Siam Senses

Beating the blues

We see limited near-term downside risk for the SET Index given a widening earnings yield gap, but three potential themes for near-term market performance: reopening and tourism, China stimulus and falling cost pressures. We also highlight 10 mid/small cap beneficiaries.

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Limited downside risks for SET and THB

We think the near-term downside risk looks limited for the SET Index. The earnings yield gap has already increased to around 3.7-3.8% which is at the historical average thanks to a falling bond yield and earnings upgrades (and of course, the market correction). This suggests any further de-rating is likely to be limited. We also note that at individual stock levels, about 80% of our coverage is already trading below historical PE; in fact, over one-third of our coverage is trading at 1STD or more below their PE averages. On a broader macro trend, we also believe the peak of the weak THB is nearing given market anticipation of a narrower policy gap than before, an improved outlook for the current account balance and the THB's underperformance vs. regional currencies. We think these are positive backdrops for the market. In this report, we propose three key themes that could drive the market. We also highlight 10 mid/small cap ideas where we think their earnings and share price reactions would be more sensitive to these tailwinds.

#1 Reopening and tourism

The reopening (normalization) of the economy and recovery in tourism continue to gather pace. The latter aspect, in particular, could post upside risks to our expectation. Tourist arrivals in May reached 541k while June's figure could reach 811k vs. just 791k in 4M22. More importantly, early data for July suggests arrivals could top 1.2m. Big-cap beneficiaries of this trend include our Siam Senses top picks AOT, BDMS and CENTEL as well as BH, MINT, CPALL, CPN and ADVANC. We also highlight mid/small cap plays PR9, SPA, SISB and SABINA.

#2 China stimulus

We think Chinese economic stimulus will be a powerful driver for the Thai economy in 2H22F and 2023F as the country is Thailand's single largest trading partner and was the biggest source of tourists pre-COVID. We believe the government there has strong incentives to drive 2H22F growth given the 2Q22 GDP miss, the public backlash against COVID restrictions and the upcoming National Congress of the Chinese Communist Party. Our top picks likely to benefit from this theme are BANPU, ESSO and SCC. Other big-cap beneficiaries include PTTGC, IVL, PTTEP, TOP and IRPC. Again, we also highlight mid/small cap names that could offer greater sensitivities: AMATA, PSL and THANI.

#3 Falling cost pressure

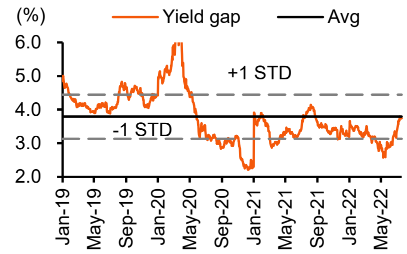
Lastly, we think corporate Thailand will see easing cost pressure as prices of metals and grains are coming down while oil prices have shown sign of stabilization. This trend would benefit our top pick CBG (lower aluminum price) as well as other big-cap names such as SCGP (OCC cost) and CPF (grains). However, it is in the smaller-cap space that we will see greater leverage to margins and we highlight SAT (steel), UTP (OCC) and PTG (oil prices) as plays on this trend.

Top Picks

	-EPS growth-		—— PE ——		Yield
	22F (%)	23F (%)	22F (x)	23F (x)	22F (%)
AOT	na	na	na	177.6	0.0
BANPU	132.1	(17.3)	4.0	4.9	8.4
BBL	14.1	10.5	8.0	7.3	3.7
BDMS	33.3	8.4	39.8	36.7	1.4
CBG	44.1	30.0	26.9	20.7	2.5
CENTEL	na	678.6	269.9	34.7	0.0
ESSO	na	(9.9)	5.8	6.4	9.5
KBANK	13.9	12.0	7.7	6.9	2.6
KTB	35.6	13.0	7.0	6.2	3.4
SCC	(24.2)	35.0	12.4	9.2	4.0

Source: Thanachart estimates.
Based on 20 July 2022 closing prices

SET Index Earnings Yield Gap



Sources: Bloomberg, Thanachart estimates

Key Themes To Beat The Blues

Reopening & tourism	China stimulus	Falling cost pressure
AOT, BDMS, CENTEL	BANPU, ESSO, SCC	CBG
BH, MINT, CPALL, CPN, ADVANC	PTTGC, IVL, PTTEP, TOP, IRPC	SCGP, CPF
PR9, SPA, SISB, SABINA	AMATA, PSL, THANI	SAT, UTP, PTG

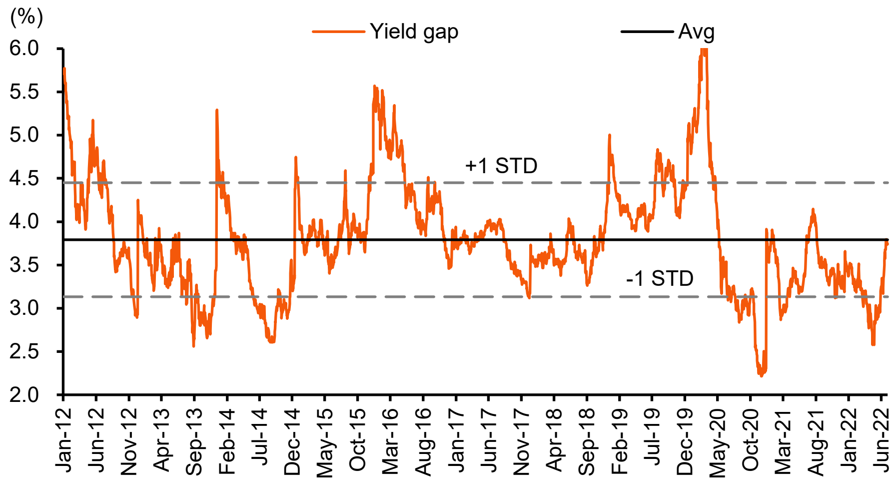
Sources: Bloomberg, Thanachart estimates

Further SET Index de-rating likely limited

Limited further de-rating for SET as earnings yield gap already reverted to its long-term average

The SET Index has corrected by over 50 points since we issued our last Siam Senses report in mid-June. However, we think the near-term downside risk looks limited. This is because the earnings yield gap has already widened to around 3.7-3.8% which is at the historical average and increased from 2.6% at its recent low. Firstly, the 10Y bond yield has stabilized at around 2.6-2.7%, down from its recent peak of 3.4%. This helped widen the earnings yield gap back to around 3.7-3.8% (which is at the historical average level), improving from as low as 2.6%. This suggests that any further de-rating for the market is likely to be limited.

Ex 1: SET Index Earnings Yield Gap

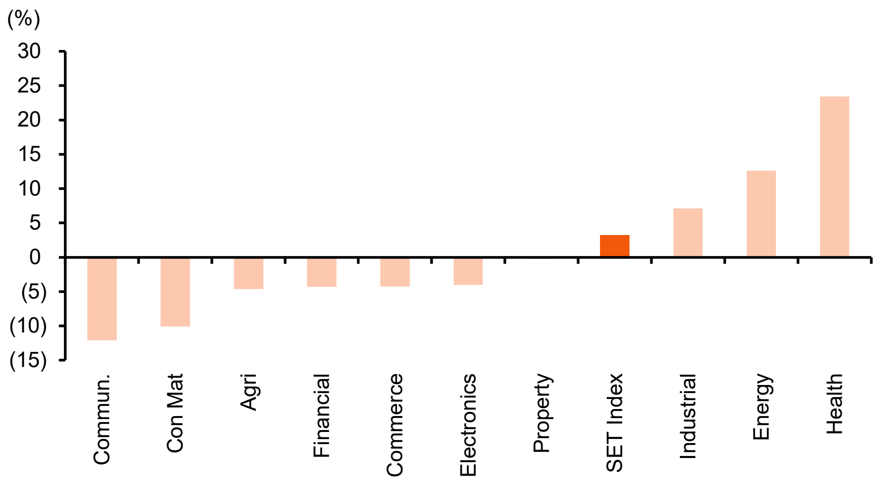


Sources: Bloomberg, Thanachart estimates

Secondly, consensus earnings forecasts have been revised upwards for the past three months, both for this year and next year. Positive revisions were seen in many sectors and not just in energy. At the same time, sectors that have seen earnings downgrades are starting to show signs of stabilization. This suggests to us that the SET Index's earnings outlook remains resilient.

Upward earnings revisions for the market driven by industrial, energy, healthcare

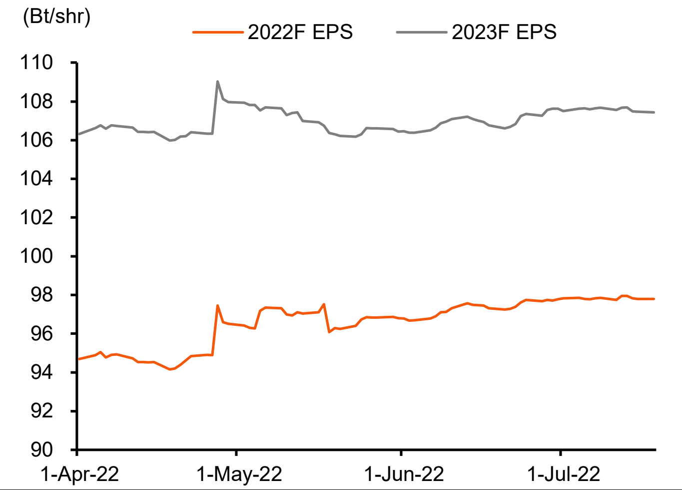
Ex 2: SET Index And Sector Consensus Earnings Revisions Since 1 April 2022



Source: Bloomberg

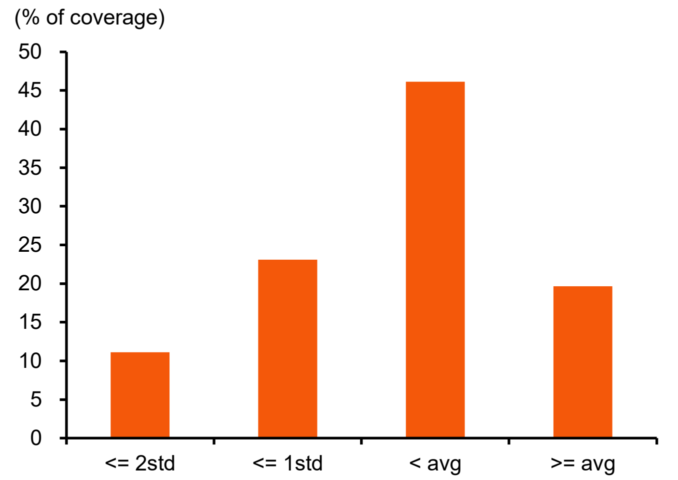
Lastly, at individual stock levels, about 80% of our coverage is already trading below historical PE; in fact, over one-third of our coverage is trading at 1STD or more below their PE averages. As such, from a bottom-up perspective, we also think the market could be reaching its near-term bottom.

