

# Market Strategy

## 3Q 2020



Hope is not a strategy

#Staydefensive

SCBS



## Research Group

### Head of Research

Sukit Udomsirikul  
sukit.udomsirikul@scb.co.th, (662) 949-1035

### Office Manager

Kanyarat Kawiya  
kanyarat.kawiya@scb.co.th, (662) 949-1011

### Fundamental Research

#### Automotive, Healthcare, Tourism, Transportation

Raweenuch Piyakriengkai  
raweenuch.piyakriengkai@scb.co.th, (662) 949-1002

#### Banks, Finance, Insurance, Securities

Kittima Sattayapan, CFA  
kittima.sattayapan@scb.co.th, (662) 949-1003

#### Building Materials, Commerce, Food

Sirima Dissara, CFA  
sirima.dissara@scb.co.th, (662) 949-1004

#### Energy, Petrochemicals

Chaipat Thanawattano  
chaipat.thanawattano@scb.co.th, (662) 949-1005

#### Telecom, Transportation, Property Fund & REITs

Kittisorn Pruittipat, CFA, FRM  
kittisorn.pruittipat@scb.co.th, (662) 949-1007

### Wealth Research

#### Macro-Economy

Dr. Piyasak Manason  
piyasak.manason@scb.co.th, (662) 949-1037

#### Investment Analyst

Sittichai Duangrattanachaya  
sittichai.duangrattanachaya@scb.co.th, (662) 949-1031

#### Medium and Small-cap Analyst

Natwarin Tripobsakul  
natwarin.tripobsakul@scb.co.th, (662) 949-1032

#### Mutual Fund, Fixed Income

Permsak Jukmongkonchai  
permsak.jukmongkonchai@scb.co.th, (662) 949-1015

#### Wealth Research Assistant

Rewat Charoenshuela  
rewat.charoenshuela@scb.co.th, (662) 949-1016

### Investment Strategy

#### Retail Strategy and Technical

Ekpawin Suntarapichard  
ekpawin.suntarapichard@scb.co.th, (662) 949-1029

#### Derivatives Strategy

Banyart Kongkachan  
banyart.kongkachan@scb.co.th, (662) 949-1088

#### Retail Strategy

Pobchai Phatrawit  
pobchai.phatrawit@scb.co.th, (662) 949-1014

#### Research Assistant

Jaradsak Woragidbumrung  
jaradsak.woragidbumrung@scb.co.th, (662) 949-1018

### Research Support

#### Database

Sureeporn Charoenchongsuk  
sureeporn.charoenchongsuk@scb.co.th, (662) 949-1025

#### Database

Supattra Jairew  
supattra.jairew@scb.co.th, (662) 949-1023

#### Thai Editor

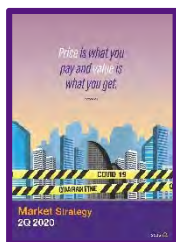
Pongkanit Paocharoen  
pongkanit.paocharoen@scb.co.th, (662) 949-1027

#### Production

Saranjit Onaree  
saranjit.onaree@scb.co.th, (662) 949-1028

## SCBS Market Strategy Reports

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See the end of this report for important disclaimer

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# SCBS strategy

SET index	Close: 19/6/2020	1,370.82	-2.16 / -0.16%	Bt63,320mn
SET50 index	Close: 19/6/2020	907.67	-2.96 / -0.32%	Bt36,621mn



## Hope is not a strategy

**Financial markets are nearly back to normal, making asset mispricing hard to spot but in any case, market valuation is not justified due to COVID-19 damage. The long-term uncertainties warrant reducing short-term risks. Despite high market hopes and expectations, we are more selective in 3Q20, focusing on defensive stocks that have a growth narrative and cyclical stocks with low expectations. This gives us ADVANC, BBL, BCH, ERW, HANA, IVL. We keep 2Q20 picks BDMS, BEM, BTS and CPF.**

**Reopening, near normal, new normal.** As global lockdowns ease, economic activities are restarting and we see early signs of recovery, shored up by central banks. In 4Q20, the manufacturing economy will return to normal, with the service sector back partially. We expect the new normal in 3Q21 as a vaccine is developed. Thus, we believe the worst is behind us. However, Thailand and Europe are likely to underperform the US and North Asia, where exposure to service sector is lower.

**Long term risks remain, reduce short-term risks.** Short-term gains from aggressive stimulus will be offset by long-term risks such as rising public debt and budget deficits, with lower purchasing power and investment from 2022. This is likely to lead to a low-rate, low-growth environment. Although global risk from a second wave of COVID-19, geopolitical risks and the US election will continue to bring volatility, we believe the market will focus on recovery and growth in 2021.

**Back to normal, no more 'easy' return.** The financial market has to a large degree been repaired and is back to neutral. Overall liquidity and credit risks are declining on the back of central bank support, aligned with a stabilized fund flow and credit spread. We see downside as limited. As markets normalize, reversing the rotation into value and cyclical shares, the day of easy returns is over.

**Overly hopeful.** The SET rally has been disproportionately driven by valuation expansion, not earnings growth, and earnings downgrades are decelerating. Improving sentiment from containment of the virus and earnings recovery is well priced into markets. The SET incorporates about 20% of expectations, while other countries in EM have lower expectations and are cheaper. The market is looking past idiosyncratic fundamentals in favor of sector dynamics and expectation of reopening. Efficient risk management is a must - wait for a high margin of safety.

**No clear winners from digital transformation after COVID-19.** Digital transformation has ushered in new business models and diluted competitiveness of old businesses. Strong revenue growth from digitalization will be offset by a margin squeeze because platforms are based overseas. We are concerned about department stores, office real estate, automotive, restaurant and media, and see few clear winners from digital transformation. Few businesses have adapted.

**Cyclicals will be de-rated, defensive re-rated.** Based on fundamental PB, Energy, Petrochemical, Property, Hotel, Media, Construction Materials and Construction Services valuations will be de-rated due to limited upside from ROE expansion. Multiple expansion is expected in Transportation, ICT, Financial Services, Food, Commerce and Healthcare due to their steady ROE growth profile.

**Expect cyclical rotation, but in a low-rate, low-growth world.** We expect Thailand's economy to continue to grow slowly over the next three to five years, leading us to recommend core long-term portfolios take position in high-quality and defensive stocks such as consumer staples and healthcare. Though cyclical rotation on the back of gradual economic recovery is expected to continue, we suggest sectors with low expectations such as Energy, Petrochemical and Banks.

**More toward selective stocks in 3Q20.** We focus on fundamental value and a new growth narrative rather than betting on multiple expansion. For 3Q20, we construct a defensive portfolio including top picks from 2Q20 (BDMS, BEM, BTS, CPF) and new defensive alphas (ADVANC, BCH). In addition, our tactical portfolio will focus on quality global and domestic cyclicals such as BBL, ERW, IVL and HANA.

### 3Q20 Top picks

	Rating	Price (Bt)	TP (Bt)	ETR (%)
ADVANC	Buy	190.00	210.0	14.0
BBL	Buy	115.50	146.0	29.0
BCH	Buy	14.50	19.0	32.8
ERW	Neutral	3.96	4.0	1.0
IVL	Neutral	29.00	30.0	6.9

	PE (x)		EPS growth (%)	
	20F	21F	20F	21F
ADVANC	19.6	21.6	(7)	(9)
BBL	7.6	6.6	(19)	15
BCH	28.7	25.0	2	15
ERW	n.m.	243.3	n.m.	n.m.
IVL	21.1	11.6	47	82
<b>Average</b>	<b>19.3</b>	<b>61.6</b>	<b>6</b>	<b>26</b>

	PBV (x)		ROE (%)	
	20F	21F	20F	21F
ADVANC	7.3	6.7	39	32
BBL	0.5	0.5	7	7
BCH	5.3	4.8	17	18
ERW	1.8	1.7	(9)	1
IVL	1.2	1.2	6	10
<b>Average</b>	<b>3.2</b>	<b>3.0</b>	<b>12</b>	<b>14</b>

	Div. Yield (%)		EV/EBITDA (x)	
	20F	21F	20F	21F
ADVANC	3.5	3.2	8.8	8.7
BBL	2.6	3.0	-	-
BCH	1.7	2.0	15.0	13.7
ERW	0.0	0.0	30.4	14.1
IVL	3.4	4.5	8.3	5.8
<b>Average</b>	<b>2.3</b>	<b>2.6</b>	<b>12.5</b>	<b>8.4</b>

### Analysts

#### Dr. Piyasak Manason

Fundamental Investment Analyst on Securities

#### Sittichai Duangrattachaya

Fundamental Investment Analyst on Securities

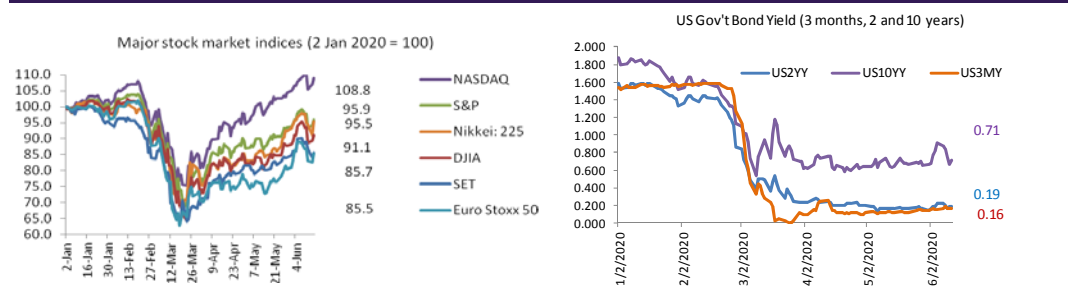
## Economic Outlook

### “Looking back and looking ahead”: The economic and investment world after COVID-19”

The second quarter of 2020 has seen a divergence between the investment and the economic conditions. Despite a recent uptick, the global economy is still contracting. The official gauge of economic activity, GDP growth, contracted sharply in the first quarter, despite the fact the wildfire spread of the virus did not lead to the shutdown of major economies until March. The contraction was steepest in China, where the outbreak got out of control in January, but everyone else, from the US to the eurozone, Japan, and Thailand also saw their economics plunge.

Opposite the dire economic picture, the picture for the investment world is quite good. Stock markets around the globe regained their feet and surged after plunging 30-40% in March. Some markets such as NASDAQ, the US technology market, have gained almost 10% since the beginning of the year, while other major markets have rebounded to near where they were before COVID-19 struck. The rich world's bond yield, an indicator of risk aversion, essentially stagnated, especially in the US, Japan and Germany, while the performance of assets regarded as safe havens, such as gold and the dollar have been relatively subdued. Gold price has been stable at around US\$1,700 per Troy ounce while the dollar index steady depreciated in May and June.

**Figure 1: Investment-economic divergence: Risk investment has performed nicely despite some correction lately**



Source: CEIC, SCBS Investment Research

### Looking back

We view that there were two factors leading risky asset prices to recover in the second quarter, despite the dire economic picture:

#### 1) Continued monetary stimulus.

As noted in previous reports, the more liquidity injected by central banks, the greater the rise in risk asset prices since it is liquidity that plays a central role in shoring up risk assets quite apart from the economic and business outlooks.

Since February, the value of balance sheets for the four major central banks (US, Europe, Japan and England) increased by US\$4.5trn, the highest on record. The US Federal Reserve's balance sheet has now expanded to US\$7.1trn from US\$4.1trn three months ago. With the announcement of a flurry of stimulus measures amid the pandemic, including the purchase of corporate bonds, liquidity in the credit market has since improved meaningfully and credit spreads have narrowed substantially.

Notably, on June 15, the Fed changed its strategy in terms of liquidity injection into the corporate sector. It announced that it will begin buying corporate bonds directly—in addition to indirect purchases from exchange-traded funds (ETFs) that invest in corporate bonds—for its Secondary Market Corporate Credit Facility, starting on June 16. The program has the ability to buy up to US\$750bn worth of corporate credit.

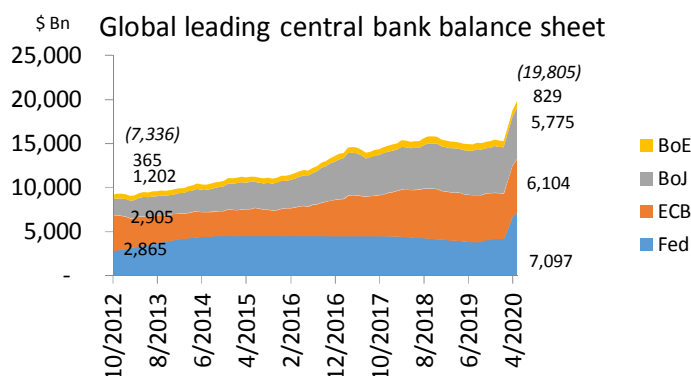
Using a customized index, the Fed can ramp up its support of corporate bond markets easily. The Fed will recalculate its “broad market index” every 4-5 weeks to add bonds that now meet the eligibility requirements and to remove those that no longer meet them. Analysts

estimate that the Fed could buy up to US\$419bn of individual corporate bonds under this criterion.

The timing of the program announcement is interesting as it was made after the June 9-10 Federal Open Market Committee (FOMC) meeting where the Fed announced a change in the limits to its treasury bond and mortgage-backed securities (MBS) buying program from unlimited to at least US\$120bn per month. Investors saw this as a sign that the Fed is starting to limit its liquidity injection and this led the market to tumble at the end of the week. The announcement of the corporate bond buying program the following Monday caught investors off-guard and hence helped push US and global stock indices higher. We see this as a signal from the Fed that it will do whatever it takes to support the market whenever there is a sign that the market is about to fall off a cliff.

Investors also received some renewed confidence that the Fed will not prematurely tighten its monetary policy stance. Fed officials last week projected it would hold interest rates near zero at least through 2022, saying it will keep interest rates near zero “until we are confident that the economy has weathered recent events and is on track to achieve our maximum-employment and price-stability goals.” Chair Jerome Powell stated that the Fed still has other weapons in its arsenal to support the US economy despite the steps it has already taken over the past three months. He also said that people should never “bet” against the American economy.

**Figure 2: Global central bank balance sheets**

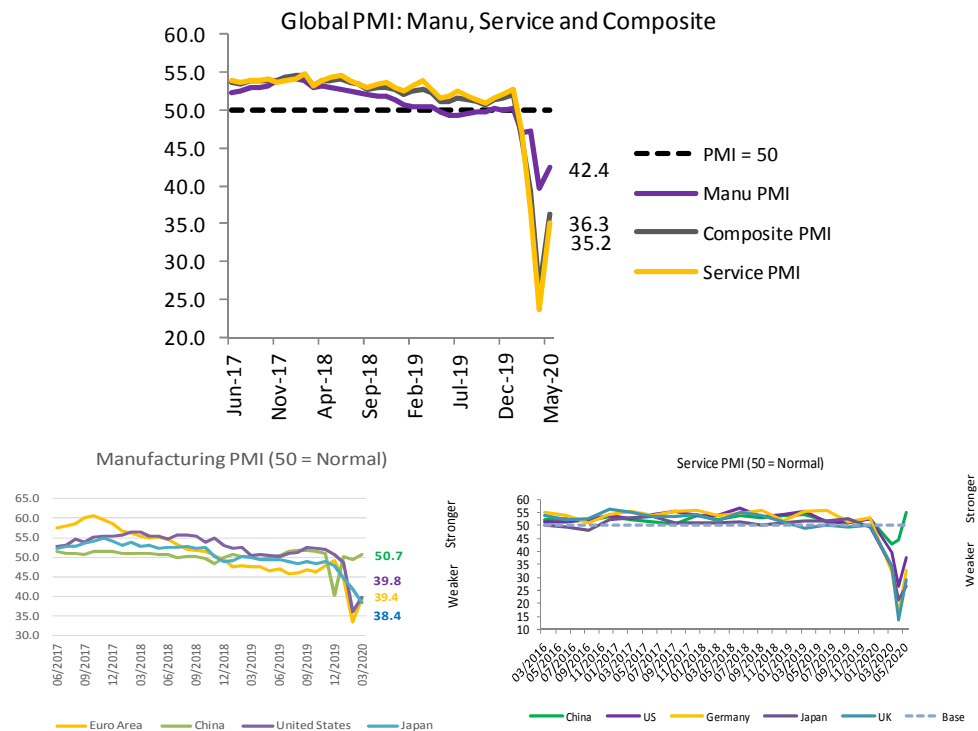


Source: CEIC, SCBS Investment Research

**2) Rebounding economies.**

Countries that have seen reductions in active COVID-19 cases and declines in new case have begun the cautious process of reopening their economies. The reopening of economies in major economic areas such as Europe, Asia and the US has led to a rebound in economic activities and this has led to a revival in economic indicators. The most up-to-date economic indicator, the global composite purchasing manager index, as well as its manufacturing and services counterparts, hit record lows globally in April. In May, however, these figures rebounded quite sharply, though remained in negative territory except for some countries such as China.

**Figure 3: Latest economic indicators have shown signs of revival: manufacturing PMI has rebounded, as has service PMI**



Source: CEIC, SCBS Investment Research

Apart from the PMI—which based mainly on a survey, other—real—economic indicators are showing some promising signs as well, especially in the US, where the labor market is surprisingly positive. While economists predicted 8mn jobs were lost in May, the Labor Department reported that payrolls actually rose by 2.5mn, boosted by accelerating rehiring as the country reopens and the unemployment rate fell to 13.3% from 14.7% in April. Economists were looking for a jump to about 20%. The gains suggest the Paycheck Protection Program, meant to encourage small businesses to rehire staff, is working. For loans to be forgiven, businesses need to use 75% of it on payroll and rehire by the end of June.

Another important positive data recently released is US retail sales, a consumption indicator, which is approximately 70% of the economy. Total retail sales jumped 17.7% in May, the highest monthly surge ever. Economists predicted an increase of only 8.1%. In April, sales had dropped 14.7% from March. Investors were cheered by the data, seeing it as a sign that economic recovery is underway.

Signs are also encouraging in the world's second biggest economy, though to a lesser extent than in the US. China's economy continues to recover, with the latest data showing improvement across a variety of indicators. Industrial production rose 4.4% in May from the previous year, up from the 3.9% reading in April, but less than the 5.0% expected by economists. Chinese consumers are also returning to shops, though spending is weaker than a year ago. Retail sales dropped 2.8% in May YoY, a far smaller decline compared to April's 7.5% plunge. Fixed-asset investment declines also narrowed to 6.3% YTD, compared to 10.3% in the prior month.

Though cheering, headwinds to recovery linger, with overseas demand remaining sluggish as the pandemic has yet to halt its spread around the world. Domestic demand in China has recovered only slowly amid high unemployment and worries about a second wave of COVID-19 infections. In May, the surveyed urban unemployment rate in 31 major cities in China rose to 5.9%, the highest point since the data series began in June 2013.

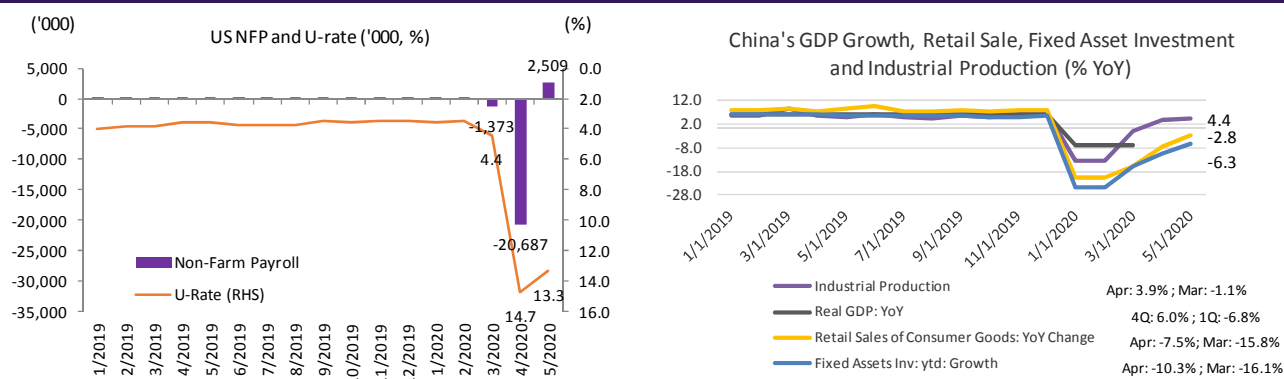
It seems that we can draw some preliminary conclusions from the latest data. After reopening, US economic growth momentum is better than either the market or we expected. This is due to the 1) resiliency/flexibility of the US economy and 2) effective stimulus

measures implemented by both the government and the Fed (e.g. Payment Protection Program or PPP and expansion of unemployment benefits).

On the other hand, China's economic recovery, though gradual, is slower than we expected. The primary cause of this slower-than-expected economic revival may be the half-hearted economic stimulus measures. In May, the Chinese Politburo committee announced prior to the annual National People's Congress that China will not set a numerical target for GDP this year due to "great uncertainty" surrounding COVID-19 and trade. It will give priority to "quality growth", e.g. stabilizing employment, increasing living standards and reducing poverty, among others. The stimulus program this year consists only of CNY3.6trn program aimed at infrastructure spending in rural areas.

This is seen as a sign that Chinese authorities do not plan to focus on stimulating the economy into a strong rebound, but rather to allow a gradual recovery. Though this approach is better for the economy in the long run, especially compared to the program during the 2008-9 financial crisis where authorities launched a CNY4trn stimulus program (more than CNY10trn in today's value) and ended up with a big real estate bubble and very large local government and state enterprise debt, it means that in the positive effect on the economy (both domestic and spillover effect on the Asian and global economies) from the stimulus program will be far less this time.

**Figure 4: US Non-farm payroll rebounded substantially, while China's recovery continues steady**



Source: CEIC, SCBS Investment Research

**Look forward**

After two-thirds of the global economy locked down in order to contain the spread of the virus, the number of new cases has begun to simmer down in many countries such as Spain, Italy, Germany, France and in Thailand. The number of new patients per day is low and approaching zero per day, while number of recovered patients is steadily rising.

The negative consequences of the lockdown on the economy is huge. The International Monetary Fund projected in April that the world economy will contract sharply at a scale not seen for 90 years. Large economies such as the US, the eurozone and China will experience the worst contraction since the 2008-2009 global financial crisis and many economists project the second quarter to be the worst since data was collected.

With that drastic consequence in mind, countries have begun to reopen and allow more economic activities. The question is, after reopening, what can we expect for the path of economic, social, business and economic recovery? And what will happen to global fiscal and monetary stance going forward?



**Figure 5: 2020-2022 Key economic and financial indicator projections**

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	2019	2020	2021	2022
<b>Economic situation</b>	Lockdown	Reopening (50% Economy)		90% Economy				New normal								
<b>Covid-19 stage</b>	Pandemic		Covid-19 testing/ have medicines or vaccines				Covid-19 under control									
<b>GDP Growth(%)</b>																
WR	1.0	-12.3	-0.2	2.1	2.1	1.8	2.3	2.3	3.2	3.2	3.2	3.2	2.9	-2.3	2.1	3.2
US	0.6	-8.1	-0.9	5.7	2.6	6.6	4.4	4.5	1.6	1.6	1.6	1.6	2.3	-0.7	4.5	1.6
EZ	-3.3	-16.3	-6.3	-1.2	-0.3	5.9	3.8	2.8	1.3	1.3	1.3	1.3	1.5	-6.7	3.1	1.3
CN	-6.8	3.8	5.0	3.7	6.8	6.4	6.6	7.3	5.7	5.7	5.7	5.7	6.2	1.4	6.8	5.7
JP	-2.0	-9.9	-7.9	3.7	-0.2	1.8	1.9	1.8	0.5	0.5	0.5	0.5	0.7	-4.0	1.3	0.5
TH	-1.8	-13.5	-8.8	1.0	4.8	4.4	5.7	5.7	3.6	3.6	3.6	3.6	2.4	-5.8	5.1	3.6
<i>*SCBS forecast</i>																
<b>PMI service</b>																
US	39.8	37.5	42.4	47.2	54.6	54.6	54.6	54.5	50.1	50.1	50.1	50.1	52.6	41.7	54.6	50.1
CH	43.0	50.0	48.8	47.6	48.3	49.5	52.2	51.9	51.5	51.5	51.5	51.5	52.6	47.4	50.5	51.5
<b>PMI Manufacturing</b>																
US	48.5	39.8	49.4	52.2	51.6	50.3	50.3	51.2	51.4	51.4	51.4	51.4	51.6	47.5	50.9	51.4
CH	50.1	50.7	51.0	50.9	51.0	50.3	50.4	50.3	50.0	50.5	50.5	50.5	50.7	50.7	50.5	50.4
<b>Policy rate</b>																
US	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	1.88	0.13	0.13	0.13
TH	0.75	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.25	0.25	0.25	0.25
<b>Debt to GDP</b>																
CH	57.0	59.7	62.3	64.9	67.3	69.8	72.2	74.6	76.5	78.4	80.2	82.1	54.4	64.9	74.6	82.1
EZ	87.4	90.8	94.1	97.4	101.1	104.7	108.4	112.0	114.8	117.6	120.4	123.2	84.1	97.4	112.0	123.2
TH	41.4	46.5	49.1	51.8	53.4	54.9	56.5	58.0	58.7	59.5	60.2	60.9	41.2	51.8	58.0	60.9
<b>Fiscal deficit to GDP</b>																
CH	-7.6	-8.8	-10.0	-11.2	-10.2	-9.1	-8.1	-7.0	-6.3	-5.5	-4.8	-4.0	-6.4	-11.2	-7.0	-4.0
EZ	-2.4	-4.1	-5.8	-7.5	-6.3	-5.0	-3.8	-2.5	-2.0	-1.5	-1.0	-0.5	-0.7	-7.5	-2.5	-0.5
TH	-2.8	-2.9	-2.9	-3.0	-3.3	-3.5	-3.8	-4.0	-3.8	-3.5	-3.3	-3.0	-2.7	-3.0	-4.0	-3.0
<b>Treasury yield (%)</b>																
US 10Y	0.70	0.70	0.80	0.80	0.76	0.72	0.67	0.63	0.68	0.73	0.78	0.83	1.92	0.80	0.63	0.83
TH 10Y	1.48	1.29	1.11	1.18	1.25	1.07	1.01	0.95	0.90	0.85	0.80	0.75	1.49	1.18	0.95	0.75

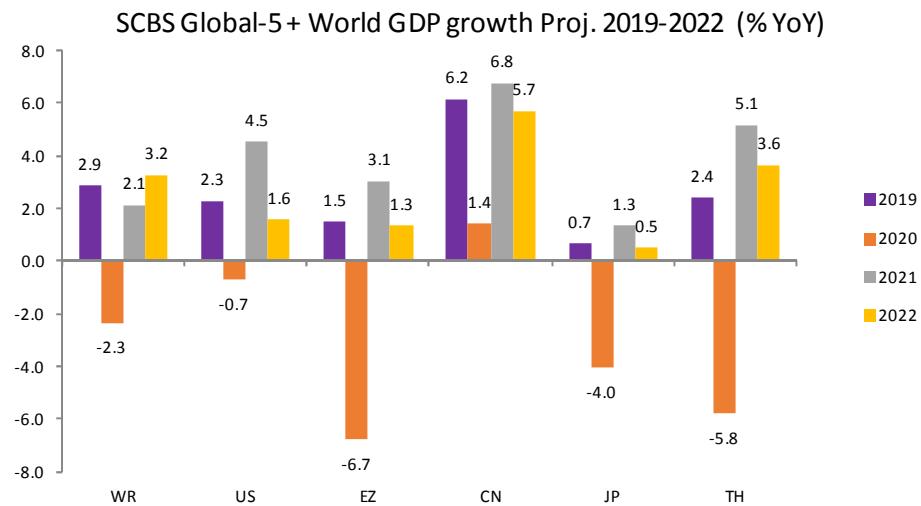
Source: CEIC, SCBS Investment Research

To provide a clear picture, we divide the period of economic revival coupled with the state of the COVID-19 epidemic into four periods as follows:

1. **Outbreak and lockdown (1Q20).** The epidemic began spreading from China in January – February 2020 to encompass the globe in March-April. To “level the curve”, the world began a massive lockdown, closing borders, closing most economic activities that brought people together and this led to a massive shrinking in economies. Governments then initiated gigantic fiscal stimulus. Central banks (led by the Fed) began massive monetary relaxation that involved cutting policy rates to record lows and enormous purchase programs to stave off a financial crisis.
2. **Reopening (2Q20-3Q20).** In this period, more patients began to recover and leave the hospital while the number of new cases stabilized or began to drop. Governments began to allow stepped reopening in cities, restarting economic activities and bringing some recovery of economic indicators. At the same time, economies are still not able to fully reopen, especially in the service sector, resulting in “50% economy”. Fiscal stimulus remains in full play while monetary policy remains relaxed. Central banks are implementing QE measures, buying bonds to compensate for the budget deficit, while lower policy interest rates (or “financial repression”) is being utilized to keep public and private financing costs down.
3. **“Near” normal (4Q20-2Q21).** In this period, the number of new patients will stabilize or begin to drop and greater reopening is allowed. At this point, economies are considered to be “almost” or “near” normal, or a “90% economy”. The manufacturing economy will return to normal level but the service sector will still be clearly affected. The use of public transport and domestic aviation will remain below full capacity, as well as will hotel and restaurant services. As a result, fiscal stimulus will remain fully in place and monetary policy will remain relaxed.
4. **“New” normal (3Q21 on).** In this period, a vaccine against COVID-19 and medication to treat it is found and distributed throughout the world, pulling the number of newly infected persons or active cases down to close to zero. At the same time, economic growth will be slower than before the crisis. Public debt will be high and rising, while budget deficits will continue to rise before gradually declining when economies return to full function. Some types of taxes will be increased to pay down the debt, but not to a level that would damage economies. Inflation may be allowed

to increase minimally to reduce the real value of the debt, as well as to keep the ratio of public debt to GDP in check. Monetary policy will be required to maintain interest rates at a low level, and/or keep QE measures ongoing in order to create “financial repression”, i.e. the suppression of financial costs for the public and private sectors.

**Figure 6: Global and Thailand economic outlook for 2020-2022**



Source: CEIC, SCBS Investment Research

With those four periods in mind, we attempt to get a birds' eye view of the global and Thai economic outlook in 2020-2022 as below.

**1. Economy.** The global economy will contract severely in 2Q20 as a result of the plunge in growth in the United States, Europe and Japan (as well as Thailand); while China's economy began to revive in the second quarter. In 2021, the global economy will begin to recover in the first half of the year and momentum will extend into the second half as a vaccine is discovered and distributed.

**2. PMI.** The service sector will fall steeply in 2Q20 and rebound thereafter. Manufacturing PMI will be less volatile. Overall, the volatility of US PMI will be worse than China's.

**3. Policy interest rates.** Policy interest rates will stay low for longer since economies will grow more slowly going forward due to risk-averse consumers, the debt-ridden public sector and a cautious private sector. Inflation will be also lower for longer due to slim demand going forward. Central banks around the world, including in the US, Europe, Japan, England and Thailand, will need to implement more QE going forward to keep interest rates on long-term bonds from rising after governments issue more bond to finance fiscal deficits.

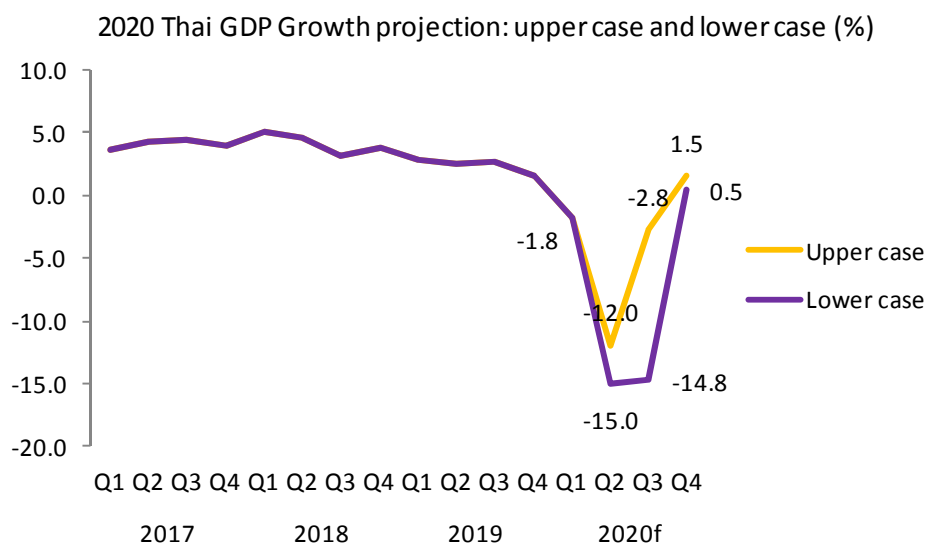
**4. Public debt.** Going forward, public debt around the world will increase as sluggish economies will mean lower tax revenue to pay down debt or to lower the public debt to GDP ratio and there will be a concurrent increase in government expenditure to pay for extra items such as public health and to cover interest expense. This will lead governments to issue more bonds to finance fiscal deficit, making it difficult to see a quick or material reduction in global public debt.

**5. Budget deficit.** We expect many countries to fall into a deep deficit in 2020-2021 due to the recession, forcing them to use fiscal policy and thus budget deficits to provide a constant stimulus to the economy. We expect deficits to come down gradually in 2022.

**6. Bond yield.** Going forward, bond yields will not be able to increase materially due to 1) the economic and inflation slowdown and 2) central banks' QE and MMT purchases. There will also be the need to keep yield curve from going too high: since rising yield will lead to higher financial costs for the public and private sectors, bond yields need to remain low for a long time.

To conclude, in the short run, the global and Thai economy (except China's) will bottom in 2Q20, economic revival will continue in 3Q20 and 4Q20 may bring positive YoY growth. In the case of China, recovery started in 2Q20 and will run through the rest of the year. Global and Thai economic growth will fall substantially in 2020 and we may see some rebound in 2021-22, but growth will be lower than before the COVID-19 outbreak.

**Figure 7: 2020 Thai GDP growth projection: upper case and lower case (%)**



Source: CEIC, SCBS Investment Research

### SCBS Thailand's economic forecast and Scenario Analysis

In 1Q20, the Thai economy contracted for first time in six years, which can be laid to the door of COVID-19 (and the lockdown it made necessary), the delayed budget and the drought. On the assumption that there is no big second wave of infection that will necessitate a lockdown at the same scale as in March-April 2020, we recalibrate our 2020 GDP projection by setting two cases – an upper-bound case and a lower-bound case.

In the upper-bound case, there will be no second wave of infection, while in the lower-bound case, a second wave is expected, leading to an extension of the emergency decree beyond the end of July. This means there will be a different path for economic growth. In the upper-bound case, GDP growth will shrink sharply in 2Q20 and rebound thereafter. In the fourth quarter, GDP growth will begin to exhibit a positive YoY rate. In the lower-bound case, the emergency decree will extend to the third quarter and the economy will continue to shrink. This means the rate of growth in 3Q20 will be little better than 2Q20 and the rebound in 4Q20 will be weaker, with almost no YoY growth.

In terms of GDP components, we believe private consumption will contract much less than GDP growth due mainly to the Bt1trn fiscal stimulus package. Since the Bt600bn portion of the Bt1trn stimulus package is mainly to stimulate the economy via money transfer to low income people, overall consumption will not dwindle greatly. In terms of private investment, the Bt400bn stimulus, directed at small-scale investment in rural areas, will give a small boost to overall investment in 2H20.

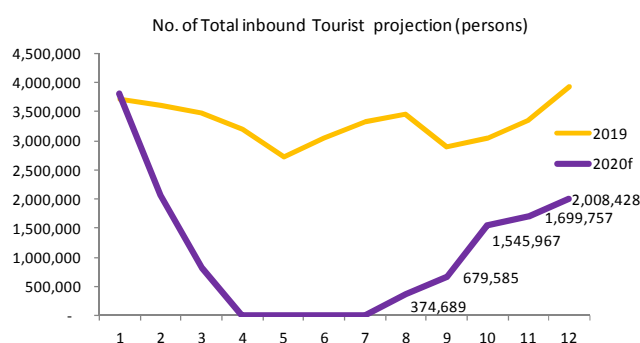
In terms of exports of goods, the IMF projects an 11% decline in overall global trade while the WTO projects trade will shrivel by one-third due to the pandemic which slashed global demand and also derailed freight by virtually shutting down passenger flights. There have been some positive signs in the export of certain products such as electronics (specifically components for 5G telecommunications products) and agro-food products off the pandemic-led increase in demand for processed food. We hence project a contraction in export value in the range of 7.3-10.1% (with the middle value of -8.7%), a contraction in imports in the range of 15.2-21.1% a fall in current account of 4.5-5.3% of GDP as the result of a shrinkage in exports and domestic demand.

**Figure 8: 2020 Thai economic projection: NESDC vs SCBS**

Macro growth projection	Actual 2019	2020 forecast			
		NESDC	SCBS (U)	SCBS (M)	SCBS (L)
GDP Growth	2.4	-5.5	-4.0	-5.9	-7.8
Gross fixed capital formation:	2.1	-2.1	-5.3	-8.4	-11.5
- Private	2.8	-4.2	-8.8	-12.6	-16.4
- Public	0.2	5.6	4.3	4.3	4.3
Private consumption	4.5	-1.7	-0.2	-2.0	-3.8
Public consumption	1.4	3.6	4.3	4.3	4.3
Export Value in \$ term (%)	-3.2	-8.0	-7.3	-8.7	-10.1
Import value in \$ term (%)	-5.4	-13.2	-15.2	-18.2	-21.1
Current account to GDP (%)	7.0	4.9	5.3	4.9	4.5
Headline Inflation (%)	0.7	-1.0	-1.0	-1.3	-1.5
USDTHB	31.0	31.8-32.8	31.5-32.5	32.0-32.5	32.0-33.0
Policy Rate (%)	1.25	N/A	0.25	0.25	0.25

Source: NESDC, CEIC, SCBS Investment Research

Lastly, the export of services, as well as partial service consumption, is directly tied to the number of inbound tourists and the revenue they bring in. In this economic projection recalibration, we posit a drop in tourist numbers of 67.3% in 2020 (to 13mn persons) compared to the fall of 23% in our earlier estimate. In the first half, the contraction will be greater, at 66.2% to 6.7mn persons from 19.7mn persons in the first half of 2019 due to the emergency decree that basically shut down international arrivals from the end of March until at least July. In the second half, the number of tourist arrivals will rebound modestly in the 4Q20, with 6.3mn inbound tourists expected (-68.5% YoY). The loss of tourists will cost the country around Bt1.2trn, or 7% of GDP in nominal terms.

**Figure 9: 2020 Thailand tourism projections**

Source: CEIC, SCBS Investment Research

### Risk to the economy and investment going forward

Although we project that the global and Thailand's economy will bottom out in 2Q20, looking forward, there may be some downside risks that will lead economic growth to fall more than we envisaged. These three risks are detailed below.

**1. Less economic stimulus, especially in the US.** Recently global financial markets have tuned to risk-on mode after the Fed cut its benchmark rate to zero and implemented a Quantitative Easing (QE) policy with no limit to the amount of monetary injection. Then, at its Federal Open Market Committee (FOMC) meeting in June, the committee began to put limits on the bond buying program. Although in its statement, the FOMC directed the New York Fed branch to buy treasury and mortgage-backed securities (MBS) at the current pace,

the New York Fed said this was US\$80bn for Treasury and US\$40bn for MBS, which is hugely down on a MoM basis. According CEIC, a data provider, the amount of Fed asset buying has come down from US\$1.1trn in March and US\$1.4trn in April to US\$441bn in May. If the Fed limits purchases to US\$120bn as noted in the statement, the amount of liquidity injected into the market and the economy is reduced by at least 2.7 times. This will undoubtedly lead to a tighter market and may lead to market fluctuation and a decline in consumer confidence going forward.

Apart from that, as recent US economic indicators turned out surprisingly upbeat, US lawmakers may have less incentive to continue fiscal stimulus, especially the unemployment benefits. However, if lawmakers do reduce unemployment benefits as recent news suggests, some of the 20mn unemployed will not easily find new jobs given the coronavirus pandemic's bigger toll on certain parts of the economy. That will cut short any early economic recovery, and lead the economy down again (or into a W-shaped recovery).

**Figure 10: 4 Central banks' balance sheets: amount and MoM change**

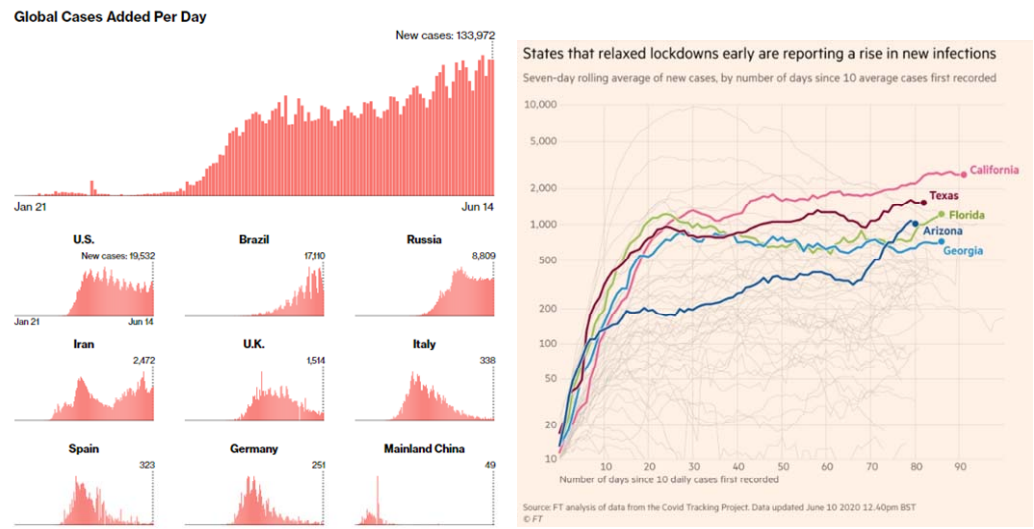
Month	4 Central Banks (\$bn)	Fed	ECB	BOJ	BOE
Feb 20 Amount	15,253	4,159	5,119	5,256	719
Mar 20 chg	1,711	1,096	473	176	-34
Apr 20 chg	1,810	1,402	221	178	10
May 20 chg	1,030	441	291	164	134
May 20 Amount	19,805	7,097	6,104	5,775	829

Source: CEIC, SCBS Investment Research

**2. A second wave of the COVID-19 pandemic.** Recently, both China and the US have seen rising numbers of newly infected patients. In the US, fears are that a second wave of coronavirus cases may be emerging). In the middle of June, Texas, Florida, California and Arizona – the earliest to begin reopening - reported a jump in new cases. The localized surges have raised concerns among experts even as the nation's overall case count early in the week of June 13-20 rose just under 1%, the smallest increase since March. Although the resurgence appears localized, it is generating concerns about economic reopening country-wide.

In China, a new round of infections in the capital led Beijing to shutter the city's largest wet market and lock down nearby housing districts as more than 160 people associated with the wholesale market tested positive for the coronavirus. Although the chief epidemiologist at China's Centers for Disease Control and Prevention said that the peak of Beijing's new coronavirus outbreak has passed and further infections should be "sporadic," there will still be a risk of resurgence as globally, cases are continuing to rise and are approaching 9mn.

**Figure 11: The risk of a second wave of COVID-19**



Source: Bloomberg, Financial Times, SCBS Investment Research

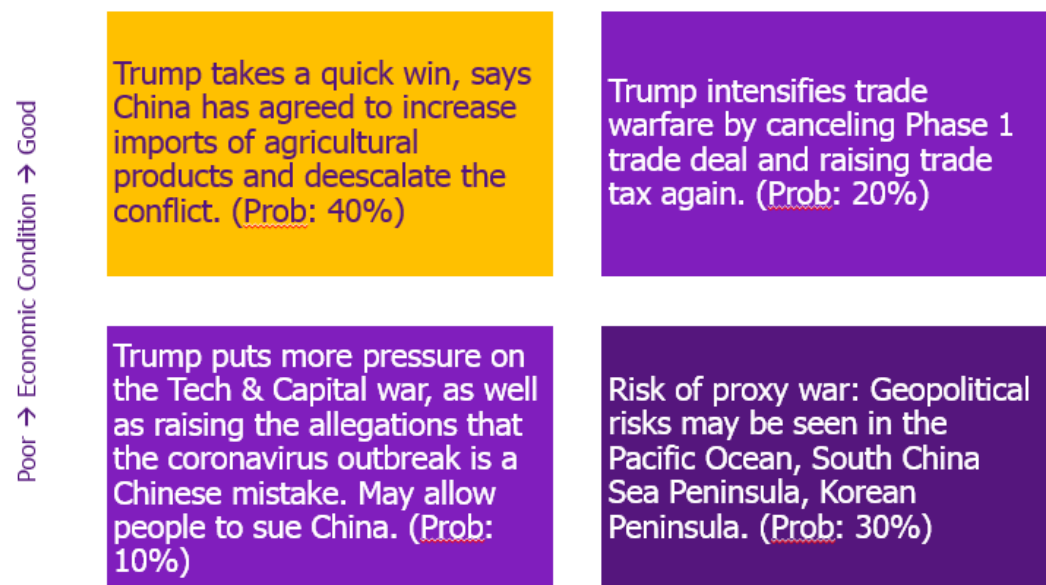
**3. The risk of a cold war between the US and China.** We believe the last and final risk to economy and investment going forward is the renewed risk of a cold war between the world's two largest economies. In May, the US administration accused China of mismanaging the outbreak and it was this that created the pandemic. The US then moved to accusations about trade, saying China did not keep its promise to import more US products as outline in the phase-one trade deal. While China did start to import more of US agricultural products, US then renewed the ban on Huawei and ZTE, China's two biggest technology companies, for another 1 year.

Recently, the US Senate passed a law to require Chinese companies to follow US accounting standards, or certify that they are not owned by a foreign government, otherwise they may be banned from listing on a US stock exchange.

Logic would say that current spat will be kept from escalating to a point where it hurts the world economy or financial markets during this time of crisis. But the Trump administration always surprises on the downside and this will be even more true in an election year.

**Figure 12: US vs China cold war scenario analysis (before US November election)**

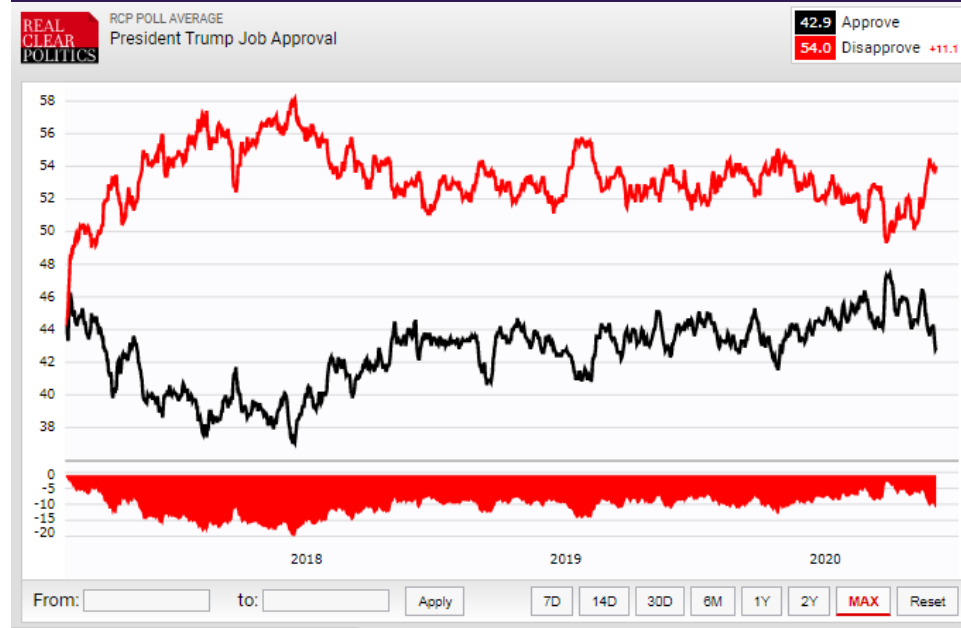
Good ← Trump presidential approval rating ← Poor



Source: SCBS Investment Research

In an election year, a cold war could be used as an instrument to boost the president's popularity. We believe that if Trump's popularity is high and the economy is in a good state, the president will take a quick win and say China has agreed to increase agricultural imports. Hence, there will be no need to resort to escalating the cold war. However, if the US economy is staggering or the president's chance of reelection slims, he may resort to a cold war – that would hurt economies in the US and China, as well as in the rest of the world. It should be noted that the prospect of de-escalation of tension is clearer after a meeting between Chinese Politburo member Yang Jiechi and US Secretary of State Mike Pompeo in Hawaii on June 17, going by messages from both sides. China is committed to maintaining agriculture purchases that were crucial to Trump's support of the deal, according to the media.

**Figure 13: Trump approval rating: still down**



Source: [Realclearpolitics.com](http://Realclearpolitics.com), SCBS Investment Research

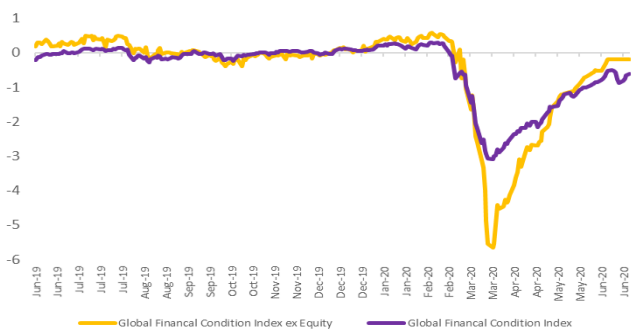
## Market Outlook

### The end of 'easy' returns in a period of unflinching hope

#### Financial market channel has already to a large degree been repaired

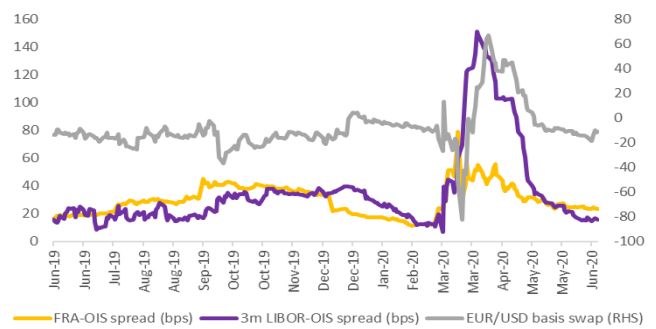
The current rally of the SET is more rapid than the top 90th percentile historically. Assets from corporate bonds to stocks are approaching pre-crisis levels. The chance of a second wave of infection appears limited with signs of stabilization in number of new patients per day in the US, Europe and Thailand after reopening. In addition, central banks have been responding to the crisis rapidly and governments in every corner of the earth have introduced massive fiscal stimulus. Moreover, overall liquidity and credit risks are declining, aligned with stabilized fund flow. Unprecedented stimulus from the Federal Reserve and Bank of Thailand have pushed credit spreads most at risk of downgrades to junk status back to pre-crisis levels. Cross-currency swaps against the US dollar are back to normal, while the funding market is also back to normal with Libor, TED and FRA spread all falling. These suggest that the financial market channel has already to a large degree been repaired and is almost back to neutral. Thus, we believe the downside is limited. As financial markets get back to normal with rotation into value and cyclical shares reversing, this phase of the recovery is over.

