BUY (From: HOLD)

Change in Recommendation

TP: Bt 106.00 (Unchanged)

Upside : 22.2%

15 JULY 2022

Small Cap Research

TISCO Financial Group (TISCO TB)

Banking on yield

With its very wide asset-liability gap, TISCO is vulnerable to rising rates and its share price has underperformed the sector. But well cushioned by hefty excess provisions, we expect TISCO to manage rising cost of funds and pay higher dividends. We upgrade to BUY for 8%-plus dividend yields and 22% potential upside to our TP of Bt106.

SARACHADA SORNSONG

662 – 779 9106

sarachada.sor@thanachartsec.co.th

Thanachart Securities

Very high provisions cushion

TISCO was very cautious during the COVID-19 crisis period. In addition to implementing stricter loan underwriting criteria, it piled up huge management overlay provisions over the past two years. The unwinding of debt-relief programs has not resulted in NPLs increasing as substantially as the bank had previously feared. In fact, TISCO has been able to curb NPLs at below the pre-COVID 2019 level of 2.4%. This has led to its loan-loss-coverage ratio rising to over 230% in 4Q21 and TISCO started to aggressively release excess provisions from 1Q22.

Better positioned to handle rising rates

As in past years, TISCO's portion of fixed-rate loans remains high at 70% of the total. But the mix has changed over time and this has helped ease the rising interest rate hit to its margin. Firstly, the percentage of high-yield loans (used-car and motorcycle-HP loans and auto cash) rose from 17% in 2017 to 23% last year and 24% in 2Q22. Their lending yields are more than double the rate of new-car HP loans with a shorter loan duration. Secondly, TISCO's funding needs are not high due to its selective lending approach. This is unlike when rates were last hiked in 2012 when it had to compete for deposits to support 34% loan growth. Lastly, TISCO has started to lengthen its liability duration while 30% of the bank's deposits are CASA where we expect rates to stay low despite a likely series of policy rate hikes going into next year.

Over 8% yield looks secured to us

TISCO's 2Q22 profits were in line and we just trim our 2022-24F earnings to reflect lower provisions, higher funding costs and lower fees. We roll over our base year to 2023F but maintain our DDM-based 12-month TP of Bt106 as we cut medium- to long-term profits to reflect faster interest rate hikes. Earnings visibility looks clear and we forecast EPS growth of 5% this year and 4% next with the main driver being provision cuts which TISCO has done for the past two quarters. With the BoT removing the 50% dividend payout cap for banking profits, we expect TISCO to pay higher dividends. Assuming it pays 85% of profits as dividends, yield is very attractive at 8.7% this year, rising to 9% in 2023F.

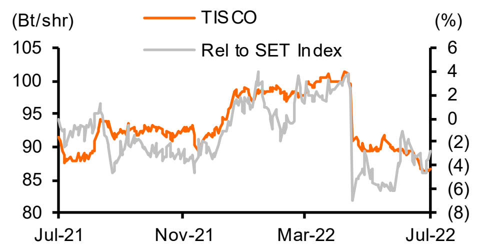
Upgrading to BUY

Admittedly, sentiment toward investing in TISCO is not bullish. But downside appears to be limited as it is now offering very high dividend yields of over 8%. Backed by its strong asset quality and hefty provisions cushion, our DPS forecast looks achievable with risk skewed to the upside. With all-time-high Tier I at the bank level of 21% and modest asset growth prospects, we see a high possibility of TISCO lifting its dividend payout ratio to over 90%. With 22% potential upside to our Bt106 TP, TISCO is now a BUY.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	10,550	9,486	9,847	10,384
Net profit	6,785	7,106	7,373	7,595
Consensus NP	—	7,100	7,146	7,478
Diff frm cons (%)	—	*0.1*	*3.2*	*1.6*
Norm profit	6,785	7,106	7,373	7,595
Prev. Norm profit	—	7,130	7,223	7,573
Chg frm prev (%)	—	*(0.3)*	*2.1*	*0.3*
Norm EPS (Bt)	8.5	8.9	9.2	9.5
Norm EPS grw (%)	11.9	4.7	3.7	3.0
Norm PE (x)	10.2	9.8	9.4	9.1
P/BV (x)	1.7	1.6	1.6	1.5
Div yield (%)	8.2	8.7	9.0	9.3
ROE (%)	16.8	17.0	17.1	17.2
ROA (%)	2.6	2.9	2.9	2.8