Ex 3: SET Index Consensus Earnings Revised Upwards



Sources: Bloomberg

Ex 4: 80% Of Our Coverage Trading Below Historical PE



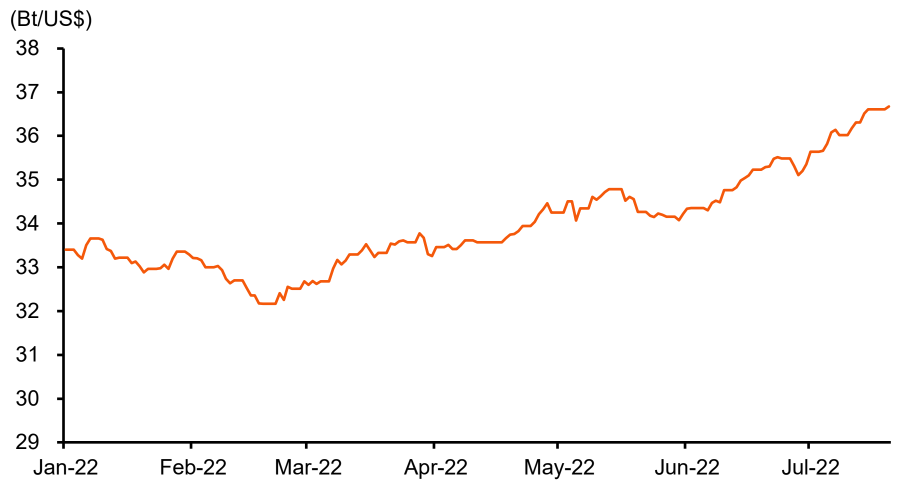
Sources: Company data; Thanachart estimates

The peak of the weak THB

We think THB weakness is approaching its peak. This means we do not expect the THB to weaken much further against the USD from this level (and certainly not at the same pace we have seen in recent months). We base our view on three factors: a narrowing policy gap, an improving current account balance, and THB's underperformance against regional currencies.

We believe we are near the peak of weak THB sentiment

Ex 5: USD:THB Exchange Rate



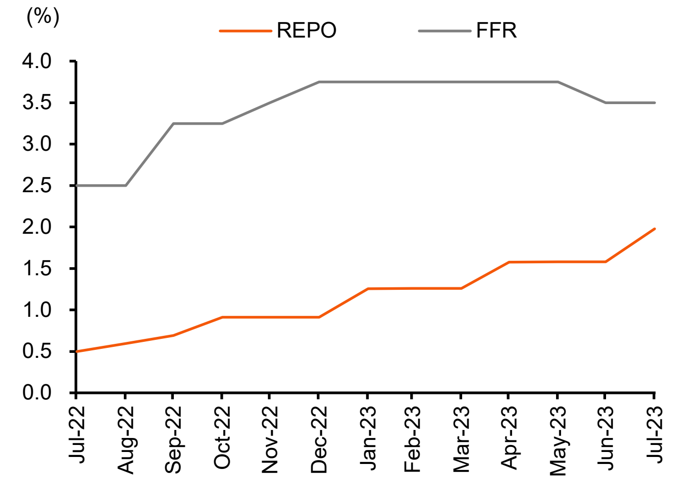
Sources: Bloomberg, Thanachart

Policy rate gap to narrow faster than our previous expectation

THB and USD policy gaps to narrow

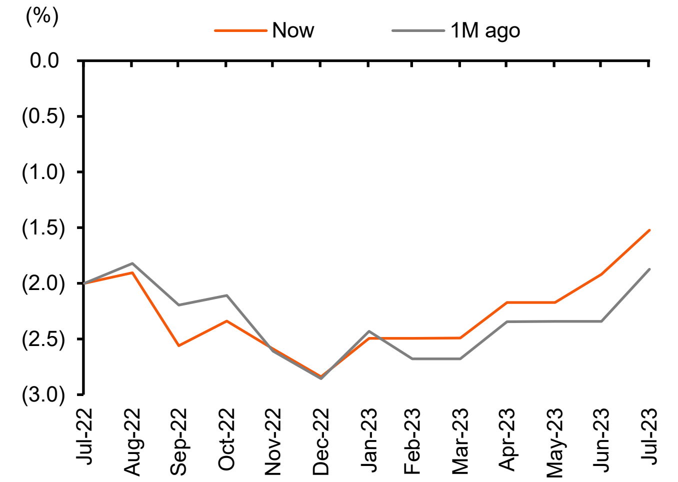
We believe the Bank of Thailand (BOT) could be more aggressive with its rate hikes than we had previously anticipated. Now, the bond market view seems to have firmed up on the possibility of around two hikes (25bps each) this year followed by another four in 2023, all of which are in the first half of the year. This would take the BOT's cumulative rate hike to 1.5% over the next 11 months which would bring the policy rate to 2%. At the same time, the market's view on the Fed's potential rate path has turned much less hawkish. Whereas the market was looking at a terminal Fed Fund rate of 4.25% in mid-June, that view has cooled to about 3.75%. In fact, the market is now pricing in a Fed rate cut some time in 2Q23. We think this narrowing of policy rates would help improve the fund flow situation and strengthen the THB.

Ex 6: Thailand And US Policy Rate Gap To Narrow



Sources: Bloomberg, CME, TBMA; Thanachart estimates

Ex 7: BOT Repo Rate – FFR



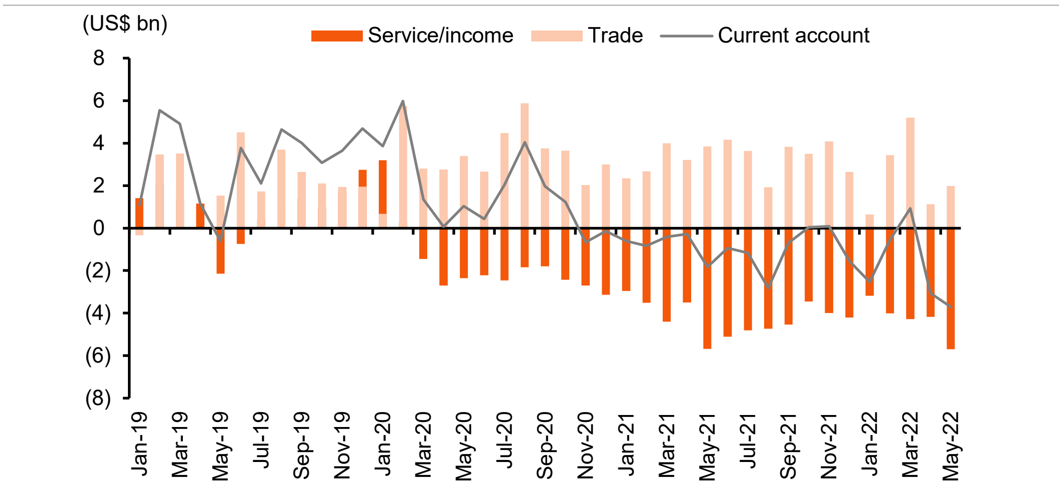
Sources: Bloomberg, CME, TBMA; Thanachart estimates

Current account balance to improve by 4Q22F

Thailand's current account balance remains in deeply negative territory. This is driven by the relative lack of tourist income, the very high freight costs (a major component of service imports), and high oil prices. We believe these trends are reversing, which could lead to a significant improvement in the current account position from 4Q22F onwards.

