

## Thailand Strategy

Thanachart Research

News Update

### Earthquake impact

- Damages are far more limited than major floods
- So, no significant reconstruction value
- Risks on property demand, transfer and bond rollover
- Positive to home improvement and insurance broker

Thanachart team summarizes its view on impact from the last Friday's earthquake in this note. Although it is still too early to have all the information to gauge the real impact, we conclude our big picture at this stage below. Net impact to the economy is negative.

**First**, physical damages from this quake are small and likely to create far less reconstruction value than major floods. Demand therefore is more on renovation than reconstruction and it is limited to only condominiums and not low-rise houses. Renovation creates far less economic value than reconstruction. The only collapse property is an under-construction government building.

**Second**, a greater negative impact in our view is on the property sector which we have a separate note on it. The negative areas to the property sector include future demand and pricing of condominiums, risk of transfer delays and buying cancellations, liquidity risk from bond rollovers of some property companies and risk of project financing loans if some projects face too much buying cancellations.

**Third**, we expect negative impact to people's purchasing power as they may spend less on other things to save money on renovations. Insurance claims will take time and people are likely to have to fix their houses ahead of the claims. We also expect some wealth effect from both condominium demand and prices.

**Fourth**, some short-to-medium term impact to tourism is expected as some sensitive tourists may decide to go elsewhere out of fear of future quakes and hotel property damages.

**Lastly**, on a sectoral basis, sectors to benefit are home improvement and building materials from renovation demand and insurance brokers from future insurance demand. Clear negative impacts are on property and insurance (not insurance broker) sectors. Slight negatives are banks, finance and some food companies. No impact sectors are energy, utilities, telecom, healthcare, industrial estate, electronics and other exports. Other sectors are relatively neutral with some segments being positive and some being negative.

## Ex 1: Sector Impact

Sector	Impact	Comments
<b>Property</b>	Most Negative	<p>Property is the most negative impacted sector from the earthquake. The impacts are in the areas of 1) physical damages to unfinished condominium projects that may incur more fixing expenses, 2) physical damages to finished and sold projects that can create negative reputation to specific condominium brands, 3) weaker demand for condominiums, 4) risks of booking cancellations and transfer delays, and 5) risks of liquidity from difficulties in bond issuance and roll-over due to public fear.</p> <p>This situation is eroding a positive impact from the BOT's recent relaxation of LTV ratio to a 100% for all property types.</p> <p>On physical damages, observations on the ground so far are that there are no damages to low-rise houses. There are damages in various degrees to a lot of condominium rooms. However, the damages are still mostly architecture work rather than dangerous building structure.</p> <p>Please see details in the separate morning note on the property sector.</p>
<b>Hotel</b>	Negative	<p>Despite no major physical impact to hotel properties of MINT, CENTEL and ERW, we expect a negative impact from tourism demand out of short-to-medium term fear over future earthquakes.</p> <p>CENTEL and ERW have experienced some small cancellations of room bookings and events. MINT, on the other hand, hasn't seen net cancellation impact.</p>
<b>Air Transportation</b>	Negative	<p>No physical damages to AOT's airports, which have resumed operations after safety checks that quake day.</p> <p>No physical damages to AAV's and BA's aircraft and other facilities. Some short-term impacts from flight delays but all operations are now back to normal.</p> <p>However, we are concerned on short-to-medium term demand impact to Thai tourism.</p>
<b>Bank</b>	Slightly Negative	<p>Concerns are on 1) asset quality of property-related loans and ITD loans, 2) debt assistance program impact, and 3) falling demand on housing loans that may or may not offset with rising renovation loan demand.</p> <p>Property-related loans are about 4% of total system loans. There are also risks from companies facing bond renewal and refinancing difficulties.</p> <p>Debt assistance programs for affected clients can affect loan repayment timing and interest income for banks. But it helps reduce asset quality risk.</p> <p>As for ITD, most banks have already set aside provisions for ITD loans in 2023, when the company faced liquidity issues.</p> <p>ITD is a main contractor along with a Chinese firm of the collapsed building worth over Bt2bn. The project has insurance coverage.</p>
<b>Finance</b>	Slightly Negative	<p>We see small impact to the sector.</p> <p>We expect no impact to MTC, SAWAD, SAK and TIDLOR as their clients are nationwide and not only in Bangkok. And we believe affected people in condominiums are not their main customer base.</p> <p>BAM should see small negative impact from its affected condominium NPAs that can result in renovation expenses and delays in NPA sales. However, we expect the impacted assets to be small portion of its total portfolio.</p> <p>Unlike BAM, JMT has limited exposure to secured NPLs. But there can be some impact on cash collection from clients who are affected by the quake.</p> <p>KTC, as a credit card and personal loan lender, should see some increase in asset quality risk via late payments or defaults. However, we expect its relief measures to help reduce asset quality risk.</p>
<b>Food</b>	Slight Negative	<p>No physical factory damages of companies under our coverage and operations are running normally. Only KCG that has stopped its production for a few days despite there are no damage.</p> <p>OSP (17% of revenue from Myanmar) has no factory damage but there's risk of weak demand from lower purchasing power.</p> <p>CBG's test-running factory in Myanmar has no damage. CBG's export to Myanmar is only 6% of total sales.</p> <p>Despite MEGA has a 25% of its revenue from Myanmar, we expect limited impact as their drug products and FMCG distribution are relatively demand inelastic products. MEGA sees no physical disruption to its business there.</p>