PRICE PERFORMANCE

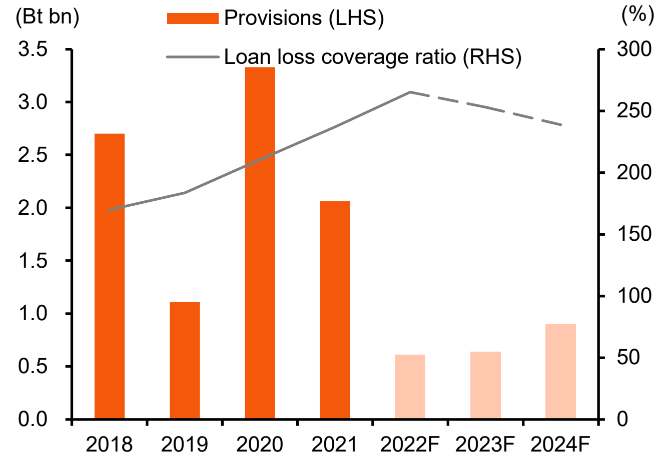


COMPANY INFORMATION

Price: *as of* 15-Jul-22 (Bt)	86.75
Market Cap (US$ m)	1,897
Listed Shares (m shares)	800.6
Free Float (%)	77.4
Avg. Daily Turnover (US$ m)	13.7
12M Price H/L (Bt)	101.50/86.25
Sector	BANK
Major Shareholder	Thai NVDR 10.2%

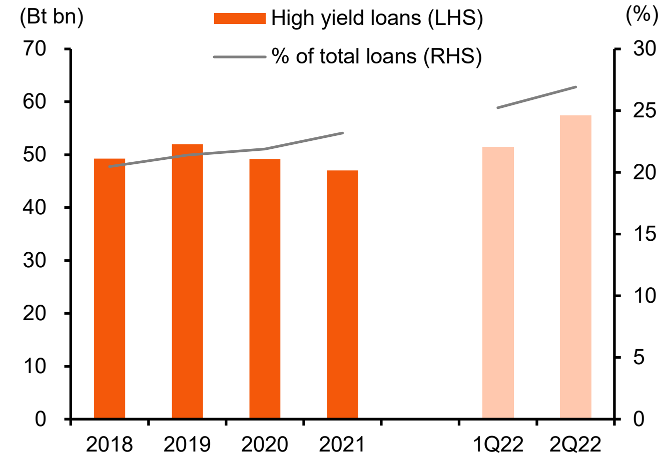
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Excess Provisions Overly High



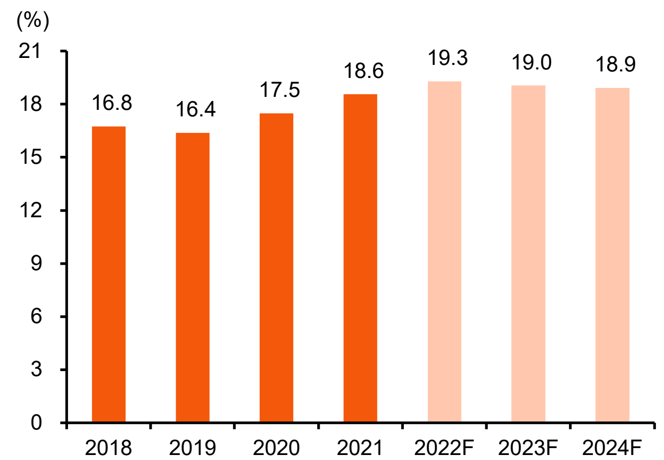
Sources: Company data, Thanachart estimates