We expect improvement to Thailand current account balance

Ex 8: Thailand's Current Account Balance Likely To Improve By 4Q22F

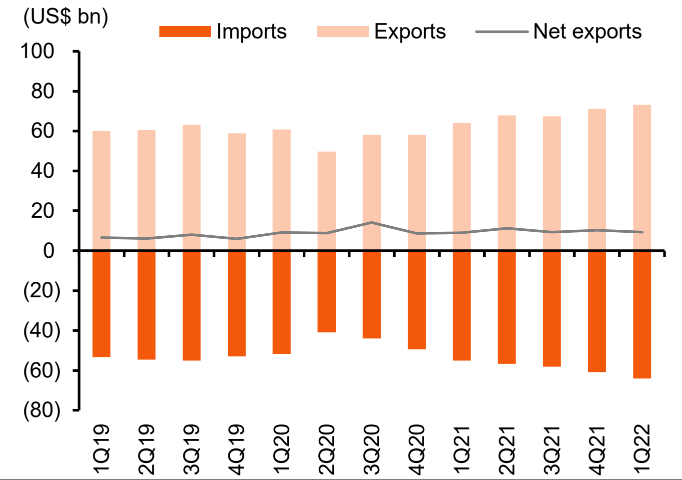


Sources: BOT, Thanachart estimates

Lack of tourist income and sharp rise in freight cost hurt Thailand's service account

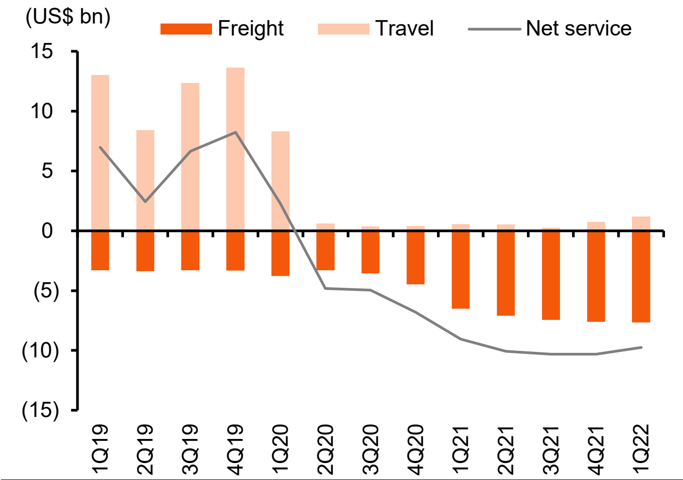
If we break down the current account balance, we see that the biggest negative contributor now compared to pre-COVID times is low service income from the tourism sector. This used to contribute as much as $17bn per quarter to Thailand's current account balance ($14bn net of outbound tourism). Now, receipt from tourists are barely $2bn as of 1Q22 with outbound travel offsetting another $800m during the same period. This means the net contribution from travel was only $1.2bn in 1Q22. The second big driver of the negative current account balance is the sharp increase in freight costs. Whereas freight services used to be only about $3.8bn per quarter in 2019, post-COVID, this figure stands as high as $9.1bn. Lastly, while the trade balance remains positive, that figure has come down significantly in recent months due to the sharp increase in the crude oil import bill.

Ex 9: Net Export Of Goods



Sources: BOT; Thanachart estimates

Ex 10: Net Service Balance

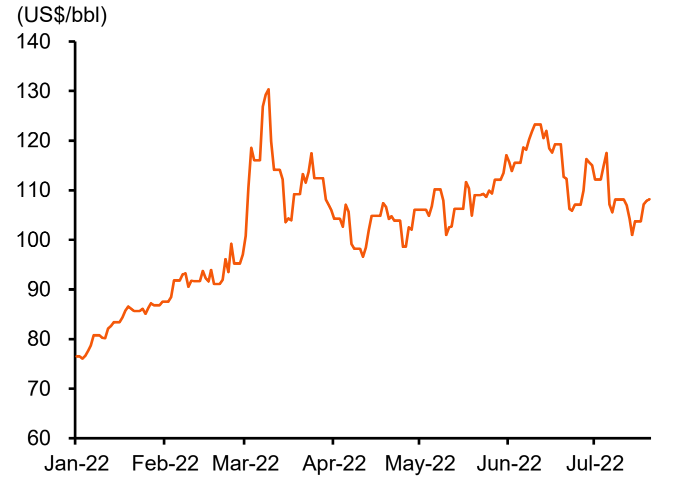


Sources: BOT; Thanachart estimates

Rising tourist income, lower freight cost and stable crude oil price are positive for current account

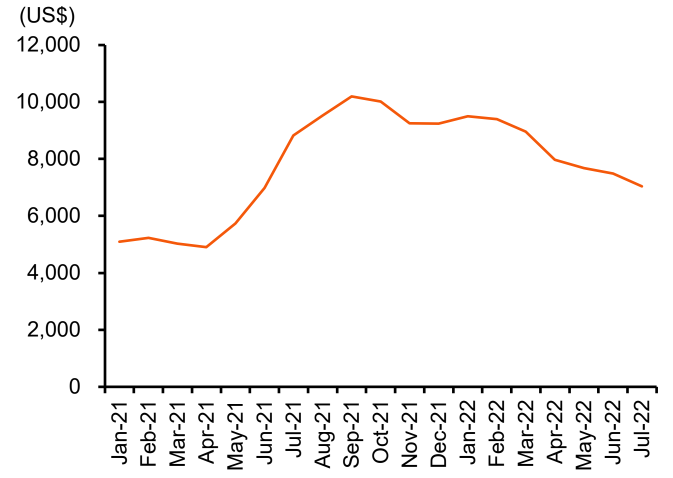
Looking forward, we think Thailand's current account may show a significant improvement from the current level. Firstly, the tourism sector continues to recover strongly with May arrivals increasing by almost 80% m-m despite it being the low season. We believe the pace of tourist arrivals will continue to accelerate, particularly with easing border restrictions and as we head into the high season in 4Q22F. Secondly, the freight index has come off sharply from its high in late 2021-early 2022. This would help reduce the freight cost component (though it may not fully return to the pre-COVID level anytime soon). Lastly, the oil price has come off its recent peak, helping to reduce Thailand's import bill and widen the trade balance. While oil prices could stay elevated, we do not expect a return to an over $120/bbl environment. Adding these three factors together, we think the current account could improve by several billion dollars per quarter by 4Q22F vs. the 2Q22F level (which could be as much as -$10bn).

Ex 11: Crude Oil Price Coming Down



Source: Bloomberg
Note: Dubai crude oil price

Ex 12: …As Are Container Shipping Costs



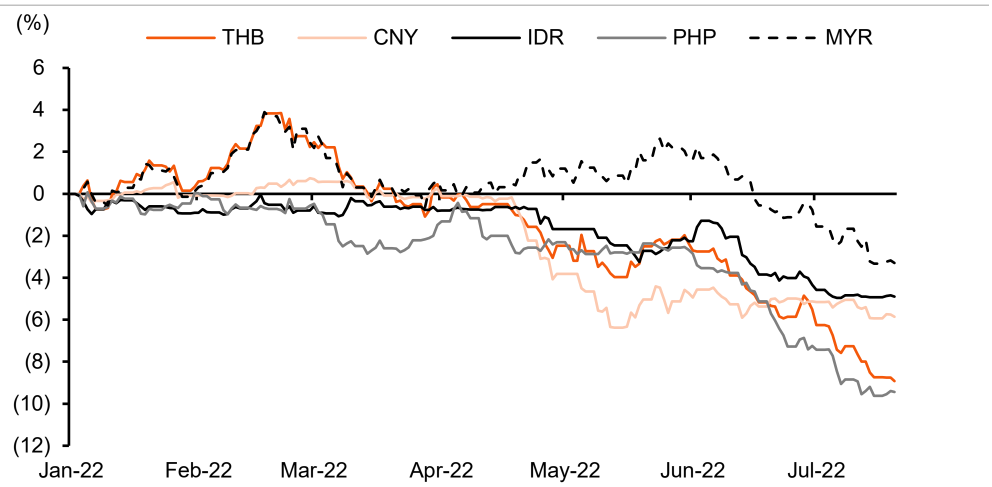
Source: Bloomberg
Note: World Container Index (WCI)

THB already weakened more than regional peers

The THB has already weakened against the USD more than its regional peers. YTD, the THB has declined by about 9%, just a hair less than the PHP (-9.4%) but significantly weaker than major regional peers such as the MYR (-3%) and the IDR (-5%). The THB has also weakened much more than the CNY (-6%). We believe the BOT has no incentive to see the THB weaken further against the USD is it would only raise the cost of energy and raw material imports and would not help Thailand become any more competitive in terms of exports or tourism vs. regional peers.

THB has underperformed many of its key regional peers

Ex 13: YTD Change In Exchange Rates Vs. USD



Sources: Company data, Thanachart estimates

We see several bullish near-term factors that could help drive corporate earnings and market sentiment. These include reopening and tourism, China stimulus and falling cost pressure. We think these tailwinds will benefit not only big-cap stocks but also trickle down into the mid/small cap space where earnings and share prices are likely to be more sensitive. As such, in addition to our Siam Senses top picks, we also propose other big-cap names and highlight 10 mid/small cap ideas that could benefit from these themes.

Ex 14: Key Themes To Beat The Blues

	Reopening & tourism	China stimulus	Falling cost pressure
SS top pick	AOT, BDMS, CENTEL	BANPU, ESSO, SCC	CBG
Other big cap ideas	BH, MINT, CPALL, CPN, ADVANC	PTTGC, IVL, PTTEP, TOP, IRPC	SCGP, CPF
Best of mid/small	PR9, SPA, SISB, SABINA	AMATA, PSL, THANI	SAT, UTP, PTG

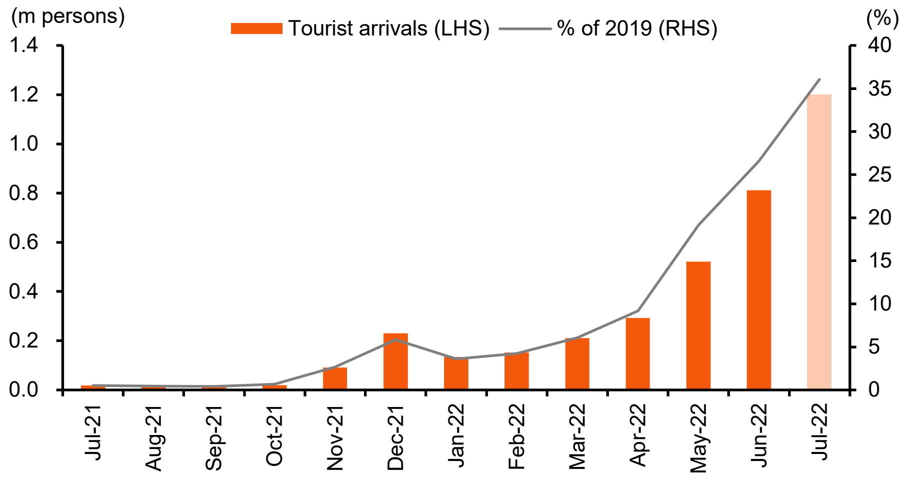
Sources: Company data, Thanachart estimates

#1 Reopening and tourism

Tourist arrival could hit 1.2m in July, up nearly 10x from January

Thailand's inbound tourism continues to recover at a rapid pace. The latest available figure from May 2022 shows tourist arrivals growing by almost 80% m-m even though it was historically the low season for tourism. Press reports suggest arrivals already reached 811k in June. This would represent a growth rate of over 55% from May. More importantly, early data for July (the first month that the government cancelled the Thailand Pass requirement) suggests arrivals could reach as many as 40,000 per day which — if sustained — would lead to an arrival figure of 1.2m for the month. We believe the growth will continue to accelerate in the coming months as border control policies have been relaxed and the country enters the high season in 4Q22-1Q23.