**Figure 14: Financial condition has made an epic round trip**



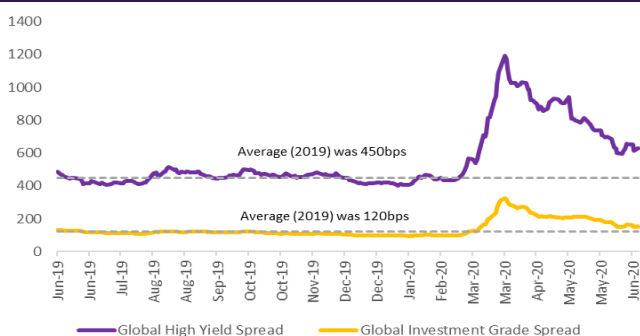
Source: Bloomberg, SCBS Investment Research

**Figure 15: Funding market stress gauges signal return to stable condition**



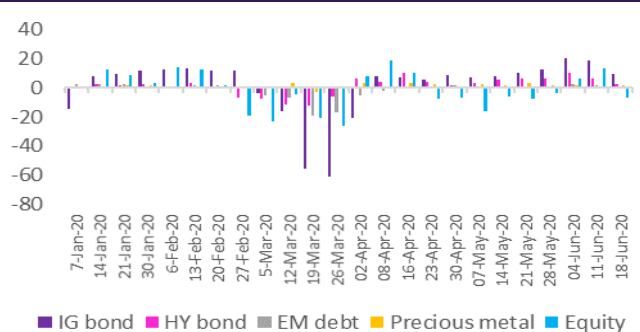
Source: Bloomberg, SCBS Investment Research

**Figure 16: High-yield and investment grade spread tighter**



Source: Bloomberg, Thai BMA, SCBS Investment Research

**Figure 17: Global fund flow is stabilized**



Source: EPFR, SCBS Investment Research

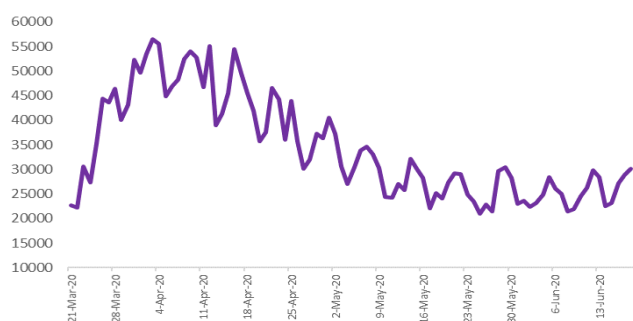
#### Despite continued long-term uncertainties, reducing short-term risks has value

We are confident that the early stages of reopening can progress relatively smoothly. The number of new patients per day is rising in specific areas rather than being widespread as in the initial wave of infections in 1Q20. We believe the virus will be contained and behavioral changes will help limit transmission. While our SCBS forecasts are based on a relatively optimistic view of reopening and a second wave of infection, we agree that the longer horizon is more uncertain. We expect 50% of the economy will be reopened in 3Q20, reach 90% in 4Q20 and then resume a new normal from 3Q21 onward. There are various issues that could be obstacles for medium-term growth such as a winter virus wave, the aftermath of a large debt overhang, reversal of oil production reduction, the US election, new normal behavior and China-US conflicts. We believe both China and the US will focus on economic recovery rather than allow a serious escalation. Although medium and long-term risks



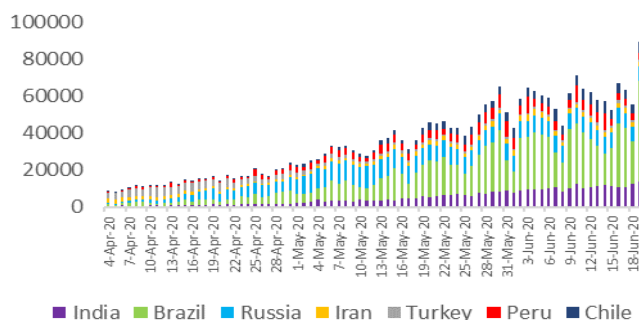
remain, economic activity is turning up and positive results from a COVID-19 vaccine in 2H20 would support our thesis that the worst is behind us.

**Figure 18: Second wave is likely but manageable**



Source: Bloomberg, Thai BMA, SCBS Investment Research

**Figure 19: We are concerned on some EM countries**



Source: EPFR, SCBS Investment Research

**Earnings will see a gradual U-shaped recovery**

To contain the outbreak of COVID-19, on March 20, the Thai government declared a state of emergency and imposed various travel restrictions and measures to reduce the contact between people (such as closing all places of entertainment, shopping malls, etc.), encouraging people to stay at home and work from home. This was successful at stemming the spread of the virus and Thailand has recorded zero local transmissions of COVID-19 since May 23. The Thai authorities now plan to completely lift the domestic lockdown in July. The government is discussing the final phase of the relaxation of businesses and activities considered as bringing the highest risk such as pubs, bars and event venues (including sports) and is looking at making “travel bubbles”, i.e. quarantine-free travel zones with countries with a good track record of containing the COVID-19 virus, in order to revive business activity and consumer sentiment. However, we expect the pace of recovery to vary by sector, from limited impact to an L-shaped recovery, depending on changes in the demand and supply environment.

- 1) Strong recovery – Once social distancing and domestic lockdown measures are relaxed, we expect telecom, utilities, infrastructure, land and rail transportation, healthcare providers, foods and beverages, convenience stores and hypermarkets to see a fast recovery as spending is likely to pick up along with release of pent-up demand.
- 2) Gradual recovery – These are sectors linked to the broader macro environment and most likely to take some time to recover as the COVID-19 situation stabilizes. In this grouping we place airlines, hotels, banks, energy, petrochemicals and electronics. However, the timeframe for recovery remains uncertain given concerns about a second wave of infection.
- 3) Slow recovery – We expect entertainment, shopping malls and office rents to take longer to recover as they are subject to structural challenges, competition and changing consumer behavior. High-priced arenas such as automotive and property development could face tight regulation and lower purchasing power than pre-COVID-19. Below is a chart showing our view of the recovery paths for different sectors in Thailand.

**Figure 20: Key aspects of recovery paths for different sectors in Thailand**

Categories	Sector	Short term		Long term	
		Positive	Negative	Positive	Negative
Limited impact	Telecom operators	Policy support for 5G rollout, rapid 5G adoption, limited substitute, less competition	Enterprise delays, IT capex, lower handset sales	High demand for data, stable market structure	Aggressive 5G competition, Lower ROIC on capex
	Food	Better livestock prices after lifting lockdown	Slow demand for exports	High demand for food safety and traceability	na
V shaped	Healthcare providers	Lifting of travel restrictions, release of pent-up domestic demand	Slow international patient recovery	Limited impact from tech disruption, stable demand supported by aging society	Telemedicine and med tech could lead to decline in patient volume
	Retailers	Various government stimulus, release of pent-up demand	Slow purchasing power, anti-pandemic measures may affect	Demand to be stable, overseas expansion	na

Categories	Sector	Short term		Long term	
		Positive	Negative	Positive	Negative
			operating hours		
	<b>Energy</b>	Global economy is starting to recover, limited substitute in the near term	Volatile commodity prices and petrochemical spread	na	Potential substitutes from shale and renewable energy, high investment in clean energy
	<b>Electronics</b>	Overall demand solid, digital transformation, 5G replacement cycle	Baht appreciation, uncertain economic policy in US and China	Supply chain support for tech industry	Potential substitutes from China and South Korea
	<b>Land and rail transportation</b>	People can return to work at offices	Social distancing measures, 2nd wave of COVID19	Limited substitute, esp. for mass transit, route expansion	Continuous and rising work from home revolution
	<b>Hotel</b>	Strong pent-up demand, reopening, supportive policies	Business restriction, social distancing, 2nd wave of COVID19	Infrastructure development support travel demand	Oversupply concerns, long time needed to repair B/S
	<b>Airline</b>	Gradual air travel reopening, government policies	Business restrictions, social distancing measures, 2nd wave of COVID19	Supply growth, intense competition with foreign airlines, potential M&A	Large liquidity and capital impact, popularity of virtual meeting platform
<b>U shaped</b>	<b>Automotive</b>	na	Slow recovery for big-ticket items	Government policy support for EV and infrastructure	Limited innovation, lack of high-tech supply chain
	<b>Banks</b>	Central bank support, rising economic activities	Possibility of rising default rate and NPLs	na	Rising adoption of tech platforms, lower fees and spread, new virtual banks
	<b>Restaurants</b>	Easing COVID-19 restrictions	Social distancing rules puts profits at risk	Technologically smarter restaurants could mean better competitive ability on a regional scale	Rising competition driven by delivery platform and low barriers to entry
	<b>Department stores</b>	Reopening and easing travel restriction	Travel restrictions and social distancing cut tourists and spending, longer rental reduction	Limited online substitute for big-ticket items, omnichannel getting more popular	E-commerce platform could be a potential threat
<b>L shaped</b>	<b>Office real estate</b>	na	Companies may have to rethink their footprint in prime locations and excess space	na	Negative take-up by co-working space and work from home revolution, relocation from CBD to non-CBD, strong supply growth
	<b>Property</b>	Slower launches of new projects	Demand has been partially suppressed by social distancing measures	Limited land supply to foreseen in long term	Better infra and demand for non-CBD/central areas
	<b>Media &amp; Entertainment</b>	na	Demand has been partially suppressed by streaming services	na	Limited innovation, high substitute in the long-term

Source: SCBS Investment Research

For the SET, we expect CAGR net profit for our coverage between 2019 and 2022 at 3%. The rebound in 2021 earnings will not be uniform across all sectors. Some sectors, such as Healthcare, Commerce and Food will post annualized growth of 3-5% for the next three years. However, other sectors, such as Property Development, Tourism & Leisure and Banking, will generate lower earnings in 2021 than in 2019. Our base forecast is that forward earnings for the SET may not return to its 2019 level until 2022. This suggests that earnings will see a gradual U-shaped recovery, aligning with our GDP forecast, which posits a return to pre-COVID-19 level in 2022. We believe our 2021 earnings forecast is achievable with improving earnings visibility after the COVID-19 outbreak is under control.

**Figure 21: Earnings expected to be a U-shaped recovery**

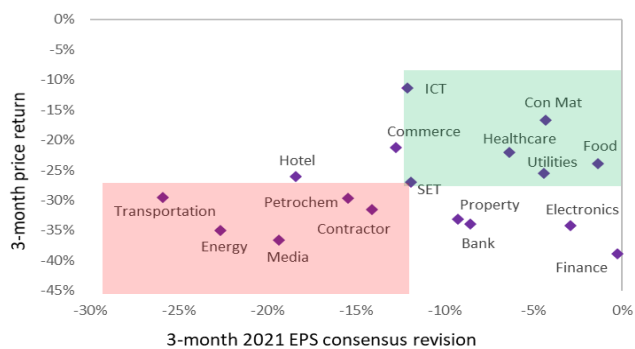
	Mkt. Cap. (Btm)	Net Profit (Btm)				Growth (%)			
		19A	20F	21F	22F	19A	20F	21F	22F
Agribusiness	16,174	1,195	1,242	1,301	1,383	15.2	3.9	4.8	6.2
Automotive	27,270	2,787	2,053	2,876	3,519	(38.8)	(26.3)	40.1	22.4
Banking	1,403,578	211,515	160,383	195,146	216,176	4.3	(24.2)	21.7	10.8
Commerce	1,251,982	44,136	41,501	46,562	52,264	7.3	(6.0)	12.2	12.2
Construction Materials	499,541	37,537	38,808	41,766	44,762	(24.4)	3.4	7.6	7.2
Energy & Utilities	1,989,147	152,854	117,425	167,342	187,794	(19.4)	(23.2)	42.5	12.2
Finance & Securities	429,960	24,657	21,559	25,533	29,340	16.6	(12.6)	18.4	14.9
Food & Beverage	426,172	32,970	19,772	28,813	33,188	41.5	(40.0)	45.7	15.2
Health Care Services	522,856	21,501	13,713	16,168	17,836	40.3	(36.2)	17.9	10.3
Information & Communication Technology	972,479	55,414	45,282	41,784	40,584	26.4	(18.3)	(7.7)	(2.9)
Insurance	31,459	4,705	3,666	5,185	5,449	11.7	(22.1)	41.4	5.1
Paper & Printing Materials	7,670	863	861	888	915	11.1	(0.2)	3.0	3.0
Petrochemicals & Chemicals	375,784	17,028	11,342	28,537	34,198	(74.0)	(33.4)	151.6	19.8
Property Development	449,869	38,220	24,748	26,814	34,282	(1.0)	(35.2)	8.3	27.9
Tourism & Leisure	43,820	2,190	(335)	1,007	1,667	(19.3)	(115.3)	(400.4)	65.6
Transportation & Logistics	1,255,536	26,107	(519)	14,123	33,725	19.7	(102.0)	(2,823.7)	138.8
<b>SCBS Coverage</b>	<b>9,703,298</b>	<b>673,678</b>	<b>501,501</b>	<b>643,845</b>	<b>737,082</b>	<b>(7.2)</b>	<b>(25.6)</b>	<b>28.4</b>	<b>14.5</b>

Source: SCBS Investment Research

**Earnings revision nearly back to normal**

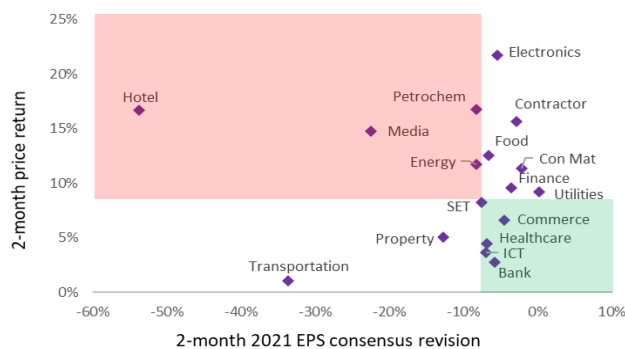
In the three months following the pre-COVID-19 level in January this year, the SET fell by 14% while consensus 2021 EPS estimate fell by 18%. Sector-level EPS revisions and price movements have followed a similar trend, with sectors directly impacted by COVID-19 facing the largest earnings cuts and sell-offs. Utilities, ICT and Food have experienced minimal earnings revisions as well as limited price declines. On the other hand, the SET moved up 5% in May-Jun while consensus 2021 EPS estimates declined by 5%. Meanwhile, macro-driven sectors such as Energy, Materials, Financials show an impressive rally in stark contraction to the earnings revision trend, indicating the market is overlooking idiosyncratic fundamentals in favor of sector dynamics.

**Figure 22: 3-month price change vs consensus revision to 2021 EPS estimates (Jan-Apr 2020)**



Source: Bloomberg, SCBS Investment Research

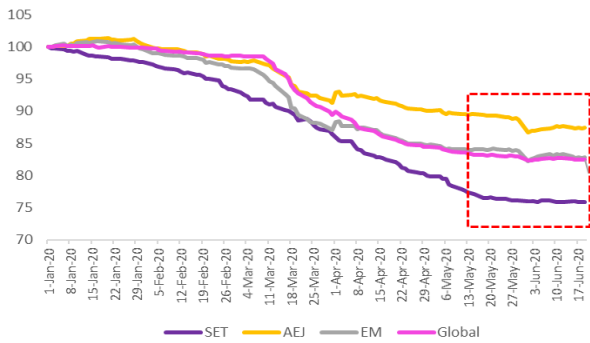
**Figure 23: 2-month price change vs consensus revision to 2021 EPS estimates (May-Jun 2020)**



Source: Bloomberg, SCBS Investment Research

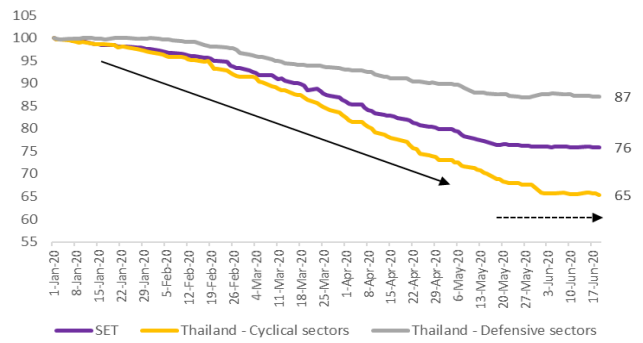
The COVID-19 pandemic has changed our macroeconomic and earnings growth outlook. YTD revisions to 2020 and 2021 EPS are 35% and 24% for SET EPS (20% and 14% in 1Q20 and 19% and 12% in 2Q20), the largest downgrade relative to regional peers at 19% and 12% for 2020 and 2021. We forecast 2021 EPS growth of 28% from a low base in 2020 and another 14% in 2022, which is aligned with regional peers' EPS growth of 24% in 2021 and 14% in 2022. Based on consensus data, the earnings revision ratio, which shows the trend in earnings expectations, rose from 0.07 in Mar-Apr 2020 to 0.7 in Jun 2020 as analysts revised up their earnings after country reopening. In addition, the analyst recommendations revision index, which shows the trend of consensus rating upgrades relative to downgrades, increased to 0.8 in Jun 2020 from 0.45 during Mar-Apr 2020. This indicates that downside and downgrades are partially priced in and in fact are almost overdone as the speed of earnings and rating downgrades are decelerating.

**Figure 24: Earnings revision is more stable for now**



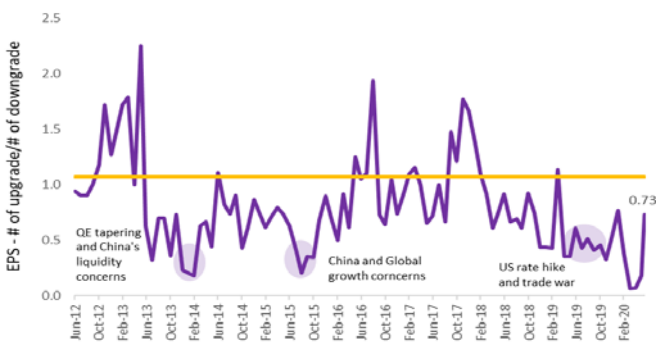
Source: Bloomberg, SCBS Investment Research

**Figure 25: ...even for cyclical sectors**



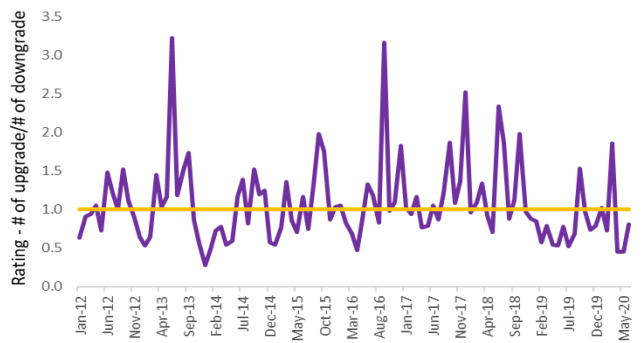
Source: Bloomberg, SCBS Investment Research

**Figure 26: Earnings revision ratio is picking up**



Source: Bloomberg, SCBS Investment Research

**Figure 27: Analyst recommendation is turning more bullish**

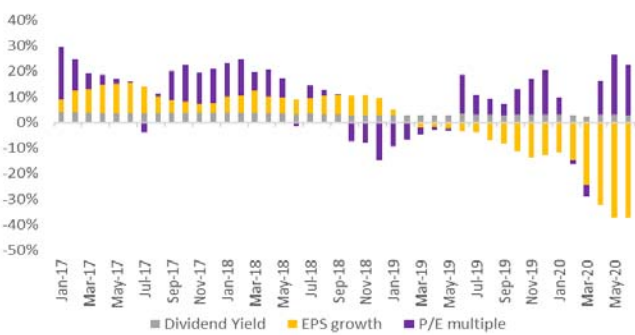


Source: Bloomberg, SCBS Investment Research

**Share price rally is driven by expectations, rising from depression to optimism**

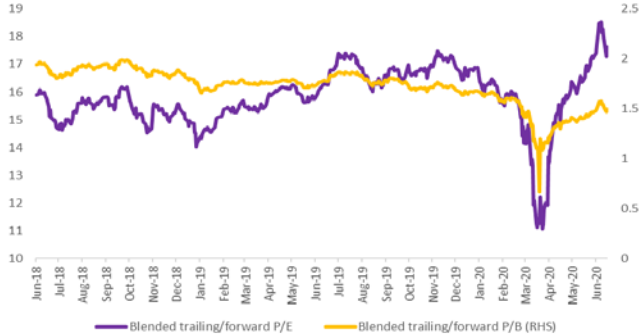
The SET has been rebounding from the depths of pandemic despair. As the market shifts from recession and depression to optimism on the heels of record stimulus and re-opened economies, it began to recover in Apr 2020. The rally has been disproportionately driven by valuation expansion rather than earnings growth. Taking a blended measure of both trailing earnings and SET forecast estimates shows it is climbing back toward pre-COVID 19 level. Growth expectations are more broadly improved since the market's bottom in Mar 2020, as evidenced by the outperformance of growth-sensitive sectors relative to defensive sectors and slowed pace of earnings downgrades.

**Figure 28: SET rally is driven by multiple expansion; the current rally cannot be explained by earnings**



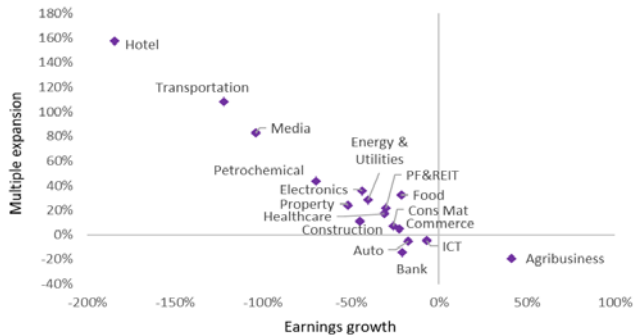
Source: Bloomberg, SCBS Investment Research

**Figure 29: Blended trailing/forward valuations gauge back to the pre-crisis level**



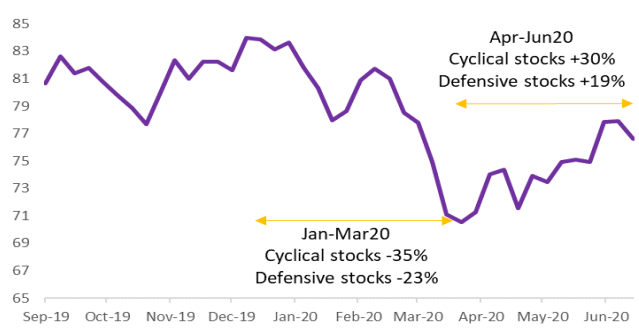
Source: Bloomberg, SCBS Investment Research

**Figure 30: Most sector returns are driven by multiple expansion; sector affected by COVID-19 is full of hope**



Source: Bloomberg, SCBS Investment Research

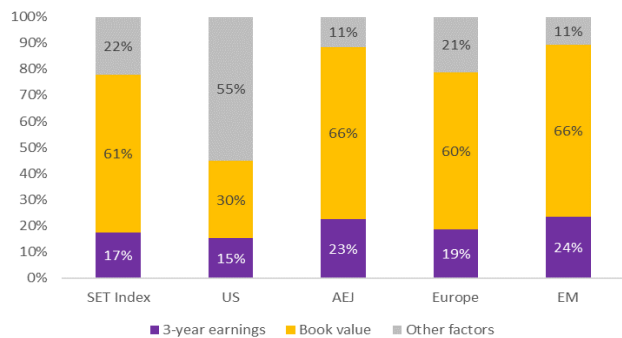
**Figure 31: Cyclical outperforms defensive sectors**



Source: Bloomberg, SCBS Investment Research

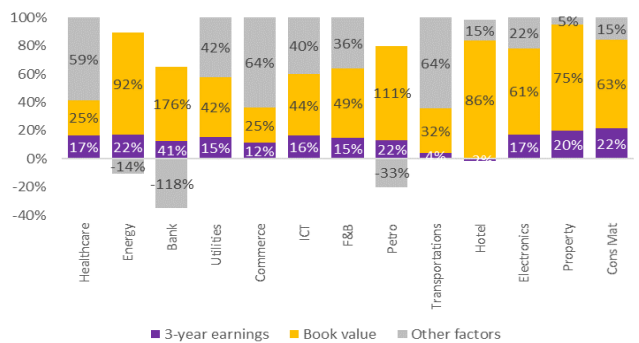
While it is difficult to find index-level earnings forecasts extending beyond 2022, our analysis will take a top-down look at Thailand vs other markets and look at the sector level to measure expectations for sector indices. We tabulate EPS forecasts over the next three years, current book value and expectations or other factors. This shows that the SET Index has expectations of about 20%, while other countries have lower expectations than Thailand or are cheaper against their market's index. If market recovery expectations are overdone, efficient risk management is required, as all factors can disappoint during this cloudy long-term growth outlook.

**Figure 32: Indices are moving based on expectation**



Source: Bloomberg, SCBS Investment Research

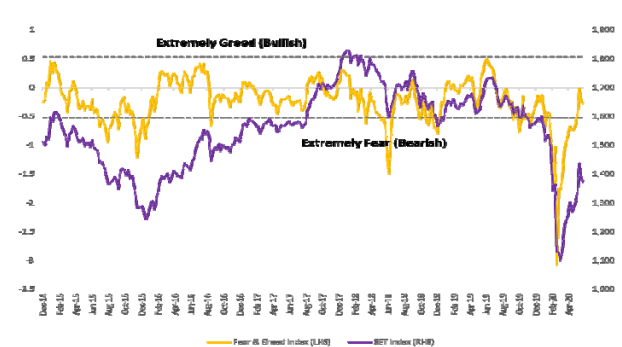
**Figure 33: Stock valuation may be a sector story**



Source: Bloomberg, SCBS Investment Research

Our Greed and Fear Index shows that overall investors are greedy, leading to high liquidity, high volatility, wide trading activity and outperformance of mid to small stocks. In addition, market sentiment is turning more bullish. Absent significant negative developments such as a second wave of the coronavirus or a further deterioration in US-China relation, along with positive results from vaccine development, positive market sentiment will push market risk appetite and the SET Index higher in 2H20.

**Figure 34: Market investors are greedy**



Source: Bloomberg, SCBS Investment Research

**Figure 35: ...as we enter a new (normal) bull market**



Source: Bloomberg, SCBS Investment Research

### The stock market has reached a tipping point

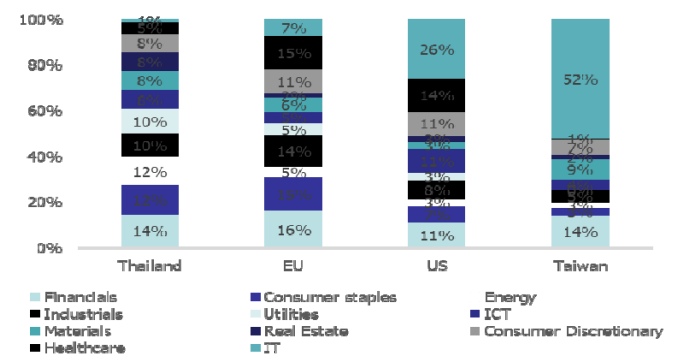
Central banks and governments are all in with lower policy rate, new programs to support market liquidity and lending facilities, economic stimulus packages and asset purchases. Investors are tuning out rising corporate leverage, balance sheet risk and an uncertain post-COVID business cycles to front-run the 2021 earnings cycle on the back of strong earnings recovery. As the overall financial market is back to normal, asset mispricing is hard to spot. In addition, upside from monetary and fiscal policies is limited. Improving sentiment from stabilizing infection rate and earnings recovery is well priced into markets. Moreover, 30% of the SET100 have recovered more than 80% from the COVID-19 price cycle **and 17% of SET100 members surpassed the pre COVID-19 level.** Thus, the SET Index is at or approaching a tipping point. We believe the market will focus more on fundamental and business structure and outlook after COVID-19 rather than the short-term recovery and low base effect.

**Figure 36: SET Index recover 72% from COVID-19 cycle during Feb-Jun20 and lagging peers**

	US	EU	Thailand	China	Global	Asia
IT	99%	90%	49%	101%	101%	88%
Healthcare	88%	86%	58%	364%	95%	168%
Financials	46%	19%	38%	48%	36%	49%
ICT	83%	37%	61%	117%	82%	122%
Cons Disc	97%	66%	98%	117%	90%	98%
Industrials	58%	58%	71%	88%	63%	76%
Cons Staples	65%	66%	90%	314%	72%	103%
Energy	50%	41%	63%	-23%	46%	73%
Utilities	48%	52%	89%	72%	53%	61%
Real Estate	61%	37%	65%	48%	55%	56%
Materials	80%	60%	90%	62%	82%	75%
REIT	62%	18%	56%		55%	
Index	75%	55%	72%	101%	73%	80%
Small cap	64%	63%	87%	74%	67%	83%
Large cap	77%	53%	67%	100%	73%	79%

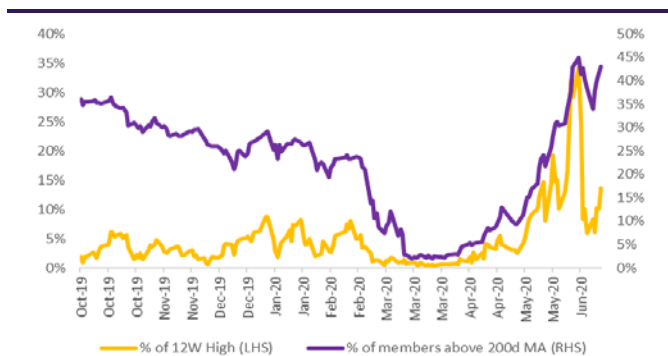
Source: Bloomberg, SCBS Investment Research

**Figure 37: Sector contribution indicating that SET Index should underperform manufacturing-based countries**



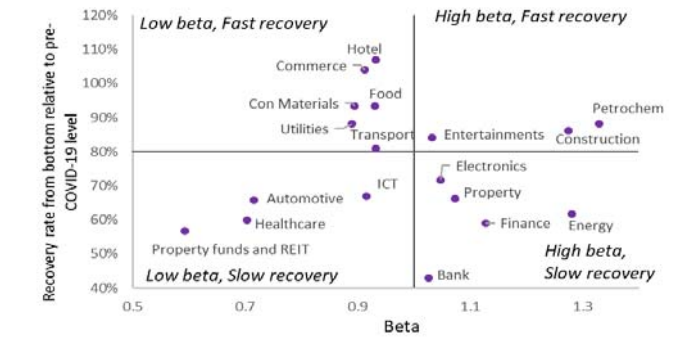
Source: Bloomberg, SCBS Investment Research

**Figure 38: Overheat momentum for Thai stocks**



Source: SET, SCBS Investment Research

**Figure 39: Thai sector performance is depending on speed of recovery, expectation and government policies**



Source: Bloomberg, SCBS Investment Research

### At current valuation, we recommend investors be more cautious on outlook

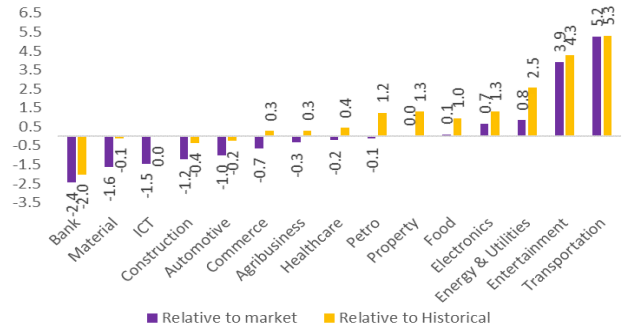
According to our country scorecard, which is based on relative PE, PBV, and EV/EBITDA to benchmark and long-term average, the SET appears mildly fairly valued at 20.8x 2021 PE, 1.5x PB and 13.0x EV/EBITDA on the Asia valuation scorecard relative to other markers with moderately higher than long-term historical average. Based on the 3-year Z-score, we find that Transportation, Entertainment and Utilities carry a rich valuation, while valuations for **Banks, Materials, Communication Services, Contractors and Automotive** are cheap relative to historical levels. This indicates investor preference for defensive stocks despite high valuation, and fear of cyclical stocks despite cheap valuation due to cloudy outlook and low earnings visibility.

Figure 40: Valuation scorecard by country



Source: SET, Bloomberg, SCBS Investment Research

Figure 41: Valuation scorecard by sector



Source: SET, Bloomberg, SCBS Investment Research

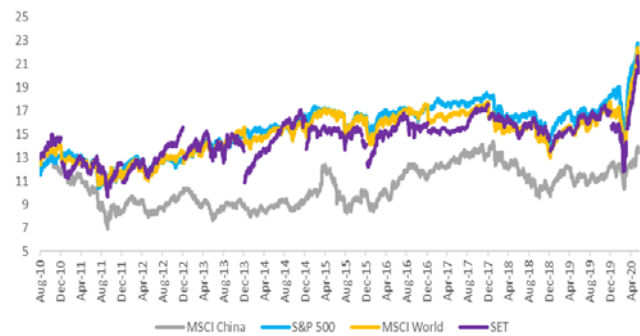
Figure 42: Heatmap valuation by sector based on z-score



Source: SET, Bloomberg, SCBS Investment Research

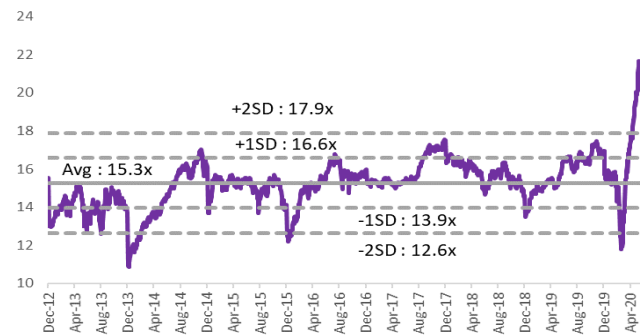
Valuation-wise, the SET is trading at 16.8x 2020F which is at +1SD over 7-year average, while staying at 14x 2021F or -1SD below 7-year average. The earnings yield gap at 5.3% indicates that the Thai stock market is more attractive than the bond market. We believe near zero interest rates for the next few years could make a higher PE multiple look comparatively attractive. However, our interest focuses on fundamental value and new growth narrative rather than betting on multiple expansion. Our 2021 SET target is 1,400-1,450 or upside of 3-7% from current level, aligned with our view that holds that net profit in 2021 will be below actual net profit in 2019 (average and yearend SET Index at 1,640 and 1,560). With limited upside, our key entry point is below 1,300 for a higher margin of safety in a highly volatile market.

Figure 43: SET Index valuation is moving align with US market



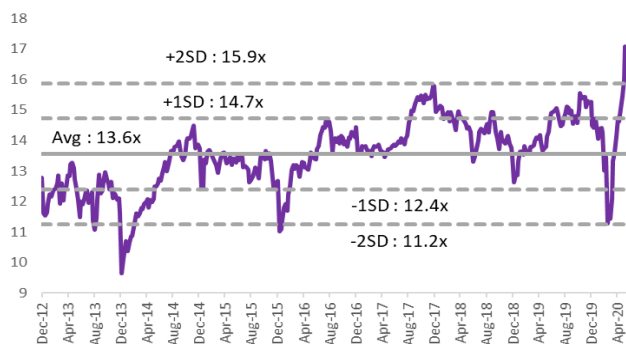
Source: Bloomberg, SCBS Investment Research

Figure 44: The sky is the limit for FY20F valuation



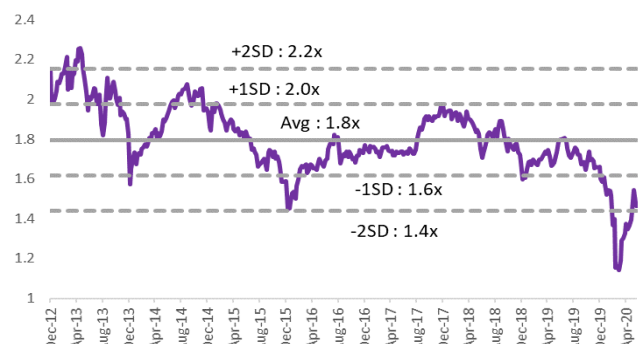
Source: Bloomberg, SCBS Investment Research

**Figure 45: Forward P/E (FY21) is on the upper band**



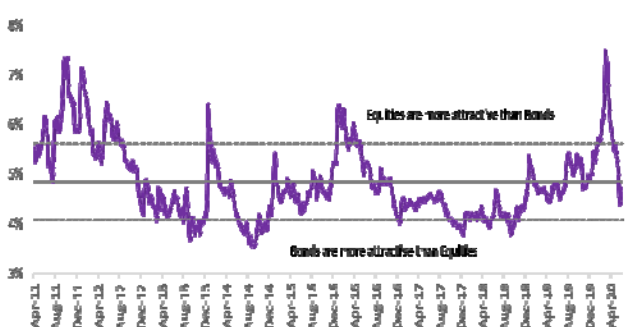
Source: Bloomberg, SCBS Investment Research

**Figure 46: Forward P/BV is on the lower band**



Source: Bloomberg, SCBS Investment Research

**Figure 47: Earnings Yield Gap is staying a long-term average**



Source: Bloomberg, SCBS Investment Research

**Figure 48: SET Index target from P/E and EYG methods**

Yield Gap	EPS FY2021				
	-5%	-1%	Base (EPS 85)	+1%	+5%
3.3%	1,367	1,424	1,439	1,453	1,511
4.1%	1,212	1,263	1,276	1,288	1,339
4.9%	1,089	1,134	1,146	1,157	1,203
5.6%	993	1,035	1,046	1,056	1,098
Forward P/E					
-2SD (13x)	1,070	1,116	1,127	1,138	1,183
-1SD (14.2x)	1,162	1,211	1,224	1,236	1,285
Avg (15.4x)	1,254	1,307	1,320	1,334	1,386
+1SD (16.5x)	1,346	1,403	1,417	1,431	1,488

Source: SCBS Investment Research

**COVID-19 leads to changing business structure and direction**

Before the COVID-19 outbreak, many sectors and companies already were experiencing slow revenue and earnings growth and a challenging outlook from low domestic spending growth, lack of new government policies, baht appreciation, geopolitical risks and strong supply growth in service sectors. COVID-19 is looking to drive new business models and dilute the competitiveness of old businesses in a changing competitive landscape. Consumer demand and behavior for technology have never changed so much, so fast. COVID-19 forced society and businesses to change to adopt digital and contactless mechanisms and accelerate digital transformation. In addition, COVID-19 has changed the way of living, working and interacting. Though increasingly prominent use of teleconferencing, online education, online travel agents, e-commerce, working from home, food delivery, virtual reality and media services have been predicted for years, COVID-19 came along and accelerated their adoption. Unfortunately, most platforms are overseas, which means that though Thai companies must gain competitive advantage on network to support revenue growth, they will also see margins narrow. Though winners from digital transformation in the Thai market are constrained, we expect large Thai corporates to utilize and adopt digital trends better than small companies, who will lose competitive advantage after COVID-19. We are concerned about department stores, office real estate, automotive, restaurant, and media business outlooks after COVID-19 due to technology disruption and changing consumer behavior. They may not disappear, but the growth outlook is unclear.



**Figure 49: Future of business after COVID-19 and digital transformation**

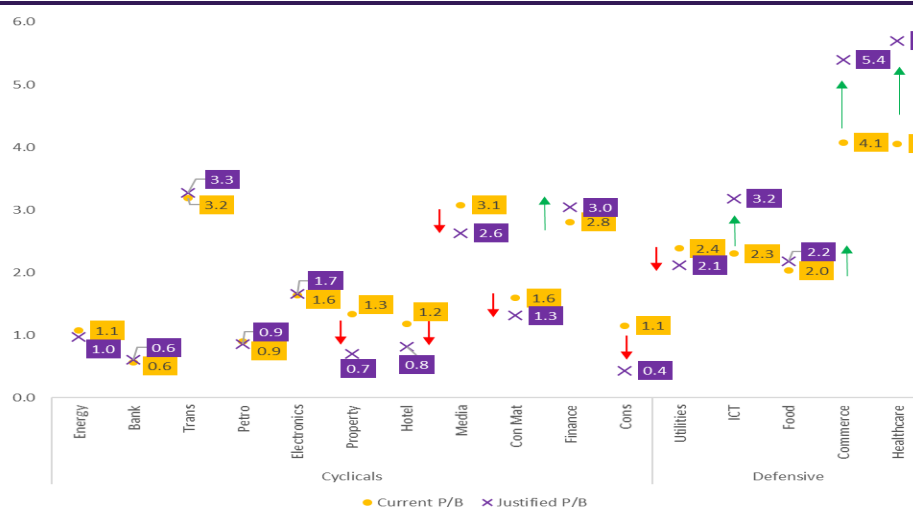
		Phases of business after COVID-19				
Future of business		Preservation	Consolidation	Innovation	Concern	
Technology disruption and changing consumer behavior	Hotels	Leisure travel will be less affected; business travel outlook is challenging	Focus on funding and balance sheet repair	Renovation of old hotels, preparing for full opening	Introduction of technologies to increase hygiene	Longer and tighter air travel restrictions, strong supply growth
	Airlines	Aggressive cost control, review flying routes toward short-haul	Focus on funding and balance sheet repair	Look for M&A and review expansion plans	Introduction of technologies to increase hygiene	Popularity of virtual meeting platform
	Department stores	Facing challenges from e-commerce revolution and the rise of digital technology and social media marketplaces	No balance sheet and liquidity risk	Increasing experiences beyond traditional shopping	Developing omnichannel retail resolution, exploring new formats, starting to use more VR/AR	Strong growth in e-commerce platform
	Office real estate	Structural changes from remote working revolution with obsolescent old office stock	No balance sheet and liquidity risk	Focusing on flexible, re-configurable space	Thinking about co-sharing space in prime areas	Lower prime office rents, strong supply growth, Decrease in office workstation density
	Property	Structural changes limited, increasing suburban demand	Moderate balance sheet risk with high inventory, small companies face liquidity risk	Focus on new projects and releasing old inventories	Mostly on VR/AR and space development for new lifestyle	Continuous competition in condominium segment, tight mortgage curbs
	Restaurants	Changing consumer behavior such as more cooking at home and food delivery with low barrier to entry	No balance sheet and liquidity risk	Align the menu to new consumer preferences	Adopt new technology for ordering, payment, loyalty programs	Limited SSS growth potential, high competition, high gross profit on delivery platform
	Media & Entertainment	Facing more challenges from on-demand entertainment and rise of streaming services	No balance sheet and liquidity risk	Need strategic partnership with studios	Limited innovation	Movie producers move to online platform
	Automotive	Focus on electric vehicles, autonomous, connected mobility, ride-hailing platform	No balance sheet and liquidity risk	Development of ride-hailing and EV infrastructure	Limited innovation in new products and battery development	Supply chain stress, lack of demand for big-ticket items
	Banks	Rely most on business technology platform	No balance sheet and liquidity risk	Transforming to digital-based financial services providers	Invest in new technology platform and diversified to creative financial products	Low returns on new investment, low experience in technology business
	Utilizing technology and survivors	Retailers	Strong e-commerce penetration, shift in consumer behavior	No balance sheet and liquidity risk	Superior logistics and delivery system, store expansion	Develop online platform and omnichannel, use technology base to increase customer interaction
Energy		Moving toward clean energy	No balance sheet and liquidity risk	Cut back on capital spending	Investing in new technology and new products related to clean energy	Volatile commodity prices, slow demand recovery
Electronics		Strong demand for electronics products in digital transformation and 5G replacement cycle	High cash on hand (20% of total assets)	Emphasis on new technology products	Increasing capex in long-term positive new products	Baht appreciation and supply diversification outside Thailand
Land and rail transportation		Limited effect from digital transformation and technology disruption	No balance sheet and liquidity risk	Focus on network expansion	Innovation in related businesses such as advertising	Aggressive remote working revolution
Telecom operators		Most business relies on 5G adoption and Internet of Things	No balance sheet and liquidity risk	Stable market structure in both mobile and broadband	Adoption of 5G, enterprise solution on cloud computing	New capex cycle, spectrum auction, high competition in 5G
Food	High demand for food safety and traceability	No balance sheet and liquidity risk	More market consolidation, increasing market share for big players	More innovative food products	Volatile product price and feed costs; spread of disease	

Source: SCBS Investment Research

### What will the new normal valuation after COVID-19 look like?

We believe using PE to derive the SET Index is tricky on the back of high earnings volatility with a cloudy growth outlook. Based on our study of business structure after COVID-19, PB is justified during periods of low earnings visibility. The PB ratio is an increasing function of return on equity, payout ratio and long-term growth rate and a decreasing function of the riskiness of the firm. We discover that valuations of Energy, Petrochemical, Property, Hotel, Media, Construction Materials and Construction Services will be de-rated due to limited upside from ROE expansion. Meanwhile, Transportation, Telecommunication, Financial Services, Food, Commerce and Healthcare are likely to see multiple expansion. In addition, the Bank sector is undervalued, while Utilities is overvalued. The SET Index is selling at a PB ratio of 1.4x, slightly lower than fundamental PB of 1.5x. Our calculations show the SET Index target based on fundamentals in 2021 is 1,430 or 5% upside from the current level.

**Figure 50: Comparison of current PBV and justified PB**



Source: SCBS Investment Research

**Figure 51: Implied SET Index target based on valuation band and justified PB**

	2460699.0		Target PB		Market Cap	
	Book value (2021)	SD band	Justified PB	SD band	Justified PB	
Energy	2,214,629	1.1	1.0	2,384,142	2,144,647	
Utilities	246,070	2.3	2.1	572,163	520,388	
Bank	2,458,400	0.6	0.6	1,497,076	1,491,753	
Trans	435,346	3.3	3.4	1,423,397	1,480,833	
ICT	586,365	4.4	3.2	2,566,301	1,864,670	
Food	533,652	2.2	2.2	1,166,437	1,161,886	
Commerce	440,174	5.4	5.4	2,397,090	2,376,940	
Petro	518,370	1.1	0.9	548,182	443,605	
Healthcare	179,280	5.7	5.7	1,028,015	1,021,896	
Electronics	83,055	1.7	1.8	137,225	147,727	
Property	721,872	1.2	0.7	865,520	506,836	
Hotel	67,450	1.8	0.8	118,978	54,555	
Media	55,303	2.7	2.6	148,967	145,289	
Con Mat	441,762	1.5	1.3	672,999	579,119	
Finance	207,948	3.0	3.3	632,194	684,469	
Cons	96,602	1.1	0.4	101,794	41,645	
Others	773,850	1.0	1.0	773,850	773,850	
<b>Implied target</b>		<b>1.7</b>	<b>1.5</b>	<b>1,585</b>	<b>1,437</b>	

Source: SCBS Investment Research

### What if we are in a prolonged low-rate and low-growth environment?

Despite a strong recovery from bottom in 2H20, future growth is uncertain in view of technology disruption, an aging population and high household debt after the COVID-19 pandemic. We expect Thailand's economy to continue to grow slowly over the next three to five years on average even after COVID-19 is no longer an issue. Only the low base effect will shore up growth, while only few businesses adapt to the new normal business structure and

prepare for technology disruption. The long-term growth outlook is not a blue-sky scenario. We are in for a prolonged low-rate and low-growth environment.

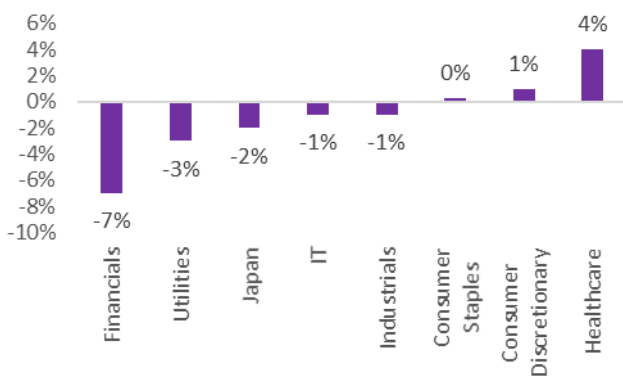
Our comparison with Japan (1995-2012) and Europe (2012-2018) when rates and growth were low shows that:

**Winners and losers:**

- 1) Defensive sectors such as consumer staples and healthcare were the most outstanding outperformers due to continuous demand growth and high earnings visibility;
- 2) Consumer discretionary (exporters and travel and leisure) outperformed in Japan and Europe due to currency depreciation and new market growth;
- 3) Small-cap stocks outperformed large-cap due to better growth
- 4) Banks and interest-related stocks underperformed.

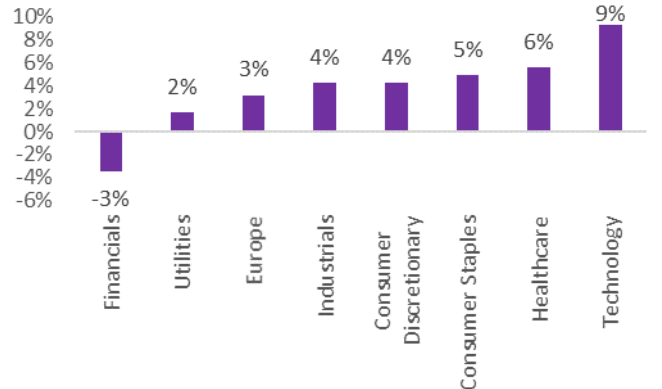
In our view, Thailand will face the same challenges in the longer term. We believe the history of periods of low rate and low growth in Japan and Europe will repeat in Thailand. Thus, our recommendation for core long-term portfolios is to take positioning in high-quality and defensive stocks.

