Market Strategy
2Q 2021

Keep Smiling..

SCB Securities

What we expect in 2Q21

Global Economic Theme: Air pocket ahead

The global economic picture in 1Q21 is as we expected. In terms of year-on-year growth, the economy has come back up steadily since the bottom in 2Q20 when the pandemic hit, forcing governments around the world to impose strict lockdowns. Rising economic activity, as reflected in indicators such as confidence indicators, PMI, retail sales, and industrial production, as well as GDP and labor market indicators, is due to 1) a new round of economic stimulus, esp. in the US and 2) the steady progress of vaccinations globally, especially in the rich world, which has led to fewer new patients worldwide, especially in previously "hot areas" such as the US and India.

The combination of three good factors - 1) the economic rebound, 2) the enactment of President Biden's new economic stimulus program and 3) the progress of global vaccination and reduction in the number of new cases - led to a "too good to be true" condition. This investment-conducive condition led to a boom in stock markets worldwide and subsequently brought the fear of inflation. The arrival of the US$1.9tn economic stimulus program will not only boost the US economy but will fuel global growth via increased demand in the US and from the US to the rest of the world. People are beginning to fear the bursting demand will lead to rising prices. US borrowing costs and commodity prices have returned to pre-crisis levels in recent weeks. As a consequence, rising inflation expectations have led investors to believe that the central bank will have to tighten its loose stance in order to curb inflation. With bond yield rising, a broad-based rise in financial cost, from government finance to higher mortgage rates to higher private sector financial cost is inevitable.

What we expect in 2Q21 (cont.)

Global Economic Theme: Air pocket ahead

Hence, going forward, the rising bond yield is the key indicator we need to monitor closest. As a guideline, we forecast the direction of US 10-year bond yield (US10YY) through the year using two approaches.

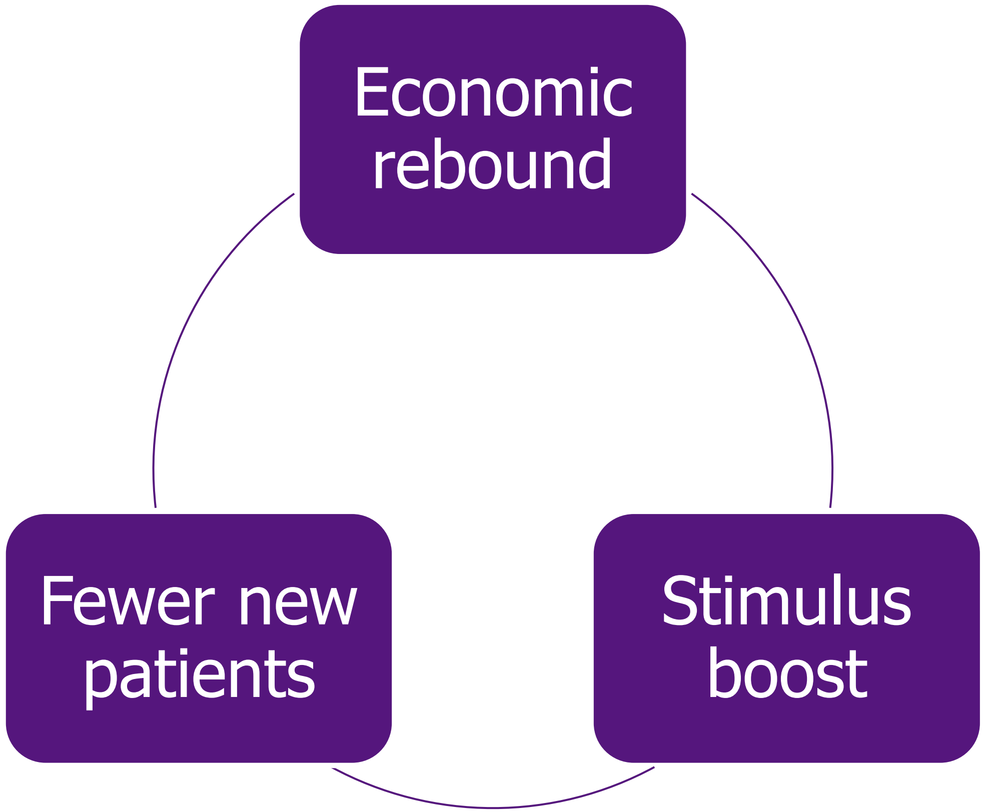
1. From the behavior of the difference in the yield between 2-year and 10-year Treasury bonds in the past, especially after an inverted yield curve was seen.
2. From the interrelationship between oil, inflation, inflation expectations and bond yield.

The results of the first approach indicated that the yield curve will continue to increase if the central bank does not explicitly manage it, with 10YY reaching 2.2% at the end of the year. Nevertheless, we believe "this time is different". We believe there will be some factors keeping the bond yield from rising as much as indicated in the model. The results of the second approach concluded that, as our calculations show that US inflation will not skyrocket in March-April 2021, the 10YY will not increase substantially in the near future. Nevertheless, in 2Q21 (especially May) as inflation numbers increase substantially from the low base, inflation expectation is going to increase in the next two months and lead bond yield to rise to touch 2%. But when inflation is projected to subside in the second half of the year, the US 10–year bond yield will be lower. Our calculation shows that the 10YY may touch 1.5% at the end of this year.

The conclusion of the analysis is that although the economy is benefiting from three positive factors and will continue to grow robustly, the investment horizon will eventually face a higher risk due to rising financial cost. The risk is, however, skewed to 2Q21 and is projected to subside in the latter part of the year.

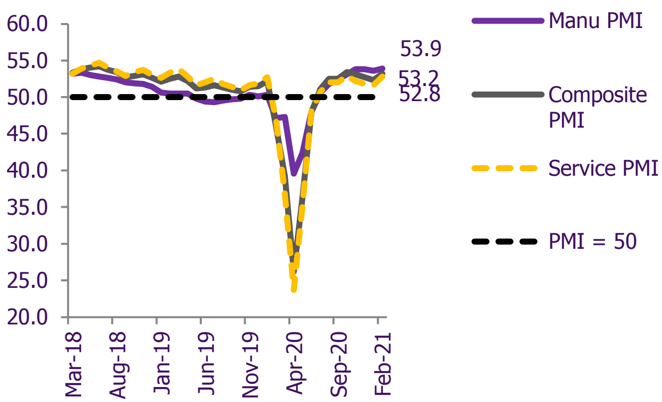
Global Economy

Global Economy in 4Q2020-1Q2021 is as we expected

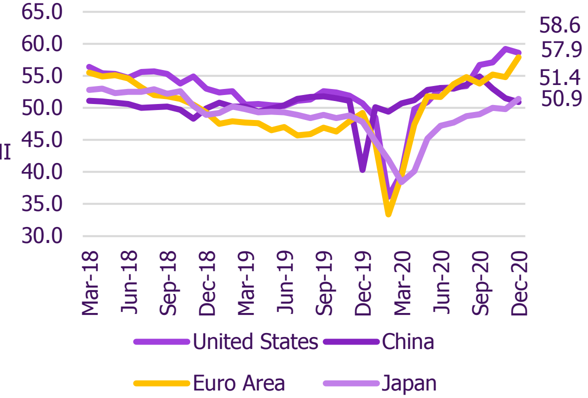


The rise in economic activity as reflected in numerous indicators

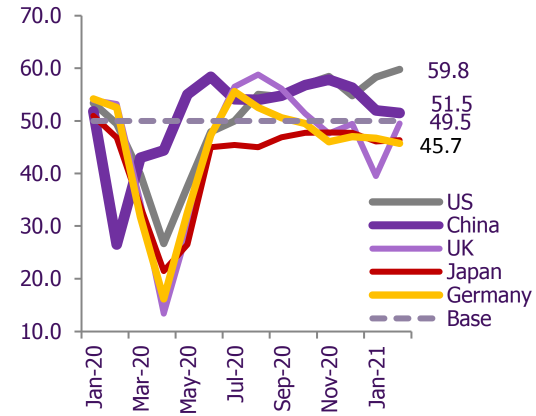
Global PMI: Manu, Service and Composite



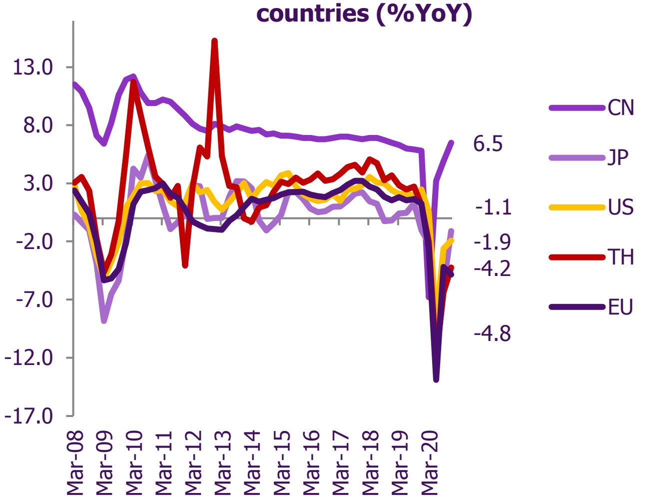
Manufacturing PMI (50 = Normal)



