest of 2022F and potentially into 2023F. The UN FAO's World Food Price Index hit its highest-ever level in March and was up over 30% y-y. The price increases have been driven by a strong demand recovery and supply tightness, due to both the weather and geopolitical issues (chiefly the war in Ukraine). Given high fertilizer prices, we also see risks that the output for next crops could be restricted. This could keep farm prices at high levels until the end of 2023F though we do not expect significant price increases from current levels.

Strong farm income growth in Thailand

We expect strong farm income growth in 2022F. Based on the top-7 crops (normally c.90% of Thailand's crop value), we estimate farm income may grow by 18% in 2022F to Bt1.14trn. This comes on top of an estimated 16% growth in 2021. The key crops driving this growth are sugarcane (+69% y-y by value), palm (+56% y-y) and durian (+29% y-y). On the other hand, the value of rice output could decline by 7% due to lower prices. The second-biggest crop, rubber, could see output value grow by a respectable 18% y-y. While higher fertilizer costs could erode some of the farm income growth, we still expect substantial net growth in farmers' earnings. We estimate total output value could increase by Bt176bn in 2022F whereas the total fertilizer import bill would grow by about Bt53bn assuming 75% y-y cost increase. This still leaves a total of Bt120bn or more extra income for the farmers.

Agro-industry names to watch

Thailand has a number of agro-industry companies listed on the stock exchange. However, most of the names are relatively small, have thin trading liquidity and are not covered by analysts. Below, we have picked a select few that are likely to be large and liquid enough for most investors. These are KSL (sugar), TVO (soybean), and UVAN (palm oil). Of these three names, KSL has the highest EPS growth in 2022E (Bloomberg consensus). This is due to the high sugar price and strong volume growth in both 2022F and 2023F. TVO and UVAN may not deliver such strong growth potential but have over-5% dividend yields.

Domestic farm income plays

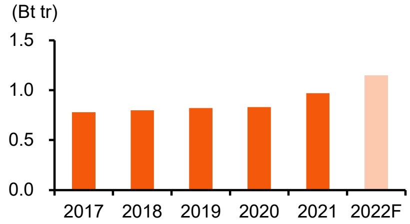
There are several stocks that we believe will benefit from the broad-based increase in farm income this year. In finance, we believe SAK, MTC and SAWAD will benefit from higher loan demand for motorcycle purchases and also working capital needs. In retail, we believe GLOBAL and MC are prime beneficiaries given that they derive the majority of their sales from the provinces. For consumer names, we like CBG on its market share gains from rival OSP. Other names we like that fit this theme are DCC (upcountry con-mat play) and SAT (a major supplier for farm machinery maker Kubota).

Agri And Farm Income Plays

	-EPS growth-		— PE —		Yield
	22F (%)	23F (%)	22F (x)	23F (x)	22F (%)
Thanachart Coverage					
SAK	36.1	35.5	20.7	15.3	1.9
MTC	18.0	31.4	15.4	11.8	1.0
SAWAD	16.1	28.0	12.4	9.7	4.0
GLOBAL	15.9	21.4	26.7	22.0	1.5
MC	9.6	25.0	14.4	11.5	6.9
CBG	44.1	30.4	25.0	19.2	2.6
OSP	9.1	8.6	26.9	24.7	3.8
DCC	0.1	4.3	15.0	14.4	6.7
SAT	6.0	28.6	7.2	5.6	8.3
Non-coverage Stocks*					
AEONTS	4.2	19.6	12.3	10.3	2.6
DOHOME	8.0	18.0	27.1	22.9	0.5
SINGER	1.2	42.4	34.2	24.0	1.5
KSL	64.3	(13.0)	15.3	17.6	1.8
TVO	(13.1)	(4.6)	12.4	13.0	6.6
STA	(57.0)	6.8	4.4	4.1	8.2
STGT	(81.8)	9.6	11.9	10.8	5.4

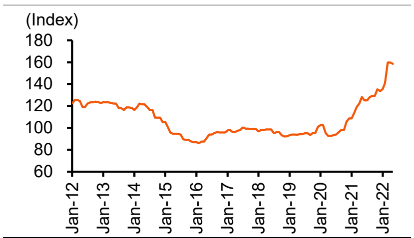
Sources:Bloomberg, Thanachart estimates.
Note: * figures based on Bloomberg consensus
Based on 9 May 2022 closing prices

Value Of Output For Top-Seven Crops



Sources: OAE, Thanachart estimates

UN FAO World Food Price Index



Source: Bloomberg

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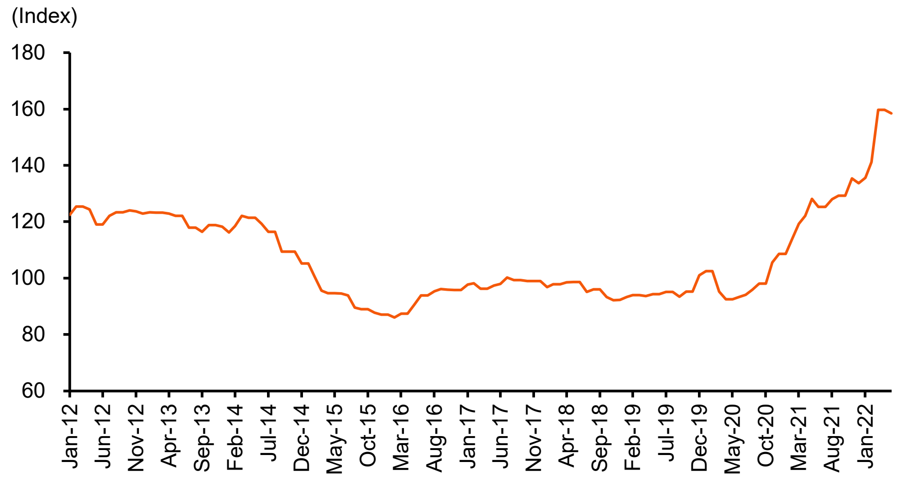
Rising global agricultural prices

Global food prices up over 30% in March 2022…

…at highest level on record according to UN FAO

We believe global agricultural prices may remain elevated for the rest of 2022F and likely into 2023F. Prices have been driven by a strong demand recovery and supply tightness, due to both the weather and geopolitical issues (chiefly the war in Ukraine). Given high fertilizer prices, we also see a risk that output for next crops could be restricted. This could keep farm prices at high levels until the end of 2023F and possibly longer. Of the major crops, we think oilseed prices have the strongest price outlook.

