BTS Group Holdings Pcl (BTS TB) - BUY

News Update

Saksid Phadthananarak | Email: saksid.pha@thanachartsec.co.th

The acquisition of stake in TNL

- **BTS will acquire not more than 50% stake in TNL.**
- **The purchasing price of Bt33.06 is about TNL's book value.**
- **We don't like the deal given expensive valuation and…**
- **… intense competition in the apparel market.**

- BTS and/or its subsidiaries announced to acquire a 41% stake in Thanulux (TNL TB) via the private placement. They will buy 87m newly issued shares of TNL at the price of Bt33.06/share. Then, they will make a tender offer for all stake in TNL. However, Saha Pathana Inter-Holding (SPI TB), which will own 41% stake in TNL after the private placement, agrees not to sell its stake. BTS also mentioned that it has no intention to acquire more than 50% of TNL's shares. Thus, if the tender offer causes BTS to get TNL's shares exceeding 50%, it will dispose of the excess stake to another investor.

- TNL is an apparel manufacturer and distributor with the house brands (e.g. Ozone, Louis Fontaine, Positif+, Excellency, etc.) and the licensed brands (e.g. Absorba, Arrow, Guy Laroche, Daks, etc.). it is a profitable company with a norm profit of Bt143/135/90/11/63m in 2017-21 and Bt43m in 1H22. Its D/E ratio is low at 0.1x and its book value was at Bt33/share.

- Even though there could be synergies between BTS's 52%-owned VGI (VGI TB) and TNL as VGI is expanding into the distribution business, we don't like the deal as;

  First, valuation looks expensive. Even though BTS is buying TNL at its book value, TNL's growth looks to deteriorate even before the COVID-19 crisis. Based on TNL's profit of Bt135/90m in 2018-19 and its 212m shares after the private placement, EPS was at Bt0.64 in 2018 and 0.43 in 2019. With the price of Bt33.06, PE is at 52-77x.

  Second, competition in the apparel market is intense.

  Third, after the private placement, TNL will also increase its capital via a right offering with a ratio of 2.3 existing shares to 1 new share at the price of Bt33.06. This will cause BTS to inject more money if it wants to maintain the stake in TNL.

  Finally, TNL's proceeds from the private placement and right offering will mainly be used to acquire a 90% stake in SPI's 100%-owned Oxygen Asset (which operate lending business to entrepreneurs with securities) and 50% stake in 7 real estate development companies from BTS's 36%-owned U City (U TB) even though those companies' businesses are not related to TNL's main business.

- Our BUY call on BTS is because we like its core mass transit business and we factor in its potential 30-year concession extension to boost its long-term core value.

Key Valuations

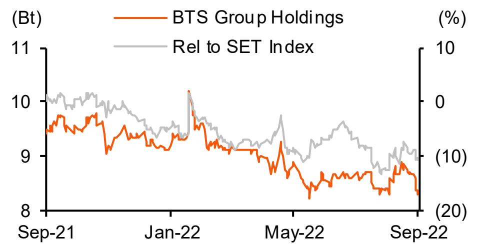
Y/E Mar (Bt m)	2022	2023F	2024F	2025F
Revenue	26,056	19,644	14,738	15,835
Net profit	3,826	2,032	1,911	2,372
Norm net profit	2,751	2,032	1,911	2,372
Norm EPS (Bt)	0.2	0.2	0.1	0.2
Norm EPS gr (%)	5.0	(26.1)	(6.0)	24.2
Norm PE (x)	39.7	53.7	57.1	46.0
EV/EBITDA (x)	27.1	28.6	16.9	15.1
P/BV (x)	1.8	1.8	1.8	1.7
Div. yield (%)	3.7	1.1	1.1	1.3
ROE (%)	4.5	3.3	3.1	3.8
Net D/E (%)	153.8	144.4	138.2	125.7

Source: Thanachart estimates

Stock Data

Closing price (Bt)	8.30
Target price (Bt)	13.00
Market cap (US$ m)	2,897
Avg daily turnover (US$ m)	8.4
12M H/L price (Bt)	10.20/8.20

Price Performance



Source: Bloomberg

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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.

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Thanachart Securities Pcl.

Research Team
18 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