Siam Senses

Three themes for 2023F

We peg our year-end 2023F SET Index target at 1,650, unchanged from our 2022F target. While we see limited upside for the index, we have identified three themes for 2023F: domestic consumption, energy trades, and China's demand recovery

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Limited upside risks for the SET Index

Our 2023F SET Index target implies 15x 2023F PE, in line with the average during 2014-16 but lower than the 16x of 2017-19. We think this is appropriate given the similar backdrop between the current period and 2014-16 both in terms of rates and global growth outlook. Our target also assumes limited downgrades for index EPS though past experience suggests that as the year progresses, earnings could be downgraded by 5-10% on average. As such, instead of adding to the weighting, we think investors should focus on sectors and stocks that benefit from three themes that we have identified: strong domestic consumption, high energy prices, and China's reopening and recovery.

Robust domestic consumption

We expect consumption to remain a key driver of Thailand's economic growth. Data for 3Q22 supports our view with consumption accelerating to 9% y-y growth vs. 7% and 3% growth in 2Q22 and 1Q22, respectively. In our top picks, we have **CPALL** and **BEC** as plays on this theme. We choose to go with broad-based exposure rather than focus on specific segments of retail stocks as we expect key drivers in 2023F to be an improved labor market and easing inflationary pressure. The only exception is **COM7** which we are adding back to our top-buy list given its strong market share gains and inexpensive valuation.

Elevated energy prices

We expect energy prices to remain elevated in 2023F. Firstly, Europe's need to rebuild its energy supply chain and replenish its inventory will help support global gas and coal prices. Secondly, China's easing of COVID measures and government stimulus will likely help drive demand for energy. Lastly, the very low middle-distillate inventories coupled with a tight demand/supply balance for refining capacity should help support refinery margins. Our energy exposure remains unchanged: **BANPU**, **ESSO**, and **TOP**. For BANPU, elevated coal and gas prices, higher domestic prices in Australia, and lower hedging losses are key drivers. ESSO and TOP should benefit from elevated refinery margins with capacity expansion adding to growth in 2023-24F.

China's reopening and recovery

Lastly, we expect Thailand to benefit from China's easing of COVID policies as well as measures to support its real-estate sector. **AOT** could enjoy strong tourist arrivals growth (to 26m in 2023F and 39m in 2024F from under 10m in 2022F) while potential new concession terms could drive earnings to new records in 2024F. **PSL** is likely to enjoy a rate recovery driven by a resurgence in steel and commodities demand. We are also adding **CENTEL** back into the mix as we see its weak 3Q22 results as only a short-term hiccup. Meanwhile, **LH** looks likely to benefit from its hotel and rental property exposure in addition to strong property sales.

Top Picks

Ticker	EPS growth- 22F (%)	23F (%)	— PE — 22F (x)	23F (x)	Yield 23F (%)
AOT	na	na	na	135.3	0.4
BANPU	245.3	(15.2)	2.7	3.2	11.1
BEC	2.9	34.1	24.1	18.0	5.0
CENTEL *	na	681.3	306.8	39.3	0.5
COM7 *	18.3	18.7	24.7	20.8	3.9
CPALL	59.0	60.3	46.2	28.8	1.7
ESSO	na	(31.1)	3.9	5.7	6.3
LH	22.7	15.3	13.2	11.4	7.5
PSL	3.4	1.1	5.2	5.2	10.1
TOP	450.0	(54.1)	3.6	7.9	4.3
Stocks taken out					
BBL	13.2	14.0	9.1	8.0	3.8
KBANK	13.7	11.6	7.9	7.1	2.8

Source: Thanachart estimates
Note: *New addition.
Based on 21 November 2022 closing prices

Three themes to focus on in 2023F

Theme	Top BUYs	Others
Domestic consumption	BEC, COM7, CPALL	CPN, CRC, HMPRO
High energy prices	BANPU, ESSO, TOP	PTTEP, SPRC, BCP
China reopening / recovery	AOT, CENTEL , PSL, LH	SCGP, UTP, PRM, PTTGC, IRPC, WHA, AMATA

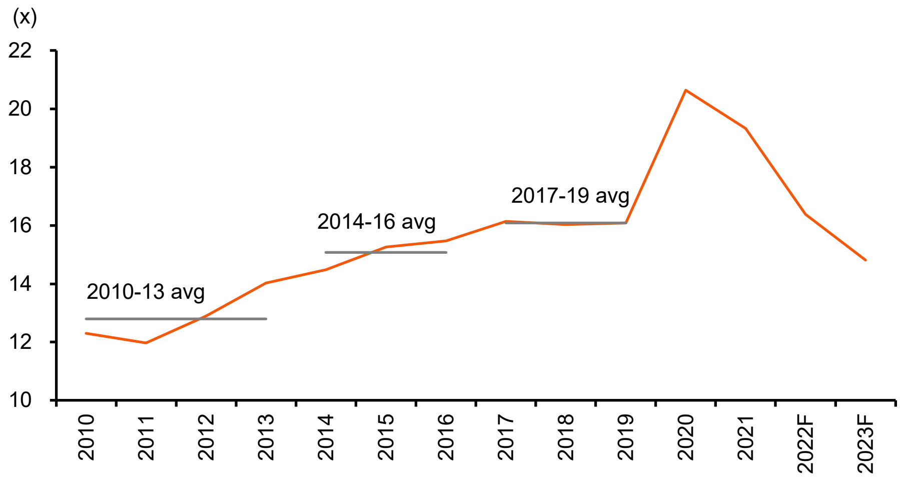
Sources: Company data, Thanachart estimates

Limited upside risks for the SET Index

Our SET target for year-end 2023F is 1,650, unchanged from our end-2022F target

We see limited upside risks for the SET Index and peg our year-end 2023F target at 1,650, unchanged from our 2022F year-end target. Our view is centered around limited earnings growth (and potentially with more downgrades to come) amid de-rating headwinds. At our current earnings forecast, our target implies 15x 2023F PE, which is at a discount to the average multiple of 16.1x during 2017-19 but in line with the average during 2014-2016 (15.1x) when bond yields were similarly elevated and global growth outlook similarly uncertain. We see risks that the market will re-rate to 16x PE or higher as low given the unfavorable backdrop. The fact that the index plateaued at 16x back in 2017-18 when the global growth outlook was much better also suggests that there is a limit to how much investors are willing to re-rate the Thai market. On the opposite end, we also do not expect the market to de-rate to 12-14x, which it used to trade at in 2010-13. This is primarily because policy rates and bond yields now are much lower than in those years.

Ex 1: SET Index Average PE

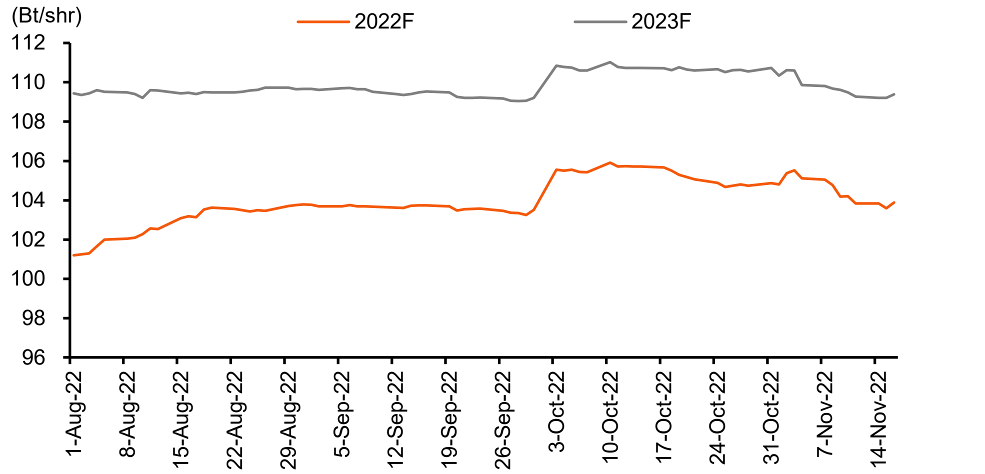


Sources: Bloomberg, Thanachart estimates

Earnings downgrades represent potential downside risks

Over the past few weeks, we have begun to see other brokers cutting their earnings estimates for both 2022F and 2023F. This is a reversal from the series of upgrades we have seen for much of the first 10 months. While the magnitude of the downward revisions so far has been limited (just a little over 1% for both years), we think that as all the results come out, more downgrades could be forthcoming.