Ex 1: UN FAO World Food Price Index



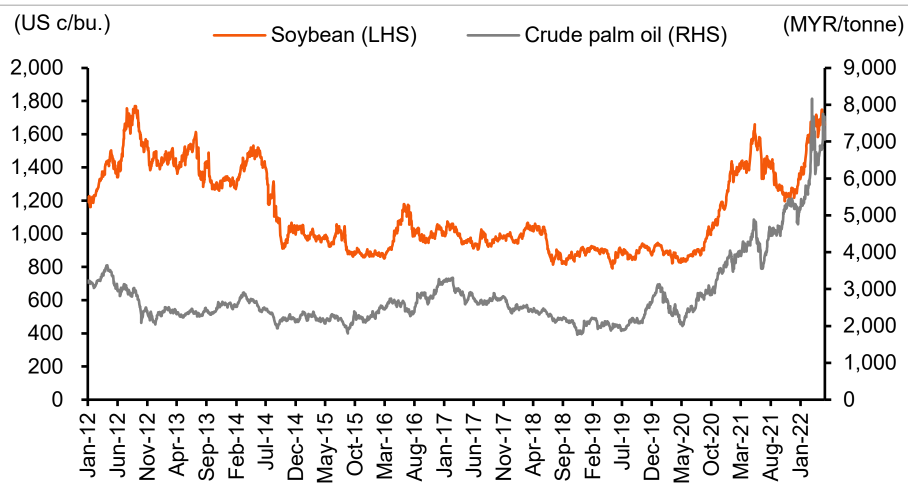
Source: Bloomberg

Oilseeds the biggest outperformers

Vegetable oil prices at record high levels due to supply restrictions

Oilseeds and vegetable oils are experiencing their biggest bull market in a generation. The crops that are most relevant in Thailand are palm oil and soybean oil, whose prices are at or near record-high levels. Due to substitution impacts, when there is a shortage of one vegetable oil, other oils tend to benefit.

Ex 2: Major Vegetable Oils And Oilseeds Have Rallied Strongly



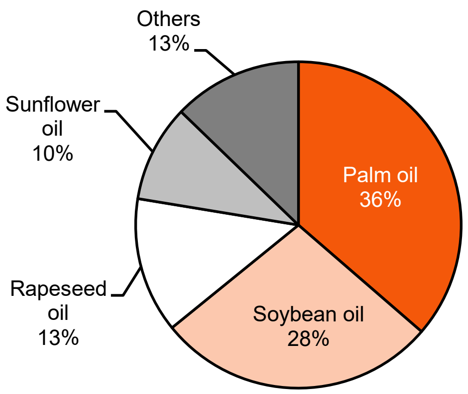
Source: Bloomberg

There are several factors driving up global vegetable oil prices:

Oilseeds and vegetable oil prices are at record levels due to supply disruptions

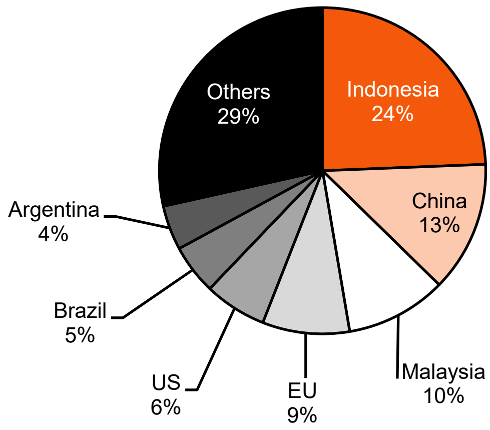
- **CPO – Indonesian export ban:** Indonesia has announced several policy steps aimed at ensuring sufficient supply and lowering the price of crude palm oil (CPO) in the domestic market. This ultimately led to a complete export ban. As the largest CPO producer (with 60% of global output), Indonesia's export ban significantly restricted the supply of CPO.
- **Sunflower oil – the war in Ukraine:** The war in Ukraine has significantly impacted the supply of sunflower oil. Ukraine and Russia are the world's largest producers, together accounting for 55% of global supply. The prolonged conflict and the sanctions imposed on Russia may restrict the supply of sunflower oil for months and possibly years to come.
- **Soybean oil – low Chinese crushing, Argentine drought:** The supply of soybean oil is being restricted by several factors. Firstly, processors in China are crushing an unusually low volume of soybeans as demand for feed dwindles. This is because of low pork prices and high feed costs. At 40m tonnes, the volume of soybeans crushed at Chinese processors in 2021/22 season was as low as during the 2018/19 season when the country was grappling with African swine fever. The low crushing volume results in lower soybean oil being produced. In Argentina — one of the largest soybean oil and meal exporters — the country briefly introduced an export ban on soybean oil and eventually hiked the export tax. Additionally, the supply of soybeans from Argentina was hit by severe drought.

Ex 3: Production Of Vegetable Oils By Type 2021/22



Source: USDA

Ex 4: Production Of Vegetable Oils By Country 2021/22



Source: USDA

Grain prices could remain elevated

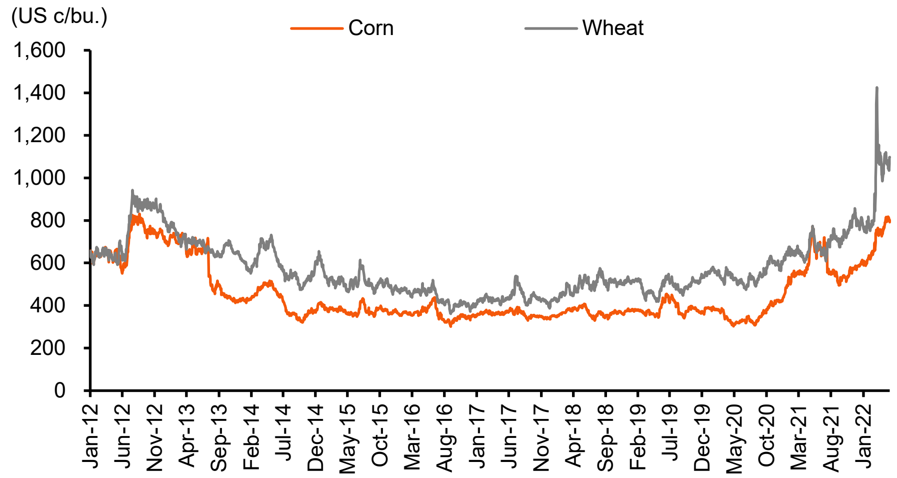
The war in Ukraine is driving up global grain prices

Global grain prices have been on an upward trend since early 2021 and recently shot up after the Russian invasion of Ukraine. We think prices could remain elevated in the coming months given ongoing geopolitical issues, high oil prices and limited new acreage due to high fertilizer prices and labor issues:

- **Russia and Ukraine:** The war in Ukraine has the potential to significantly disrupt global wheat supplies. The two countries together account for over a quarter of global wheat exports. The upcoming harvest in Ukraine could fall by 35% or more, according to satellite analysis company Kayrros.
- **Higher fertilizer and labor costs limit new acreage:** We believe the sharp increases in fertilizer prices and potential labor shortages may limit plantings of new acreage for these grain crops.
- **Weather-related disruptions:** Severe weather has disrupted grain production in several major producing countries including Canada (heatwaves) and Australia (floods).

- **Supply relief from South America:** The one geographical region where supplies are plentiful is South America. Both Argentina and Brazil are likely to see record wheat crops. This may help provide some relief for the very tight global market.