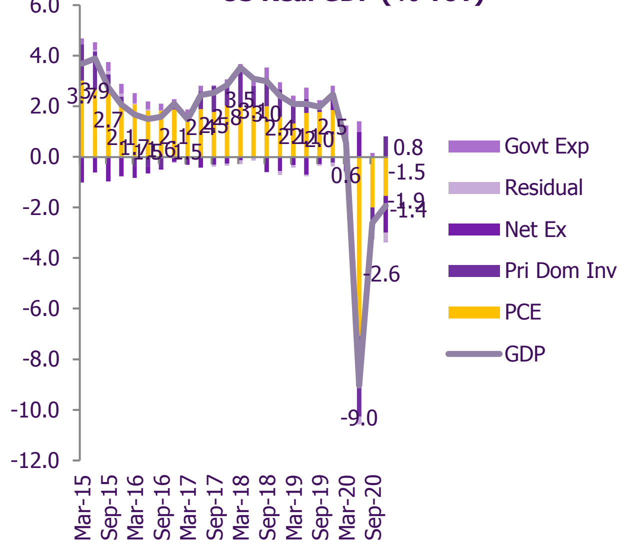
Service PMI (50 = Normal)



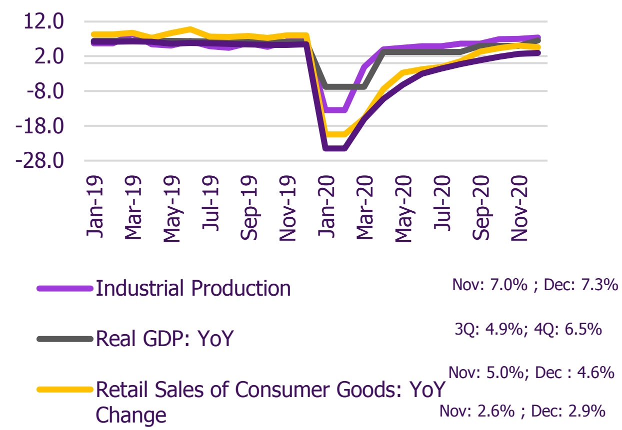
Quarterly real GDP growth: selected countries (%YoY)



US Real GDP (% YoY)



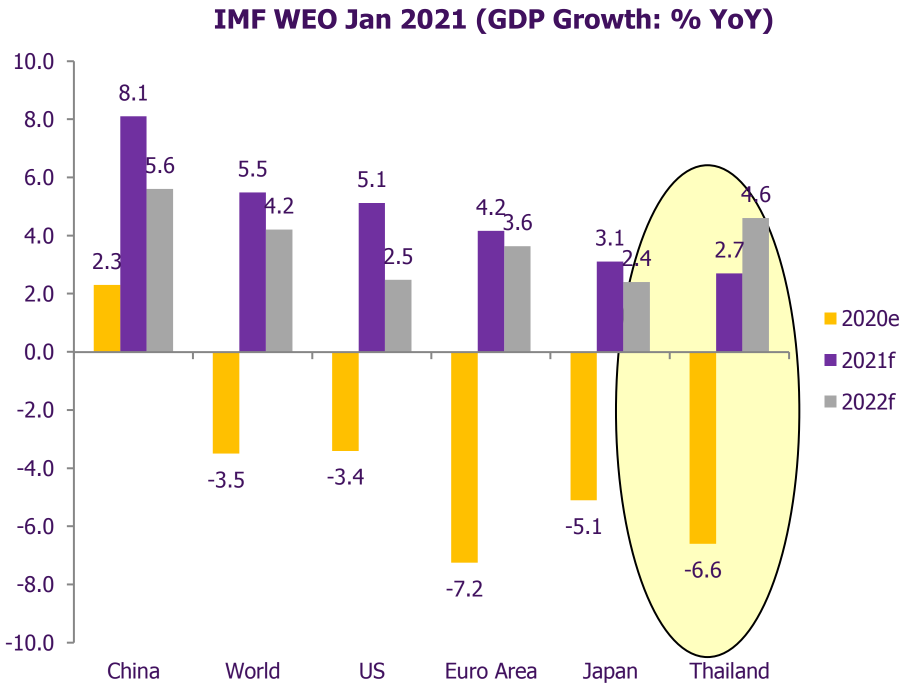
China's GDP Growth, Retail Sales, Fixed Asset Investment and Industrial Production (% YoY)

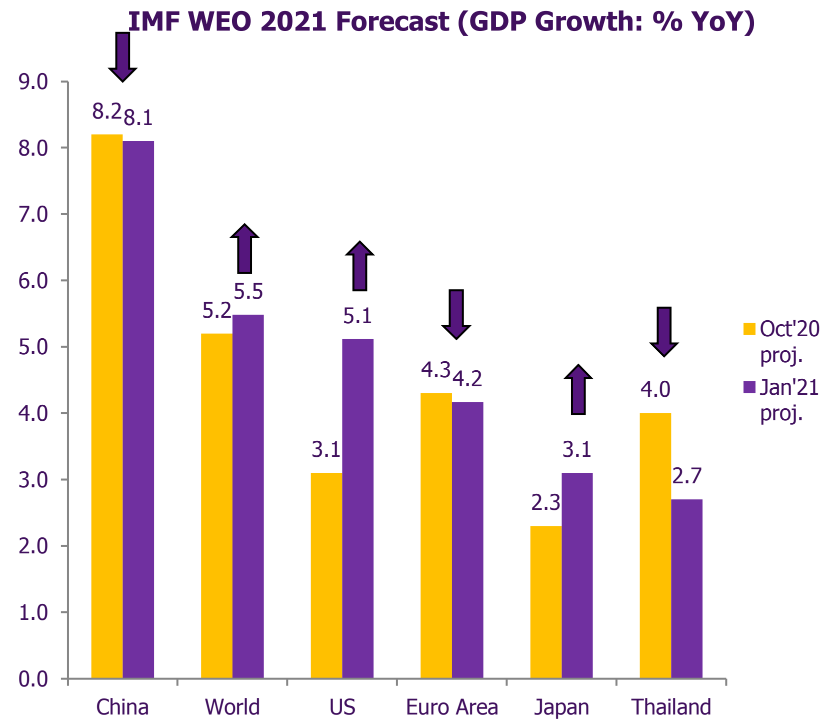


Source: CEIC, SCBS Research

SCBS

IMF upgraded its economic projection due to stimulus programs in the US and Japan and the global vaccination program.