Ex 15: Thailand Tourist Arrivals (Our Estimates For July 2022)



Sources: TAT, Bangkok Biz News, Thanachart estimates

Domestically, the economy also continues to hum along. While we remain cautious on consumption, especially those related to discretionary spending, we believe certain segments will continue to see good growth. This normalization of activity is likely to benefit service sectors including healthcare and education services.

Ex 16: Reopening And Tourism plays

Ticker	Rating	Current price (Bt)	Target price (Bt)	Upside (%)	Norm EPS growth 2022F (%)	Norm EPS growth 2023F (%)	Norm PE 2022F (x)	Norm PE 2023F (x)	P/BV 2022F (x)	P/BV 2023F (x)	Yield 2022F (%)	Yield 2023F (%)
AOT TB	BUY	70.00	85.00	*21.4*	na	na	na	177.6	10.0	9.6	0.0	0.3
BDMS TB	BUY	26.50	33.00	*24.5*	33.3	8.4	39.8	36.7	4.8	4.5	1.4	1.5
CENTEL TB	BUY	41.00	48.00	*17.1*	na	678.6	269.9	34.7	3.0	2.8	0.0	0.0
BH TB	BUY	180.00	185.00	*2.8*	127.3	27.8	49.4	38.6	8.2	8.0	2.0	2.6
MINT TB	BUY	33.25	43.00	*29.3*	na	na	787.6	33.6	2.3	2.4	0.0	0.6
CPALL TB	BUY	60.25	75.00	*24.5*	66.1	57.4	42.3	26.9	4.9	4.4	1.2	1.9
CPN TB	BUY	60.75	73.00	*20.2*	133.9	35.1	34.5	25.5	3.4	3.1	1.4	1.8
ADVANC TB	BUY	202.00	240.00	*18.8*	(2.3)	10.5	22.6	20.5	7.0	6.4	3.5	3.7
PR9 TB	BUY	16.10	17.60	*9.3*	60.6	13.6	31.6	27.9	2.8	2.6	1.4	1.6
SPA TB	BUY	7.90	11.00	*39.2*	na	na	na	91.6	12.1	10.7	0.0	0.0
SISB TB	BUY	12.90	15.50	*20.2*	36.5	29.6	42.5	32.8	5.5	5.0	1.1	1.4
SABINA TB	BUY	25.00	29.00	*16.0*	41.8	19.2	20.8	17.5	4.6	4.5	4.8	5.7

Sources: Company data, Thanachart estimates

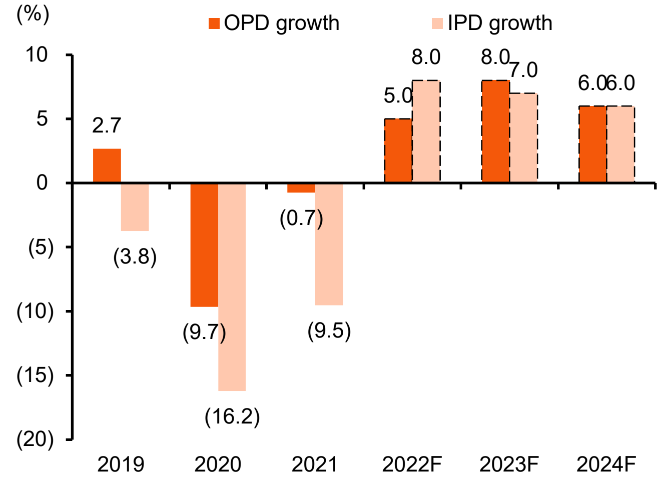
To play the “reopening and tourism” theme, we have flagged our top picks **AOT, BDMS** and **CENTEL**. Other big-cap names that benefit from this trend include **BH, MINT, CPALL, CPN**, and **ADVANC**. However, we think mid/small cap names may offer greater deltas as their leverage to the up-cycle is much higher vs. slower-moving big-cap stocks. Below, we highlight four mid/small cap names that are likely to benefit from the reopening and strong tourist arrivals to Thailand. These are **PR9, SPA, SISB** and **SABINA**.

PR9

We see PR9 is an earnings recovery play. We project its earnings growth at 61/14/16% in 2022-24F. Drivers are COVID services, the strong demand from non-COVID cash patients and operating leverage benefits.

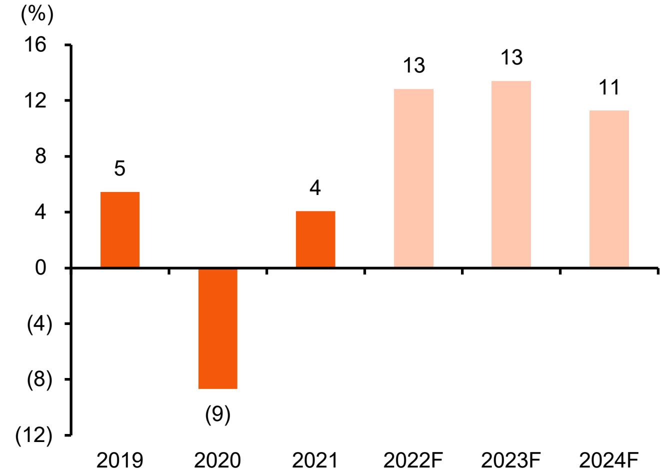
- We saw a strong turnaround in non-COVID revenue in 4Q21 and 1Q22. The momentum is still carrying on. Drivers are pent-up healthcare demand and new excellence centers.
- We expect PR9’s EBIT margin to improve in 2022-24F. Drivers are 1) improving non-COVID cash patients, 2) rising revenue intensity, 3) falling depreciation of the infrastructure system, 4) full amortization of building A in mid-2022, and 5) no significant new investments in 2022-24.
- PR9’s valuation also looks inexpensive to us, trading at 27.3x forward PE (2023F) compared to its historical average of about 30x during 2019-21.

Ex 17: PR9's Cash Patient Turnaround



Sources: Company data; Thanachart estimates

Ex 18: PR9's Non-COVID Revenue Growth



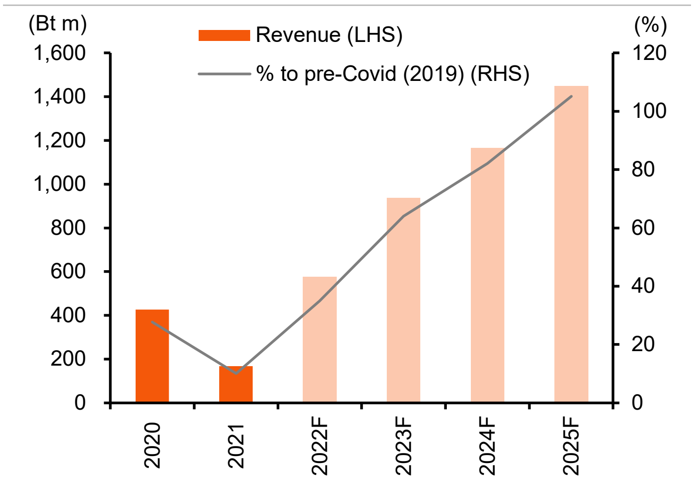
Sources: Company data; Thanachart estimates

SPA

We see SPA as the most direct play on a return of Chinese tourists to Thailand, likely next year.

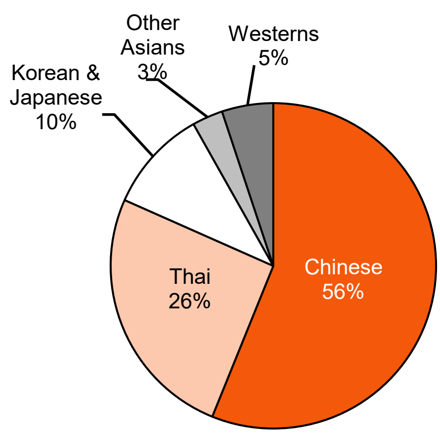
- A resumption of tourist arrivals this year is a strong recovery factor for SPA given that foreign tourists contributed over 75% of its revenues pre-COVID. We project 6/26/29m tourist arrivals in 2022-24F, equivalent to 15/65/90% of the pre-COVID (2019) level.
- We expect the return of Chinese tourists (55% of pre-COVID revenue) in 2023F to become an even stronger boost to SPA's profit, and we estimate SPA's earnings to recover to Bt340m (Bt0.4/share) in 2025F, from losses in 2020-22F.
- We expect a much smaller loss for SPA this year, even without much help from tourism, as there should be no more impact from COVID-19 lockdowns. SPA's shops were closed for 2.5 and 6.5 months in 2020-21, following the government's measures to prevent the spread of the virus.