Ex 5: Corn And Wheat Prices Have Seen Big Run-Ups After War In Ukraine Started



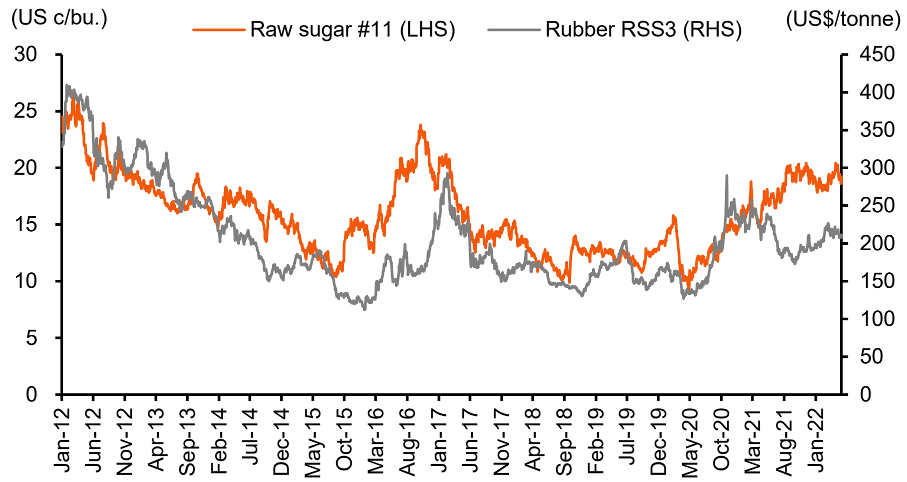
Source: Bloomberg

Sugar and rubber benefiting from demand recovery, high oil prices

Sugar and rubber prices remain high though not to the same extent as oilseed and grain prices

Sugar and rubber — two import cash crops for Thailand — are also benefiting from supply tightness and the broad rally in agricultural prices, though to a lesser degree when compared to oilseeds and grains. The sugar price reached a five-year high from late 2021 and it has remained near USc20/lb since. We believe the commodity has benefited from a demand recovery post pandemic, low Brazilian output in the 2021/22 season as well as the rally in oil price that has encouraged the consumption of ethanol as alternative fuel to gasoline. The rubber price has also increased since the beginning of the year though it remains at a relatively subdued level. We think this has a lot to do with the sluggish global automobile output due to supply chain disruptions and chip shortages. We think if global automotive production starts to pick up, the rubber price could see a rally.

Ex 6: Sugar And Rubber Prices



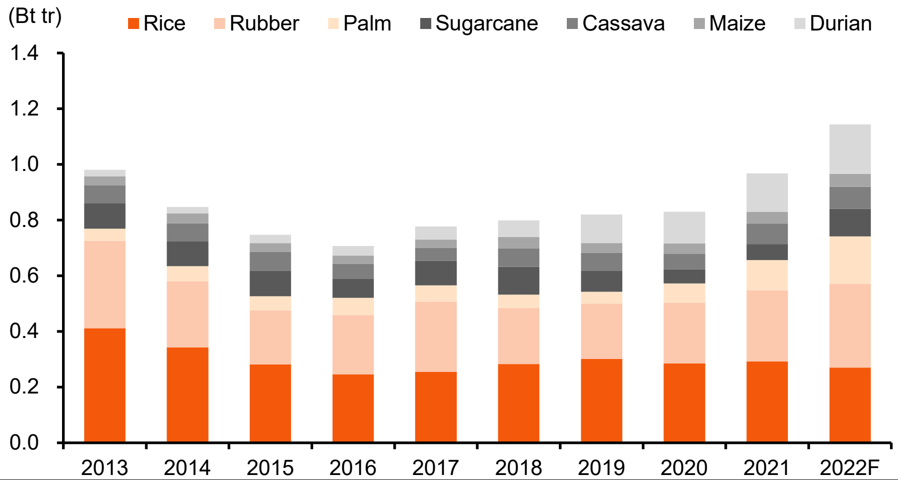
Source: Bloomberg

Strong farm income growth in Thailand

We expect Thailand's farm income growth at 18% in 2022F after 16% in 2021

We expect strong farm income growth in Thailand for 2022F, driven mainly by higher farm prices. We estimate that total output value could reach Bt1.14trn for the top-7 crops (which typically account for c.90% of Thailand's major crop value). This represents an increase of almost Bt180bn, or 18% from 2021's level.

Ex 7: Value Of Output For Top-Seven Crops

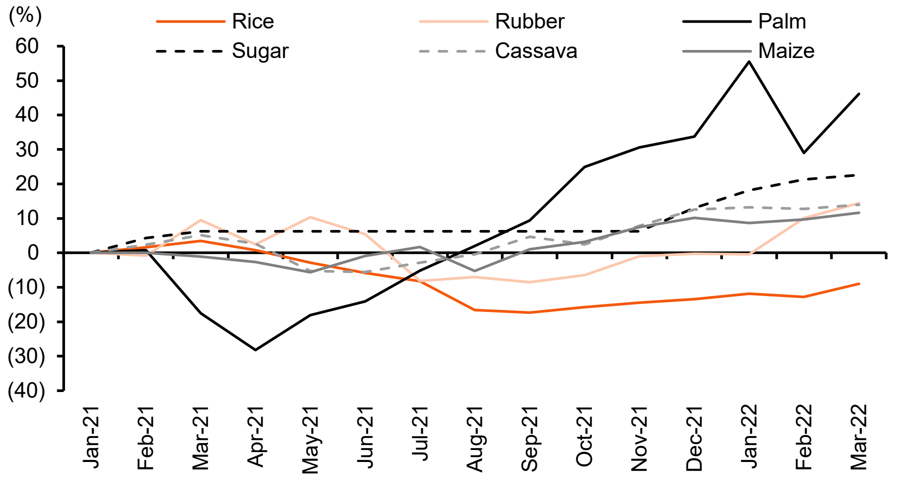


Sources: OAE, Thanachart estimates

We believe our estimate for potential farm income has some upside risk given that it is based on farm gate prices in March 2022. Several crops have seen their prices increase further from that level and — if sustained for the remainder of this year — we could see an even bigger y-y increase than our estimate.

Palm and sugar prices lead the farm price increases

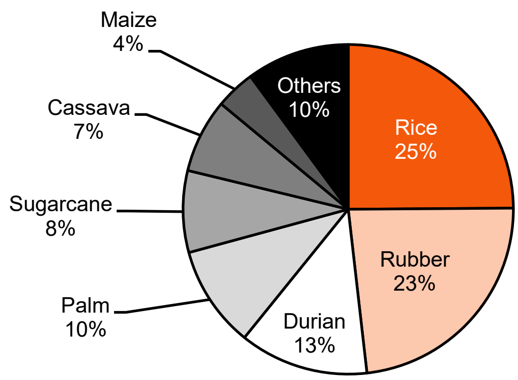
Ex 8: Farm Prices In Thailand, Indexed To Jan 2021 Level



Sources: OAE, Thanachart estimates

We focus our analysis on the top-7 crops (rice, rubber, durian, palm, sugarcane, cassava and maize) as these crops together accounted for 90% of agricultural output in 2021 as reported by the Office of Agricultural Economics (OAE). In terms of crop value in 2022F, rubber has replaced rice as the most valuable crop with almost Bt300bn in output value. Rice is in second place at Bt270bn. Given strong output growth over the past several years (mostly to serve the export market), durian fruit has become the third most valuable agri-commodity in Thailand, generating as much as Bt180bn in revenue in 2022F. Palm has also become much more important with Bt170bn in annual output value.