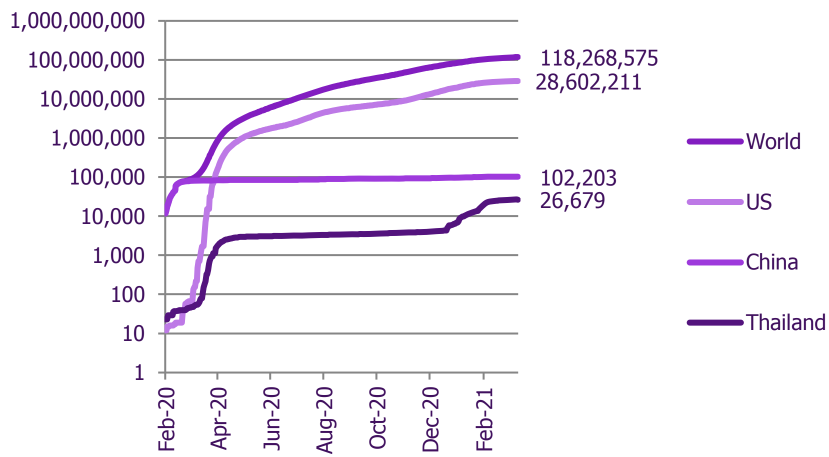
Source: IMF, Bloomberg, CEIC, SCBS Research

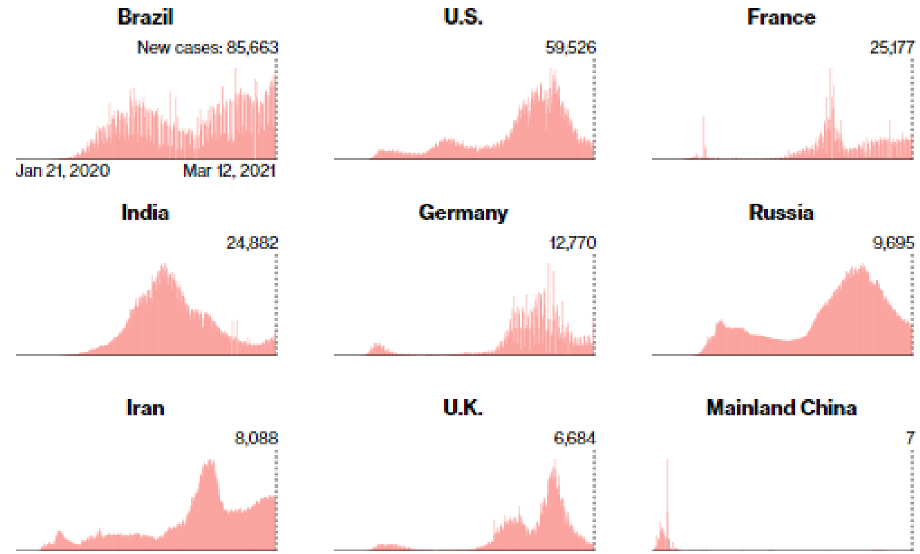
COVID-19 is easing

119,060,633
Confirmed cases worldwide

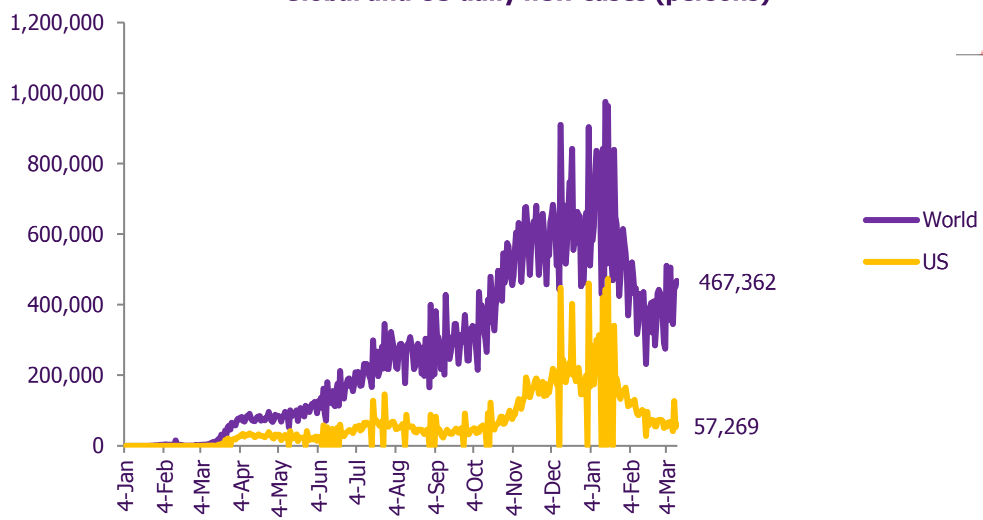
2,639,457
Deaths worldwide

Global case (Persons)

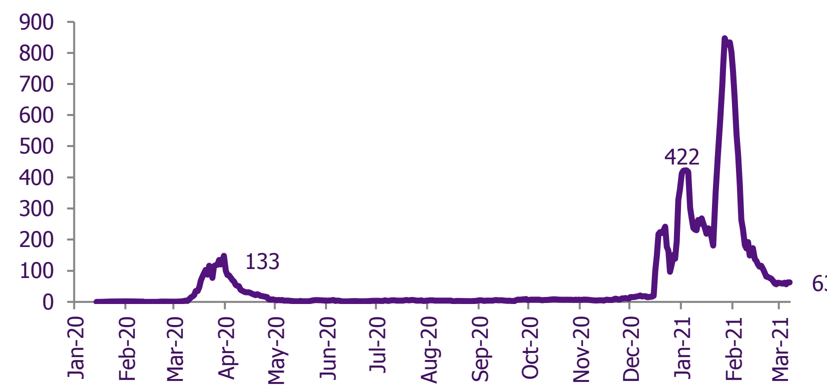




Global and US daily new cases (persons)



Thailand's daily new cases, 7d-moving average (persons)



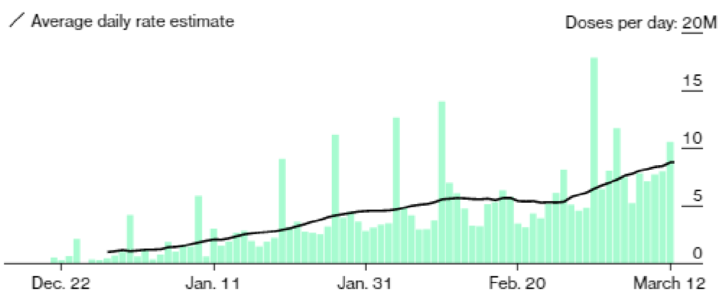
Source: Bloomberg, CEIC, SCBS Research

Vaccination status and projection

The Path to Immunity Around the World

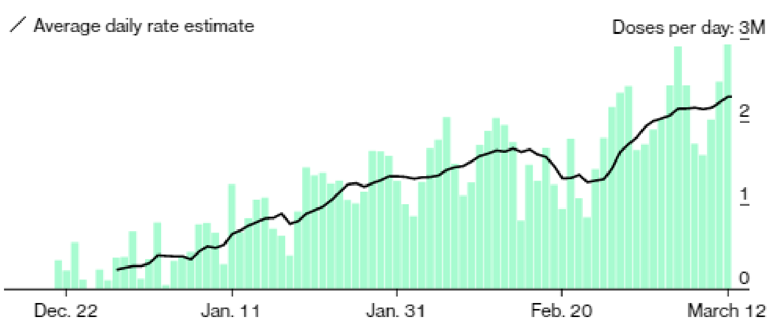
Globally, the latest vaccination rate is **8,741,257 doses** per day, on average. At this rate, it will take **an estimated 3.5 years** to cover **75%** of the population with a two-dose vaccine.

Global



In **the U.S.**, the latest vaccination rate is **2,302,844 doses** per day, on average. At this rate, it will take **an estimated 5 months** to cover **75%** of the population with a two-dose vaccine.

Select another country...



