Siam Senses

The coming squeeze

We turn more cautious on the market and cut our SET Index target to 1,650 from 1,900 on concerns over inflationary pressure, a global slowdown and equity market de-ratings. Sector-wise, we still like banks and tourism while we replace retail with energy in our top BUY list.

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Thanachart Securities

Turning cautious on the market

We are turning more cautious on the market and cut our SET target to 1,650 from 1,900. First, we are concerned about inflationary pressure and its impact on corporate profits and consumers' spending power. Persistently high prices coupled with lower government subsidies mean inflation could even accelerate in the coming months. Second, we believe global headwinds (tighter monetary conditions, slow GDP growth) will persist. This may indirectly hit Thailand's exports and slow down the tourism recovery. Lastly, the SET index valuation — while still below pre-COVID level — is not cheap enough, in our view especially when compared to the regional benchmark: the SET's PE premium to the MSCI Asia ex Japan is 1STD higher than its historical average.

Inflation rearing its head

We raise our headline CPI forecast to 6.5% and 4% in 2022-23, respectively, up from 4.6% and 2.4% previously. May's CPI already reached 7% even after just a minor adjustment to energy prices. With energy subsidies now averaging over Bt30bn a month, we do not think the government can keep fuel prices low for much longer. This will likely result in higher diesel and electricity prices, which will put further upward pressure on inflation and squeeze consumer spending. Figures from major retailers suggest inventories are building, and this is likely the first sign of a retail slowdown ahead.

Global headwinds to persist

We expect major global headwinds, including synchronized monetary policy tightening and slower GDP growth, to persist into 2023F. The market is now pricing in a Fed Funds terminal rate of 4.00-4.25% by March 2023 (up over 1pp from April) whereas the World Bank has recently cut its 2022-23 global GDP growth forecasts to 2.9% and 3.0% from 4.1% and 3.2%, respectively. As a result, we only maintain our Thailand GDP forecast at 3% this year and downgrade it to 4.0% in 2023F from 4.5% previously. We also expect at least one BOT rate hike in 2022F and at least three more in 2023F. Both the tighter monetary conditions and slower GDP growth are headwinds for the market.

Sticking to banks, tourism; adding energy

We make several changes to our top 10 picks. First, we remove COM7, HMPRO and GLOBAL as we expect inflation and waning pent-up demand to lead to a slowdown in sales growth. Second, we add energy and materials (**BANPU**, **ESSO** and **SCC**) on stronger earnings outlooks and attractive valuations. Third, we maintain our positive view on banks and tourism-related sectors; we keep **BBL**, **KBANK, AOT** and **BDMS** as top picks. We add **KTB** and replace MINT with **CENTEL** as our preferred hotel (more domestic exposure). Lastly, we keep **CBG** as the only consumer name (market share gains, export recovery) and remove STARK because of concerns over its leverage.

Top Picks

	-EPS growth- 22F (%)	23F (%)	— PE — 22F (x)	23F (x)	Yield 22F (%)
AOT	na	na	na	237.3	0.0
BANPU *	132.1	(17.3)	4.2	5.1	8.1
BBL	14.1	10.5	8.6	7.8	3.5
BDMS	16.0	15.3	42.5	36.8	1.3
CBG	44.1	30.0	25.7	19.8	2.6
CENTEL *	na	678.6	274.8	35.3	0.0
ESSO *	na	(9.9)	6.7	7.4	8.3
KBANK	13.9	12.0	8.3	7.4	2.4
KTB *	35.6	13.0	7.5	6.7	3.2
SCC *	(24.2)	35.0	12.1	8.9	4.1
Stocks taken out					
COM7	28.4	22.4	22.9	18.7	2.0
GLOBAL	11.8	20.8	25.1	20.8	1.6
HMPRO	21.1	20.5	26.9	22.4	3.0
MINT	na	na	na	34.6	0.0
STARK	22.0	17.2	18.4	15.7	2.7

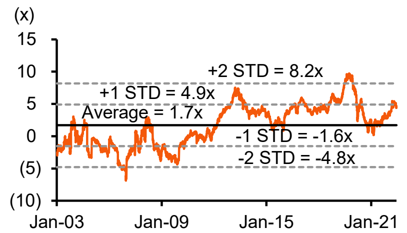
Source: Thanachart estimates
Note: *New addition.
Based on 15 June 2022 closing prices

Key Economic Forecasts

(%)	21A	22F	23F
Real GDP growth	**1.6**	**3.0**	**4.0**
Headline CPI	1.2	6.5	4.0
Bt/USD - average	32.0	34.3	34.1
Policy rate	0.50	0.75	1.50

Sources: BoT, NESDC, Thanachart estimates

SET PE Premium to MSCI Asia x Japan



Source: Bloomberg

Turning cautious on the market

We cut our SET year-end target to 1,650 from 1,900…

…on inflation concerns and global headwinds

We are turning more cautious on the market and cut our SET Index target to 1,650 from 1,900. First, we are concerned about inflationary pressure and its impact on corporate profits and consumers' spending power. Persistently high energy and food prices coupled with lower government subsidies mean inflation could remain high or even accelerate in the coming months. Second, we believe global headwinds will persist, both in terms of a global economic slowdown and synchronized monetary tightening. This may indirectly impact Thailand's exports and tourism. Lastly, the SET Index's valuation — while below pre-COVID level — is not cheap enough, in our view. This is especially true when compared to regional markets as the SET's PE multiple is already at a 4x premium to the MSCI Asia ex Japan's— 1STD higher than its historical average.

Key economic forecasts

We maintain our GDP forecast for 2022 at 3% as a stronger tourism recovery and higher-than-expected 1Q22 performance offset the potential slowdown in private consumption and investment in 2H22F. However, we trim our GDP expectation for 2023F to 4.0% from 4.5% previously on the back of potentially slower global growth and the impact of high inflation on the economy. We believe it will be increasingly difficult for the Thai economy to outgrow the global economy, which the IMF projects to expand by 3.6% in 2023F.

We keep our 2022F GDP growth forecast at 3% but lower 2023F's figure to 4%

For inflation, we raise our headline CPI forecasts to 6.5% this year and 4.0% next year, up from 4.6% and 2.4%, respectively. Note that our inflation forecasts are above those of the Bank of Thailand (BOT) (6.2% and 2.5% for 2022-23, respectively) as we believe energy and food prices will remain elevated while fuel and electricity price subsidies will likely be rolled back. We also expect higher energy and food prices to start creeping into core CPI, keeping overall inflationary pressure high even if global energy and food prices were to ease. The improved domestic consumption and tourism could also reduce slack in the economy and we would expect wage pressure (especially calls for minimum wage hikes) to grow.

Ex 1: Key Economic, Inflation And Monetary Policy Forecasts

(%)	2020	2021	2022F		2023F	
			New	Old	New	Old
	(%)	(%)	(%)	(%)	(%)	(%)
Real GDP growth	**(6.2)**	**1.6**	**3.0**	**3.0**	**4.0**	**4.5**
Private consumption	(1.0)	0.3	4.0	4.5	2.1	3.1
Private investment	(8.2)	3.2	3.7	4.8	3.0	5.0
Export (nominal USD growth)	(6.5)	18.8	18.9	6.3	3.3	2.9
Import (nominal USD growth)	(13.8)	24.8	24.8	9.5	5.5	4.1
Export of services	(61.7)	(18.4)	33.2	28.8	36.4	36.5
Headline CPI	(0.8)	1.2	6.5	4.6	4.0	2.4
Bt/USD - average	31.3	32.0	34.3	33.8	34.1	33.3
Policy rate	0.50	0.50	0.75	0.50	1.50	1.25

Sources: BoT, NESDC, Thanachart estimates

BOT to bring forward rate hike, THB to stay weak

Inflation is likely to stay high and BOT could bring forward a rate hike

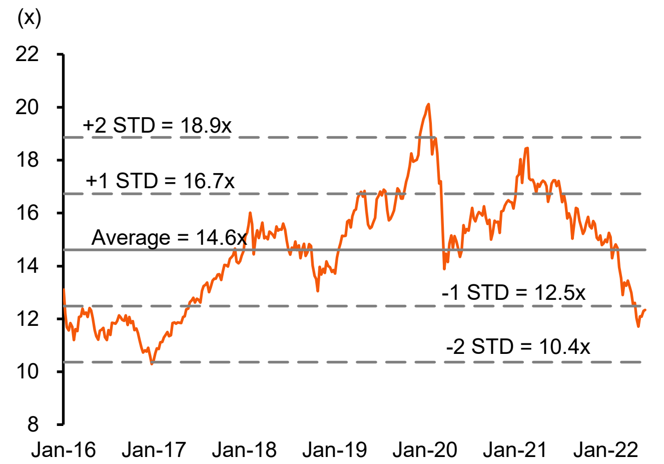
We believe the pressure will grow for the Bank of Thailand (BOT) to raise its policy rate sooner rather than later. As such, we now expect at least one rate hike this year vs. none previously. For next year, we expect at least three more rate hikes, pushing the year-end 2023F policy rate to at least 1.5% vs. 1.25% in our previous forecast.