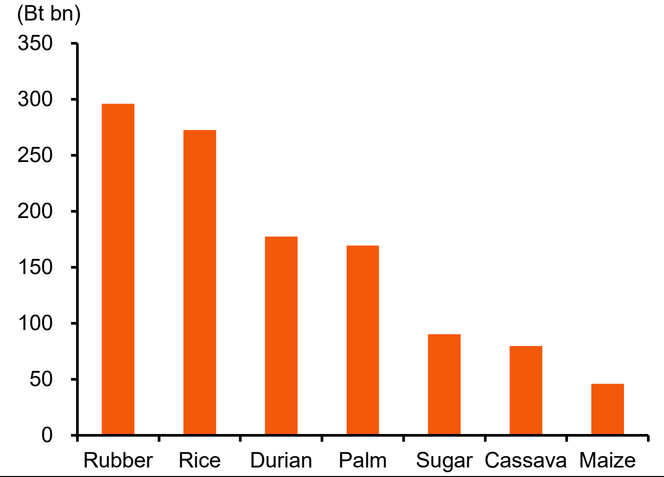
Ex 9: Value Of Harvest By Major Crops For 2021



Sources: OAE, Thanachart estimates

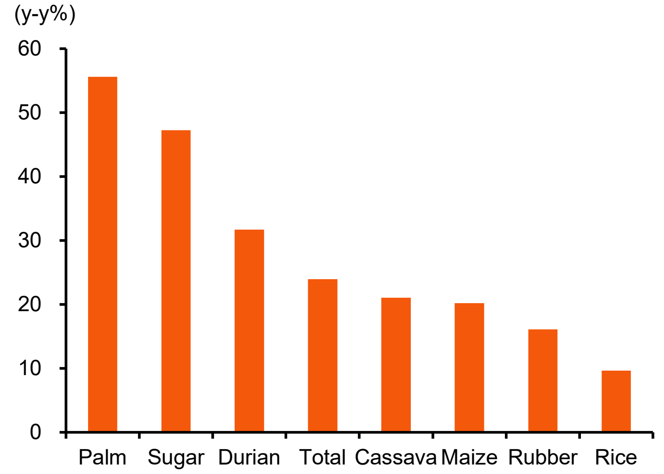
In terms of y-y growth, palm and sugar are the star performers. Due to sharply higher prices, the value of palm output looks set to grow by over 55% y-y in 2022F. For sugarcane, it is mostly a volume story as output reached 92m tonnes in 2021/22, up from a decade-low 67m tonnes for the 2020/21 harvest. As mentioned previously, durian fruit has seen a strong upward trend in output value, driven mainly by more acreage and rising prices. For the 2022F season, the output value of durian looks set to increase by over 30% y-y.

Ex 10: Harvest Value By Crop In 2022F



Sources: OAE; Thanachart estimates

Ex 11: Y-Y Change In Value Of Harvest By Crop In 2022F



Sources: OAE; Thanachart estimates

Y-Y income growth may be highest in 3Q22F

We note that because different crops are harvested at different times throughout the year, the impact of farm income growth will likely be uneven. For instance, the sugar harvest takes place almost exclusively in December-March while palm harvesting is spread evenly throughout the year.

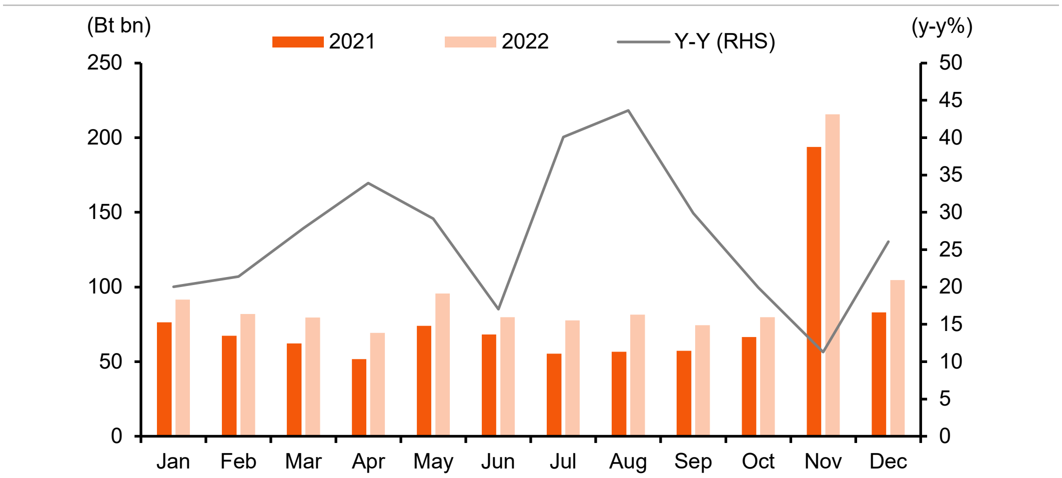
Ex 12: % Of Annual Output By Crop

Crop	2021			2022												2023				
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Main crop rice										0	4	6	9	67	10	2	1	0	0	0
Second crop rice					14	32	30	14	5	4	1	0	0							
Rubber				12	7	3	2	5	8	9	10	10	10	11	13					
Palm				5	7	10	11	12	10	9	9	8	8	7	5					
Sugar			19	34	28	18	1													
Cassava	4	5	9	18	22	19	8	4	2	2	3	4								
Maize									0	2	3	10	20	34	19	2	1	4	5	1
Durian				1	0	1	10	27	20	18	14	6	2	1	1					

Source: OAE

For 2022F, based on expected output and prevailing market prices, we believe farm income growth will reach its peak in 38% y-y in 3Q22F, rising from a 23% and 26% y-y pace in 1Q22 and 2Q22F, respectively. While farm income is seasonally the highest in 4Q due to the main rice crop harvest, this year's deflated rice price will likely mean relatively low y-y growth for farm income in 4Q22F (though we still see it as respectable at 17% y-y).

Ex 13: Estimated Value Of Harvests For 2021 And 2022 By Month And Y-Y Change



Sources: OAE, Thanachart estimates

High fertilizer price – a boon and a bane

Global fertilizer prices are up on supply disruptions and production cost hikes

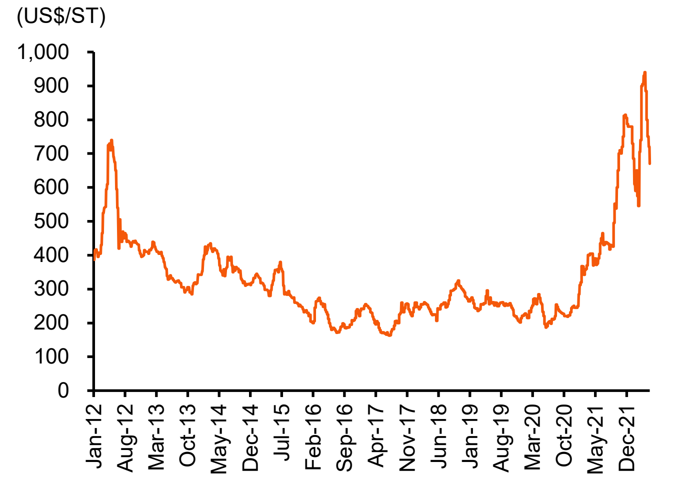
A major headwind for farmers globally is the sharp rise in fertilizer prices. We believe this is due mainly to the war in Ukraine as Russia, Ukraine and Belarus are major fertilizer exporters. On the other hand, the high fertilizer price and shortage could lead to lower crop yields which may push up farm prices even further.