**Figure 52: Total returns (annualized) in Japan (1995-2012)**



Source: Bloomberg, SCBS Investment Research

**Figure 53: Total returns (annualized) in Europe (2014-2018)**



Source: Bloomberg, SCBS Investment Research

**How will the market react when interest rate turns negative?**

Although the Federal Reserve and the Bank of Thailand are cautious against taking their benchmark interest rate below zero, SCB EIC believes we are likely to see a negative interest rate in Thailand in the long-term on the back of low inflation and weak production output growth, though a short-term negative rate is highly unlikely. Like Japan and Europe, a negative interest rate generates many structural problems and financial issues. Based on historical data, we find that markets fell on the first day of a negative interest rate, dragged down by banks and financial services. The banking sector also underperformed in both the medium and long-term.

**Strategy for 3Q20 – More toward selective stocks – Top picks ADVANC, BCH, BBL, ERW, IVL, HANA.**

**Core portfolio emphasizes high quality defensive stocks.**

Although we believe the market has bottomed out, we think there is little upside for the SET. We continue to be cautious, expecting a slow recovery for the services sector, a rising default rate for small and medium enterprises and geopolitical risks. In this environment, we suggest a combination of defensive investing into stocks with strong long-term fundamental value. We suggest investors view positively companies that: 1) operate in industries showing structural growth, 2) exhibit strong recovery after COVID-19, 3) remain competitive in the long-term, and 4) have the capacity to generate earnings, even if some downward pressure on underlying demand exists at this point because of COVID-19. We construct a defensive portfolio, which is our core and all-weather portfolio, composing: 1) four defensive stocks from top picks in 2Q20 - BDMS, BEM, BTS and CPF, and 2) two new defensive alpha plays in 3Q20 - ADVANC and BCH.

### Tactical portfolio will focus on undervalued quality global and domestic cyclicals

Taking a bottom-up approach, we look for companies with idiosyncratic drivers and some protection from macro uncertainties. Based on historical data, Electronics (hardware), Petrochemicals and Bank sectors offered excess returns during a late contraction. We expect this to be repeated this time, especially in the Petrochemicals and Electronics sectors, which are facing earnings downgrades and eventual valuation de-rating while overall industry growth outlook remains good amid the spread of COVID-19. Although fundamentals remain weak, the negative stories have already been priced in, especially for hotels and banks. For those with a high risk appetite, our recommendations are BBL, ERW, IVL and HANA.

**Figure 54: Stock recommendation**

Investment highlight in 3Q20		
Core portfolio	BTS	TP upgrades after signing U-Tapao and motorway projects; Green Line concession extension should be finalized in 2H20
	BEM	Operational improvement for expressway and MRT; further upside from Orange and South Purple lines.
	CPF	High earnings visibility with better 2Q20F core earnings growth YoY, from the surge of swine price in Vietnam. Its 2H20F earnings will improve from continued high swine price in Vietnam and revived local livestock prices after the government eases the lockdown.
	BDMS	Thai patients returning to hospitals; a leading healthcare service provider tagging the growth in private health insurance.
	ADVANC	Good defensive play in a volatile market; easing competition will support near-term sentiment
	BCH	A boost from providing medical services related to the COVID-19 pandemic; valuation discount to regional peers.
Tactical portfolio	BBL	Cheap valuation with high LLR cushion and good loan growth
	ERW	ST trading opportunity brought by government domestic tourism packages.
	IVL	We expect demand for PET to be most resilient during and after COVID-19 due to concerns of hygiene, good for IVL where >50% of core EBITDA comes from the integrated PET segment. IVL's earnings will also be driven by new assets in the integrated EO/EG segment, its new profit engine.
	HANA	Demand for electronics products remain strong despite COVID-19 outbreak. 5G replacement cycle would support growth.

Source: SCBS Investment Research

**Figure 55: Sector weightings in 3Q20**

	Rating	Reasons
Agribusiness	Overweight	Better local broiler price post lockdown easing and better exports
Commerce	Overweight	Lifting of government measures, positive to SSS growth
Communication	Overweight	Less intense competition in prepaid segment
Electronics	Overweight	Demand remains strong, 5G replacement cycle
Food	Overweight	High swine price in Vietnam, better local livestock price, better contribution from Red Lobster from easing lockdown
Healthcare	Overweight	Pent-up demand from Thai patients is being released
Land Transportation	Overweight	Expect to see fast recovery in operations
REITS/PF/IF	Overweight	Low bond yield and expect improving operations from 3Q20
Bank	Neutral	Worsening asset quality from the end of credit assistance measures for retail clients and falling NIM
Building Materials	Neutral	Lower fuel costs, but weak private demand
Chemical	Neutral	Demand recovery but supply remains ample
Energy	Neutral	Higher oil price on supply curb and demand recovery
Hotel	Neutral	Operations are recovering after lockdown easing but positives largely in the price
Insurance	Neutral	Weak premium growth but improving combined ratio
Construction Service	Neutral	Slow government disbursement, lack of new projects but revenue from existing projects are starting to be booked
Entertainment / Media	Underweight	Changing consumer behavior towards streaming and online services, falling advertising spending
Finance	Underweight	Worsening asset quality from the end of credit assistance measures for retail clients
Property	Underweight	High inventory, aggressive price competition, tight macroprudential policy, weak China and domestic demand
Air Transportation	Underweight	Operations are recovering but concerns about low earnings quality and liquidity preservation
Auto	Underweight	Weak demand on discretionary goods, loan tightening

Source: SCBS Investment Research



## Good defensive play in a volatile market

**We began to see easing prepaid competition in mid-May. ADVANC is poised to benefit the most from this as the proportion of its revenue from the prepaid segment is the highest. Reopening the economy will also lead to more mobile top-ups for prepaid customers. We expect 2Q20F to be relatively flat QoQ and drop YoY before seeing a gradual recovery in 3Q20F. Overall, we like ADVANC as a good defensive play in this volatile market and expect share price to outperform the SET in 3Q20. We maintain BUY with a TP of Bt210.**

**To benefit most from easing competition.** We observed that all operators stopped offering unlimited prepaid fixed-speed packages in mid-May. Packages now offer fixed-speed data with a monthly quota. This is good for the sector via opening the way for all operators to lift prepaid ARPU, leading to better mobile revenue growth. However, we need to closely monitor this development as historically, competition in the prepaid segment can change from month to month. We believe less prepaid competition will benefit ADVANC the most as it has the highest portion of revenue coming from the prepaid segment: based on our estimates, around 50% of ADVANC mobile revenue is derived from prepaid subscribers compared to 35-40% for TRUE and DTAC.

**...and the reopening of the economy.** We believe low-income users – most of whom are prepaid users - were hit hardest by the lockdown in April and May, with many losing their incomes and thus less able to top-up, and overall fewer mobile top-ups. We expect mobile top-ups to improve in step with the reopening of the economy in mid-May. ADVANC, with its high proportion of prepaid, will benefit the most from the return of prepaid top-ups.

**Earnings to recover gradually QoQ in 3Q20F.** The decline in mobile and fixed broadband (FBB) ARPU in 1Q20 plus the hit from COVID-19 will pressure 2Q20F earnings. However, we believe revenue from the free 10GB data from the NBTC will help alleviate the impact. ADVANC is estimated to be in line to get Bt870mn additional revenue from this campaign. On this basis, we expect earnings to be relatively flat QoQ and drop YoY in 2Q20F. In 3Q20F, we expect to see gradual recovery QoQ from lower prepaid competition and better economic momentum.

**Maintain BUY on ADVANC with a DCF-based TP of Bt210.** We continue to like ADVANC as a good defensive play due to low earnings volatility in a volatile market. The positive sentiment from easing competition should also help support share price in the near-term. This leads us to believe the stock could easily outperform the SET in 3Q20.

### Forecasts and valuation

Year to 31 Dec	Unit	2018	2019	2020F	2021F	2022F
Revenue	(Btmn)	169,856	180,894	180,324	187,008	193,124
EBITDA	(Btmn)	74,503	78,987	76,501	77,374	80,422
Core profit	(Btmn)	29,564	30,881	28,799	26,142	27,747
Reported profit	(Btmn)	29,682	31,190	28,369	26,142	27,747
Core EPS	(Bt)	9.94	10.39	9.69	8.79	9.33
DPS	(Bt)	7.08	7.34	6.68	6.15	6.53
P/E, core	(x)	19.1	18.3	19.6	21.6	20.4
EPS growth, core	(%)	(1.0)	4.5	(6.7)	(9.2)	6.1
P/BV, core	(x)	9.8	8.2	7.4	6.7	6.1
ROE	(%)	54.7	48.6	39.4	32.5	31.4
Dividend yield	(%)	3.7	3.9	3.5	3.2	3.4
FCF yield	(%)	3.8	8.2	(2.3)	4.2	5.9
EV/EBIT	(x)	10.5	9.4	10.5	10.2	9.5
EBIT growth, core	(%)	6.0	7.2	(5.2)	2.1	4.4
EV/CE	(x)	2.7	2.8	2.6	2.5	2.5
ROCE	(%)	13.7	15.0	12.7	11.2	11.8
EV/EBITDA	(x)	8.9	8.1	8.8	8.7	8.1
EBITDA growth	(%)	5.0	6.0	(3.1)	1.1	3.9

Source: SCBS Investment Research

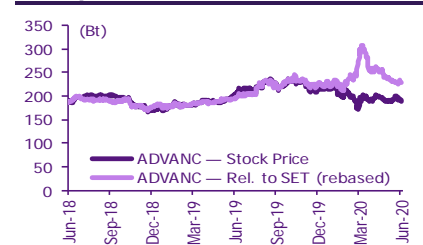
## BUY

### Stock data

Last close (Jun 19) (Bt)	190.00
12-m target price (Bt)	210.00
Upside (Downside) to TP (%)	10.53
Mkt cap (Btbn)	564.98
Mkt cap (US\$mn)	18,225

Risk rating	L
Mkt cap (%) SET	3.83
Sector % SET	8.83
Shares issued (mn)	2,974
Par value (Bt)	1.00
12-m high / low (Bt)	240 / 156.5
Avg. daily 6m (US\$mn)	58.15
Foreign limit / actual (%)	48 / 35
Free float (%)	36.2
Dividend policy (%)	≥ 70

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	(0.8)	(3.8)	(6.9)
Relative to SET	(4.3)	(20.9)	16.7

Source: SET, SCBS Investment Research

### Expected total return (ETR)

Target price	(Bt)	210.00
12-month dividend	(Bt)	6.68
Capital gain	(%)	10.53
Dividend yield	(%)	3.52
Total return	(%)	14.04

Source: SET, SCBS Investment Research

### Analyst

**Kittisorn Pruittipat, CFA, FRM**  
Fundamental Investment  
Analyst on Securities  
(662) 949 1007  
kittisorn.pruittipat@scb.co.th

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total revenue	(Btmn)	155,213	152,150	157,722	169,856	180,894	180,324	187,008	193,124
Cost of goods sold	(Btmn)	(84,819)	(82,992)	(92,259)	(103,456)	(111,899)	(112,452)	(119,834)	(122,628)
<b>Gross profit</b>	<b>(Btmn)</b>	<b>70,394</b>	<b>69,158</b>	<b>65,463</b>	<b>66,400</b>	<b>68,994</b>	<b>67,872</b>	<b>67,173</b>	<b>70,496</b>
SG&A	(Btmn)	(20,301)	(29,926)	(25,220)	(26,472)	(27,885)	(27,948)	(30,053)	(31,556)
Other income	(Btmn)	739	568	750	861	846	960	676	600
Interest expense	(Btmn)	(1,960)	(4,236)	(5,302)	(5,148)	(4,777)	(6,100)	(5,000)	(4,750)
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>48,873</b>	<b>35,564</b>	<b>35,691</b>	<b>35,641</b>	<b>37,179</b>	<b>34,783</b>	<b>32,796</b>	<b>34,790</b>
Corporate tax	(Btmn)	(9,999)	(5,175)	(5,843)	(5,923)	(6,209)	(5,913)	(6,559)	(6,958)
Equity a/c profits	(Btmn)	(11)	24	5	(123)	(86)	(68)	(92)	(82)
Minority interests	(Btmn)	(2)	(23)	(1)	(32)	(3)	(3)	(3)	(3)
<b>Core profit</b>	<b>(Btmn)</b>	<b>38,860</b>	<b>30,389</b>	<b>29,852</b>	<b>29,564</b>	<b>30,881</b>	<b>28,799</b>	<b>26,142</b>	<b>27,747</b>
Extra-ordinary items	(Btmn)	229	277	225	119	308	(430)	0	0
<b>Net Profit</b>	<b>(Btmn)</b>	<b>39,089</b>	<b>30,667</b>	<b>30,077</b>	<b>29,682</b>	<b>31,190</b>	<b>28,369</b>	<b>26,142</b>	<b>27,747</b>
EBITDA	(Btmn)	71,100	61,263	70,969	74,503	78,987	76,501	77,374	80,422
<b>Core EPS</b>	<b>(Bt)</b>	<b>13.09</b>	<b>10.22</b>	<b>10.04</b>	<b>9.94</b>	<b>10.39</b>	<b>9.69</b>	<b>8.79</b>	<b>9.33</b>
Net EPS	(Bt)	13.17	10.31	10.12	9.98	10.49	9.54	8.79	9.33
DPS	(Bt)	12.99	10.08	7.05	7.08	7.34	6.68	6.15	6.53

### Balance Sheet

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total current assets	(Btmn)	38,007	31,899	34,841	34,905	47,142	31,144	29,831	43,505
Total fixed assets	(Btmn)	136,082	233,650	240,103	241,961	228,584	259,219	260,930	257,074
<b>Total assets</b>	<b>(Btmn)</b>	<b>181,761</b>	<b>275,670</b>	<b>284,067</b>	<b>290,505</b>	<b>289,669</b>	<b>304,410</b>	<b>304,913</b>	<b>314,837</b>
Total loans	(Btmn)	65,432	98,958	109,677	109,133	94,044	110,000	100,000	95,000
Total current liabilities	(Btmn)	57,533	69,328	69,718	72,764	105,255	81,149	84,099	89,683
Total long-term liabilities	(Btmn)	75,735	163,634	163,922	160,072	115,020	146,306	136,769	132,237
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>133,268</b>	<b>232,962</b>	<b>233,641</b>	<b>232,836</b>	<b>220,275</b>	<b>227,455</b>	<b>220,869</b>	<b>221,920</b>
Paid-up capital	(Btmn)	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
<b>Total equity</b>	<b>(Btmn)</b>	<b>48,493</b>	<b>42,708</b>	<b>50,427</b>	<b>57,669</b>	<b>69,394</b>	<b>76,955</b>	<b>84,044</b>	<b>92,917</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>16.27</b>	<b>14.32</b>	<b>16.93</b>	<b>19.35</b>	<b>23.30</b>	<b>25.84</b>	<b>28.22</b>	<b>31.21</b>

### Cash Flow Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Core Profit	(Btmn)	38,860	30,389	29,852	29,564	30,881	28,799	26,142	27,747
Depreciation and amortization	(Btmn)	20,495	21,667	30,151	33,879	37,229	35,922	39,592	40,813
Operating cash flow	(Btmn)	61,763	75,579	62,914	61,292	94,764	57,644	68,726	73,609
Investing cash flow	(Btmn)	(57,746)	(71,545)	(51,258)	(40,066)	(48,365)	(70,586)	(45,025)	(40,535)
Financing cash flow	(Btmn)	(8,411)	(2,672)	(12,232)	(22,809)	(35,829)	(5,773)	(29,055)	(23,878)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>(4,393)</b>	<b>1,361</b>	<b>(576)</b>	<b>(1,584)</b>	<b>10,570</b>	<b>(18,715)</b>	<b>(5,354)</b>	<b>9,196</b>

### Key Financial Ratios

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Gross margin	(%)	45.4	45.5	41.5	39.1	38.1	37.6	35.9	36.5
Operating margin	(%)	32.3	25.8	25.5	23.5	22.7	22.1	19.8	20.2
EBITDA margin	(%)	45.8	40.3	45.0	43.9	43.7	42.4	41.4	41.6
EBIT margin	(%)	38.1	34.1	37.9	37.3	37.6	35.8	35.2	35.6
Net profit margin	(%)	25.2	20.2	19.1	17.5	17.2	15.7	14.0	14.4
ROE	(%)	81.6	66.6	64.1	54.7	48.6	39.4	32.5	31.4
ROA	(%)	25.3	13.3	10.7	10.3	10.6	9.7	8.6	9.0
Net D/E	(%)	1.1	2.1	2.0	1.7	1.1	1.4	1.2	1.0
Interest coverage	(%)	36.3	14.5	13.4	14.5	16.5	12.5	15.5	16.9
Debt service coverage	(%)	4.8	3.8	4.8	3.3	2.7	4.8	5.2	5.5
Payout Ratio	(%)	98.6	97.7	69.7	70.9	70.0	70.0	70.0	70.0

### Main Assumptions

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Service revenue ex. IC growth yoy	(%)	2.2	1.6	4.9	3.8	2.4	(1.1)	4.2	3.6
Mobile revenue	(Btmn)	118,516	119,493	122,979	124,784	126,341	123,421	127,487	130,675
FBB revenue	(Btmn)	120	860	3,128	4,436	5,656	6,788	8,145	9,774
SIM and Handset margin	(%)	(0.8)	(4.2)	(3.5)	(3.5)	1.1	1.0	(1.0)	1.0

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total revenue	(Btmn)	42,228	42,110	44,584	43,262	44,081	44,733	48,818	42,845
Cost of goods sold	(Btmn)	(25,299)	(26,023)	(28,414)	(26,976)	(26,879)	(26,637)	(31,408)	(26,757)
<b>Gross profit</b>	<b>(Btmn)</b>	<b>16,929</b>	<b>16,087</b>	<b>16,170</b>	<b>16,286</b>	<b>17,202</b>	<b>18,096</b>	<b>17,410</b>	<b>16,088</b>
SG&A	(Btmn)	(6,253)	(6,835)	(7,000)	(6,297)	(7,094)	(6,361)	(8,132)	(6,313)
Other income	(Btmn)	156	193	204	255	162	163	267	319
Interest expense	(Btmn)	(1,290)	(1,277)	(1,288)	(1,217)	(1,194)	(1,195)	(1,171)	(1,564)
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>9,541</b>	<b>8,167</b>	<b>8,086</b>	<b>9,027</b>	<b>9,076</b>	<b>10,703</b>	<b>8,373</b>	<b>8,530</b>
Corporate tax	(Btmn)	(1,599)	(1,345)	(1,320)	(1,523)	(1,550)	(1,833)	(1,303)	(1,335)
Equity a/c profits	(Btmn)	(24)	(33)	(54)	(17)	(24)	(25)	(20)	(7)
Minority interests	(Btmn)	(19)	(1)	(1)	(1)	(0)	(1)	(1)	(1)
<b>Core profit</b>	<b>(Btmn)</b>	<b>7,899</b>	<b>6,788</b>	<b>6,710</b>	<b>7,486</b>	<b>7,502</b>	<b>8,844</b>	<b>7,049</b>	<b>7,187</b>
Extra-ordinary items	(Btmn)	106	12	129	84	252	(44)	16	(430)
<b>Net Profit</b>	<b>(Btmn)</b>	<b>8,005</b>	<b>6,800</b>	<b>6,839</b>	<b>7,570</b>	<b>7,754</b>	<b>8,800</b>	<b>7,065</b>	<b>6,756</b>
EBITDA	(Btmn)	19,156	18,000	18,293	19,091	19,321	21,470	19,302	23,100
<b>Core EPS</b>	<b>(Bt)</b>	<b>2.66</b>	<b>2.28</b>	<b>2.26</b>	<b>2.52</b>	<b>2.52</b>	<b>2.97</b>	<b>2.37</b>	<b>2.42</b>
Net EPS	(Bt)	2.69	2.29	2.30	2.55	2.61	2.96	2.38	2.27

### Balance Sheet

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total current assets	(Btmn)	33,352	33,069	34,905	46,038	37,623	37,690	47,142	55,337
Total fixed assets	(Btmn)	235,987	244,757	241,961	237,443	236,700	232,576	228,584	305,197
<b>Total assets</b>	<b>(Btmn)</b>	<b>282,765</b>	<b>291,392</b>	<b>290,505</b>	<b>296,634</b>	<b>287,607</b>	<b>283,593</b>	<b>289,669</b>	<b>374,715</b>
Total loans	(Btmn)	102,332	111,325	109,133	103,227	97,424	97,014	94,044	93,967
Total current liabilities	(Btmn)	69,295	78,993	72,764	79,365	67,589	91,260	105,255	126,595
Total long-term liabilities	(Btmn)	157,401	161,577	160,072	160,500	155,489	130,235	115,020	183,349
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>226,696</b>	<b>240,570</b>	<b>232,836</b>	<b>239,865</b>	<b>223,078</b>	<b>221,495</b>	<b>220,275</b>	<b>309,944</b>
Paid-up capital	(Btmn)	2,973	2,973	2,973	2,973	2,973	2,973	2,973	2,973
<b>Total equity</b>	<b>(Btmn)</b>	<b>56,069</b>	<b>50,821</b>	<b>57,669</b>	<b>56,769</b>	<b>64,529</b>	<b>62,098</b>	<b>69,394</b>	<b>64,772</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>18.74</b>	<b>17.04</b>	<b>19.35</b>	<b>19.05</b>	<b>21.66</b>	<b>20.84</b>	<b>23.30</b>	<b>21.74</b>

### Cash Flow Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Core Profit	(Btmn)	7,899	6,788	6,710	7,486	7,502	8,844	7,049	7,187
Depreciation and amortization	(Btmn)	8,325	8,556	8,919	8,847	9,052	9,572	9,758	13,006
Operating cash flow	(Btmn)	2,446	19,565	9,572	30,015	4,446	41,985	18,318	44,687
Investing cash flow	(Btmn)	(5,438)	(15,829)	(6,697)	(2,934)	(8,202)	(41,454)	4,225	(31,946)
Financing cash flow	(Btmn)	2,048	(3,044)	(2,055)	(15,650)	(5,544)	(448)	(14,187)	(1,820)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>(944)</b>	<b>692</b>	<b>820</b>	<b>11,432</b>	<b>(9,301)</b>	<b>83</b>	<b>8,356</b>	<b>10,920</b>

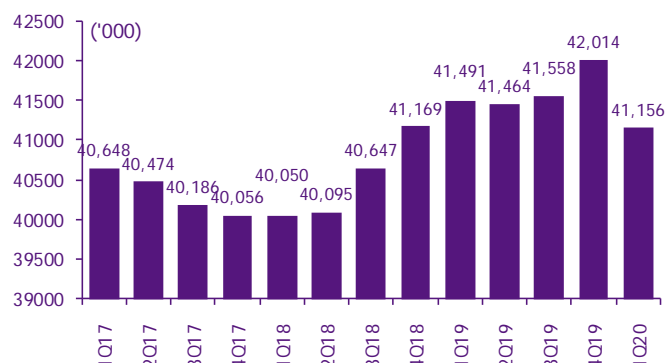
### Key Financial Ratios

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Gross margin	(%)	40.1	38.2	36.3	37.6	39.0	40.5	35.7	37.5
Operating margin	(%)	25.3	22.0	20.6	23.1	22.9	26.2	19.0	22.8
EBITDA margin	(%)	45.4	42.7	41.0	44.1	43.8	48.0	39.5	53.9
EBIT margin	(%)	38.5	36.5	35.2	37.8	37.6	41.2	34.5	47.1
Net profit margin	(%)	19.0	16.1	15.3	17.5	17.6	19.7	14.5	15.8
ROE	(%)	62.6	58.6	49.7	57.1	49.8	62.7	44.4	47.3
ROA	(%)	11.2	9.5	9.3	10.3	10.5	12.3	9.7	8.6
Net D/E	(%)	1.7	2.0	1.7	1.5	1.3	1.4	1.1	1.0
Interest coverage	(%)	14.9	14.1	14.2	15.7	16.2	18.0	16.5	14.8
Debt service coverage	(%)	5.1	3.2	3.3	4.8	4.7	5.0	2.6	2.9

### Main Assumptions

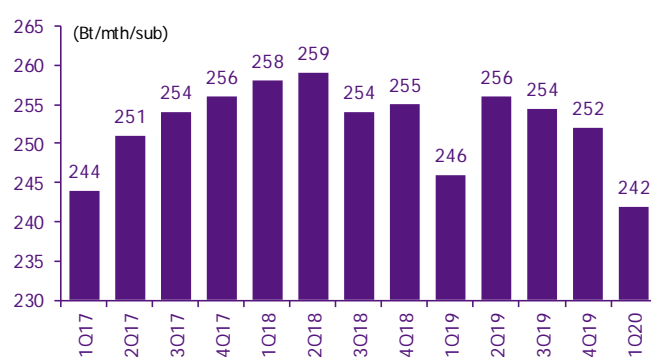
FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Service revenue ex. IC growth yoy	(%)	4.1	2.1	3.3	(0.3)	3.1	4.0	2.6	0.1
Mobile revenue	(Btmn)	31,256	30,895	31,426	30,678	32,042	31,851	31,770	30,334
FBB revenue	(Btmn)	1,094	1,117	1,212	1,288	1,380	1,409	1,579	1,640
SIM and Handset margin	(%)	(3.0)	(5.5)	(4.3)	0.9	0.4	1.8	1.5	0.7

**Figure 1: Mobile subscribers**



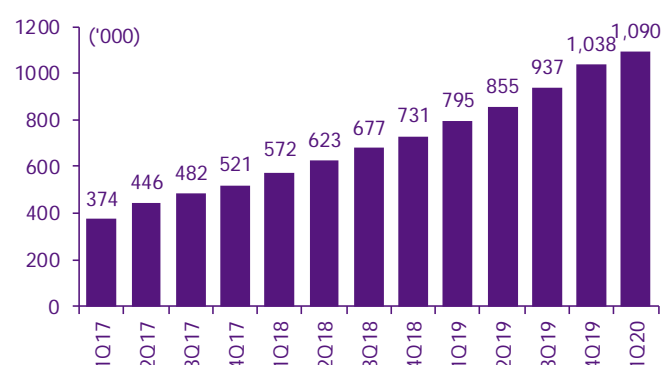
Source: SCBS Investment Research, Bloomberg

**Figure 2: Mobile blended ARPU**



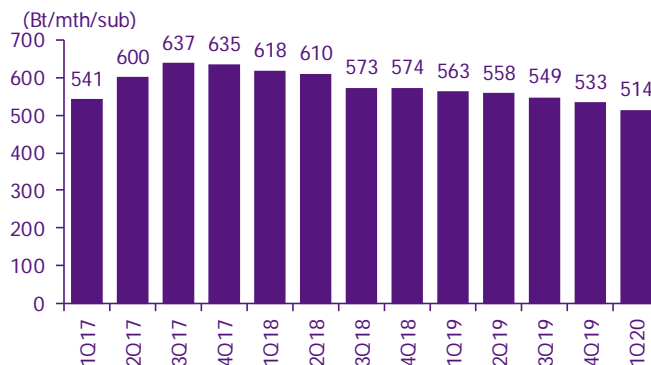
Source: SCBS Investment Research, Bloomberg

**Figure 3: FBB subscribers**



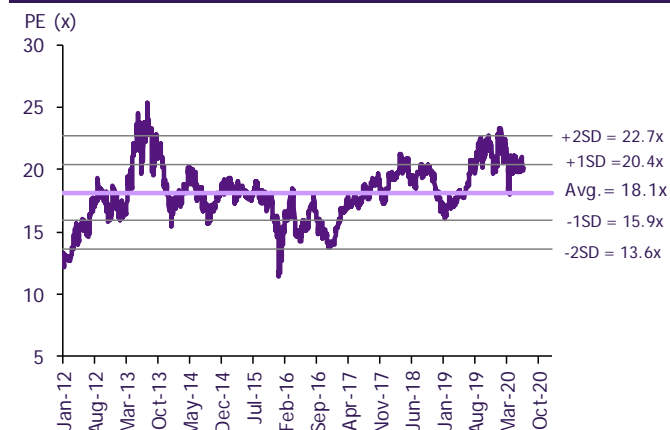
Source: SCBS Investment Research, Bloomberg

**Figure 4: FBB ARPU**



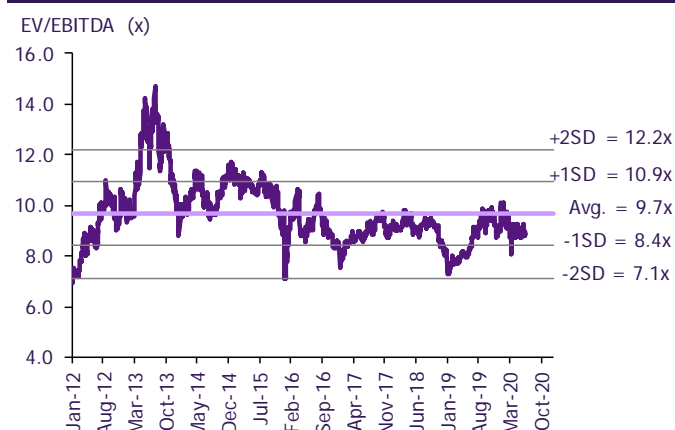
Source: SCBS Investment Research, Bloomberg

**Figure 5: ADVANC's PE band**



Source: SCBS Investment Research, Bloomberg

**Figure 6: ADVANC's EV/EBITDA band**



Source: SCBS Investment Research, Bloomberg





## A safe laggard play

**We believe BBL is a safe laggard play, with a cheap valuation (0.5x PBV and 7.8x PE for 2020) as share price has underperformed YTD (-26% vs. -13% for the SET) and it has highest LLR coverage and largest exposure to corporate loans, the segment with the least impact from the economic downturn and also with loan growth opportunities as they switch to loans rather than issue bonds. We keep BBL as sector pick with a TP of Bt146.**

**Only bank slicing provisions in 2020.** BBL raised its 2020 provisions guidance to Bt15-20bn from Bt12-15bn (vs. our conservative forecast of Bt25bn). It will be the only bank reducing provisions (-24% by our forecast) in 2020, backed by its high LLR coverage of 195%, the sector's highest. The majority of its clients are large corporations whose financial positions are strong enough to withstand the economic downturn. BBL has only 7-8% exposure to the tourism segment.

**Good loan growth.** We expected BBL to have solid organic loan growth of 8% in 2020F (vs. -1% in 2019), considering the stronger loan growth than expected at 6.1% YoY and 4.6% YTD in 5M20. With the largest exposure to corporate loans (around 60%), BBL is in the best position to grow loans as large companies switch funding from issuing debentures to taking out loans in response to the volatile bond market. Newly purchased Permata will add inorganic loan growth of 10%.

**Permata factored in.** BBL completed the purchase of 89.12% in PT Bank Permata Tbk (Permata) on May 20 and is required to conduct a mandatory tender offer for the remaining 10.88% at a final acquisition price of IDR1,347/share (1.63x PBV). The total transaction size is IDR37,772bn (Bt82.62bn). In 1Q20, Permata's earnings fell 99.5% YoY to IDR2bn (Bt4mn) as a result of a 377% YoY jump in provisions to factor in the impact from COVID-19 plus extra expense for deferred tax adjustment. Its normalized profit for 1Q20 was IDR378bn (Bt794mn), stable YoY. Permata has a strong balance sheet with CAR of 19.6%, LDR of 80%, NPL ratio of 3.2% and LLR coverage ratio of 152% at 1Q20. We preliminarily forecast Permata's earnings to decrease from IDR1,500bn in 2019 to IDR76bn (Bt353mn) in 2020 and recover to IDR841bn (Bt1.77bn) in 2021 and IDR1,470bn (Bt3.1bn) in 2022. We expect earnings contribution from Permata to be 1% in 2020, 6% in 2021 and 9% in 2022.

**Expect sharp drop in NIM ahead.** BBL expects NIM to fall 20-30 bps QoQ in 2Q20 as a result of a 40 bps cut in lending interest rates in April following a 23 bps reduction in FIDF cost for 2020-2021. BBL maintains 2020F NIM guidance at 2.2% (vs. 2.3% in 2019). We maintain our forecast of 2020F NIM at 2.2% (-6 bps).

**The sector's top Buy.** We keep BBL as the sector's top BUY with a TP of Bt146 (0.65x BVPS) based on its cheap valuation (0.5x PBV and 7.8x PE for 2020). It has the highest LLR coverage and largest exposure to corporate loans, the segment least impacted by the economic downturn, and also the chance to grow loans as they switch to loans rather than issuing bonds.

### Forecasts and valuation

Year to 31 Dec	Unit	2018	2019	2020F	2021F	2022F
Pre-provision profit	(Bt mn)	66,158	78,690	60,703	63,761	64,612
Net profit	(Bt mn)	35,330	35,816	29,077	33,510	36,478
PPP/Sh	(Bt)	34.66	41.22	31.80	33.40	33.85
EPS	(Bt)	18.51	18.76	15.23	17.55	19.11
BVPS	(Bt)	216.26	224.09	226.74	243.92	260.14
DPS	(Bt)	6.50	7.00	3.00	3.50	6.50
P/PPP	(x)	3.33	2.80	3.63	3.46	3.41
PPP growth	(%)	4.49	18.94	(22.86)	5.04	1.33
P/E	(x)	6.24	6.16	7.58	6.58	6.04
EPS growth	(%)	7.03	1.38	(18.82)	15.25	8.86
P/BV	(x)	0.53	0.52	0.51	0.47	0.44
ROE	(%)	8.67	8.52	6.76	7.46	7.58
Dividend yield	(%)	5.63	6.06	2.60	3.03	5.63

Source: SCBS Investment Research

## BUY

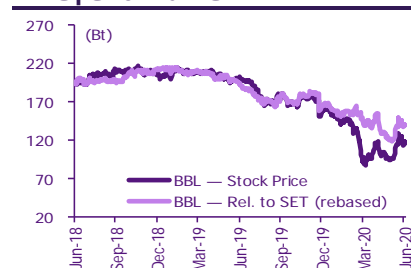
### Stock data

Last close (Jun 19) (Bt)	115.50
12-m target price (Bt)	146.00
Upside (Downside) to TP (%)	26.41
Mkt cap (Btbn)	220.47
Mkt cap (US\$mn)	7,112

### Risk rating

Mkt cap (%) SET	L
Sector % SET	1.49
Shares issued (mn)	9.05
Par value (Bt)	1,909
12-m high / low (Bt)	10.00
Avg. daily 6m (US\$mn)	204 / 88
Foreign limit / actual (%)	47.90
Free float (%)	30 / 30
Dividend policy (%)	98.6
	NA

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	20.3	18.5	(43.1)
Relative to SET	16.0	(2.6)	(28.7)

Source: SET, SCBS Investment Research

### Expected total return (ETR)

Target price	(Bt)	146.00
12-month dividend	(Bt)	6.50
Capital gain	(%)	26.41
Dividend yield	(%)	5.51
Total return	(%)	29.24

Source: SET, SCBS Investment Research

### Analyst

**Kittima Sattayapan, CFA**

Fundamental Investment

Analyst on Securities

(66-2) 949-1003

kittima.sattayapan@scb.co.th

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Interest & dividend income	(Btmn)	103,814	102,443	105,476	110,781	112,565	106,777	112,790	120,684
Interest expense	(Btmn)	46,304	38,445	38,851	39,405	41,494	34,057	35,533	42,031
<b>Net interest income</b>	<b>(Btmn)</b>	<b>57,510</b>	<b>63,998</b>	<b>66,625</b>	<b>71,376</b>	<b>71,071</b>	<b>72,719</b>	<b>77,257</b>	<b>78,653</b>
Non-interest income	(Btmn)	45,026	41,763	45,638	49,947	62,582	42,551	42,619	43,502
Non-interest expenses	(Btmn)	45,045	50,505	48,948	55,165	54,963	54,568	56,115	57,543
Pre-provision profit	(Btmn)	57,492	55,256	63,315	66,158	78,690	60,703	63,761	64,612
Provision	(Btmn)	14,654	15,728	22,370	21,965	32,351	24,653	23,960	22,762
Pre-tax profit	(Btmn)	42,838	39,528	40,946	44,193	46,339	36,050	39,802	41,850
Tax	(Btmn)	8,630	7,556	7,832	8,554	10,219	7,030	7,761	8,161
Equities & minority interest	(Btmn)	28	157	105	309	304	(57)	(1,469)	(2,789)
<b>Core net profit</b>	<b>(Btmn)</b>	<b>34,181</b>	<b>31,815</b>	<b>33,009</b>	<b>35,330</b>	<b>35,816</b>	<b>29,077</b>	<b>33,510</b>	<b>36,478</b>
Extra item	(Btmn)	0	0	0	0	0	0	0	0
<b>Net profit</b>	<b>(Btmn)</b>	<b>34,181</b>	<b>31,815</b>	<b>33,009</b>	<b>35,330</b>	<b>35,816</b>	<b>29,077</b>	<b>33,510</b>	<b>36,478</b>
<b>EPS</b>	<b>(Bt)</b>	<b>17.91</b>	<b>16.67</b>	<b>17.29</b>	<b>18.51</b>	<b>18.76</b>	<b>15.23</b>	<b>17.55</b>	<b>19.11</b>
<b>DPS</b>	<b>(Bt)</b>	<b>6.50</b>	<b>6.50</b>	<b>6.50</b>	<b>6.50</b>	<b>7.00</b>	<b>3.00</b>	<b>3.50</b>	<b>6.50</b>

### Balance Sheet

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Cash	(Btmn)	61,432	66,338	65,473	62,394	58,090	58,801	59,736	60,487
Interbank assets	(Btmn)	372,007	394,612	437,738	450,700	472,349	519,584	555,955	583,753
Investments	(Btmn)	520,805	547,941	593,180	558,395	649,434	639,693	642,891	646,105
<b>Gross loans</b>	<b>(Btmn)</b>	<b>1,868,903</b>	<b>1,941,093</b>	<b>2,003,989</b>	<b>2,083,160</b>	<b>2,061,309</b>	<b>2,226,214</b>	<b>2,337,524</b>	<b>2,454,401</b>
Accrued interest receivable	(Btmn)	4,279	4,653	5,061	5,624	4,013	4,013	4,013	4,013
Loan loss reserve	(Btmn)	104,187	119,518	140,021	153,003	174,276	194,477	213,761	231,614
<b>Net loans</b>	<b>(Btmn)</b>	<b>1,768,995</b>	<b>1,826,227</b>	<b>1,869,029</b>	<b>1,935,781</b>	<b>1,891,046</b>	<b>2,035,750</b>	<b>2,127,776</b>	<b>2,226,800</b>
<b>Total assets</b>	<b>(Btmn)</b>	<b>2,835,852</b>	<b>2,944,230</b>	<b>3,076,310</b>	<b>3,116,750</b>	<b>3,216,743</b>	<b>3,404,355</b>	<b>3,541,825</b>	<b>3,677,797</b>
Deposits	(Btmn)	2,090,965	2,178,141	2,310,743	2,326,470	2,370,792	2,553,343	2,658,030	2,763,022
Interbank liabilities	(Btmn)	128,681	130,928	133,584	136,862	134,346	134,346	134,346	134,346
Borrowings	(Btmn)	138,403	137,815	107,190	116,348	144,681	144,681	144,681	144,681
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>2,473,821</b>	<b>2,564,985</b>	<b>2,674,303</b>	<b>2,703,591</b>	<b>2,788,627</b>	<b>2,971,178</b>	<b>3,075,865</b>	<b>3,180,857</b>
Minority interest	(Btmn)	199	229	283	345	365	365	365	365
Paid-up capital	(Btmn)	19,088	19,088	19,088	19,088	19,088	19,088	19,088	19,088
<b>Total Equities</b>	<b>(Btmn)</b>	<b>361,832</b>	<b>379,016</b>	<b>401,724</b>	<b>412,814</b>	<b>427,751</b>	<b>432,812</b>	<b>465,595</b>	<b>496,575</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>189.56</b>	<b>198.56</b>	<b>210.45</b>	<b>216.26</b>	<b>224.09</b>	<b>226.74</b>	<b>243.92</b>	<b>260.14</b>

### Key Assumptions and Financial Ratios

	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
<b>Growth</b>									
YoY loan growth	(%)	4.86	3.86	3.24	3.95	(1.05)	8.00	5.00	5.00
YoY non-NII growth	(%)	19.50	(7.25)	9.28	9.44	25.30	(32.01)	0.16	2.07
<b>Profitability</b>									
Yield on earn'g assets	(%)	3.80	3.63	3.56	3.62	3.59	3.25	3.26	3.34
Cost on int-bear'g liab	(%)	1.97	1.60	1.55	1.54	1.59	1.24	1.23	1.41
Spread	(%)	1.83	2.03	2.01	2.08	2.00	2.01	2.03	1.94
Net interest margin	(%)	2.11	2.27	2.25	2.33	2.27	2.21	2.23	2.18
ROE	(%)	9.98	8.59	8.46	8.67	8.52	6.76	7.46	7.58
ROA	(%)	1.22	1.10	1.10	1.14	1.13	0.88	0.96	1.01
<b>Asset Quality</b>									
NPLs/Total Loans	(%)	3.01	3.55	4.36	3.85	3.84	4.48	4.46	4.44
LLR/NPLs	(%)	185.30	173.61	160.17	190.93	220.19	194.83	205.00	212.59
Provision expense/Total loans	(%)	0.78	0.81	1.12	1.05	1.57	1.11	1.03	0.93
<b>Liquidity</b>									
Loans/Deposits & borrowings	(%)	83.83	83.81	82.88	85.28	81.95	82.51	83.40	84.41
<b>Efficiency</b>									
Cost to income ratio	(%)	48.08	50.26	46.78	49.14	49.18	49.94	49.28	49.54
<b>Capital Fund</b>									
Capital adequacy ratio	(%)	17.86	18.32	18.16	17.96	20.20	17.14	17.25	17.27
Tier-1	(%)	15.78	16.40	16.62	16.43	17.10	15.71	15.88	15.96
Tier-2	(%)	2.08	1.92	1.54	1.52	3.10	1.42	1.37	1.31

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Interest & dividend income	(Btmn)	27,468	28,221	28,509	28,365	28,015	28,471	27,715	28,625
Interest expense	(Btmn)	9,895	9,964	10,086	10,066	10,379	10,527	10,522	8,805
<b>Net interest income</b>	<b>(Btmn)</b>	<b>17,573</b>	<b>18,256</b>	<b>18,423</b>	<b>18,299</b>	<b>17,635</b>	<b>17,944</b>	<b>17,193</b>	<b>19,820</b>
Non-interest income	(Btmn)	13,622	11,343	10,602	10,284	13,488	12,298	26,512	6,563
Non-interest expenses	(Btmn)	13,376	12,878	16,317	12,202	14,108	12,679	15,975	11,377
Earnings before tax & provision	(Btmn)	17,819	16,721	12,709	16,382	17,015	17,563	27,731	15,005
Provision	(Btmn)	6,533	5,346	2,765	5,078	5,549	5,381	16,342	5,087
Pre-tax profit	(Btmn)	11,286	11,376	9,944	11,303	11,466	12,181	11,389	9,918
Tax	(Btmn)	2,041	2,224	1,767	2,224	2,065	2,640	3,290	2,169
Equities & minority interest	(Btmn)	51	122	76	51	54	103	96	79
<b>Core net profit</b>	<b>(Btmn)</b>	<b>9,194</b>	<b>9,030</b>	<b>8,101</b>	<b>9,028</b>	<b>9,347</b>	<b>9,438</b>	<b>8,002</b>	<b>7,671</b>
Extra item	(Btmn)	0	0	0	0	0	0	0	0
<b>Net profit</b>	<b>(Btmn)</b>	<b>9,194</b>	<b>9,030</b>	<b>8,101</b>	<b>9,028</b>	<b>9,347</b>	<b>9,438</b>	<b>8,002</b>	<b>7,671</b>
EPS	(Bi)	4.82	4.73	4.24	4.73	4.90	4.94	4.19	4.02

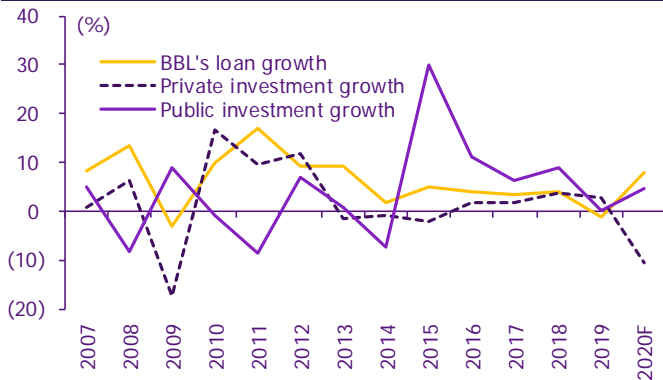
### Balance Sheet

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Cash	(Btmn)	55,924	56,770	62,394	58,652	55,151	51,825	58,090	72,795
Interbank assets	(Btmn)	494,489	448,478	450,700	520,967	505,175	575,970	472,349	505,156
Investments	(Btmn)	589,197	599,544	558,395	577,257	586,208	616,071	649,434	689,173
<b>Gross loans</b>	<b>(Btmn)</b>	<b>2,065,487</b>	<b>2,021,246</b>	<b>2,083,160</b>	<b>2,029,810</b>	<b>2,017,314</b>	<b>2,001,445</b>	<b>2,061,309</b>	<b>2,115,950</b>
Accrued interest receivable	(Btmn)	5,179	5,436	5,624	5,992	5,266	4,471	4,013	5,311
Loan loss reserve	(Btmn)	147,164	151,515	153,003	158,094	152,623	158,095	174,276	166,059
<b>Net loans</b>	<b>(Btmn)</b>	<b>1,923,502</b>	<b>1,875,167</b>	<b>1,935,781</b>	<b>1,877,708</b>	<b>1,869,957</b>	<b>1,847,821</b>	<b>1,891,046</b>	<b>1,955,202</b>
<b>Total assets</b>	<b>(Btmn)</b>	<b>3,175,340</b>	<b>3,087,058</b>	<b>3,116,750</b>	<b>3,148,836</b>	<b>3,146,109</b>	<b>3,228,092</b>	<b>3,216,743</b>	<b>3,395,290</b>
Deposits	(Btmn)	2,349,857	2,297,627	2,326,470	2,340,979	2,352,679	2,362,766	2,370,792	2,514,331
Interbank liabilities	(Btmn)	204,367	133,253	136,862	146,232	119,903	148,575	134,346	108,595
Borrowings	(Btmn)	95,766	132,543	116,348	114,172	111,103	147,375	144,681	147,693
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>2,775,166</b>	<b>2,682,235</b>	<b>2,703,591</b>	<b>2,723,141</b>	<b>2,722,609</b>	<b>2,797,654</b>	<b>2,788,627</b>	<b>2,979,985</b>
Minority interest	(Btmn)	324	248	345	440	339	260	365	457
Paid-up capital	(Btmn)	19,088	19,088	19,088	19,088	19,088	19,088	19,088	19,088
<b>Total Equities</b>	<b>(Btmn)</b>	<b>399,850</b>	<b>404,574</b>	<b>412,814</b>	<b>425,256</b>	<b>423,161</b>	<b>430,178</b>	<b>427,751</b>	<b>414,849</b>
<b>BVPS</b>	<b>(Bi)</b>	<b>209.47</b>	<b>211.95</b>	<b>216.26</b>	<b>222.78</b>	<b>221.68</b>	<b>225.36</b>	<b>224.09</b>	<b>217.33</b>

### Financial Ratios

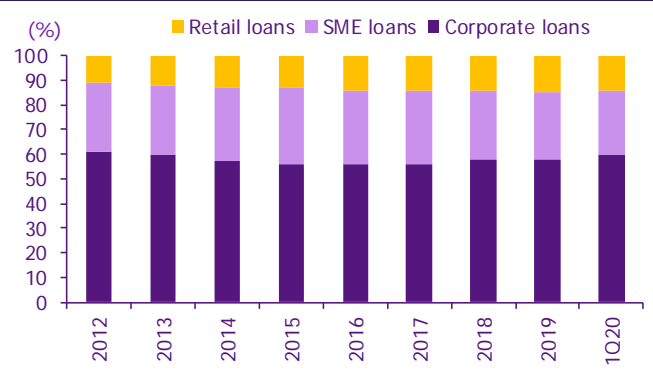
FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<b>Growth</b>									
YoY loan growth	(%)	4.40	4.26	3.95	2.59	(2.33)	(0.98)	(1.05)	4.24
YoY non-NII growth	(%)	19.29	(2.20)	(9.87)	(28.48)	(0.98)	8.41	150.06	(36.19)
<b>Profitability</b>									
Yield on earn'g assets	(%)	3.50	3.63	3.70	3.65	3.59	3.61	3.48	3.53
Cost on int-bear'g liab	(%)	1.50	1.53	1.57	1.55	1.60	1.61	1.59	1.30
Spread	(%)	2.00	2.10	2.13	2.09	1.99	2.01	1.89	2.23
Net interest margin	(%)	2.24	2.35	2.39	2.35	2.26	2.28	2.16	2.44
ROE	(%)	9.13	8.98	7.93	8.62	8.81	8.85	7.46	7.28
ROA	(%)	1.16	1.17	1.04	1.15	1.19	1.17	1.00	0.90
<b>Asset Quality</b>									
NPLs/Total Loans	(%)	4.04	4.16	3.85	4.12	4.07	4.31	3.84	4.03
LLR/NPLs	(%)	176.29	180.08	190.93	188.95	185.79	183.36	220.19	194.81
Provision expense/Total loans	(%)	1.27	1.06	0.53	1.00	1.10	1.08	3.17	0.96
<b>Liquidity</b>									
Loans/Deposits & borrowings	(%)	84.46	83.17	85.28	82.68	81.88	79.73	81.95	79.49
<b>Efficiency</b>									
Cost to income ratio	(%)	46.86	46.50	57.46	44.12	50.15	45.79	56.48	45.20
<b>Capital Fund</b>									
Capital adequacy ratio	(%)	17.22	17.86	17.96	18.12	18.28	20.72	20.20	18.47
Tier-1	(%)	15.70	16.34	16.43	16.63	16.79	17.66	17.10	15.67
Tier-2	(%)	1.52	1.52	1.52	1.49	1.49	3.05	3.10	2.81

**Figure 1: Loan growth**



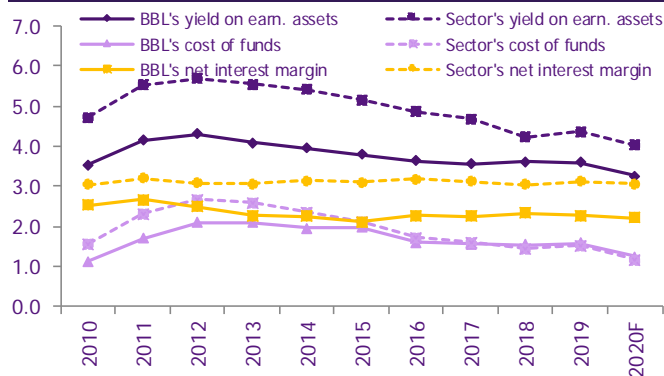
Source: BBL, NESDB and SCBS Investment Research

**Figure 2: BBL's loan breakdown**



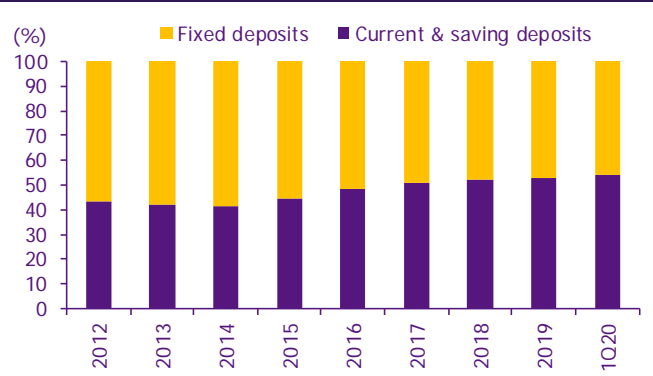
Source: BBL and SCBS Investment Research

**Figure 3: NIM, yield on earnings assets, funding cost**



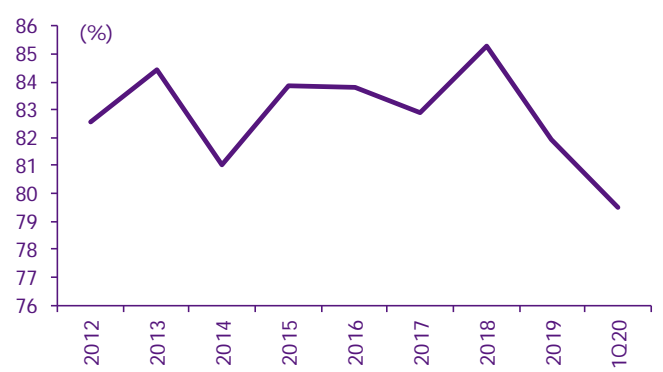
Source: BBL and SCBS Investment Research

**Figure 4: BBL's deposit mix**



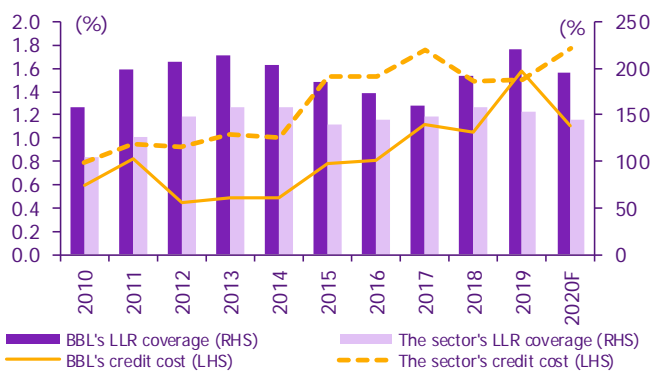
Source: BBL and SCBS Investment Research

**Figure 5: BBL's loan to deposit & borrowing ratio**



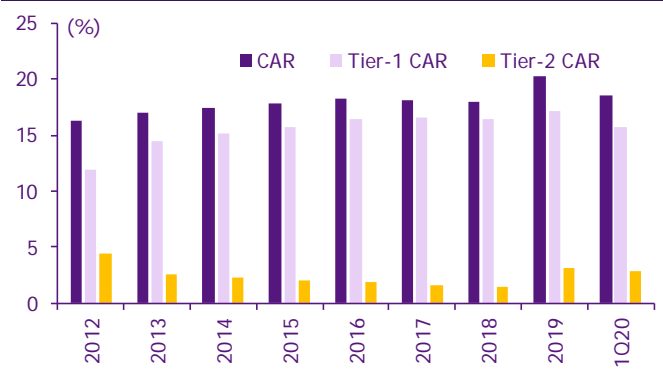
Source: BBL and SCBS Investment Research

**Figure 6: BBL's LLR coverage and credit cost**



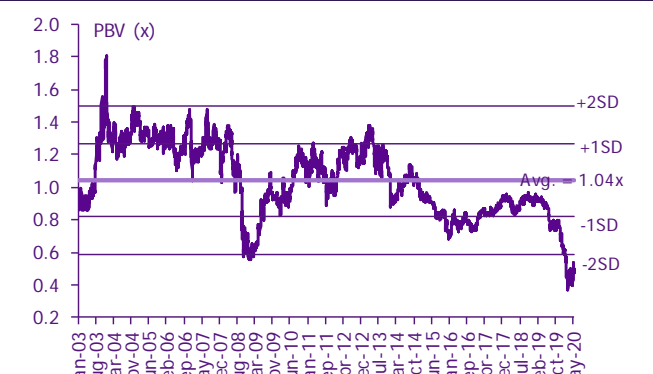
Source: BBL and SCBS Investment Research

**Figure 7: BBL's capital adequacy ratio (CAR)**



Source: BBL and SCBS Investment Research

**Figure 8: BBL's PBV**



Source: BBL and SCBS Investment Research



## Earnings conviction with attractive valuation

**BCH's operations are improving as pent-up demand from Thai patients is released in tandem with the ease in the lockdown, with a short-term boost from providing medical services related to the COVID-19 pandemic. BCH's new hospitals should not be a burden given the strong demand and low supply in their locations. BCH's valuation is attractive at a 12% discount to regional average. We BUY with a TP of Bt19/share.**

**Thai patients are returning.** BCH's patient volume fell 5% YoY for OPD service and 10% YoY for IPD service in 1Q20; most of the fall came in March when the government went into lockdown mode, asking people to stay home and making it difficult to go to hospitals. Operations continued quiet in April with a drop of patient traffic but is now bouncing back up with a lower YoY contraction since Thai patient traffic began to come back in mid-May once the government began to ease up on the lockdown. BCH is positioned to get a short-term boost from providing medical services related to the COVID-19 pandemic: so far it has provided COVID-19 RT-PCR service to ~100K cases. If we assume ~Bt3,000/case and net margin of 10%, this suggests Bt300mn added to revenue and Bt30mn to profit (10% of average quarterly earnings), helping make up for the near-absence of international patients (11% of BCH's revenue) at World Medical Hospital (WMC) after Thailand banned all international flights from April 4-June 30.