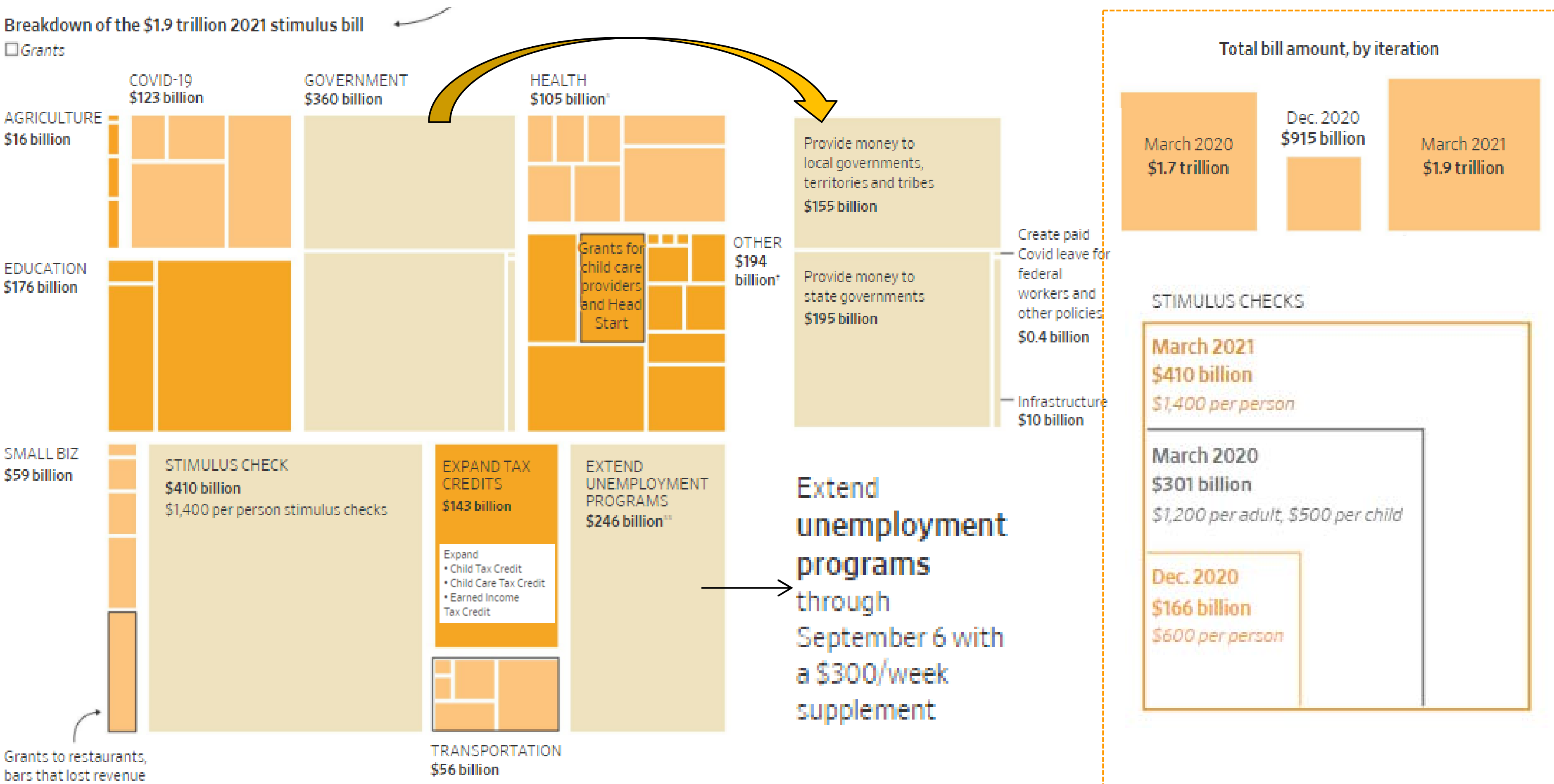
Proportion of vaccinated people per total population, SCBS projection

Country	Mar 2021	1H2021	2H2021
Israel	99.5%	100%	100%
UAE	65.2%	>75%	100%
UK	36.4%	>75%	>75%
US	19.9%	>75%	>75%
Europe	10.7%	30%	>75%
China	3.6%	40%	>75%
Thailand	0.6%	12%	50%

Source: Our World in Data, Bloomberg, SCBS Research

What's new in the third COVID-19 stimulus package?

- The US$1.9tn legislation known as the American Rescue Plan Act includes a range of measures from stimulus checks to child tax credits, jobless benefits, vaccine distribution funds, healthcare subsidies and restaurant aid. This deal will be the largest aid package to pass since widespread restrictions tied to the coronavirus pandemic began in March 2020. We expect it to give a boost to the US economy to growth of 6.1% from 5.1% previously, while the CPI inflation should be at a rate of 1.96%.

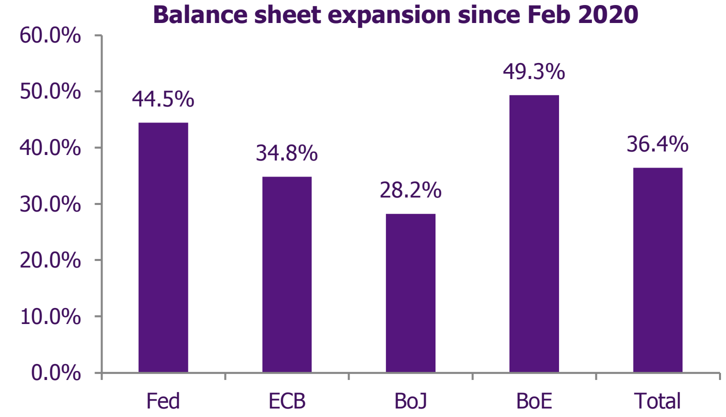


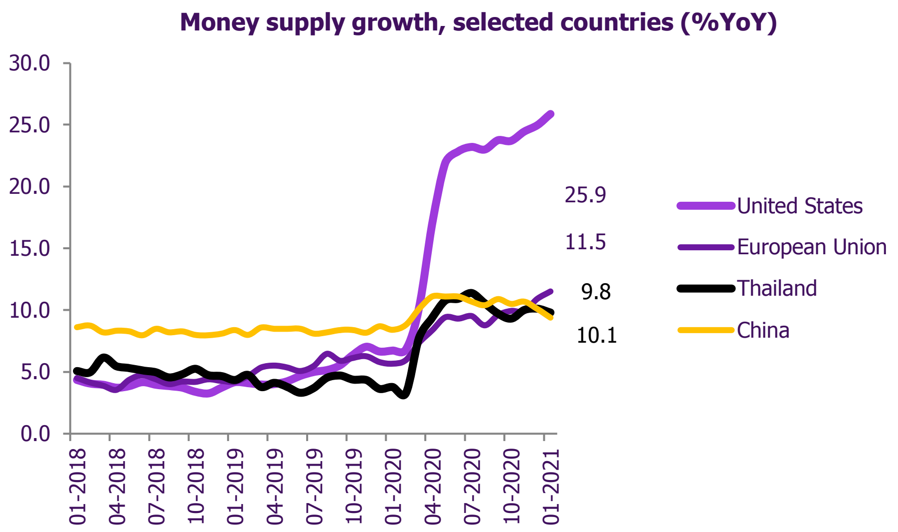
Source: WSJ, SCBS Research

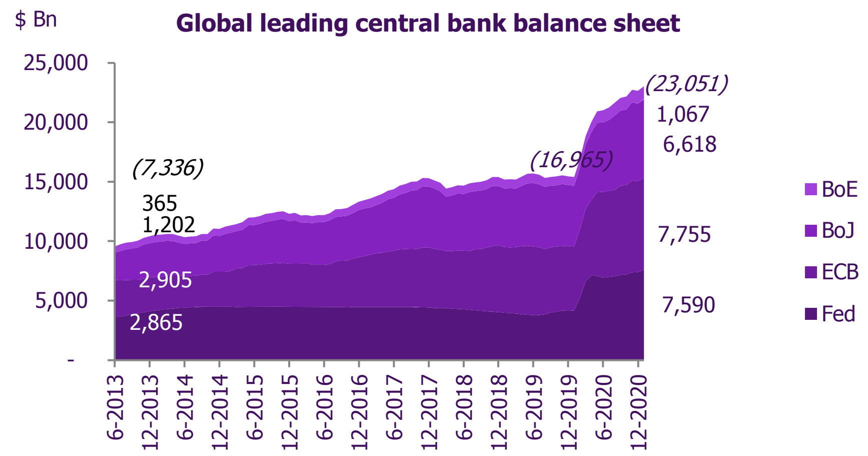
Monetary policy still proactive

Criteria	12/2018	12/2019	6/2020	9/2020	12/2020	1/2021	2/2021	Latest
	US liquidity heatmap (end of period)							
Fed B/L sheet ($trl)	4.08	4.17	7.08	7.06	7.36	7.41	7.59	7.59
US2YY (%)	2.48	1.58	0.16	0.13	0.14	0.11	0.14	0.14
US10YY (%)	2.69	1.92	0.66	0.69	0.93	1.10	1.44	1.64
DXY (Pt.)	91.9	95.7	97.4	93.7	89.8	90.4	90.8	91.7
M2 Growth (%YoY)	3.7	6.7	22.9	24.1	25.1	25.7	25.7	25.7
Score (1-->5)	2.0	2.0	3.8	4.2	4.6	4.6	4.6	4.6

