Siam Senses

All about uncertainties

Thai election results didn't go the way *Siam Senses* predicted. In the opposite direction of the post-election rally that we expected if Pheu Thai had won, the SET is being dominated by uncertainties, whether or not the Move Forward Party's formation of a government is successful.

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The uncertainties

The Move Forward Party (MFP), in a major surprise, came first in the election winning an unofficial number of 152 seats vs. the Pheu Thai Party's (PT) 141. This creates three uncertainties that are market-negative, in our view. *First*, it is still unknown whether the MFP-led coalition with 313 seats currently will get the support of senators to reach the required 376 votes to select a prime minister. *Second*, if an MFP-led government is formed, we see a high chance that it will be short-lived, and the market won't like this. *Third*, we expect the market to be concerned about the MFP's policies on military reform, changes to laws relating to the monarchy, and welfare state schemes which can be seen as anti-capitalist. On top of that, we believe the market is worried about the MFP's lack of experience in being in government.

State welfare policies

The MFP's economic policies are geared more toward welfare state schemes. On the one hand, there are plenty of allowances from birth to death. On the other, finances are, among other things, from cuts to the military and other areas of state spending, tax hikes for big corporations, and formula changes for state concessions and projects. We see this policy direction as having a large anti-capitalist bias, which is in the opposite direction of PT's economic mindset. Therefore, even if an MFP-PT government can be formed, we do not expect it to last long.

A more positive market scenario

It remains unknown at this point whether MFP can successfully form a government. One uncertainty is due to the requirement for 376 combined lower- and upper-House votes out of 750 seats to select a prime minister. If the MFP cannot secure enough votes from the Senate or if PT pulls out of the deal, PT, as the second-largest party, could try to set up a PT-led government. In that case, PT may decide to join hands with the outgoing coalition parties to form a government. We see this scenario leading to a more stable government, which should be market positive.
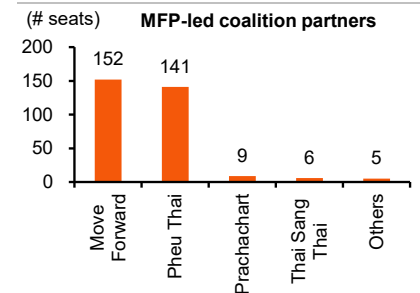
SET target cut

We lower our year-end SET target to 1,560 (from 1,750) to reflect our earnings cuts since March 2023 and to incorporate a discount assigned due to the higher political risk that creates the uncertainties mentioned above. This means we are no longer bullish on the SET, especially in the near term, because we don't know which party will lead the new government. Without the political risk, our SET target would be 1,650. For long-term investments, we maintain our stock picks list.

Top Picks

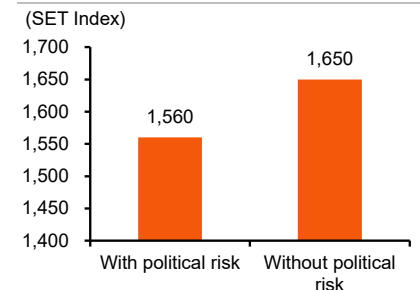|	-EPS growth-		—— PE ——		Yield
	23F	24F	23F	24F	23F
	(%)	(%)	(x)	(x)	(%)
AMATA	30.1	19.7	12.8	10.7	2.4
AOT	na	232.8	110.1	33.1	0.0
BH	21.3	10.8	31.0	28.0	1.9
CPALL	59.9	38.9	28.5	20.5	1.8
CRC	35.6	31.2	27.6	21.0	1.4
KCE	(5.8)	64.5	21.0	12.8	2.4
SAWAD	24.7	20.4	13.5	11.2	3.7
SCC	27.7	56.9	14.8	9.4	3.4
SISB	91.2	33.8	48.6	36.3	0.9
WHA	9.9	15.3	16.0	13.9	2.5

Source: Thanachart estimates.
Based on 23 May 2023 closing prices

Fragile Coalition At 152 MFP Seats

(# seats) MFP-led coalition partners

Move Forward 152, Pheu Thai 141, Prachachart 9, Thai Sang Thai 6, Others 5

Source: Thanachart compilation

Our Year-end SET Target

(SET Index)

With political risk 1,560; Without political risk 1,650

Source: Thanachart estimates

All about uncertainties

Thai politics has taken a different and unexpected twist with the election, and it is creating many uncertainties in our view. We had earlier expected the Pheu Thai Party (PT), the largest party in the opposition previously, to win the election and join hands with the outgoing government camp to form the next administration. With this, we expected a similar kind of national government with two opposing sides working together and forming a stable government. However, we were wrong, and the second-largest opposition Move Forward Party (MFP) won the most seats in the election at 152 vs. PT at 141.