Lastly, because of the policy rate differentials and high energy import bills, we expect the THB to remain weak. We now assume a USD/THB average exchange rate of 34.3 this year (vs. 33.8 previously) before recovering to 34.1 next year (vs. our previous 33.3 forecast) as the current account balance improves along with higher tourism income and lower energy import bills.

A more subdued SET Index target

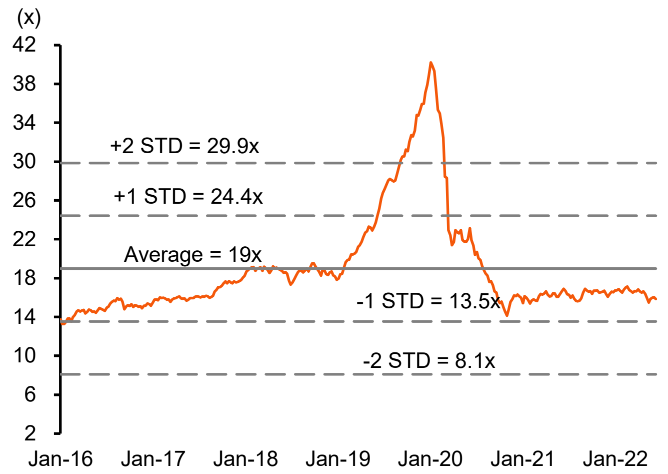
We lower our SET Index target to 1,650 from 1,900. This is driven first and foremost by global factors, particularly tighter monetary conditions and higher long-term bond yields that have caused stocks to de-rate globally. We believe it will now be difficult for the Thai market to re-rate to its pre-COVID multiple of around 18x from the current level of around 15x. Earnings-wise, we still see limited downside risks to the SET's earnings as a whole, though there are likely to be more downside risks for certain sectors (such as retail) and upside risks for others (such as energy).

Ex 2: MSCI Asia ex Japan PE



Sources: Bloomberg; Thanachart estimates

Ex 3: SET Index PE



Sources: Bloomberg; Thanachart estimates

Inflation rearing its head

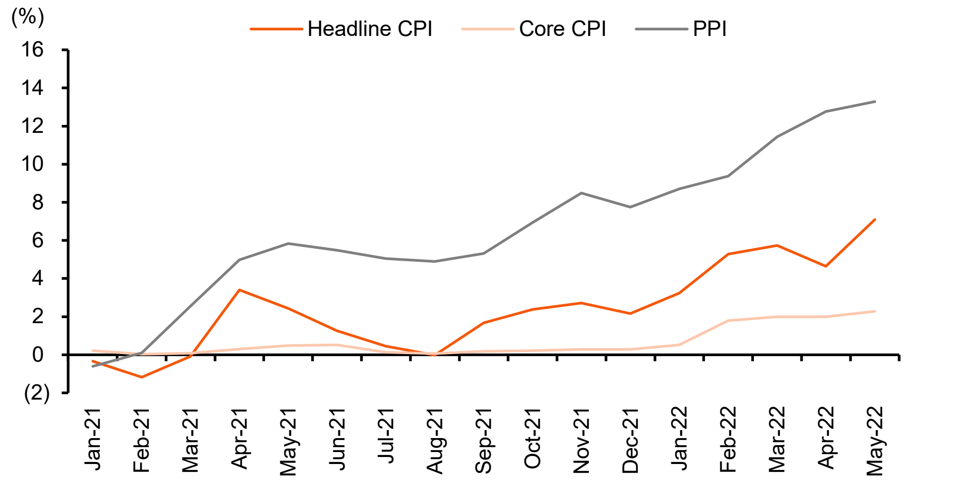
Thailand's inflation has been on an upward trend since the beginning of this year and recently topped 7% y-y in May, accelerating from less than 5% in April. This was driven mainly by energy cost increases and we believe inflation will continue to pick up from this level as the government slowly trims its subsidies.

PPI has been elevated for months, CPI to follow

We expect headline CPI of 6.5% and 4% in 2022-23F (4.6% and 2.4% previously)

This is because the producer price index (PPI) has been climbing steadily since early 2021. As input costs continue to rise and despite the government's best efforts to rein in price increases (via price caps, subsidies), PPI has continued to increase and has remained above 10% for the past three months. Given that energy prices are still high while government subsidies will be reduced in the coming months, we expect PPI to remain in double-digit territory for several months to come. We believe the longer this goes on, the more likely it will be that producers will eventually have to pass on cost increases to end-consumers.

Ex 4: Thailand Is Beginning To Struggle With High And Rising Inflation

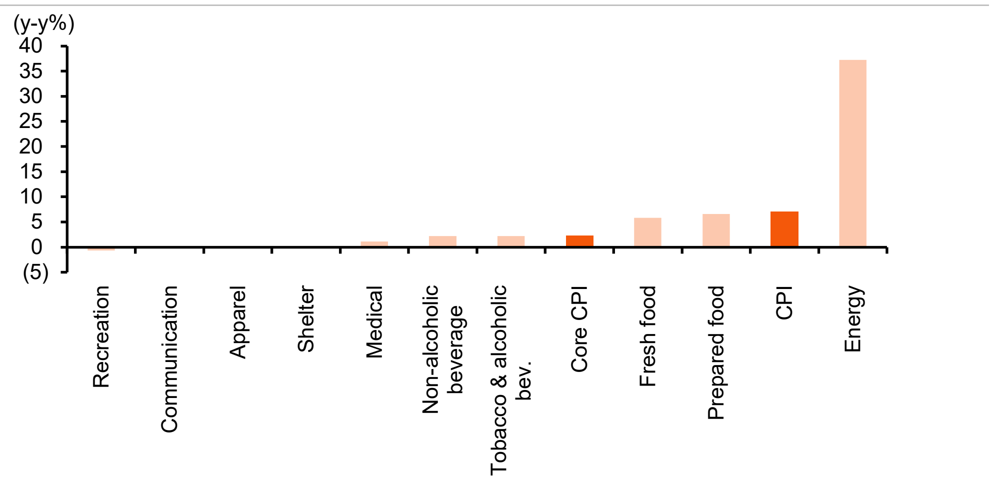


Source: Bloomberg

For now, core CPI remains anchored at about the 2% mark as energy and food cost increases have yet to make their way into other areas. However, as the Thai economy continues to improve and tourist arrivals accelerate, we expect a tightening labor market and lower slack in the economy to eventually nudge up core CPI as well. Therefore, we believe the three measures of inflation will remain high and likely push higher for the foreseeable future.

Inflation still confined to food and energy but could soon spill over to core CPI

Ex 5: Thailand Inflation By Category



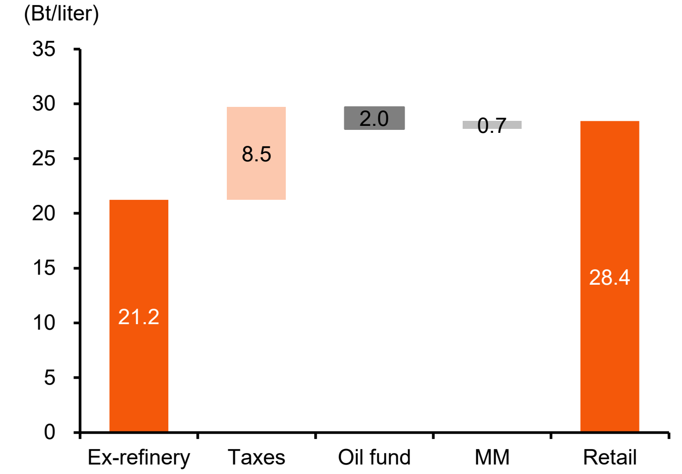
Source: MOC

Fuel subsidy cutbacks to accelerate inflation

Energy price subsidies at Bt35bn a month, which is unsustainable, in our view

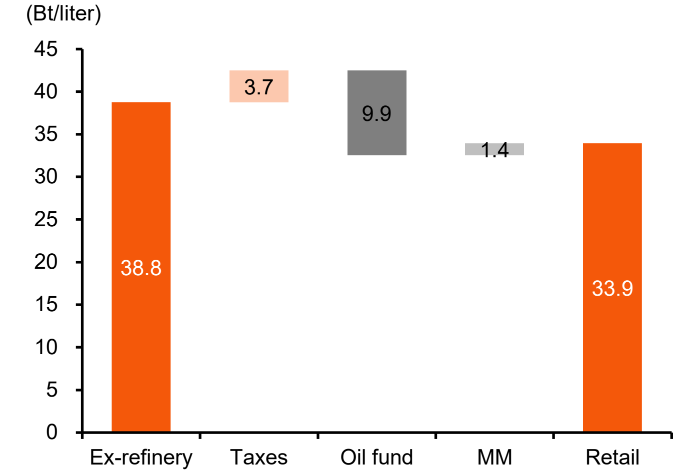
The Thai government has been trying to manage inflation in the economy by capping the diesel price and providing subsidies for LPG and electricity. However, we believe this is an untenable position as these subsidy burdens have continued to increase and are now topping Bt35bn a month — Bt20bn for diesel, Bt2bn for LPG and Bt13bn for electricity. If we add lost government revenue in the form of lower excise taxes, then the actual subsidy burden is likely to be nearer to Bt45bn a month.