Ex 2: Consensus SET Index EPS Downgrades In Recent Weeks

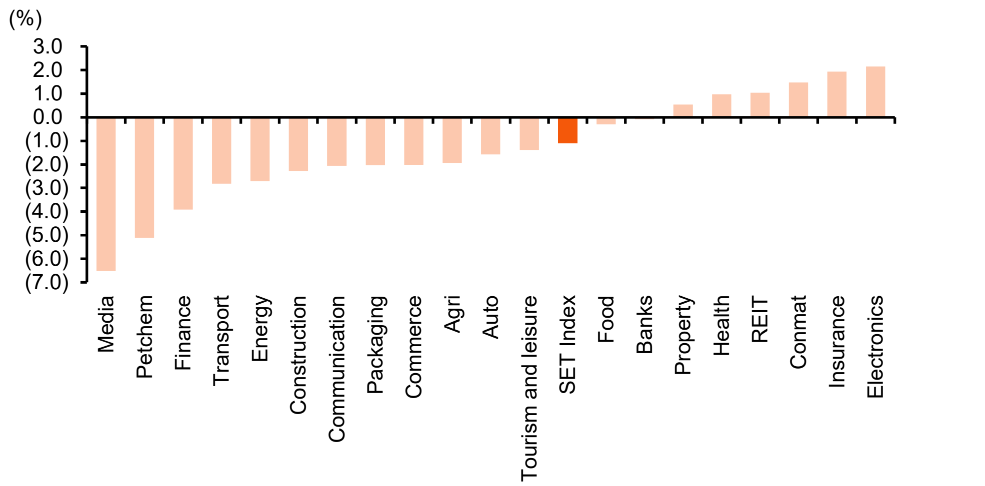


Source: Bloomberg

Earnings downgrades, typically 5-10% throughout the year, could represent downside risk to our target

Major sectors that have seen the most severe downgrades include petrochemicals, finance, transport, telcos, and even energy. On the opposite end, few major sectors have seen upgrades with the notable exceptions being electronics, construction materials, and healthcare (the latter barely 1%). In short, the downgrades were broad-based and steep while the upgrades were few and far in between.

Ex 3: Recent* Consensus 2023F EPS Upgrade/Downgrades By Sectors

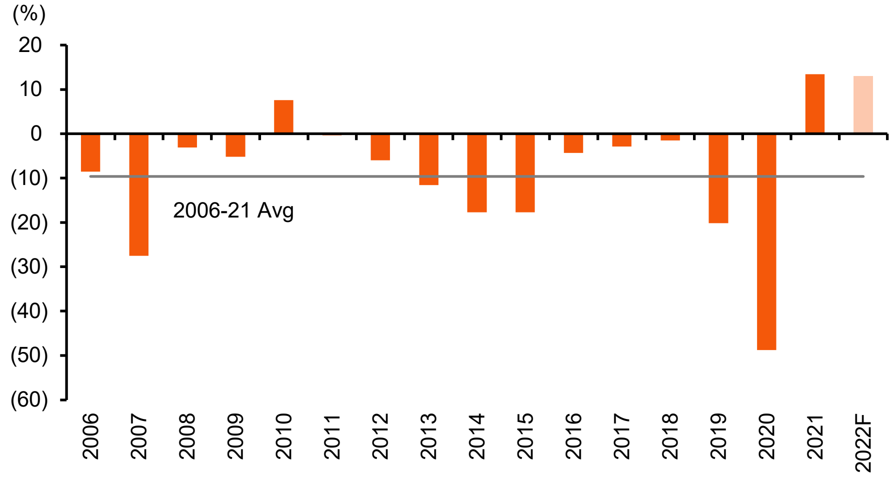


Sources: Bloomberg, Thanachart estimates

Note: *Since 31 October

The recent earnings revisions trend points to the potential for further downgrades. This would be in line with previous years where the consensus lowered its earnings estimate for the market in 14 out of 17 years (2006-2022YTD). 2021 and 2022YTD have been major exceptions where the consensus has upgraded its earnings estimates, although those upward revisions came after the almost 50% EPS cut in 2020. The only other year when we saw Street earnings upgrades for the SET Index was 2010. Again, this was during the aftermath of the 2008-09 financial crisis when expectations were already low. The average earnings revision from the beginning of the year to the end of the year in 2006-2021 is -9.6%. The median figure is -5.6%.

Ex 4: A History Of Consensus SET Index EPS Revisions



Sources: Bloomberg, Thanachart estimates

De-rating headwinds still here

We have written about potential de-rating headwinds many times in recent months. Looking to next year, we think those factors will remain. These include a further tightening of financial conditions (including in Thailand), high bond yields, and global macro headwinds. Please refer to our report *Siam Senses — De-rating headwinds*, dated 21 October 2022 for more details.

Three themes for 2023F

While we see limited upside for the index as a whole, we see three broad themes that we think offer attractive investment opportunities. Firstly, we expect domestic consumption to remain strong. We already have **BEC** and **CPALL** on our top-buy list but are adding **COM7**. Other names to consider include CPN and CRC (which also benefit from the tourism revival) and HMPRO. The second theme we like is the ongoing disruption in the energy market which will likely keep prices elevated. **BANPU**, **ESSO**, and **TOP** remain our top BUYs in this space. We also think PTTEP, SPRC, and BCP could benefit from the same trend. Lastly, we expect China's reopening and economic recovery to be major drivers. We have **AOT** on our top-ten list as a play on tourism growth but are now adding **CENTEL** back into the mix. We also expect **PSL** to benefit from China's demand for raw materials (especially iron ore) amid tight supply for dry bulk vessels. **LH** is on our top-buy list mainly for its strong property market but the stock also benefits from the turnaround in tourism (c.7-8% of profit comes from its hotel and rental income). Other names to benefit from China's recovery are PRM, PTTGC, IRPC, WHA, and AMATA.

Ex 5: Three Themes To Focus On In 2023F

Theme	Top BUYs	Others
Domestic consumption	BEC, COM7, CPALL	CPN, CRC, HMPRO
High energy prices	BANPU, ESSO, TOP	PTTEP, SPRC, BCP
China reopening / recovery	AOT, CENTEL, PSL, LH	SCGP, UTP, PRM, PTTGC, IRPC, WHA, AMATA

Sources: Company data, Thanachart estimates

In this update, we completely remove banks (BBL, KBANK) from our top-buy list. We think the view on interest rate hikes is already entrenched and partially reflected in the banks' share prices (which have already outperformed the index). We do not think the Bank of Thailand (BOT) will be as hawkish as central banks in the developed markets (the Fed, ECB) given the lower inflationary pressure in Thailand. Therefore, we see limited catalysts for bank stocks in the near term.

Robust domestic consumption

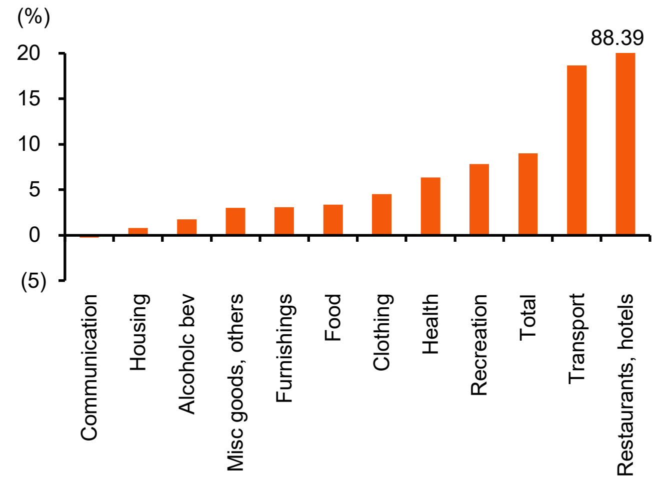
Domestic consumption grew by 9% y-y in 3Q22 vs. 7% / 3% in 2Q22 / 1Q22

Thailand's private consumption has been one of the strongest drivers for the economy this year. The latest data for 3Q22 shows consumption growth continues to accelerate to a 9% y-y pace, up from 7% in 2Q22. Even if we account for the low base effect (the 3Q21 figure was -3%), it would still compare favorably to the growth seen in the pre-COVID years (typically 3-4%). Again, categories leading the charge are those related to travel, tourism, and leisure activities. Growth in hotels and restaurant services was almost 90% y-y whereas that for transportation was almost 20%. Recreation and healthcare round out the leaderboard. On the opposite end, segments that benefited during the COVID-lockdown years (housing, alcohol) have started to see slower growth. We also saw an outright contraction in the case of communication spending.

Ex 6: Thailand Consumption Growth Still Robust

Source: NESDB

Ex 7: Growth By Category



Source: NESDB

The improvement in private consumption has been reflected partly in the same-store sales growth figures. In particular, we have seen very strong growth among companies with relatively high exposure to tourism such as CPALL, CPN, and CRC whereas home-improvement stores (which were less impacted by COVID restrictions) saw a slower growth trend. Compared to pre-COVID figures, we think CPALL, CPN, and CRC have the most to gain from domestic consumption growth. However, CPN and CRC are not among our top picks due to valuation and since we prefer COM7 for exposure to discretionary spending.