Sources: Company data, Thanachart compilation

## Ex 1: Sector Impact (Con't)

Sector	Impact	Comments
<b>Energy</b>	Neutral	<p>There are no physical damages to operating assets of most energy and petrochemical firms under our coverage. Operations are running normally without disruptions.</p> <p>PTTEP has operations in Myanmar. Its operations are running normally with continued gas supply.</p>
<b>Utilities</b>	Neutral	<p>There are no physical damages to power plants of companies under our coverage.</p> <p>There are no power plant assets in Myanmar. Hydropower projects in Laos have no impact.</p>
<b>Electronics</b>	Neutral	No physical damages to factories and most products are for exports.
<b>Telecom</b>	Neutral	<p>There are no significant physical damages to telecom network infrastructure and operations are running normally, except for some jamming traffic during the peak of the incident.</p> <p>There may be some remedies for customers but we do not expect them to have meaningful impact to telecom companies' financial performance.</p>
<b>Healthcare</b>	Neutral	<p>There are no property damages, and all hospitals are operating as usual. We do not expect the earthquake to impact both Thai and foreign patient flows.</p> <p>THG's Aryu International Hospital in Myanmar has no property damage and remains open.</p>
<b>Industrial Estate</b>	Neutral	<p>We expect no impact of the earthquake to the FDI trend in Thailand, which is not located in the center of the quake. The country doesn't locate in the areas of high center earthquake risk.</p> <p>No impact to power plants as a part of income of industrial estate companies.</p>
<b>Construction</b>	Neutral	<p>Only ITD faces risk as a main contractor of the collapsed building and it already has financial liquidity issue even before the quake.</p> <p>CK confirmed no major damage for its key projects, i.e.South Purple Line, West Orange Line, and Luang Prabang Hydropower Plant, and all workers are safe. There are some damages on the double track railway Denchai - Chiang Khong project which is covered by an insurance.</p> <p>STECON confirmed no major damage for its projects, including Bueng Nong Bon, Pink Line and Yellow Line, and no major accidents for its workers.</p> <p>There is indirect risk of lower condominium demand but major income of these listed firms are more from infrastructure projects.</p>
<b>Land Transportation</b>	Neutral	<p>No damages to mass transit lines and expressways. The cease of operations was only on that earthquake day. Most lines are back on operation, except for BTS's Pink monorail line that is still close for inspection.</p> <p>We do not expect future traffic to fall and thus no impact to BEM and BTS.</p>
<b>Out-of-home Media</b>	Neutral	<p>Both PLANB and VGI have no physical damages to their out-of-home media assets and all staff are safe.</p> <p>Despite possible negative impact from weak property demand in the future, ad income from the property sector has already been low and it is not a key revenue contributor in the out-of-home media space.</p>
<b>Retail</b>	Neutral (positive on home improvement)	<p>On demand side, we expect positive renovation demand for home improvement with HMPRO (more exposure to condominium owner customers and large sales exposure in Bangkok at 40% of total sales) to benefit more than GLOBAL, DOHOME and CRC's Thai Watsadu.</p> <p>We expect only minor negative impact from purchasing power to other retailers as affected people have to save more money for renovation (insurance claim can come later). CPALL should be least affected as CVS stores are about food, everyday life products and convenience.</p> <p>No major physical damages to assets of most firms. Many stores were closed in the afternoon of the earthquake day but they are now all open as usual. An exception is six out of 10 CPN office buildings that are close for inspection.</p>
<b>Insurance Brokers</b>	Positive	<p>The earthquake is expected to increase demand for housing insurance, of which penetration is low at &lt;30%.</p> <p>Commission rate of housing insurance is high, up to 30%, compared to 18% for motor insurance.</p> <p>TQM stands out as the market leader, while TIDLOR and SAWAD also have significant revenue from non-life insurance sales.</p>

Sources: Company data, Thanachart compilation

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