Ex 6: Diesel Price Structure On 4 January 2022



Sources: EPPO; Thanachart estimates
Note: MM denotes marketing margin

Ex 7: Diesel Price Structure On 10 June 2022



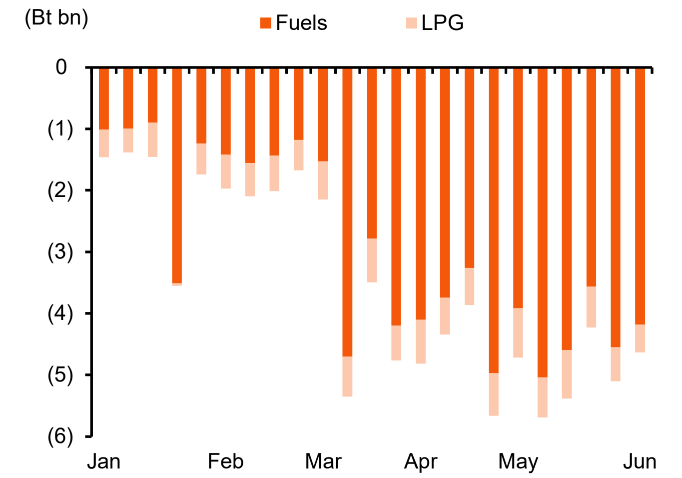
Sources: EPPO; Thanachart estimates
Note: MM denotes marketing margin

For fuel, the Oil Fund has been subsidizing diesel prices for several months now. At the beginning of the year, the ex-refinery price for diesel was Bt21.2/liter whereas the retail pump price was Bt28.4/liter. Now, the ex-refinery price has increased to almost Bt39/liter but the pump price has risen to only Bt34. This was achieved by lower excise taxes and an increased Oil Fund subsidy. Without such government intervention, the diesel pump price is likely to rise to Bt45/liter or more.

Government is running out of funds to keep its subsidy going at the current pace

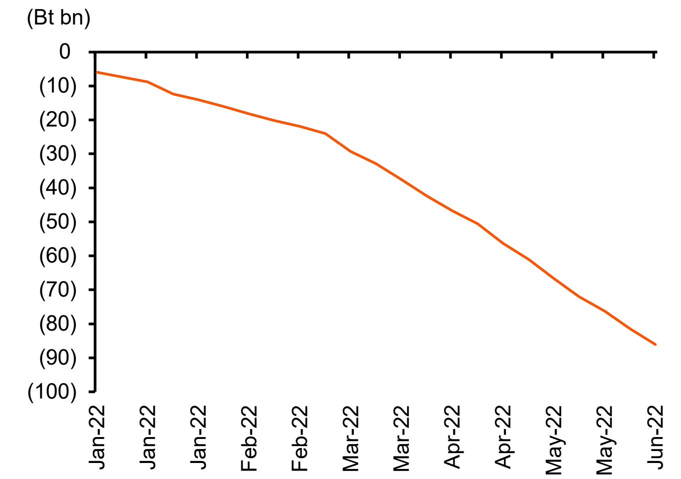
As the global diesel price continues to rise, the subsidy is increasing by the week despite the pump price hikes. At the beginning of the year, the Oil Fund subsidy amounted to about Bt1.5bn per *week*. This jumped to about Bt5bn per week in March as global oil prices shot up. Even as the government has allowed the diesel price to increase from a Bt30/liter cap to a Bt35/liter cap now, the subsidy burden remains unchanged. As such, in just over five months, the Oil Fund's net loss has ballooned to almost Bt90bn from less than Bt5bn at the beginning of the year. We believe it will be difficult for the Oil Fund to maintain its subsidy as private funding has dried up (no financial institutions are willing to lend to a subsidy vehicle). The only funding now comes from the government, and we do not believe the government can afford to maintain this pace of subsidy indefinitely.

Ex 8: Oil Fund Weekly Cash Subsidies



Sources: OFFO; Thanachart estimates

Ex 9: Oil Fund Net Funding Position

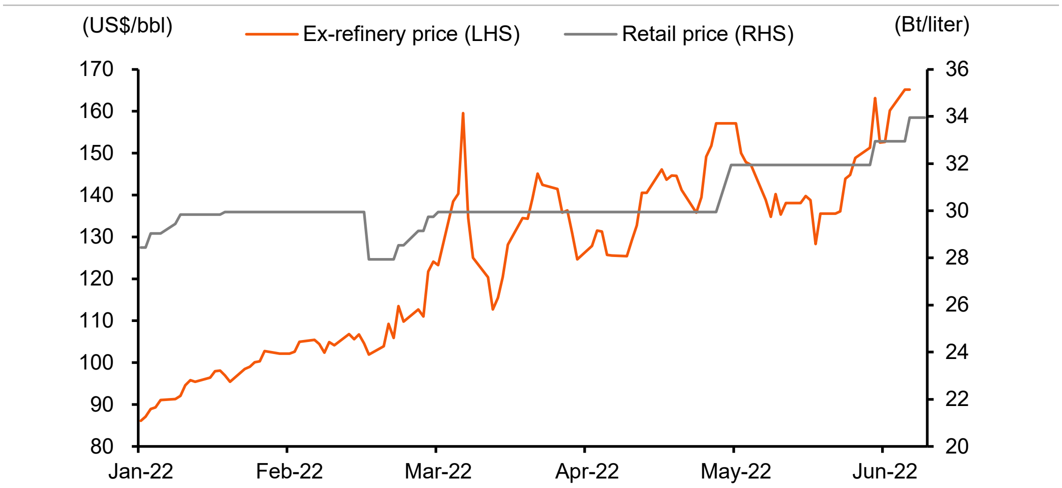


Source: OFFO

Diesel pump price would have reached Bt45/liter (vs Bt35 now) were it not for the state subsidy

The government has already rolled back some of its subsidies starting in April with a higher LPG price and the withdrawal of the subsidy for premium grades of diesel. It is now considering plans to further allow regular diesel price to float upwards. The Bt35/liter cap looks set to be maintained through the end of June, after which the price cap is likely to be lifted to Bt37/liter. Even so, unless global diesel prices start to come down, the subsidy burden on the Oil Fund will still be significant as the extra Bt2/liter would barely cover the ex-refinery price increase. We estimate that at the prevailing ex-refinery diesel price and assuming a Bt2/liter retail price hike, the Oil Fund's subsidy burden will still amount to almost Bt21bn per month compared to about Bt22bn in May. What this means is that pump prices may need to be lifted much higher barring a sharp decline in global oil prices: Just to bring back the Oil Fund's subsidy burden to zero (let alone repaying its soon-to-be Bt100bn debt), the diesel pump price would need to be hiked by about Bt10/liter to Bt45/liter — 30% higher than the current level.

Ex 10: Thailand's Diesel Price Increase Has Lagged The Ex-Refinery (Regional) Price



Sources: Bloomberg, EPPO

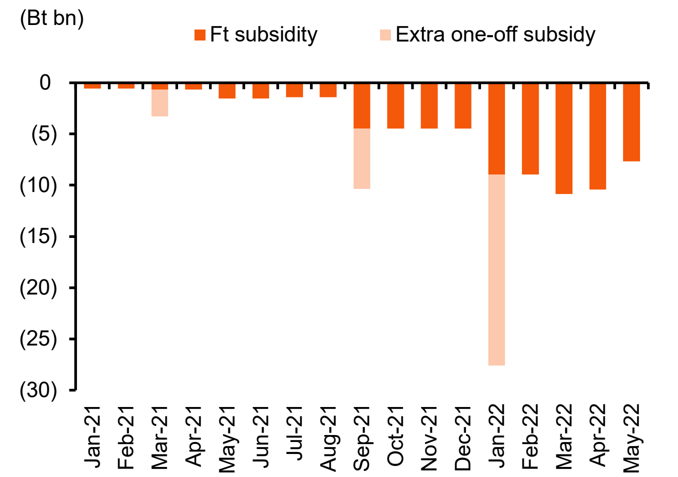
Electricity price likely to increase

Electricity tariff is likely to rise on lower subsidy and rising gas costs

Besides potential diesel price increases, we also expect the electricity price to be gradually lifted in the coming months. Like diesel and LPG, the government has been subsidizing electricity tariffs for over a year, and again this subsidy has ballooned to an unprecedented level. In the first five months of this year, the cumulative electricity subsidy has amounted to over Bt65bn. This is more than all the subsidies paid in the preceding three years combined.