Ex 8: Retailers' Same-store Sales Growth

(%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22F
SSSG												
BIGC	(5.3)	(17.0)	(17.8)	(20.8)	(21.6)	(14.3)	(6.6)	(0.1)	2.9	5.2	(2.4)	4.0
CPALL	(4.0)	(20.2)	(14.3)	(18.0)	(17.1)	2.1	(9.2)	1.3	13.0	14.2	22.1	12.0
CPN	(2.9)	(61.0)	(20.0)	(23.0)	(25.0)	55.0	(45.0)	(8.0)	15.0	40.0	102.0	27.0
CRC	(13.0)	(36.0)	(15.0)	(20.0)	(16.0)	10.0	(23.0)	9.0	11.0	24.0	43.0	3.0
GLOBAL	(7.0)	(20.0)	(5.6)	(3.4)	13.7	35.0	12.6	15.0	7.4	1.5	4.3	0.0
HMPRO	(6.1)	(17.0)	(3.7)	(6.3)	0.6	13.7	(11.0)	11.0	3.1	(1.1)	17.8	0.0
MAKRO	7.0	(3.6)	3.9	0.6	(1.2)	6.1	1.3	4.1	1.0	7.4	8.9	6.0
MC	(26.0)	(34.7)	(4.4)	(8.9)	11.5	12.1	(43.4)	(5.7)	(7.7)	43.0	86.0	10.0
COM7	(4.5)	(8.7)	11.3	10.5	36.9	36.8	1.3	35.2	15.2	15.1	38.2	0.4
Average	**(6.9)**	**(24.2)**	**(7.3)**	**(9.9)**	**(2.0)**	**17.4**	**(13.7)**	**6.9**	**6.8**	**16.6**	**35.5**	**6.9**
SSSG Vs. Pre-Covid												
BIGC	(5.3)	(17.0)	(17.8)	(20.8)	(25.8)	(28.9)	(23.2)	(20.9)	(23.6)	(25.2)	(25.1)	(17.7)
CPALL	(4.0)	(20.2)	(14.3)	(18.0)	(20.4)	(18.5)	(22.2)	(16.9)	(10.1)	(7.0)	(5.0)	(7.0)
CPN	(2.9)	(61.0)	(20.0)	(23.0)	(27.2)	(39.6)	(56.0)	(29.2)	(16.3)	(15.4)	(11.1)	(10.0)
CRC	(13.0)	(36.0)	(15.0)	(20.0)	(26.9)	(29.6)	(34.6)	(12.8)	(18.9)	(12.7)	(6.4)	(10.2)
GLOBAL	(7.0)	(20.0)	(5.6)	(3.4)	5.7	8.0	6.3	11.1	13.6	9.7	10.9	11.1
HMPRO	(6.1)	(17.0)	(3.7)	(6.3)	(5.5)	(5.6)	(14.3)	4.0	(2.6)	(6.7)	1.0	4.0
MAKRO	7.0	(3.6)	3.9	0.6	5.7	2.3	5.3	4.7	6.8	9.8	14.6	11.0
MC	(26.0)	(34.7)	(4.4)	(8.9)	(17.5)	(26.8)	(45.9)	(14.1)	(23.8)	4.7	0.6	(5.5)
Average	**(7.2)**	**(26.2)**	**(9.6)**	**(12.5)**	**(14.0)**	**(17.3)**	**(23.1)**	**(9.3)**	**(9.4)**	**(5.3)**	**(2.6)**	**(3.0)**

Sources: Company data, Thanachart estimates

We believe CPALL will continue to benefit from the broad-based consumption recovery. Its same-store sales remain 5% below the pre-COVID years and we see upside risks to our estimate for 4Q22F (where we assume 7% below the pre-COVID years). Inbound tourism, minimum wage hikes, and potential government stimulus early in 2023F are all near-term drivers for the stock.

BEC and CPALL remain our top BUYs for consumption plays; we also add COM7

We have been disappointed with BEC but believe the worst is over and that the share price already reflects the slow recovery in advertising spending. Going forward, we expect spending to improve as we head into the high consumption season (year-end 2022 and early 2023).

Lastly, we are adding COM7 to our top-buy list as a play on consumption. We also like COM7 for its ability to gain market share from rivals and its scale advantage. At 20x forward PE, it is also one of the least expensive in the retail sector.

Ex 9: Consumption Play List

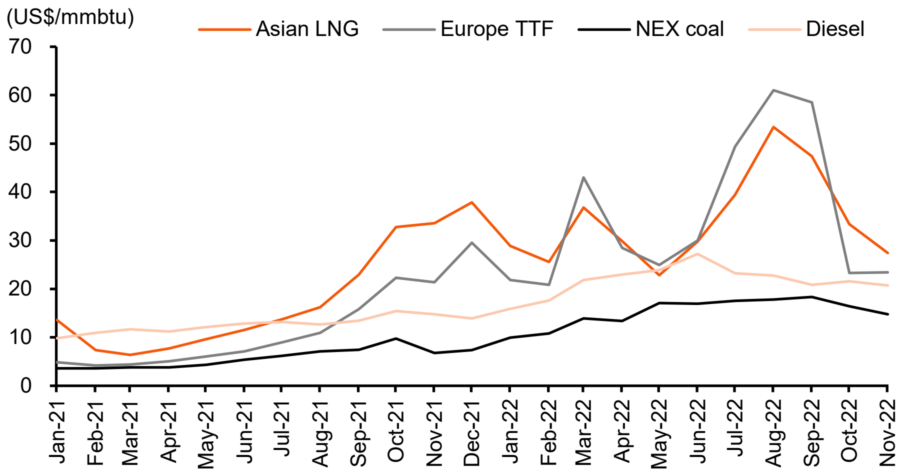
Ticker	Rating	Current price	Target price	*Upside*	Market cap	Norm EPS growth		— Norm PE —		—— P/BV ——		— Yield —	
						2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
		(Bt/shr)	(Bt/shr)	*(%)*	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
BEC TB	BUY	10.50	17.00	*61.9*	580	2.9	34.1	24.1	18.0	3.1	3.0	3.9	5.0
CPALL TB	BUY	63.00	75.00	*19.0*	15,617	59.0	60.3	46.2	28.8	5.1	4.6	1.1	1.7
COM7 TB	BUY	31.75	39.00	*22.8*	2,103	18.3	18.7	24.7	20.8	10.3	8.6	1.8	3.9
CPN TB	BUY	69.25	77.00	*11.2*	8,576	152.2	30.4	36.5	28.0	3.9	3.5	1.3	1.6
CRC TB	BUY	42.50	50.00	*17.6*	7,073	na	45.0	43.9	30.3	4.3	3.9	0.9	1.3
HMPRO TB	BUY	14.80	18.00	*21.6*	5,371	14.0	17.7	31.4	26.7	8.2	7.6	2.6	3.0

Sources: Company data, Thanachart estimates
Note: based on 21 November 2022 closing prices

High energy prices to persist

We expect energy prices to remain elevated, supported by the ongoing disruption due to the war in Ukraine. In particular, we see three major drivers for the sector: Europe's need to rebuild its gas storage post-winter, a potential demand resurgence in China, and decades-low middle distillate inventories amid a tight refinery supply/demand balance. These factors continue to favor coal and diesel which remain cheaper than Asian LNG and Europe's TTF gas prices.

Ex 10: Energy Prices Converted To $/mmbtu – Coal & Diesel Remain Attractive Vs. Gas



Sources: Company data, Thanachart estimates

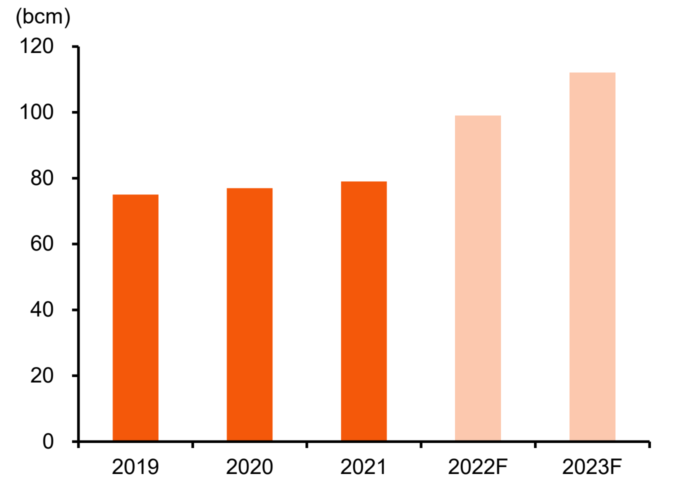
Europe's need to rebuild its gas storage

Lower Russian flow, stronger Chinese demand, and limited new supply will support global gas prices

We believe the biggest driver of energy prices in 2023F remains disruptions caused by the war in Ukraine. Specifically, Europe's need to rebuild its energy storage levels amid low Russian supply and various sanctions. According to the IEA, Europe could be short of as much as 30bcm of natural gas next summer (almost 30% of Europe's storage capacity), which is a crucial time for rebuilding inventory for winter 2023/24. This volume is equivalent to half of Europe's need to replenish its gas inventory back to 95% before next winter. In 2023, we see several factors which may make it equally, if not more difficult than 2022, for Europe to replenish its gas supply.