**New investments not a burden.** In May, BCH opened *Kasemrad International Aranyaprathet* (51 of 90 total beds). The hospital mainly targets Cambodian patients since it is located in Sakeao province, near the Thai-Cambodia border, and is in addition the province's first private hospital. BCH has two new hospitals in the pipeline: 1) *Kasemrad Prachinburi* (115 beds) to open in 4Q20 and 2) *Kasemrad International Vientiane* in Lao PDR (254 beds, 1st phase of 110 beds) to open in 1Q21 (76% held by BCH, 24% by a local partner). For the first, since the hospital will serve social security service (SC) from Jan 2021, SC capitation will support initial operations. In our view, the market is more likely to be concerned about the second since it is BCH's first venture overseas. While there is inherently an initial cost burden when a new hospital is opened, we believe the impact will be diluted by the phased opening of the facilities as well as by the fact that supply is low in Lao PDR at 1.5 beds/1,000 population vs. 2.5 for Thailand.

**Attractive valuation play.** We estimate 2% growth in BCH core earnings in 2020, with 2Q20 the lowest quarter, followed by better earnings in 2H20 (+YoY and +HoH) and 15% growth in 2021, driven by the release of pent-up demand from Thai patients and growing SC operations after the reimbursement rate hike on Jan 1, 2020. We also like BCH for its discounted valuation: BCH is trading at 15x 2020EV/EBITDA, 12% below regional average.

### Forecasts and valuation

Year to 31 Dec	Unit	2018	2019	2020F	2021F	2022F
Revenue	(Btmn)	8,073	8,880	9,560	10,828	11,986
EBITDA	(Btmn)	2,232	2,387	2,678	2,924	3,222
Core profit	(Btmn)	1,109	1,240	1,260	1,448	1,654
Reported profit	(Btmn)	1,089	1,135	1,260	1,448	1,654
Core EPS	(Bt)	0.44	0.50	0.51	0.58	0.66
DPS	(Bt)	0.23	0.23	0.25	0.29	0.33
P/E, core	(x)	32.6	29.2	28.7	25.0	21.9
EPS growth, core	(%)	21.0	11.8	1.6	14.9	14.2
P/BV, core	(x)	6.3	5.8	5.3	4.8	4.3
ROE	(%)	18.0	18.5	17.2	18.1	18.8
Dividend yield	(%)	1.6	1.6	1.7	2.0	2.3
FCF yield	(%)	5.1	0.5	3.2	2.4	4.5
EV/EBIT	(x)	24.3	23.8	20.8	18.2	16.1
EBIT growth, core	(%)	8.6	3.4	13.0	13.8	11.1
EV/CE	(x)	3.6	3.2	3.2	3.0	3.0
ROCE	(%)	11.2	10.4	11.6	12.4	13.8
EV/EBITDA	(x)	18.0	17.1	15.0	13.7	12.2
EBITDA growth	(%)	8.2	6.9	12.2	9.2	10.2

Source: SCBS Investment Research

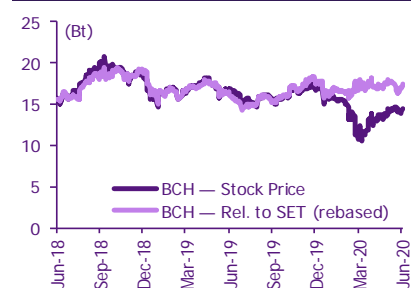
## BUY

### Stock data

Last close (Jun 19) (Bt)	14.50
12-m target price (Bt)	19.00
Upside (Downside) to TP (%)	31.03
Mkt cap (Btbn)	36.16
Mkt cap (US\$mn)	1,166

Risk rating	L
Mkt cap (%) SET	0.25
Sector % SET	4.69
Shares issued (mn)	2,494
Par value (Bt)	1.00
12-m high / low (Bt)	17.7 / 10
Avg. daily 6m (US\$mn)	5.09
Foreign limit / actual (%)	49 / 12
Free float (%)	44.0
Dividend policy (%)	≤ 40

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	0.0	16.9	(13.7)
Relative to SET	(3.5)	(3.8)	8.2

Source: SET, SCBS Investment Research

### Expected total return (ETR)

Target price	(Bt)	19.00
12-month dividend	(Bt)	0.25
Capital gain	(%)	31.03
Dividend yield	(%)	1.74
Total return	(%)	32.78

Source: SET, SCBS Investment Research

### Analyst

#### Raweenuch Piyakriengkai

Fundamental Investment

Analyst on Securities

(66-2) 949-1002

raweenuch.piyakriengkai@scb.co.th

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total revenue	(Btmn)	5,766	6,511	7,255	8,073	8,880	9,560	10,828	11,986
Cost of goods sold	(Btmn)	3,989	4,472	4,877	5,394	6,052	6,423	7,304	8,125
<b>Gross profit</b>	<b>(Btmn)</b>	<b>1,777</b>	<b>2,039</b>	<b>2,378</b>	<b>2,679</b>	<b>2,828</b>	<b>3,137</b>	<b>3,524</b>	<b>3,861</b>
SG&A	(Btmn)	855	835	960	1,132	1,232	1,304	1,465	1,574
Other income	(Btmn)	86	98	107	109	116	102	144	159
Interest expense	(Btmn)	163	162	136	126	131	125	125	82
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>844</b>	<b>1,140</b>	<b>1,389</b>	<b>1,531</b>	<b>1,582</b>	<b>1,810</b>	<b>2,077</b>	<b>2,364</b>
Corporate tax	(Btmn)	174	208	271	285	286	362	415	473
Equity a/c profits	(Btmn)	3	1	1	3	2	2	2	2
Minority interests	(Btmn)	(145)	(180)	(202)	(159)	(163)	(191)	(217)	(240)
<b>Core profit</b>	<b>(Btmn)</b>	<b>527</b>	<b>753</b>	<b>917</b>	<b>1,109</b>	<b>1,240</b>	<b>1,260</b>	<b>1,448</b>	<b>1,654</b>
Extra-ordinary items	(Btmn)	-	-	-	(20)	(105)	-	-	-
<b>Net Profit</b>	<b>(Btmn)</b>	<b>527</b>	<b>753</b>	<b>917</b>	<b>1,089</b>	<b>1,135</b>	<b>1,260</b>	<b>1,448</b>	<b>1,654</b>
EBITDA	(Btmn)	1,468	1,817	2,063	2,232	2,387	2,678	2,924	3,222
<b>Core EPS (Bt)</b>	<b>(Bt)</b>	<b>0.21</b>	<b>0.30</b>	<b>0.37</b>	<b>0.44</b>	<b>0.50</b>	<b>0.51</b>	<b>0.58</b>	<b>0.66</b>
Net EPS (Bt)	(Bt)	0.21	0.30	0.37	0.44	0.46	0.51	0.58	0.66
DPS (Bt)	(Bt)	0.07	0.17	0.20	0.23	0.23	0.25	0.29	0.33

### Balance Sheet

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total current assets	(Btmn)	2,137	1,937	3,364	2,549	2,967	2,555	2,959	3,499
Total fixed assets	(Btmn)	7,859	8,039	8,718	9,497	10,584	10,961	11,383	11,268
<b>Total assets</b>	<b>(Btmn)</b>	<b>10,598</b>	<b>10,569</b>	<b>12,674</b>	<b>12,627</b>	<b>14,116</b>	<b>14,081</b>	<b>14,908</b>	<b>15,332</b>
Total loans	(Btmn)	4,462	4,078	5,494	4,690	5,468	4,692	4,692	4,192
Total current liabilities	(Btmn)	3,042	2,621	2,276	1,740	2,186	1,912	3,492	4,066
Total long-term liabilities	(Btmn)	2,510	2,498	4,344	4,346	4,759	4,348	2,848	1,848
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>5,676</b>	<b>5,233</b>	<b>6,762</b>	<b>6,230</b>	<b>7,137</b>	<b>6,451</b>	<b>6,531</b>	<b>6,106</b>
Paid-up capital	(Btmn)	2,494	2,494	2,494	2,494	2,494	2,494	2,494	2,494
<b>Total equity</b>	<b>(Btmn)</b>	<b>4,922</b>	<b>5,337</b>	<b>5,912</b>	<b>6,398</b>	<b>6,978</b>	<b>7,630</b>	<b>8,376</b>	<b>9,226</b>
<b>BVPS (Bt)</b>	<b>(Bt)</b>	<b>1.75</b>	<b>1.91</b>	<b>2.08</b>	<b>2.29</b>	<b>2.51</b>	<b>2.76</b>	<b>3.05</b>	<b>3.38</b>

### Cash Flow Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Core Profit	(Btmn)	527	753	917	1,109	1,240	1,260	1,448	1,654
Depreciation and amortization	(Btmn)	461	514	538	576	675	742	722	776
Operating cash flow	(Btmn)	1,347	1,701	1,814	1,618	1,902	2,197	1,964	2,240
Investing cash flow	(Btmn)	(880)	(729)	(2,483)	241	(1,729)	(1,031)	(1,107)	(623)
Financing cash flow	(Btmn)	(257)	(1,134)	642	(1,699)	(27)	(1,384)	(701)	(1,304)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>209</b>	<b>(163)</b>	<b>(27)</b>	<b>160</b>	<b>147</b>	<b>(219)</b>	<b>156</b>	<b>314</b>

### Key Financial Ratios

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Gross margin	(%)	30.8	31.3	32.8	33.2	31.8	32.8	32.5	32.2
Operating margin	(%)	16.0	18.5	19.5	19.2	18.0	19.2	19.0	19.1
EBITDA margin	(%)	25.5	27.9	28.4	27.7	26.9	28.0	27.0	26.9
EBIT margin	(%)	17.2	19.7	20.7	20.2	19.0	20.0	20.1	20.1
Net profit margin	(%)	9.1	11.6	12.6	13.5	12.8	13.2	13.4	13.8
ROE	(%)	11.0	14.7	16.3	18.0	18.5	17.2	18.1	18.8
ROA	(%)	5.1	7.1	7.9	8.8	9.3	8.9	10.0	10.9
Net D/E	(x)	0.8	0.7	0.8	0.6	0.7	0.5	0.5	0.3
Interest coverage	(x)	9.0	11.2	15.2	17.7	18.3	21.4	23.4	39.3
Debt service coverage	(x)	0.7	1.0	1.6	4.8	2.8	5.7	1.5	1.3
Payout Ratio	(x)	33.1	56.3	54.4	52.6	50.5	50.0	50.0	50.0

### Main Assumptions

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
<b>Revenue breakdown</b>									
Cash service	(%)	64.9	63.6	62.2	63.8	65.2	64.7	66.8	68.1
Social security service (SC)	(%)	34.0	35.4	37.0	36.2	34.8	35.3	33.2	31.9
Universal coverage (UC)	(%)	1.1	1.0	0.8	0.0	0.0	0.0	0.0	0.0

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total revenue	(Btmn)	1,918	2,228	2,105	2,078	2,137	2,469	2,196	2,178
Cost of goods sold	(Btmn)	1,277	1,432	1,435	1,444	1,483	1,590	1,535	1,515
<b>Gross profit</b>	<b>(Btmn)</b>	<b>641</b>	<b>796</b>	<b>670</b>	<b>635</b>	<b>654</b>	<b>879</b>	<b>661</b>	<b>663</b>
SG&A	(Btmn)	288	300	289	288	306	317	320	293
Other income	(Btmn)	27	26	34	28	30	31	27	19
Interest expense	(Btmn)	30	31	32	32	34	35	29	30
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>350</b>	<b>491</b>	<b>383</b>	<b>342</b>	<b>343</b>	<b>559</b>	<b>338</b>	<b>359</b>
Corporate tax	(Btmn)	62	88	82	59	65	101	62	63
Equity a/c profits	(Btmn)	1	1	0	1	1	1	0	1
Minority interests	(Btmn)	(38)	(47)	(34)	(35)	(36)	(56)	(36)	(37)
<b>Core profit</b>	<b>(Btmn)</b>	<b>270</b>	<b>357</b>	<b>268</b>	<b>248</b>	<b>264</b>	<b>402</b>	<b>326</b>	<b>259</b>
Extra-ordinary items	(Btmn)	(20)	0	0	0	(20)	0	(85)	0
<b>Net Profit</b>	<b>(Btmn)</b>	<b>250</b>	<b>357</b>	<b>268</b>	<b>248</b>	<b>244</b>	<b>402</b>	<b>241</b>	<b>259</b>
EBITDA	(Btmn)	521	665	568	535	539	763	540	565
<b>Core EPS (Bt)</b>	<b>(Bt)</b>	<b>0.11</b>	<b>0.14</b>	<b>0.11</b>	<b>0.10</b>	<b>0.11</b>	<b>0.16</b>	<b>0.13</b>	<b>0.10</b>
Net EPS (Bt)	(Bt)	0.10	0.14	0.11	0.10	0.10	0.16	0.10	0.10

### Balance Sheet

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total current assets	(Btmn)	2,225	2,322	2,549	2,827	2,810	2,987	2,967	3,094
Total fixed assets	(Btmn)	9,062	8,282	9,497	9,606	9,795	10,113	10,584	11,133
<b>Total assets</b>	<b>(Btmn)</b>	<b>11,875</b>	<b>12,167</b>	<b>12,627</b>	<b>13,006</b>	<b>13,186</b>	<b>13,687</b>	<b>14,116</b>	<b>14,874</b>
Total loans	(Btmn)	4,505	4,000	4,690	4,873	5,179	5,370	5,468	5,814
Total current liabilities	(Btmn)	1,302	1,560	1,740	1,873	1,704	2,054	2,186	4,047
Total long-term liabilities	(Btmn)	4,345	3,695	4,346	4,346	4,772	4,757	4,759	3,230
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>5,805</b>	<b>6,065</b>	<b>6,230</b>	<b>6,335</b>	<b>6,625</b>	<b>6,975</b>	<b>7,137</b>	<b>7,578</b>
Paid-up capital	(Btmn)	2,494	2,494	2,494	2,494	2,494	2,494	2,494	2,494
<b>Total equity</b>	<b>(Btmn)</b>	<b>6,070</b>	<b>6,102</b>	<b>6,398</b>	<b>6,671</b>	<b>6,561</b>	<b>6,712</b>	<b>6,978</b>	<b>7,297</b>
<b>BVPS (Bt)</b>	<b>(Bt)</b>	<b>2.15</b>	<b>2.18</b>	<b>2.29</b>	<b>2.38</b>	<b>2.35</b>	<b>2.41</b>	<b>2.51</b>	<b>2.62</b>

### Cash Flow Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Core Profit	(Btmn)	270	357	268	248	264	402	326	259
Depreciation and amortization	(Btmn)	141	143	153	161	161	169	173	177
Operating cash flow	(Btmn)	340	393	595	127	396	646	733	358
Investing cash flow	(Btmn)	136	(224)	(377)	(293)	(302)	(411)	(723)	(678)
Financing cash flow	(Btmn)	(442)	(249)	11	144	(96)	(137)	62	288
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>34</b>	<b>(81)</b>	<b>229</b>	<b>(22)</b>	<b>(1)</b>	<b>99</b>	<b>71</b>	<b>(32)</b>

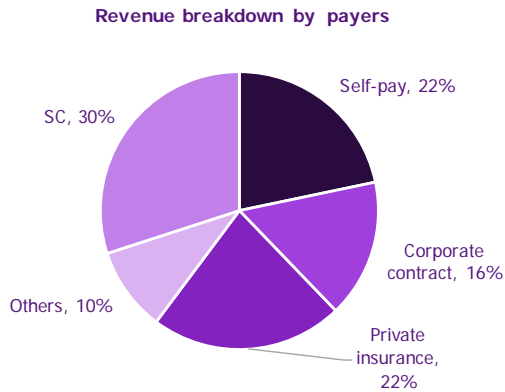
### Key Financial Ratios

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Gross margin	(%)	33.4	35.7	31.8	30.5	30.6	35.6	30.1	30.4
Operating margin	(%)	18.4	22.2	18.1	16.7	16.3	22.8	15.5	17.0
EBITDA margin	(%)	27.2	29.9	27.0	25.8	25.2	30.9	24.6	26.0
EBIT margin	(%)	19.5	23.1	19.4	17.8	17.4	23.7	16.5	17.7
Net profit margin	(%)	13.1	16.0	12.7	11.9	11.4	16.3	11.0	11.9
ROE	(%)	16.8	19.2	18.0	15.5	16.2	19.0	18.5	14.8
ROA	(%)	8.4	9.6	8.8	8.0	8.2	9.4	9.3	7.4
Net D/E	(x)	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Interest coverage	(x)	17.3	21.6	17.9	16.6	15.7	22.0	18.4	18.8
Debt service coverage	(x)	7.4	6.2	4.8	3.3	4.0	4.1	2.6	0.8

### Main Assumptions

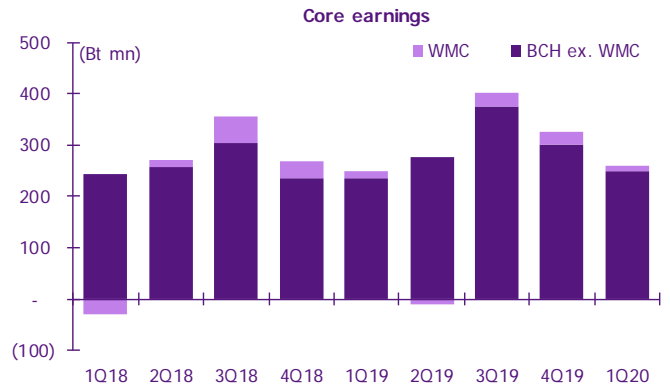
FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<b>Revenue breakdown</b>									
Cash service	(%)	64.0	65.5	62.7	64.8	62.2	65.5	68.2	63.6
Social security service (SC)	(%)	36.0	34.5	37.3	35.2	37.8	34.4	31.9	36.4
Universal coverage (UC)	(%)	0.0	0.0	0.0	0.0	0.0	0.1	(0.1)	0.0

**Figure 1: BCH's revenue breakdown**



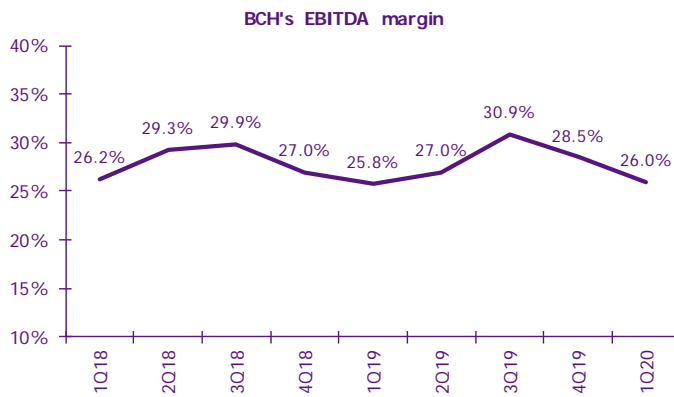
Source: Company data and SCBS Investment Research

**Figure 2: BCH's quarterly earnings**



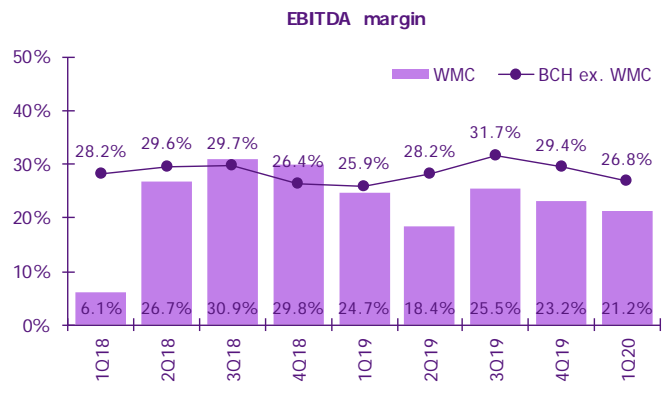
Source: Company data and SCBS Investment Research

**Figure 3: BCH's blended EBITDA margin**



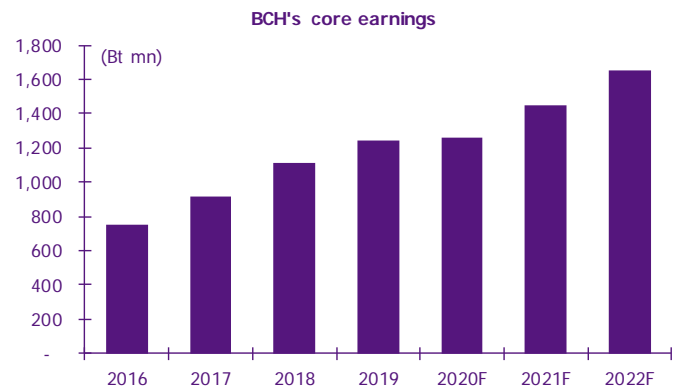
Source: Company data and SCBS Investment Research

**Figure 4: BCH's EBITDA margin breakdown**



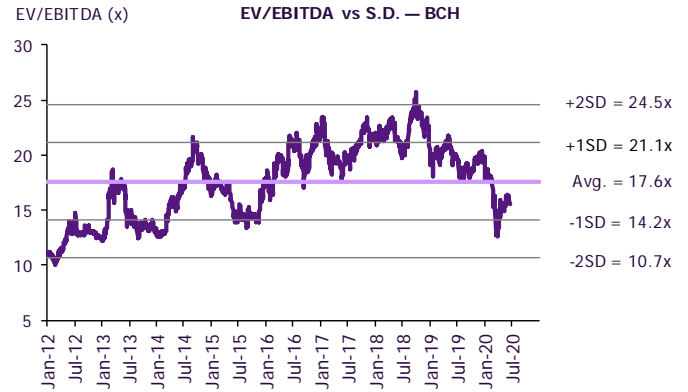
Source: Company data and SCBS Investment Research

**Figure 5: BCH's earnings forecast**



Source: SCBS Investment Research

**Figure 6: BCH's EV/EBITDA band**



Source: SET and SCBS Investment Research





## Government stimulus bringing a smile

**We see a short-term trading opportunity in ERW as share price will reflect the positive sentiment brought by government domestic tourism packages in effect from July–Oct 2020. It is best positioned to benefit as it has the highest revenue contribution from Thai guests and broad domestic hotel coverage. ERW has reopened all HOP INN budget hotels and they are profitable at the EBITDA level. Upside risk to earnings is clear containment of the pandemic that would hasten recovery in international travel.**

**Gainer from domestic tourism stimulus.** On June 16, the cabinet approved in principal three domestic tourism stimulus packages covering July 1–October 31 with a total budget of Bt22.4bn. These will offer discounts on accommodation, domestic airfare and bus tickets to expand domestic consumption (Figure 1). First take: ERW will benefit the most as, by our estimate, it has the largest proportion of revenue from Thai guests (mainly from the HOP INN budget segment) at 18%, followed by CENTEL (6%), AWC (2%) and MINT (1%).

**All Thai HOP INNs open.** ERW began reopening its HOP INN budget hotels in Thailand in mid-May after the lockdown eased, with heightened attention paid to sanitation and prevention of virus spread. As of June 1, all 44 HOP INN hotels in 32 provinces are opened. To date, this segment is averaging a 40% occupancy rate (vs. 73% in 2019) with profit expected at the EBITDA level (based on breakeven at 25–30% occupancy). On June 12, it opened two hotels within driving distance to Bangkok, Hua Hin and Pattaya, the *ibis HuaHin* and *Mercure Pattaya Ocean Resort*. In Bangkok (62% of revenue), mostly serving international guests, we expect slower recovery in room revenue, though F&B and events such as local seminars and banquets should gradually come back up as lockdown steps down.

**Earnings forecast.** We expect Thailand's international arrivals to plunge 67% to 13mn in 2020, with 2Q20 to be the worst; in 2H20 the picture should brighten as the government looks to allow some incoming tourists via travel bubbles (no details yet). Since international guests are ERW's major market, the lack of foreign guests will leave ERW's RevPar with a 64% YoY drop and a core loss of Bt513mn in 2020; profit of Bt40mn is expected in 2021. Upside risk is clear containment of the pandemic that would hasten recovery in international travel.

**Rate Neutral. ST trading opportunity on domestic travel stimulus.** We rate Neutral on ERW with TP at Bt4.0/share based on 13x EV/EBITDA, its historical average. However, we see a short-term trading opportunity from the positive sentiment toward the domestic travel stimulus. Assuming a higher multiplier at 16x EV/EBITDA (+1SD which was its high-range valuation in 2017) to reflect the better hopes for tourism implies a short-term leg up for share price to Bt4.7/share, a gain of 19% from last close.

### Forecasts and valuation

Year to 31 Dec	Unit	2018	2019	2020F	2021F	2022F
Revenue	(Btmn)	6,256	6,379	2,748	4,747	5,737
EBITDA	(Btmn)	1,916	1,931	651	1,394	1,619
Core profit	(Btmn)	555	489	(513)	40	305
Reported profit	(Btmn)	536	446	(513)	40	305
Core EPS	(Bt)	0.22	0.20	(0.21)	0.02	0.12
DPS	(Bt)	0.09	0.07	0.00	0.00	0.04
P/E, core	(x)	17.7	20.1	N.A.	243.3	32.1
EPS growth, core	(%)	9.8	(12.0)	N.A.	N.A.	657.2
P/BV, core	(x)	1.7	1.7	1.8	1.7	1.7
ROE	(%)	10.0	8.4	(8.9)	0.7	5.3
Dividend yield	(%)	2.3	1.8	0.0	0.0	1.1
FCF yield	(%)	0.8	0.0	(9.6)	1.9	5.5
EV/EBIT	(x)	16.1	17.2	(100.1)	38.0	22.8
EBIT growth, core	(%)	3.2	(3.4)	N.A.	N.A.	63.2
EV/CE	(x)	1.2	1.1	1.2	1.2	1.2
ROCE	(%)	6.3	5.7	(1.2)	2.7	4.3
EV/EBITDA	(x)	9.6	9.8	30.4	14.1	11.8
EBITDA growth	(%)	3.9	0.8	(66.3)	114.1	16.2

Source: SCBS Investment Research

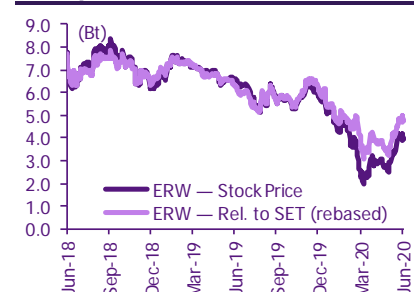
## NEUTRAL

### Stock data

Last close (Jun 19) (Bt)	3.96
12-m target price (Bt)	4.00
Upside (Downside) to TP (%)	1.01
Mkt cap (Btbn)	9.97
Mkt cap (US\$mn)	322

Risk rating	H
Mkt cap (%) SET	0.07
Sector % SET	0.61
Shares issued (mn)	2,518
Par value (Bt)	1.00
12-m high / low (Bt)	6.7 / 1.9
Avg. daily 6m (US\$mn)	3.23
Foreign limit / actual (%)	49 / 13
Free float (%)	60.6
Dividend policy (%)	35

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	35.6	58.4	(40.0)
Relative to SET	30.8	30.3	(24.8)

Source: SET, SCBS Investment Research

### Expected total return (ETR)

Target price	(Bt)	4.00
12-month dividend	(Bt)	0.00
Capital gain	(%)	1.01
Dividend yield	(%)	0.00
Total return	(%)	1.01

Source: SET, SCBS Investment Research

### Analyst

**Raweenuch Piyakriengkai**

Fundamental Investment

Analyst on Securities

(66-2) 949-1002

raweenuch.piyakriengkai@scb.co.th

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total revenue	(Btmn)	5,255	5,571	5,996	6,256	6,379	2,748	4,747	5,737
Cost of goods sold	(Btmn)	3,230	3,273	3,374	3,589	3,729	2,354	3,012	3,437
<b>Gross profit</b>	<b>(Btmn)</b>	<b>2,025</b>	<b>2,298</b>	<b>2,622</b>	<b>2,668</b>	<b>2,650</b>	<b>395</b>	<b>1,734</b>	<b>2,300</b>
SG&A	(Btmn)	1,374	1,482	1,571	1,576	1,608	620	1,266	1,517
Other income	(Btmn)	46	40	55	49	60	27	47	57
Interest expense	(Btmn)	387	362	344	360	402	315	357	356
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>310</b>	<b>494</b>	<b>762</b>	<b>780</b>	<b>700</b>	<b>(513)</b>	<b>158</b>	<b>485</b>
Corporate tax	(Btmn)	99	122	172	164	155	-	72	135
Equity a/c profits	(Btmn)	19	15	(24)	(4)	0	0	0	3
Minority interests	(Btmn)	(35)	(41)	(59)	(57)	(57)	-	(46)	(48)
<b>Core profit</b>	<b>(Btmn)</b>	<b>195</b>	<b>346</b>	<b>506</b>	<b>555</b>	<b>489</b>	<b>(513)</b>	<b>40</b>	<b>305</b>
Extra-ordinary items	(Btmn)	-	21	-	(19)	(43)	-	-	-
<b>Net Profit</b>	<b>(Btmn)</b>	<b>195</b>	<b>367</b>	<b>506</b>	<b>536</b>	<b>446</b>	<b>(513)</b>	<b>40</b>	<b>305</b>
EBITDA	(Btmn)	1,414	1,586	1,844	1,916	1,931	651	1,394	1,619
<b>Core EPS (Bt)</b>	<b>(Btmn)</b>	<b>0.08</b>	<b>0.14</b>	<b>0.20</b>	<b>0.22</b>	<b>0.20</b>	<b>(0.21)</b>	<b>0.02</b>	<b>0.12</b>
Net EPS (Bt)	(Bt)	0.08	0.15	0.20	0.22	0.18	(0.21)	0.02	0.12
DPS (Bt)	(Bt)	0.04	0.06	0.09	0.09	0.07	0.00	0.00	0.04

### Balance Sheet

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total current assets	(Btmn)	1,409	1,278	1,573	1,560	1,456	843	1,156	1,032
Total fixed assets	(Btmn)	11,632	11,707	12,568	13,505	14,442	14,469	14,466	14,364
<b>Total assets</b>	<b>(Btmn)</b>	<b>14,820</b>	<b>14,911</b>	<b>16,048</b>	<b>16,949</b>	<b>17,834</b>	<b>17,151</b>	<b>17,500</b>	<b>17,294</b>
Total loans	(Btmn)	8,602	8,424	9,067	9,603	10,162	10,485	10,555	9,943
Total current liabilities	(Btmn)	3,558	3,606	3,218	3,540	3,360	2,451	2,888	3,053
Total long-term liabilities	(Btmn)	5,985	5,867	7,056	7,329	8,125	8,695	8,583	8,013
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>9,903</b>	<b>9,839</b>	<b>10,645</b>	<b>11,240</b>	<b>11,893</b>	<b>11,554</b>	<b>11,878</b>	<b>11,473</b>
Paid-up capital	(Btmn)	2,498	2,498	2,501	2,508	2,518	2,518	2,518	2,518
<b>Total equity</b>	<b>(Btmn)</b>	<b>4,917</b>	<b>5,073</b>	<b>5,403</b>	<b>5,708</b>	<b>5,941</b>	<b>5,597</b>	<b>5,623</b>	<b>5,821</b>
<b>BVPS (Bt)</b>	<b>(Bt)</b>	<b>1.99</b>	<b>2.05</b>	<b>2.18</b>	<b>2.31</b>	<b>2.40</b>	<b>2.26</b>	<b>2.27</b>	<b>2.35</b>

### Cash Flow Statement

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Core Profit	(Btmn)	195	346	506	555	489	(513)	40	305
Depreciation and amortization	(Btmn)	717	730	738	776	830	848	878	778
Operating cash flow	(Btmn)	1,305	1,416	1,680	1,744	1,780	(238)	1,023	1,059
Investing cash flow	(Btmn)	(707)	(884)	(1,500)	(1,661)	(1,778)	(703)	(840)	(520)
Financing cash flow	(Btmn)	(263)	(743)	122	(93)	(73)	491	56	(719)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>335</b>	<b>(212)</b>	<b>302</b>	<b>(10)</b>	<b>(71)</b>	<b>(449)</b>	<b>239</b>	<b>(180)</b>

### Key Financial Ratios

FY December 31		2015	2016	2017	2018	2019	2020F	2021F	2022F
Gross margin	(%)	38.5	41.2	43.7	42.6	41.5	14.4	36.5	40.1
Operating margin	(%)	12.4	14.6	17.5	17.4	16.3	(8.2)	9.9	13.7
EBITDA margin	(%)	26.9	28.5	30.8	30.6	30.3	23.7	29.4	28.2
EBIT margin	(%)	13.3	15.4	18.4	18.2	17.3	(7.2)	10.9	14.7
Net profit margin	(%)	3.7	6.6	8.4	8.6	7.0	(18.6)	0.8	5.3
ROE	(%)	4.1	6.9	9.7	10.0	8.4	(8.9)	0.7	5.3
ROA	(%)	1.3	2.3	3.3	3.4	2.8	(2.9)	0.2	1.8
Net D/E	(x)	1.5	1.5	1.5	1.5	1.5	1.8	1.7	1.6
Interest coverage	(x)	3.7	4.4	5.4	5.3	4.8	2.1	3.9	4.5
Debt service coverage	(x)	0.5	0.5	0.8	0.7	0.8	0.3	0.6	0.7
Payout Ratio	(%)	50.6	40.5	44.1	41.5	38.9	40.0	40.0	40.0

### Main Assumptions

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
<b>Owned hotels (excl. HOP INN)</b>									
Occupancy rate	(%)	77.0	83.0	84.0	81.0	78.0	30.0	55.0	69.1
ARR	(Bt/room/night)	2,515	2,470	2,554	2,672	2,570	2,390	2,390	2,390
% YoY growth	(%)	(0.4)	(1.8)	3.4	4.6	(3.8)	(7.0)	0.0	0.0
RevPar	(Bt/room/night)	1,938	2,044	2,150	2,158	2,009	717	1,315	1,651
% YoY growth	(%)	13.9	5.5	5.2	0.4	(6.9)	(64.3)	83.3	25.6
No. of rooms	rooms	4,501	4,501	4,514	4,832	5,343	5,343	5,343	5,343

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total revenue	(Btmn)	1,349	1,429	1,701	1,758	1,396	1,498	1,727	1,211
Cost of goods sold	(Btmn)	848	883	955	946	916	930	937	853
<b>Gross profit</b>	<b>(Btmn)</b>	<b>501</b>	<b>547</b>	<b>746</b>	<b>812</b>	<b>480</b>	<b>567</b>	<b>790</b>	<b>358</b>
SG&A	(Btmn)	376	381	411	423	374	396	414	343
Other income	(Btmn)	13	12	14	17	18	12	13	12
Interest expense	(Btmn)	87	91	99	96	100	102	104	139
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>51</b>	<b>88</b>	<b>251</b>	<b>310</b>	<b>24</b>	<b>81</b>	<b>285</b>	<b>(112)</b>
Corporate tax	(Btmn)	17	22	54	61	10	28	55	(1)
Equity a/c profits	(Btmn)	3	5	2	3	2	3	(8)	3
Minority interests	(Btmn)	(7)	(10)	(20)	(17)	(5)	(14)	(21)	5
<b>Core profit</b>	<b>(Btmn)</b>	<b>30</b>	<b>60</b>	<b>180</b>	<b>235</b>	<b>11</b>	<b>43</b>	<b>201</b>	<b>(103)</b>
Extra-ordinary items	(Btmn)	0	(19)	0	0	(18)	0	(25)	0
<b>Net Profit</b>	<b>(Btmn)</b>	<b>30</b>	<b>41</b>	<b>180</b>	<b>235</b>	<b>(7)</b>	<b>43</b>	<b>176</b>	<b>(103)</b>
EBITDA	(Btmn)	325	372	561	612	330	388	600	291
<b>Core EPS (Bt)</b>	<b>(Btmn)</b>	<b>0.01</b>	<b>0.02</b>	<b>0.07</b>	<b>0.09</b>	<b>0.00</b>	<b>0.02</b>	<b>0.08</b>	<b>(0.04)</b>
Net EPS (Bt)	(Bt)	0.01	0.02	0.07	0.09	(0.00)	0.02	0.07	(0.04)

### Balance Sheet

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total current assets	(Btmn)	1,252	1,524	1,560	1,886	1,413	1,435	1,456	1,876
Total fixed assets	(Btmn)	12,917	13,284	13,505	13,637	13,845	14,188	14,442	14,552
<b>Total assets</b>	<b>(Btmn)</b>	<b>16,049</b>	<b>16,674</b>	<b>16,949</b>	<b>17,451</b>	<b>17,248</b>	<b>17,569</b>	<b>17,834</b>	<b>21,615</b>
Total loans	(Btmn)	9,174	9,683	9,603	9,873	10,039	10,312	10,162	11,139
Total current liabilities	(Btmn)	2,485	3,266	3,540	3,571	3,407	2,917	3,360	2,777
Total long-term liabilities	(Btmn)	7,740	7,560	7,329	7,548	7,762	8,519	8,125	9,390
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>10,603</b>	<b>11,207</b>	<b>11,240</b>	<b>11,492</b>	<b>11,561</b>	<b>11,831</b>	<b>11,893</b>	<b>15,896</b>
Paid-up capital	(Btmn)	2,506	2,507	2,508	2,512	2,513	2,515	2,518	2,518
<b>Total equity</b>	<b>(Btmn)</b>	<b>5,445</b>	<b>5,467</b>	<b>5,708</b>	<b>5,959</b>	<b>5,686</b>	<b>5,738</b>	<b>5,941</b>	<b>5,720</b>
<b>BVPS (Bt)</b>	<b>(Bt)</b>	<b>2.20</b>	<b>2.21</b>	<b>2.30</b>	<b>2.40</b>	<b>2.29</b>	<b>2.31</b>	<b>2.40</b>	<b>2.31</b>

### Cash Flow Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Core Profit	(Btmn)	30	60	180	235	11	43	201	(103)
Depreciation and amortization	(Btmn)	188	194	211	206	207	206	211	263
Operating cash flow	(Btmn)	305	337	572	518	195	437	630	(24)
Investing cash flow	(Btmn)	(381)	(488)	(417)	(365)	(410)	(579)	(424)	(247)
Financing cash flow	(Btmn)	(297)	431	(193)	198	(201)	180	(250)	764
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>(373)</b>	<b>279</b>	<b>(39)</b>	<b>352</b>	<b>(416)</b>	<b>38</b>	<b>(45)</b>	<b>493</b>

### Key Financial Ratios

FY December 31		2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Gross margin	(%)	37.1	38.2	43.9	46.2	34.4	37.9	45.8	29.6
Operating margin	(%)	9.2	11.6	19.7	22.1	7.6	11.4	21.8	1.3
EBITDA margin	(%)	24.1	26.0	33.0	34.8	23.7	25.9	34.8	24.0
EBIT margin	(%)	10.2	12.5	20.5	23.1	8.8	12.2	22.5	2.2
Net profit margin	(%)	2.2	2.9	10.6	13.3	(0.5)	2.8	10.2	(8.5)
ROE	(%)	11.9	9.4	8.6	16.1	8.8	6.9	8.4	(7.0)
ROA	(%)	4.0	3.1	2.9	5.6	2.9	2.2	2.8	(2.1)
Net D/E	(x)	1.5	1.6	1.5	1.4	1.6	1.6	1.5	1.7
Interest coverage	(x)	3.7	4.1	5.7	6.4	3.3	3.8	5.8	2.1
Debt service coverage	(x)	0.7	0.6	0.8	0.9	0.5	0.7	1.0	0.5

### Main Assumptions

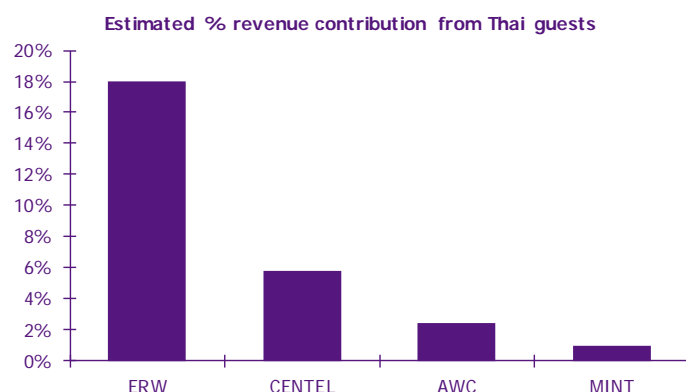
FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<b>Owned hotels (excl. HOP INN)</b>									
Occupancy rate	(%)	78.0	76.0	80.0	86.0	75.0	74.0	78.0	57.0
ARR	(Bt/room/night)	2,364	2,548	2,737	2,818	2,293	2,470	2,656	2,414
% YoY growth	(%)	1.7	5.2	3.0	(5.7)	(3.0)	(3.1)	(3.0)	(14.3)
RevPar	(Bt/room/night)	1,837	1,942	2,182	2,434	1,720	1,824	2,064	1,369
% YoY growth	(%)	(4.5)	(3.9)	(0.5)	(9.0)	(6.4)	(6.1)	(5.4)	(43.8)
No. of rooms	rooms	4,514	4,514	4,832	4,832	4,832	4,832	5,343	5,343

**Figure 1: Detail of domestic tourism stimulus packages**

Package	Detail	Maximum benefit (Bt/person)	Estimated gov't budget (Bt mn)
1. Rao Pai Teaw Kun	Package will be co-payment in which the government will offer a 40% discount on accommodation costing up to Bt3,000/night for a maximum of 5 nights (a maximum benefit at Bt15,000/person). It will also fill tourists' e-wallets with Bt600/night for a maximum of five nights (a maximum benefit of Bt3,000/person), to be used to pay for tourism activities such as spa services, souvenirs and restaurants (a maximum benefit at Bt3,000/person).	18,000	18,000
2. Teaw Pun Sook	Package will be a co-payment in which government will offer a 40% discount of up to Bt1,000 /person on in-country travel, and is designed to help airlines and car rental firms.	1,000	2,000
3. Kam Lang Jai	Package will reward about 1.2 million people, including medical staff and village health volunteers, who are on the frontlines of the COVID-19 battle. They will be provided free study tours and seminars worth up to Bt2,000/person.	2,000	2,400
<b>Total government budget</b>			<b>22,400</b>

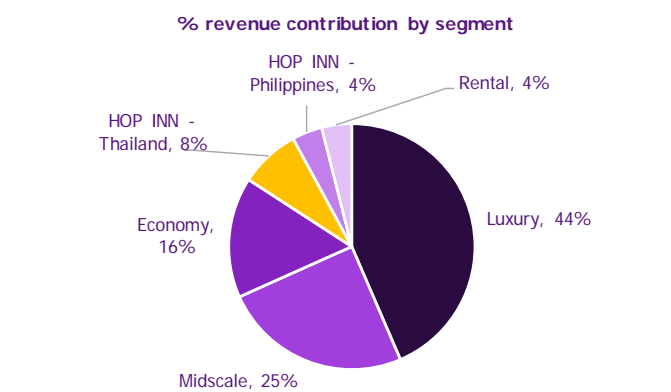
Source: SCBS Investment Research

**Figure 2: ERW has higher revenue contribution from Thai guests**



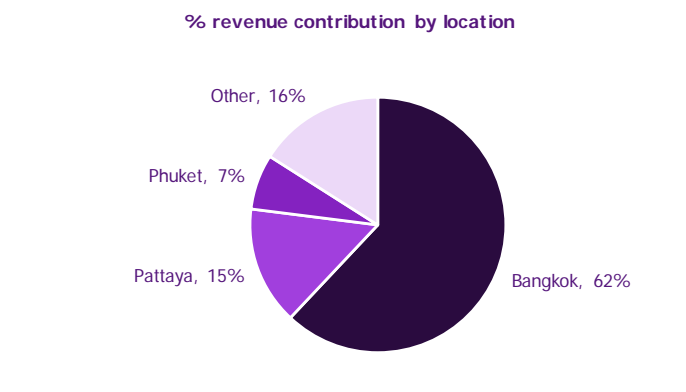
Source: Company data and SCBS Investment Research

**Figure 3: ERW's revenue breakdown by segment**



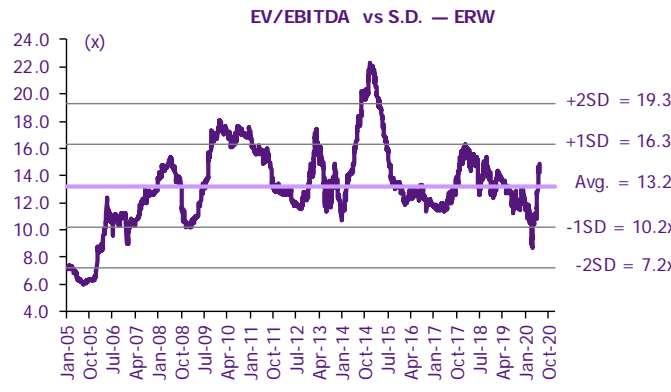
Source: Company data and SCBS Investment Research

**Figure 4: ERW's revenue breakdown by location**



Source: Company data and SCBS Investment Research

**Figure 5: ERW EV/EBITDA band**



Source: Company data and SCBS Investment Research



## Resilient outlook amidst the pandemic

**IVL share has recovered >70% from March and is back to where it was before the oil price collapse on optimism about 2Q20, despite the fact it will reflect the effect of COVID-19 on demand and global economic activity. We expect demand for PET to be most resilient during and after COVID-19 due to concerns of hygiene, good for IVL where >50% of core EBITDA comes from the integrated PET segment. IVL's earnings will also be driven by new assets in the integrated EO/EG segment, its new profit engine. We value the stock at Bt30/share based on cautious PBV multiple of 1.3x PBV (2020).**

**Integrated PET/PTA spread up QoQ.** Integrated PET/PTA spread recovered 10-26% QoQ to an 8-month high in Asia on higher PTA-PX spread and PET-PTA spread, proof of solid demand for PET on higher demand for food packaging driven by more cautious consumer behavior. Note that IVL is one of the top three integrated PET players in western markets and is also a leading recycled PET producer, which will be its main growth driver in the segment in the longer term.