Ex 19: SPA Revenue Forecasts



Sources: Company data; Thanachart estimates

Ex 20: Customer Mix Pre-COVID



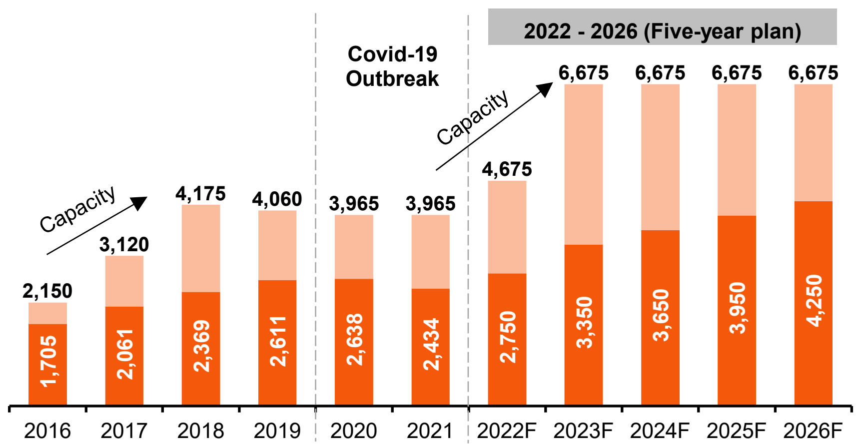
Sources: Company data; Thanachart estimates

SISB

We view SISB as one of the biggest beneficiaries from the country reopening, allowing its earnings to not only recover but also reach record highs from this year onward.

- We estimate its earnings growth at 37% y-y this year, driven by a student number recovery after the easing of the government's lockdown measures, a resumption of high-margin food & after-school activity revenue after students returned to on-site study, and the already announced 5% tuition fee hike in September this year.
- We expect further growth of 30-31% y-y in 2023-24F driven by a jump in student numbers from both existing campuses and two new campuses opening in September next year, 3-5% tuition fee hikes, and operating leverage benefits.
- Its fundamentals also look strong to us with a net cash position, more than a 30% EBITDA margin, a strong brand perception allowing it to gain market share, and management's growth mindset with growth strategies via expansions.

Ex 21: SISB's Capacity And Student Projections



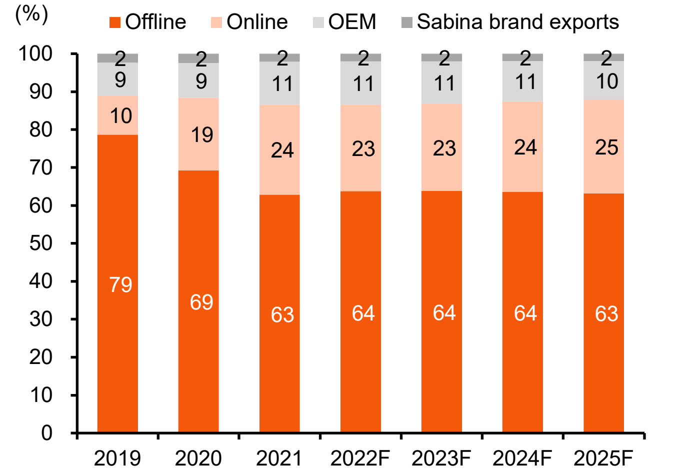
Sources: Company data, Thanachart estimates

SABINA

We foresee SABINA still enjoying strong earnings momentum from 3Q22F onwards and we expect its earnings to reach a new high this year, surpassing the 2019 level.

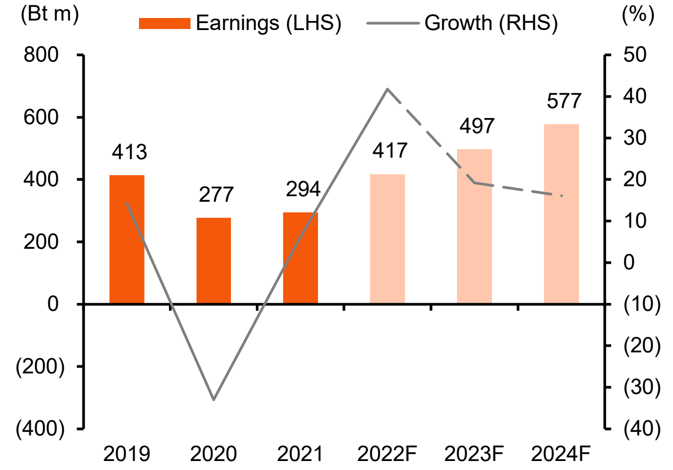
- We estimate its sales to grow in all distribution channels (online, offline and exports). Drivers are improving consumption and the country's reopening.
- SABINA's margin looks to be on a rising trend. A rising sales proportion of high-margin online sales, cost management of material and product sourcing, cost control and the operating leverage effect are key drivers for margin expansion.
- We see SABINA as a growth stock with a 26% three-year EPS CAGR in 2021-24F. Given this high EPS growth, we see its 2023F PE of 16.7x as inexpensive. SABINA also offers decent dividend yields of 5/6% in 2022-23F.

Ex 22: SABINA's Sales Breakdown By Channel



Sources: Company data; Thanachart estimates

Ex 23: SABINA's Earnings And Growth

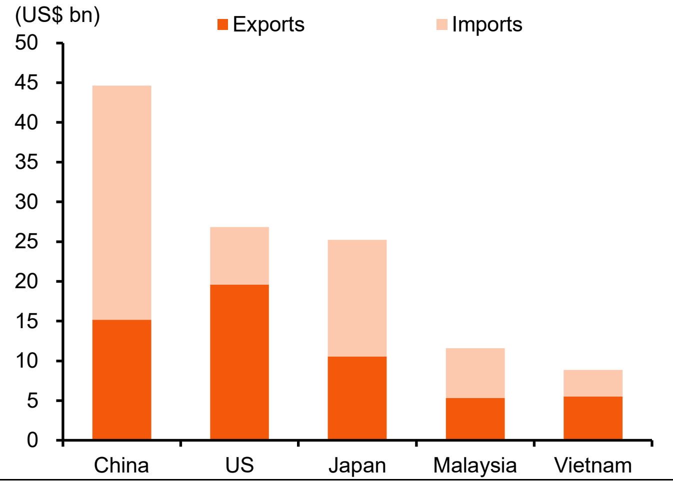


Sources: Company data; Thanachart estimates

#2 China stimulus

We expect the recently announced stimulus in China to offer trading opportunities for several stocks. We note that Chinese economic growth decelerated significantly in 2Q22 due in large part to its COVID lockdown measures. GDP growth reached just 0.4% y-y, the lowest figure on record excluding COVID-ravaged 1Q20. It also badly missed market expectations of 1% growth and suffered a sharp deceleration from the 4.8% y-y growth in 1Q22.

Ex 24: China Is By Far Thailand's Largest Trading Partner



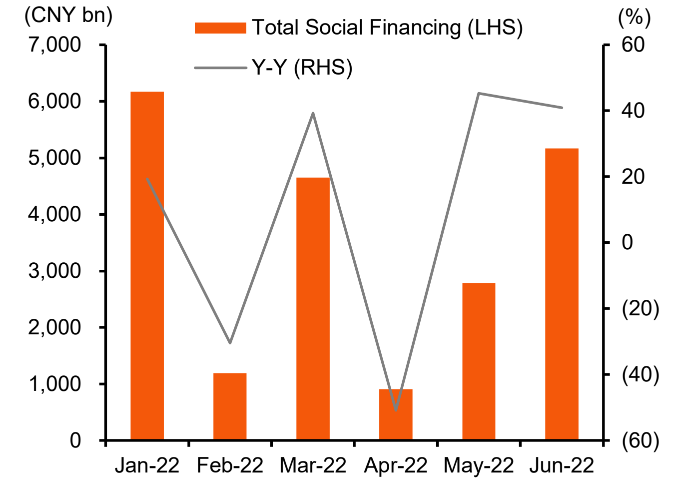
Sources: Company data; Thanachart estimates

Ex 25: China's GDP Growth Slowed Down Sharply In 2Q22

Sources: Company data; Thanachart estimates

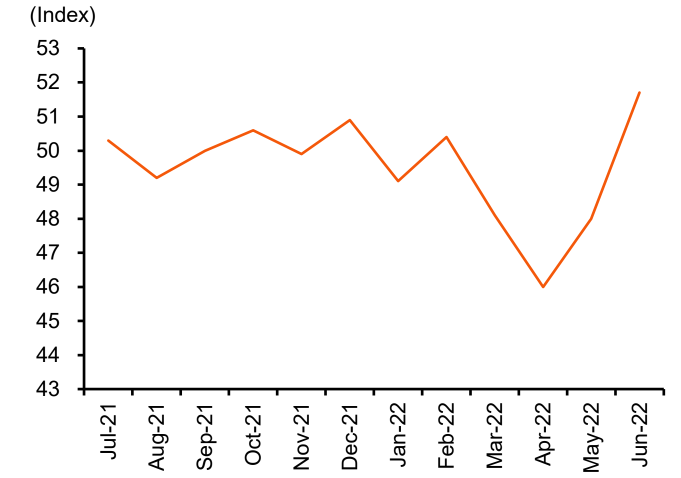
No doubt due to this weak GDP reading, the Chinese government announced an additional $220bn of stimulus by bringing forward the 2023 local government bond sales quota. This would be the first time that bonds slated for sale in any given year are sold before the start of that year. The acceleration of stimulus measure forms part of the larger $1trn stimulus fund the government has readied in order for the economy to hit its 5.5% growth target in 2022. We believe the Chinese government has strong incentives to carry out these measures given the 2Q22 GDP miss, the public backlash against COVID restrictions and the upcoming National Congress of the Chinese Communist Party set for Autumn 2022. The latter event could be particularly important as it could confirm President Xi Jinping to an unprecedented third term in power.