Ex 2: Growing High-yield Retail Loans



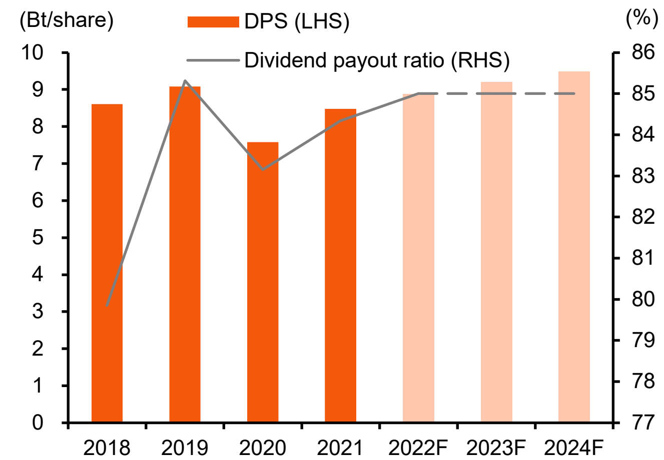
Source: Company data

Ex 3: Tier I Capital



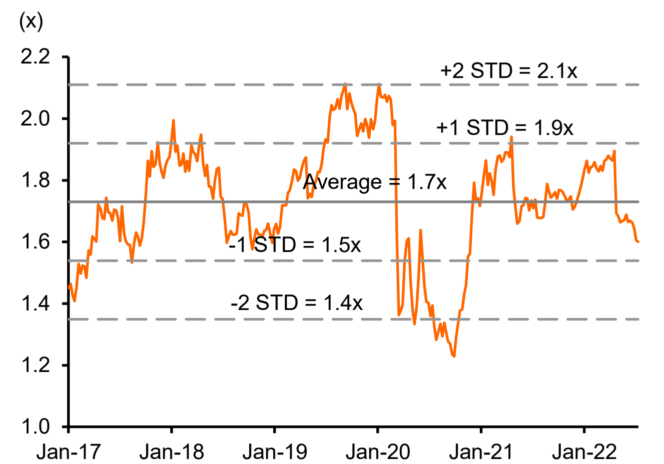
Sources: Company data, Thanachart estimates

Ex 4: Rising Dividends



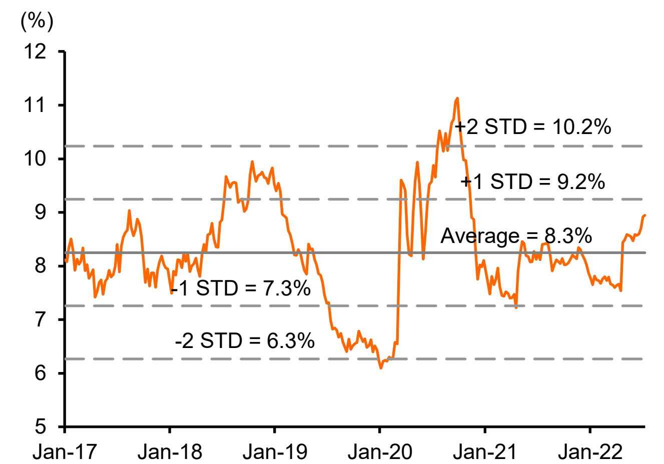
Sources: Company data, Thanachart estimates

Ex 5: STD P/BV



Sources: Bloomberg, Thanachart estimates

Ex 6: STD Dividend Yield



Sources: Bloomberg, Thanachart estimates

Ex 7: DDM-based 12-month TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	6,154	6,361	6,453	6,558	6,878	7,313	7,768	8,360	9,118	9,949	10,875	10,875
Dividend payment	6,154	6,361	6,453	6,558	6,878	7,313	7,768	8,360	9,118	9,949	10,875	121,891