There are three main groups of chemical fertilizers: nitrogen (N), phosphorus (P) and potassium (K). All three are seeing restricted supplies and/or sharply higher costs:

- **Nitrogen (N):** Nitrogen (usually in the form of urea) is used mainly to encourage plant growth. It is produced mainly from natural gas. Given that the natural gas price has seen big price rallies since 2H21, the price of nitrogen fertilizer had already started climbing even before the war in Ukraine began. After the war started, the price of natural gas went up even further, so much so that many fertilizer companies in Europe halted their production as it became uneconomical to produce.

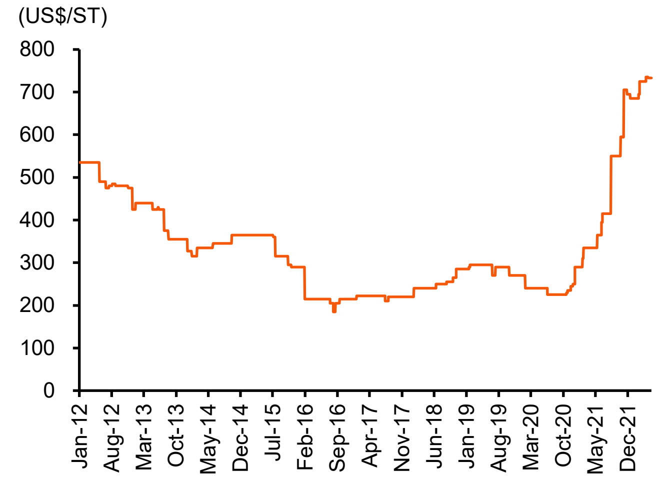
- **Phosphorus (P):** Phosphate is used mainly to encourage root development, plant maturation and seed development. Phosphate production is highly concentrated, with the top three producing countries (China, Morocco and the US) accounting for roughly two-thirds of global supply. Of the three main fertilizers, the phosphate shortage seems to be the least concerning.
- **Potassium (K):** Potash is used to help flowers and fruits to form and to toughen growth in order for the plants to resist pests and diseases. Like phosphate, production of potash is highly concentrated geographically. The top three producers — Canada, Russia and Belarus — together make up about two-thirds of global supply. The war in Ukraine is having a massive impact on potash supply as Russia and Belarus make up about 35% of global supply.

Ex 14: US Gulf Urea Price



Source: Bloomberg

Ex 15: Canada (Saskatchewan) Potash Price

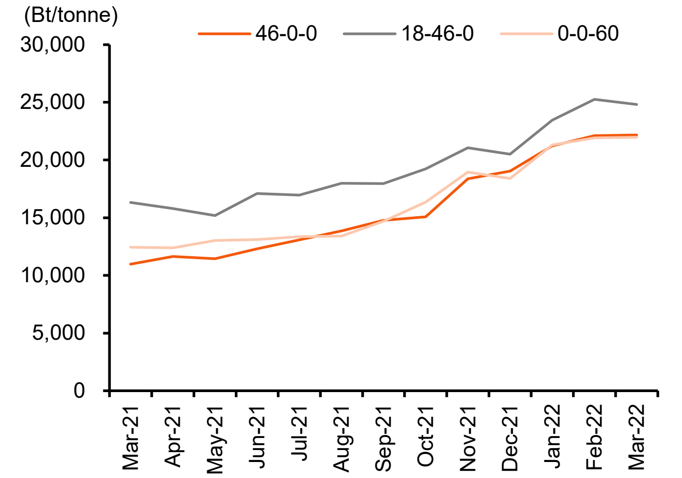


Source: Bloomberg

For Thailand, we think the increases in fertilizer prices can be readily absorbed even as the country relies almost solely on imports to meet its fertilizer demand. On average, the retail price of fertilizers increased by about 75% y-y in March 2022. Assuming this level of increase stays throughout the year, the total fertilizer import bill for Thailand could reach Bt123bn, up about Bt53bn from the 2021 level. We think this cost increase can be readily absorbed as the total value of farm output could increase by Bt180bn or more. Government intervention, such as via subsidies or implementing price caps for fertilizers, could also help alleviate the cost increases for farmers. We also note that fertilizer prices have been climbing throughout 2021 so the 75% cost increase we assume in 2022F implies further price rises from here. We do not necessarily think such a scenario is likely given that fertilizer prices have already plateaued in recent weeks as there may have already been a negative demand impact.

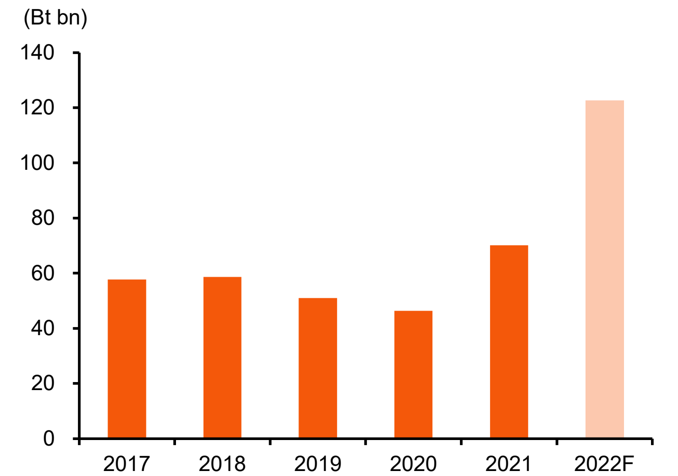
On the flip side, high fertilizer prices could help limit their usage and/or planting areas globally. This may put upward pressure on crop prices for the next harvest season. Thai farmers will likely stand to benefit in such a scenario.

Ex 16: Local Fertilizer Retail Prices By N-P-K Formulas



Sources: OAE; Thanachart estimates

Ex 17: Thailand Fertilizer Imports



Sources: OAE; Thanachart estimates

Direct play via agro-industry names

Thailand has a number of agro-industry companies listed on the stock exchange. However, most of the names are relatively small, have thin trading liquidity and are not covered by analysts. Below, we have picked a select few that are likely to be large and liquid enough for most investors. These include KSL (sugar), TVO (soybean) and UVAN (palm oil). Of these three names, we think KSL looks the most attractive. This is due to the high sugar price and strong volume growth in both 2022F and 2023F. TVO and UVAN may not deliver such strong growth potential but both pay generous dividends. We are omitting rubber processor Sri Trang Agro-Industry (STA TB, not rated) given the limited increase in rubber prices and headwind to its earnings outlook from its rubber glove subsidiary Sri Trang Gloves (STGT TB, not rated).