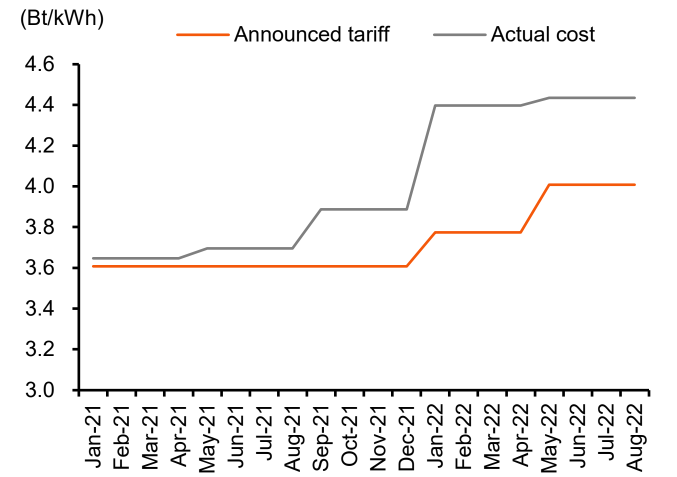
What's more, the current subsidy is being drawn out of EGAT (the state-owned electricity company). There is no mechanism to provide funding to EGAT for this subsidy burden. As such, the longer this subsidy goes on, the more likely it is that Thailand's distribution and generation system could be put at risk due to a lack of necessary investment and maintenance. The ongoing discussion is for the government to provide emergency loans to EGAT but we think this is only a temporary solution. We do not think this position is tenable, and the electricity tariff will likely need to be adjusted upwards in the coming months.

Ex 11: Electricity Tariff Subsidy Totaled Bt65bn In 5M22



Sources: EGAT, Thanachart estimates

Ex 12: Electricity Tariff Vs. Actual Unit Cost



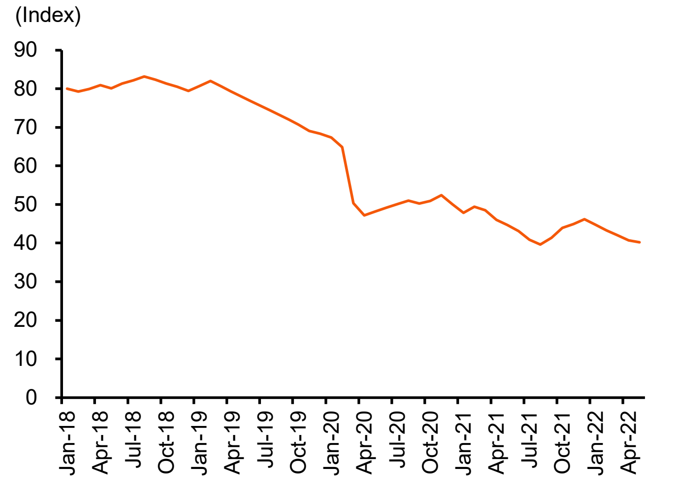
Sources: EGAT; Thanachart estimates

Cracks starting to emerge in retail space

Low consumer confidence and high household debt is not a good combination

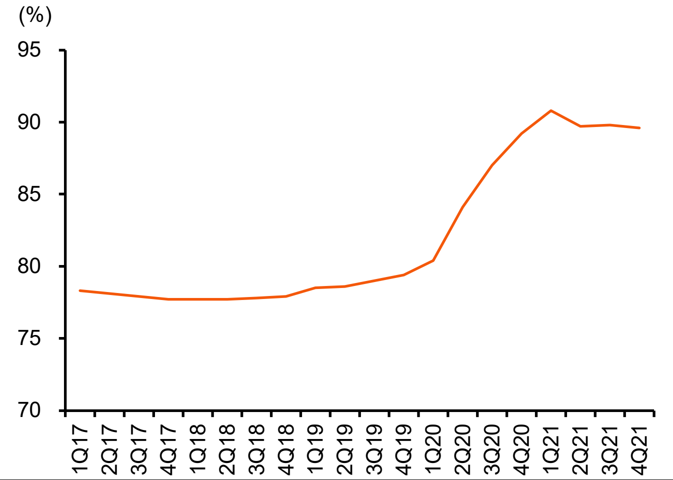
Given that we expect the fuel and electricity subsidies to be gradually lifted, we believe the rising costs of energy will begin to impact consumers' pockets and pressure corporate profits from 3Q22F onwards. Consumer confidence, which picked up in 4Q21 as the country began its reopening, is now again on a downward path. We believe the cost-of-living pressure may keep consumer confidence low for the next few quarters. Another factor that makes us turn cautious on retail is the high household debt-to-GDP level. This ratio has ballooned to about 90%, jumping from less than 80% pre-COVID. As the cost-of-living pressure mounts, we think households will have limited scope to service additional borrowing.

Ex 13: Consumer Confidence



Source: Bloomberg

Ex 14: Thailand's Household Debt To GDP



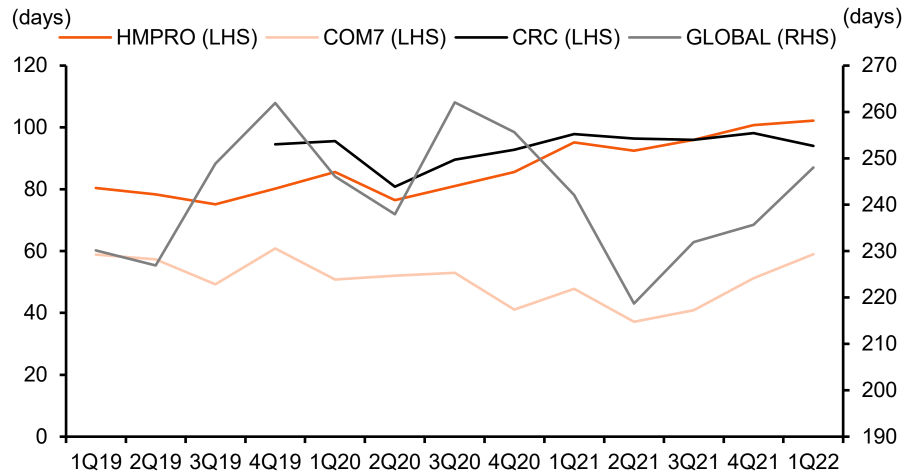
Source: BOT

The downward trend in consumer confidence is likely to show up in retailers' numbers down the line. Indeed, for certain discretionary spending, we have already seen a slowdown in terms of the y-y same-store sales (SSS) growth rate. For instance, some home-improvement stores already saw negative SSS growth in May. Electronics retailers, as a whole, have also begun to see demand decline. One early sign of a potential problem ahead is the rising inventory days among retailers in the past few quarters. For example, HMPRO's inventory days have risen to over 100 days — the highest level since 1Q07. Names that had done relatively well in the past two years, including COM7 and GLOBAL, are also seeing inventory days increasing to their pre-pandemic levels. This suggests that booming demand seen in the preceding year may be waning and that sales growth could slow down going forward. It could also signal a potential margin squeeze as retailers may either have to lower prices to reduce inventories or suffer from rising costs without being able to pass them on fully to end consumers.

Where spending might remain strong for some time is in the service sector, such as restaurants. Still, we are concerned that after the pent-up demand wanes, growth will slow down in that space as well.

Retailers inventories have started to creep up — a sign of a slowdown

Ex 15: Retailers' Inventory Days Have Been Climbing



Sources: Company data, Thanachart

Global headwinds to persist

We expect major global headwinds, including synchronized monetary policy tightening and slower GDP growth, to persist into 2H22F. The tighter monetary conditions could create headwinds for stock valuations while slower global growth could negatively impact Thailand's export receipts and slow down the country's tourism recovery.

Tightening monetary conditions

Market now expects March 2023 Fed Funds terminal rate of 4.00-4.25%...

…up over 1pp from April

Major central banks are embarking on an unprecedented and concerted monetary policy tightening in order to tackle rising inflation. In the US, the consumer price index hit an 8.6% y-y pace in May — a fresh 40-year high. This will likely push the Fed to continue its series of aggressive rate hikes. In fact, (at the time of writing prior to the 15 June meeting) the market is now pricing in a 75bp hike at the FOMC's June meeting. What's more, the terminal Fed Funds rate is now expected to reach 4.00-4.25% by March 2023 compared to 2.75%-3.00% that the market was expecting just two months ago (see our note *Siam Senses – Of hawks and doves,* dated 7 April 2022, for details). In addition to rate hikes, the Fed is beginning to reduce its balance sheet starting in June, and the pace will continue to accelerate to a $95bn run-off per month. Taking all these policy moves together, we believe the next three months will see some of the most severe monetary tightening cycle in recent times.