**IVL's products are essential.** The pandemic shows that 80-85% of its products are essential during COVID-19. Key are PET resin for food packaging and the fiber used for face masks. Its plants are running at 85-90% utilization with staff levels normal despite the global lockdown. Its business should also be shielded by the trend for localization on its strategy to be a "local producer" wherever it can.

**No problem with liquidity or debt servicing.** Debt servicing for 2020 is ~US\$620mn, including interest expense of US\$220mn, well below annual operating cash flow of >US\$1bn. Debt servicing for 2021F is >US\$900mn, but could be cut by a refinancing of US\$300-400mn to reduce interest expense and extend the tenor of its debt portfolio. We expect net D/E to improve over the next three years.

**2Q20F challenging.** Although product spread looks better than feared, in 2Q20 a lower market price for feedstock and product could cause more inventory loss – but this is a non-cash item. IVL booked an inventory loss of US\$110mn in 1Q20 when price of PET fell by US\$110/t and PX by US\$360/t. The inventory loss should be smaller in 2Q20 as prices have come down only US\$30/t, plus there will be offset from profit from its new integrated EO/EG business off a full-quarter operation.

**TP of Bt30 offers limited upside; stay NEUTRAL.** Our TP is based on a cautious PBV multiple of 1.3x vs. 5-year average of 1.8x. Although current valuation at 1.2x PBV (2020) or -1.8SD is undemanding against its steady organic and inorganic growth, demand faces risks: 1) economic hardship eroding demand for its products, 2) lower efficiency improvement at new assets than expected and 3) changes in regulations on plastic products.

### Forecasts and valuation

Year to 31 Dec	Unit	2018	2019	2020F	2021F	2022F
Revenue	(Btmn)	347,171	352,692	292,954	336,307	358,841
EBITDA	(Btmn)	45,652	28,534	33,408	40,919	44,285
Core profit	(Btmn)	24,053	5,239	7,705	14,036	16,979
Reported profit	(Btmn)	26,465	5,252	7,705	14,036	16,979
Core EPS	(Bt)	4.36	0.93	1.37	2.50	3.02
DPS	(Bt)	1.40	1.23	1.00	1.30	1.50
P/E, core	(x)	6.6	31.1	21.1	11.6	9.6
EPS growth, core	(%)	8.0	(78.6)	47.1	82.2	21.0
P/BV, core	(x)	1.1	1.3	1.2	1.2	1.1
ROE	(%)	18.4	3.8	5.9	10.4	11.8
Dividend yield	(%)	4.8	4.2	3.4	4.5	5.2
FCF yield	(x)	(14.9)	9.6	15.1	28.2	19.0
EV/EBIT	(x)	9.3	26.0	18.6	10.6	8.4
EBIT growth, core	(%)	37.7	(63.4)	29.4	49.6	14.5
EV/CE	(x)	1.1	1.1	1.1	1.1	1.0
ROCE	(%)	9.3	2.6	4.2	7.6	9.3
EV/EBITDA	(x)	6.4	10.5	8.3	5.8	4.8
EBITDA growth	(%)	30.4	(37.5)	17.1	22.5	8.2

Source: SCBS Investment Research

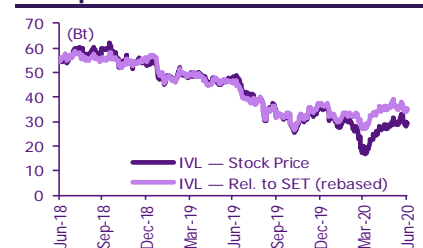
## NEUTRAL

### Stock data

Last close (Jun 19) (Bt)	29.00
12-m target price (Bt)	30.00
Upside (Downside) to TP (%)	3.45
Mkt cap (Btbn)	162.82
Mkt cap (US\$mn)	5,252

Risk rating	H
Mkt cap (%) SET	1.10
Sector % SET	3.03
Shares issued (mn)	5,615
Par value (Bt)	1.00
12-m high / low (Bt)	49.3 / 15.9
Avg. daily 6m (US\$mn)	28.63
Foreign limit / actual (%)	100 / 70
Free float (%)	35.2
Dividend policy (%)	≥ 30

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	(4.9)	47.2	(40.2)
Relative to SET	(8.3)	21.1	(25.1)

Source: SET, SCBS Investment Research

### Expected total return (ETR)

Target price	(Bt)	30.00
12-month dividend	(Bt)	1.00
Capital gain	(%)	3.45
Dividend yield	(%)	3.45
Total return	(%)	6.90

Source: SET, SCBS Investment Research

### Analyst

#### Chaipat Thanawattano

Fundamental Investment

Analyst on Securities

(66-2) 949-1005

chaipat.thanawattano@scb.co.th

**Financial statement****Profit and Loss Statement**

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total revenue	(Btmn)	234,698	254,620	286,332	347,171	352,692	292,954	336,307	358,841
Cost of goods sold	(Btmn)	208,177	218,198	240,889	289,232	309,345	256,956	289,437	307,460
<b>Gross profit</b>	<b>(Btmn)</b>	<b>26,521</b>	<b>36,422</b>	<b>45,444</b>	<b>57,939</b>	<b>43,348</b>	<b>35,998</b>	<b>46,870</b>	<b>51,381</b>
SG&A	(Btmn)	19,293	21,823	23,925	28,760	34,221	23,535	27,221	29,023
Other income	(Btmn)	1,761	1,584	1,263	2,200	2,367	2,407	2,599	3,121
Interest expense	(Btmn)	3,652	4,222	3,864	4,227	5,615	5,666	5,424	5,214
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>5,337</b>	<b>11,961</b>	<b>18,917</b>	<b>27,151</b>	<b>5,879</b>	<b>9,204</b>	<b>16,824</b>	<b>20,265</b>
Corporate tax	(Btmn)	1,881	2,062	(1,400)	3,812	1,534	1,427	2,652	3,121
Equity a/c profits	(Btmn)	(242)	(173)	28	586	5	5	5	5
Minority interests	(Btmn)	(279)	(162)	(195)	128	888	(78)	(142)	(171)
<b>Core profit</b>	<b>(Btmn)</b>	<b>2,935</b>	<b>9,563</b>	<b>20,150</b>	<b>24,053</b>	<b>5,239</b>	<b>7,705</b>	<b>14,036</b>	<b>16,979</b>
Extra-ordinary items	(Btmn)	3,674	6,634	733	2,413	14	0	0	0
<b>Net Profit</b>	<b>(Btmn)</b>	<b>6,609</b>	<b>16,197</b>	<b>20,883</b>	<b>26,465</b>	<b>5,252</b>	<b>7,705</b>	<b>14,036</b>	<b>16,979</b>
EBITDA	(Btmn)	18,315	27,248	35,020	45,652	28,534	33,408	40,919	44,285
<b>Core EPS</b>	<b>(Btmn)</b>	<b>0.61</b>	<b>1.99</b>	<b>4.04</b>	<b>4.36</b>	<b>0.93</b>	<b>1.37</b>	<b>2.50</b>	<b>3.02</b>
Net EPS	(Bt)	1.37	3.36	4.19	4.80	0.94	1.37	2.50	3.02
DPS	(Bt)	0.48	0.66	1.00	1.40	1.23	1.00	1.30	1.50

**Balance Sheet**

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total current assets	(Btmn)	70,548	84,495	92,953	124,284	118,757	104,011	125,735	148,098
Total fixed assets	(Btmn)	151,092	173,885	189,405	254,911	261,811	243,975	228,497	212,886
<b>Total assets</b>	<b>(Btmn)</b>	<b>221,641</b>	<b>258,380</b>	<b>282,358</b>	<b>379,195</b>	<b>380,568</b>	<b>347,986</b>	<b>354,233</b>	<b>360,984</b>
Total loans	(Btmn)	83,590	102,074	95,506	136,266	146,262	135,772	130,267	125,480
Total current liabilities	(Btmn)	57,383	65,862	65,622	113,700	112,991	84,702	87,991	89,592
Total long-term liabilities	(Btmn)	81,305	100,704	97,750	113,639	129,410	123,580	118,817	114,679
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>138,688</b>	<b>166,566</b>	<b>163,372</b>	<b>227,339</b>	<b>242,401</b>	<b>208,282</b>	<b>206,809</b>	<b>204,271</b>
Paid-up capital	(Btmn)	4,814	4,814	5,245	5,615	5,615	5,615	5,615	5,615
<b>Total equity</b>	<b>(Btmn)</b>	<b>79,825</b>	<b>89,055</b>	<b>117,062</b>	<b>144,838</b>	<b>129,712</b>	<b>131,170</b>	<b>138,749</b>	<b>147,867</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>16.58</b>	<b>18.50</b>	<b>22.32</b>	<b>25.80</b>	<b>23.10</b>	<b>23.36</b>	<b>24.71</b>	<b>26.34</b>

**Cash Flow Statement**

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Core Profit	(Btmn)	2,935	9,563	20,150	24,053	5,239	7,705	14,036	16,979
Depreciation and amortization	(Btmn)	9,326	11,065	12,239	14,273	17,040	18,538	18,672	18,805
Operating cash flow	(Btmn)	24,800	24,953	28,907	32,362	40,963	25,167	49,045	34,098
Investing cash flow	(Btmn)	(21,300)	(36,382)	(28,786)	(56,227)	(25,298)	(608)	(3,100)	(3,100)
Financing cash flow	(Btmn)	(5,607)	12,223	2,730	22,567	(10,796)	(12,551)	(11,820)	(12,476)
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>(2,107)</b>	<b>793</b>	<b>2,851</b>	<b>(1,299)</b>	<b>4,868</b>	<b>12,008</b>	<b>34,125</b>	<b>18,523</b>

**Key Financial Ratios**

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Gross margin	(%)	11.3	14.3	15.9	16.7	12.3	12.3	13.9	14.3
Operating margin	(%)	3.1	5.7	7.5	8.4	2.6	4.3	5.8	6.2
EBITDA margin	(%)	7.8	10.7	12.2	13.1	8.1	11.4	12.2	12.3
EBIT margin	(%)	3.8	6.4	8.0	9.0	3.3	5.1	6.6	7.1
Net profit margin	(%)	2.8	6.4	7.3	7.6	1.5	2.6	4.2	4.7
ROE	(%)	3.9	11.3	19.6	18.4	3.8	5.9	10.4	11.8
ROA	(%)	1.4	4.0	7.5	7.3	1.4	2.1	4.0	4.7
Net D/E	(x)	1.0	1.1	0.8	0.9	1.0	0.9	0.5	0.3
Interest coverage	(x)	5.0	6.5	9.1	10.8	5.1	5.9	7.5	8.5
Debt service coverage	(x)	1.1	1.3	1.5	2.4	0.6	0.7	1.0	1.1
Payout Ratio	(%)	35.0	19.6	23.9	29.2	131.0	72.9	52.0	49.6

**Main Assumptions**

FY December 31	Unit	2015	2016	2017	2018	2019	2020F	2021F	2022F
Total capacity (period-end)	(ktpa)	8,776	10,470	10,692	13,056	15,105	15,451	15,488	15,488
Total sales volume	(kt)	7,024	8,729	9,103	10,420	12,340	14,400	15,500	16,100
Core EBITDA/t	(US\$/t)	91	89	110	138	93	85	85	88
Reported EBITDA/t	(US\$/t)	80	88	112	140	76	75	85	88
Average selling price	(US\$/t)	975	827	927	1,031	921	656	700	719
FX	(Bt/US\$)	34.35	35.29	33.93	32.32	31.05	31.00	31.00	31.00

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total revenue	(Btmn)	83,591	96,001	91,436	95,810	94,895	84,478	77,509	92,024
Cost of goods sold	(Btmn)	68,010	77,055	80,751	83,550	82,282	74,221	69,292	81,665
<b>Gross profit</b>	<b>(Btmn)</b>	<b>15,581</b>	<b>18,946</b>	<b>10,685</b>	<b>12,260</b>	<b>12,613</b>	<b>10,258</b>	<b>8,217</b>	<b>10,359</b>
SG&A	(Btmn)	7,132	7,487	7,879	8,497	9,153	8,344	8,227	10,149
Other income	(Btmn)	395	365	463	555	514	356	942	886
Interest expense	(Btmn)	887	1,122	1,327	1,384	1,544	1,357	1,331	2,187
<b>Pre-tax profit</b>	<b>(Btmn)</b>	<b>7,957</b>	<b>10,703</b>	<b>1,941</b>	<b>2,934</b>	<b>2,430</b>	<b>913</b>	<b>(399)</b>	<b>(1,092)</b>
Corporate tax	(Btmn)	1,145	1,018	768	103	74	27	1,330	(7)
Equity a/c profits	(Btmn)	206	479	(57)	(0)	(5)	(5)	16	15
Minority interests	(Btmn)	(26)	64	117	(25)	95	202	617	25
<b>Core profit</b>	<b>(Btmn)</b>	<b>6,993</b>	<b>10,227</b>	<b>1,233</b>	<b>2,806</b>	<b>2,446</b>	<b>1,083</b>	<b>(1,096)</b>	<b>(1,045)</b>
Extra-ordinary items	(Btmn)	1,250	(173)	1,122	902	(179)	(290)	(419)	1,616
<b>Net Profit</b>	<b>(Btmn)</b>	<b>8,243</b>	<b>10,054</b>	<b>2,355</b>	<b>3,708</b>	<b>2,267</b>	<b>793</b>	<b>(1,516)</b>	<b>571</b>
EBITDA	(Btmn)	12,064	15,657	7,438	8,305	8,335	6,571	5,323	5,978
<b>Core EPS</b>	<b>(Btmn)</b>	<b>1.26</b>	<b>1.82</b>	<b>0.22</b>	<b>0.50</b>	<b>0.44</b>	<b>0.19</b>	<b>(0.20)</b>	<b>(0.19)</b>
Net EPS	(Bt)	1.49	1.79	0.42	0.66	0.40	0.14	(0.27)	0.10

### Balance Sheet

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total current assets	(Btmn)	123,981	127,413	124,284	130,584	130,836	122,693	118,757	140,939
Total fixed assets	(Btmn)	209,820	229,300	254,911	264,881	264,466	262,060	261,811	350,377
<b>Total assets</b>	<b>(Btmn)</b>	<b>333,801</b>	<b>356,713</b>	<b>379,195</b>	<b>395,465</b>	<b>395,302</b>	<b>384,753</b>	<b>380,568</b>	<b>491,316</b>
Total loans	(Btmn)	113,269	117,404	136,266	145,911	146,383	142,536	146,262	225,192
Total current liabilities	(Btmn)	86,331	101,943	113,700	116,935	121,593	110,358	112,991	139,759
Total long-term liabilities	(Btmn)	104,689	104,738	113,639	125,723	125,703	129,882	129,410	207,750
<b>Total liabilities</b>	<b>(Btmn)</b>	<b>191,020</b>	<b>206,681</b>	<b>227,339</b>	<b>242,658</b>	<b>247,296</b>	<b>240,240</b>	<b>242,401</b>	<b>347,509</b>
Paid-up capital	(Btmn)	5,548	5,615	5,615	5,615	5,615	5,615	5,615	5,615
<b>Total equity</b>	<b>(Btmn)</b>	<b>139,640</b>	<b>144,178</b>	<b>144,838</b>	<b>144,412</b>	<b>138,045</b>	<b>135,127</b>	<b>129,712</b>	<b>134,095</b>
<b>BVPS</b>	<b>(Bt)</b>	<b>25.17</b>	<b>25.68</b>	<b>25.80</b>	<b>25.72</b>	<b>24.59</b>	<b>24.07</b>	<b>23.10</b>	<b>23.88</b>

### Cash Flow Statement

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Core Profit	(Btmn)	6,993	10,227	1,233	2,806	2,446	1,083	(1,096)	(1,045)
Depreciation and amortization	(Btmn)	3,219	3,832	4,170	3,987	4,361	4,301	4,391	4,882
Operating cash flow	(Btmn)	7,215	(8,398)	8,398	8,401	11,803	18,101	2,658	10,662
Investing cash flow	(Btmn)	(16,275)	21,263	(21,263)	(10,363)	(4,342)	(3,884)	(6,710)	(64,872)
Financing cash flow	(Btmn)	18,678	(7,327)	7,327	3,410	(5,991)	(6,507)	(1,708)	64,671
<b>Net cash flow</b>	<b>(Btmn)</b>	<b>9,617</b>	<b>5,538</b>	<b>(5,538)</b>	<b>1,448</b>	<b>1,470</b>	<b>7,711</b>	<b>(5,760)</b>	<b>10,461</b>

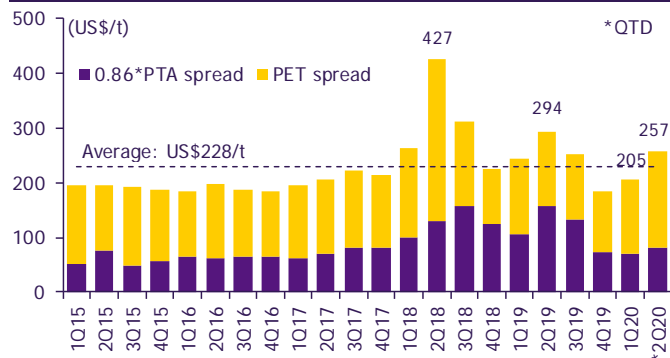
### Key Financial Ratios

FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Gross margin	(%)	18.6	19.7	11.7	12.8	13.3	12.1	10.6	11.3
Operating margin	(%)	10.1	11.9	3.1	3.9	3.6	2.3	(0.0)	0.2
EBITDA margin	(%)	14.4	16.3	8.1	8.7	8.8	7.8	6.9	6.5
EBIT margin	(%)	10.6	12.3	3.6	4.5	4.2	2.7	1.2	1.2
Net profit margin	(%)	9.9	10.5	2.6	3.9	2.4	0.9	(2.0)	0.6
ROE	(%)	21.0	28.8	3.4	7.8	6.9	3.2	(3.3)	(3.2)
ROA	(%)	9.0	11.8	1.3	2.9	2.5	1.1	(1.1)	(1.0)
Net D/E	(x)	0.6	0.7	0.9	1.0	1.0	1.0	1.0	1.5
Interest coverage	(x)	13.6	14.0	5.6	6.0	5.4	4.8	4.0	2.7
Debt service coverage	(x)	1.6	1.7	0.6	0.7	0.7	0.6	0.5	0.4

### Main Assumptions

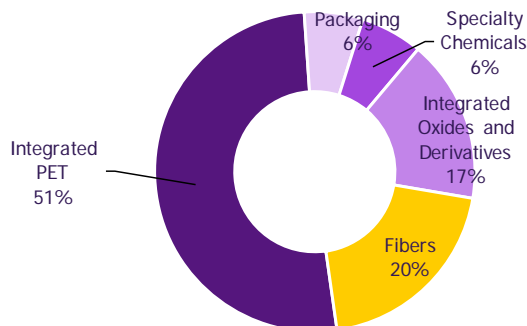
FY December 31	Unit	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Total capacity (period-end)	(ktpa)	11,084	12,587	13,029	13,920	14,520	15,520	14,160	13,280
Total sales volume	(kt)	2,546	2,730	2,818	2,970	3,150	3,345	2,880	3,310
Core EBITDA/t	(US\$/t)	153	150	113	102	115	84	70	92
Reported EBITDA/t	(US\$/t)	156	175	85	89	87	63	64	59
Average selling price	(US\$/t)	1,028	1,070	989	1,020	930	845	892	889
FX	(Bt/US\$)	31.95	32.98	32.82	31.62	31.59	30.71	30.28	31.28

**Figure 1: Integrated PET spread – Asia**



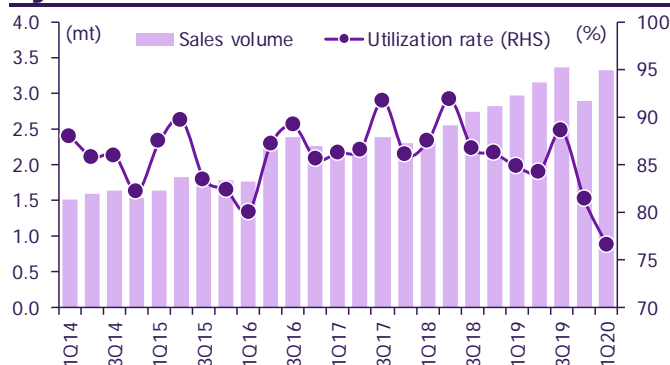
Source: IVL, Industry data, SCBS Investment Research

**Figure 2: Core EBITDA breakdown (1Q20)**



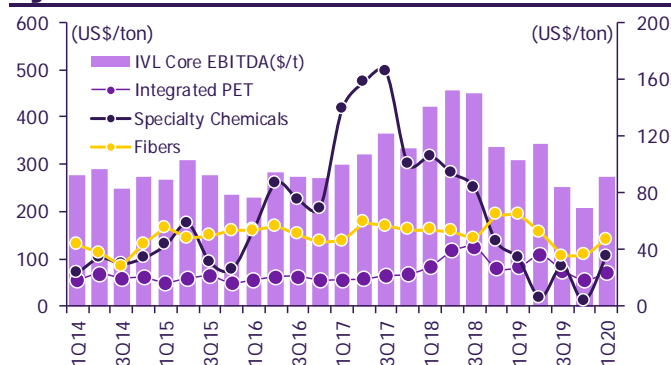
Source: IVL, SCBS Investment Research

**Figure 3: Sales volume**



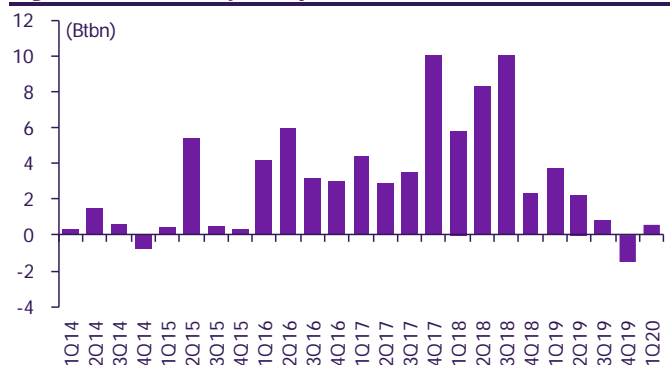
Source: IVL, SCBS Investment Research

**Figure 4: Core EBITDA/t**



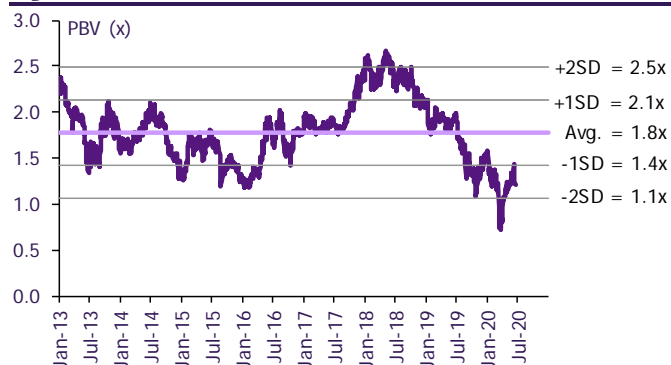
Source: IVL, SCBS Investment Research

**Figure 5: Quarterly net profit**



Source: IVL, SCBS Investment Research

**Figure 6: PBV band**



Source: Bloomberg Finance LP, SCBS Investment Research



# Automotive

SET AUTO index Close: 19/6/2020 340.87 +2.83 / +0.84% Bt116mn  
 Bloomberg ticker: SETAUTO



## Pandemic putting the brakes on demand

**April was a slow month, with automakers shutting down in compliance with the country's lockdown. Auto production is poised for a short-term rebound as automakers resumed production in May after the government eased up on the country's lockdown. However, for the longer term, as a discretionary purchase, we expect demand to be derailed by weak consumer confidence and the sharp economic downturn that will depress auto production. We maintain our bearish view on the automotive sector.**

**Short-term rebound in auto production after lockdown eased...** Thailand's auto production plummeted 84% YoY in April as automakers shuttered plants in response to parts supply shortages, demand shock at home and overseas from lockdowns of entire countries and to keep employees safe from exposure to the COVID-19 pandemic. In the short-term, supply shortages have been resolved as lockdowns ease and auto production is poised for a rebound after automakers resumed production in May. However, in the longer term, since the purchase of an automobile is discretionary, we expect the sector to be hit by low demand from weak consumer confidence and a staggering economy.

**...but economic downturn will weigh on auto demand.** Domestic auto sales in Thailand dropped by 65% YoY in April during the lockdown. It must be noted, however, that the domestic auto market entered into a downturn with YoY drops in sales in June 2019, well before the pandemic, on slower demand brought by economic concerns arising from the trade war and, at the same time, tighter auto financing from financial institutions due to concerns about deteriorating credit quality. Exports have been no help, with auto demand overseas slimming Thailand's auto exports since July 2019 with a 70% YoY drop in April.

**Sluggish earnings in 2020, V-shaped recovery unlikely.** We are bearish on the automotive sector, which is facing a very negative industry backdrop and weak earnings in 2020. We forecast a drop of 13% YoY in Thai auto production in 2020 to 1.76mn units and this will lead to a 59% plunge in sector earnings in 2020, with low production hurting sales and margin. In 1Q20, sector earnings dropped by 9% YoY and we expect 2Q20 to be very poor after plants were shut down in April. Though we expect better earnings in 2021 off 2020's low base, assuming COVID-19 has been brought under control, we do not expect a V-shaped recovery since auto purchases will recover at a slow pace, hammered by economic concerns. We rate Neutral on SAT and STANLY (both with net cash position) and maintain Sell on AH and PCSGH (concerns on losses in overseas operations).

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x)	P/BV (x)		
					20F	21F	20F	21F
AH	Sell	8.5	5.0	(36.7)	11.8	7.2	0.4	0.3
PCSGH	Sell	4.5	4.0	(8.4)	118.3	19.8	1.4	1.4
SAT	Neutral	10.5	10.0	5.0	8.0	6.6	0.6	0.6
STANLY	Neutral	170.0	140.0	(14.1)	10.8	8.9	0.7	0.7
<b>Average</b>					<b>65.0</b>	<b>13.5</b>	<b>0.9</b>	<b>0.9</b>

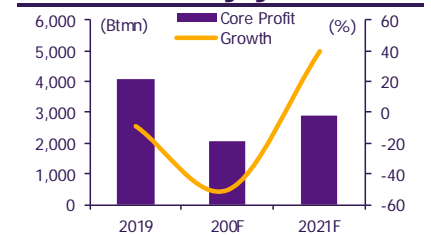
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
AH	(1.7)	24.1	(56.2)	(5.2)	2.0	(45.1)
PCSGH	2.7	(5.4)	(34.7)	(0.9)	(22.2)	(18.1)
SAT	(6.2)	22.1	(42.9)	(9.6)	0.4	(28.5)
STANLY	20.6	27.8	(28.6)	16.3	5.1	(10.5)

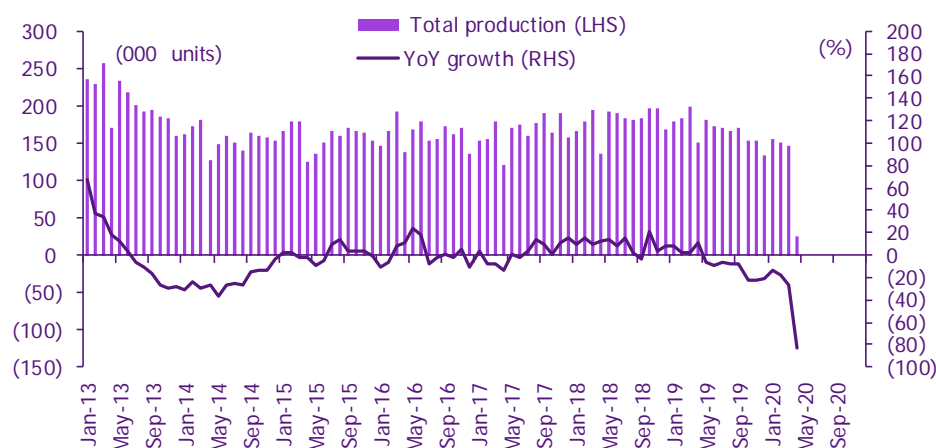
Source: SET, SCBS Investment Research

### Sector core earnings growth



Source: SET, SCBS Investment Research

### Thailand's auto production in a downtrend



Source: Federation of Thai Industries and SCBS Investment Research

### Analyst

**Raweenuch Piyakriengkai**

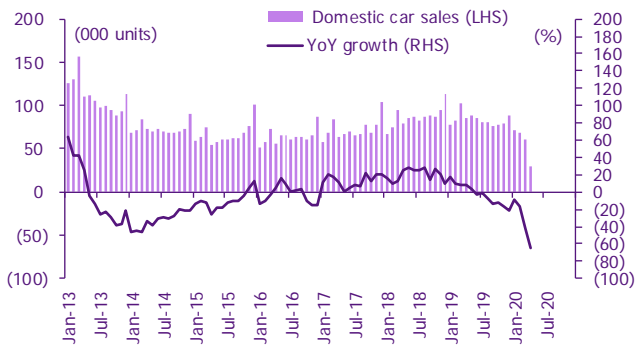
Fundamental Investment

Analyst on Securities

(66-2) 949-1002

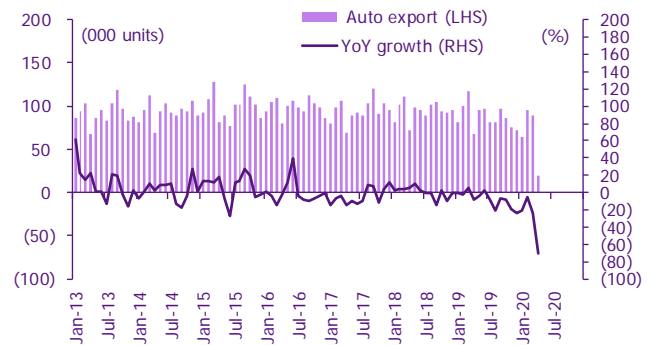
raweenuch.piyakriengkai@scb.co.th

**Figure 1: Domestic car sales**



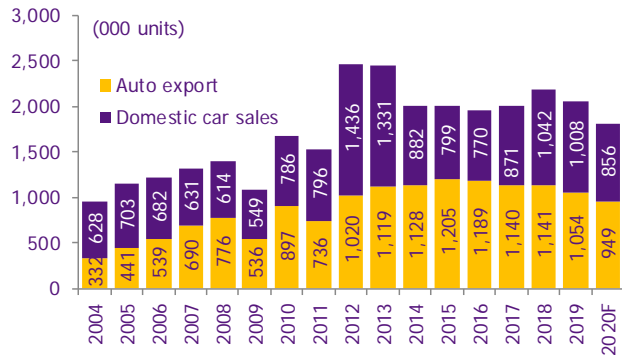
Source: Federation of Thai Industries and SCBS Investment Research

**Figure 2: Thai auto exports**



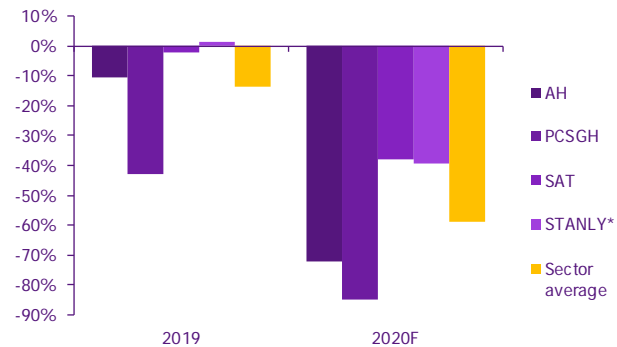
Source: Federation of Thai Industries and SCBS Investment Research

**Figure 3: Thai auto production forecast**



Source: Federation of Thai Industries and SCBS Investment Research

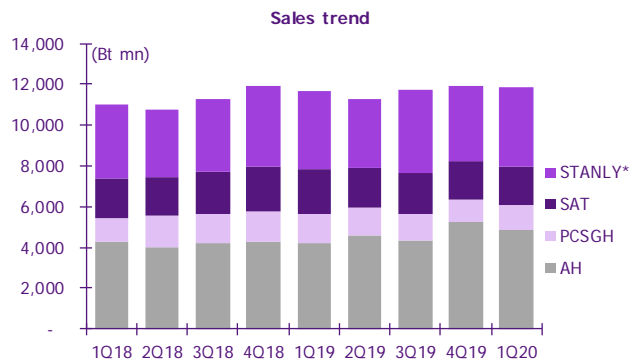
**Figure 4: Earnings forecast**



Source: SCBS Investment Research

\*STANLY is FY2021F

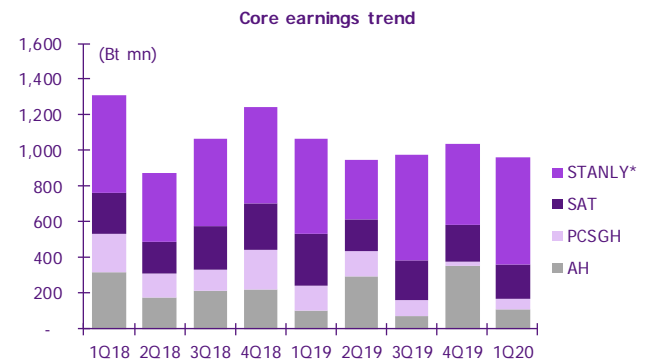
**Figure 5: Quarterly sales trend**



Source: Company data and SCBS Investment Research

\*STANLY is 4QFY18-4QFY20

**Figure 6: Quarterly earnings trend**



Source: Company data and SCBS Investment Research

\*STANLY is 4QFY18-4QFY20

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
AH	Sell	8.50	5.0	(36.7)	3.3	11.8	7.2	(11)	(72)	64	0.4	0.4	0.3	11	3	5	4.2	2.7	4.4	5.9	6.4	6.4
PCSGH	Sell	4.54	4.0	(8.4)	17.7	118.3	19.8	(42)	(85)	498	1.4	1.4	1.4	8	1	7	6.6	0.6	3.5	5.9	9.0	5.9
SAT	Neutral	10.50	10.0	5.0	5.0	8.0	6.6	(2)	(38)	21	0.6	0.6	0.6	13	8	9	12.9	8.1	9.8	1.5	1.5	1.1
STANLY	Neutral	170.00	140.0	(14.1)	6.6	10.8	8.9	1	(39)	22	0.8	0.7	0.7	12	7	8	4.9	2.9	3.6	2.7	3.4	2.6
<b>Average</b>					<b>8.1</b>	<b>37.2</b>	<b>10.6</b>	<b>(13)</b>	<b>(59)</b>	<b>151</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>11</b>	<b>5</b>	<b>7</b>	<b>7.1</b>	<b>3.6</b>	<b>5.3</b>	<b>4.0</b>	<b>5.1</b>	<b>4.0</b>

Source: SCBS Investment Research

# Aviation

SET TRANS index Close: 19/6/2020 344.61 -1.41 / -0.41% Bt3,149mn  
 Bloomberg ticker: SETTRANS



## Some clouds lifting but still clouded

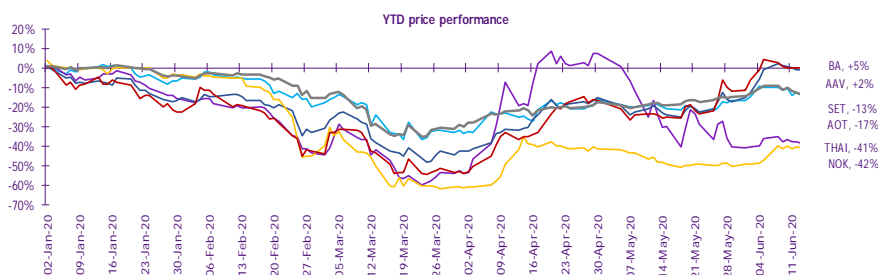
**With COVID-19 seemingly reaching containment, Thailand is joining the world in a gradual reopening. Operations for airlines are improving but return to full operations will be slow as they adhere to new health safety measures and as well face a sharp economic slowdown. For these reasons, we stay very cautious on profitability. We prefer AOT, which is financially healthy and able to stay afloat during this difficult period. It is also ready to get in on the recovery. We remain cautious on airlines.**

**Domestic flights back, international still on hold.** Thai airlines resumed some domestic flights on May 1, 2020 after some initial easing in restrictions. Flight frequencies look like they will now increase after the government introduced domestic tourism stimulus packages running from Jul – Oct. One offers a 40% discount of up to Bt1,000/person on in-country travel to help airlines. By our estimate, the number of domestic flights is still small, at perhaps 15-30% of total capacity for Thai AirAsia. Most of the airlines' capacity is generally used for international routes, completely closed down from April 4 until at least June 30. Our check shows a gradual reopening worldwide – Italy, for instance, reopened its borders and ended regional travel restrictions on June 3. China has signed agreements with Germany, France, South Korea, the UK, Japan, and Singapore that will enable travelers from both sides to enter each other's territories without serving quarantine periods, but they will need to take a COVID-19 test 48 hours before departure. The Thai government is considering relaxing its foreign travel restrictions by way of "travel bubbles" involving agreements that will allow visitors from countries (initially in Asia) that have managed the pandemic well and have good economic relations with Thailand.

**Expect margin pressure to continue.** When flights do resume, we expect average airfare to increase as carriers will not be able to sell all the seats in order to allow physical distancing within the plane itself. However, for the longer-term, we do not expect airlines to be able to entirely pass the higher cost on to passengers as travel demand is likely to come back up slowly on fears of COVID-19 as well as the economic collapse that has crimped affordability that will pressure airline margins. What we are seeing now - and expect to see more of - is business diversification, for example Thai AirAsia's move to expand into logistics and e-commerce. We view key to success for airlines will be sustaining profitability through capacity optimization (e.g. higher seat sales when the pandemic is contained) to offset the downward pressure on average fare.

**Prefer AOT, maintain cautious view on airlines.** Although operations and earnings are uncertain because of the pandemic, AOT is financially very healthy with low interest-bearing debt to equity at 0.1x and ample cash on hand of Bt62bn that will keep it afloat during this difficult period and ready it for recovery. For AAV (holds 55% in Thai AirAsia), we are cautious after a rebound in share price to pre-COVID-19 level (+2% vs. the SET's drop of 13%) against slow recovery with high earnings volatility. While its entry into rehabilitation is a positive development for THAI, several factors remain uncertain, such as the final outline of the rehabilitation plan and the period it will take to recover amid this very difficult time for tourism and airline industries.

### Cautious on a rally of AAV's share price against slow earnings recovery



Source: SET and SCBS Investment Research

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
AAV	Neutral	2.3	1.8	(21.1)	n.m.	189.0	0.6	0.6
AOT	Neutral	61.5	67.0	9.3	129.3	77.7	6.0	5.7
THAI	Sell	4.0	3.8	(5.5)	n.m.	n.m.	4.3	(3.5)
<b>Average</b>					<b>129.3</b>	<b>133.3</b>	<b>3.6</b>	<b>0.9</b>

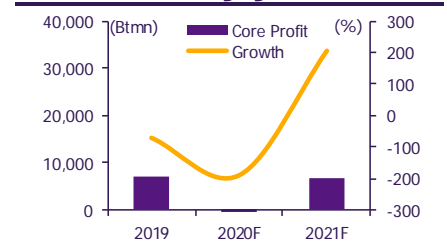
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
AAV	25.3	90.0	(45.2)	20.8	56.2	(31.3)
AOT	3.4	14.4	(17.2)	(0.3)	(5.9)	3.8
THAI	(25.6)	30.5	(62.4)	(28.2)	7.3	(52.9)

Source: SET, SCBS Investment Research

### Sector core earnings growth



Source: SET, SCBS Investment Research

### Analyst

**Raweenuch Piyakriengkai**

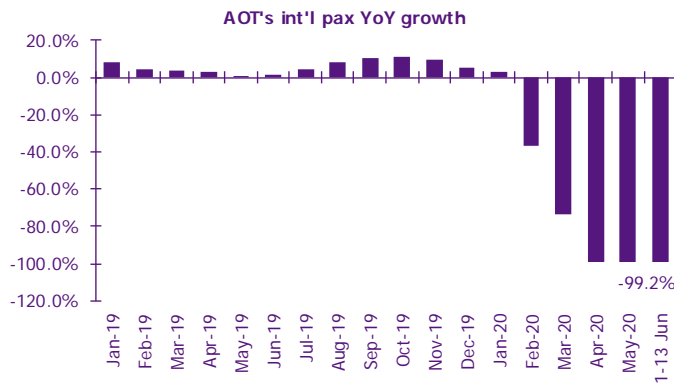
Fundamental Investment

Analyst on Securities

(66-2) 949-1002

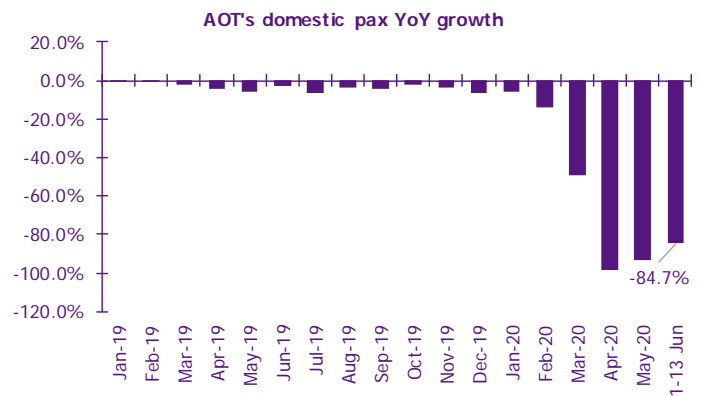
raweenuch.piyakriengkai@scb.co.th

**Figure 1: AOT's international passenger traffic**



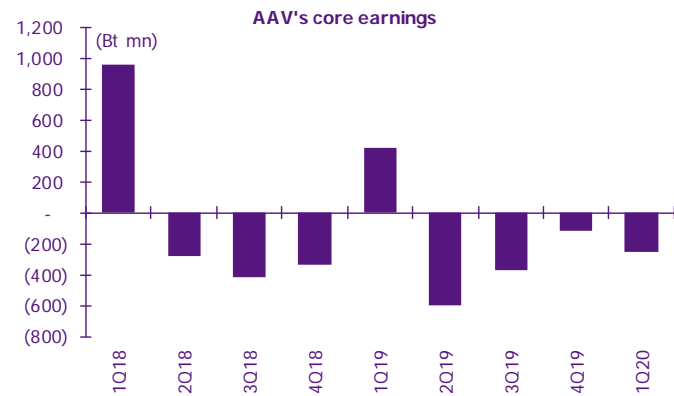
Source: AOT and SCBS Investment Research

**Figure 2: AOT's domestic passenger traffic**



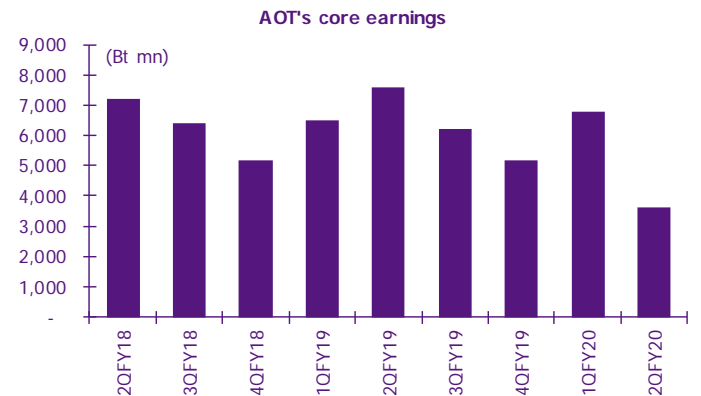
Source: AOT and SCBS Investment Research

**Figure 3: AAV's earnings trend**



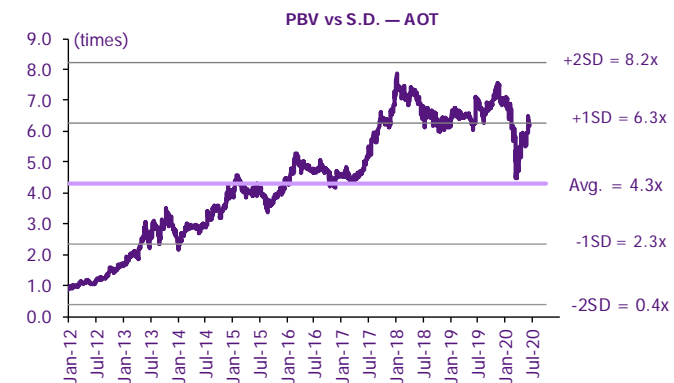
Source: SCBS Investment Research

**Figure 4: AOT's earnings trend**



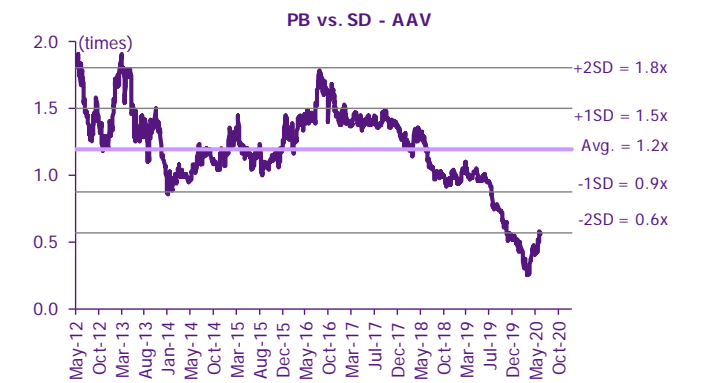
Source: SCBS Investment Research

**Figure 5: AOT's PB band**



Source: SET and SCBS Investment Research

**Figure 6: AAV's PB band**



Source: SET and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
AAV	Neutral	2.28	1.8	(21.1)	n.m.	n.m.	189.0	(884)	(43)	n.m.	0.6	0.6	0.6	(3)	(5)	0	0.0	0.0	0.0	38.9	11.7	8.5
AOT	Neutral	61.50	67.0	9.3	34.5	129.3	77.7	2	(73)	66	5.7	6.0	5.7	17	5	8	1.7	0.4	0.6	21.2	53.8	37.6
THAI	Sell	4.02	3.8	(5.5)	n.m.	n.m.	n.m.	(71)	30	63	0.7	4.3	(3.5)	(110)	(180)	1,953	0.0	0.0	0.0	28.3	15.2	7.9
<b>Average</b>					<b>34.5</b>	<b>129.3</b>	<b>133.3</b>	<b>(318)</b>	<b>(29)</b>	<b>65</b>	<b>2.3</b>	<b>3.6</b>	<b>0.9</b>	<b>(32)</b>	<b>(60)</b>	<b>654</b>	<b>0.6</b>	<b>0.1</b>	<b>0.2</b>	<b>29.4</b>	<b>26.9</b>	<b>18.0</b>

Source: SCBS Investment Research

# Bank

SET BANK index Close: 19/6/2020 304.21 -2.88 / -0.94% Bt7,407mn  
 Bloomberg ticker: SETBANK



## Survivors; downturn somewhat priced in

**We expect banks to raise provisions in 2020 to preempt a rise in NPLs when the relief program ends; we also expect a moderate loan growth of 6% (as companies shift from debentures) and a narrowed NIM (hit in 2Q20). With strong balance sheets, banks survived the BoT's stress test. Banks' cheap valuation is discounted in the asset quality risk. BBL stays sector pick.**

**Stocking up on provisions.** As of May 29, loans under proactive debt restructuring totaled Bt6.68trn (15.11mn debtors), equal to ~34% of total system loans of Bt19.5trn. The BoT has relaxed loan classification and LLR until December 2021 for loans that are under proactive debt restructuring and this pulled NPL ratio down to 3.05% in March from 3.25% in February and under-performing loan ratio to 7.7% in March from 8.97% in February. However, the BoT has asked banks to set aside management overlay provisions to support a potential deterioration in asset quality. We thus expect banks to speed up provisioning this year to preempt a rise in NPLs when the relief program ends. The 3-month payment holiday for retail and small SMEs will expire on June 30 and the 6-month payment holiday for SMEs will expire on October 22. We expect the sector's credit cost to rise from 1.5% in 2019 to 1.77% in 2020 and then ease to 1.62% in 2021.

**Stronger-than-expected loan growth.** Despite a 1.8% YoY contraction in 1Q20 GDP, banking system loans grew 4.1% YoY in 1Q20 vs. 2% in 2019 from corporate (+5.3% YoY) and retail (+5.6% YoY) loans. The robust growth in corporate loans was largely due to a switch in funding by some large companies from issuing debentures to taking out loans. The sector's loans grew a robust 1.6% MoM in April, stronger than the 1.2% MoM in March, led by corporate and government loans. In 4M20, YoY loan growth is 5.3% and YTD loan growth is 3.4%. Starting April 27, the launch of 2-year soft loans for SMEs should further boost loan growth. As of June 8, Bt73.72bn in soft loans was approved, which is equivalent to 0.45% loan growth. In response, we have raised our 2020F loan growth from 3% to 6%.