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	10.1
Cost of equity	10.1
Terminal growth (%)	2.0
Equity value	84,942
No. of shares (m)	800
Equity value / share (Bt)	**106.00**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	ROE 22F (%)	ROE 23F (%)	Div. Yield 22F (%)	Div. Yield 23F (%)
BOC Hong Kong Holdings	2388 HK	Hong Kong	17.4	27.3	10.8	8.5	0.9	0.9	8.7	10.5	4.8	6.0
Bank of East Asia	23 HK	Hong Kong	0.7	26.2	6.6	5.2	0.3	0.3	3.9	5.0	7.7	9.0
China Citic Bank Corp	998 HK	Hong Kong	3.3	7.9	2.9	2.7	0.3	0.3	10.3	10.4	9.8	10.6
Hang Seng Bank	11 HK	Hong Kong	5.1	38.8	16.3	11.8	1.3	1.3	8.6	11.3	4.4	5.7
Industrial & Commercial Bk	1398 HK	Hong Kong	5.7	6.4	4.0	3.8	0.4	0.4	11.5	11.3	7.6	8.1
Axis Bank	AXSB IN	India	(15.5)	35.6	17.0	12.6	na	1.6	11.8	14.4	1.6	2.2
ICICI Bank	ICICIBC IN	India	(12.2)	32.1	23.6	17.9	na	2.8	na	16.1	0.7	0.8
State Bank of India	SBIN IN	India	(0.6)	35.5	12.2	9.0	1.5	1.3	14.2	15.5	1.2	1.9
Bank Central Asia	BBCA IJ	Indonesia	16.9	14.2	23.5	20.6	3.9	3.5	17.2	17.9	2.2	2.6
Bank Danamon	BDMN IJ	Indonesia	141.9	na	6.5	na	na	na	8.1	8.4	na	na
Bank Internasional	BNII IJ	Indonesia	na	na	na	na	na	na	na	na	na	na
Bank Mandiri	BMRI IJ	Indonesia	24.9	17.0	9.6	8.2	1.5	1.4	16.4	17.5	5.9	6.8
Bank Pan	PNBN IJ	Indonesia	na	na	na	na	na	na	na	na	na	na
Bank Rakyat	BBRI IJ	Indonesia	23.2	19.2	14.0	11.8	2.0	1.8	14.9	16.4	4.9	5.8
Bank Negara	BBNI IJ	Indonesia	45.4	25.1	8.5	6.8	1.0	0.9	12.3	13.7	3.0	3.9
CIMB Group Holdings	CIMB MK	Malaysia	16.2	21.1	10.1	8.4	0.8	0.8	8.2	9.5	4.8	5.8
Hong Leong Bank	HLBK MK	Malaysia	11.6	15.8	13.0	11.2	1.3	1.3	10.5	11.4	2.9	20.9
Malayan Banking	MAY MK	Malaysia	3.2	16.0	11.9	10.3	1.1	1.1	9.6	10.8	6.5	7.4
Public Bank	PBKF MK	Malaysia	2.3	20.1	na	na	na	na	11.7	13.1	na	na
Industrial Bank of Korea	024110 KS	S Korea	12.6	5.8	2.7	2.6	0.2	0.2	9.2	9.3	9.3	10.0
DBS Group Holdings	DBS SP	Singapore	8.0	16.7	10.3	8.9	1.3	1.2	12.8	14.2	4.8	5.5
Oversea-Chinese Banking	OCBC SP	Singapore	11.9	15.5	9.4	8.1	0.9	0.9	10.2	11.1	5.1	5.8
United Overseas Bank	UOB SP	Singapore	9.1	21.5	10.0	8.2	1.0	0.9	10.4	12.0	5.0	5.9
Bank of Ayudhya	BAY TB*	Thailand	0.9	2.8	9.0	8.7	0.7	0.6	7.9	7.6	2.2	2.3
Bangkok Bank	BBL TB*	Thailand	14.1	10.5	8.0	7.3	0.5	0.4	6.0	6.3	3.7	4.1
KASIKORNBANK	KBANK TB*	Thailand	13.9	12.0	7.7	6.9	0.7	0.6	8.8	9.1	2.6	2.9
Kiatnakin Bank	KKP TB*	Thailand	9.2	16.8	7.5	6.4	0.9	0.9	13.0	13.9	5.4	6.3
Krung Thai Bank	KTB TB*	Thailand	35.6	13.0	6.9	6.1	0.5	0.5	7.9	8.4	3.5	3.9
SCB X	SCB TB*	Thailand	(2.9)	8.3	9.2	8.5	0.7	0.7	7.7	7.9	4.3	4.7
Tisco Financial Group	TISCO TB*	Thailand	4.7	3.7	9.8	9.4	1.6	1.6	17.0	17.1	8.7	9.0
TMBThanachart Bank	TTB TB*	Thailand	20.5	15.0	8.6	7.5	0.5	0.5	5.9	6.5	4.7	5.4
Average			**14.7**	**17.9**	**10.3**	**8.8**	**1.0**	**1.1**	**10.5**	**11.6**	**4.7**	**6.1**