Ex 26: Total Social Financing Surged In May, June



Sources: Company data; Thanachart estimates

Ex 27: Caixin Manufacturing PMI Starts To Improve



Sources: Company data; Thanachart estimates

We believe the stimulus measures in China will benefit several sectors, especially materials and energy. Our energy and material top picks **BANPU, SCC** and **ESSO** are all potential beneficiaries. Other bigger-cap names that we think will benefit from this theme are PTTGC, **IVL**, **PTTEP**, **TOP and IRPC**.

Below, we also highlight mid/small cap trading ideas that will likely benefit from China's stimulus measures. These names include AMATA, PSL and THANI.

Ex 28: China Stimulus Beneficiaries

Ticker	Rating	Current price (Bt)	Target price (Bt)	Upside (%)	Norm EPS growth 2022F (%)	Norm EPS growth 2023F (%)	Norm PE 2022F (x)	Norm PE 2023F (x)	P/BV 2022F (x)	P/BV 2023F (x)	Yield 2022F (%)	Yield 2023F (%)
BANPU TB	BUY	12.80	17.00	*32.8*	132.1	(17.3)	4.0	4.9	1.0	1.0	8.4	7.2
ESSO TB	BUY	10.50	16.00	*52.4*	na	(9.9)	5.8	6.4	1.2	1.1	9.5	4.7
SCC TB	BUY	368.00	440.00	*19.6*	(24.2)	35.0	12.4	9.2	1.2	1.1	4.0	5.4
PTTGC TB	BUY	44.25	58.00	*31.1*	(19.4)	5.4	8.7	8.3	0.6	0.6	5.6	5.4
IVL TB	BUY	45.00	62.00	*37.8*	96.4	(18.9)	6.3	7.8	1.3	1.2	4.4	3.3
PTTEP TB	HOLD	160.50	161.00	*0.3*	79.9	(9.8)	8.0	8.9	1.3	1.2	3.7	4.4
TOP TB	HOLD	50.25	57.00	*13.4*	194.9	(25.7)	6.2	8.4	0.7	0.7	6.0	3.8
IRPC TB	BUY	3.22	4.40	*36.6*	(70.7)	489.1	57.4	9.7	0.7	0.7	4.7	5.1
AMATA TB	BUY	17.10	25.00	*46.2*	70.7	40.8	15.1	10.7	1.1	1.0	2.6	3.7
PSL TB	BUY	18.10	27.00	*49.2*	15.0	(2.0)	5.6	5.8	1.7	1.5	9.3	9.1
THANI TB	BUY	3.92	5.60	*42.9*	17.4	13.3	11.1	9.8	1.8	1.7	5.4	6.1

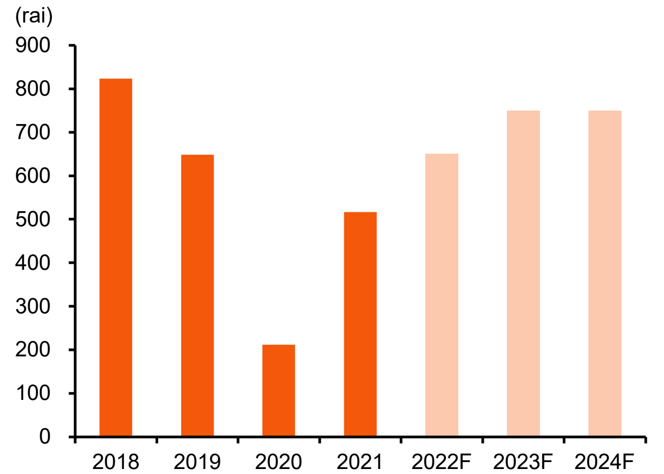
Sources: Company data, Thanachart estimates

AMATA

AMATA is enjoying the turnaround in industrial estate sales after the country's reopening.

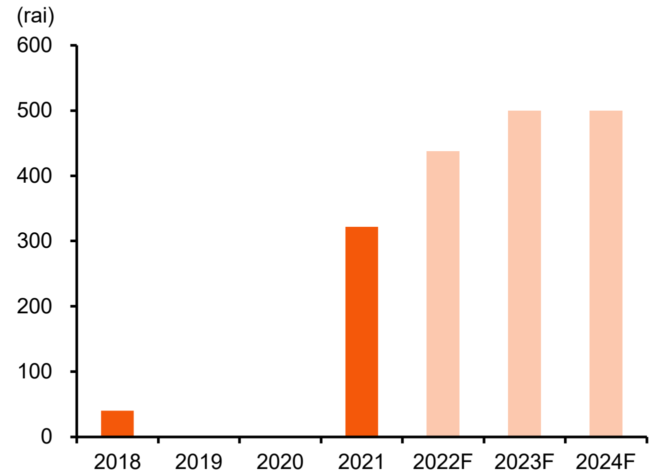
- We foresee two turnaround prospects for its two key businesses. The first is its industrial estate sales on the country's reopening and the other is its power plant business passing its trough.
- We project presales of 1,088/1,250/1,250 rai in 2022-24F vs. its five-year average pre-COVID presales of 640 rai. The turnaround is coming from both Thailand and Vietnam driven by pent-up post-COVID demand and global investment diversification demand due to rising geopolitical risks. The 2H is the high season for land sales.
- AMATA is inexpensive, in our view, trading on -1STD PEs of 11x in 2023F vs. 72/41/20% EPS growth in 2022-24F.

Ex 29: AMATA's Thailand Industrial Land Sales



Sources: Company data; Thanachart estimates

Ex 30: AMATA's Vietnam Industrial Land Sales



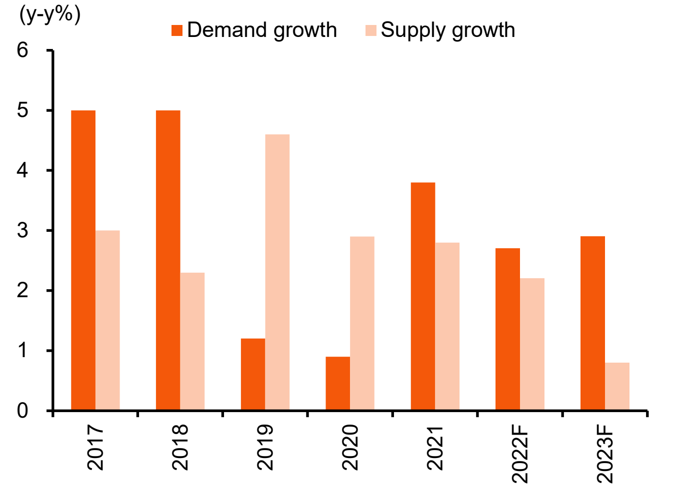
Sources: Company data; Thanachart estimates

PSL

We believe PSL remains in a structural upcycle.

- Despite the rising US interest rate trend and inflation posing downside risk to dry bulk demand, we remain bullish on the industry given the favorable supply outlook.
- New orders for bulk carriers are very low as shipyards are already operating at full capacity from earlier orders, mostly of container ships and LNG carriers. This means supply growth of dry bulk shipping is likely to be just 2.2% in 2022F and 0.8% in 2023F, well below projected demand growth of 2.7% and 2.9%, respectively.
- The 2H is normally the stronger season for dry bulk demand and we expect freight rates to improve in 3Q22F.

Ex 31: Dry Bulk Shipping Demand/Supply Growth



Sources: Company data; Thanachart estimates

Ex 32: Handysize Freight Rate Seasonal Pattern

(US$/day)	1Q	2Q	3Q	4Q
2013	6,876	7,987	7,877	10,138
2014	9,955	7,456	6,212	7,111
2015	5,321	5,120	6,327	4,652
2016	3,408	4,794	5,786	6,988
2017	6,597	7,311	7,371	9,369
2018	8,480	8,784	8,265	9,264
2019	5,996	6,082	8,458	8,097
2020	4,516	3,212	7,187	9,226
2021	14,362	20,455	30,169	28,372
2022	22,357	23,887		

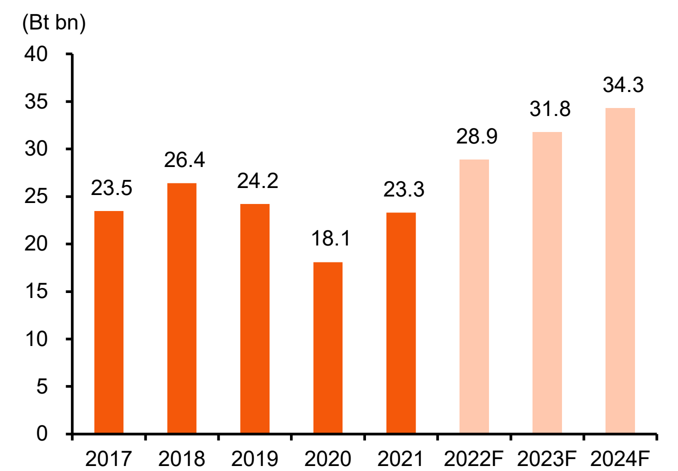
Sources: Company data; Thanachart estimates

THANI

Thanks to its cautious lending policy and preemptive NPL action, we expect THANI to buck the finance sector's rising NPL trend. Meanwhile, it has started to gradually raise lending rates and has lengthened its liability duration to ease the impact of rising funding costs on margin and profitability.