We see three uncertainties that are market negative:

Still uncertain whether MFP can form the next government

First, it is still unknown whether the MFP will be able to form a government, and this situation is likely to last at least until July 2023, when a prime ministerial vote is expected. Although the MFP has so far gathered 313 MPs to the MFP-led camp, the total votes required by the constitution to vote for a PM are 376, or a majority of the lower House and Senate votes combined. Note that the lower House has 500 seats while the Senate has 250 seats. It is unknown whether enough senators will vote for the MFP's leader Mr. Pita Limjaroenrat to be the next PM. The Election Commission's (EC) deadline to announce the official election results to confirm all constituencies and party-list proportions is 13 July 2023.

What's with the Senate's power to vote for a PM?

The Senate's power to vote for a PM is a provisional clause in the current constitution. The Senate was given that power for five years, from May 2019 to May 2024. After that, a PM will require only a majority of lower House votes, say 251 votes out of 500 House seats. The current constitution passed a public referendum with over 60% of voters in its favor. The logic of the provisional clause at the time was that the country needed reform which would require a qualified PM to continue the task for two terms.

What are the senators' concerns?

According to some comments from certain senators so far, the risk that a number of senators may not vote for Mr. Pita lies in four areas, i.e., the MFP's election promises to change some of the laws involving the monarchy, plans to reform the current political system, MFP's favorable stance toward the US that may have an impact to Thailand's relation with China and Mr. Pita's lack of experience working in any government.

Ex 1: MFP's First Government Formation Attempt

Coalition			Opposition
Move Forward (MFP)	152	Bhumjaithai (BJT)	70
Pheu Thai (PT)	141	Palang Pracharath (PPRP)	40
Prachachart	9	United Thai Nation (UTP)	36
Thai Sang Thai (TST)	6	Democrat (DEM)	25
Pheu Thai Ruam Palang	2	Chartthaipattana (CTP)	10
Seri Ruam Thai	1	Chartpattanakla (CPK)	2
Fair Party	1	Others	4
Palang Sangkhom Mai	1		
	313		**187**

Source: Thanachart compilation

We don't believe PT really want to form a government with the MFP

Second, in the event that an MFP-led government is formed successfully, we see a high chance that it will be short-lived for the reasons we give below:

▪ We believe the PT and MFP's policies and ideologies are starkly at odds. While PT's are pro-populism and pro-capitalism, the MFP's are welfare state-oriented and anti-capitalist, in our opinion. PT has proven that it can work well with the business sectors and likely expects its economic stimulus schemes to generate enough of a multiplier effect to help

fund its populist policies. As welfare state schemes can require much more funding, the MFP is looking to get indirect funding from big corporations, such as by raising corporate income tax and reviewing state contracts. That is on top of budget cuts for the Defense Ministry and some other budget areas.

▪ We are of the view that PT sees MFP as its real competitor, as it is widely believed that a lot of MFP voters were ex-PT voters. So, PT may not wholeheartedly support an MFP-led government achieving great success. PT is not used to working under another party's lead in government, and we believe it wants full control over the administration's direction.

▪ There are some sensitive policies that PT doesn't want to go along with. The most important ones are the reform of some laws relating to the monarchy and the military. PT's stance over the past three years has been very clear, and ousted PM Thaksin Shinawatra in his recent online discussions, stated clearly that he and his family are loyal to the monarchy. We also believe Mr. Thaksin doesn't want to create any conflicts that might hurt his chances of returning to Thailand. There may also be other policies that PT doesn't want to support, including the decentralization of power to elected provincial governors.

Ex 2: MFP's Key Sensitive Stances And Election Promises

MFP's Key Sensitive Stances and Election Promises
▪ Amendment of laws involving the monarchy, such as Section 112, the lese majeste law
▪ Military reform, e.g., cutting the number of generals, budget cuts, and voluntary military recruitment rather than conscription
▪ Decentralizing provincial administration, e.g., electing provincial governors (rather than being appointed)
▪ Foreign affairs policies that could favor the US, which might upset China
▪ Legalizing local liquor production
▪ Legalizing sex workers
▪ Legalizing casinos
▪ Allowing same-sex marriage

Source: Thanachart compilation

House dissolution can be early

▪ Mechanisms for any government to fail are not difficult to find. It could be a key coalition partner pulling out, causing a government's House seats to fall below the majority, or it could be when a government cannot pass important bills in House votes. In this case, PT could pull out of the coalition, citing whatever reason it wanted, such as policy differences, etc. Given that MFP has a lot of what we see as quite aggressive plans to change many laws, there is a risk of it failing to secure enough votes to pass some of them. Traditionally, if financial bills and some important bills fail to pass the House, the PM needs to dissolve the House. PT might wait for the MFP's popularity to decline first before pulling out. Exhibit 3 shows that many of MFP's first 100-day policies look too difficult to be implemented within the timeline, in our view, and this could upset MFP voters.