*Red = 1; Orange = 2; Yellow = 3; Light green = 4; Dark green = 5; 1 = most tight, 5 = most loose

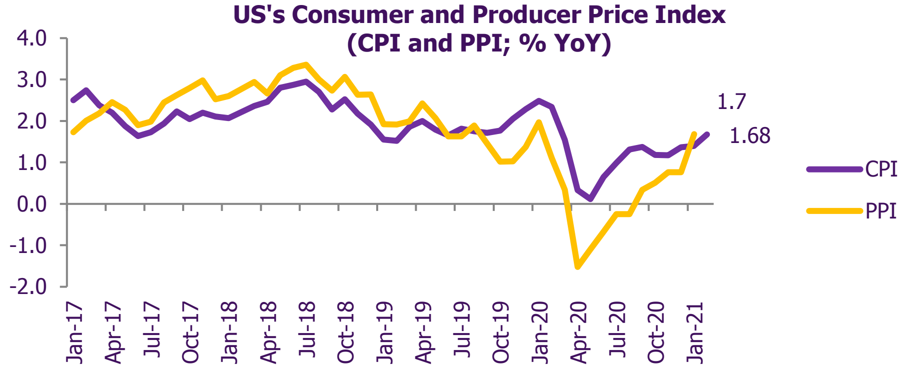


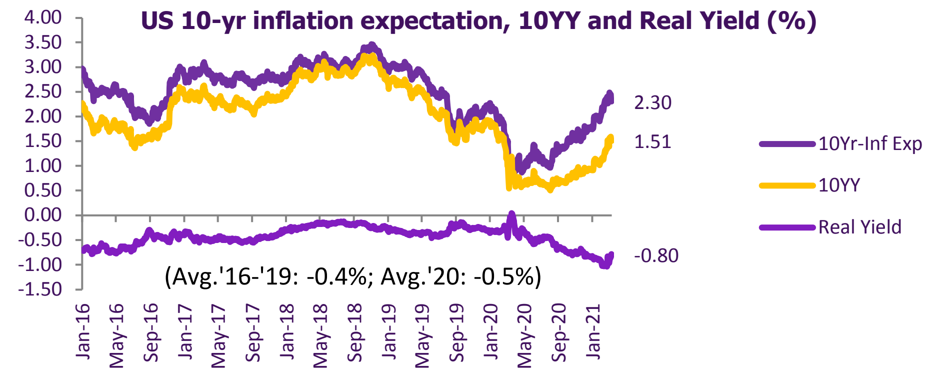


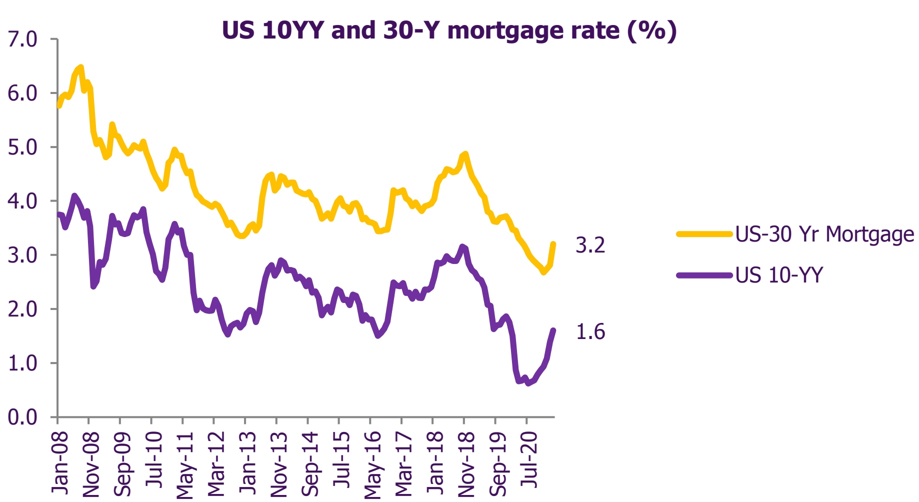


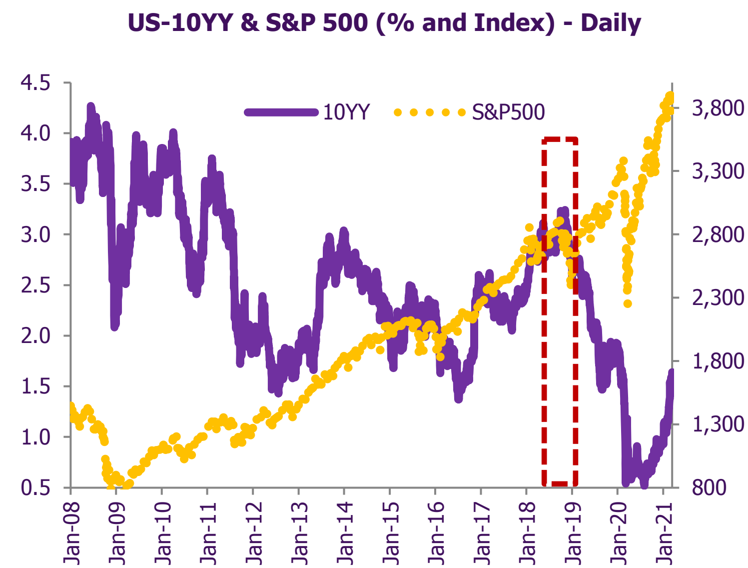
Source: Bloomberg, CEIC, SCBS Research

Rising bond yield is a threat to the economy and financial market









Source: Bloomberg, CEIC, SCBS Research

Forecasting the US 10-year bond yield (US10YY) direction throught the year via two approaches

2-10 difference

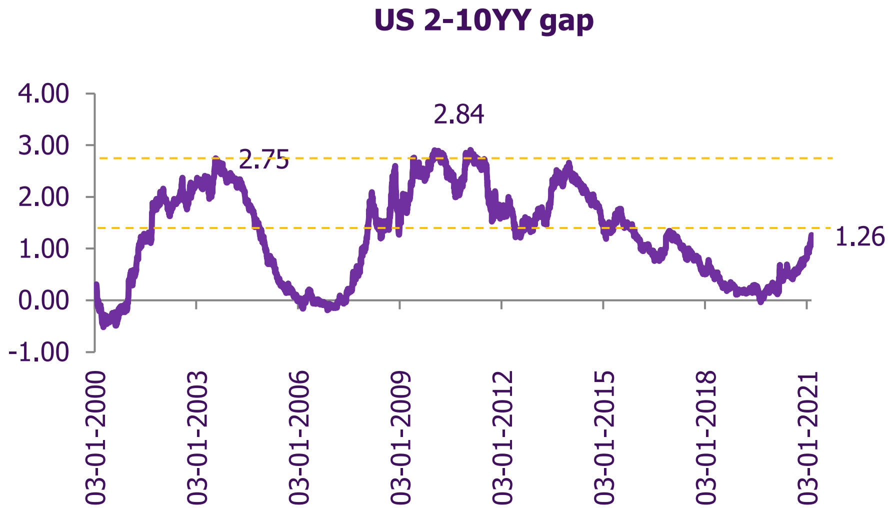
- From the behavior of the difference of the yield between 2-year and 10-year treasury bond in the past
- Especially after an inverted yield curve (IYC)