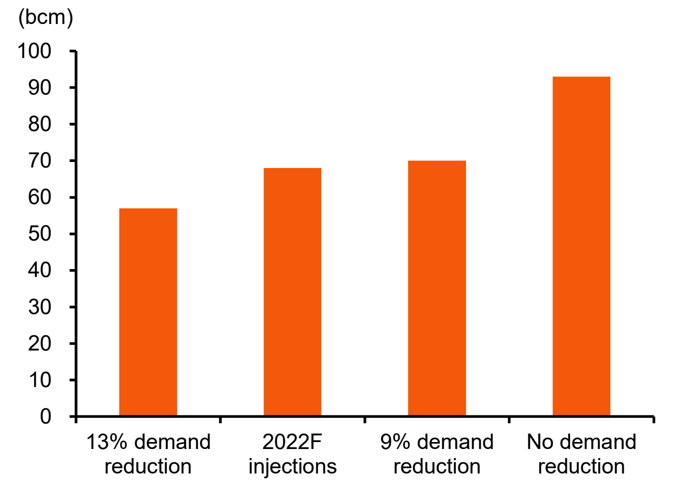
- **Reduced Russian flow:** Firstly, Russian supply remained close to normal for 1H22. Even after the supply cut, Europe is likely to receive around 60bcm of gas in 2022F. Next year, however, with already reduced flow, Europe could receive less than half of that volume. The threat of a complete cutoff of Russian gas flow adds further to the supply risk.
- **China's demand recovery:** Secondly, China has been absent in competing for LNG cargoes this year due to its slow economic growth. In 10M22, China's demand for LNG has been reduced by about 19bcm, the bulk of which was snapped up European buyers as resale cargoes. Next year, we expect China's demand for LNG to recover along with its economic activities. This could mean fewer LNG cargoes available to European buyers.
- **Limited new LNG supply:** Lastly, global growth in LNG supply is at the lowest level in many years. In fact, with just 20bcm additional LNG export capacity, growth in 2023F is less than half of the average seen during 2016-19. What's more, the bulk of this has already been contracted to Chinese buyers. With the recent order by the Chinese government to its energy companies to halt the resale of LNG cargoes, this leaves Europe at risk of having to compete with other countries for the little of what is left of the extra LNG supply.
- **TTF price higher than Asian LNG price:** We also note that Europe's ability to refill its storage so far in 2022 comes at a great cost. In other words, without gas prices in Europe being so high, the continent may not have been able to attract sufficient supply. In 2023F, we think a similar dynamic may play out.

Ex 11: China's LNG Supply Contracts



Sources: IEA

Ex 12: Europe's Gas Needs To Refill Storage Next Winter



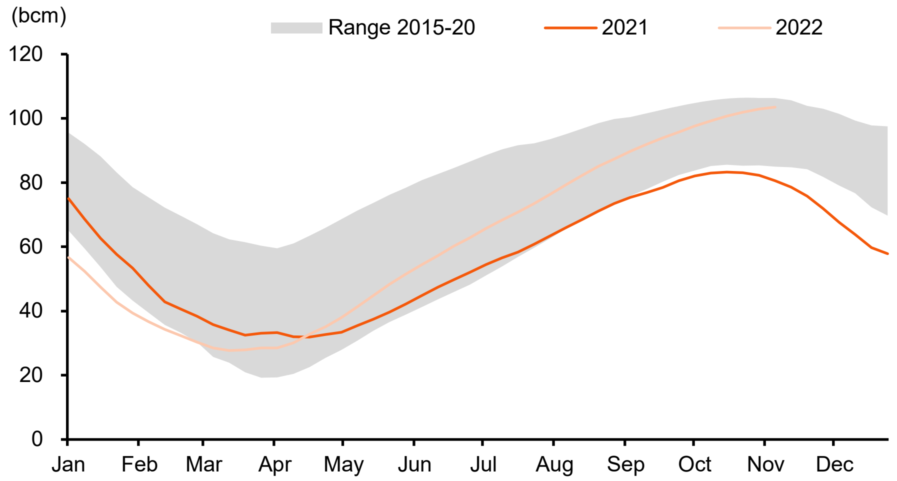
Source: IEA

Note: *Demand reduction vs 5-year average

Given the above risks, we think the market has been too complacent with regard to the potential supply risk to Europe. While storage is above the historical average at 95%, that extra 5% could evaporate within just a few days if there is a severe cold spell. As such, we expect global gas prices to remain elevated with potential spikes in the upcoming winter, especially as we get close to spring.

The extra 5% the EU has in its gas storage now vs. past average could be consumed in a few days

Ex 13: EU's Gas Storage



Source: bruegel

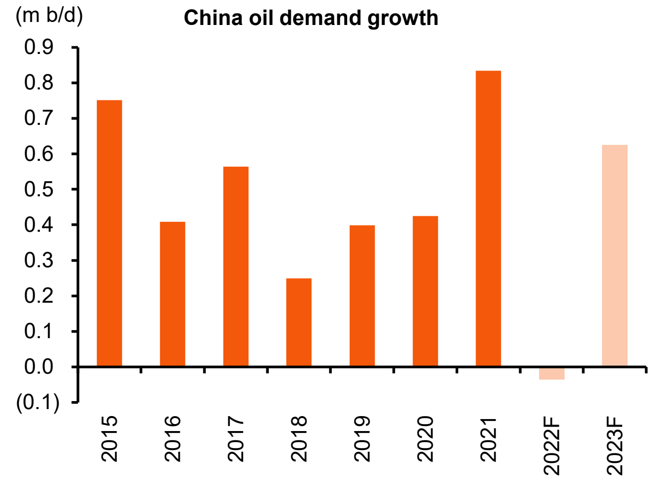
China's demand resurgence

We expect China's demand for oil and refined products to be a major 2023F driver

The energy industry has been severely hit by China's "zero-COVID" policy in 2022. We expect the sector to benefit from China easing the policy across the board.

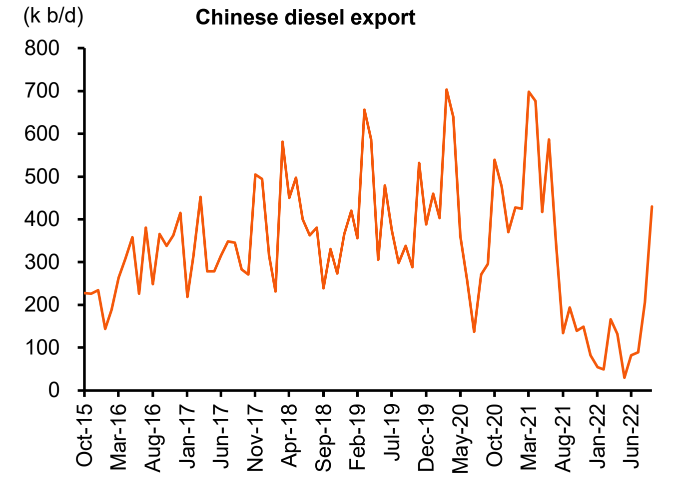
- **Crude oil:** China oil demand was lower by 1% from January-October 2022. The country's average oil demand growth was at 0.5m b/d during 2017-21. Additionally, the market is anticipating the country to see positive growth this year. The International Energy Agency (IEA) already cut its China oil demand growth forecast by 0.6m b/d in 2022 and now expects small positive growth from China. Apart from China potentially easing lockdowns, we believe that Chinese crude oil imports are likely to be robust in November and the early part of December. This is given that China issued its fuel export quotas to its refiners for 2022 at the end of September. This could boost refinery runs regardless of potentially weaker domestic demand.
- **Refinery:** The refinery sector was impacted by a reversal in China's restricted export policy due to severe impacts from the lockdowns. China issued a substantial new refined oil export quota for its refineries at the end of September. As a result, China's diesel exports accelerated significantly in September after being severely restricted over the previous 13 months. Exports were boosted to 1.73 million tonnes (430,000 b/d) in September, up from an average of 460,000m tonnes (114,000 b/d) between August 2021 and August 2022. Note that volume recovered to equal the average of 1.72m tonnes per month between 2018 and the first half of 2021 before the government began restricting them. We believe that if the lockdowns ease, China should reverse its export policy.