KSL has the strongest EPS growth profile among agro-industry names

Ex 18: Selected Agro-industry Names (All Figures Based On Bloomberg Consensus)

	Current	Market	Norm EPS grw		Norm PE		— P/BV —		— Yield —	
	price	cap	22F	23F	22F	23F	22F	23F	22F	23F
	(Bt)	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
KSL TB	3.52	453	64.3	(13.0)	15.3	17.6	0.7	0.7	1.8	1.8
TVO TB	31.50	736	(13.1)	(4.6)	12.4	13.0	2.5	2.5	6.6	6.4
STA TB	20.90	928	(57.0)	6.8	4.4	4.1	0.6	0.5	8.2	8.9
STGT TB	19.30	1,597	(81.8)	9.6	11.9	10.8	1.4	1.4	5.4	6.1

Source: Bloomberg; note: prices as of close on 9 May 2022

Sugar names to watch: KSL

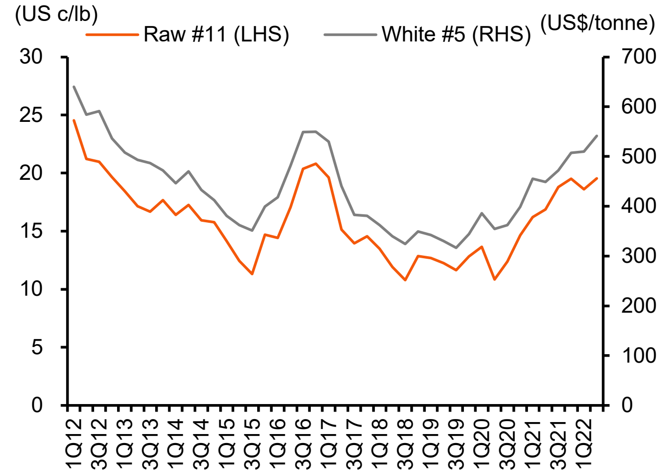
Based on the Bloomberg consensus, the Thai sugar companies should post strong earnings growth in 2022-23F, driven by both higher prices and rising sugarcane production volume. Global sugar prices have increased by about 15% YTD compared to the same period in 2021. Meanwhile, Thailand's sugarcane output is likely to see continued growth in 2022/23F season after having grown by 37% in the 2021/22 season. Given the profit-sharing mechanism between farmers and millers (70:30), the higher output value should translate into higher earnings for the sugar companies.

For exposure to this segment, we believe KSL is the most accessible name. The Bloomberg consensus is looking for 64% EPS growth in 2022F followed by a 13% EPS decline in 2023F. However, we note potential upside risks to the 2023F figure given elevated global sugar prices, strong volume growth and a weakening Thai baht. We note the following factors that point to upside risks:

- **Elevated sugar prices:** The global sugar price remains elevated with raw sugar trading near its highest level in 10 years at over 19 USc/lb. While global output of sugarcane is likely to grow significantly, driven by a recovery in Brazil (after the drought in the 2021 season) and greater output from India, demand for sugar has also likely recovered as pandemic measures and travel restrictions have been eased. Given high crude oil and gasoline prices, we also expect strong demand for ethanol, for which sugar is a key raw material in Brazil, India and Thailand. This will divert more sugarcane tonnage to ethanol production and limit sugar production.
- **Strong output growth in Thailand:** The sugarcane harvest for the 2021/22 season was recently completed in Thailand. The sugarcane output totaled about 92m tonnes, up 37% from the drought-ravaged 2020/21 season. Looking to the 2022/23 harvest, the Thai Sugar Millers Corporation (TSMC) — a key industry trade group — expects sugarcane output of as much as 115m tonnes, which would make it the third-biggest crop of the past 10 years. This is due to good rainfall and increased acreage as high sugarcane prices provide incentives for farmers to plant more acreage.
- **Weaker baht means more export income:** The weakening baht helps increase export revenue in local currency terms for millers. At present, the domestic sugar has a suggested retail price of Bt17.25-18.25/kg. The export price of white sugar, however, has already exceeded Bt21/kg on our estimate as Thai white sugar price can be USD100-150/tonne more expensive than the London white sugar #5 futures. This means the extra output could earn millers and farmers higher income than the volume sold domestically.

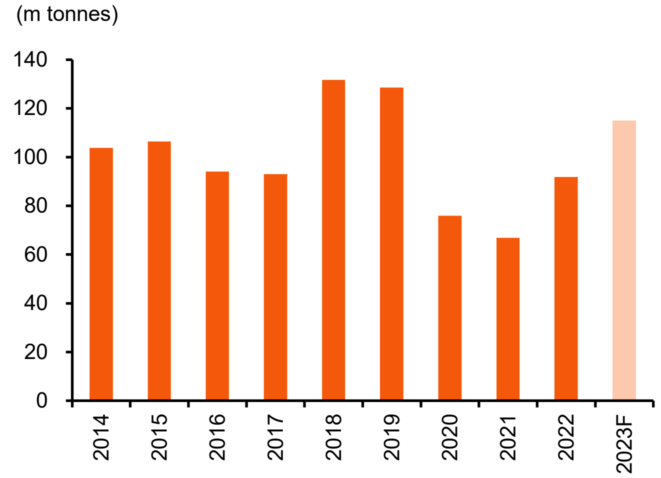
Other sugar companies trading on the SET such as Kaset Thai International Sugar (KTIS TB, not rated) and Buriram Sugar (BRR TB, not rated) may also benefit from the rising sugar prices and local output. However, these stocks are not covered by analysts and have small trading volumes. Therefore, they may not be accessible to most investors.

Ex 19: Raw #11 And White #5 Sugar Futures



Source: Bloomberg

Ex 20: Thailand Sugarcane Output



Sources: OCSB, TSMC; Thanachart estimates

Soybean name to watch: TVO

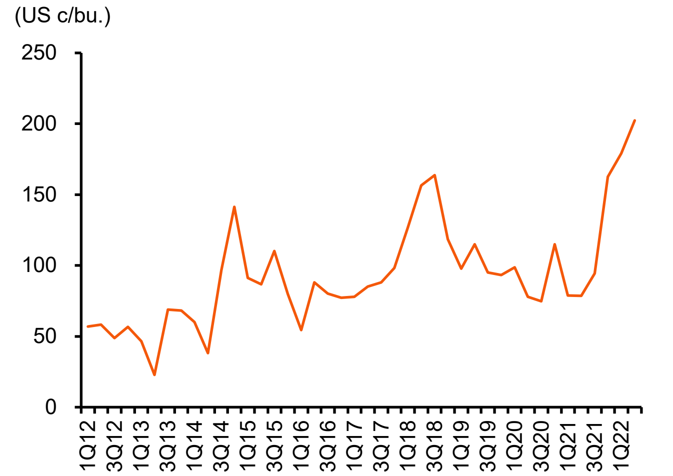
A name to watch on rising soybean oil prices and soybean crush margins is Thai Vegetable Oil Pcl (TVO TB, not rated), the most accessible name to investors in terms of trading volume and market capitalization. It is the leading soybean processor in Thailand and commands about a 60% market share.