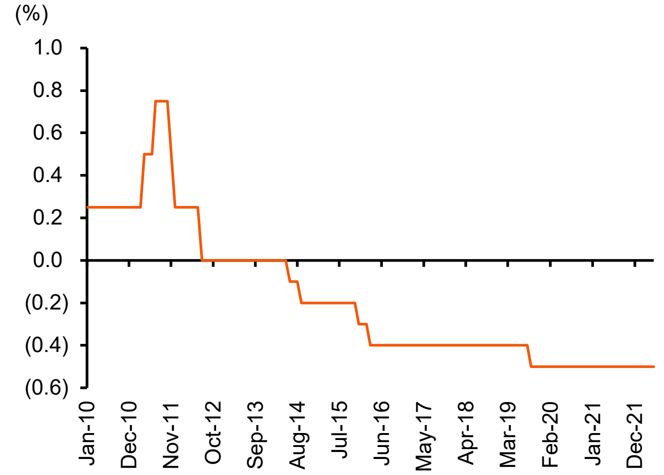
Ex 16: CME Fed Watch Probability

Meeting date	Target Fed Funds rate (bp)											
	125-150	150-175	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450
15-Jun-22	3.30%	96.70%	0.00%									
27-Jul-22	0.00%	0.00%	3.20%	92.90%	3.90%	0.00%	0.00%	0.00%				
21-Sep-22	0.00%	0.00%	0.00%	0.00%	2.20%	64.20%	32.40%	1.20%	0.00%	0.00%	0.00%	0.00%
02-Nov-22	0.00%	0.00%	0.00%	0.00%	0.00%	0.40%	15.00%	57.60%	25.90%	1.00%	0.00%	0.00%
14-Dec-22	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.30%	10.80%	45.40%	35.00%	8.20%	0.30%
01-Feb-23	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%	3.00%	19.80%	42.70%	28.10%	6.10%
15-Mar-23	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.50%	11.30%	31.00%	35.50%	17.30%

Source: CME

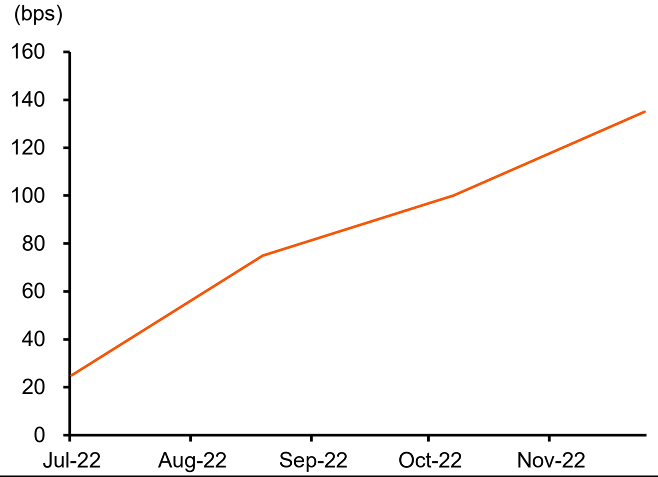
The European Central Bank (ECB) will now join the Fed in tightening its monetary policy. The bank has significantly raised its inflation projection for this year and next year to 6.8% and 3.5%, respectively, from 5.1% and 2.1% previously. To tackle the issue, the ECB is ending its asset purchase program starting 1 July and will begin hiking its policy rate at its July meeting. This will mark the first policy reversal in 11 years. Indeed, the governing council has signaled it is open to bigger policy moves at the September meeting after having communicated a 25bp hike for the July meeting.

Ex 17: ECB's Deposit Facility Rate



Source: Bloomberg

Ex 18: Money Market Expectations For ECB Rate Hike



Source: Reuters

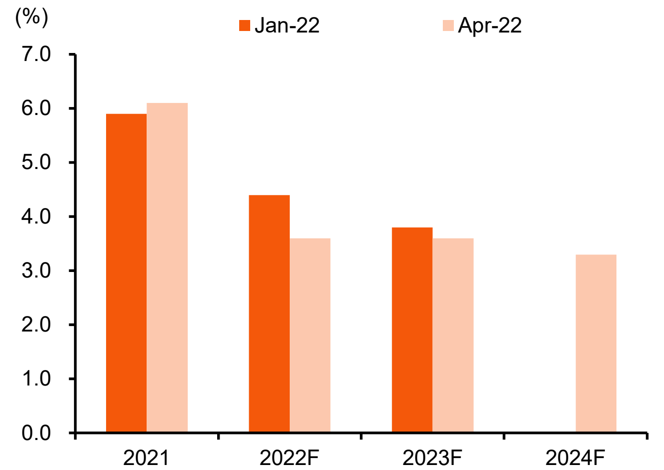
Global growth slowdown

Another major global macro headwind for the Thai market is the slowdown in the global economic growth rate. Recently, major forecasters have revised down their global and/or regional economic growth expectations. This stems mainly from high and rising inflation, the withdrawal of government stimuli, the consequences of the war in Ukraine, as well as impacts of policy moves on consumption and investment.

IMF and World Bank have cut their global GDP growth forecasts for 2022-23

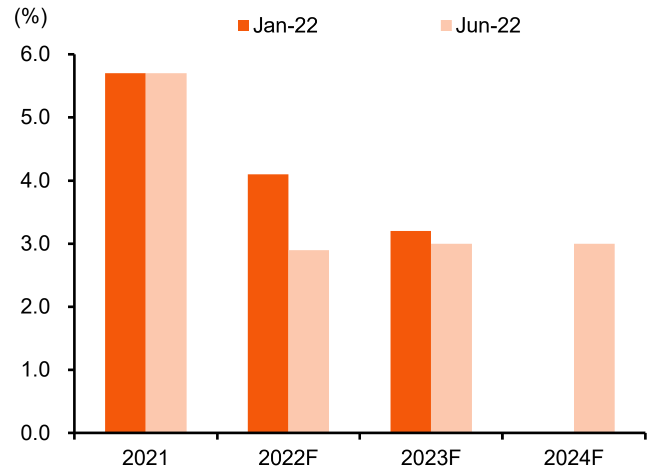
In its most recent World Economic Outlook (WEO), the IMF cut its 2022 global GDP growth forecast to 3.6% from 4.4% previously. It also lowered its 2023 growth projection to 3.6%, down from 3.8% previously. For 2024 and beyond, the IMF expects a further slowdown to 3.3% p.a. These growth figures represent marked slowdowns from the 6.1% growth that the global economy registered in 2021. The World Bank has made an equally dire pronouncement. In its June update of Global Economic Prospects, the World Bank lowered its 2022 global GDP growth forecast to 2.9% from 4.1% previously. For 2023, it cut the growth rate to 3% from 3.2% previously.

Ex 19: IMF Has Downgraded Global GDP Growth Forecasts



Sources: Company data; Thanachart estimates

Ex 20: World Bank Also Cut Its Global GDP Outlook



Sources: Company data; Thanachart estimates

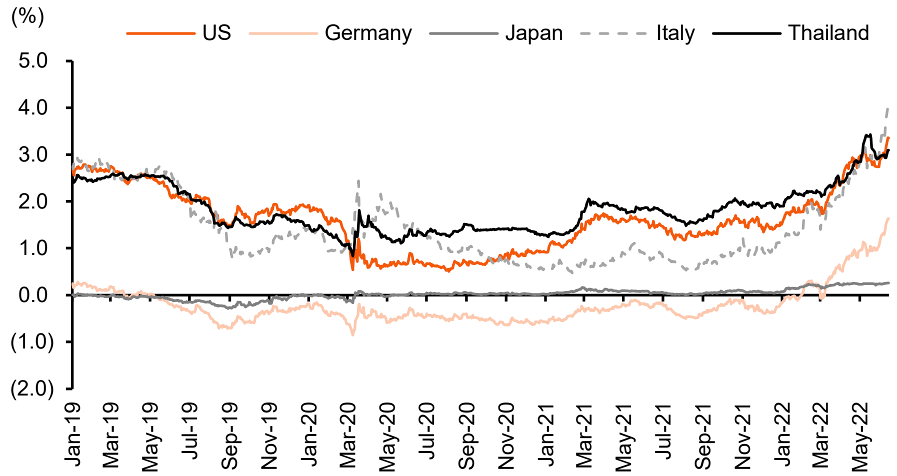
We believe the lower global GDP growth rates could negatively impact Thailand's recovery in 2H22F. This could be felt most keenly in terms of slower export growth. On the other hand, we expect tourism revenue growth to remain strong given the very low base and the global shift in consumer spending towards leisure and travel.

Rising long-term yields, global stock de-ratings

Long-term bond yields have been rising relentlessly YTD — more likely to come

We think rising bond yields globally have been the biggest contributor to global stock de-ratings as they have made fixed-income investments more attractive vs. equities in relative terms. With room for long-term yields to normalize further, we believe global stock valuations will remain under pressure. We discussed the long-term bond yield dynamics in our previous report *Siam Senses – All about the curve,* dated 12 January 2022. Looking forward, if long-term bond yields continue to rise, especially in peripheral European countries (Italy, Spain), we may run into another sovereign debt problem as some of these countries had very high government debt-to-GDP levels even before the pandemic struck.