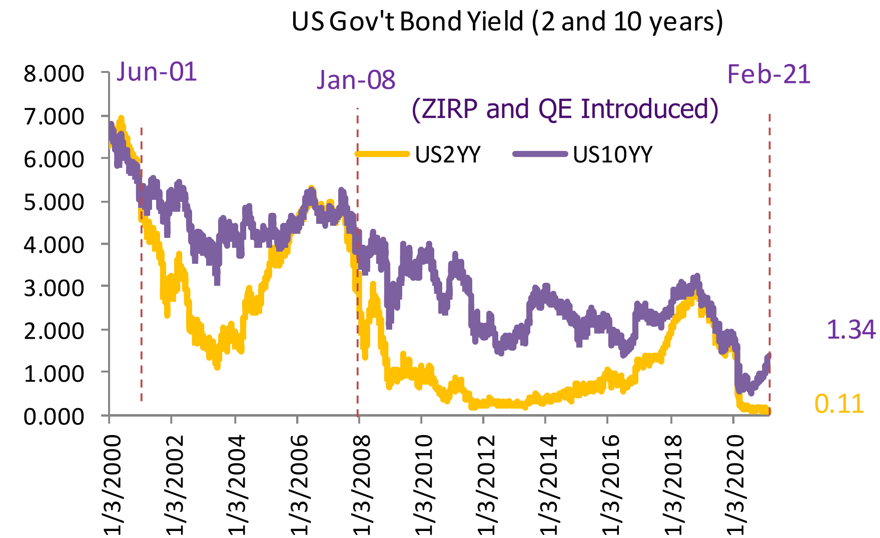
Interrelationship between 4 variables

- World oil demand S/D → oil price
- Oil price → inflation
- Inflation → inflation expectation
- Inflation expectation → bond yield

The first approach: Analysis of IYC and rising bond yield

History will repeat itself vs "this time is different"





Source: Bloomberg, CEIC, SCBS Research

Period 2-10 was at trough during IYC	Period 2-10 reached 1.3%pp. (1)	No. of months from IYC to (1)	Period 2-10 reached peak	No. of months from IYC to peak	Level at peak (%p.p.)
May 2000	Jun 2001	13 mth	Jul 2003	38 mth	2.75
Sep 2007	Jan 2008	4 mth	Nov 2010	38 mth	2.90
Aug 2019	Feb 2021	17 mth	Oct 2022 (e)	38 mth (e)	2.80 (e) 2yy: 0.25 10yy: 3.05

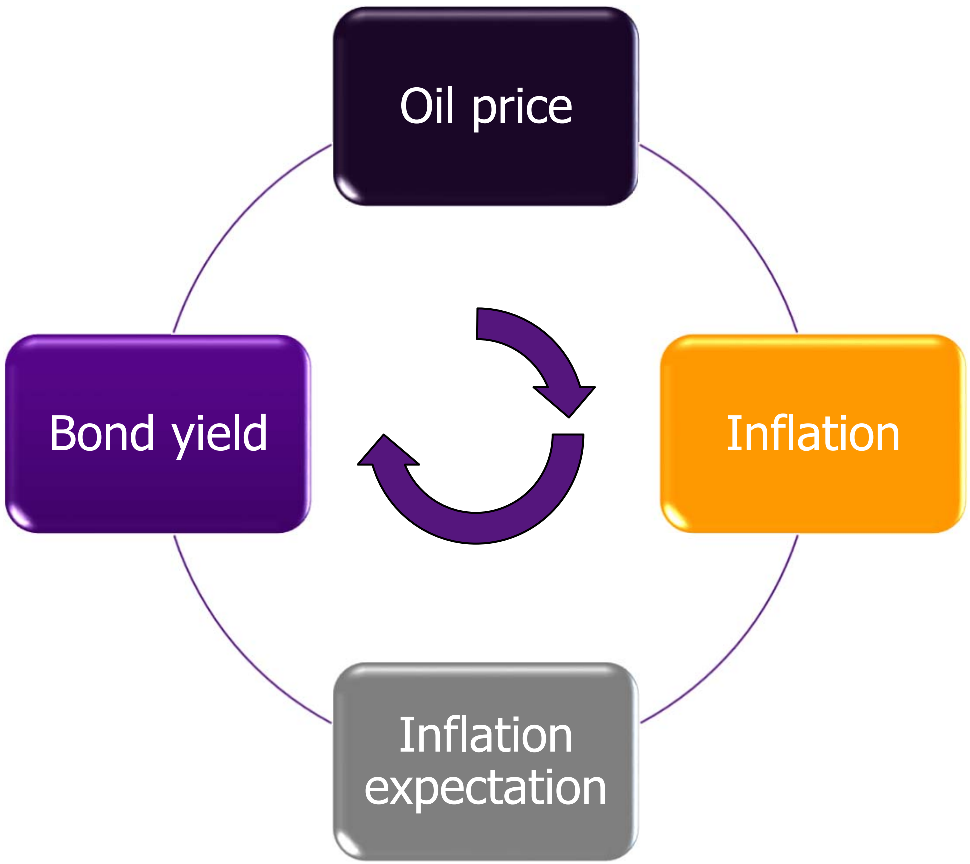
Hypothetical model based on no further action from Fed vs our projection

Model	Feb 2021	Jul 2021	Dec 2021	Oct 2022
10YY	1.34	1.77	2.20	3.05
2YY	0.11	0.15	0.18	0.25

Dec 2020	Dec 2021	Dec 2022
0.93	1.50	2.00
0.14	0.20	0.25

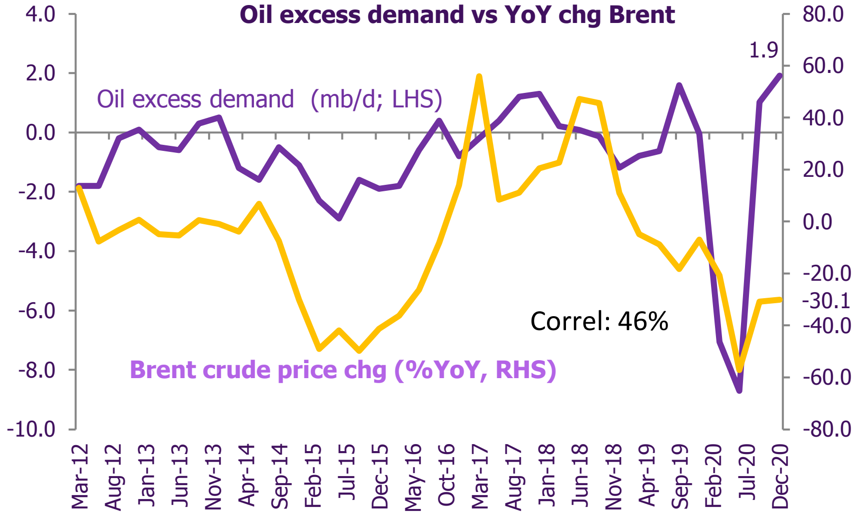
SCBS

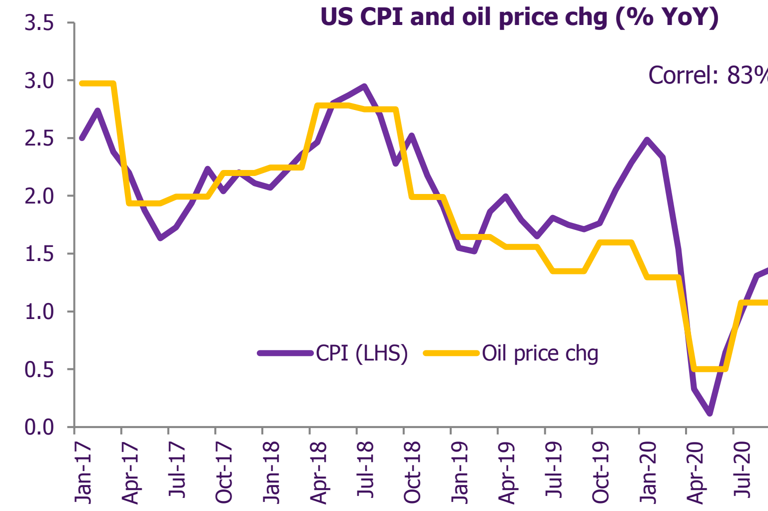
The Second Approach: Forecasting bond yield from oil price, inflation, inflation expectation and bond yield