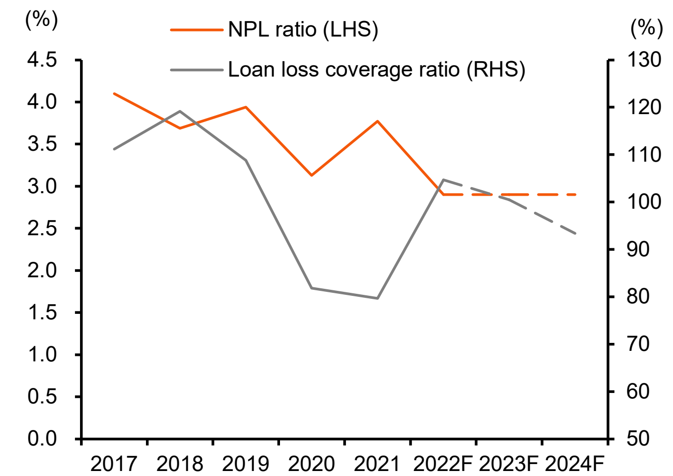
- With the country reopening, THANI has seen greater lending appetite and enjoyed record loan drawdowns of Bt6.9bn in 1Q22. Momentum has continued and THANI has revised up its new loan growth target to over 20% y-y in 2022.
- Seizing the opportunity of high used-truck prices, THANI has sped up repossession activities. We expect both NPLs and NPL ratio to fall further to below 3% in 2Q22.
- Lower provisions help ease the impact of higher funding costs on the bottom line. The counter looks cheap to us at less than 10x PE in 2023F against our forecasted three-year EPS CAGR of 13%.

Ex 33: THANI's New Loan Drawdowns



Sources: Company data; Thanachart estimates

Ex 34: THANI's NPL Ratio And Coverage



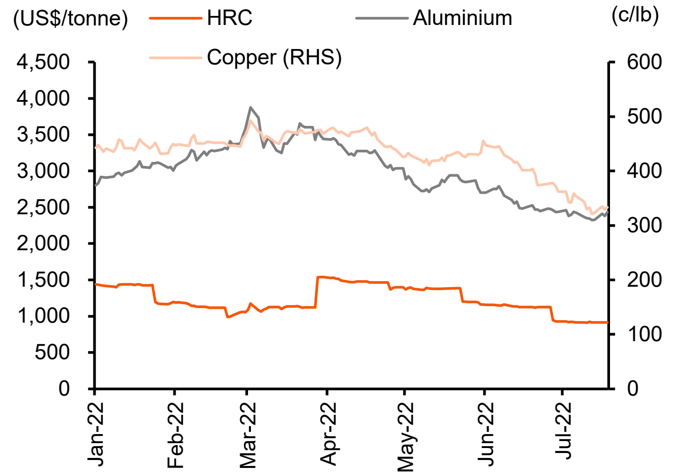
Sources: Company data; Thanachart estimates

#3 Falling cost pressure

Corporate Thailand to benefit from lower cost pressure as commodity prices ease off

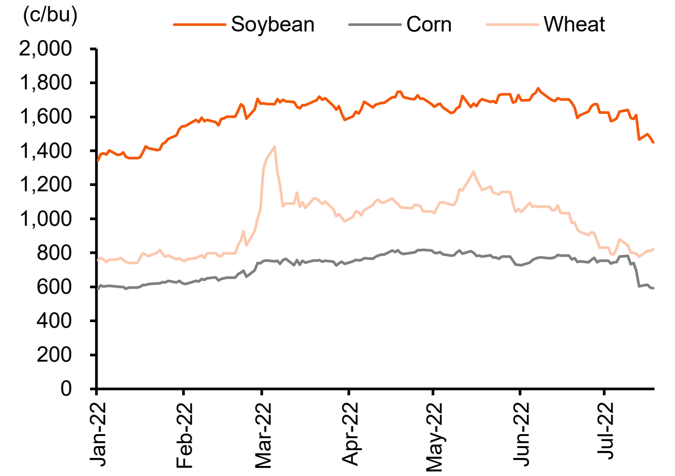
Several commodities have seen their prices come down in recent months. The price decreases have been particularly sharp for base metals and certain grains. Oil prices, while remaining elevated, have also come off recent highs. As a net importer of these raw materials and energy, we think corporate Thailand in general stands to benefit from the easing cost pressure.

Ex 35: Base Metal Prices



Sources: Company data; Thanachart estimates

Ex 36: Grain Prices



Sources: Company data; Thanachart estimates

Within our Siam Senses top picks, we believe **CBG** stands to benefit from falling aluminum prices. Among bigger-cap names likely to benefit from this theme, **SCGP** stands out as it may enjoy falling recycled paper prices (OCC). Likewise, **CPF** could benefit from lower grain prices (soybean, corn) which are used as animal feed.

Ex 37: Stocks likely to benefit from falling cost pressure

Ticker	Rating	Current price (Bt)	Target price (Bt)	Upside (%)	Norm EPS growth 2022F (%)	Norm EPS growth 2023F (%)	Norm PE 2022F (x)	Norm PE 2023F (x)	P/BV 2022F (x)	P/BV 2023F (x)	Yield 2022F (%)	Yield 2023F (%)
CBG TB	BUY	109.00	138.00	*26.6*	44.1	30.0	26.9	20.7	9.1	7.7	2.5	3.2
SCGP TB	HOLD	53.00	56.00	*5.7*	8.2	29.3	26.3	20.4	2.2	2.1	1.9	2.5
CPF TB	BUY	25.25	30.00	*18.8*	276.1	21.1	14.3	11.8	1.0	0.9	2.8	3.4
SAT TB	BUY	17.80	27.00	51.7	6.0	28.6	7.3	5.6	0.9	0.9	8.3	10.6
UTP TB	BUY	16.60	29.00	74.7	23.5	21.4	9.5	7.8	2.5	2.2	6.8	8.3
PTG TB	BUY	14.00	20.00	42.9	50.7	19.3	15.4	12.9	2.6	2.3	3.2	3.9

Sources: Company data, Thanachart estimates

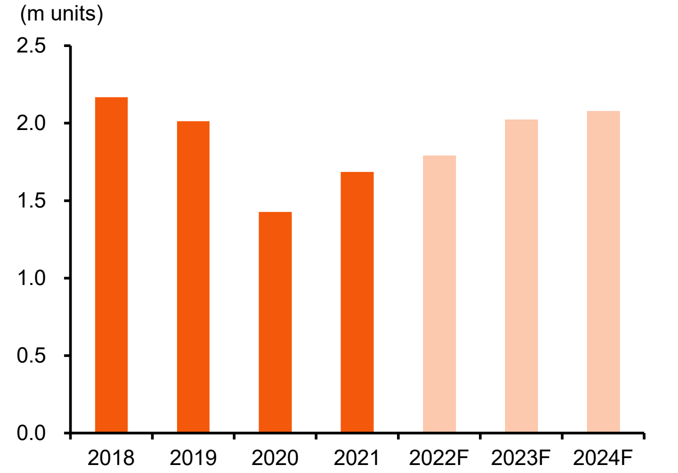
Below, we also highlight mid/small cap stocks that could have greater leverage to falling commodity prices. Our picks include **SAT** which may enjoy lower steel costs. We also believe **UTP** will benefit in a similar manner to SCGP from falling OCC costs. Lastly, **PTG** could see its marketing margin expand in an environment of lower/stable oil prices.

SAT

We view SAT as the key beneficiary of falling steel prices.

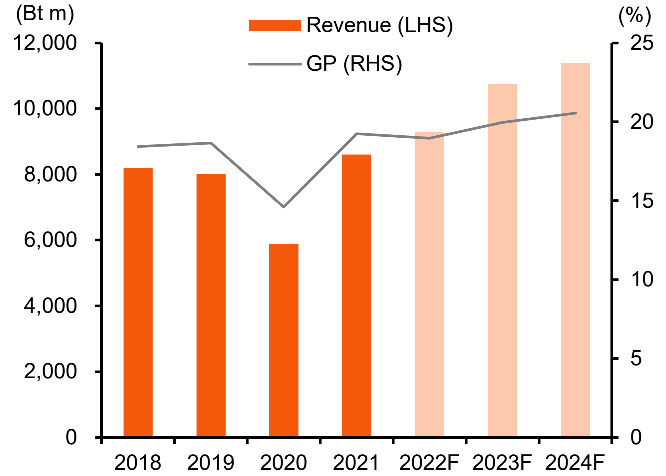
- SAT's key raw material is steel (40% of COGS), and the company suffered a margin squeeze from strong steel prices since 2021. We believe falling steel prices should lead to margin expansion for SAT next year.
- Despite the risk of a future global slowdown, SAT still has a cushion from the growing domestic car market, which accounts for half of total car production.
- Our earnings growth estimates are 6/29/10% in 2023-24F. The stock's value looks very compelling to us at a 2023F PE multiple of 6x. Though we see downside risk to our number, we believe SAT's share price fall has already reflected the bad news of the weaker auto export outlook and high steel costs.

Ex 38: Thailand Auto Production



Sources: FTI; Thanachart estimates

Ex 39: SAT's Sales Revenue And Gross Profit Margin



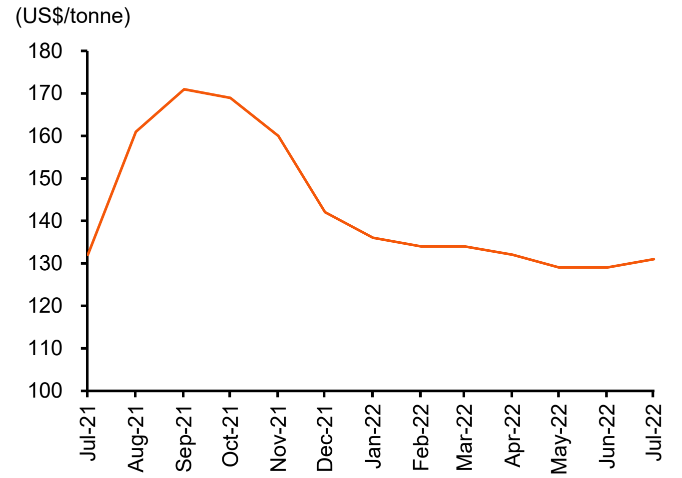
Sources: Company data; Thanachart estimates

UTP

We maintain our positive view on UTP given its improving margin outlook and capacity expansion. Valuation remains attractive in our view at 8x 2023F PE with the potential for 7-8% dividend yields in 2022-23F.