- **Higher soybean oil prices push up the crush margin:** The tightness in the global vegetable oil market has driven up soybean oil price to new highs. Soybean oil is now trading at USD0.8/lb on the futures market, more than double its average in 2012-20 and up nearly 40% from the 2021 level. This, in turn, has pushed up the crush margin to a decade-high level of over USD2/bu even as the feed price remains relatively stagnant. We note that TVO may not be able to fully enjoy the rise in global soybean oil prices because of domestic price controls and also because the company wants to maintain its domestic retail presence and does not want to fully export its production. Still, it will likely enjoy the high soybean oil prices to some extent.

- **Feed demand could recover:** Feed demand in Thailand (which in turn impacts soybean meal demand) has been negatively impacted by the outbreak of African swine fever in 2021. With the disease under control, the country is in the process of rebuilding its hog herd. As such, we think the worst of the negative demand impact is already over and we expect demand for feed (and soybean meal) to recover in the coming months.

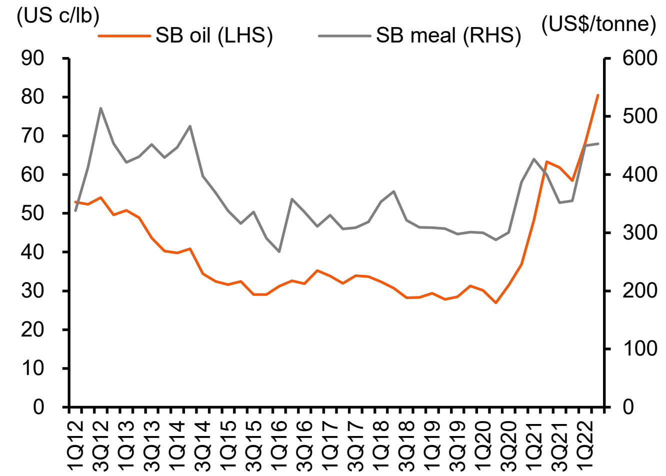
The Bloomberg consensus is looking for an earnings decline of 13% in 2022F and another 4% in 2023F. We note some upside risk given the strong crush margin environment and the potential recovery in soybean meal demand. In any event, TVO is a high-yielding stock with over a 6% dividend yield in both 2022-23F, based on the Bloomberg consensus.

Ex 21: Soybean Crush Margin Based On CME Futures



Source: Bloomberg

Ex 22: CME Soybean Oil And Soybean Meal Futures

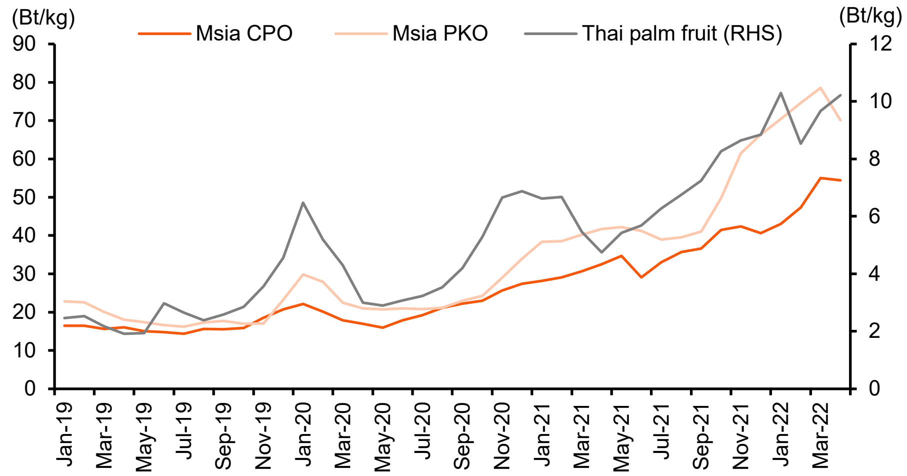


Source: Bloomberg

Palm oil name to watch: UVAN

A name to watch for palm oil exposure in Thailand is Univanich Palm Oil (UVAN TB, not rated). The company is a leading palm oil producer with 240 tph of crushing capacity in Thailand and 60 tph of capacity in the Philippines. It also owns plantations which supply roughly 6% of its input needs. Given the strong global prices, the company has been selling the majority of its palm oil overseas.

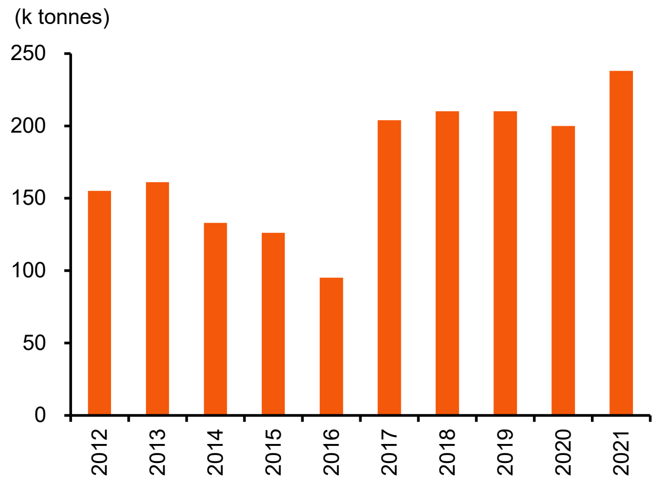
Ex 23: Crude Palm Oil (CPO) And Palm Kernel Oil (PKO) Vs. Cost Of Palm Fruit



Sources: Bloomberg, DIT, OAE

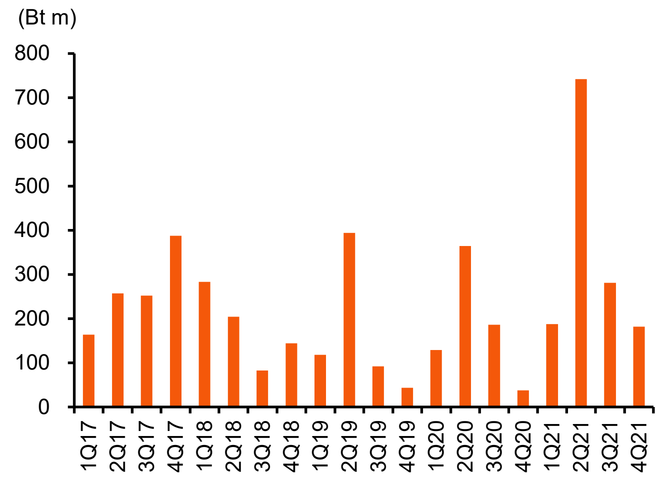
While there is no consensus earnings forecast, we believe investors should focus on the processing margin in 1Q22F as well as high palm fruit prices (which drives profit from its estate fruit production). We note that 2Q22F is typically the high season for palm oil production, though we note that margin per tonne may soften q-q as the palm fruit price has continued to increase while CPO and PKO prices have stayed flattish.