Ex 14: Chinese Oil Demand Falling On Zero-COVID Policy



Source: EIA

Ex 15: China Reversed Its Restricted Export Policy



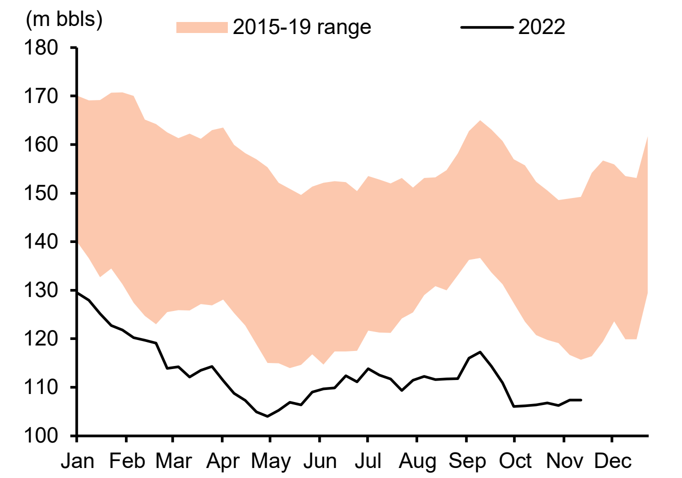
Source: Bloomberg

Decades-low middle distillate inventories

Inventories of diesel and jet fuel are at decade-low despite increased exports from China

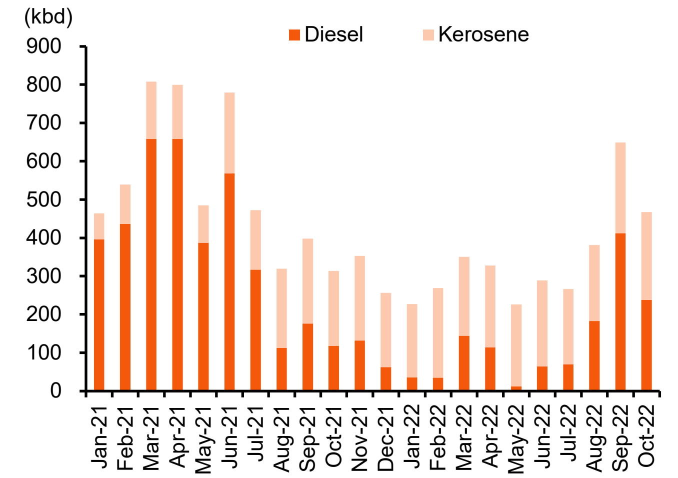
Middle-distillate inventories at key storage hubs are at very low levels. In particular, storage in the US is at the lowest level in over a decade. We think strong demand this winter (for heating, electricity generation, and air travel) could push the availability of middle distillates even lower. We note that inventories overall have been low despite China's push to export more oil products. Given that we expect China's demand to recover, we do not think the country can keep up the pace of current exports. Therefore, the demand/supply for middle distillates could be even tighter heading into next year.

Ex 16: US Middle Distillate Inventories At Decade Low…



Source: Bloomberg

Ex 17: …Even As China Pushed To Export More



Source: Bloomberg

Ex 18: Energy Play List

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)	(%)	(%)
BANPU TB	BUY	12.60	19.00	*50.8*	2,940	245.3	(15.2)	2.7	3.2	0.9	0.9	12.7	11.1
ESSO TB	BUY	12.00	18.00	*50.0*	1,146	na	(31.1)	3.9	5.7	1.3	1.2	18.3	6.3
TOP TB	BUY	53.75	70.00	*30.2*	3,313	450.0	(54.1)	3.6	7.9	0.7	0.7	5.6	4.3
PTTEP TB	HOLD	186.50	159.00	*(14.7)*	20,432	77.0	(15.4)	9.5	11.2	1.6	1.4	3.2	3.8
SPRC TB	BUY	11.10	15.50	*39.6*	1,328	na	(39.5)	4.2	7.0	1.1	1.0	10.8	4.2
BCP TB	BUY	31.25	39.00	*24.8*	1,187	116.4	(34.9)	4.3	6.6	0.7	0.7	5.8	3.8

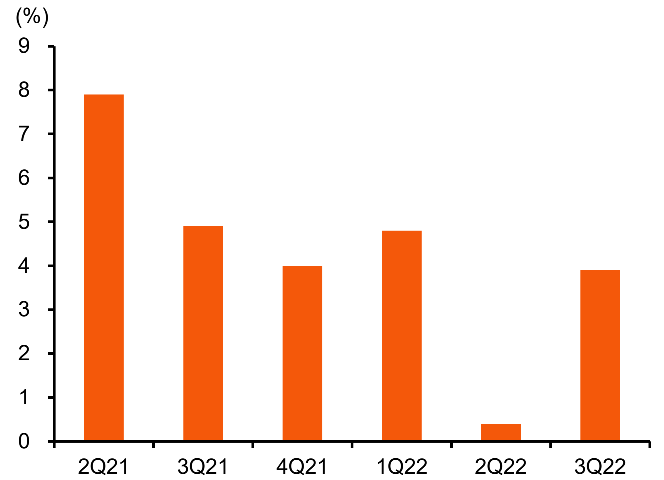
Sources: Company data, Thanachart estimates
Note: based on 21 November 2022 closing prices

China's reopening and recovery

China's easing of COVID policies and strong economic growth underpin our stock calls

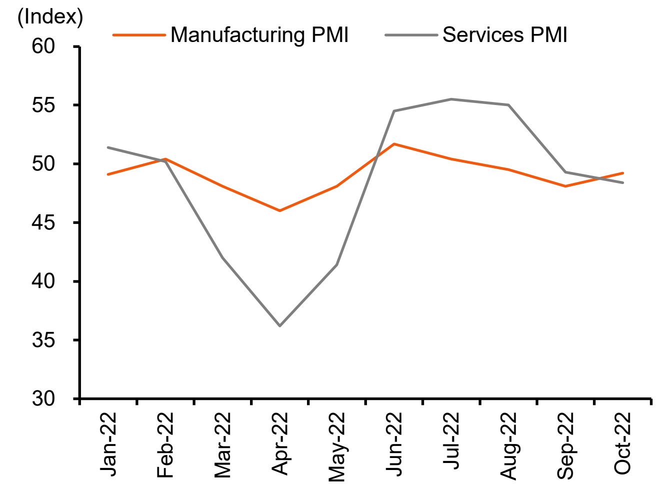
We expect China's easing of its zero-COVID policy and an economic recovery to help drive the performance of many sectors. China's economic growth this year is likely to fall well short of the government's target due in large part to its zero-COVID policy and the slowdown in the real-estate sector. However, we expect both of these trends to reverse next year which will help growth to accelerate in 2023F. We think the sectors that stand to benefit the most from stronger demand in China are shipping, packaging, and chemicals. At the same time, the potential border reopening (or at least easing of COVID policies) should help drive tourism-related sectors as well as spur additional FDI inflows into Thailand which will likely benefit industrial estate companies. We discuss these in more detail below.

Ex 19: China's Quarterly GDP Growth Y-Y



Source: Bloomberg

Ex 20: Caixin Manufacturing And Services PMIs



Source: Bloomberg

Shipping (dry bulk and oil tankers)

Dry bulk shipping set to benefit from improved China's demand for iron ore

Global dry bulk demand has taken a hit this year. Firstly, the war in Ukraine has significantly impacted the grain trade. Total grain shipments are likely to decline by almost 80m tonne-miles, down more than 2% y-y. Secondly, the slowdown in China, particularly its real estate sector, has also negatively impacted iron ore demand. In 2022F, iron ore demand shipment is expected to decline by over 180m ton-miles (c.2%) from the 2021 level. The declines in these two product categories have reduced the global dry bulk trade to just 0.6% y-y growth in 2022F. On the other hand, fleet growth has reached over 3%. As such, we have seen freight rates declining by almost 50% YTD and almost 65% from their peak in May.

Heading into 2023F, however, we expect the trend to reverse. Demand growth will likely be supported by a recovery in China's real-estate sector. The government's announcement of measures to support the country's real-estate sector will likely help spur construction and therefore demand for iron ore. Meanwhile, the grain trade in Ukraine will likely have a much smaller impact (due to a low base) as supply growth in other countries (spurred by high prices this year) will likely push the total grain trade to grow by over 100m tonne-miles. As such, we believe total dry bulk trade growth will accelerate to over 2% in 2023F. On the other hand, supply growth is likely to slow down to just 0.6% due to decades-low order books and limited new orders. We think orders for new vessels will remain restricted in the next three to five years due to attractive second-hand prices vs. newbuilding prices and uncertainties over zero-emission technologies. Moreover, IMO regulations could lead to slow steaming from 2H23F onwards, thereby limiting supply further. Given a tightening demand/supply balance, we expect freight rate to recover from current levels. This is a positive tailwind for **PSL** and **TTA** (TTA TB, not rated).