Ex 3: MFP's First 100-day Policies

First 100-day Policies		
Good politics	1)	A public referendum about having a new constitution with an elected drafting committee
	2)	Proposing an amnesty law for political cases
	3)	Having a same-sex marriage law approved by parliament
	4)	Decentralizing local administrative power from the Interior Ministry, which includes election rather than appointment of provincial governor within one year
	5)	Making available all budget data and procurement processes to the public to end corruption
Good wellbeing	1)	Introducing a free lottery scheme with one lottery ticket for each Bt500 purchase from SMEs. SMEs themselves would get one free lottery ticket for each Bt5,000 in revenue
	2)	Attracting new investments by using Bt10bn of money from the Competitiveness Fund to support research, training, etc.
	3)	Changing the domestic gas cost allocation to favor the public and not corporations. Targeting a Bt0.70/unit electricity tariff cut within one year
	4)	Increasing the minimum wage to Bt450 (from around Bt350 at present) and raising the wage thereafter every year
	5)	Subsidizing SMEs' additional contribution to the Social Security Fund for six months. Labor costs can be 2x tax deductible for two years
	6)	Adjusting ministerial regulations to pave the way for local liquor production to reduce the oligopolistic power of big corporations
	7)	Issuing land documents covering 6.5m rai
	8)	Liberalizing household solar energy, including introduction of net metering payments
Good future	1)	Education reform, including a review of school regulations that limit students' rights, suspension of teachers' licenses if found guilty of human rights violations, and canceling teachers' night shifts
	2)	Boosting the country's standing in the global stage by increasing its role in ASEAN and assisting in humanitarian crises
	3)	Increasing the budget of the public health insurance fund for health checkups to include mental health checks, HIV protection, organ donations, etc.
	4)	Reducing PM2.5 air pollution and prohibiting the burning of agricultural products

Source: Thanachart compilation

Concerns over some of the MFP's policies

Third, we expect the market to be concerned about some of the MFP's policies, including reform of the military, changes to laws relating to the monarchy, and some state welfare schemes, which we believe could be regarded as anti-capitalist. We also think the market is concerned over the MFP's lack of experience of being in government. Many of the MFP's foreign affairs stances in the past toward various global events could also worry the market about Thailand's strongly liberal culture towards people of various nationalities. We believe Thailand's prosperous tourism industry depends on this liberal culture continuing.

Welfare state policies

MFP's policies lean toward state welfare scheme

The MFP's economic and social policies are geared toward welfare state schemes with government support from pregnancy to death. As for financing these policies, the sources and mechanisms remain unclear at this stage. According to the Election Commission (EC) report on the election policy costs of each political party, the MFP has the second-largest policy spending requirements after PT. However, it is known that the MFP aims to cut the defense budget, rearrange the budget of various ministries, increase taxes for big corporations, and review and change state concessions and the energy and power pricing formula that could result in lower profits for big corporations.

We find the big picture too idealistic to possibly be implemented

We see this policy direction as problematic in three areas. The first is it we see it as relatively anti-capitalist, which is in the opposite direction to PT's economic mindset. Therefore, even if an MFP-PT government can be formed, we do not expect it to last long. Second, it would

require massive funding that would involve substantial defense budget cuts and reductions in spending by other ministries. This could make it difficult for the MFP to pass the Budget Bill in the House. An inability to pass this bill would mean the risk of a House dissolution. Third, while we believe many of the MFP's policies are good, many more look too idealistic to us in both implementation and funding. If they are not implemented, this could easily upset the MFP's voters, and should its popularity decline, then PT may decide to pull out of the government.

Ex 4: MFP's Policies Look To Be Geared Toward A Welfare State Economy

Welfare Solutions
▪ 180 days of maternity leave (from 98) with continued income for people who are in the Social Security Fund (SSF) system. People who are not in the system would get Bt5,000/month for six months from a new, to-be-set-up, Social Security Fund For All
▪ A budget for child care centers for children aged 0-6. Offices would be required to have rooms or facilities for childcare
▪ Daily minimum wage hike to Bt450 (from around Bt300), and an increase every year after that
▪ Government to help SMEs pay higher SSF contributions resulting from the wage increase
▪ Maximum weekly working hours of 40 for normal jobs and 35 for dangerous jobs. Overtime has to be paid for anything above that. A minimum of two days off per week and 10 vacation days per year
▪ New and fairer working contracts for workers. Change from hiring on a daily basis to monthly if hired for a month or longer. All workers hired by the state have to come under the labor law
▪ Provide legal support for labor unions for all types of workers, including those of different nationalities, and workers in any company and workplace. Different unions would be able to co-summit demands
▪ Set up a new Social Security Fund For All for workers who are not in the existing SSF scheme. Workers would contribute Bt1/day, and the government would top this up. Benefits would include Bt200/day for sick leave with Bt100/day to pay for transport costs for doctor visits, Bt5,000/month for maternity leave for six months, Bt200/day for business leave for 25 days/year and Bt10,000 at death
▪ Elderly allowance of Bt3,000/month (from Bt600-1,000 depending on age at present) within four years
▪ Set up an Elderly Fund for local administration offices to care for bed-ridden people. Allocate a government budget of an estimated Bt9,000/month/person expense for bid-ridden and disabled people. The ratio of caretaking staff would be one for two sick people
▪ Help 100,000 first-home buyers pay installments or mortgages at Bt2,500/month for 30 years for a house priced below Bt1.5m
▪ Help 250,000 people pay room rent at Bt1,000/month for a room rate that doesn't exceed Bt4,000/month
▪ Set up a Bt7.5bn/year budget for eight years to make tap water drinkable
▪ People would be given 1GB free data per month
▪ Telecom regulator would allocate Bt3bn/year from its funds for public benefits (still unclear what this would be used for)
▪ Increase the education fund contribution by Bt4bn/year to give free education to all children
▪ Increase the budget to Bt500/month/student for free food at schools until pre-undergrad level
▪ Increase the budget for school transport to Bt200/month/student for primary and Bt300 for secondary school students
▪ Special off-school study coupon for 7-18 year-old students at Bt1,000/year for primary, Bt1,500 for secondary, and Bt2,000 for undergrad students
▪ Coupons for 1m people between the age of 30-60 to take knowledge and training classes. The government would subsidize 80% of the cost, but the amount would not exceed Bt5,000/person
▪ Set up a learning platform for all people and a job-matchmaking platform
▪ Single-ticket transportation card in Bangkok with transportation cost of Bt8-25/trip for buses and Bt8-45/trip for electric trains. Government to set up a budget of Bt7.2bn/year to support operators
▪ Bt10bn budget to support the country to have electric vehicle (EV) buses nationwide within seven years