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS

Based on 15 Jul 2022 closing prices

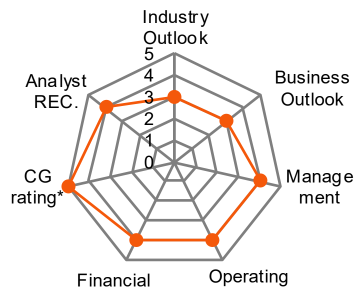
Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

COMPANY DESCRIPTION

TISCO Financial Group Plc (TISCO) was set up by TISCO Group, a well-established Thai financial institution. Under the new shareholding restructure, TISCO has become the parent of TISCO Group. Its subsidiaries comprise TISCO Bank Plc, TISCO Asset Management, TISCO Securities, Hi-Way, TISCO Information Technology and TISCO Tokyo Leasing Co Ltd.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong management execution.
- Low operating cost advantage.
- Agility and flexibility.

W — Weakness

- As a retail-oriented bank, TISCO's business is more geared to the economic cycle than peers.
- Relatively low CASA portion.

O — Opportunity

- Rising penetration of auto cash loans.
- Wealth management.

T — Threat

- Global economic recession.
- New accounting standards and regulations.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	105.00	106.00	1%
Net profit 22F (Bt m)	7,100	7,106	0%
Net profit 23F (Bt m)	7,146	7,373	3%
Consensus REC	**BUY: 14**	**HOLD: 8**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- We share the Bloomberg consensus view on TISCO's earnings outlook. As a result, our TP is in line.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A sharper increase in funding costs than what we have factored in would present the key downside risk to our projected spreads and NIMs.
- Weakening asset quality represents a secondary downside risk to our expectation for a declining provisioning trend.

Source: Thanachart

Supported by lower provisions

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Interest and Dividend Income	16,757	14,792	14,455	15,114	16,063
Interest Expenses	3,659	2,332	2,092	2,804	3,310
Net Interest Income	**13,098**	**12,460**	**12,363**	**12,310**	**12,752**
% of total income	69.3%	66.2%	68.9%	66.1%	65.3%
Gain on Investment	12	6	2	6	8
Fee Income	5,146	5,615	5,358	5,848	6,283
Gain on Exchange	257	404	150	200	200
Others	59	70	70	72	74
Non-interest Income	**5,808**	**6,369**	**5,580**	**6,326**	**6,765**
% of total income	30.7%	33.8%	31.1%	33.9%	34.7%
Total Income	**18,906**	**18,829**	**17,943**	**18,636**	**19,518**
Operating Expenses	8,012	8,279	8,457	8,789	9,134
Pre-provisioning Profit	**10,894**	**10,550**	**9,486**	**9,847**	**10,384**
Provisions	3,331	2,064	612	640	899
Pre-tax Profit	**7,563**	**8,486**	**8,874**	**9,207**	**9,485**
Income Tax	1,498	1,708	1,775	1,841	1,897
After Tax Profit	6,066	6,778	7,099	7,366	7,588
Equity Income	(2)	7	10	10	10
Minority Interest	(0)	(0)	(3)	(3)	(3)
Extraordinary Items	0	0	0	0	0
NET PROFIT	**6,063**	**6,785**	**7,106**	**7,373**	**7,595**
Normalized Profit	**6,063**	**6,785**	**7,106**	**7,373**	**7,595**
EPS (Bt)	7.6	8.5	8.9	9.2	9.5
Normalized EPS (Bt)	7.6	8.5	8.9	9.2	9.5