Ex 24: UVAN CPO And PKO Production



Source: Company data

Ex 25: UVAN Quarterly Gross Margin



Source: Company data

Other palm oil names to watch include Vichitbhan Palm Oil (VPO TB, not rated), Chumporn Palm Oil Industry (CPI TB, not rated), and United Palm Oil Industry (UPOIC TB, not rated). However, there is no analyst coverage for these names and, given their thin trading volumes and small market capitalizations, they may not be accessible to most investors.

Domestic farm income plays

There are several stocks that we believe will benefit from the broad-based increase in farm income this year. We have included 12 stocks in our selection, three of which we do not cover but which are likely to benefit from a similar trend.

Ex 26: Thanachart Stocks Likely To Benefit From Rising Farm Income & Names to Watch On The Theme

BBG	Rating	Current price (Bt)	Target price (Bt)	*Up/down side (%)*	Market cap (US$ m)	Norm EPS grw 22F (%)	Norm EPS grw 23F (%)	Norm PE 22F (x)	Norm PE 23F (x)	— P/BV — 22F (x)	— P/BV — 23F (x)	— Yield — 22F (%)	— Yield — 23F (%)
Thanachart													
SAK TB	BUY	8.15	12.00	*47.2*	494	36.1	35.5	20.7	15.3	3.2	2.8	1.9	2.6
MTC TB	HOLD	42.50	57.00	*34.1*	2,603	18.0	31.4	15.4	11.8	3.0	2.5	1.0	1.3
SAWAD TB	BUY	49.25	77.00	*56.3*	1,954	16.1	28.0	12.4	9.7	2.4	2.1	4.0	5.2
GLOBAL TB	BUY	21.60	30.00	*38.9*	2,872	15.9	21.4	26.7	22.0	4.7	4.1	1.5	1.8
MC TB	BUY	8.90	13.00	*46.1*	204	9.6	25.0	14.4	11.5	2.0	1.9	6.9	8.7
CBG TB	BUY	101.50	138.00	*36.0*	2,933	44.1	30.4	25.0	19.2	8.5	7.2	2.6	3.4
OSP TB	SELL	33.00	31.00	*(6.1)*	2,864	9.1	8.6	26.9	24.7	4.9	4.9	3.8	4.0
DCC TB	BUY	2.86	3.40	*18.9*	754	0.1	4.3	15.0	14.4	4.5	4.5	6.7	6.9
SAT TB	BUY	17.70	27.00	*52.5*	217	6.0	28.6	7.2	5.6	0.9	0.9	8.3	10.7
Names to watch													
AEONTS TB	NR	185.50		*21.3*	1,340	4.2	19.6	12.3	10.3	2.2	2.0	2.6	2.9
DOHOME TB	NR	19.30		*17.9*	1,621	8.0	18.0	27.1	22.9	4.3	3.6	0.5	0.6
SINGER TB	NR	48.50		*22.7*	1,145	1.2	42.4	34.2	24.0	2.5	2.4	1.5	2.1

Sources: Bloomberg, Thanachart estimates

Note: Based on 9 May 2022 closing prices; NR = not rated

Finance

We cover three finance companies (SAK, MTC, SAWAD) that are likely to benefit from growth in farm income. Another stock in this space that is worth watching from a similar trend is Aeon Thana Sinsap (AEONTS TB, not rated) given its broad-based exposure to low-income consumer finance. However, we do not cover the stock.

- **MTC** is the largest player, focusing on the low-end segment, 90% of c.3m customers in the agricultural sector. We expect higher loan demand to support growing agriculture farming. The higher farm income should also lead to growing motorcycle demand and more HP loans. We have a HOLD call but note that the share price has fallen by over 20% YTD.
- **SAWAD** is undergoing a business restructuring, having Srisawad Capital (SCAP) as its new growth engine. SCAP is a fast-growing motorcycle HP play so it is also a prime beneficiary of rising farm income. From Bt5bn in loans outstanding last year, SCAP is looking to grow new loans of Bt11.3bn while it expects profits to double 2021's level. We have a BUY call on SAWAD with a TP of Bt56.5.
- **SAK** is a small-cap regional microfinance play. It focuses on farmers and the agriculture-related sector. Over 50% of customers are farmers and only 10% of loans are for passenger cars. We expect higher loan demand to support growing agriculture farming. The higher farm income should also lead to growing motorcycle HP loans and agricultural drone sales. We have a BUY call on SAK with a TP of Bt12.

Retail & consumer

In the retail and consumer space, we see four stocks under our coverage that are likely to be direct plays on farm income. Dohome (DOHOME TB, not rated), a construction material retailer, is also a name to watch on the same trend. We also believe Singer (SINGER TB, not rated), an upcountry retailer focused on direct sales and financing of home appliances, is also a name to watch on the rising farm income trend.

- **GLOBAL:** GLOBAL is our top sector pick in the retail space. We see the company as providing the best growth outlook in the under-penetrated modern-trade home-improvement segment. It derives essentially 100% of its sales from stores upcountry and is therefore a prime beneficiary of rising farm income. We estimate 16% and 21% earnings growth in 2022-23F driven by sales growth, gross margin expansion from more private-label sales, and strong overseas profit contribution.
- **MC:** MC is a major apparel retailer upcountry with c.70% of revenue coming from outside of the Bangkok metropolitan area. We expect strong earnings growth in 2022-23F of 10% and 25%, respectively, driven by sales growth (on-line and new “MC Outlets” stores) and margin expansion (improved sales mix towards more non-denim products and via lower-cost sales channels)
- **CBG:** As an energy drink producer, CBG has high exposure to the low-income segment and we expect it to benefit from the rise in farm income. CBG has turned more aggressive in its marketing and promotional strategies to gain market share after its main competitor M-150 raised prices. CBG plans to launch three to four new products from 3Q22. We believe this is good timing amid the improving farm income trend.
- **OSP:** Domestic energy drinks account for around 50% of OSP’s sales and it should benefit from improving farm income as well. That said, we prefer CBG over OSP as OSP is now seeing its market share being captured by CBG after it raised its price to Bt12/bottle from Bt10.

Others

Other stocks which may benefit from rising farm income include DCC and SAT.

- **DCC:** DCC is one of Thailand’s largest ceramic tile producers and it has a strong presence upcountry with over 80% of its sales revenue coming from the provinces. We see growth potential coming from ASP adjustments, higher rent income for its rental space, and the opening of new building materials community malls. While we forecast limited earnings growth due to cost pressure from high natural gas prices, we have a BUY call on the stock. We view DCC as attractive on an inexpensive valuation (15x forward PE against its long-run average of 20x) and high dividend yield (over 6%).
- **SAT:** We expect SAT to be an indirect beneficiary of the rise in farm income. The company is a major parts supplier to Kubota which commands a 70-80% share of the Thai tractor market. In the export market, Kubota is enjoying the mega-trend of smart farming, and it uses Thailand as a production base for exports to neighboring countries, India and the US. Due to the high base effect, we expect revenue from agricultural parts to grow 5% this year before growing by 15% p.a. in 2023-24F. SAT plans to sell agricultural equipment module sets (a more value-added product vs. its current individual parts), which we leave as potential upside. We have a BUY call on the stock given what we see as an attractive valuation (7x 2022F PE) and high dividend yield at 8%.

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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.

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