Ex 21: Global Dry Bulk Trade Demand And Supply

Cargoes/supplies	Units	2017	2018	2019	2020	2021	2022F	2023F
Iron ore	Ton-miles (bn)	8,190	8,190	8,022	8,408	8,545	8,359	8,448
Coal	Ton-miles (bn)	4,881	5,204	5,136	4,655	4,912	5,040	5,126
Grains	Ton-miles (bn)	3,272	3,158	3,383	3,743	3,801	3,723	3,897
Minor bulk	Ton-miles (bn)	10,514	10,951	11,092	11,039	11,650	11,948	12,238
Total trade	Ton-miles (bn)	**26,857**	**27,503**	**27,633**	**27,845**	**28,908**	**29,070**	**29,709**
Change	*(%)*	*5.1%*	*2.4%*	*0.5%*	*0.8%*	*3.8%*	*0.6%*	*2.2%*
Dry bulk fleet	MDWT	**814**	**841**	**873**	**907**	**939**	**971**	**977**
Change	*(%)*	*2.9%*	*3.4%*	*3.9%*	*3.8%*	*3.5%*	*3.4%*	*0.5%*

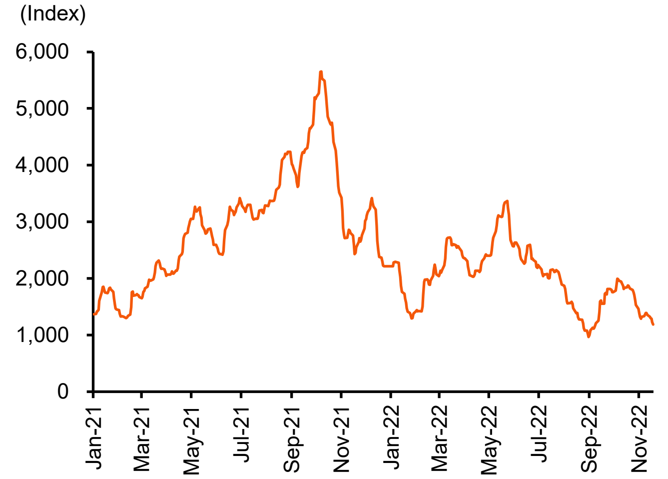
Sources: Bloomberg, Thanachart estimates

Oil tanker rates have surged…

…and could remain high next year on strong demand and tight supply

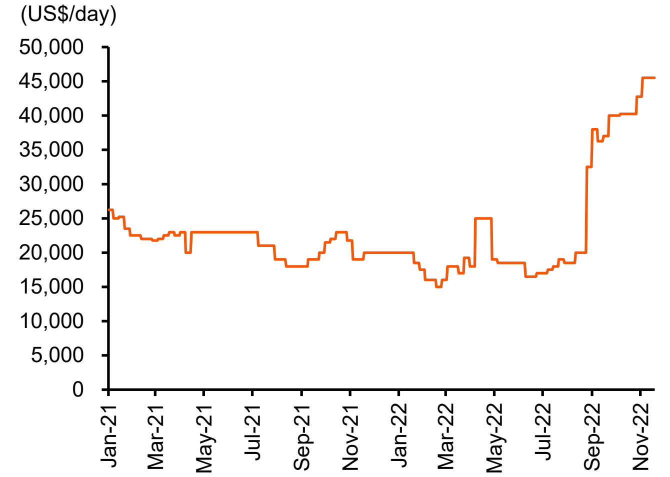
We also expect improving demand in China to benefit wet bulk shipping (oil tankers). The daily charter rates for VLCC (very large crude carriers) have improved significantly this year, thanks in large part to the trade flow disruption whereby European oil importers have been forced to purchase crude oil from further afield instead of Russia. This means crude oil and oil products that would otherwise be transported via pipeline are now being transported on ships. The complete ban on Russian crude oil import, set to take effect on 5 December, will create further demand for crude oil tankers. Heading into 2023F, we believe the impacts of trade flow disruption will continue. Meanwhile, we expect oil demand to recover in China, further bolstering demand for crude oil tankers. This is a positive backdrop for **PRM**. The company is expanding its fleet of FSU (floating storage units) and oil tankers. While most of PRM's vessels operate on term contracts, the contract renewals for these vessels will likely reflect the tighter demand/supply balance in the oil tanker market. We expect positive momentum for PRM's earnings over at least the next 12 months and possibly beyond.

Ex 22: Baltic Dry Index



Source: Bloomberg

Ex 23: One-year Time Charter Rate For VLCC



Source: Bloomberg

Packaging

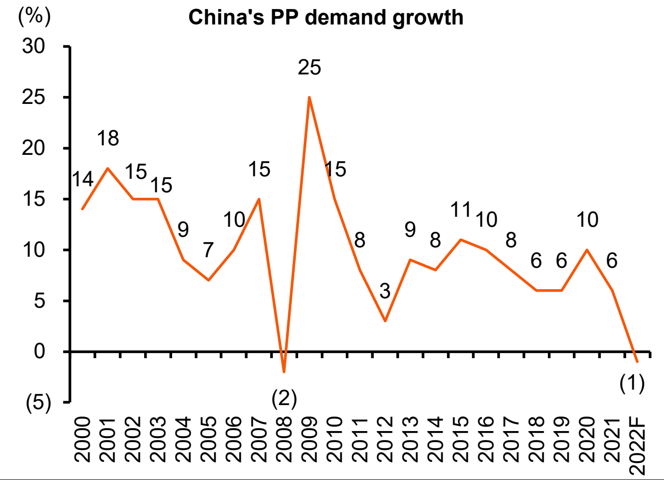
We expect the paper and packaging sector to also benefit from a potential demand recovery in China. Results for both **SCGP** and **UTP** have been weak in recent quarters, and we attribute much of that weakness to slow demand growth in China. The weakness seen was not only in direct demand for packaging paper but also indirectly via weak demand for other export goods (which as a whole makes up roughly 40% of paper packaging demand in Thailand).

In addition to a potential demand recovery, we also expect paper and packaging companies to benefit from falling cost pressure. In particular, the cost of OCC has fallen sharply in recent months and we expect that this will be reflected in 4Q22F results and onwards in the form of margin expansion. We estimate that the OCC imported cost is now $150-160/tonne, down from about $280/tonne in 1H22 and $200/tonne in 3Q22.

Chemicals

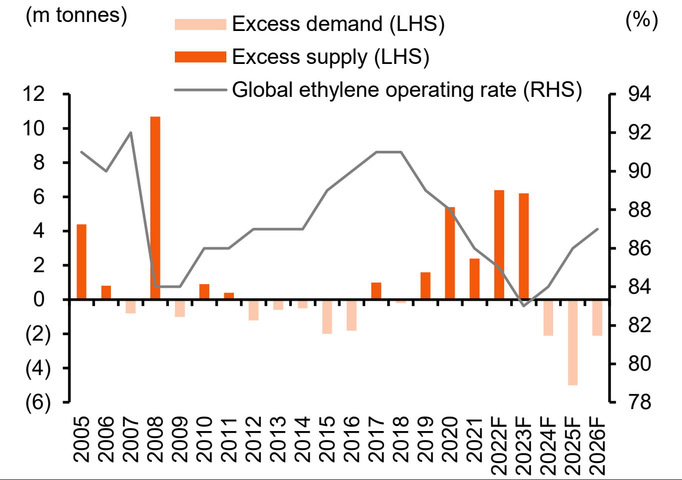
China is a major factor for the global and Thai petrochemical markets, accounting for around 40% of global petrochemical demand and c.5-20% of Thai company exports in 2021. In normal years, China demand growth has been at around the high-single-digit level per annum. However, according to ICIS, China PP demand is expected to contract by 1% this year. This is just behind the worst contraction figure of 2% during the Global Financial Crisis in 2008. Though we expect lockdowns to eventually ease with some demand recovery in China, the prospect of rising global interest rates and a global slowdown will likely keep overall chemical demand soft.

Ex 24: China Saw Worst Demand Growth Since 2008



Source: ICIS

Ex 25: Global Ethylene Market Oversupply In 2022-23F



Source: SCC

We think **PTTGC** and **IRPC** are potential candidates as turnaround plays on chemicals. Valuation-wise, both stocks look sufficiently depressed, trading at just 0.6x forward P/BV. Profits from refineries, while small relative to their chemical exposure, will likely help cushion downside risks to earnings and provide cash flow support for ongoing capex and dividends.