Strong balance sheet

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Liquid Items	**39,432**	**31,593**	**38,500**	**41,000**	**40,000**
cash & cash equivalents	1,220	1,103	1,000	1,000	1,000
interbank & money market	38,212	30,489	37,500	40,000	39,000
Securities under resale agreeme	0	0	0	0	0
Investments	10,758	8,852	7,967	8,286	8,617
Net loans	**214,888**	**192,922**	**193,512**	**203,054**	**214,753**
Gross and accrued interest	226,714	204,662	205,864	215,193	226,667
Provisions for doubtful	11,826	11,740	12,353	12,139	11,914
Fixed assets - net	2,951	2,901	2,725	2,555	2,368
Other assets	7,413	7,354	6,500	6,565	6,631
Total assets	**275,443**	**243,622**	**249,204**	**261,459**	**272,369**
LIABILITIES:					
Liquid Items	**210,565**	**174,897**	**177,308**	**185,859**	**195,273**
Deposit	203,473	166,542	171,047	178,598	187,012
Interbank & money market	5,808	8,081	6,000	7,000	8,000
Liability payable on demand	1,285	274	261	261	261
Borrowings	12,826	14,962	17,471	19,714	19,728
Other liabilities	12,590	12,563	12,000	12,240	12,485
Total liabilities	**235,981**	**202,422**	**206,779**	**217,813**	**227,486**
Minority interest	3	3	6	9	12
Shareholders' equity	**39,459**	**41,197**	**42,418**	**43,637**	**44,871**
Preferred capital	-	-	-	-	-
Paid-in capital	8,007	8,007	8,003	8,003	8,003
Share premium	1,018	1,018	1,018	1,018	1,018
Surplus/ Others	1,838	1,828	1,828	1,828	1,828
Retained earnings	28,596	30,344	31,569	32,788	34,022
Liabilities & equity	**275,443**	**243,622**	**249,204**	**261,459**	**272,369**

Sources: Company data, Thanachart estimates

Very attractive dividend yield, in our view

Higher cost of funds factored in

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normlized PE (x)	11.4	10.2	9.8	9.4	9.1
Normalized PE - at target price (x)	14.0	12.5	11.9	11.5	11.2
PE (x)	11.4	10.2	9.8	9.4	9.1
PE - at target price (x)	14.0	12.5	11.9	11.5	11.2
P/PPP (x)	6.4	6.6	7.3	7.1	6.7
P/PPP - at target price (x)	7.8	8.0	8.9	8.6	8.2
P/BV (x)	1.8	1.7	1.6	1.6	1.5
P/BV - at target price (x)	2.1	2.1	2.0	1.9	1.9
Dividend yield (%)	7.3	8.2	8.7	9.0	9.3
Market cap / net loans (x)	0.3	0.4	0.4	0.3	0.3
Market cap / deposit (x)	0.3	0.4	0.4	0.4	0.4
(Bt)					
Normalized EPS	7.6	8.5	8.9	9.2	9.5
EPS	7.6	8.5	8.9	9.2	9.5
DPS	6.3	7.2	7.5	7.8	8.1
PPP/Share	13.6	13.2	11.9	12.3	13.0
BV/Share	49.3	51.5	53.0	54.5	56.1

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate (%)					
Net interest income (NII)	2.4	(4.9)	(0.8)	(0.4)	3.6
Non-interest income (Non-II)	(12.4)	9.7	(12.4)	13.4	6.9
Operating expenses	(13.6)	3.3	2.1	3.9	3.9
Pre-provisioning profit (PPP)	7.3	(3.2)	(10.1)	3.8	5.5
Net profit	(16.6)	11.9	4.7	3.7	3.0
Normalized profit growth	(16.6)	11.9	4.7	3.7	3.0
EPS	(16.6)	11.9	4.7	3.7	3.0
Normalized EPS	(16.6)	11.9	4.7	3.7	3.0
Dividend payout ratio	83.1	84.3	85.0	85.0	85.0
Loan - gross	(7.4)	(9.7)	0.6	4.5	5.3
Loan - net	(7.9)	(10.2)	0.3	4.9	5.8
Deposit	(5.8)	(18.2)	2.7	4.4	4.7
NPLs	(3.8)	(11.8)	(6.0)	3.0	4.0
Total assets	(7.6)	(11.6)	2.3	4.9	4.2
Total equity	0.7	4.4	3.0	2.9	2.8
Operating Ratios (%)					
Net interest margin (NIM)	4.6	4.8	5.0	4.8	4.8
Net interest spread	5.7	6.0	6.2	6.2	6.1
Yield on earnings assets	5.8	5.7	5.8	5.9	6.0
Avg cost of fund	1.6	1.1	1.1	1.4	1.6
NII / operating income	69.3	66.2	68.9	66.1	65.3
Non-II / operating income	30.7	33.8	31.1	33.9	34.7
Fee income / operating income	27.2	29.8	29.9	31.4	32.2
Normalized net margin	32.1	36.0	39.6	39.6	38.9
Cost-to-income	42.4	44.0	47.1	47.2	46.8
Credit cost - provision exp / loans	1.5	1.0	0.3	0.3	0.4
PPP / total assets	3.8	4.1	3.8	3.9	3.9
PPP / total equity	27.7	26.2	22.7	22.9	23.5
ROA	2.1	2.6	2.9	2.9	2.8
ROE	15.4	16.8	17.0	17.1	17.2