**2Q20 outlook: Expect a sharp NIM squeeze.** We preliminarily forecast 2Q20F earnings to fall 35% YoY and 22% QoQ, hurt by two factors. Firstly, NIM will plunge as a result of the 40 bps cut in lending interest rates in April (in exchange for the 23 bps cut in FIDF cost for 2020 and 2021, recognized beginning in 1Q20) plus a 25 bps cut in the policy rate. Secondly, we expect a further rise in provisions.

**Survived the stress test.** With a capital adequacy ratio (CAR) of 18.7%, LLR coverage ratio of 143%, liquidity coverage ratio of 186% and L/D ratio of 92.5% at 1Q20, banks' balance sheets were strong enough to weather the BoT's stress test which factored in the COVID-19 outbreak, trade war, drought and falling property prices. Some banks (i.e. TMB and KBANK) estimate the impact from the economic downturn at around 2 percentage points of CAR.

**Cheap valuation with BBL as the sector's pick.** We keep **BBL** as the sector pick as it has the strongest balance sheet. Banks are trading at a cheap valuation of 0.4-0.5x PBV, discounting the asset quality risk from the COVID-19 outbreak.

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x)	P/BV (x)
		20F	21F	20F	21F	21F
BAY	Buy	24.7	26.0	6.6	7.4	0.6
BBL	Buy	115.5	146.0	29.0	7.6	0.5
KBANK	Neutral	95.8	97.0	3.0	9.1	0.5
KKP	Neutral	44.0	42.0	(1.2)	8.9	0.8
KTB	Buy	10.8	14.0	32.2	7.9	0.4
LHFG	Sell	1.1	0.8	(21.8)	9.1	0.6
TCAP	Neutral	38.0	42.0	22.2	6.0	0.7
TISCO	Neutral	73.5	84.0	17.4	9.7	1.5
TMB	Buy	1.1	1.2	10.8	8.6	0.5
<b>Average</b>					<b>8.4</b>	<b>0.7</b>

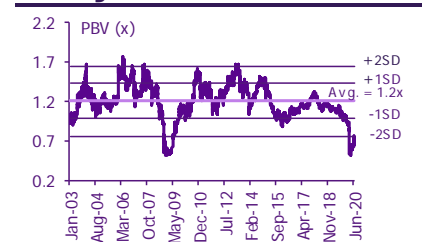
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
BAY	14.9	30.7	(36.3)	10.8	7.5	(20.1)
BBL	20.3	18.5	(43.1)	16.0	(2.6)	(28.7)
KBANK	8.8	3.0	(50.5)	4.9	(15.3)	(38.0)
KKP	7.3	18.1	(36.0)	3.5	(2.9)	(19.8)
KTB	10.2	0.0	(44.3)	6.3	(17.8)	(30.2)
LHFG	3.9	12.8	12.8	0.2	(7.3)	41.3
TCAP	7.0	16.0	(32.7)	3.2	(4.6)	(15.7)
TISCO	6.1	8.1	(19.9)	2.4	(11.1)	0.4
TMB	5.8	39.2	(44.7)	2.0	14.5	(30.7)

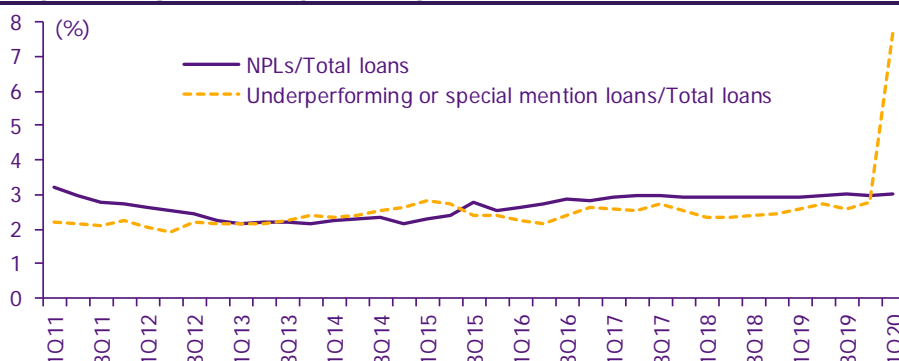
Source: SET, SCBS Investment Research

### Banking sector's PBV



Source: SET, SCBS Investment Research

### Non-performing and under-performing loans to total loans

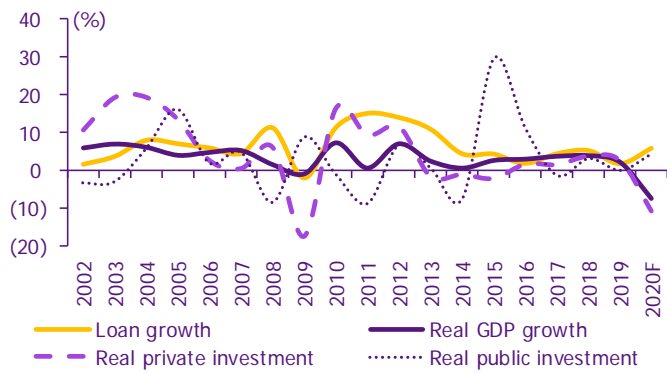


Source: Banks and SCBS Investment Research

### Analyst

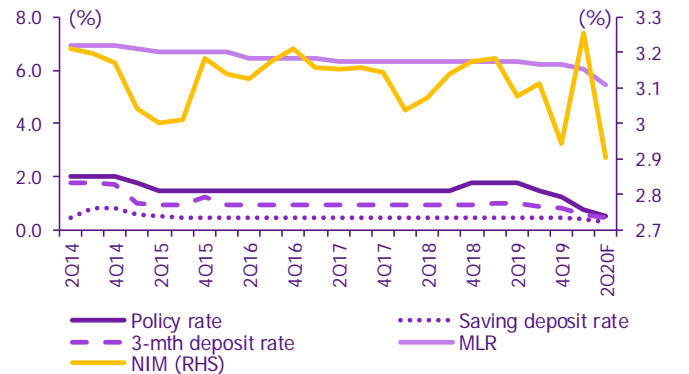
**Kittima Sattayapan, CFA**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1003  
 kittima.sattayapan@scb.co.th

**Figure 1: Loans vs. GDP & investment growth**



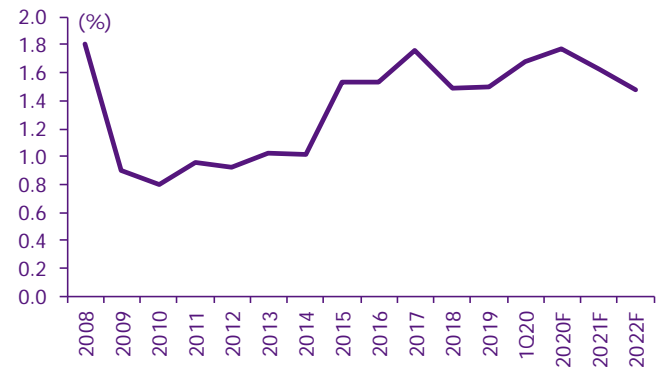
Source: NESDB, SCB EIC and SCBS Investment Research

**Figure 2: NIM and interest rates**



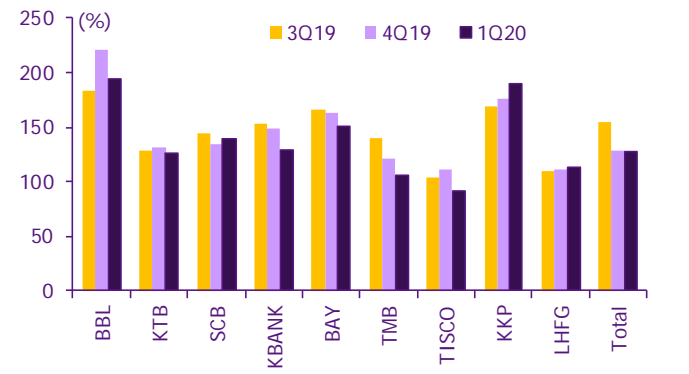
Source: BoT and SCBS Investment Research

**Figure 3: Credit cost**



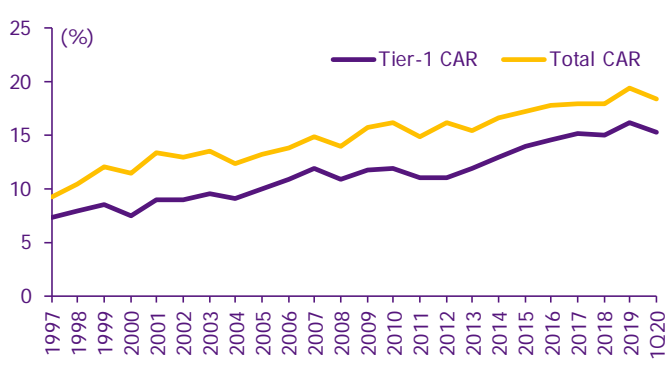
Source: SCBS Investment Research

**Figure 4: LLR coverage**



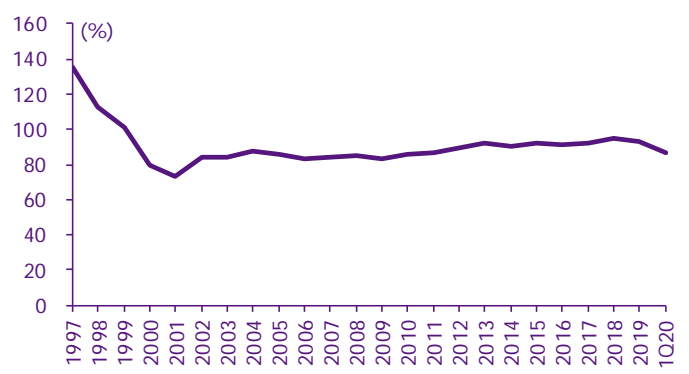
Source: BoT and SCBS Investment Research

**Figure 5: Capital adequacy ratio**



Source: BoT and SCBS Investment Research

**Figure 6: Loans to deposits (& borrowings) ratio**



Source: BoT and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
BAY	Buy	24.70	26.0	6.6	5.5	7.4	7.2	32	(25)	2	0.7	0.6	0.6	12.8	8.8	8.4	3.4	1.4	1.4
BBL	Buy	115.50	146.0	29.0	6.2	7.6	6.6	1	(19)	15	0.5	0.5	0.5	9	7	7	6.1	2.6	3.0
KBANK	Neutral	95.75	97.0	3.0	5.9	9.1	7.1	1	(35)	28	0.6	0.5	0.5	10	6	7	5.2	1.6	2.1
KKP	Neutral	44.00	42.0	(1.2)	6.2	8.9	8.3	(1)	(30)	7	0.8	0.8	0.8	14	9	10	9.7	3.4	3.6
KTB	Buy	10.80	14.0	32.2	5.2	7.9	6.3	3	(34)	25	0.4	0.4	0.4	9	6	7	7.0	2.5	3.2
LHFG	Sell	1.06	0.80	(21.8)	7.0	9.1	8.4	3	(23)	9	0.5	0.6	0.5	8	6	7	7.5	2.7	3.0
TCAP	Neutral	38.00	42.0	22.2	4.1	6.0	8.3	38	(32)	(28)	0.7	0.7	0.7	16	11	8	18.4	11.6	8.4
TISCO	Neutral	73.50	84.0	17.4	8.1	9.7	9.0	4	(17)	8	1.5	1.5	1.3	19	15	16	10.5	3.1	3.3
TMB	Buy	1.10	1.20	10.8	14.7	8.6	7.3	(72)	71	18	0.5	0.5	0.5	4.9	6.1	6.8	3.6	1.7	2.1
<b>Average</b>					<b>6.9</b>	<b>8.4</b>	<b>7.7</b>	<b>6</b>	<b>(27)</b>	<b>11</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>11</b>	<b>8</b>	<b>8</b>	<b>8.0</b>	<b>3.3</b>	<b>3.3</b>

Source: SCBS Investment Research

# Commerce

SET COMM index Close: 19/6/2020 36,123.74 -10.16 / -0.03% Bt3,586mn  
Bloomberg ticker: SETCOMM

## Record low in 2Q20F, gradual revival in 2H20F

**We expect the sector's 2Q20F earnings to be this year's bottom, hit by the record low for same-store sales (SSS) from government measures to contain the spread of COVID-19. After a gradual lifting of these restrictions, we expect earnings and SSS to improve in 2H20F; however, we do not expect a return to normal given weak purchasing power. Top picks are CPALL, GLOBAL and HMPRO.**

**Record low for SSS in 2Q20F.** Sector SSS is estimated to have contracted more than 20% YoY in April-May (vs -3% YoY in 1Q20), an all-time low, pulled down by government measures to control the spread of COVID-19. We expect the deepest negative in April, when the long Songkran holiday was cancelled, sales of alcoholic beverages were banned, non-food stores were closed as were non-food areas in stores in some provinces, inter-provincial travel was halted and a night curfew was employed. We expect SSS to gradually improve in May and June as the government eases up on its restrictions.

**2H20F outlook.** We believe the sector's SSS bottomed in 2Q20F and expect it to return to life in 2H20F as the country reopens to domestic economic activities; however, it will not get back to normal as purchasing power is low. In 2H20F, we expect SSS at food retailers to outperform non-food, as they sell necessities. Sales from online channels, which grew for all retailers by 30%-300% YoY in 1Q20, are set to grow more rapidly than before the pandemic. For rental income, retailers with rental space (BJC and HMPRO) will continue to give discounts as tenant revenue, such as restaurants, cannot return to normal as physical distancing continues.

**Government stimulus.** In March-April, the Cabinet approved three phases of stimulus packages to relieve the impact from COVID-19 on households and businesses (Figure 4). Of all these, SCB EIC expects least impact from soft loans, which help liquidity rather than boost economic activities. For packages in the first two phases, SCB EIC expects minimal impact as budget allocation was small. For the third phase packages, worth Bt1.9trn (12% of GDP), by its estimates, about Bt600bn will be injected into the economy (3.8% of GDP) in 2020F, mainly from one-time allowances for affected individuals and farmers and partly from an economic rehabilitation plan for this year. Factoring in the stimulus packages, on June 5, SCB EIC revised up its forecast for 2020F private consumption expenditure (PCE) to a drop of 1.8% YoY (-2.3% YoY earlier), the first contraction since the 2009 crisis, hit by containment rules and lower household income, particularly for those in the tourism and export sectors, from COVID-19 pandemic.

In June, the Cabinet approved a domestic tourism stimulus package worth Bt22bn, effective from July to October, in which it will subsidize travel expenses that include accommodation, meals, transportation and a special package for front-line health workers.

**Top picks.** We like CPALL for: 1) potentially better SSS than peers in 2H20F from convenience stores and cash & carry units amid weak purchasing power; 2) as a gainer from the local tourism stimulus in July-October. We also like GLOBAL and HMPRO for 2021F earnings revival, off this year's low base from store closures.

### Government measures to control the spread of COVID-19 in 2Q20, affecting all retailers

Government measures	Effective period in 2Q20	Related companies
Long Songkran holiday	Cancelled in April	CPALL, MAKRO, BJC
Sales of alcohol beverages	Banned in April, lifted in early May	CPALL, MAKRO, BJC
Non-food stores and sales areas in stores	Partially closed in some provinces since March 22; allowed to reopen in mid-May	MAKRO, BJC, HMPRO, GLOBAL
Inter-provincial travel	Banned in April; some travel allowed in mid-May, all restrictions lifted in early June	CPALL
Night curfew	Imposed for 6 hours in April, cut by an hour in mid-May and another hour in early June; lifted entirely in mid-June	CPALL, BJC

Source: SCBS Investment Research



### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
BJC	Neutral	39.5	43.0	10.6	28.0	24.2	1.3	1.3
CPALL	Buy	69.0	85.0	24.7	34.5	29.8	5.3	4.8
GLOBAL	Buy	16.7	18.0	8.7	42.1	33.3	4.3	4.0
HMPRO	Buy	16.0	16.5	4.9	44.8	34.9	10.1	9.1
MAKRO	Neutral	36.5	38.0	6.7	29.0	27.7	7.9	7.3
<b>Average</b>					<b>35.7</b>	<b>30.0</b>	<b>5.8</b>	<b>5.3</b>

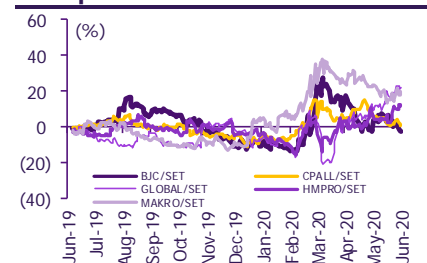
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
BJC	(2.5)	(3.7)	(23.3)	(5.9)	(20.8)	(3.9)
CPALL	(1.4)	16.5	(18.8)	(4.9)	(4.2)	1.7
GLOBAL	15.2	45.2	(2.3)	11.1	19.4	22.5
HMPRO	8.1	40.4	(10.6)	4.3	15.4	12.0
MAKRO	0.7	17.7	1.4	(2.9)	(3.2)	27.1

Source: SET, SCBS Investment Research

### Price performance relative to SET



Source: SET, SCBS Investment Research

### Analyst

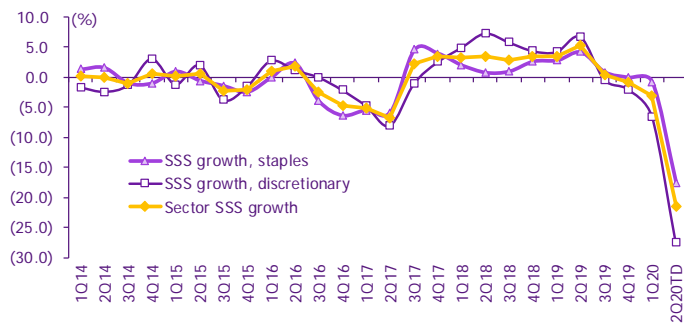
**Sirima Dissara, CFA**  
Fundamental Investment  
Analyst on Securities  
(66-2) 949-1004  
sirima.dissara@scb.co.th

**Figure 1: Sector SSS growth assumptions**

SSS growth (%)	1Q19	2Q19	3Q19	4Q19	1Q20	ppts YoY	ppts QoQ	2019	2020F	2021F
BJC/BIGC	1.0	(0.3)	(4.9)	(6.3)	(5.3)	(8.1)	(1.4)	(2.7)	(8.2)	2.5
CPALL	3.1	3.7	2.0	0.0	(4.0)	(4.5)	(2.0)	1.7	(9.3)	7.0
MAKRO	4.4	9.2	5.5	6.2	7.0	4.5	0.7	6.3	0.5	2.5
HMPRO	2.5	5.6	(1.7)	(3.0)	(6.1)	(1.8)	(1.3)	0.8	(12.0)	10.0
GLOBAL	6.0	7.9	1.0	(1.0)	(7.0)	(11.0)	(2.0)	3.5	(11.0)	9.0
<b>Average</b>	<b>3.4</b>	<b>5.2</b>	<b>0.4</b>	<b>(0.8)</b>	<b>(3.1)</b>	<b>(4.2)</b>	<b>(1.2)</b>	<b>1.9</b>	<b>(8.0)</b>	<b>6.2</b>
<b>Avg - Staples</b>	<b>2.8</b>	<b>4.2</b>	<b>0.9</b>	<b>(0.0)</b>	<b>(0.8)</b>	<b>(2.7)</b>	<b>(0.9)</b>	<b>1.8</b>	<b>(5.7)</b>	<b>4.0</b>
<b>Avg - Discretionary</b>	<b>4.3</b>	<b>6.8</b>	<b>(0.4)</b>	<b>(2.0)</b>	<b>(6.6)</b>	<b>(6.4)</b>	<b>(1.7)</b>	<b>2.2</b>	<b>(11.5)</b>	<b>9.5</b>

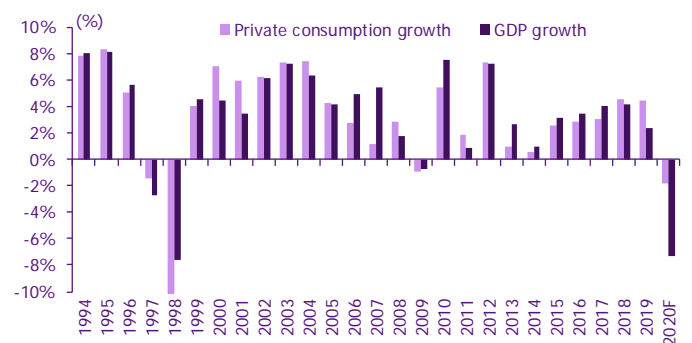
Source: SCBS Investment Research

**Figure 2: SSS is set to have fallen more than 20% YoY to a record low from containment measures in 2Q20TD**



Source: SCBS Investment Research

**Figure 3: Based on SCB EIC, GDP and PCE growth are estimated to drop by 7.3% YoY and 1.8% YoY in 2020F**



Source: SCB EIC (as of June 5), NESDB and SCBS Investment Research

**Figure 4: Three phases of government stimulus approved in March-April**

Government stimulus measures	Budget (Bt mn)
<b>Phase 1 (March 2020)</b>	
<b>Assistance to households</b>	
- Return some electricity meter deposits	
- Reduce contribution to the Social Security Fund for three months	
- Additional tax privileges in Super Savings Fund (SSF)	
<b>Assistance to businesses</b>	
- Reduce withholding tax from 3% to 1.5% for six months	
- Low interest soft loans	150,000
- Low interest soft loans to promote employment from the Social Security Office	30,000
- Triple deduction from taxes for salary payments and 1.5 times deduction for interest expenses for SMEs	
<b>Phase 2 (March 2020)</b>	
<b>Assistance to households</b>	
- Low interest emergency loans for individuals	60,000
- Extension of the deadline for filing personal income tax and health insurance increase	
<b>Assistance to businesses</b>	
- Low interest soft loans for SMEs	10,000
- Extension for filing taxes and customs and import duty exemptions	
<b>Phase 3 (April 2020)</b>	<b>1,900,000</b>
<b>Measures from Ministry of Finance</b>	<b>1,000,000</b>
<b>Assistance to households</b>	
- Support public health services to control the spread of COVID-19	45,000
- Cash handout for affected individuals (temporary and contracted workers, self-employed persons) and farmers	555,000
- Economic and social rehabilitation (community infrastructure programs and job creation schemes)	400,000
<b>Measures from Bank of Thailand</b>	<b>900,000</b>
<b>Assistance to businesses</b>	
- Low interest soft loans for SMEs	500,000
- Establish a Corporate Bond Liquidity Stabilization Fund (BSF) to stabilize the financial sector	400,000
- 6-month debt moratorium for SMEs	

Source: SCB EIC and SCBS Investment Research

**Figure 5: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
BJC	Neutral	39.50	43.0	10.6	22.0	28.0	24.2	12	(21)	15	1.3	1.3	1.3	6	5	5	2.3	1.8	2.1	14.6	14.4	13.4
CPALL	Buy	69.00	85.0	24.7	28.3	34.5	29.8	8	(18)	16	5.7	5.3	4.8	22	17	18	1.8	1.5	1.8	16.3	19.9	17.5
GLOBAL	Buy	16.70	18.0	8.7	34.9	42.1	33.3	5	(17)	27	4.6	4.3	4.0	14	11	12	1.2	1.0	1.2	23.3	24.2	20.3
HMPRO	Buy	16.00	16.5	4.9	34.1	44.8	34.9	9	(24)	28	10.0	10.1	9.1	30	22	27	2.4	1.8	2.3	20.2	23.6	19.9
MAKRO	Neutral	36.50	38.0	6.7	28.0	29.0	27.7	5	(4)	5	8.4	7.9	7.3	31	28	27	2.6	2.6	2.6	16.3	16.5	15.9
<b>Average</b>					<b>29.4</b>	<b>35.7</b>	<b>30.0</b>	<b>8</b>	<b>(17)</b>	<b>18</b>	<b>6.0</b>	<b>5.8</b>	<b>5.3</b>	<b>21</b>	<b>17</b>	<b>18</b>	<b>2.1</b>	<b>1.7</b>	<b>2.0</b>	<b>18.1</b>	<b>19.7</b>	<b>17.4</b>

Source: SCBS Investment Research



# Construction Materials

SET CONMAT index Close: 19/6/2020 8,957.42 -44.27 / -0.49% Bt1,182mn  
 Bloomberg ticker: SETCONMT



## Low fuel costs balanced by weak demand

**We expect all players to gain from the low fuel cost in 2020F, given the 5-year low for spot coal price and 16-year low for oil price YTD. However, looking at the weak data in 4M20, we expect local cement and ceramic tile demand to stay poor in 2020F, with low private investment overwhelming the better public investment. Our picks are SCC and SCCC.**

**Low fuel and logistic costs.** We expect the sector to gain on low fuel and logistic costs in 2020F. In 2020TD, spot price for coal has fallen 21% YoY to a 5-year low and spot price for oil has shed 36% YoY to a 16-year low. Of total production costs, the cost of coal takes up more than 30% for cement producers and gas accounts for more than 20% of cost for ceramic tile producers. Cement producers generally lock in coal price 6-12 months in advance and gas price lags oil price by around six months. At the same time, the low oil price will reduce logistic costs for all players. In 4M20, the cement and ceramic tile price index was relatively unchanged YoY.

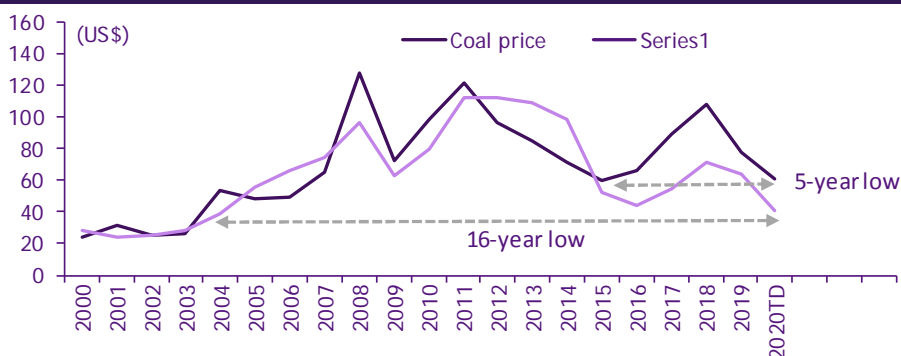
**Mixed demand figures in April.** In April, local cement sales volume jumped 19% YoY, as construction was not shut down during the COVID-19 lockdown, a positive from the cancellation of the long Songkran holidays and greater disbursement of the government budget. After the passage of the FY2020 (Oct 2019 – Sep 2020) budget, investment budget disbursement grew in April-May, based on the reported disbursement of Bt339bn (59% of FY2020 budget) at end-May (8MFY20) vs Bt145bn (23% of budget) at end-March (6MFY20). However, local ceramic tiles sales volume dropped 8% YoY on weak demand. Export cement and ceramic tile sales volume fell 18% YoY and 35% YoY from logistics issues caused by COVID-19 in export destinations. Total cement sales volume (combined local and export sales volume) grew 7% YoY, but total ceramic tiles sales volume contracted 10% YoY.

**Expect weak demand in 2020F.** In 4M20, local cement sales volume was flat YoY, while ceramic tile sales volume contracted 12% YoY. Export cement and ceramic tile sales volume dropped 6% YoY and 11% YoY. Total cement and ceramic tile sales volume (combined local and export sales volume) declined 2% YoY and 12% YoY.

In 2020F, we expect local cement and ceramic tile demand to drop 4% YoY and 8% YoY, hit by the drop in total investment growth of 7% YoY to a 11-year low. This consisted of the contraction in private investment growth of 11% YoY as the weak economy and uncertainty from COVID-19 outpaced the public investment growth of 5% YoY brought by greater budget disbursement, based on SCB EIC forecasts (as of June 5).

**Top picks.** We like SCC as a gainer in the low fuel cost environment, a plus for its naphtha-based chemical and cement & building material units. We also like SCCC for its attractive dividend yield and valuation (trading at -1.5 SD over 10-year PE).

### In 2020TD, spot coal price hit 5-year low and oil price hit 16-year low



Source: NEX, Bloomberg and SCBS Investment Research

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/BV (x) 21F	P/BV (x) 21F
DCC	Neutral	2.0	2.0	6.5	13.7	14.3	4.9
SCC	Buy	358.0	430.0	24.1	12.6	11.8	1.2
SCCC	Buy	136.0	180.0	38.2	14.2	12.6	1.2
<b>Average</b>					<b>13.5</b>	<b>12.9</b>	<b>2.5</b>

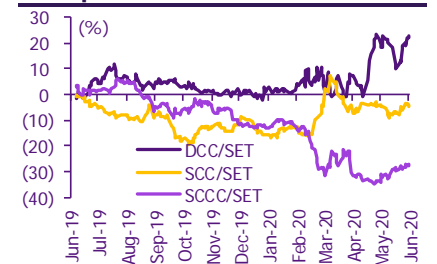
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
DCC	7.6	47.8	(1.0)	3.8	21.5	24.1
SCC	3.2	13.3	(23.8)	(0.5)	(6.8)	(4.5)
SCCC	8.4	27.7	(41.4)	4.5	5.0	(26.5)

Source: SET, SCBS Investment Research

### Price performance relative to SET

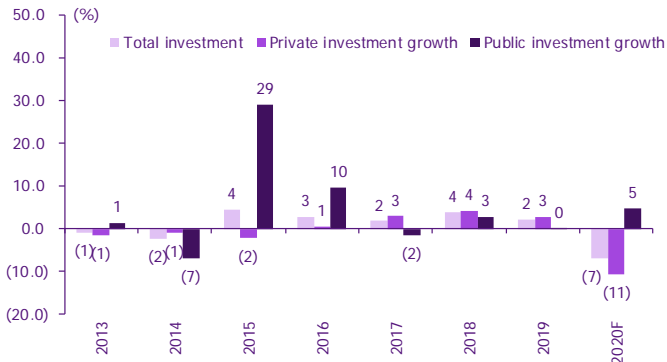


Source: SET, SCBS Investment Research

### Analyst

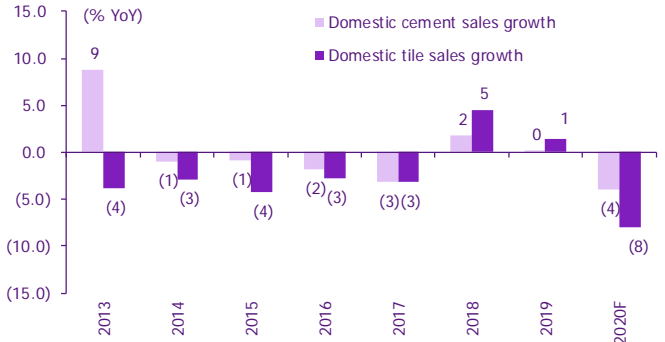
**Sirima Dissara, CFA**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1004  
 sirima.dissara@scb.co.th

**Figure 1: Based on SCB EIC, total investment is set to drop in 2020F, hit by weak private investment**



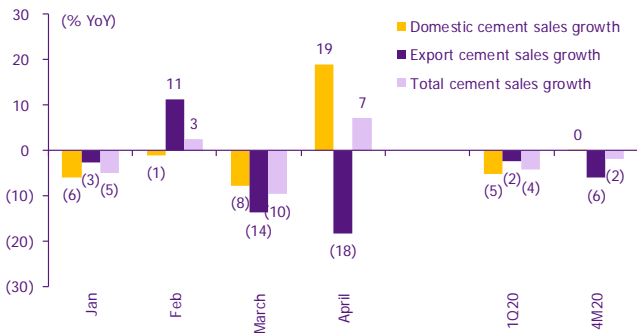
Source: SCB EIC (as of June 5) and SCBS Investment Research

**Figure 2: Local cement and ceramic tile demand to decline in 2020F**



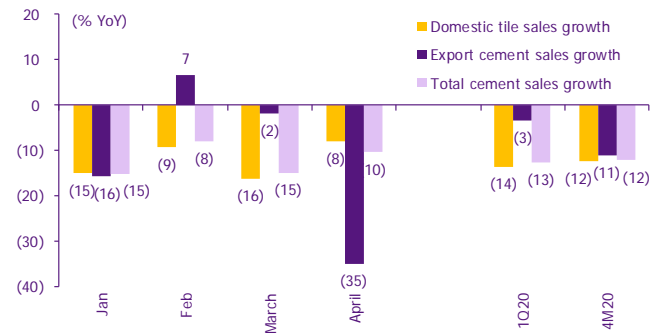
Source: OIE and SCBS Investment Research

**Figure 3: In 4M20, total cement sales volume slid 2% YoY from stable local sales but lower export sales**



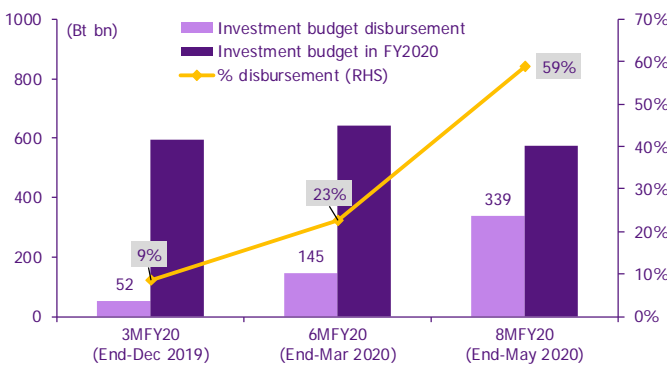
Source: OIE and SCBS Investment Research

**Figure 4: In 4M20, total ceramic tiles sales volume fell 12% YoY from lower local and export sales**



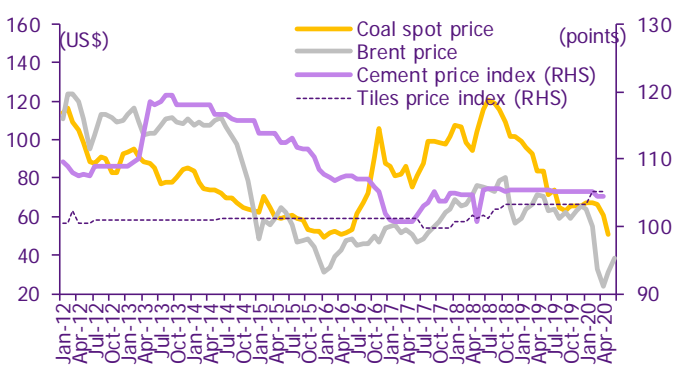
Source: OIE and SCBS Investment Research

**Figure 5: Government investment budget disbursement accelerated in April-May**



Source: The Comptroller General's Department and SCBS Investment Research

**Figure 6: Fuel costs dropped amid stable cement and ceramic tile product prices in 2020TD**



Source: REIC, NEX, Bloomberg and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
DCC	Neutral	1.98	2.0	6.5	13.6	13.7	14.3	(3)	(0)	(4)	3.9	4.9	5.1	26	34	37	5.3	5.5	5.3	8.8	9.4	9.7
SCC	Buy	358.00	430.0	24.1	11.8	12.6	11.8	(19)	(6)	7	1.3	1.2	1.2	11	10	10	3.9	4.0	4.2	9.9	9.7	9.3
SCCC	Buy	136.00	180.0	38.2	12.6	14.2	12.6	4	(11)	12	1.2	1.2	1.2	10	9	10	5.9	5.9	5.9	7.8	7.8	7.3
<b>Average</b>					<b>12.7</b>	<b>13.5</b>	<b>12.9</b>	<b>(6)</b>	<b>(6)</b>	<b>5</b>	<b>2.2</b>	<b>2.5</b>	<b>2.5</b>	<b>16</b>	<b>18</b>	<b>19</b>	<b>5.0</b>	<b>5.1</b>	<b>5.1</b>	<b>8.8</b>	<b>9.0</b>	<b>8.7</b>

Source: SCBS Investment Research

# Energy – Oil and Gas

SET ENER index Close: 19/6/2020 22,052.93 +20.35 / +0.09% Bt11,513mn  
 Bloomberg ticker: SETENERG



## Oil price surges but too many uncertainties

The sharp recovery of oil price has brought the sun back to the energy sector, pushing SETENERG up nearly 50% in the past three months - but speeding past oil price recovery of only 2/3 of what it lost during the oil price war in March. This brings doubt to the sustainability of oil price, as inventories remain high and demand recovery is iffy amidst signs of a second wave of COVID-19. We also expect OPEC to work to keep the lid on price to keep US shale oil off the market and preserve its market share. Though we believe share prices already price in a better 2Q20, we maintain our list of top picks for the sector at PTT, TOP and BCP.

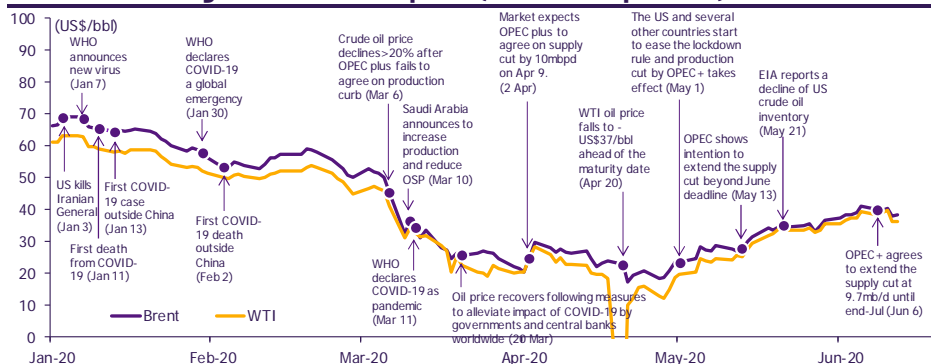
**Earnings turnaround in 2Q20.** The energy sector was hurt by the plunge in oil price in 1Q20 that dragged earnings to losses of Bt21bn from profit of Bt68.4bn in 1Q19, derailed by stock losses of >Bt51bn and weak product spread at oil refiners. We expect the surge in oil price in 2Q20 to pull them back into the black.

**Oil price recovery sooner and sharper than expected.** Crude oil price clawed back to regain 59% of what it lost during the oil price collapse caused by the OPEC+ production cut of 10mb/d in May-July. The QTD average benchmark oil prices have fallen 41% QoQ and 56% YoY to US\$29.5-29.8/bbl. Though oil price bottomed in 2Q20, the recovery was quicker than expected, hence with average price YTD of US\$40/bbl we believe there is upside to our oil price assumptions for 2020 (Brent at US\$33/bbl and Dubai at Bt31/bbl). We expect price recovery to be capped by Saudi Arabia's intention to maintain its market share as higher oil price could attract more supply from the US after it sank quickly during the weak oil price.

**Weak refining margin offset by lower crude premium.** Average market GRM fell to a loss from narrower crack spread for all key products. As most refineries shifted production from jet fuel to diesel to reduce the impact of slower demand for air travel during the pandemic, diesel crack spread plunged to <US\$5/bbl in 2Q20 from US\$11/bbl in 1Q20, adding to the pressure on GRM, already hit by low crack spread for jet fuel and gasoline. Crack spread of low-sulfur fuel oil also fell 59% QoQ to <US\$8/bbl. The easing in lockdowns has driven market GRM up recently, but any celebration is premature as inventory remains high and more refineries have resumed operation after shutdowns in April. Still, we believe Thai oil refiners will benefit from lower light crude oil price after Saudi Arabia cut price to gain market share, despite a small offset from higher freight rate.

**Selective BUYS: PTT, TOP and BCP.** While the share price rally already reflects high hopes for earnings recovery, we maintain our BUY call on PTT, TOP and BCP. Amidst oil price uncertainty, we prefer PTT to PTTEP for its diversification. TOP is expected to stay profitable in 2020 amidst weak product margin due to its competitive cash cost. Further, earnings are supported by stable cash flow from its power business. We also like BCP for an undemanding valuation: the current price implies only 0.2x PBV of its oil-related business, which is an overly deep discount to industry peers of 0.6-0.8x. BCP's profit is also backed by stable cash flow from the power and oil marketing businesses.

### Factors affecting benchmark oil price (Jan 2020 – present)



Source: Bloomberg Finance LP and SCBS Investment Research

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/BV (x) 21F	P/BV (x) 21F
BCP	Buy	21.9	30.0	39.3	n.m.	6.2	0.6
ESSO	Sell	7.4	4.4	(40.5)	n.m.	8.3	1.3
IRPC	Neutral	2.8	2.8	0.7	n.m.	15.8	0.7
PTT	Buy	38.3	44.0	19.7	12.6	11.3	1.2
PTTEP	Neutral	95.5	90.0	(3.1)	32.6	19.5	1.0
SPRC	Sell	7.1	5.0	(29.1)	n.m.	13.6	1.1
TOP	Buy	46.3	48.0	5.9	20.0	7.7	0.7
Average					21.8	11.8	1.0

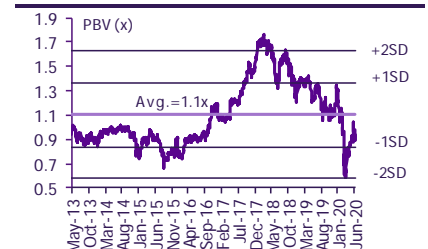
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
BCP	3.3	38.6	(29.4)	(0.4)	14.0	(11.5)
ESSO	21.3	91.7	(30.2)	17.0	57.6	(12.5)
IRPC	(5.4)	26.4	(46.0)	(8.8)	3.9	(32.4)
PTT	4.1	29.7	(21.5)	0.4	6.6	(1.7)
PTTEP	7.9	51.0	(29.3)	4.1	24.2	(11.4)
SPRC	(0.7)	41.0	(28.1)	(4.2)	15.9	(9.9)
TOP	(0.5)	52.9	(28.0)	(4.1)	25.7	(9.8)

Source: SET, SCBS Investment Research

### PBV band – SETENERG

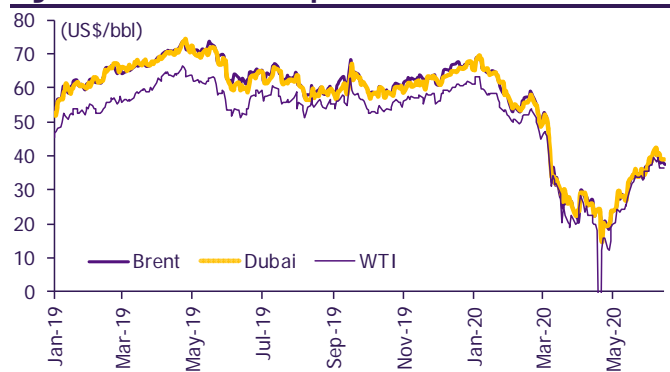


Source: SET, SCBS Investment Research

### Analyst

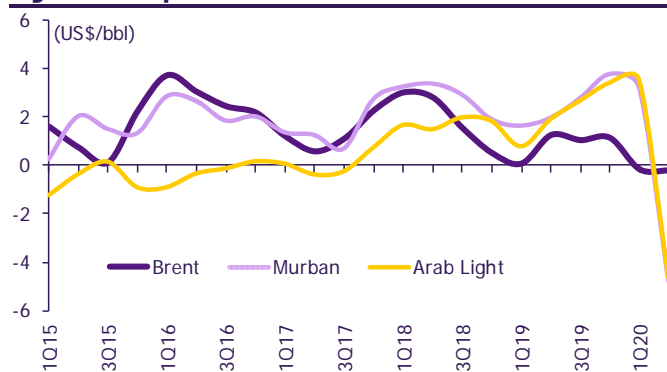
**Chaipat Thanawattano**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1005  
 chaipat.thanawattano@scb.co.th

**Figure 1: Benchmark oil prices**



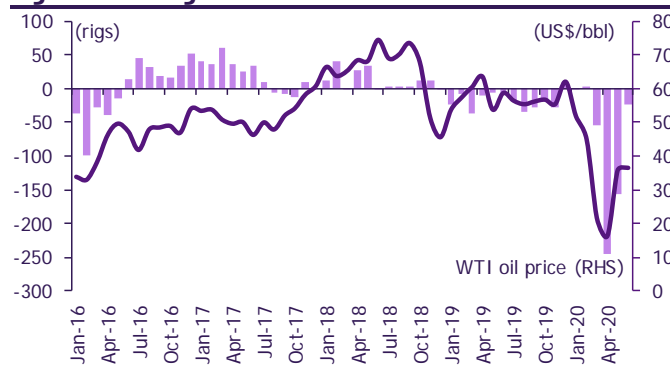
Source: Bloomberg Finance LP, SCBS Investment Research

**Figure 2: Oil price differential vs. Dubai**



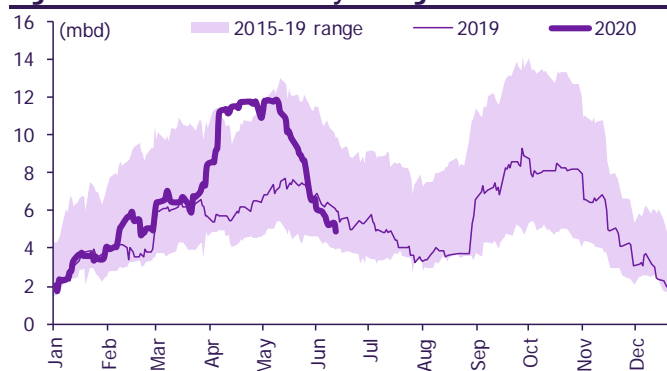
Source: Bloomberg Finance LP, SCBS Investment Research

**Figure 3: US rig count**



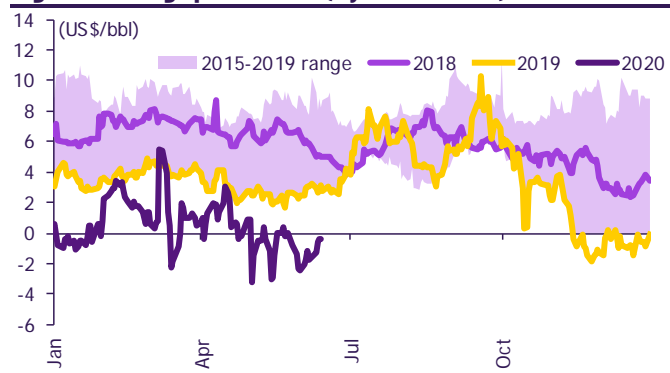
Source: Baker Hughes, Bloomberg Finance LP, SCBS Investment Research

**Figure 4: Global oil refinery outage**



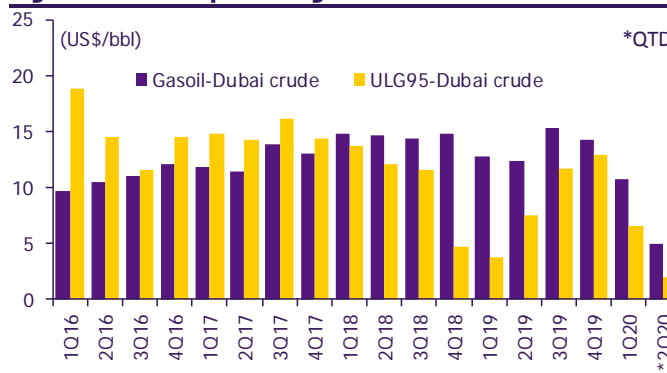
Source: Bloomberg Finance LP, SCBS Investment Research

**Figure 5: Singapore GRM (hydrocracker)**



Source: Bloomberg Finance LP, SCBS Investment Research

**Figure 6: Crack spread – gasoline vs. diesel**



Source: Industry data, Bloomberg Finance LP, SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
BCP	Buy	21.90	30.0	39.3	30.4	n.m.	6.2	(64)	n.m.	n.m.	0.6	0.6	0.6	2	(6)	10	3.7	2.3	8.2	8.7	16.0	5.0
ESSO	Sell	7.40	4.4	(40.5)	n.m.	n.m.	8.3	n.m.	(2)	n.m.	1.2	1.3	1.2	(13)	(15)	15	0.0	0.0	5.4	(28.7)	(20.4)	7.1
IRPC	Neutral	2.78	2.8	0.7	n.m.	n.m.	15.8	n.m.	(42)	n.m.	0.7	0.7	0.7	(5)	(8)	5	3.6	0.0	2.9	23.4	46.8	7.3
PTT	Buy	38.25	44.0	19.7	14.1	12.6	11.3	(31)	12	11	1.2	1.2	1.1	6	7	7	5.2	4.7	5.0	4.8	4.1	3.5
PTTEP	Neutral	95.50	90.0	(3.1)	7.8	32.6	19.5	35	(76)	67	1.1	1.0	1.0	13	3	5	6.3	2.6	2.6	2.8	4.0	3.9
SPRC	Sell	7.05	5.0	(29.1)	n.m.	n.m.	13.6	n.m.	(31)	n.m.	0.9	1.1	1.1	(11)	(18)	8	2.6	0.0	3.7	(16.2)	(8.3)	5.6
TOP	Buy	46.25	48.0	5.9	22.8	20.0	7.7	(60)	14	161	0.8	0.7	0.7	3	4	9	3.2	2.2	5.4	10.1	13.0	7.9
<b>Average</b>					<b>18.8</b>	<b>21.8</b>	<b>11.8</b>	<b>(1)</b>	<b>35</b>	<b>(25)</b>	<b>0.9</b>	<b>1.0</b>	<b>0.9</b>	<b>(1)</b>	<b>(5)</b>	<b>8</b>	<b>3.5</b>	<b>1.7</b>	<b>4.7</b>	<b>0.7</b>	<b>7.9</b>	<b>5.8</b>

Source: SCBS Investment Research

# Finance

SET FIN index Close: 19/6/2020 3,856.84 +28.27 / +0.74% Bt7,125mn  
 Bloomberg ticker: SETFIN



## Prefer secured lenders to unsecured

**We prefer SAWAD and MTC, who focus on secured lending, ahead of KTC and AEONTS, whose focus is on unsecured lending and thus carry the highest asset quality risk. We like SAWAD the best as it has the lowest exposure to unsecured loans. We expect MTC to still have decent earnings growth in 2020. AEONTS expects to see its earnings bottom in 1QFY20. We like KTC the least, seeing its valuation as unjustified.**

**SAWAD: The most preferred.** We like SAWAD the best of our coverage, as it has the lowest exposure to unsecured loans and we expect it to be able to sustain earnings in 2020. SAWAD set aside Bt678mn in provisions (at a credit cost of 7%) as management overlay via equities in 1Q20, lifting LLR coverage to 73% at 1Q20 from 57% at 4Q19. As of mid-May, around 20,000 of its clients had signed up for the relief programs. We maintain our forecast of credit cost at 3% in each of 2020 and 2021 vs. 1.48% in 2019. Less than 5% of its loans are unsecured loans. Its conservative LTV policy (20-50%) should lead to low loss-given default. SAWAD is keeping its loan growth target at no less than 20% in 2020.