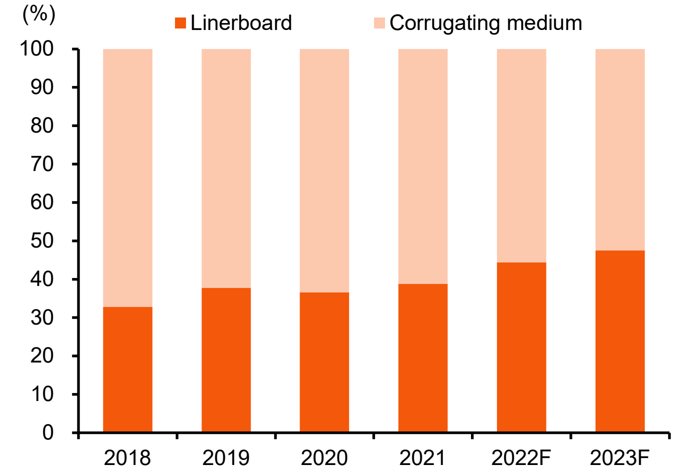
- The price of OCC (old corrugated cardboard), a key raw material, has come down from its peak and has stabilized over the past few months. This is positive for margins as UTP has been able to increase ASP over this period.
- UTP is in the middle of a major capacity expansion that could see its installed capacity increase by over 20% by end 2022. This would contribute to significant volume growth in 2023F.
- The company has been pushing to improve its sales mix by increasing the portion of linerboard sales which command a much higher margin. Management targets a linerboard sales mix of over 40% this year and this portion could go up even more next year with new machinery.

Ex 40: US OCC Price



Sources: Company data; Thanachart estimates

Ex 41: UTP Sales Mix



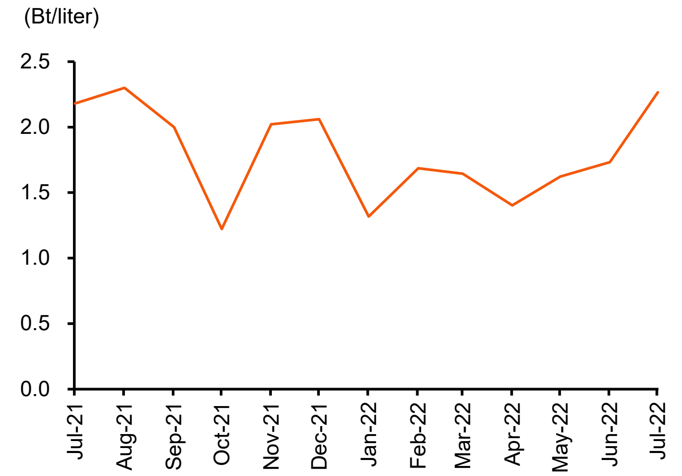
Sources: Company data; Thanachart estimates

PTG

We view PTG as a key beneficiary of falling oil prices as it would help drive a strong margin recovery from 3Q22F onwards.

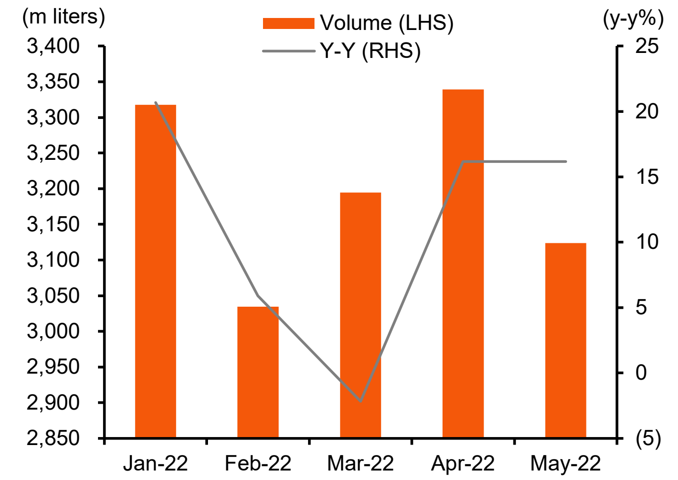
- We believe marketing margin has expanded to over Bt1.9/liter in 3Q22F to date, improving from about Bt1.5/liter in 1Q22F and Bt1.7-1.8/liter in 2Q22F. We expect this trend to continue given lower price pressure at the pump as oil prices ease off.
- We expect volume growth to continue this year with Thailand gasoline and diesel demand growing by over 15% y-y in May, accelerating from about 10% y-y in 4M22. PTG also benefits from growth in LPG as it continues to expand its footprint in this business.
- Valuation remains attractive in our view at 15x 2022F and 13x 2023F PE, well below its three-year average of 19x. Strong sequential earnings improvements are likely to be key catalysts for a re-rating.

Ex 42: Marketing Margin



Sources: Company data; Thanachart estimates

Ex 43: Thailand Gasoline And Diesel Demand



Sources: Company data; Thanachart estimates

Ex 44: 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	70.00	85.00	21.4	27,276	na	na	na	177.6	10.0	9.6	0.0	0.3
BANPU TB	BUY	12.80	17.00	32.8	2,362	132.1	(17.3)	4.0	4.9	1.0	1.0	8.4	7.2
BBL TB	BUY	127.00	165.00	29.9	6,612	14.1	10.5	8.0	7.3	0.5	0.4	3.7	4.1
BDMS TB	BUY	26.50	33.00	24.5	11,487	33.3	8.4	39.8	36.7	4.8	4.5	1.4	1.5
CBG TB	BUY	109.00	138.00	26.6	2,973	44.1	30.0	26.9	20.7	9.1	7.7	2.5	3.2
CENTEL TB	BUY	41.00	48.00	17.1	1,510	na	678.6	269.9	34.7	3.0	2.8	0.0	0.0
ESSO TB	BUY	10.50	16.00	52.4	991	na	(9.9)	5.8	6.4	1.2	1.1	9.5	4.7
KBANK TB	BUY	139.50	190.00	36.2	9,015	13.9	12.0	7.7	6.9	0.7	0.6	2.6	2.9
KTB TB	BUY	14.70	18.00	22.4	5,604	35.6	13.0	7.0	6.2	0.5	0.5	3.4	3.9
SCC TB	BUY	368.00	440.00	19.6	12,045	(24.2)	35.0	12.4	9.2	1.2	1.1	4.0	5.4

Sources: Company data, Thanachart estimates
Note: based on 20 July 2022 closing prices

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	14,870	42,465	74,290
Net profit	(16,322)	(12,079)	5,630	28,213
Norm profit	(15,319)	(12,079)	5,630	28,213
Norm EPS (Bt)	(1.1)	(0.8)	0.4	2.0
Norm EPS grw (%)	na	na	na	401.1
Norm PE (x)	na	na	177.6	35.4
EV/EBITDA (x)	na	na	43.1	19.1
P/BV (x)	8.9	10.0	9.6	8.2
Div yield (%)	0.0	0.0	0.3	1.7
ROE (%)	na	na	5.5	24.9
Net D/E (%)	(6.9)	12.1	13.9	(8.1)

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)	9.4	4.0	4.9	6.5
EV/EBITDA (x)	4.8	3.2	3.0	3.1
P/BV (x)	1.1	1.0	1.0	0.9
Div yield (%)	3.5	8.4	7.2	6.2
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)	9.1	8.0	7.3	6.5
P/BV (x)	0.5	0.5	0.4	0.4
Div yield (%)	2.8	3.7	4.1	4.6
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	80,860	85,693	93,008
Net profit	7,936	10,580	11,473	13,404
Norm profit	7,936	10,580	11,473	13,404
Norm EPS (Bt)	0.5	0.7	0.7	0.8
Norm EPS grw (%)	31.3	33.3	8.4	16.8
Norm PE (x)	53.1	39.8	36.7	31.4
EV/EBITDA (x)	30.6	24.0	22.3	19.6
P/BV (x)	5.0	4.8	4.5	4.2
Div yield (%)	1.7	1.4	1.5	1.9
ROE (%)	9.2	12.3	12.7	13.9
Net D/E (%)	3.5	(0.4)	(8.8)	(14.5)

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)	38.7	26.9	20.7	18.6
EV/EBITDA (x)	28.6	20.4	15.9	14.2
P/BV (x)	10.7	9.1	7.7	6.8
Div yield (%)	1.7	2.5	3.2	4.0
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	269.9	34.7	24.3
EV/EBITDA (x)	39.7	17.9	13.1	11.4
P/BV (x)	3.1	3.0	2.8	2.5
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	5.8	6.4	7.1
EV/EBITDA (x)	29.2	4.1	5.0	4.7
P/BV (x)	1.9	1.2	1.1	1.0
Div yield (%)	0.0	9.5	4.7	4.9
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)	8.8	7.7	6.9	6.1
P/BV (x)	0.7	0.7	0.6	0.6
Div yield (%)	2.3	2.6	2.9	6.5
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)	9.5	7.0	6.2	5.4
P/BV (x)	0.6	0.5	0.5	0.5
Div yield (%)	2.8	3.4	3.9	6.5
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)	9.4	12.4	9.2	7.7
EV/EBITDA (x)	8.8	12.0	8.5	7.2
P/BV (x)	1.2	1.2	1.1	1.0
Div yield (%)	5.0	4.0	5.4	6.5
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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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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