Tourism

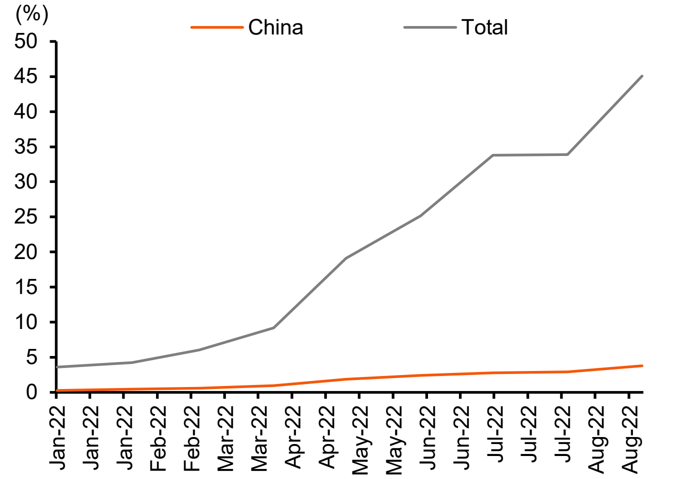
We forecast 26m and 39m tourist arrivals in 2023-24F vs about 10m in 2022F

China remains the last major economy to stick to a zero-COVID policy. However, there are signs that authorities there may start to shift their stance. The development and distribution of inhaled booster vaccines are likely a key part of that policy shift. In recent weeks, the Chinese government has announced easing inbound and quarantine restrictions despite record-high case numbers in the country. These measures include the scrapping of the "circuit breaker" mechanism which would suspend inbound flights if an airline is found to carry a certain number of COVID-positive passengers. The centralized quarantine requirement for inbound travelers will also be reduced from seven days to five days (still to be followed by three days of home isolation). Lastly, pre-departure COVID tests are reduced to one from two tests. While these measures themselves are not likely to significantly increase the number of outbound Chinese tourists, they point to a changing stance by the authorities. We remain hopeful that China will begin to allow unimpeded international travel sometime next year.

Tourist arrivals from China are now just 3% of pre-COVID level vs. 45% for other countries

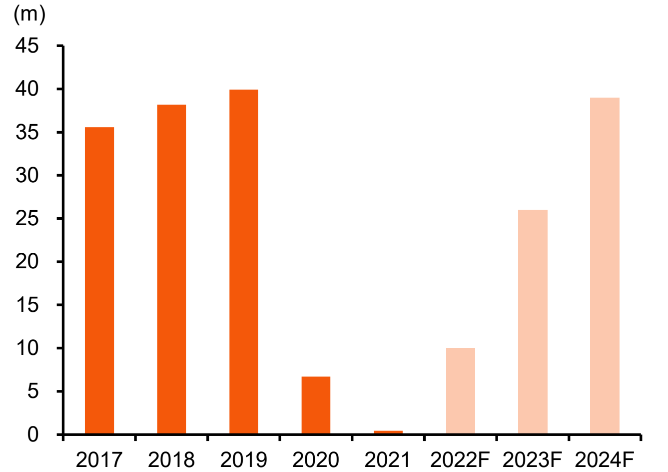
Pre-COVID, China was the largest source of international travelers for Thailand, making up about a third of total arrivals. YTD, however, Chinese tourists make up just 2-3% of total arrivals. Compared to pre-COVID level, the number of Chinese tourists has recovered to barely 3% of 2019 figures vs. 45% for overall arrivals. This means next year's growth in tourist arrivals into Thailand will hinge in large part on how quickly Chinese tourists will come back. At the low end, the Tourism Authority of Thailand estimates that if China remains closed to international travel, arrivals could reach just 18m in 2023F (compared to about 10m this year). However, if China opens up by mid-2023F, that number could reach as high as 26m. The latter figure is our base-case scenario and we also peg our 2024F arrivals at 39m (i.e., full recovery) based on this assumption.

Ex 26: Number Of Arrivals As % Of Pre-COVID Level



Sources: MOTS

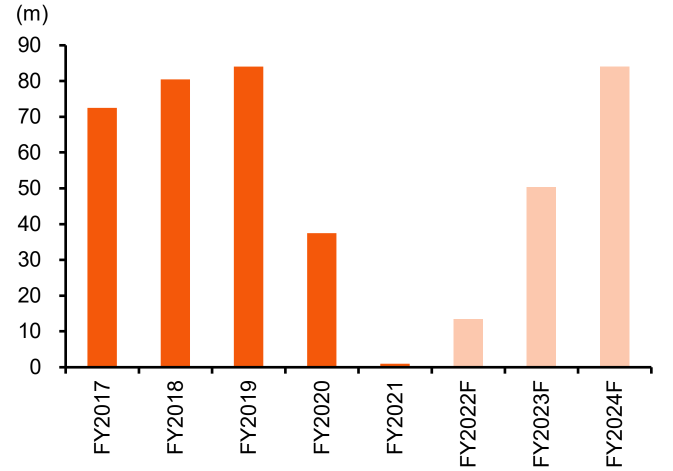
Ex 27: Tourist Arrivals And Forecasts



Sources: MOTS; Thanachart estimates

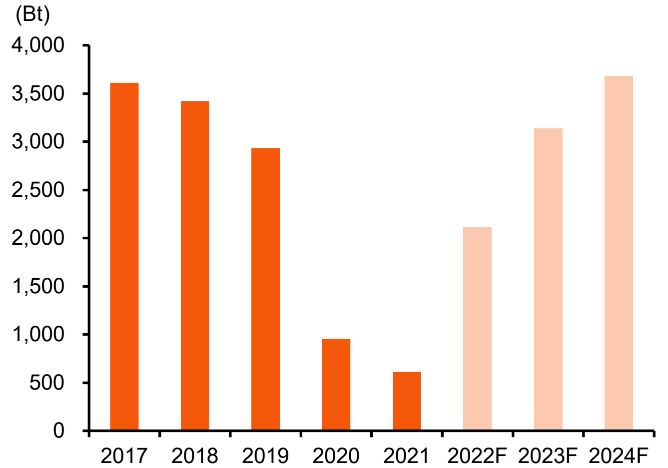
While we already have **AOT** on our top-buy list, we are adding **CENTEL** back into the mix after having taken the stock out in September. We think the 3Q22 results weakness looks to be a one-off (particularly the FX loss) while the underlying growth trend has not changed. We expect both of these stocks to perform as we head into the high season for travel in 4Q22F and 1Q23F.

Ex 28: AOT's International Passengers



Sources: Company data; Thanachart estimates

Ex 29: CENTEL RevPar



Sources: Company data; Thanachart estimates

Industrial estates

Lastly, we continue to like industrial estate names WHA and AMATA. We expect land sales momentum to remain strong heading into 2023F. FDI from Chinese automakers and related parts makers is a key driver for that growth.

Ex 30: China play list

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	74.75	85.00	*13.7*	29,468	na	na	na	135.3	10.5	10.0	0.0	0.4
CENTEL TB	BUY	46.50	51.00	*9.7*	1,732	na	681.3	306.8	39.3	3.4	3.2	0.0	0.5
PSL TB	BUY	15.10	24.00	*58.9*	650	3.4	1.1	5.2	5.2	1.4	1.3	10.0	10.1
LH TB	BUY	9.30	11.00	*18.3*	3,067	22.7	15.3	13.2	11.4	2.1	2.0	6.5	7.5
PRM TB	BUY	7.00	9.00	*28.6*	483	12.4	11.1	14.7	13.2	1.9	1.7	3.1	3.4
PTTGC TB	BUY	46.50	56.00	*20.4*	5,786	7.4	(21.9)	6.9	8.8	0.7	0.6	5.4	4.7
IRPC TB	BUY	3.02	4.40	*45.7*	1,703	(70.7)	489.1	53.9	9.1	0.7	0.7	5.0	5.5
WHA TB	BUY	3.86	4.50	*16.6*	1,592	11.3	34.8	19.1	14.1	1.8	1.6	2.3	2.8
AMATA TB	BUY	19.00	25.00	*31.6*	603	70.7	40.8	16.8	11.9	1.2	1.1	2.4	3.4

Sources: Company data, Thanachart estimates
Note: based on 21 November 2022 closing prices