**MTC: Expect decent earnings growth in 2020.** We expect MTC to report decent earnings growth of 16% in 2020, the strongest of finance companies under our coverage. MTC guides to 2020F credit cost of 80-100 bps (vs. SCBS forecast of 150bps). Its 201% LLR coverage at 1Q20 included management overlay LLR of Bt271mn. As of mid-May, around 140,000, or 5% of its total 3mn customers are participating in the relief programs. Around 50-60% are farmers that do not have much impact from the COVID-19 outbreak but are eligible for the government's 3-month relief package of Bt5,000/month. MTC expects loan growth to continue strong at 20-25% in 2020, in line with our forecast of 23%.

**AEONTS: Bottom expected in 1QFY20.** We forecast a fall in 1QFY20 (March-May) earnings of 56% YoY and 59% QoQ to Bt438mn with an 11% decrease in earnings in FY2020. We expect AEONTS to book provisions of Bt7bn, factoring the impact of COVID-19 into equities in 1QFY20 as it adopts TFRS9. After setting aside management overlay provisions to capture the impact from COVID-19 in 1QFY20, earnings should trend up. Around 10% of its loans are covered by relief measures, in line with our credit cost forecast of 9% in FY2020.

**KTC: High asset quality risk not yet fully priced in.** As KTC did not book additional management overlay provisions in 1Q20, we expect a QoQ rise in provisions in 2Q20 and 3Q20 with a full-year credit cost of 8.5% (vs. 6.2% in 1Q20 and 7.8% in 2019) to capture the risk from the economic downturn. We forecast a fall of 24% YoY and 39% QoQ in 2Q20 earnings to Bt1bn, with earnings slipping 10% in 2020. KTC reports a 40% YoY plunge in credit card spending in April vs. +2% YoY in 1Q20. It is also seeing a 10% fall in cash advances. We therefore expect a drop in fee income in 2Q20 and 2020. We believe its valuation (3.7x PBV of 3.7x relative to 23% ROE and 17x PE) has not yet fully priced in the asset quality risk.

### Valuation summary

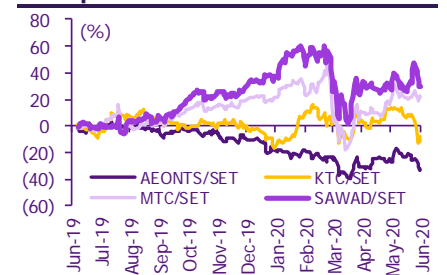
	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
AEONTS	Neutral	123.5	120.0	1.2	9.6	8.6	2.0	1.7
KTC	Sell	31.8	24.0	(22.1)	17.7	16.7	3.7	3.3
MTC	Neutral	55.0	53.0	(3.0)	24.5	20.0	5.8	4.6
SAWAD	Neutral	57.3	57.0	2.3	22.2	19.6	3.8	3.5
<b>Average</b>					<b>18.5</b>	<b>16.2</b>	<b>3.8</b>	<b>3.3</b>

Source: SCBS Investment Research

### Price performance

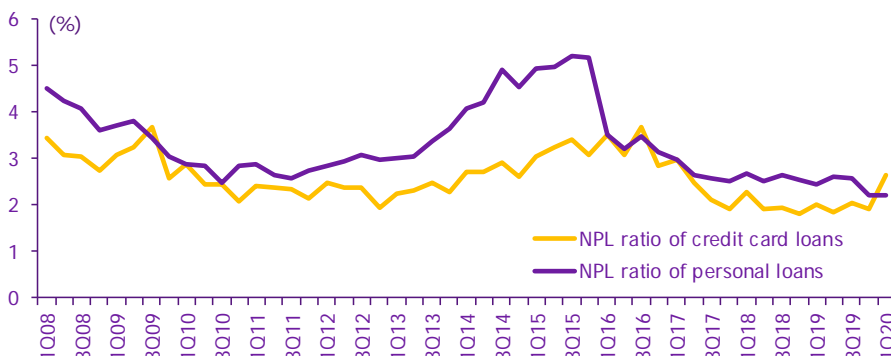
(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
AEONTS	(4.6)	6.0	(44.4)	(8.0)	(12.8)	(30.3)
KTC	(15.9)	3.3	(27.4)	(18.9)	(15.1)	(9.1)
MTC	1.9	34.1	(3.5)	(1.8)	10.3	20.9
SAWAD	1.3	18.0	2.7	(2.3)	(2.9)	28.7

### Price performance relative to SET



Source: SET, SCBS Investment Research

### Credit card and personal loan NPL ratio



Source: BoT and SCBS Investment Research

### Analyst

**Kittima Sattayapan, CFA**

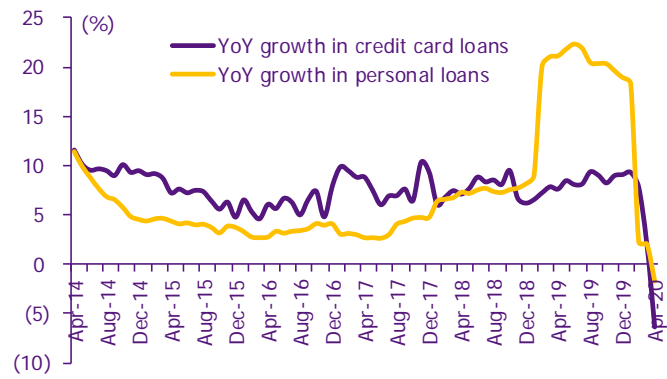
Fundamental Investment

Analyst on Securities

(66-2) 949-1003

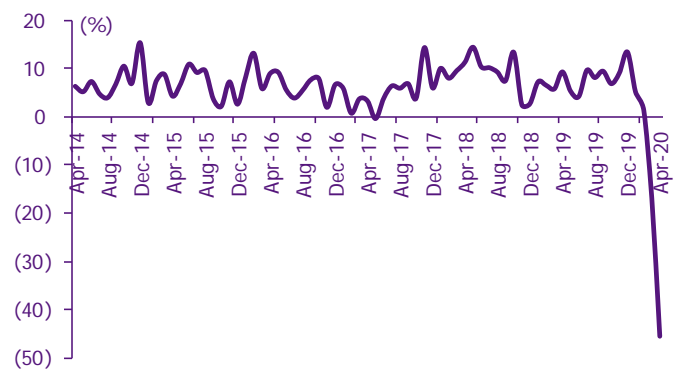
kittima.sattayapan@scb.co.th

**Figure 1: Growth in credit card and personal loans**



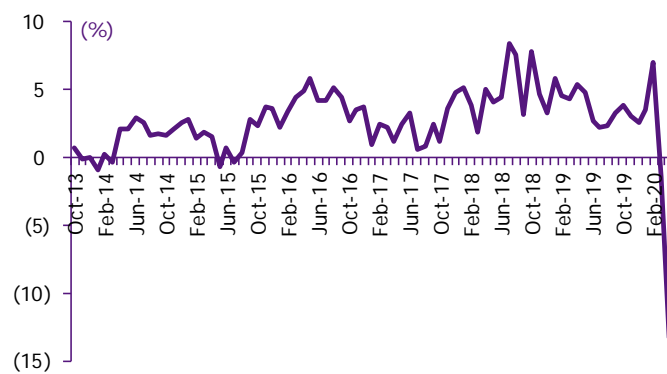
Source: BoT and SCBS Investment Research

**Figure 2: YoY growth in credit card spending**



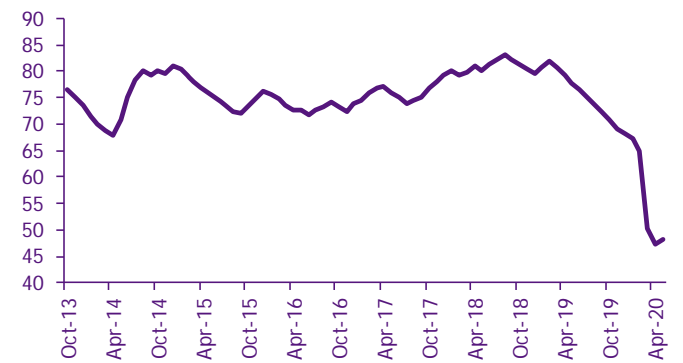
Source: BoT and SCBS Investment Research

**Figure 3: YoY change in Private Consumption Index**



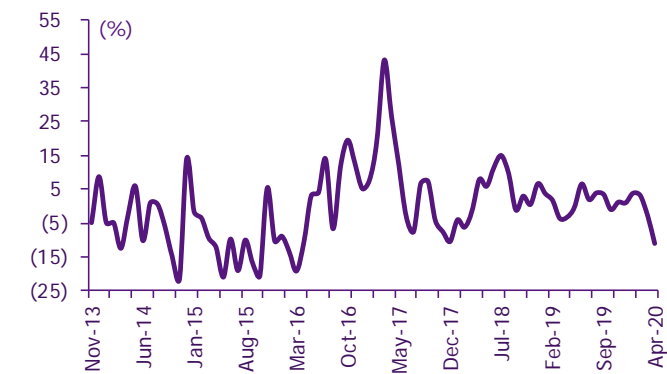
Source: BoT and SCBS Investment Research

**Figure 4: Consumer Confidence Index**



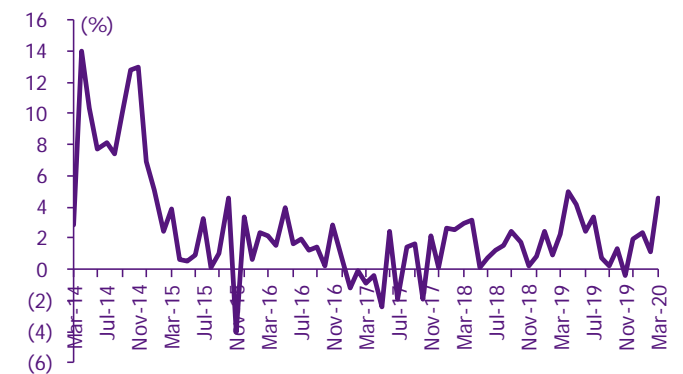
Source: UTCC, BOT and SCBS Investment Research

**Figure 5: Farm income growth**



Source: OAE and SCBS Investment Research

**Figure 6: YoY growth in average wage**



Source: BoT and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
AEONTS	Neutral	123.50	120.0	1.2	7.8	9.6	8.6	13	(19)	11	1.5	2.0	1.7	21	18	21	4.0	4.0	4.0
KTC	Sell	31.75	24.0	(22.1)	14.8	17.7	16.7	7	(16)	6	4.2	3.7	3.3	31	22	21	2.8	2.3	2.4
MTC	Neutral	55.00	53.0	(3.0)	27.5	24.5	20.0	14	12	22	7.3	5.8	4.6	30	26	26	0.5	0.6	0.7
SAWAD	Neutral	57.25	57.0	2.3	20.4	22.2	19.6	17	(8)	13	4.2	3.8	3.5	25	18	19	3.1	2.7	3.1
<b>Average</b>					<b>17.6</b>	<b>18.5</b>	<b>16.2</b>	<b>13</b>	<b>(8)</b>	<b>13</b>	<b>4.3</b>	<b>3.8</b>	<b>3.3</b>	<b>26</b>	<b>21</b>	<b>22</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>

Source: SCBS Investment Research

# Food

SET FOOD index Close: 19/6/2020 12,183.26 +78.78 / +0.65% Bt6,739mn  
 Bloomberg ticker: SETFOOD



## Local livestock prices revived MoM in May

**In May, local livestock prices turned up MoM after the government eased the lockdown, but still dropped YoY. Swine price in Vietnam rose YoY and MoM, still off the African Swine Fever (ASF)-led cut in supply. Spot skipjack tuna price declined MoM, but remains high YTD. CPF is our pick backed by its high earnings visibility, with a robust swine price in Vietnam making up for the drop in livestock prices in Thailand.**

**Better livestock prices MoM in Thailand.** Local swine price revived MoM to Bt70/kg (+3% MoM but -5% YoY) in May and was Bt69/kg (-5% QoQ and -7% YoY) in 2Q20TD, above breakeven cost of ~Bt56/kg. Local broiler price rose MoM to Bt31.5/kg (+5% MoM but -10% YoY) in May and Bt31/kg (-12% QoQ and -14% YoY) in 2Q20TD, close to breakeven cost of Bt31-32/kg. This may be due to better demand after the government stepped down the lockdown.

**Thai broiler exports.** Thai broiler exports faced lower demand in Europe during its lockdown and in Japan from the postponement of the Olympics. At the same time, Thailand is likely to face less competition in the global market. Local broiler prices in some areas in the US and Brazil (the world's two largest broiler exporters) have surged recently after slaughterhouses were closed in response to rampant COVID-19 spread. If prolonged, this implies lower broiler exports from these countries, opening the doors for more Thai broiler exports.

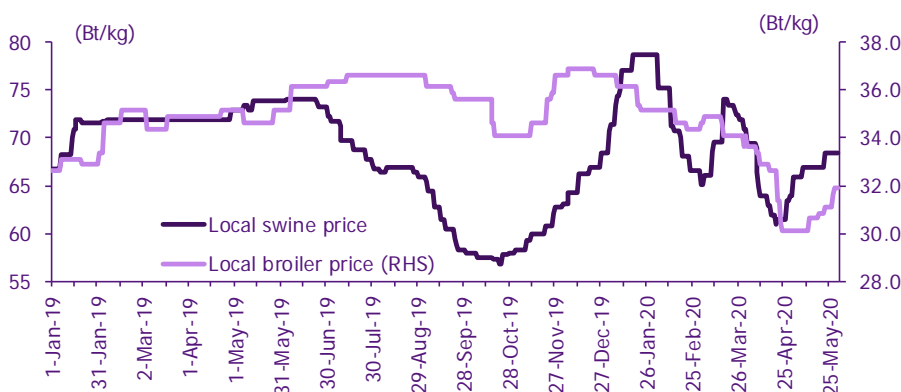
**Low feed costs.** In 2Q20TD, local corn price was Bt8.8/kg (-2% YoY) and imported soybean meal price was Bt14/kg (-4% YoY). If COVID-led broiler production issues in the US and Brazil (the world's major feed producers and exporters) last very long, global feed prices will stay low. This is good news as it will lower the price for imported soybean meal to Thailand and also reduce prices for feed going to other countries.

**Robust swine price in Vietnam.** Swine price in Vietnam rose MoM to VND70,000-75,000/kg (+4% MoM and +120% YoY) in May and was VND71,000/kg (-7% QoQ but +100% YoY) in 2Q20TD, continuing to reflect the African Swine Fever (ASF)-led cut in supply. This is well above breakeven cost of VND36,000/kg. Swine price in Vietnam will continue high this year, as bringing pig supply back up will take time due to higher investment costs to prevent ASF disease.

**Tuna price dropped slightly MoM.** Spot skipjack tuna price declined MoM to US\$1,200/ton (-14% MoM but flat YoY) in May. This may be due to better catches and slowing food service demand, based on *Undercurrent News*. On average, spot skipjack tuna price was \$1,300/ton (-10% QoQ but +7% YoY) in 2Q20TD and US\$1,385/ton (+15% from 2019) in 5M20.

**CPF is our top pick.** We like CPF for its high earnings visibility in 2Q20F, backed by the surge of swine prices in Vietnam from the ASF-led cut in supply and last year's low base that will outpace the drop in livestock prices in Thailand.

### Daily swine and broiler prices in Thailand revived MoM in May



Source: OAE, DIT and SCBS Investment Research

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
CPF	Buy	32.25	36.0	13.8	14.0	13.2	1.1	1.1
GFPT	Neutral	13.20	13.5	3.8	13.9	12.7	1.1	1.1
TU	Neutral	12.60	16.0	31.4	12.1	11.1	1.1	1.0
<b>Average</b>					<b>13.3</b>	<b>12.3</b>	<b>1.1</b>	<b>1.1</b>

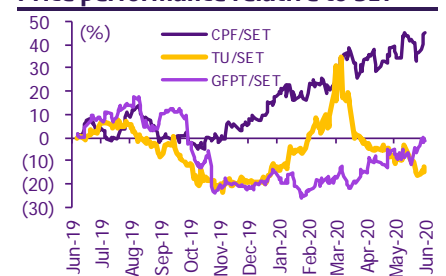
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
CPF	11.2	38.4	13.2	7.3	13.8	41.8
GFPT	10.9	45.9	(22.4)	7.0	19.9	(2.7)
TU	0.0	(8.7)	(31.5)	(3.5)	(24.9)	(14.2)

Source: SET, SCBS Investment Research

### Price performance relative to SET

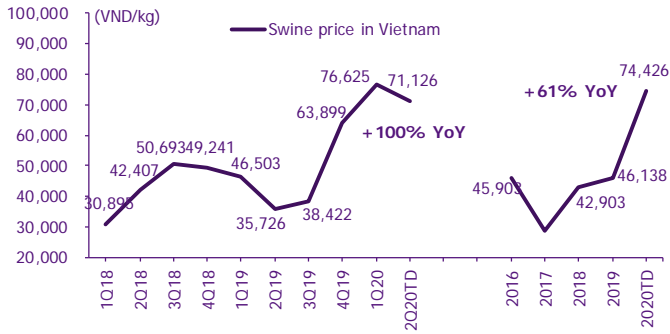


Source: SET, SCBS Investment Research

### Analyst

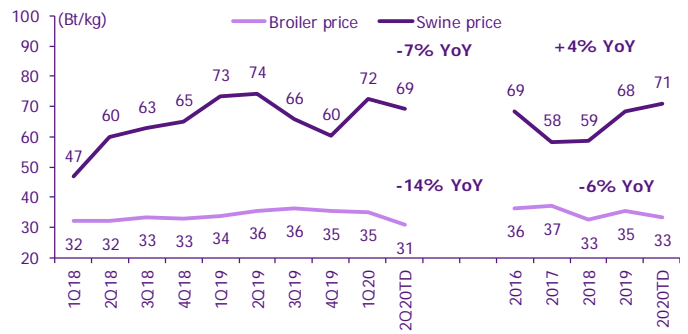
**Sirima Dissara, CFA**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1004  
 sirima.dissara@scb.co.th

**Figure 1: Swine price in Vietnam jumped 100% YoY in 2Q20TD**



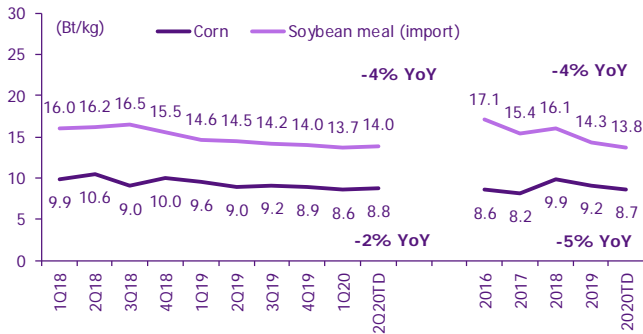
Source: Industry sources and SCBS Investment Research

**Figure 2: In 2Q20TD, local broiler and swine price dropped YoY**



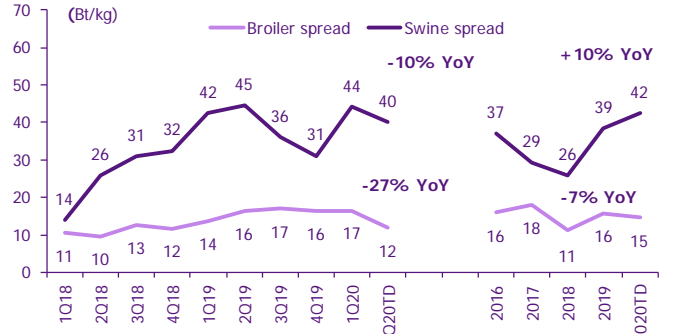
Source: Industry sources and SCBS Investment Research

**Figure 3: In 2Q20TD, blended feed costs (corn & soybean meal costs) dropped YoY**



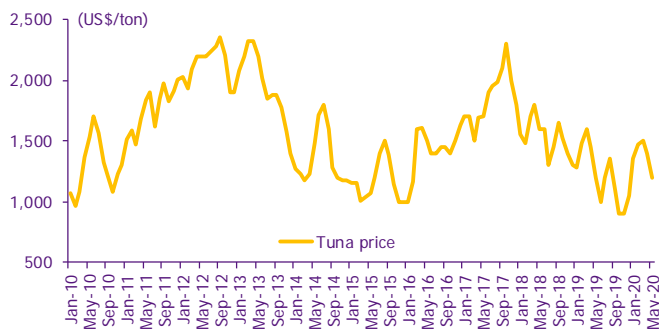
Source: Industry sources and SCBS Investment Research

**Figure 4: In 2Q20TD, broiler and swine spreads (price minus feed costs) dropped YoY**



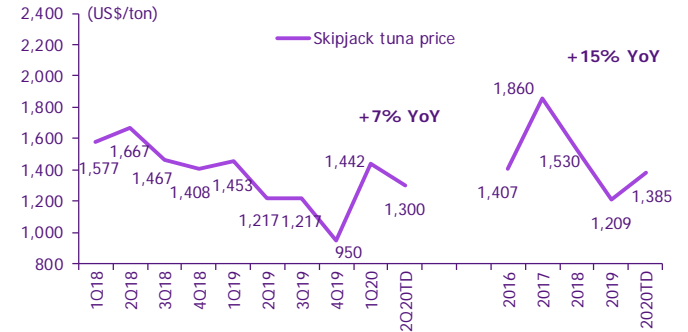
Source: Industry sources and SCBS Investment Research

**Figure 5: Monthly spot skipjack tuna price dropped MoM to US\$1,200/ton in May**



Source: Industry sources and SCBS Investment Research

**Figure 6: Spot skipjack tuna price rose 7% YoY in 2Q20TD**



Source: Industry sources and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
CPF	Buy	32.25	36.0	13.8	18.6	14.0	13.2	111	33	6	1.2	1.1	1.1	7	9	9	2.2	2.2	2.2	11.2	9.8	9.8
GFPT	Neutral	13.20	13.5	3.8	13.2	13.9	12.7	10	(5)	9	1.2	1.1	1.1	10	8	9	1.5	1.5	1.5	7.1	7.6	7.1
TU	Neutral	12.60	16.0	31.4	11.5	12.1	11.1	30	(5)	9	1.2	1.1	1.0	11	10	10	3.7	4.4	4.7	10.0	9.8	9.6
<b>Average</b>					<b>14.4</b>	<b>13.3</b>	<b>12.3</b>	<b>50</b>	<b>8</b>	<b>8</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>2.5</b>	<b>2.7</b>	<b>2.8</b>	<b>9.4</b>	<b>9.1</b>	<b>8.8</b>

Source: SCBS Investment Research



# Healthcare

SET HEALTH index Close: 19/6/2020 4,787.83 -42.78 / -0.89% Bt1,097mn  
 Bloomberg ticker: SETHLTH



## Recovering with LT earnings visibility

**We maintain our positive view on the Healthcare Service sector. The step-down in the lockdown in May began to release some of the pent-up demand, bringing Thai patients back to hospitals; international patient traffic is still waiting for airports to reopen to international flights. We expect the COVID-19 pandemic to raise health awareness and at the same time it is pushing hospitals to provide services on digital platforms to serve the new normal. We like BDMS (a leading healthcare service provider) and BCH (a valuation play).**

**Thai patients returning.** After a quiet April when the country was essentially locked down and staying at home to limit the spread of COVID-19, things began to perk up in May as Thailand began to allow some economic activities to resume. Our check finds Thai patients returning to hospitals in mid-May. International patients, of course, cannot return until the country reopens to international flights sometime after June 30. BH is hurting the most from the lack of international patients as they supply 65% of its revenue compared to BDMS' 29%, BCH's 11% and CHG's 3%. However, healthcare remains a necessity and we expect to see release of pent-up demand from international patients as soon as travel restrictions ease. The government began considering relaxing travel restrictions via "travel bubbles" that would allow specified types of visitors to fly in from specified countries that have managed the pandemic well. Top of the list will be fly-in international patients and business travelers since they are traceable.

**Raising health awareness.** We expect the unprecedented pandemic to raise awareness about health and demand for private health insurance to limit out-of-pocket healthcare expenditure, supporting hospital operations. According to the Office of Insurance Commission, 8.2mn COVID-19 insurance policies were sold over February-April. Thai hospitals are tagging the growth in private health insurance: in 1Q20, revenue contribution from private health insurance segment for BDMS grew to 33% (from 28% in 2018), for BCH to 20% (from 18% in 2018) and for BH to 18% (from 15% in 2018).

**Turning to virtual visits.** Hospitals are turning to servicing patients digitally via teleconsultation through mobile applications and home services such as flu vaccine@home and drug delivery. Despite the small contribution, these services will strengthen patient bases and ready hospitals for the new normal of social distancing. Apart from responding to acute care needs, we believe this will focus attention on preventive care and help grow preventive care services at BDMS (*BDMS Wellness Clinic*, ~1% of revenue) and BH (*VitalLife*, ~2% of revenue).

**Top picks BDMS and BCH.** Despite the poor 2Q20F from comatose international services, we maintain our positive view on BDMS (TP at Bt26/share) as it has placed itself to get in on the uptrend for healthcare demand via a digital platform and provision of the entire spectrum of healthcare needs, from preventive to curative to rehabilitative. BCH (TP at Bt19/share) is positioned to get a short-term boost from providing services related to the COVID-19 pandemic and we like its discounted valuation at 15x 2020EV/EBITDA, 12% below regional average.

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
BCH	Buy	14.5	19.0	33.0	28.7	25.0	5.3	4.8
BDMS	Buy	22.2	26.0	18.7	41.8	35.1	4.0	3.8
BH	Neutral	117.5	130.0	13.1	29.3	24.8	4.2	3.9
CHG	Buy	2.4	2.8	17.6	31.6	28.1	6.8	6.3
RJH	Buy	21.9	28.0	31.6	20.7	18.7	4.4	4.1
<b>Average</b>					<b>30.4</b>	<b>26.3</b>	<b>4.9</b>	<b>4.6</b>

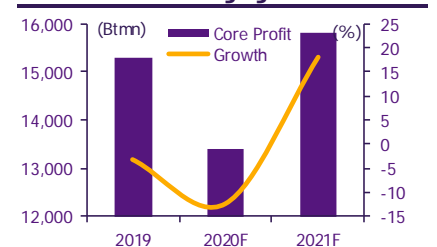
Source: SCBS Investment Research

### Price performance

1M (%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
BCH	0.0	16.9	(13.7)	(3.5)	(3.8)	8.2
BDMS	6.2	11.0	(13.8)	2.5	(8.7)	8.0
BH	5.9	(9.6)	(31.1)	2.1	(25.7)	(13.6)
CHG	(3.2)	8.9	10.9	(6.6)	(10.4)	39.0
RJH	0.0	9.5	(7.2)	(3.5)	(10.0)	16.3

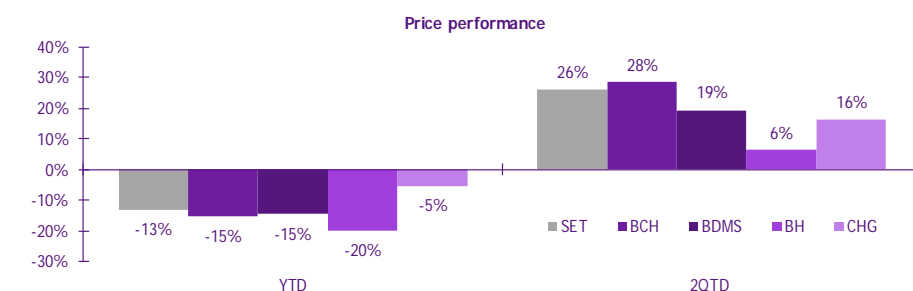
Source: SET, SCBS Investment Research

### Sector core earnings growth



Source: SET, SCBS Investment Research

### Healthcare stock price performances



Source: SET and SCBS Investment Research

### Analyst

**Raweenuch Piyakriengkai**

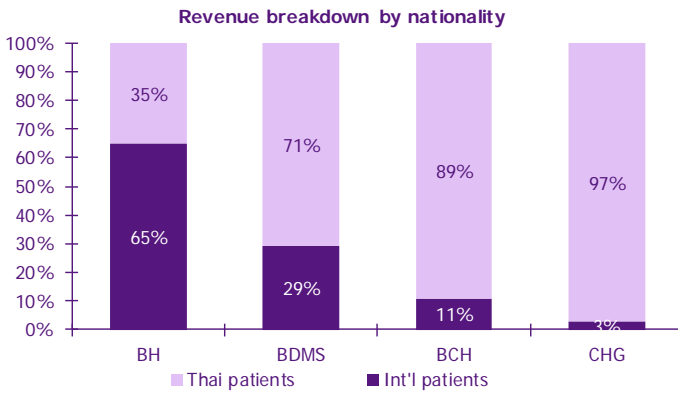
Fundamental Investment

Analyst on Securities

(66-2) 949-1002

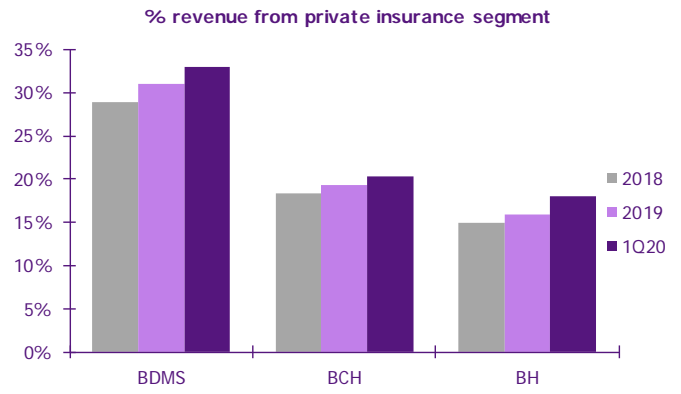
raweenuch.piyakriengkai@scb.co.th

**Figure 1: Revenue breakdown by nationality**



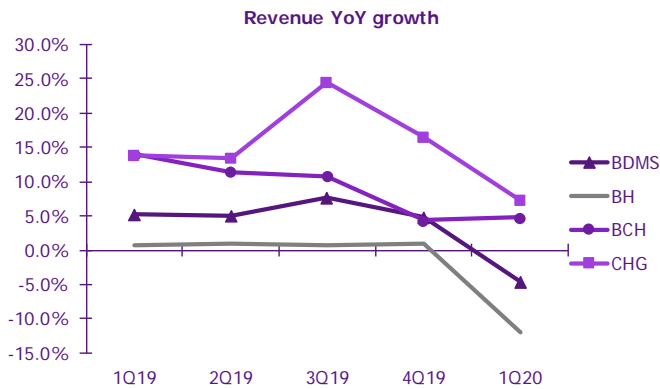
Source: Company data and SCBS Investment Research

**Figure 2: Growing private insurance segment**



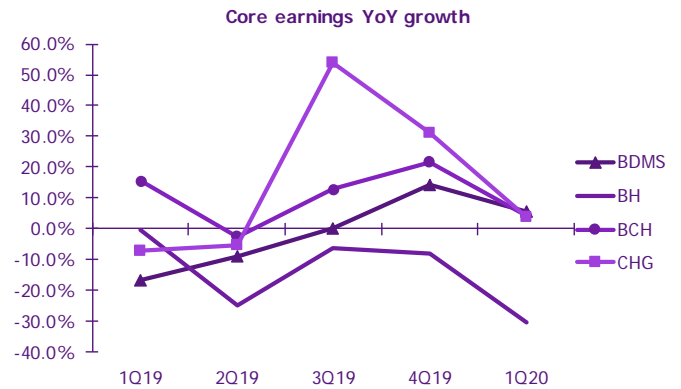
Source: Company data and SCBS Investment Research

**Figure 3: Revenue growth was slow in 1Q20**



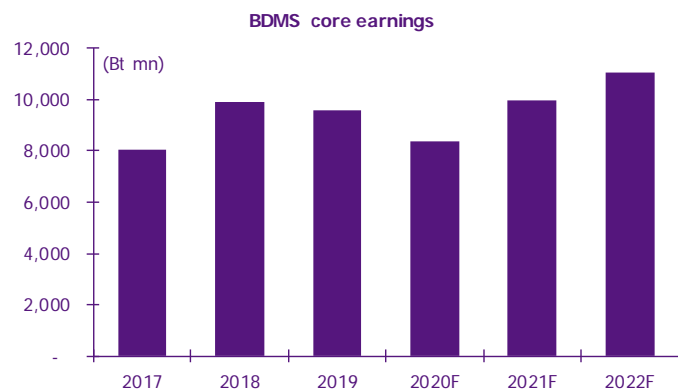
Source: Company data and SCBS Investment Research

**Figure 4: BH's earnings mostly plummeted in 1Q20 due to high revenue contribution from int'l patients**



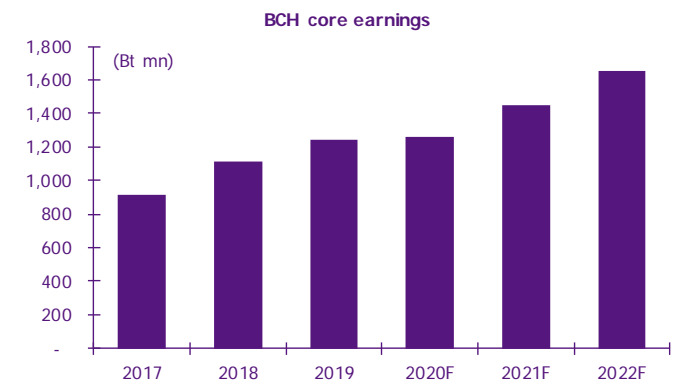
Source: Company data and SCBS Investment Research

**Figure 5: BDMS earnings forecast**



Source: SET and SCBS Investment Research

**Figure 6: BCH earnings forecast**



Source: SET and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
BCH	Buy	14.50	19.0	33.0	29.2	28.7	25.0	11.8	1.6	14.9	5.8	5.3	4.8	19	17	18	1.6	1.7	2.0	17.1	15.0	13.7
BDMS	Buy	22.20	26.0	18.7	36.5	41.8	35.1	(4.4)	(12.6)	19.1	4.2	4.0	3.8	12	9	11	1.4	1.3	1.6	20.7	22.6	19.5
BH	Neutral	117.50	130.0	13.1	22.8	29.3	24.8	(9.7)	(21.9)	18.1	4.3	4.2	3.9	19	14	16	2.7	2.1	2.4	13.7	16.0	13.7
CHG	Buy	2.44	2.8	17.6	35.5	31.6	28.1	17.2	12.4	12.6	7.2	6.8	6.3	20	21	22	2.0	2.5	2.9	22.8	19.2	16.9
RJH	Buy	21.90	28.0	31.6	20.7	20.7	18.7	24.5	0.3	10.2	4.7	4.4	4.1	23	22	23	5.0	3.4	3.7	13.0	12.7	11.2
<b>Average</b>					<b>29.0</b>	<b>30.4</b>	<b>26.3</b>	<b>7.9</b>	<b>(4.0)</b>	<b>15.0</b>	<b>5.4</b>	<b>5.0</b>	<b>4.7</b>	<b>17</b>	<b>15</b>	<b>17</b>	<b>1.9</b>	<b>1.9</b>	<b>2.2</b>	<b>18.6</b>	<b>18.2</b>	<b>16.0</b>

Source: SCBS Investment Research

# Insurance

SET INSUR index Close: 19/6/2020 10,647.44 +112.86 / +1.07% Bt740mn  
 Bloomberg ticker: SETINS



## Prefer THREL on high dividend yield

**Insurance companies are poised for some earnings recovery in 2Q20 in combined ratio and ROI. We expect sluggish premium growth and lower ROI this year, but with a good recovery for THRE, a modest recovery for THREL and a substantial fall for BLA. We prefer THREL as it offers the most attractive dividend yield of the three insurance stocks.**

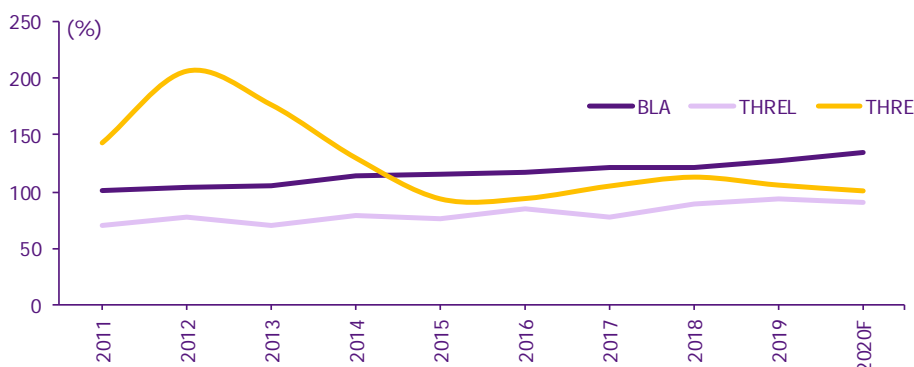
**BLA: Deeply undervalued but still having a tough time.** Without the one-off PAD reserve, we expect a QoQ recovery in earnings in 2Q20. In 2020, we forecast a 25% fall in earnings off a higher combined ratio. We expect a rise in combined ratio to 135% for 2020 from 127% for 2019 due to a rise in life policy reserve from an increase in provisions for adverse deviation (PAD) to 5% from 4% in 1Q20 as part of a risk management strategy to mitigate the impact of interest volatility. We expect new business premiums to resume rising at 4% in 2020 after two years of contraction, backed by: 1) its new bancassurance partnerships with TISCO and the Government Pension Fund and 2) recovery in new business via BBL. We expect a 7% decrease in total premiums in 2020 upon a rise in matured premiums to Bt14-15bn in 2020 (mainly in 2H20) from Bt13-14bn in 2019 and the impact of a market that is suffering from a prolonged economic slowdown. Despite a fall in yield on investment, we expect the hefty realized gain in 1Q20 to sustain ROI this year.

**THREL: Sustainable earnings with high dividend yield.** We expect modest earnings growth in 2020 with stagnant earned premiums in 2020 vs. -3% in 2019 after putting the brakes on growing health insurance products and terminating group health contracts that had negative underwriting margin in 2019. We expect combined ratio to improve in 2020 for two reasons: 1) the time-lag benefit from the termination of loss-making contracts for individual health and 2) the end of extra reserve for the recapture of L-T products (around Bt30mn in 2020 vs. Bt50mn in 2019). We expect its combined ratio to ease from 94% in 2019 to 92% in 2020F. The COVID-19 outbreak has led to a decline in health insurance claims thanks to greater hygiene awareness. We expect THREL to sustain DPS at Bt0.26 (Bt0.13 in 1H20), translating to a high 10% dividend yield.

**THRE: Recovering, but profitability still weak.** We expect a QoQ recovery in earnings in 2Q20 due to a turnaround to a gain on investment from a sizable loss of Bt95mn (mainly on REIT and property funds) in 1Q20. We expect earnings to grow 39% in 2020 backed by improvement in combined ratio to 100% in 2020 from 106% in 2019 as the insurance for teacher project runs out, since this has an unusually high loss ratio. The commission expense related to the teacher project is expected to come down to Bt47mn in 2020 from Bt168mn in 2019. If the teacher project is excluded, 2019 combined ratio would be 98.7% rather than 106%. We expect 10% growth in net premiums in 2020 vs. 9% in 2019.

**THREL is our sector pick.** Of the three stocks, we prefer THREL as it offers the most attractive dividend yield.

### Combined ratio



Source: Companies and SCBS Investment Research

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
BLA	Buy	16.3	23.0	44.1	8.4	6.0	0.6	0.6
THRE	Neutral	0.7	0.5	(26.0)	19.3	10.4	0.8	0.8
THREL	Buy	2.7	3.5	41.1	7.9	6.4	1.1	1.0
<b>Average</b>					<b>11.9</b>	<b>7.6</b>	<b>0.9</b>	<b>0.8</b>

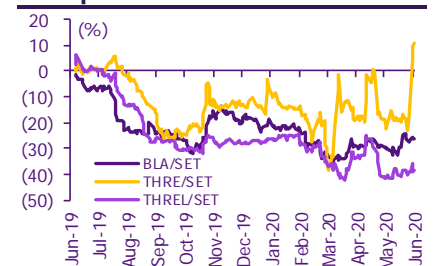
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
BLA	7.9	34.7	(42.3)	4.1	10.8	(27.7)
THRE	45.8	118.8	(12.5)	40.7	79.9	9.6
THREL	9.0	19.8	(51.6)	5.1	(1.5)	(39.4)

Source: SET, SCBS Investment Research

### Price performance relative to SET



Source: SET, SCBS Investment Research

### Analyst

**Kittima Sattayapan, CFA**

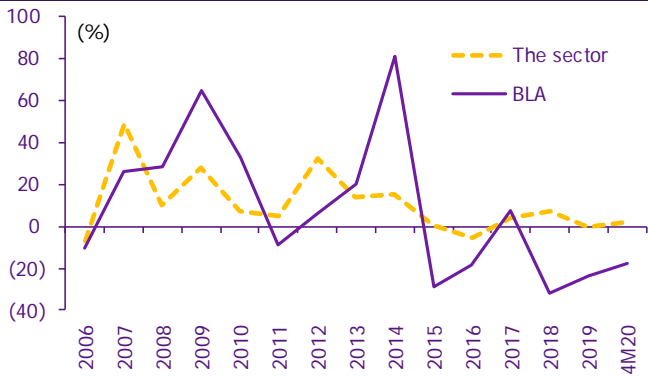
Fundamental Investment

Analyst on Securities

(66-2) 949-1003

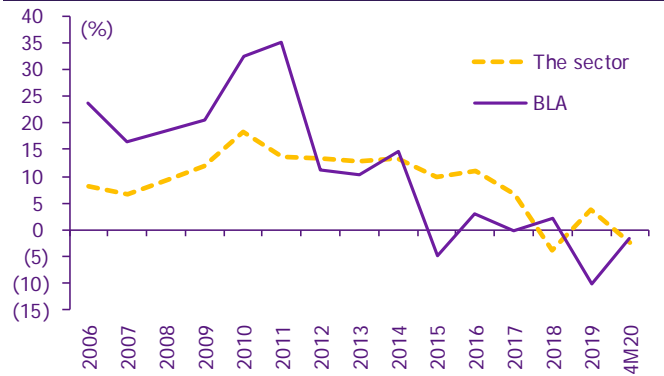
kittima.sattayapan@scb.co.th

**Figure 1: New business premium growth**



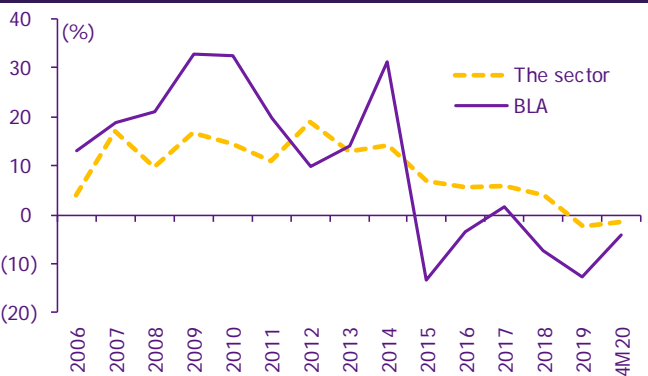
Source: The Thai Life Assurance Association and SCBS Investment Research

**Figure 2: Renewal premium growth**



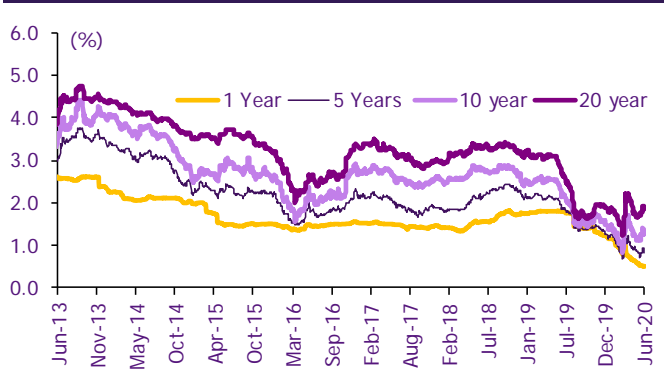
Source: The Thai Life Assurance Association and SCBS Investment Research

**Figure 3: Total premium growth**



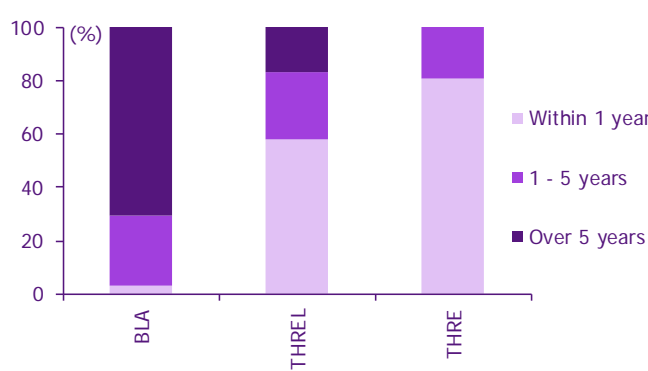
Source: The Thai Life Assurance Association and SCBS Investment Research

**Figure 4: Government bond yield**



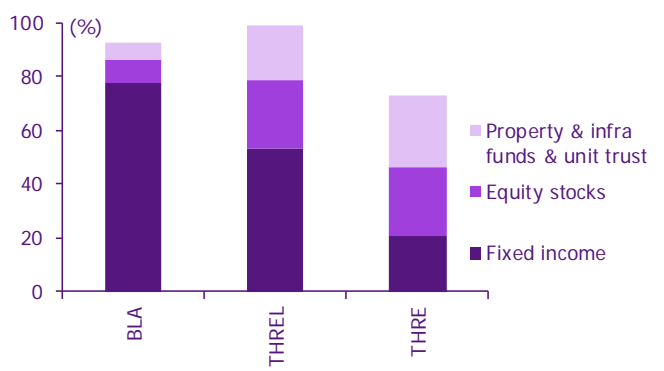
Source: Thai BMA and SCBS Investment Research

**Figure 5: Investment in debt securities by maturity**



Source: BLA, THRE, THREL and SCBS Investment Research

**Figure 6: Investment portfolio**



Source: BLA, THRE, THREL and SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
BLA	Buy	16.30	23.0	44.1	6.3	8.4	6.0	(12)	(25)	40	0.6	0.6	0.6	11	8	10	3.9	3.0	4.2
THRE	Neutral	0.70	0.5	(26.0)	26.9	19.3	10.4	n.m.	39	86	0.9	0.8	0.8	3	4	8	0.0	2.6	4.8
THREL	Buy	2.66	3.5	41.1	8.2	7.9	6.4	(23)	4	23	1.1	1.1	1.0	13	14	17	9.8	9.5	11.7
<b>Average</b>					<b>13.8</b>	<b>11.9</b>	<b>7.6</b>	<b>(18)</b>	<b>6</b>	<b>50</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>9</b>	<b>9</b>	<b>12</b>	<b>4.6</b>	<b>5.0</b>	<b>6.9</b>

Source: SCBS Investment Research

# Petrochemicals

SET PETRO index Close: 19/6/2020 806.29 -5.04 / -0.62% Bt1,673mn  
 Bloomberg ticker: SETPETRO



## Better near-term outlook is priced in

**SETPETRO has shot up 68% in three months (peaking at +87%), pricing in optimism on a better 2Q20 and better demand as countries gradually reopen. However, market imbalance will take time to resolve as demand recovery will be gradual and capacity additions are likely to impede product price upturn. Further, uncertainties like a second wave of the pandemic and the re-emerging trade war could wreck investor appetite.**

**Earnings turnaround expected in 2Q20.** A plunge in oil and petrochemical prices and spread hurt Thai petrochemical earnings in 1Q20, with a loss of Bt6.8bn vs. strong profit of Bt11bn in 1Q19. This is likely to turn around in 2Q20 on wider product spread, especially for olefins and derivatives and integrated PET. We also expect some inventory gains from higher oil price.

**Near-term outlook improved after lockdown.** Average product spread QTD for the industry is up 9-26% QoQ off low naphtha cost. Market hopes for the return of demand rose after the lockdowns eased in the US, China and India after months of low trade flow. Naphtha-based producers did best in 2Q20 because of lower naphtha price. PE/PP-naphtha spread grew 9-23% QoQ but remains far below the 5-year average. Behind this is more competitive naphtha cost while product prices remained low, down 10-13% QoQ, on oil price weakness and slow demand because of the pandemic. A sharp recovery in oil price will hurt product spread in the near term as product prices are still weak.

**Aromatics hurt by dull PX spread.** Aromatics spread continued to weaken on ample supply. PX spread over naphtha moved down 22% QoQ in 2Q20 to a decade-plus low at US\$212/t vs. cash cost of US\$200-250/t. Supply from China's new capacity continues to flood the market. Markets expect regional PX utilization rate to be cut to cope with weak product spread but this has not yet happened. We expect some margin improvement in 3Q20 when easing lockdowns bring gasoline demand up. This would reduce feedstock for PX somewhat, in our view.

**Integrated PET/PTA producers benefit from higher demand.** Integrated PET spread in Asia grew another 26% QoQ to above the 5-year average of US\$228/t though down 13% YoY. Stay-at-home orders worldwide to contain the spread of COVID-19 skyrocketed demand for food packaging, largely virgin PET, as concerns about the safety of recycling used packaging has made recycled resin costlier. We expect demand for PET packaging for food and beverage to drive the sector.

**Prefer integrated PET/PTA operators.** Although demand for petrochemical products will improve in 3Q20 as economic activities return, uncertainties continue to dog the sector, including a second wave of COVID-19, volatile oil price and a return of the US-China trade dispute. We prefer integrated PET producers like IVL though its share price has risen sharply in the past three months. We expect PET producers to benefit from lower feedstock cost (PX and MEG) and higher demand for food packaging, accounting for about 30% of total applications for PET resin.