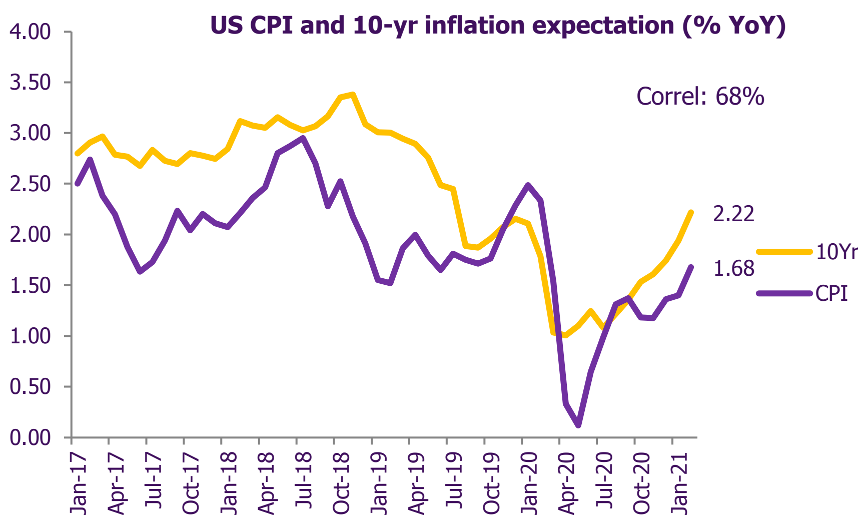
Forecast bond yield from systemic model of oil price-inflation-inflation expectation and bond yield

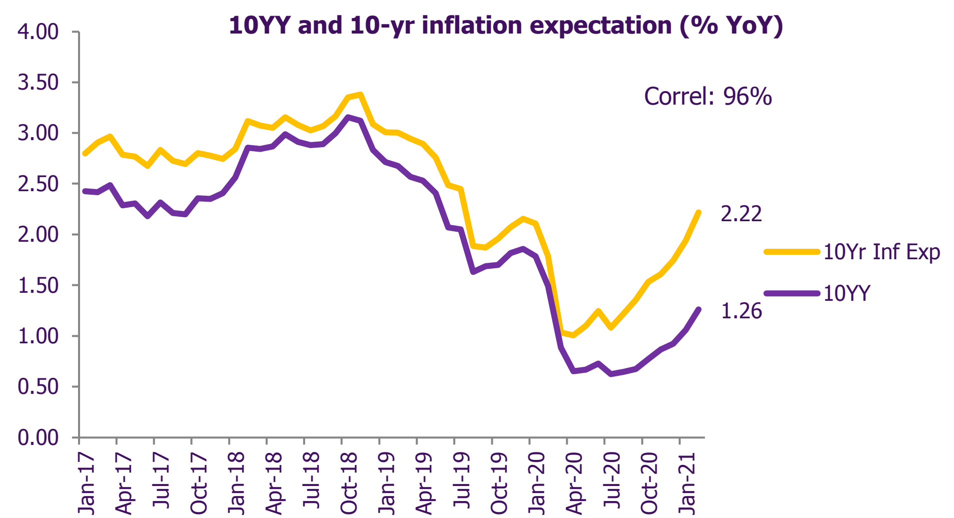
- Our oil price forecasting model is based on world oil demand surplus/deficit. The forecast oil price is then used to forecast inflation based on oil price change. After achieving a forecast inflation rate, the variable will be used to forecast inflation expectation and then bond yield.





Source: OPEC, Bloomberg, CEIC, SCBS Research

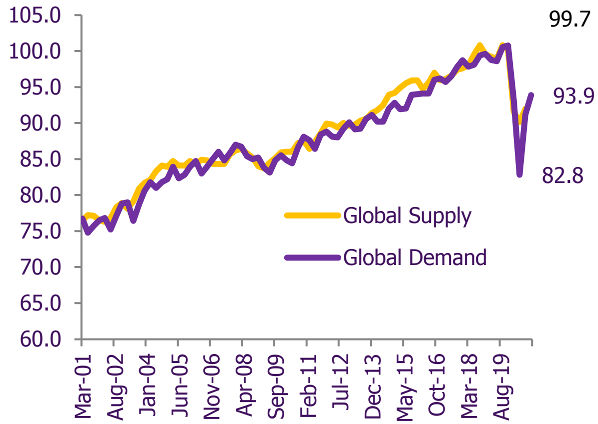




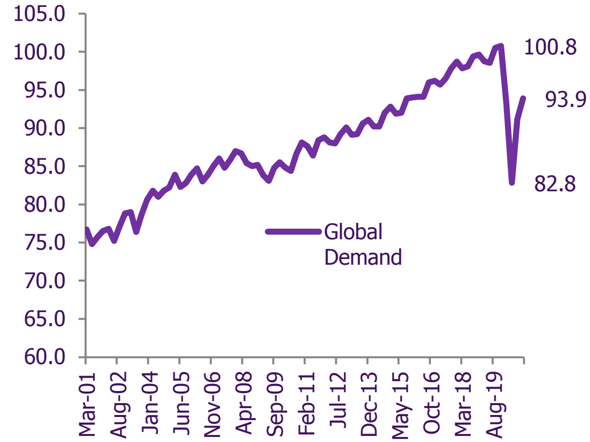
Forecast oil prices based on world oil demand surplus/deficit

- As of 4Q20, world oil demand surplus is 1.9mn bpd while the current demand surplus forecast (at 1Q21) is projected at 3mn bpd; the surplus will gradually drop to 2mn bpd in 2Q and 1mn bpd in 3Q to 4Q.
- At present, correlation between oil demand surplus and oil price change is around 46%, while R-square is about 30% (not as high but we can use it as a guideline). Using this model, Brent oil price is forecast at US$62/bbl in 1Q, US$60/bbl in 2Q, US$61/bbl in 3Q and US$57.6/bbl in 4Q (average price is US$60.3/bbl).

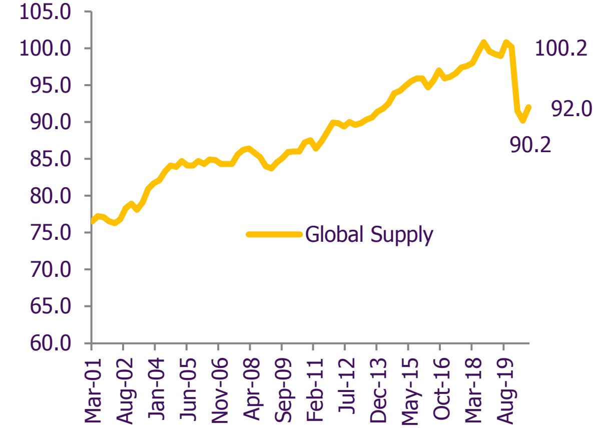
Global demand and supply of oil 4Q20 (mb/d)



Global demand

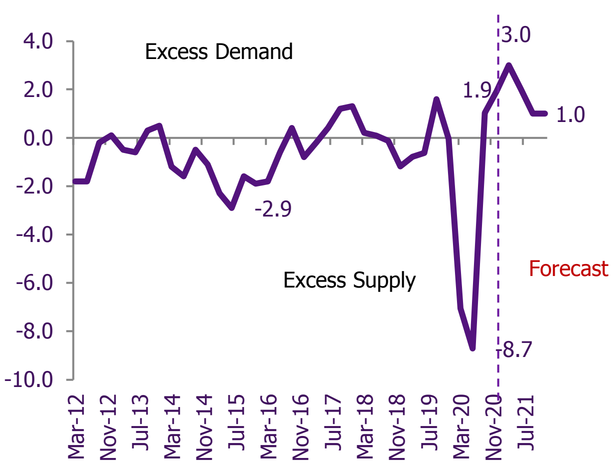


Global supply

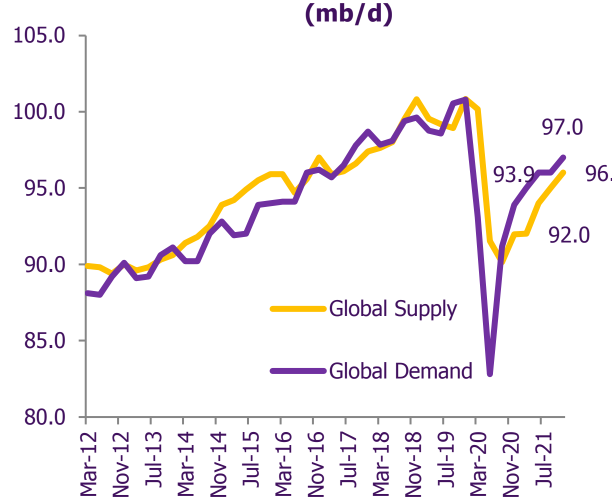


Source: OPEC, CEIC, SCBS Research

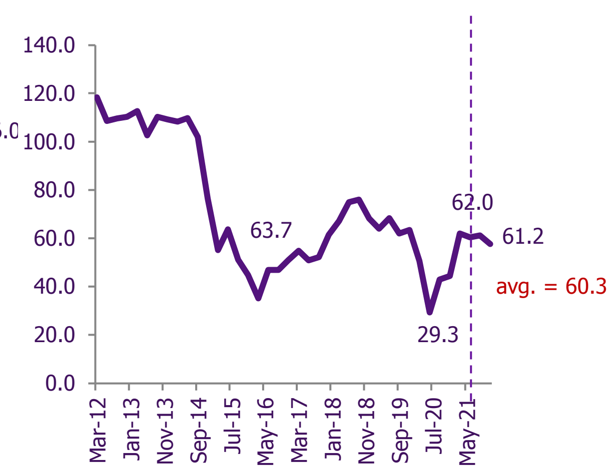
Global Excess Demand or Excess Supply of Oil (Global Demand - Global Supply; Mbpd)