Ex 21: Selected 10Y Government Bond Yields

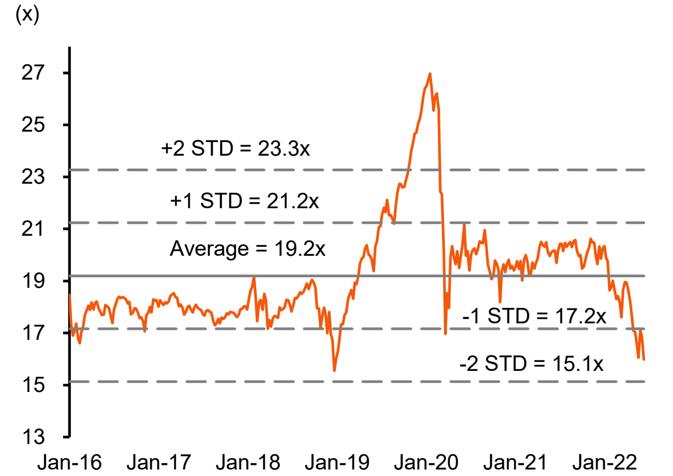


Sources: Company data, Thanachart estimates

Global stock de-ratings a major headwind for SET Index's performance

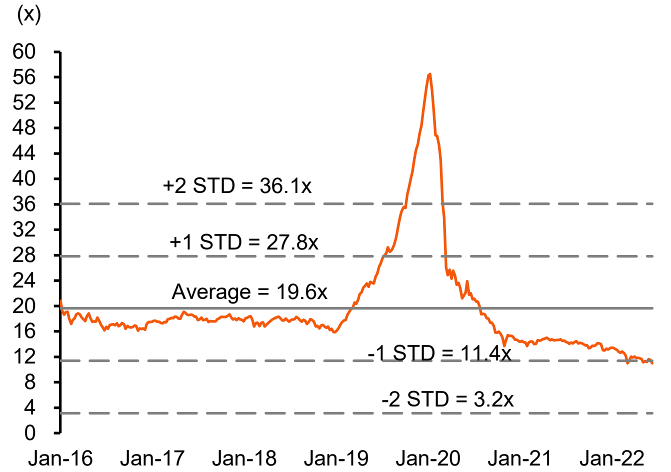
Global equity valuations have fallen sharply as major indices in the US and Europe have seen significant de-ratings. For the MSCI Asia ex Japan Index, its PE multiple has fallen to about 11-12x or more than 1STD below its average since January 2016. More importantly, much of that de-rating has happened in just the past six months. On the other hand, the SET Index has managed to hold up relatively well, trading sideways at about 15-16x PE over the same period. In other words, the SET Index has already significantly outperformed its regional benchmark. Our concern is that global stocks may continue to de-rate further as the liquidity regimes and growth outlook worsen. As such, we think it will be difficult for the SET to re-rate to its pre-pandemic multiple in this environment.

Ex 22: S&P500 PE



Sources: Bloomberg

Ex 23: Eurostoxx PE



Sources: Bloomberg

Sticking to banks, tourism; adding energy

We like banks, tourism and energy; we are turning more cautious on retail

We are making several changes to our top 10 picks. First, we remove all retail stocks related to discretionary spending. Second, we replace retail with energy as we see energy as having a strong earnings outlook while its valuation still lags. Third, we maintain our positive view on banks and tourism-related sectors with a few individual changes at the stock level. Lastly, we keep CBG as the only consumer name and remove STARK.

Ex 24: Thanachart's Top Picks

Ticker	Rating	Current price	Target price	Upside	Market cap	Norm EPS growth		— Norm PE —		—— P/BV ——		— Yield —	
						2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
		(Bt/shr)	(Bt/shr)	(%)	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
AOT TB	BUY	68.25	83.00	21.6	27,836	na	na	na	237.3	9.9	9.6	0.0	0.3
BANPU TB *	BUY	13.30	17.00	27.8	2,569	132.1	(17.3)	4.2	5.1	1.1	1.0	8.1	6.9
BBL TB	BUY	136.50	165.00	20.9	7,439	14.1	10.5	8.6	7.8	0.5	0.5	3.5	3.8
BDMS TB	BUY	24.60	29.00	17.9	11,161	16.0	15.3	42.5	36.8	4.5	4.2	1.3	1.5
CBG TB	BUY	104.50	138.00	32.1	2,983	44.1	30.0	25.7	19.8	8.7	7.4	2.6	3.3
CENTEL TB *	BUY	41.75	48.00	15.0	1,609	na	678.6	274.8	35.3	3.1	2.8	0.0	0.0
ESSO TB *	BUY	12.10	16.00	32.2	1,196	na	(9.9)	6.7	7.4	1.4	1.3	8.3	4.1
KBANK TB	BUY	150.00	190.00	26.7	10,146	13.9	12.0	8.3	7.4	0.7	0.6	2.4	2.7
KTB TB *	BUY	15.80	18.00	13.9	6,304	35.6	13.0	7.5	6.7	0.6	0.5	3.2	3.6
SCC TB *	BUY	358.00	440.00	22.9	12,265	(24.2)	35.0	12.1	8.9	1.1	1.1	4.1	5.6
Stocks taken out													
COM7 TB	BUY	32.00	51.00	59.4	1,096	28.4	22.4	22.9	18.7	10.1	8.3	2.0	4.4
GLOBAL TB	BUY	19.60	30.00	53.1	2,575	11.8	20.8	25.1	20.8	4.2	3.8	1.6	1.9
HMPRO TB	BUY	13.50	19.00	40.7	5,069	21.1	20.5	26.9	22.4	7.4	6.8	3.0	3.6
MINT TB	BUY	33.50	39.00	16.4	4,991	na	na	na	34.6	2.3	2.4	0.0	0.6
STARK TB	BUY	4.52	6.50	43.8	1,536	22.0	17.2	18.4	15.7	7.6	6.0	2.7	3.2

Sources: Company data, Thanachart estimates
Note: * New additions based on 15 June 2022 closing prices

Taking out retail stocks and STARK, keeping CBG

The biggest change to our top BUY list is the removal of all retail stocks related to discretionary spending: GLOBAL, HMPRO and COM7. We are concerned that as inflation gathers steam and its impact on margins and consumers' pockets become more apparent, these stocks may underperform the broader market. We are also concerned about valuations given these stocks' relatively high multiples. As growth slows down, a further de-rating may be forthcoming. Investors looking to maintain retail exposure might want to focus on CPALL (CPALL TB, Bt61.50, BUY) and CPN (CPN TB, Bt60.25, BUY) instead. CPALL is likely to be more resilient given its focus on consumer staples. CPN, on the other hand, could benefit from the tourism-related recovery. However, we leave these stocks out of our top BUY list as we do not think the potential upside is sufficient.

The one consumer name we keep on our top buy list is **CBG**. We believe the stock has already seen enough of a pullback. More importantly, we think the market is still underestimating CBG's potential market share gains and export recovery. Growth in the distribution business will also likely add to earnings growth.

We also take out STARK from our top picks list. Our concern is mainly about leverage as its recently announced acquisition could add to an already highly-leveraged balance sheet. We are also concerned with the ballooning working capital requirement as both receivable days and inventory days have increased considerably over the past year. This is due to a changing business mix where the company increasingly sells to state-owned entities which require longer credit terms. This has kept cash from operation negative and further added to net debt.

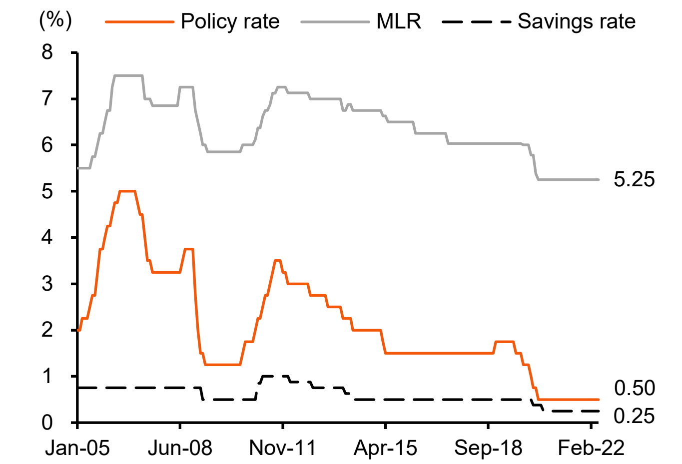
Maintain our positive view on banks and tourism-related sectors

BBL, KBANK and KTB could benefit from an early BOT rate hike…

… while valuations still look attractive to us

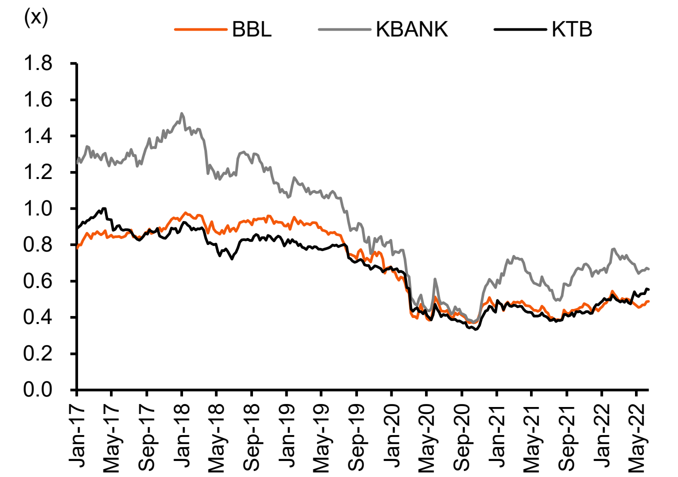
We remain positive on big banks as we expect them to benefit from a potential early rate hike by the Bank of Thailand (BOT) and loan growth, especially from the corporate segment. A rate upcycle is generally positive for big banks' profit as lending rates typically follow policy rates while cost of funds (i.e., deposit rates) lag. An early (or more aggressive) BOT rate hike could be a catalyst for the sector. As such, we keep **BBL** and **KBANK** on our top BUY list and introduce **KTB** into the mix.