Source: Thanachart compilation

Ex 4: MFP's Policies Look To Be Geared Toward A Welfare State Economy (Con't)

Good Economy

- Liberalize the power sector with no longer a single seller (EGAT) model. EGAT would become just one operator and seller, and there would be other sellers. Grid management would no longer be under EGAT but a new entity. Set up a renewable power market for buyers and sellers to do transactions by themselves

- Cut the power tariff by Bt0.7/unit within one year

- Review and adjust the energy pricing formulas to reduce energy costs for people. Examples are; to have PTT's GSP to pay for its domestic gas use at the pool gas price, which is a far higher price; to give priority to power plants to access cheap domestic gas before industrial users (IUs), or to sell domestic gas to power plants and sell gas to IUs at the more expensive imported LNP price; and to renegotiate PPAs to reduce electricity prices

- Liberalize the solar power market by Introducing net metering electricity payments for households that have solar generation. Increase the selling price for households to be at the market price (from below the market price at present), while excess power supply from households would be sold at higher-than-market prices to stimulate solar production

- Speed up negotiations for gas concessions in the Thai-Cambodia overlapping claim marine area to increase the country's gas supply

- LPG produced from PTT's gas separation plants (GSPs) that is sold to petrochemical companies would be taxed (petrochemical tax) to help subsidize the household LPG price by Bt2.5/kg (from Bt28/kg)

- Control petrol station's marketing margin and provide data of the ex-refinery price to stimulate competition among petrol station operators

- State banks' good-paying clients (paying for the past 12 months) would get a 10% discount on their interest payment amount. The government would subsidize that amount

- Refinance Bt10bn of off-system or underground debt

- State employees to borrow at an interest rate of not over MLR-1%, and interest payments cannot exceed 70% of their salaries

- Help SMEs pay for additional SSF contributions for the portion of wage hikes, and SMEs can have labor costs as a 2x tax-deductible item

- Cut corporate income tax for SMEs to; 0% for <Bt300,000 profit; 10% (from 15%) for Bt0.3m-3.0m profit; and 15% (from 20%) for Bt3m-30m profit

- Increase the corporate income tax rate to 23% (from 20%) for companies that make a profit of over Bt300m a year

- Increase the client base for SMEs via a lottery scheme of one free lottery ticket for each Bt500 purchase with a limitation of two tickets/person/month and a maximum of 10m people/month. SMEs would also get one free lottery ticket for each Bt5,000 in revenue

- Companies that buy goods and services (raw materials, packaging, etc.) from SMEs would get a 1.5x tax deductible for those expenses

- Prevent big corporations from controlling the supply chain

- Set a proportion of modern-trade operators' shelf space for SME products

- People who pay tax would get a Bt1,000/year tax credit to buy goods from local SMEs and agriculture co-ops. The government would subsidize 50% of the purchase price

- Provide a budget for credit guarantees for SMEs to the Thai Credit Guarantee Corp (TCG) via two programs; 1) Bt100,000 per SME for a total of 200,000 SMEs/year; and 2) Bt1m per SME for 25,000 SMEs/year

- Set up an SME council in all provinces

- Redefine SMEs to prevent big corporations from describing themselves as SMEs

- Improve the anti-trust law to prevent monopolies

- Increase the number of virtual banking licenses from three to 10 and reduce the minimum capital requirement to Bt500m from Bt5bn. Operators would have to have their HQ in the provinces. Set a data standard for people to see their integrated financial data in the government's Pao Tang Application