Ex 31: Siam Senses 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	74.75	85.00	*13.7*	29,468	na	na	na	135.3	10.5	10.0	0.0	0.4
BANPU TB	BUY	12.60	19.00	*50.8*	2,940	245.3	(15.2)	2.7	3.2	0.9	0.9	12.7	11.1
BEC TB	BUY	10.50	17.00	*61.9*	580	2.9	34.1	24.1	18.0	3.1	3.0	3.9	5.0
CENTEL TB *	BUY	46.50	51.00	*9.7*	1,732	na	681.3	306.8	39.3	3.4	3.2	0.0	0.5
COM7 TB *	BUY	31.75	39.00	*22.8*	2,103	18.3	18.7	24.7	20.8	10.3	8.6	1.8	3.9
CPALL TB	BUY	63.00	75.00	*19.0*	15,617	59.0	60.3	46.2	28.8	5.1	4.6	1.1	1.7
ESSO TB	BUY	12.00	18.00	*50.0*	1,146	na	(31.1)	3.9	5.7	1.3	1.2	18.3	6.3
LH TB	BUY	9.30	11.00	*18.3*	3,067	22.7	15.3	13.2	11.4	2.1	2.0	6.5	7.5
PSL TB	BUY	15.10	24.00	*58.9*	650	3.4	1.1	5.2	5.2	1.4	1.3	10.0	10.1
TOP TB	BUY	53.75	70.00	*30.2*	3,313	450.0	(54.1)	3.6	7.9	0.7	0.7	5.6	4.3
Stocks taken out													
BBL TB	BUY	142.50	170.00	*19.3*	7,506	13.2	14.0	9.1	8.0	0.5	0.5	3.3	3.8
KBANK TB	BUY	142.50	178.00	*24.9*	9,317	13.7	11.6	7.9	7.1	0.7	0.6	2.5	2.8

Sources: Company data, Thanachart estimates
Note: * New additions based on 21 November 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	16,011	44,719	77,647
Net profit	(16,322)	(10,773)	7,895	30,341
Norm profit	(15,319)	(10,773)	7,895	30,341
Norm EPS (Bt)	(1.1)	(0.8)	0.6	2.1
Norm EPS grw (%)	na	na	na	284.3
Norm PE (x)	na	na	135.3	35.2
EV/EBITDA (x)	na	1,582.2	41.5	19.4
P/BV (x)	9.5	10.5	10.0	8.5
Div yield (%)	0.0	0.0	0.4	1.7
ROE (%)	na	na	7.6	26.0
Net D/E (%)	(6.9)	11.0	11.4	(10.4)

Sources: Company data; Thanachart estimates

Ex 2: Banpu Pcl (BANPU TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	133,190	196,356	195,658	165,808
Net profit	9,852	33,864	35,487	24,500
Norm profit	7,520	33,864	35,487	24,500
Norm EPS (Bt)	1.4	4.7	4.0	2.4
Norm EPS grw (%)	na	245.3	(15.2)	(39.6)
Norm PE (x)	9.2	2.7	3.2	5.2
EV/EBITDA (x)	4.8	2.1	1.8	2.2
P/BV (x)	1.1	0.9	0.9	0.8
Div yield (%)	3.6	12.7	11.1	7.7
ROE (%)	10.6	35.2	27.2	15.9
Net D/E (%)	152.1	70.6	34.1	16.2

Sources: Company data; Thanachart estimates

Ex 3: BEC World Pcl (BEC TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	5,680	5,736	6,493	7,092
Net profit	762	907	1,169	1,418
Norm profit	847	872	1,169	1,418
Norm EPS (Bt)	0.4	0.4	0.6	0.7
Norm EPS grw (%)	na	2.9	34.1	21.3
Norm PE (x)	24.8	24.1	18.0	14.8
EV/EBITDA (x)	6.2	5.9	5.2	4.8
P/BV (x)	3.4	3.1	3.0	2.9
Div yield (%)	0.0	3.9	5.0	6.1
ROE (%)	14.6	13.5	17.2	20.1
Net D/E (%)	(27.7)	(34.4)	(36.7)	(35.0)

Sources: Company data; Thanachart estimates

Ex 4: Central Plaza Hotel Pcl (CENTEL TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	11,211	16,842	21,109	23,422
Net profit	(1,733)	205	1,598	2,282
Norm profit	(1,733)	205	1,598	2,282
Norm EPS (Bt)	(1.3)	0.2	1.2	1.7
Norm EPS grw (%)	na	na	681.3	42.8
Norm PE (x)	na	306.8	39.3	27.5
EV/EBITDA (x)	44.1	20.7	14.5	12.6
P/BV (x)	3.5	3.4	3.2	2.9
Div yield (%)	0.0	0.0	0.5	1.1
ROE (%)	na	1.1	8.4	11.1
Net D/E (%)	64.1	87.8	83.4	76.8

Sources: Company data; Thanachart estimates

Ex 5: COM7 Pcl (COM7 TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	51,126	61,937	69,259	77,435
Net profit	2,630	3,085	3,662	4,516
Norm profit	2,608	3,085	3,662	4,516
Norm EPS (Bt)	1.1	1.3	1.5	1.9
Norm EPS grw (%)	80.0	18.3	18.7	23.3
Norm PE (x)	29.2	24.7	20.8	16.9
EV/EBITDA (x)	20.4	17.2	14.6	12.0
P/BV (x)	14.4	10.3	8.6	7.7
Div yield (%)	1.6	1.8	3.9	5.2
ROE (%)	57.1	48.8	45.2	48.3
Net D/E (%)	49.6	6.7	(3.4)	(5.9)

Sources: Company data; Thanachart estimates

Ex 6: CP All Pcl (CPALL TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	585,743	845,931	936,026	1,036,686
Net profit	12,985	13,204	20,143	27,793
Norm profit	8,706	13,204	20,143	27,793
Norm EPS (Bt)	0.9	1.4	2.2	3.0
Norm EPS grw (%)	(48.2)	59.0	60.3	38.9
Norm PE (x)	73.4	46.2	28.8	20.7
EV/EBITDA (x)	18.0	13.0	11.0	9.3
P/BV (x)	5.4	5.1	4.6	4.1
Div yield (%)	1.0	1.1	1.7	2.4
ROE (%)	8.7	12.3	17.2	21.2
Net D/E (%)	94.5	100.1	91.7	80.2

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	17,297	5,845	5,808
Norm profit	(1,704)	10,648	7,339	6,508
Norm EPS (Bt)	(0.5)	3.1	2.1	1.9
Norm EPS grw (%)	na	na	(31.1)	(11.3)
Norm PE (x)	na	3.9	5.7	6.4
EV/EBITDA (x)	31.5	3.0	4.5	4.4
P/BV (x)	2.2	1.3	1.2	1.1
Div yield (%)	0.0	18.3	6.3	6.3
ROE (%)	na	41.0	22.2	18.6
Net D/E (%)	146.7	35.6	29.0	13.4

Sources: Company data; Thanachart estimates

Ex 8: Land And Houses Pcl (LH TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	32,270	36,835	40,267	43,075
Net profit	6,936	8,447	9,739	10,824
Norm profit	6,884	8,447	9,739	10,824
Norm EPS (Bt)	0.6	0.7	0.8	0.9
Norm EPS grw (%)	4.4	22.7	15.3	11.1
Norm PE (x)	16.1	13.2	11.4	10.3
EV/EBITDA (x)	20.7	17.9	16.3	15.2
P/BV (x)	2.2	2.1	2.0	1.9
Div yield (%)	5.4	6.5	7.5	8.1
ROE (%)	13.8	16.4	18.0	19.1
Net D/E (%)	95.1	82.8	82.9	83.5

Sources: Company data; Thanachart estimates

Ex 9: Precious Shipping Pcl (PSL TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	8,615	8,927	8,832	8,864
Net profit	4,475	4,494	4,544	4,526
Norm profit	4,348	4,494	4,544	4,526
Norm EPS (Bt)	2.8	2.9	2.9	2.9
Norm EPS grw (%)	na	3.4	1.1	(0.4)
Norm PE (x)	5.4	5.2	5.2	5.2
EV/EBITDA (x)	4.9	4.4	4.1	3.7
P/BV (x)	1.6	1.4	1.3	1.1
Div yield (%)	9.9	10.0	10.1	9.6
ROE (%)	35.5	29.1	25.8	22.9
Net D/E (%)	40.0	24.1	10.8	(6.7)

Sources: Company data; Thanachart estimates

Ex 10: Thai Oil Pcl (TOP TB)

Y/E Dec (Bt m)	2021	2022F	2023F	2024F
Sales	345,496	460,867	436,477	419,042
Net profit	12,578	41,105	12,960	15,056
Norm profit	5,583	31,457	15,270	16,216
Norm EPS (Bt)	2.7	14.7	6.8	7.2
Norm EPS grw (%)	na	450.0	(54.1)	6.2
Norm PE (x)	20.1	3.6	7.9	7.5
EV/EBITDA (x)	15.4	5.2	9.9	8.0
P/BV (x)	0.9	0.7	0.7	0.7
Div yield (%)	4.7	5.6	4.3	5.0
ROE (%)	4.7	22.0	9.0	9.1
Net D/E (%)	112.8	84.4	99.1	88.4

Sources: Company data; Thanachart estimates

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