Ex 25: Rising Policy Rate Could Boost Banks' Margin



Sources: BoT, Company data; Thanachart

Ex 26: Banks' P/BV

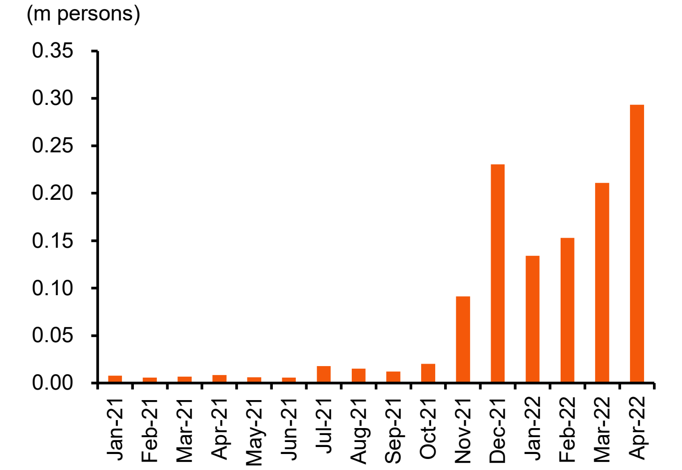


Sources: Bloomberg; Thanachart estimates

CENTEL now our preferred hotel; we also like BDMS, AOT for tourism exposure

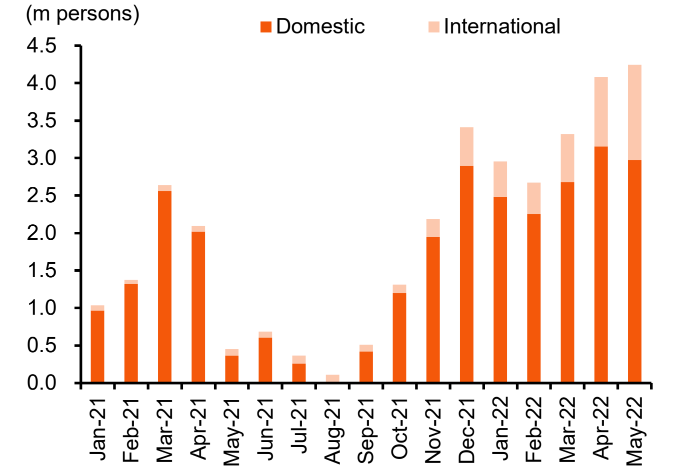
We also maintain our positive view on tourism-related sectors, notably healthcare, hotel and transport. While we keep **BDMS** and **AOT** in our top BUY list, we replace MINT with **CENTEL** as our preferred hotel exposure. CENTEL has higher domestic exposure and is likely to continue enjoying the Thai tourism recovery for the rest of this year. Given its large restaurant exposure, it may also enjoy the changing consumer trend where spending is shifting towards services (i.e., eat-outs) from goods purchases. MINT, on the other hand, has already benefited from a strong tourism recovery at its overseas hotels, particularly those in Europe. As such, we see smaller scope for further gains.

Ex 27: Tourist Arrivals



Source: MOTS

Ex 28: AOT's Passengers



Sources: AOT; Thanachart estimates

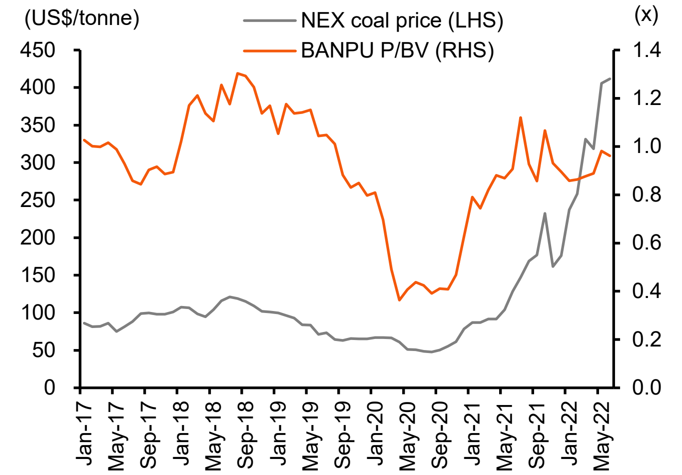
Adding energy and materials

Better late than never — BANPU, ESSO and SCC join our top 10 list

We are adding energy exposure to our top picks as we foresee strong earnings growth while valuations for the sector remain attractive. We maintain our view (see our report *Siam Senses – Feeling the heat*, dated 7 March 2022) that energy prices are likely to stay elevated as the ongoing disruptions to global energy supplies look set to persist regardless of whether or when the conflict in Ukraine ends. This is due to the decoupling of Russian energy supplies from the West, years of under-investment in both the upstream and downstream space, and a demand recovery post-COVID.

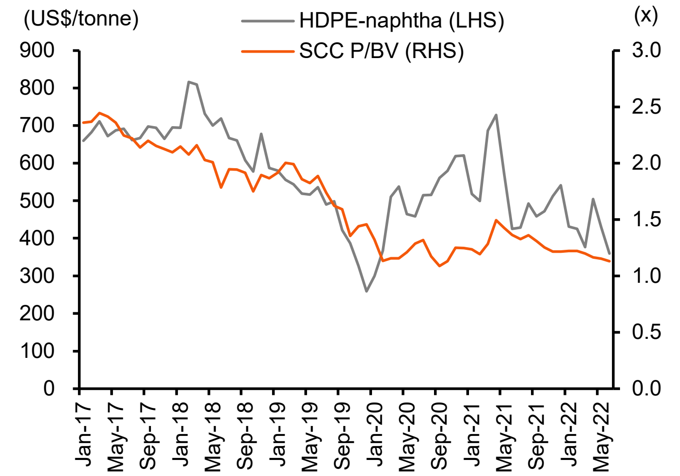
Firstly, we add our perennial favorite **BANPU** to our top picks list. High coal and gas prices plus seasonal volume upticks should help drive sequential earnings growth for the rest of this year. We also expect a potential contract revision in Australia to be a stock catalyst. This could provide material upside risk to our forecasts in addition to higher coal and gas prices.

Ex 29: Coal Price Vs. BANPU's P/BV



Sources: Bloomberg; Thanachart

Ex 30: HDPE Spread Vs. SCC's P/BV



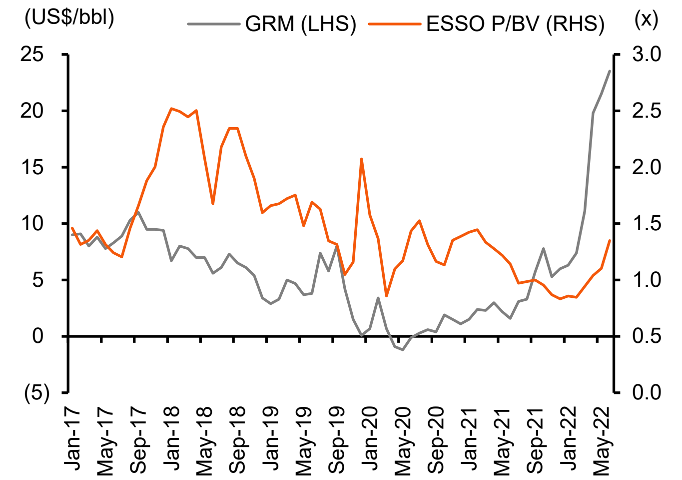
Sources: Bloomberg; Thanachart

Next up is **ESSO**. We recognize that we are not the first to call a turnaround this time but believe there is sufficient upside potential for the stock to warrant a spot on our list. The math is simple: Singapore GRM at $20/bbl while the stock is still trading at 1.4x P/BV. In the last up-cycle in late 2017/early 2018, GRM peaked at just about $10/bbl but the stock re-rated to 2.5x P/BV. We think GRM may stay elevated as disruptions to oil trade flows persist and China continues to restrict exports of oil products. As such, we believe the stock still has significant room to run. See *Thailand Energy Sector – A longer period of high GRM* by Yupapan Polpornprasert, dated 13 June 2022 for details.