- Support policies for a medical hub and wellness economy. Give long-stay visas to target groups of high-income elderly foreigners. Set up retirement centers and facilities in provincial areas

- Give benefits and soft loans to hotels that use green energy

Source: Thanachart compilation

Ex 4: MFP's Policies Look To Be Geared Toward A Welfare State Economy (Con't)

Good Economy
▪ Scrap movie censorship
▪ Cancel laws that are against public liberty and freedom, such as the computer bill
▪ Increase the budget to support recreation economy projects to Bt5bn/year (from Bt500m)
▪ Support soft power exports (movies, songs, books, art) by subsidizing the investment cost at 50% of the export value
▪ Legalize sex workers with the support of quarterly health checks and personal data protection
▪ Legalize sex toys and adult movies, electronic cigarettes, and physical and online casinos
▪ Increase train routes to cover 30 more provinces
▪ Support EV buses and trucks with various tax incentives and target 100% use of EV buses by 2030

Source: Thanachart compilation

A more market-positive scenario

If the MFP cannot form the government, PT will do it

It remains unclear at this stage whether the MFP can successfully form a government. Please see our reasons explaining the uncertainty about this issue in the first section of this report. Aside from the lack of clarity over how the Senate will vote, there is also a risk of PT pulling out of the coalition deal.

If this happens, we expect it to be market positive

If the MFP cannot form the government, then PT, as the second-largest winning party, would have its turn to form a PT-led government. In this event, PT might decide to join hands with political parties from the outgoing coalition government. We expect this scenario to be market positive. First, with no more sensitivity over the issue of changes to laws involving the monarchy, we would expect the Senate to vote for a PM from this coalition, and a government could then easily be set up. Second, we expect this government to last longer, with compromise likely in the policies of each party. PT working with the past military-backed government could be seen as a form of national government, and we see this resulting in a stable administration. Third, although we see PT's policy promise of a Bt10,000 cash handout to every Thai over 16 years old as bad populism, the overall economic management mindset of PT is pro-capitalist and we still think the market would prefer PT over other political parties.

Ex 5: PT-led Government Version In Our View If MFP Can't Form A Government

|	Coalition		Opposition
Pheu Thai (PT)	141	Move Forward (MFP)	152
Bhumjaithai (BJT)	70	United Thai Nation (UTP)	36
Palang Pracharath (PPRP)	40	Thai Sang Thai (TST)	6
Democrat (DEM)	25	Pheu Thai Ruam Palang	2
Chartthaipattana (CTP)	10	Seri Ruam Thai	1
Prachachart	9	Fair Party	1
Chartpattanakla (CPK)	6	Palang Sangkhom Mai	1
	301		**199**

Source: Thanachart estimates

SET target cut

We have become very cautious about the SET due to the uncertainties mentioned throughout this report. We lower our year-end SET target to 1,560 (from 1,750) to reflect our 6% earnings cuts from March 2023 in anticipation of weaker-than-expected 1Q23 results and a 5% discount for the higher political risks that create the above-mentioned uncertainties. So, if the political risk is removed, our year-end SET target would rise to 1,650, implying 18.6/16.4x PE in 2023-24F. Nearer term, we don't know yet whether the MFP will be able to form a new government. Even if a MFP-led government is successfully formed, many of the MFP's policies are not easy to be implemented and we do not plan to factor many of them into our stock earnings forecasts. Some policies we expect to be implemented under most government scenarios are wage hikes and elderly allowance increases, though to different degrees.

Leaving aside politics, growth and PE matrix offer decent value

Taking out political risk, we still believe the market isn't expensive and offer decent value. The lack of EPS growth this year is predominantly due to a 34% drop in energy sector's earnings, and excluding energy market, EPS growth on our forecasts remains above 20% p.a. for the next two years. PE is also already near the low end of its historical range over the past decade. Therefore, if there is a good resolution on politics, we believe the market can recover to our no-politics target of 1,650.

Ex 6: Market EPS Growth Forecasts
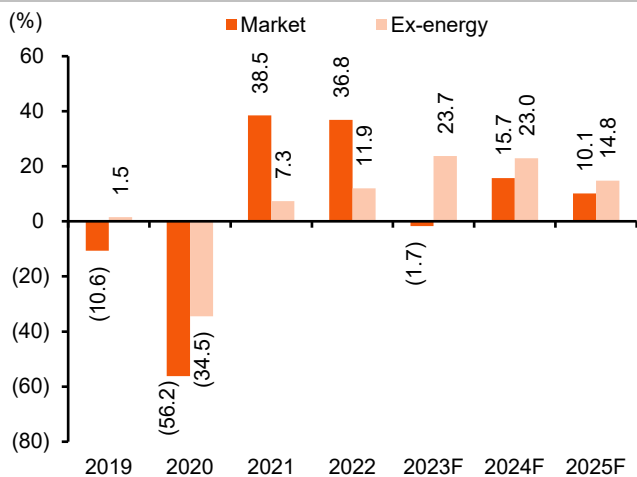
Sources: Company data; Thanachart estimates