Sources: Company data, Thanachart estimates

Very substantial provisions cushion

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	110.5	121.9	119.3	119.5	120.2
Loan-to-deposit & S-T borrow ing	110.5	121.8	119.7	119.7	120.4
Net loan / assets	78.0	79.2	77.7	77.7	78.8
Net loan / equity	544.6	468.3	456.2	465.3	478.6
Investment / assets	3.9	3.6	3.2	3.2	3.2
Deposit / liabilities	86.2	82.3	82.7	82.0	82.2
Liabilities / equity	598.0	491.3	487.5	499.1	507.0
Net interbank lender (Bt m)	32,404	22,409	31,500	33,000	31,000
Tier 1 CAR	17.5	18.6	19.3	19.0	18.9
Tier 2 CAR	4.4	4.6	4.6	4.4	4.2
Total CAR	21.9	23.2	23.9	23.4	23.1
NPLs (Bt m)	5,618	4,957	4,660	4,800	4,992
NPLs / Total loans (NPL Ratio)	2.5	2.4	2.3	2.2	2.2
Loan-Loss-Coverage	210.5	236.8	265.1	252.9	238.7

Sources: Company data, Thanachart estimates

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

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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.

Thanachart Securities Pcl.

Research Team
19 Floor, MBK Tower
444 Phayathai Road, Pathumwan Road, Bangkok 10330
Tel: 662 - 779-9119
Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA
Head of Research
Tel: 662-779-9199
pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat
Senior Technical Analyst
Tel: 662-779-9105
pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut
Property, Retail
Tel: 662-779-9109
phannarai.von@thanachartsec.co.th

Sarachada Sornsong
Bank, Finance
Tel: 662-779-9106
sarachada.sor@thanachartsec.co.th

Witchanan Tambamroong
Technical Analyst
Tel: 662-779-9123
witchanan.tam@thanachartsec.co.th

Adisak Phupiphathirungul, CFA
Retail Market Strategy
Tel: 662-779-9120
adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant
Telecom, Utilities
Tel: 662-483-8296
nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom
Auto, Industrial Estate, Media, Prop. Fund
Tel: 662-483-8297
rata.lim@thanachartsec.co.th

Siriporn Arunothai
Small Cap, Healthcare, Hotel
Tel: 662-779-9113
siriporn.aru@thanachartsec.co.th

Sittichet Rungrassameephat
Analyst, Quantitative
Tel: 662-483-8303
sittichet.run@thanachartsec.co.th

Chak Reungsinpinya
Strategy, Insurance, Paper
Tel: 662-779-9104
chak.reu@thanachartsec.co.th

Pattadol Bunnak
Electronics, Food & Beverage, Shipping
Tel: 662-483-8298
pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak
Construction, Transportation
Tel: 662-779-9112
saksid.pha@thanachartsec.co.th

Yupapan Polpornprasert
Energy, Petrochemical
Tel: 662-779-9110
yupapan.pol@thanachartsec.co.th

Thaloengsak Kucharoenpaisan
Analyst, Retail Market
Tel: 662-483-8304
thaloengsak.kuc@thanachartsec.co.th