Simple math for ESSO — 1.5x P/BV vs. $20bbl GRM vs. 2.5x P/BV and $10/bbl GRM during last up-cycle

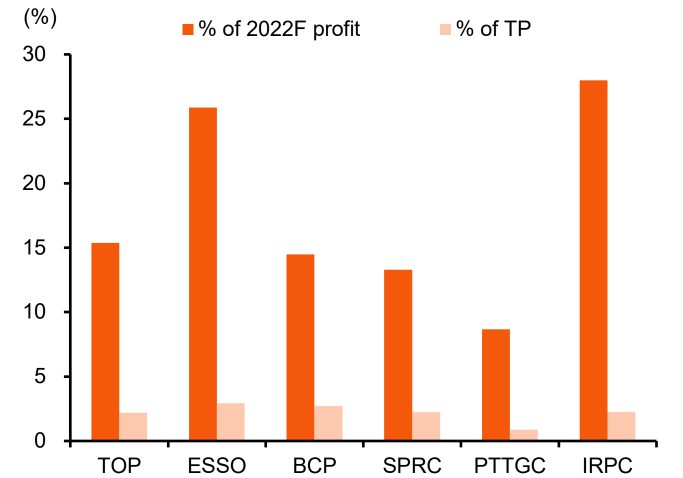
We also see a limited potential impact even if the government were to introduce a special windfall tax on refineries. We estimate the earnings impact for ESSO would be about 25% if an extra Bt1/liter windfall tax on diesel were to be imposed for six months. While this may seem high, we note that the potential upside risk to our earnings forecasts is equally large. An extra $1/bbl GRM would lift ESSO's profit by about 10% and our GRM assumption remains $5/bbl *less* than the prevailing market GRM.

Ex 31: SG GRM Vs. ESSO's P/BV



Sources: Bloomberg; Thanachart

Ex 32: Impact Of Bt1/liter Diesel 'Extra Tax' For 6mo.



Sources: Company data; Thanachart estimates

Lastly, we are making an early call on **SCC**. We believe spreads may have already bottomed out and we expect a recovery over the next three to six months. This is likely to be driven by China's reopening, plants cutting runs and potentially a pullback in oil prices after the peak summer demand season. SCC will also likely deliver strong volume growth next year with the scheduled start-up of its Long Son Petrochemical complex, though the earnings impact may not be fully seen until 2024F as the plant will take some time to ramp up.

APPENDIX 1: Top picks' financials

Ex 1: Airports of Thailand Pcl (AOT TB)

Y/E Sep (Bt m)	2021	2022F	2023F	2024F
Sales	7,086	12,782	39,924	72,385
Net profit	(16,322)	(13,554)	4,109	26,864
Norm profit	(15,319)	(13,554)	4,109	26,864
Norm EPS (Bt)	(1.1)	(0.9)	0.3	1.9
Norm EPS grw (%)	na	na	na	553.7
Norm PE (x)	na	na	237.3	36.3
EV/EBITDA (x)	na	na	45.7	19.3
P/BV (x)	8.7	9.9	9.6	8.2
Div yield (%)	0.0	0.0	0.3	1.7
ROE (%)	na	na	4.1	24.3
Net D/E (%)	(6.9)	16.2	16.5	(5.9)

Sources: Company data; Thanachart estimates

Ex 2: Banpu Pcl (BANPU TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	133,190	159,260	156,740	145,230
Net profit	9,852	22,759	23,249	20,138
Norm profit	7,520	22,759	23,249	20,138
Norm EPS (Bt)	1.4	3.2	2.6	2.0
Norm EPS grw (%)	na	132.1	(17.3)	(24.2)
Norm PE (x)	9.8	4.2	5.1	6.7
EV/EBITDA (x)	4.9	3.2	3.1	3.2
P/BV (x)	1.1	1.1	1.0	0.9
Div yield (%)	3.4	8.1	6.9	6.0
ROE (%)	10.6	24.8	19.7	14.7
Net D/E (%)	152.1	92.0	58.3	37.1

Sources: Company data; Thanachart estimates

Ex 3: Bangkok Bank Pcl (BBL TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Pre Provision Profit	67,066	63,704	66,214	71,252
Net profit	26,507	30,245	33,426	37,407
Norm profit	26,507	30,245	33,426	37,407
Norm EPS (Bt)	13.9	15.8	17.5	19.6
Norm EPS grw (%)	54.3	14.1	10.5	11.9
Norm PE (x)	9.8	8.6	7.8	7.0
P/BV (x)	0.5	0.5	0.5	0.5
Div yield (%)	2.6	3.5	3.8	4.3
ROE (%)	5.6	6.0	6.3	6.8
ROA (%)	0.6	0.7	0.7	0.8

Sources: Company data; Thanachart estimates

Ex 4: Bangkok Dusit Medical Services Pcl (BDMS TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	71,541	76,833	82,541	90,649
Net profit	7,936	9,204	10,610	12,905
Norm profit	7,936	9,204	10,610	12,905
Norm EPS (Bt)	0.5	0.6	0.7	0.8
Norm EPS grw (%)	31.3	16.0	15.3	21.6
Norm PE (x)	49.3	42.5	36.8	30.3
EV/EBITDA (x)	28.5	25.8	22.9	19.2
P/BV (x)	4.7	4.5	4.2	4.0
Div yield (%)	1.8	1.3	1.5	2.0
ROE (%)	9.2	10.8	11.9	13.6
Net D/E (%)	3.5	(2.5)	(10.7)	(19.1)

Sources: Company data; Thanachart estimates

Ex 5: Carabao Group Pcl (CBG TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	17,364	23,524	27,506	29,348
Net profit	2,881	4,058	5,275	5,864
Norm profit	2,816	4,058	5,275	5,864
Norm EPS (Bt)	2.8	4.1	5.3	5.9
Norm EPS grw (%)	(19.8)	44.1	30.0	11.2
Norm PE (x)	37.1	25.7	19.8	17.8
EV/EBITDA (x)	27.5	19.6	15.2	13.6
P/BV (x)	10.2	8.7	7.4	6.5
Div yield (%)	1.8	2.6	3.3	4.2
ROE (%)	27.9	36.6	40.3	38.7
Net D/E (%)	53.1	34.7	15.7	7.1

Sources: Company data; Thanachart estimates

Ex 6: Central Plaza Hotel Pcl (CENTEL TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	11,211	16,379	20,761	22,939
Net profit	(1,733)	205	1,597	2,278
Norm profit	(1,733)	205	1,597	2,278
Norm EPS (Bt)	(1.3)	0.2	1.2	1.7
Norm EPS grw (%)	na	na	678.6	42.6
Norm PE (x)	na	274.8	35.3	24.7
EV/EBITDA (x)	40.3	18.2	13.2	11.6
P/BV (x)	3.1	3.1	2.8	2.6
Div yield (%)	0.0	0.0	0.0	0.8
ROE (%)	na	1.1	8.4	10.9
Net D/E (%)	64.1	87.7	81.9	73.4

Sources: Company data; Thanachart estimates

Ex 7: Esso (Thailand) Pcl (ESSO TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	172,878	169,762	169,343	165,990
Net profit	4,443	13,062	4,263	4,437
Norm profit	(1,704)	6,291	5,671	5,097
Norm EPS (Bt)	(0.5)	1.8	1.6	1.5
Norm EPS grw (%)	na	na	(9.9)	(10.1)
Norm PE (x)	na	6.7	7.4	8.2
EV/EBITDA (x)	31.7	4.5	5.6	5.4
P/BV (x)	2.2	1.4	1.3	1.2
Div yield (%)	0.0	8.3	4.1	4.2
ROE (%)	na	25.3	18.1	15.2
Net D/E (%)	146.7	44.2	31.5	15.8

Sources: Company data; Thanachart estimates

Ex 8: Kasikornbank Pcl (KBANK TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Pre Provision Profit	92,999	99,188	104,623	111,013
Net profit	38,053	43,342	48,529	54,617
Norm profit	38,053	43,342	48,529	54,617
Norm EPS (Bt)	15.9	18.1	20.3	22.8
Norm EPS grw (%)	29.0	13.9	12.0	12.5
Norm PE (x)	9.4	8.3	7.4	6.6
P/BV (x)	0.8	0.7	0.6	0.6
Div yield (%)	2.2	2.4	2.7	6.1
ROE (%)	8.3	8.8	9.1	9.5
ROA (%)	1.0	1.0	1.1	1.2

Sources: Company data; Thanachart estimates

Ex 9: Krung Thai Bank Pcl (KTB TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Pre Provision Profit	62,009	64,247	69,649	76,152
Net profit	21,588	29,263	33,062	38,036
Norm profit	21,588	29,263	33,062	38,036
Norm EPS (Bt)	1.5	2.1	2.4	2.7
Norm EPS grw (%)	29.1	35.6	13.0	15.0
Norm PE (x)	10.2	7.5	6.7	5.8
P/BV (x)	0.6	0.6	0.5	0.5
Div yield (%)	2.6	3.2	3.6	6.0
ROE (%)	6.1	7.9	8.4	9.0
ROA (%)	0.6	0.8	0.8	0.9

Sources: Company data; Thanachart estimates

Ex 10: Siam Cement Pcl (SCC TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	530,112	529,641	558,767	633,566
Net profit	47,174	35,615	48,090	57,198
Norm profit	46,967	35,615	48,090	57,198
Norm EPS (Bt)	39.1	29.7	40.1	47.7
Norm EPS grw (%)	24.0	(24.2)	35.0	18.9
Norm PE (x)	9.1	12.1	8.9	7.5
EV/EBITDA (x)	8.7	11.8	8.3	7.0
P/BV (x)	1.2	1.1	1.1	1.0
Div yield (%)	5.2	4.1	5.6	6.7
ROE (%)	13.7	9.5	12.2	13.5
Net D/E (%)	49.4	55.7	48.1	40.6

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.

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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.

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