Ex 7: Forward PE
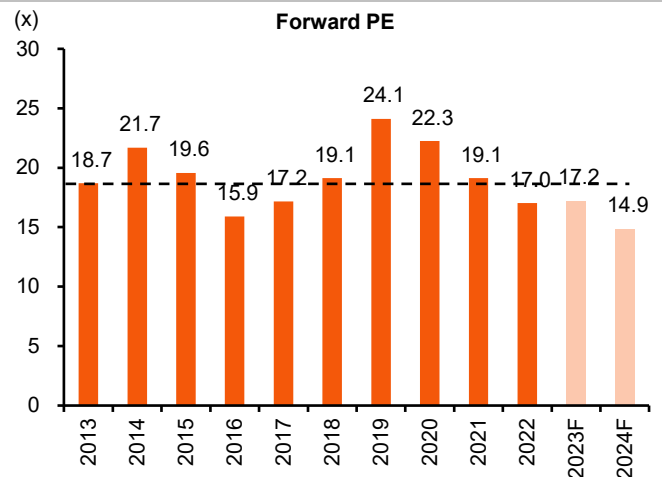
Sources: Company data; Thanachart estimates

No change to our top country picks

We make no changes to our top picks list of 10-stocks. Most companies have seen their share prices fall, with the exception of SISB, mainly as a result of the political uncertainty, and perhaps to a certain degree, the potential wage hikes. However, we believe these risks have already been reflected in their share prices. So, for long-term investors, our top picks offer good risk reward. See our view on each stock below with our comments on policy risk.

Ex 8: Thanachart's Top Picks

Ticker	Rating	Current price	Target price	*Upside*	Market cap	Norm EPS growth		— Norm PE —		EV/EBITDA or P/BV of Bank		— Yield —	
						2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
		(Bt/shr)	(Bt/shr)	*(%)*	(US$ m)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
AMATA TB	BUY	22.00	27.00	22.7	730	30.1	19.7	12.8	10.7	11.1	8.9	2.4	2.8
AOT TB	BUY	70.50	85.00	20.6	29,041	na	232.8	110.1	33.1	44.4	19.9	0.0	1.8
BH TB	BUY	234.00	278.00	18.8	5,363	21.3	10.8	31.0	28.0	21.5	19.3	1.9	2.5
CPALL TB	BUY	62.25	75.00	20.5	16,125	59.9	38.9	28.5	20.5	10.9	9.2	1.8	2.4
CRC TB	BUY	43.00	56.00	30.2	7,478	35.6	31.2	27.6	21.0	9.7	8.6	1.4	1.9
KCE TB	BUY	38.25	58.00	51.6	1,304	(5.8)	64.5	21.0	12.8	13.7	9.0	2.4	4.0
SAWAD TB	BUY	54.50	65.00	19.3	2,158	24.7	20.4	13.5	11.2	2.6	2.3	3.7	4.5
SCC TB	BUY	337.00	410.00	21.7	11,661	27.7	56.9	14.8	9.4	10.9	7.9	3.4	5.3
SISB TB	BUY	36.50	43.00	17.8	989	91.2	33.8	48.6	36.3	38.9	29.4	0.9	1.2
WHA TB	BUY	4.38	5.00	14.2	1,888	9.9	15.3	16.0	13.9	20.7	17.6	2.5	2.9

Sources: Company data, Thanachart estimates
Note: Based on 23 May 2023 closing prices

Energy, utility and contractors have large exposure to policy risk

First of all, we don't have the three sectors ie **energy**, **utility** and **contractors** with high exposure to policy risk in our portfolio. Not only MFP, but other political parties have also promised to reduce energy and electricity costs in their agenda, and **energy** and **utility** sectors are clearly exposed to the risk. We see higher risk to the energy sector as PTT group companies are national oil companies with the potential to become victims of subsidization risk. Meanwhile, the utility sector is dominated by private companies and should have lower risk than the energy sector as changes to existing PPA contracts will have too much repercussions to the country. So, the risk is more toward return of future projects and EGAT's subsidization risk of lower Ft or electricity tariff during high energy prices. The other sector with substantial risk is **contractors** as both MFP and PT have plans to increase minimum wages. However, share prices of key companies have already fallen ahead of potential earnings impact of 20-25% for a 10% increase in wages.