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x)	P/BV (x)
GGC	Neutral	9.2	9.0	2.2	9.0	8.3
IVL	Neutral	29.0	30.0	6.9	21.1	11.6
PTTGC	Neutral	46.8	44.0	(5.2)	79.7	15.7
<b>Average</b>					<b>36.6</b>	<b>11.9</b>

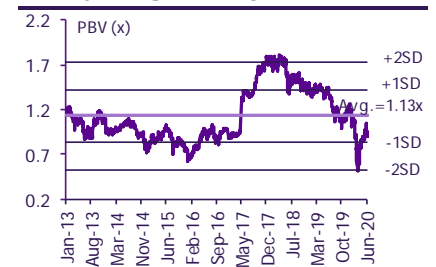
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
GGC	0.5	82.2	(22.7)	(3.0)	49.8	(3.1)
IVL	(4.9)	47.2	(40.2)	(8.3)	21.1	(25.1)
PTTGC	1.6	68.5	(27.8)	(2.0)	38.5	(9.5)

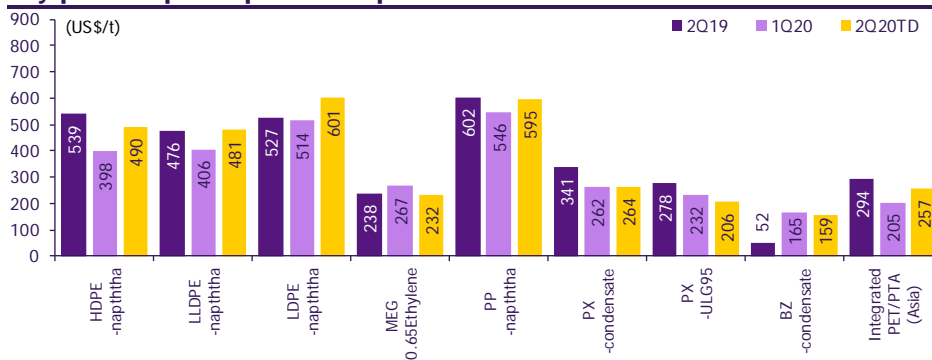
Source: SET, SCBS Investment Research

### PBV band – SETPETRO



Source: SET, SCBS Investment Research

### Key product price spread comparison

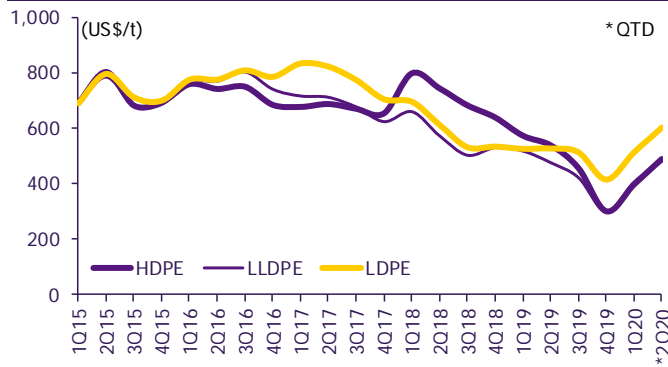


Source: Industry data, Bloomberg Finance LP and SCBS Investment Research

### Analyst

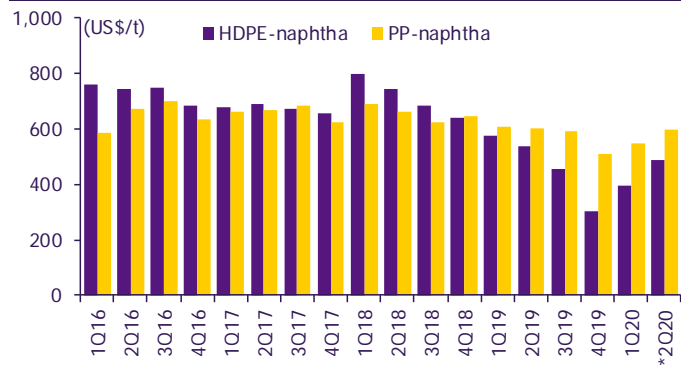
**Chaipat Thanawattano**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1005  
 chaipat.thanawattano@scb.co.th

**Figure 1: PE-naphtha spread**



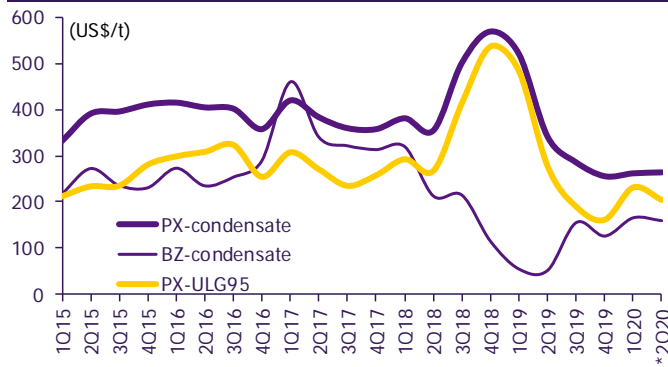
Source: Industry data, Bloomberg Finance LP, SCBS Investment Research

**Figure 2: Product spread – HDPE vs. PP**



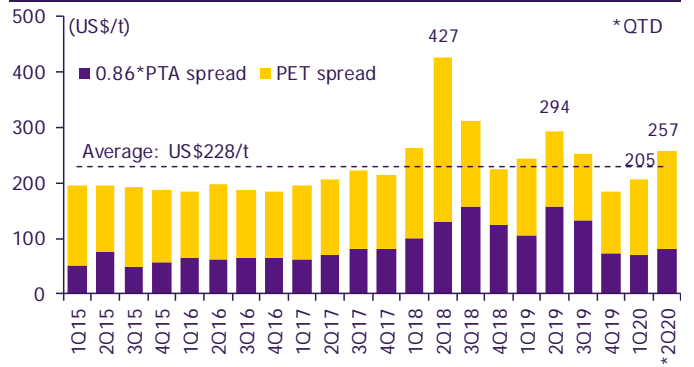
Source: Industry data, Bloomberg Finance LP, SCBS Investment Research

**Figure 3: Aromatics product spread**



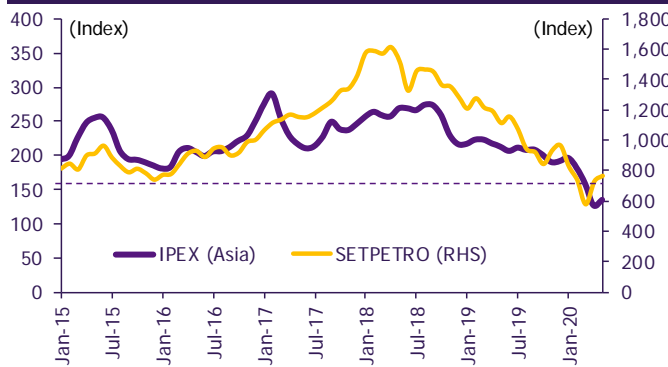
Source: Industry data, Bloomberg Finance LP, SCBS Investment Research

**Figure 4: Integrated PET/PTA spread (Asia)**



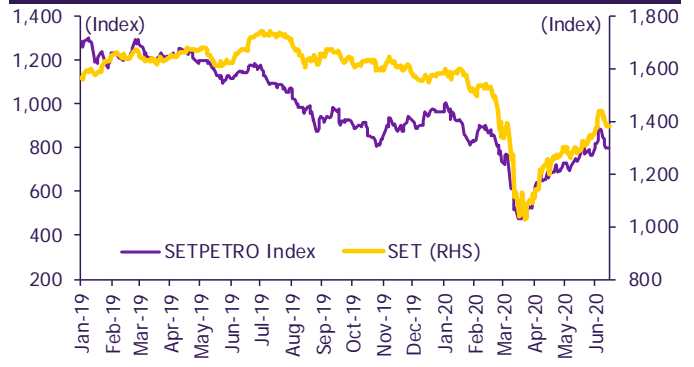
Source: Industry data, Bloomberg Finance LP, SCBS Investment Research

**Figure 5: Petrochemical Index (Asia)**



Source: ICIS, Bloomberg Finance LP, SCBS Investment Research

**Figure 6: SET Petrochemical vs. SET Index**



Source: Bloomberg Finance LP, SCBS Investment Research

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
GGC	Neutral	9.20	9.0	2.2	n.m.	9.0	8.3	n.m.	n.m.	9	0.9	0.9	0.8	(1)	10	10	3.8	4.3	4.8	13.5	5.3	4.9
IVL	Neutral	29.00	30.0	6.9	31.1	21.1	11.6	(79)	47	82	1.3	1.2	1.2	4	6	10	4.2	3.4	4.5	10.5	8.3	5.8
PTTGC	Neutral	46.75	44.0	(5.2)	25.8	79.7	15.7	(80)	(68)	408	0.7	0.7	0.7	3	1	5	4.3	0.6	3.2	10.7	11.5	7.6
<b>Average</b>					<b>28.5</b>	<b>36.6</b>	<b>11.9</b>	<b>(79)</b>	<b>(10)</b>	<b>166</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>2</b>	<b>6</b>	<b>8</b>	<b>4.1</b>	<b>2.8</b>	<b>4.2</b>	<b>11.5</b>	<b>8.4</b>	<b>6.1</b>

Source: SCBS Investment Research

# Securities

SET FIN index Close: 19/6/2020 3,856.84 +28.27 / +0.74% Bt7,125mn  
 Bloomberg ticker: SETFIN

## Good dividend yield

**We expect good earnings for both MBKET in 2Q20, driven by hefty daily market turnover and stock market recovery. Both offer a good dividend yield at >4% for 1H20 and >7% for full-year 2020. We are NEUTRAL on both ASP and MBKET.**

**Raised 2020F daily market turnover assumption.** Average daily market turnover (excluding proprietary trading) is Bt66.2bn in 2Q20 (as of June 17), up 41% YoY and 12% QoQ. In response, we lifted our 2020F daily market turnover to Bt55bn from Bt50bn. However, we leave unchanged our forecast of 2021F daily market turnover at Bt45bn.

**Market share swinging up.** MBKET's market share was 6.5% QTD in 2Q20 (as of June 17), down slightly from 6.72% in 1Q20 but above 6.1% in 2019. ASP's market share was 2.89% in 2Q20 (as of June 17), up sharply from 1.98% in 1Q20 and 1.71% in 2019. We raise our assumption for MBKET's 2020F market share to 6.5% from 6% and ASP's 2020F market share to 2.2% from 1.6%.

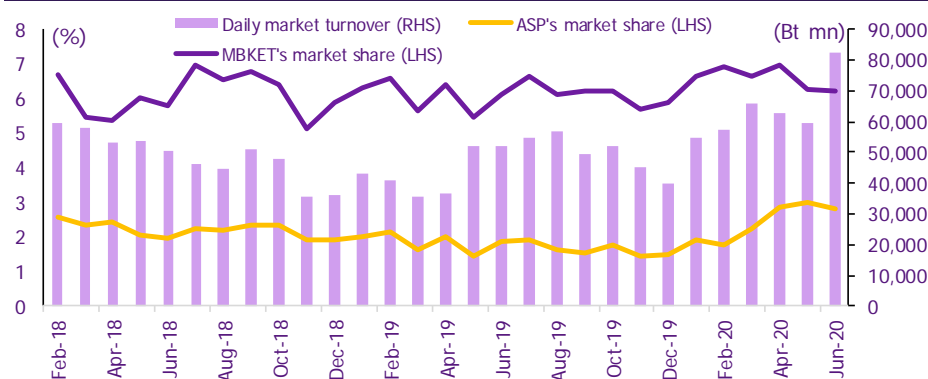
**MBKET 2Q20F preview.** We expect MBKET to report 2Q20F earnings of Bt140mn, up 1912% YoY and 4% QoQ. 2Q20 brokerage income is expected to be healthy with a 51% YoY and 3% QoQ rise in 1Q20, backed by a 41% YoY and 12% QoQ increase in daily market turnover as well as a 58 bps YoY rise (but 21 bps QoQ slip) in brokerage market share to 6.51%. We expect a higher gain on investment both YoY and QoQ thanks to the recovery of the stock market.

**ASP 2Q20F preview.** We forecast ASP's 2Q20F earnings at Bt195mn, up 74% YoY and 725% QoQ. Brokerage income for 2Q20 is expected to grow 102% YoY and 45% QoQ, undergirded by a 41% YoY and 12% QoQ increase in daily market turnover and a rise in brokerage market share (+115 bps YoY, +91 bps QoQ). We expect a turnaround to a gain of Bt50mn in 2Q20 from an investment loss of Bt77mn in 1Q20.

**Good dividend yield.** Assuming an 80% payout ratio, we expect MBKET to pay an interim dividend of Bt0.4/share (4.6% yield) on 1H20 and a full-year dividend of Bt0.6/share (7.3% yield). Assuming a 70% payout ratio, we expect ASP to pay an interim dividend of Bt0.7/share (4.1% yield) on 1H20 and a full-year dividend of Bt0.13/share (7.6% yield).

**Neutral on both MBKET and ASP.** We upgrade ASP to Neutral from Sell and keep MBKET as Neutral in recognition of the good dividend yield underwritten by the surge in market turnover. We raise ASP's TP to Bt2 from Bt1.5 and MBKET's TP to Bt9.4 from Bt6.6.

## Market turnover higher than expected



Source: SET and SCBS Investment Research

## Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x)	P/BV (x)
ASP	Neutral	1.7	2.0	24.4	8.6	9.2
MBKET	Neutral	8.5	9.4	18.0	10.8	29.4
<b>Average</b>					<b>9.7</b>	<b>19.3</b>

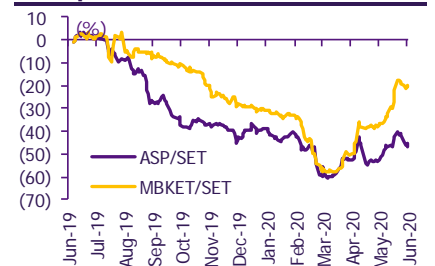
Source: SCBS Investment Research

## Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
ASP	12.4	30.3	(38.1)	8.4	7.1	(22.5)
MBKET	25.9	98.6	(5.6)	21.5	63.3	18.4

Source: SET, SCBS Investment Research

## Price performance relative to SET



Source: SET, SCBS Investment Research

## Analyst

**Kittima Sattayapan, CFA**

Fundamental Investment

Analyst on Securities

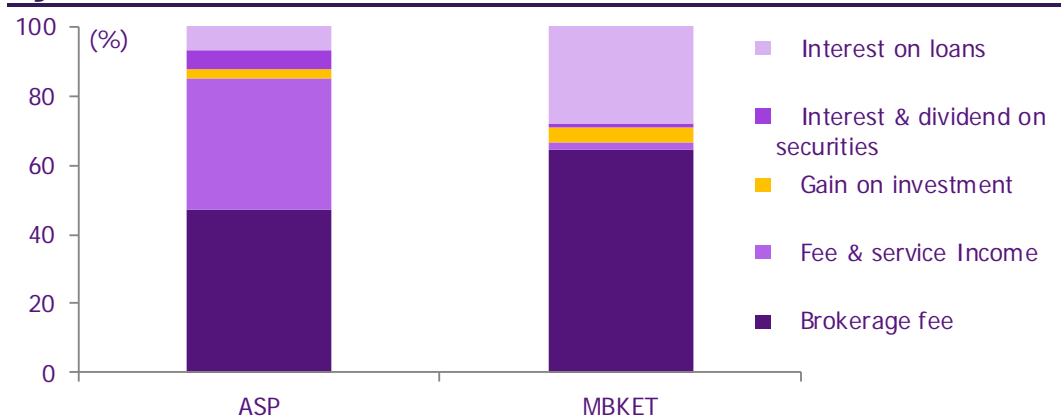
(66-2) 949-1003

kittima.sattayapan@scb.co.th

**Figure 1: Target price sensitivity to turnover**

	ASP	MBKET
<b>Target price at different daily mkt. turnover in 2020</b>		
Bt50bn	1.8	6.9
Bt55bn — base case	2.0	9.4
Bt60bn	2.2	12.0
<b>EPS (Bt) at different daily mkt. turnover in 2020</b>		
Bt50bn	0.18	0.57
Bt55bn — base case	0.20	0.78
Bt60bn	0.22	1.00
<b>DPS (Bt) at different daily mkt. turnover in 2020</b>		
Bt50bn	0.13	0.46
Bt55bn — base case	0.14	0.63
Bt60bn	0.15	0.80
<b>Dividend payout</b>	70%	80%
<b>Target PE (x)</b>	<b>10.0</b>	<b>12.0</b>

Source: SCBS Investment Research

**Figure 2: 2020 revenue breakdown**

Source: ASP, MBKET and SCBS Investment Research

**Figure 3: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
ASP	Neutral	1.72	2.0	24.4	10.1	8.6	9.2	(17)	17	(6)	0.8	0.8	0.7	8	9	8	7.6	8.2	7.6
MBKET	Neutral	8.50	9.4	18.0	19.0	10.8	29.4	(35)	76	(63)	1.1	1.1	1.2	6	11	4	10.1	7.4	2.7
<b>Average</b>					<b>14.6</b>	<b>9.7</b>	<b>19.3</b>	<b>(26)</b>	<b>47</b>	<b>(35)</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>7</b>	<b>10</b>	<b>6</b>	<b>8.8</b>	<b>7.8</b>	<b>5.2</b>

Source: SCBS Investment Research



# Telecom

SET ICT index Close: 19/6/2020 144.33 -0.28 / -0.19% Bt4,852mn  
 Bloomberg ticker: SETCOMUN



## Easing competition bringing S-T smiles

**We have a positive near-term view for the sector as competition in the prepaid segment appears to be simmering down. Another plus for the sector is its low earnings volatility which is likely to lead it to outperform the SET in 3Q20F when we expect a volatile market. ADVANC is our top pick in the sector.**

**Easing competition brightening near-term sentiment.** All operators stopped offering unlimited fixed-speed prepaid packages as of mid-May. They are now offering fixed-speed packages but monthly usage is fixed. This is good for the sector as it will help all operators lift prepaid ARPU, leading to better mobile revenue growth. This will also help brighten sentiment for the sector. However, we need to closely monitor this development, as past history shows that competition in the prepaid segment can change month to month.

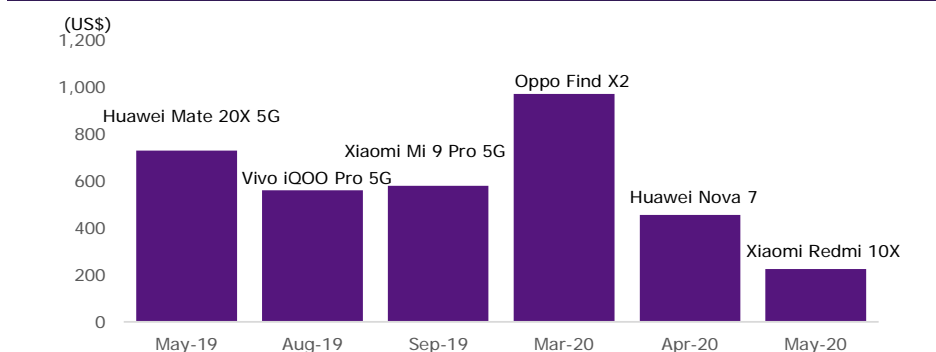
**2Q20 to be bottom, but recovery will be slow.** As with other sectors, we expect 2Q20F to be the year's bottom as COVID-19 hurt the entire country for the entire quarter. However, the true pace of QoQ recovery will not be visible until 4Q20F. The QoQ recovery in 3Q20F will be limited by the absence of additional revenue from the NBTC that was booked in 2Q20F. As COVID-19 has only limited impact on revenue for this sector and we do not expect full recovery in travel SIM sales and roaming revenue in 3Q20F, we believe earnings recovery for this sector will be less exciting than for other sectors that have been hit harder.

**Cheaper 5G handset to accelerate adoption rate.** A survey shows that prices for 5G handsets have come down to around Bt7,000. For example, the price of Xiaomi Redmi 10X 5G (released in June 2020) was 40% cheaper than the model that was launched six months ago. This is earlier than our expectation. We had not expected price to fall below Bt10,000 until 4Q20. We believe the reason for the fast drop was the economic slowdown caused by COVID-19. As purchasing power is lower, brand makers have become more aggressive in launching less expensive models to attract consumers. This could help accelerate the adoption of 5G. We believe DTAC will be the main victim of fast adoption as it is the only operator without 5G on 2600MHz. We assume a 2.5% adoption rate in 2021F and DTAC is expected to lose 500k postpaid subs. Note that the 5G adoption rate in South Korea is now 10% (commercially launched in April 2019) and 4% in China (commercial launch in Nov 2019).

**Keep our cautious view on 2021F.** We continue to believe sector earnings will drop 12% YoY in 2021F to Bt28bn, pulled down by rising 5G-related costs that will outpace the incremental rise in revenue.

**ADVANC is our top pick.** We expect ADVANC to benefit the most in the near-term from the reopening of the economy and easing competition in the prepaid segment as it has the highest portion of prepaid users. We have a NEUTRAL rating on TRUE due to its weak earnings outlook and SELL DTAC due to its lack of 5G on 2600MHz.

### 5G handset price is trending down



### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/BV (x) 21F	P/BV (x) 20F	P/BV (x) 21F
ADVANC	Buy	190.0	210.0	14.0	19.6	21.6	7.3	6.7
DTAC	Sell	41.5	37.0	(5.5)	18.7	25.3	4.1	4.3
TRUE	Neutral	3.7	3.1	(15.8)	n.m.	n.m.	1.0	1.0
<b>Average</b>					<b>19.1</b>	<b>23.5</b>	<b>4.2</b>	<b>4.0</b>

Source: SCBS Investment Research

### Price performance

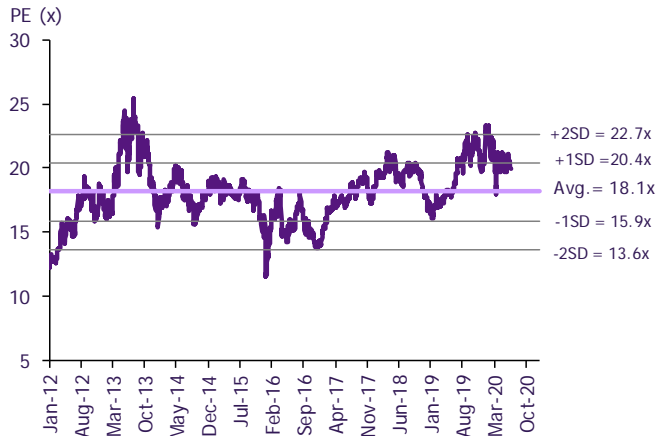
(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
ADVANC	(0.8)	(3.8)	(6.9)	(4.3)	(20.9)	16.7
DTAC	(4.0)	18.6	(18.6)	(7.4)	(2.5)	2.0
TRUE	8.2	14.3	(34.9)	4.4	(6.0)	(18.4)

Source: SET, SCBS Investment Research

### Analyst

**Kittisorn Pruitipat, CFA, FRM**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1007  
 kittisorn.pruitipat@scb.co.th

**Figure 1: ADVANC: PE Band**



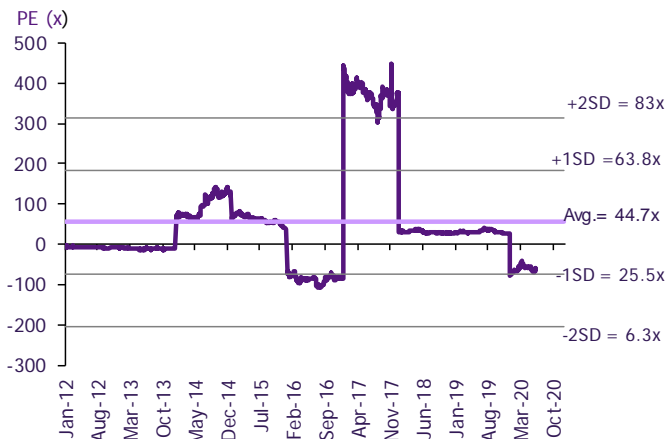
Source: SCBS Investment Research, Bloomberg

**Figure 2: ADVANC: EV/EBITDA Band**



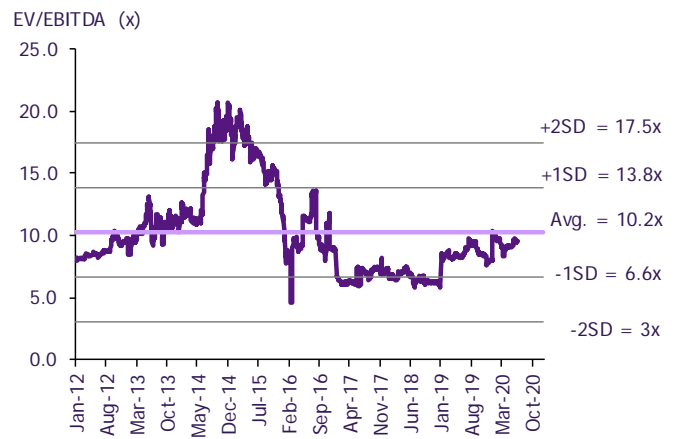
Source: SCBS Investment Research, Bloomberg

**Figure 3: TRUE: PE Band**



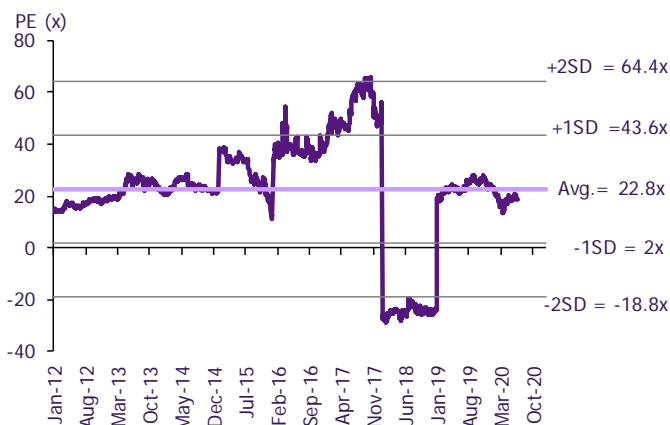
Source: SCBS Investment Research, Bloomberg

**Figure 4: TRUE: EV/EBITDA Band**



Source: SCBS Investment Research, Bloomberg

**Figure 5: DTAC: PE Band**



Source: SCBS Investment Research, Bloomberg

**Figure 6: DTAC: EV/EBITDA Band**



Source: SCBS Investment Research, Bloomberg

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
ADVANC	Buy	190.00	210.0	14.0	18.3	19.6	21.6	4	(7)	(9)	8.1	7.3	6.7	49	39	32	3.9	3.5	3.2	8.1	8.8	8.7
DTAC	Sell	41.50	37.0	(5.5)	17.8	18.7	25.3	n.m.	(4)	(26)	3.9	4.1	4.3	23	22	17	6.9	5.4	4.0	4.9	4.9	4.9
TRUE	Neutral	3.68	3.1	(15.8)	21.8	n.m.	n.m.	(20)	n.m.	(14)	1.0	1.0	1.0	4	(2)	(2)	2.4	0.0	0.0	7.2	9.5	9.0
<b>Average</b>					<b>19.3</b>	<b>19.1</b>	<b>23.5</b>	<b>(8)</b>	<b>(6)</b>	<b>(16)</b>	<b>4.4</b>	<b>4.2</b>	<b>4.0</b>	<b>25</b>	<b>20</b>	<b>16</b>	<b>4.4</b>	<b>3.0</b>	<b>2.4</b>	<b>6.7</b>	<b>7.7</b>	<b>7.5</b>

Source: SCBS Investment Research

# Tourism

SET TOURISM index Close: 19/6/2020 412.48 -5.11 / -1.22% Bt303mn  
 Bloomberg ticker: SETHOT



## Domestic tourism stimulus

**The cabinet approved three packages to encourage domestic tourism to give the economy a boost; it continues to mull easing int'l travel. We maintain our 2020 forecast of a 67% YoY drop in tourist arrivals with 2Q20 to be the worst, followed by some recovery in 2H20. Upside risk is faster recovery of int'l travel as containment of the pandemic appears more solid. MINT is our top pick: its earnings will bottom in 2Q20 and NHH operations are improving as lockdowns ease in Europe.**

**Domestic tourism stimulus.** On June 16, the cabinet approved in principal three domestic tourism stimulus packages covering July 1- October 31 with a total budget of Bt22.4bn (Figure 1). 1) *Rao Pai Teaw Kun*. (max of Bt18,000/person). In this package, the government will subsidize 40% of the room rate to a maximum of Bt3,000/night and a maximum of five nights/person. Additionally, after checking in to the hotel, the visitor will be given Bt600/night in cash to spend on tourism activities. 2) *Teaw Pun Sook*. In this program, the government will subsidize 40% of domestic airfare and bus tickets to a maximum of Bt1,000/person. 3) *Kam Lang Jai*. In this program, the government will pay the entire amount for seminars held for medical workers, including village public health volunteers, but to a maximum of Bt2,000/person. The details of each package for both consumer and the tourism operator, such as qualifications, how to register and how the packages can be used, will be announced later. First take: ERW will benefit the most as it has the largest proportion of revenue from Thai guests (mainly from the HOP INN budget segment) at 18%, followed by CENTEL (6%), AWC (2%) and MINT (1%).

**Easing travel abroad, but cautiously.** Global lockdown is easing and countries are gradually reopening for international travel. Thailand's ban on commercial flights into and out of the country will end on June 30 and the government is considering relaxing its foreign travel restrictions and assign "travel bubbles" with agreements that will allow visitors from countries (initially in Asia) that have managed the pandemic well and have good economic relations with Thailand. Top of the list will be fly-in international patients and business travelers since they are traceable. However, details are still unknown. We maintain our forecast of a 67% YoY drop in tourist arrivals to 13mn in 2020, with 2Q20 to be the worst, followed by improvement in 2H20. Upside to our forecast is clear containment of the pandemic that would hasten recovery in international travel.

**BUY MINT. Limited upside for ERW but benefit from domestic travel will uphold share price.** MINT is our top pick (TP at Bt28/share before XR). 2Q20's earnings should be bottom since operations of NH Hotel Group (NHH, 66% of MINT's total revenue) are improving as Europe reopens its borders and lockdowns ease, as domestic demand accounts for 50-70% of NHH's revenue. MINT's action (rights offering and issue of prep) to strengthen its equity base will ease short-term financial stress and shore up operations. With the largest revenue from Thai guests, we view ERW's share price as supported by the stimulus for Thailand's domestic travel.

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
AWC	Neutral	4.6	5.6	23.0	257.8	124.4	1.7	1.7
CENTEL	Neutral	24.8	21.0	(15.1)	188.8	34.6	2.3	2.3
ERW	Neutral	4.0	4.0	1.0	n.m.	243.3	1.8	1.7
MINT	Buy	22.1	28.0	26.7	n.m.	41.0	1.3	1.2
<b>Average</b>					<b>223.3</b>	<b>110.8</b>	<b>1.8</b>	<b>1.7</b>

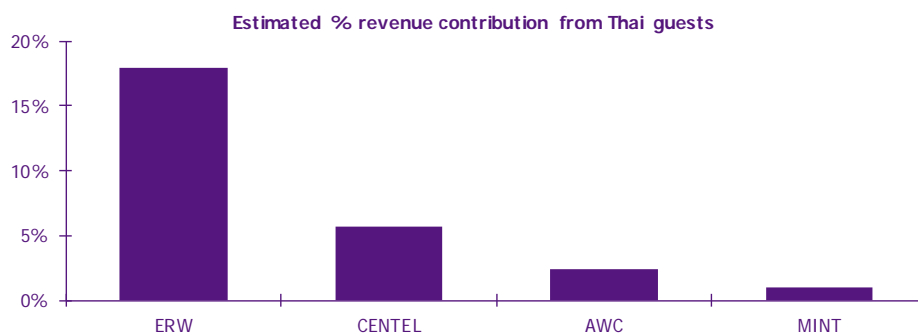
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
AWC	0.0	28.8	n.a.	(3.5)	5.9	n.a.
CENTEL	17.0	60.0	(31.1)	12.8	31.6	(13.7)
ERW	35.6	58.4	(40.0)	30.8	30.3	(24.8)
MINT	27.7	33.1	(44.1)	23.2	9.5	(29.9)

Source: SET, SCBS Investment Research

### Estimated revenue contribution from Thai guests



Source: Company data and SCBS Investment Research

### Analyst

**Raweenuch Piyakriengkai**

Fundamental Investment

Analyst on Securities

(66-2) 949-1002

raweenuch.piyakriengkai@scb.co.th

**Figure 1: Detail of domestic tourism stimulus packages**

Package	Detail	Maximum benefit (Bt/person)	Estimated gov't budget (Bt mn)
1. Rao Pai Teaw Kun	Package will be co-payment in which the government will offer a 40% discount on accommodation costing up to Bt3,000/night for a maximum of 5 nights (a maximum benefit at Bt15,000/person). It will also fill tourists' e-wallets with Bt600/night for a maximum of five nights (a maximum benefit of Bt3,000/person), to be used to pay for tourism activities such as spa services, souvenirs and restaurants (a maximum benefit at Bt3,000/person).	18,000	18,000
2. Teaw Pun Sook	Package will be a co-payment in which government will offer a 40% discount of up to Bt1,000 /person on in-country travel, and is designed to help airlines and car rental firms.	1,000	2,000
3. Kam Lang Jai	Package will reward about 1.2 million people, including medical staff and village health volunteers, who are on the frontlines of the COVID-19 battle. They will be provided free study tours and seminars worth up to Bt2,000/person.	2,000	2,400
<b>Total government budget</b>			<b>22,400</b>

Source: SCBS Investment Research

**Figure 2: Thai tourism to drop 67% in 2020**



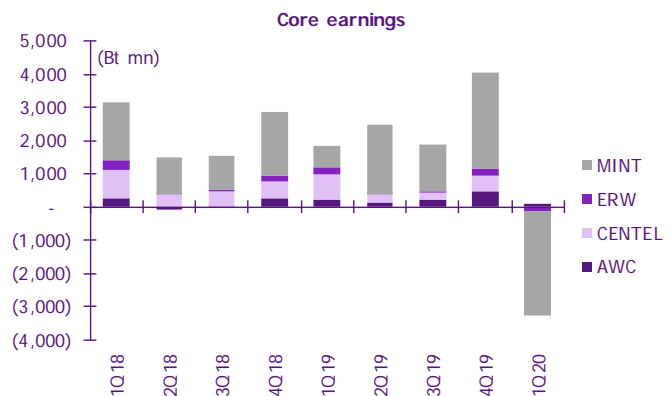
Source: Ministry of Tourism and Sports and SCBS Investment Research

**Figure 3: Thai tourism forecast by quarter**



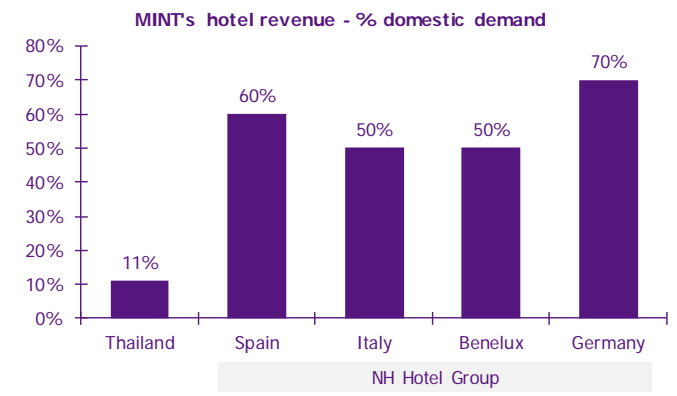
Source: Ministry of Tourism and Sports and SCBS Investment Research

**Figure 4: Quarterly earnings of hoteliers**



Source: Company data and SCBS Investment Research

**Figure 5: NHH's revenue is mainly from domestic market**



Source: Company data and SCBS Investment Research

**Figure 6: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
AWC	Neutral	4.56	5.6	23.0	138.4	257.8	124.4	68.8	(46.3)	107.2	1.6	1.7	1.7	1.8	0.6	1.3	0.3	0.2	0.3	34.6	41.8	32.9
CENTEL	Neutral	24.80	21.0	(15.1)	20.1	188.8	34.6	(23.7)	(89.3)	445.3	2.4	2.3	2.3	12.1	1.2	6.6	2.2	0.2	1.2	8.9	16.8	11.6
ERW	Neutral	3.96	4.0	1.0	20.1	n.m.	243.3	(12.0)	n.m.	n.m.	1.7	1.8	1.7	8.4	(8.9)	0.7	1.8	0.0	0.0	9.8	30.4	14.1
MINT	Buy	22.10	28.0	26.7	14.5	n.m.	41.0	23.3	n.m.	n.m.	1.2	1.3	1.2	8.4	(6.9)	3.0	0.0	0.0	1.0	9.5	30.0	12.2
<b>Average</b>					<b>48.3</b>	<b>223.3</b>	<b>110.8</b>	<b>14.1</b>	<b>(67.8)</b>	<b>276.3</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>	<b>7.7</b>	<b>(3.5)</b>	<b>2.9</b>	<b>1.1</b>	<b>0.1</b>	<b>0.6</b>	<b>15.7</b>	<b>29.7</b>	<b>17.7</b>

Source: SCBS Investment Research

# Land Transportation

SET TRANS index Close: 19/6/2020 344.61 -1.41 / -0.41% Bt3,149mn  
 Bloomberg ticker: SETTRANS



## Multiple upsides awaiting in 2H20

**We maintain our positive view toward BTS and BEM despite the 47% (BTS) and 61% (BEM) rebound in share price from bottom. We believe there are still attractive upsides that no one has yet factored in and expect to see more clarity in 2H20, driving share prices further. We assign a BUY rating for both BTS (TP Bt14.3) and BEM (TP Bt10.4).**

**Recent rally prices in improving operations.** BTS and BEM share prices have come back up by 47% and 61% from the year's bottom. The strong recovery for BTS was backed by the broad base for its business model where 50% of its EBITDA is derived from construction (Pink & Yellow lines) and E&M works, 30% from O&M revenue, 10% from BTSGIF and the rest chiefly from VGI. This implies that 80% of its EBITDA was immune to COVID-19. In addition to this, VGI share price rebounded strongly recently to Bt7.8 from Bt5.0 - and VGI accounts for ~20% of BTS valuation. For BEM, we believe the strong share price recovery reflects optimism over the improving traffic on its expressway and the MRT.

**Multiple upsides not yet in the price.** Despite the strong rally for BTS and BEM, we continue to see multiple upsides for these two companies in 2H20F.

**1) West Orange line:** This could be an upside for both BTS and BEM, pending the results of the bidding which we expect to take place in 3Q20. The bid will include construction and E&M work and the contract will be in the form of PPP net cost. The winner of this project will be the operator for the entire Orange Line. We expect intense competition in the bidding for this project as the Orange Line will be a key line in Bangkok metropolis. Given the amount of interest, we will have to wait and see who wins it. Based on our rough estimates, if BTS wins, it would add Bt1.5/sh to BTS and Bt1.5/sh for BEM.

**2) South Purple line:** This is an upside specific to BEM. We estimate this could add Bt0.75/sh to TP and have not factored it into our forecast, nor has consensus. We expect the bid for the construction work to open in late 3Q20 or 4Q20 and the O&M contract will follow. We believe BEM will surely secure this project, as it already manages the North Purple Line. We see no reason for any other operator to secure the South Purple line.

**3) Green Line concession extension, U-Tapao and two motorways:** The first (Green Line extension) is an upside specific to BTS. We have already factored it into our TP (Bt4.5/sh), as has consensus and believe share price has not yet fully captured the upside. After having been delayed since late last year, we expect to see a conclusion in 2H20 as the extension has already reached the final step, submission for cabinet approval. For the others, BTS already won them and contracts will be signed in June/July. We estimate these would add Bt1/sh to BTS. Note that BTS has a 40% stake in the two motorways and 35% in U-Tapao airport.

### Valuation summary

	Rating	Price (Bt)	TP (Bt)	ETR (%)	P/E (x) 20F	P/E (x) 21F	P/BV (x) 20F	P/BV (x) 21F
BEM	Buy	9.9	10.4	5.7	63.9	41.4	3.8	3.6
BTS	Buy	11.6	14.3	27.3	45.6	45.9	2.4	2.4
BTSGIF	Buy	7.3	8.3	21.0	13.6	9.5	0.8	0.8
<b>Average</b>					<b>41.0</b>	<b>32.3</b>	<b>2.3</b>	<b>2.3</b>

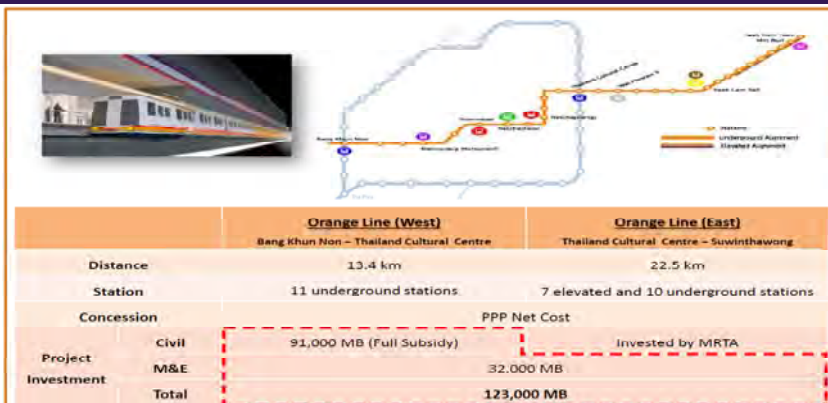
Source: SCBS Investment Research

### Price performance

(%)	Absolute			Relative to SET		
	1M	3M	12M	1M	3M	12M
BEM	2.6	30.3	(13.2)	(1.0)	7.1	8.8
BTS	(2.5)	22.8	(4.9)	(6.0)	0.9	19.2
BTSGIF	(2.7)	(5.2)	(34.2)	(6.1)	(22.0)	(17.6)

Source: SET, SCBS Investment Research

### Largest project in 3Q20 – West Orange Line

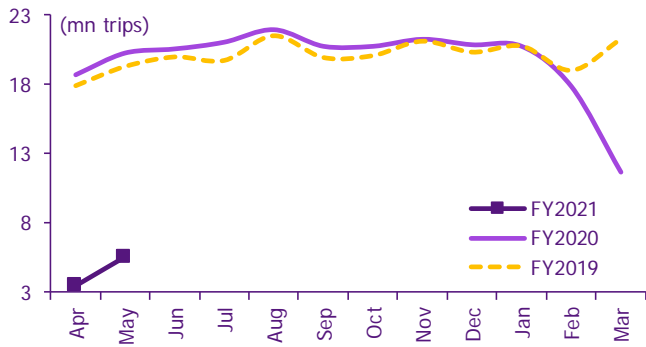


Source: SCBS Investment Research, BEM

### Analyst

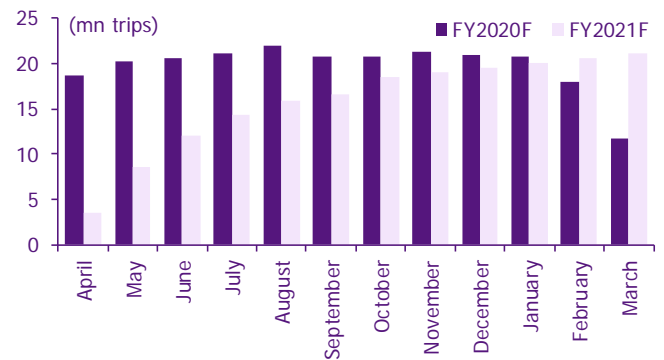
**Kittisorn Pruitipat, CFA, FRM**  
 Fundamental Investment  
 Analyst on Securities  
 (66-2) 949-1007  
 kittisorn.pruitipat@scb.co.th

**Figure 1: BTS – Actual ridership number**



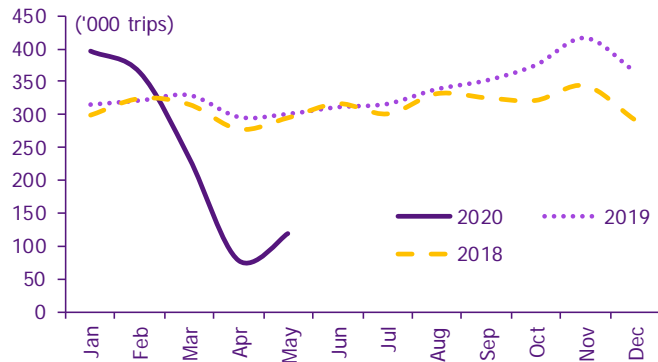
Source: SCBS Investment Research, BTS

**Figure 2: BTS – Expected monthly recovery**



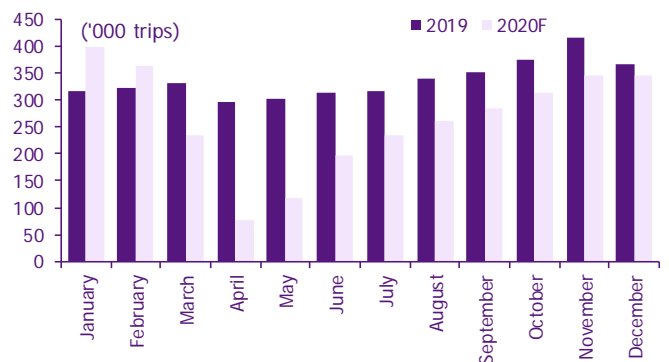
Source: SCBS Investment Research, BTS

**Figure 3: MRT – Actual ridership number**



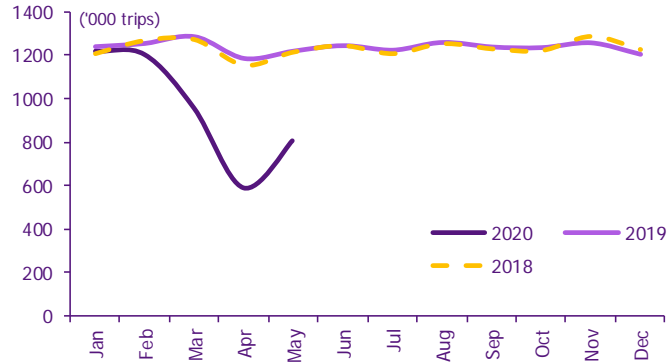
Source: SCBS Investment Research, BEM

**Figure 4: MRT – Expected monthly recovery**



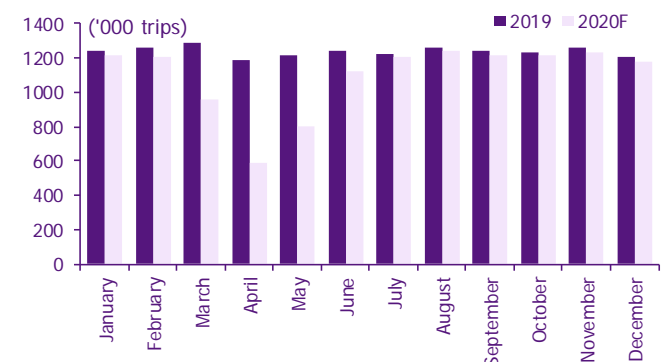
Source: SCBS Investment Research, BEM

**Figure 5: Expressway – Actual traffic number**



Source: SCBS Investment Research, BEM

**Figure 6: Expressway – Expected monthly recovery**



Source: SCBS Investment Research, BEM

**Figure 7: Valuation summary**

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
					19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F	19A	20F	21F
BEM	Buy	9.90	10.4	5.7	59.4	63.9	41.4	(13)	(7)	54	3.9	3.8	3.6	7	6	9	1.5	0.6	1.0	23.6	34.0	27.6
BTS	Buy	11.60	14.3	27.3	32.9	45.6	45.9	64	(28)	(1)	2.8	2.4	2.4	8	5	4	4.1	4.0	3.3	32.5	24.3	26.5
BTSGIF	Buy	7.30	8.3	21.0	8.9	13.6	9.5	5	(34)	42	0.8	0.8	0.8	8	6	9	11.1	7.3	10.4	8.9	13.6	9.5
<b>Average</b>					<b>33.7</b>	<b>41.0</b>	<b>32.3</b>	<b>19</b>	<b>(23)</b>	<b>32</b>	<b>2.5</b>	<b>2.3</b>	<b>2.3</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>5.6</b>	<b>4.0</b>	<b>4.9</b>	<b>21.7</b>	<b>23.9</b>	<b>21.2</b>

Source: SCBS Investment Research













**Bangkok - Head Office**

19 Tower 3, 2nd, 20th-21st Fl., SCB Park Plaza,  
Ratchadapisek Rd., Chatuchak, Chatuchak,  
Bangkok 10900  
Tel: (662) 949-1000  
Fax: (662) 949-1001

**Bangkok - Sindhorn Branch**

130-132, G Floor, Sindhorn Tower 1 Building,  
Wireless Road, Lumpini, Pathumwan,  
Bangkok 10330  
Tel: (662) 686-2068  
Fax: (662) 263-3822

**Bangkok - Chaloe Nakorn Branch**

269 Charoen Krung Road,  
Pomprab, Pomprab Sattru Phai,  
Bangkok 10100  
Tel: (662) 688-9200  
Fax: (662) 688-9020

**Bangkok – Central Plaza Westgate Branch**

199, 199/1, 199/2 MU 6, 3 rd FL.,  
Saothonghin, Bangyai,  
Nonthaburi 11140  
Tel: (662) 949-1358  
Fax: (662) 194-2896

**Bangkok – Central Plaza Pinklao Branch**

7/222, Central Plaza Pinklao, Room K414, 4 Fl.,  
Boromratchonni Rd., Arun Amarin, Bangkoknoi,  
Bangkok 10700  
Tel: (662) 949 1429  
Fax: (662) 884 7962

**Bangkok – Ramathibodee Branch**

270 Rama 6 Road, Thung Phaya Thai Sub District  
Ratchathewi District, Bangkok 10400  
Tel: (662) 949-1424  
Fax: (662) 354-5590

**Chiang Mai – Chiang Mai Branch**

90/1 Unit 512, Floor 5, Airport Business Park, Building D,  
Mahidol Road, Hai Ya Sub District, Muang Chiang Mai  
District, Chiang Mai, 50100  
Tel: (66-53) 235-933  
Fax: (66-53) 235-944

**Chiang Mai - Tha Phae Branch**

17, 2nd Floor, Tha Phae Road,  
Chang Klan, Mueang Chiang Mai,  
Chiang Mai 50000  
Tel : (66-53) 818-422  
Fax : (66-53) 818-433

**Hat Yai - Thanon Rat Yindi Branch**

16/4 2nd Floor, Rat Yindi Road  
Hat Yai, Hat Yai,  
Songkhla 90110  
Tel: (66-74) 209-788  
Fax: (66-74) 209-737