AMATA and WHA remain in our list

In our top picks list, the two stocks with the largest exposure to policy risk are **AMATA** and **WHA**. Both are industrial estate companies that also own SPP power plants with output sold to their estate customers. One major risk is the wage hike that can impact the currently strong FDI cycle, with EGAT's Ft subsidization being the other risk. As for Ft cuts, we are not very worried as tariff is on its way down anyway from sharp fall in gas prices, while the risk of Ft subsidization during the time of energy price crisis has always existed in the past. What MFP and other parties want to review to lower national electricity tariff is not Fuel Adjustment (Ft) value but Availability Payment (AP), which is guaranteed payment paid to power plants to maintain contracted available hour whether or not they are ordered for electricity dispatch. AP is a major part of profitability for IPP plants, but accounts for only a small portion of profit in SPP plants like those owned by AMATA and WHA. As for minimum wage risk, we believe the demand for diversification of production base from rising geopolitical risk is likely to outweigh the risk. Thailand's current FDI cycle is the strongest in over a decade and we believe improvements in automation will help to reduce the wage impact.

AOT and BH have risk related to foreign affairs but remain our top picks

AOT's and **BH**'s share prices have been victims of the recent market fall against their very strong 1Q23 results. We believe the share price correction to a certain extent was due to concerns over foreign affairs risk, with MFP being perceived to be friendlier with the US, which could upset Thailand's relationship with China and other countries. However, we don't see this as an immediate risk with MFP having only 152 House seats in the 500-seat House, and other political parties should help mitigate this risk. Meanwhile, share prices have already corrected and businesses of both AOT and BH continue to be very strong.

CPALL and CRC have risk from free lottery scheme but remain our top picks

CPALL and **CRC** are exposed to policy risk that favor SMEs, reduction in dominant market position of big corporations, and free lottery tickets for purchase of SME's goods and services. While we believe it is very difficult to reduce the market dominance of these companies due to their competitiveness from already large scale and good quality product offering and pricing, we expect some impact from the lottery scheme. However, their share prices have already come down and the potential impact shouldn't be large enough to prevent their continued strong earnings growth cycle and strong outlook for consumption growth.

KCE, SAWAD, SCC and SISB have limited policy risks

Stocks in our top picks list that have limited exposure to policy risks are **KCE**, **SAWAD**, **SCC** and **SISB**. While we expect the peaking of interest rate to be positive for KCE and SAWAD, SCC is a beneficiary of falling energy costs and recovering petrochemical spreads. SISB has its own growth story from its international school business, which has the right price point and a unique business model.

APPENDIX 1: Top picks' financials

Ex 1: Amata Corporation Pcl (AMATA TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	6,502	9,192	10,756	10,987
Net profit	2,341	2,063	2,374	2,569
Norm profit	1,525	1,983	2,374	2,569
Norm EPS (Bt)	1.3	1.7	2.1	2.2
Norm EPS grw (%)	104.4	30.1	19.7	8.2
Norm PE (x)	16.6	12.8	10.7	9.8
EV/EBITDA (x)	14.9	11.1	8.9	8.2
P/BV (x)	1.3	1.2	1.1	1.0
Div yield (%)	2.7	2.4	2.8	3.0
ROE (%)	8.2	9.8	10.9	10.9
Net D/E (%)	49.5	41.6	32.1	23.4

Sources: Company data; Thanachart estimates

Ex 2: Airports of Thailand Pcl (AOT TB)

Y/E Sep (Bt m)	2022	2023F	2024F	2025F
Sales	16,560	45,801	76,876	87,500
Net profit	(11,088)	9,145	30,438	36,858
Norm profit	(11,288)	9,145	30,438	36,858
Norm EPS (Bt)	(0.8)	0.6	2.1	2.6
Norm EPS grw (%)	na	na	232.8	21.1
Norm PE (x)	na	110.1	33.1	27.3
EV/EBITDA (x)	na	44.4	19.9	16.7
P/BV (x)	9.9	9.1	7.6	6.8
Div yield (%)	0.0	0.0	1.8	2.2
ROE (%)	na	8.6	25.1	26.3
Net D/E (%)	3.0	5.6	(8.0)	(16.5)

Sources: Company data; Thanachart estimates

Ex 3: Bumrungrad Hospital Pcl (BH TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	20,646	23,164	24,980	26,581
Net profit	4,938	5,994	6,641	7,011
Norm profit	4,941	5,994	6,641	7,011
Norm EPS (Bt)	6.2	7.5	8.4	8.8
Norm EPS grw (%)	287.7	21.3	10.8	5.6
Norm PE (x)	37.6	31.0	28.0	26.5
EV/EBITDA (x)	25.9	21.5	19.3	18.0
P/BV (x)	9.4	8.3	7.4	6.9
Div yield (%)	1.5	1.9	2.5	3.0
ROE (%)	26.7	28.4	27.9	27.0
Net D/E (%)	(41.2)	(45.9)	(40.9)	(42.5)

Sources: Company data; Thanachart estimates

Ex 4: CP All Pcl (CPALL TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	852,322	936,026	1,036,686	1,123,616
Net profit	13,272	20,143	27,793	34,413
Norm profit	13,281	20,143	27,793	34,413
Norm EPS (Bt)	1.4	2.2	3.0	3.8
Norm EPS grw (%)	59.4	59.9	38.9	24.3
Norm PE (x)	45.5	28.5	20.5	16.5
EV/EBITDA (x)	12.3	10.9	9.2	8.0
P/BV (x)	5.6	4.5	4.0	3.5
Div yield (%)	1.2	1.8	2.4	3.0
ROE (%)	13.0	18.0	21.2	23.2
Net D/E (%)	96.4	91.7	80.2	68.4

Sources: Company data; Thanachart estimates

Ex 5: Central Retail Corp. Pcl (CRC TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	219,898	253,181	286,272	317,444
Net profit	7,175	9,400	12,331	14,569
Norm profit	6,930	9,400	12,331	14,569
Norm EPS (Bt)	1.1	1.6	2.0	2.4
Norm EPS grw (%)	na	35.6	31.2	18.1
Norm PE (x)	37.4	27.6	21.0	17.8
EV/EBITDA (x)	11.3	9.7	8.6	7.8
P/BV (x)	4.2	3.8	3.4	3.0
Div yield (%)	1.1	1.4	1.9	2.2
ROE (%)	11.7	14.4	17.1	18.0
Net D/E (%)	101.2	89.2	79.2	63.5

Sources: Company data; Thanachart estimates

Ex 6: KCE Electronics Pcl (KCE TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	18,456	18,538	19,564	20,221
Net profit	2,317	2,149	3,535	3,988
Norm profit	2,281	2,149	3,535	3,988
Norm EPS (Bt)	1.9	1.8	3.0	3.4
Norm EPS grw (%)	2.0	(5.8)	64.5	12.8
Norm PE (x)	19.8	21.0	12.8	11.3
EV/EBITDA (x)	14.5	13.7	9.0	7.7
P/BV (x)	3.4	3.1	2.7	2.4
Div yield (%)	2.6	2.4	4.0	4.5
ROE (%)	17.0	15.5	22.9	22.8
Net D/E (%)	19.8	12.6	0.9	(13.6)

Sources: Company data; Thanachart estimates

Ex 7: Srisawad Corporation Pcl (SAWAD TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Pre Provision Profit	5,787	7,899	9,429	11,113
Net profit	4,476	5,354	6,448	7,651
Norm profit	4,292	5,354	6,448	7,651
Norm EPS (Bt)	3.2	4.0	4.9	5.8
Norm EPS grw (%)	(5.5)	24.7	20.4	18.7
Norm PE (x)	16.8	13.5	11.2	9.4
P/BV (x)	2.8	2.6	2.3	2.0
Div yield (%)	3.3	3.7	4.5	5.3
ROE (%)	17.0	19.9	21.4	22.3
ROA (%)	7.2	7.1	7.4	7.8

Sources: Company data; Thanachart estimates

Ex 8: The Siam Cement Pcl (SCC TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	569,609	602,121	702,703	728,452
Net profit	21,382	27,313	42,858	56,677
Norm profit	21,382	27,313	42,858	56,677
Norm EPS (Bt)	17.8	22.8	35.7	47.2
Norm EPS grw (%)	(54.5)	27.7	56.9	32.2
Norm PE (x)	18.9	14.8	9.4	7.1
EV/EBITDA (x)	17.5	10.9	7.9	6.2
P/BV (x)	1.1	1.0	1.0	0.9
Div yield (%)	2.4	3.4	5.3	7.0
ROE (%)	5.8	7.1	10.6	13.1
Net D/E (%)	57.6	58.4	55.7	46.5

Sources: Company data; Thanachart estimates

Ex 9: SISB Pcl (SISB TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	1,319	1,875	2,357	2,806
Net profit	369	706	945	1,208
Norm profit	369	706	945	1,208
Norm EPS (Bt)	0.4	0.8	1.0	1.3
Norm EPS grw (%)	76.9	91.2	33.8	27.9
Norm PE (x)	92.9	48.6	36.3	28.4
EV/EBITDA (x)	63.9	38.9	29.4	23.0
P/BV (x)	15.0	12.4	10.3	8.5
Div yield (%)	0.5	0.9	1.2	1.6
ROE (%)	17.2	28.0	31.0	32.7
Net D/E (%)	(30.5)	(23.4)	(31.6)	(41.7)

Sources: Company data; Thanachart estimates

Ex 10: WHA Corporation Pcl (WHA TB)

Y/E Dec (Bt m)	2022	2023F	2024F	2025F
Sales	13,729	13,636	14,924	15,290
Net profit	4,046	4,088	4,715	4,640
Norm profit	3,720	4,088	4,715	4,640
Norm EPS (Bt)	0.2	0.3	0.3	0.3
Norm EPS grw (%)	36.9	9.9	15.3	(1.6)
Norm PE (x)	17.6	16.0	13.9	14.1
EV/EBITDA (x)	20.7	20.7	17.6	17.6
P/BV (x)	2.0	1.9	1.7	1.6
Div yield (%)	2.6	2.5	2.9	2.8
ROE (%)	11.9	12.3	13.1	12.0
Net D/E (%)	93.4	80.8	75.4	68.1

Sources: Company data; Thanachart estimates

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