Global Demand and Supply of Oil Proj. (mb/d)

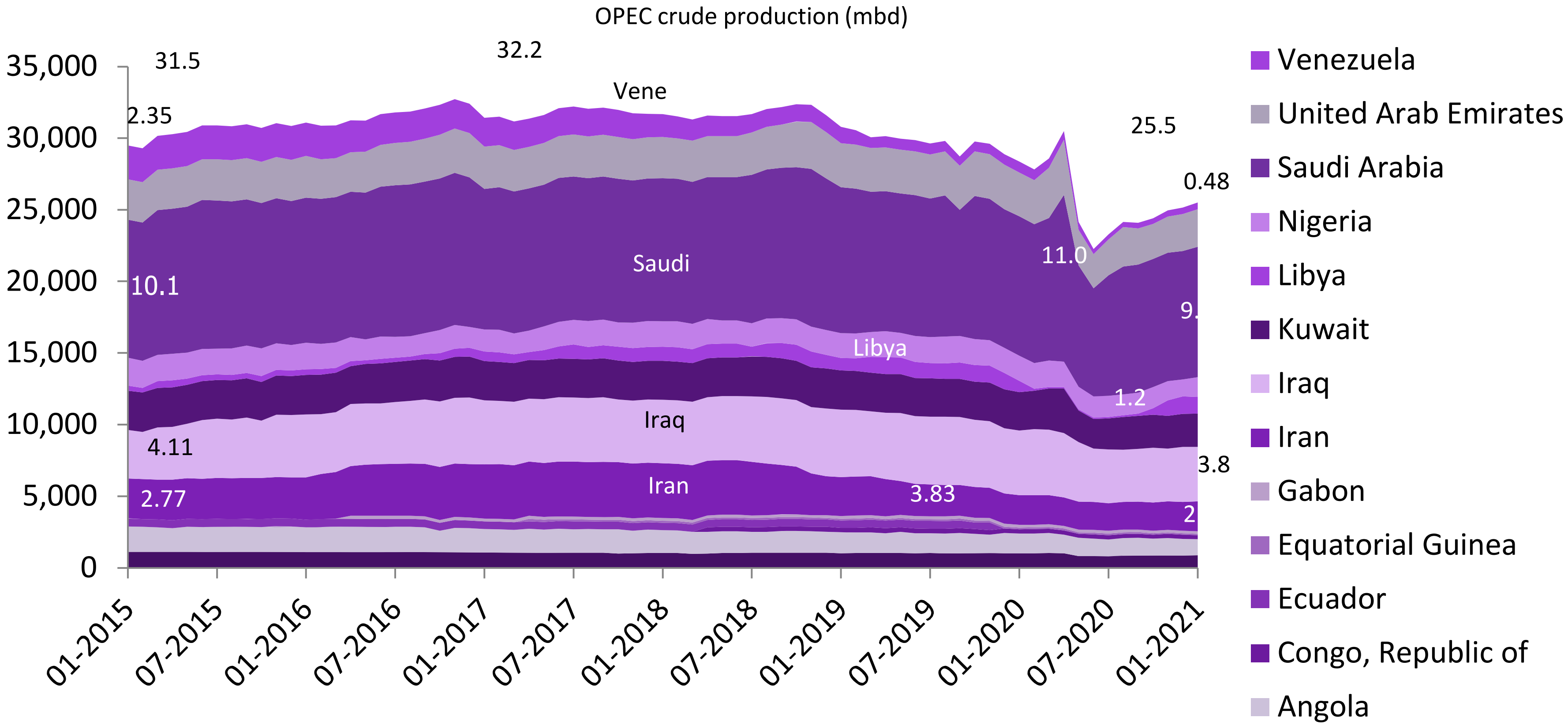


Brent oil price Proj. ($/bl)



(Extra) OPEC crude production down from 32.2 mbpd to 25.5, mainly from Saudi Arabia

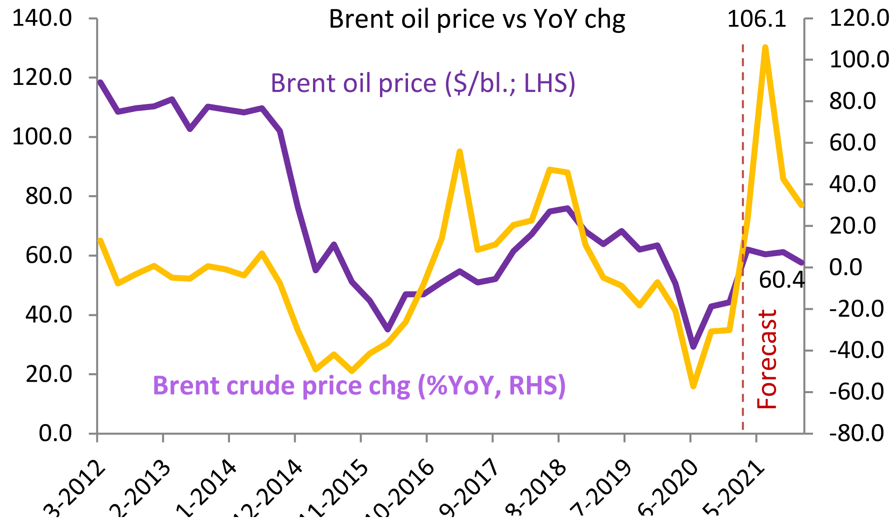
- The main reason we believe oil prices will stabilize is because OPEC is gradually expected to increase supply. Crude production is expected to decline from the current 25.5mnbbl/d to 27-28 in 4Q. We project that Saudi Arabia will increase production gradually to adjust to increasing demand.



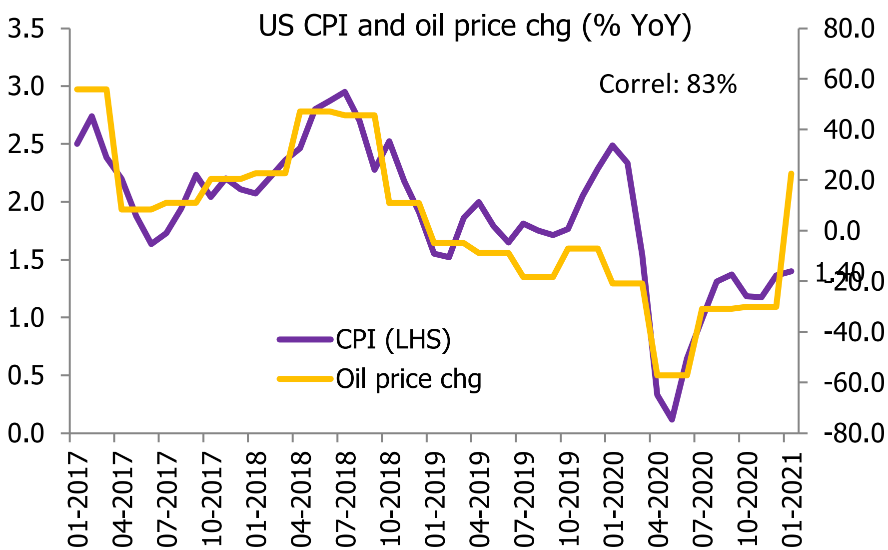
Source: OPEC, CEIC, SCBS Research

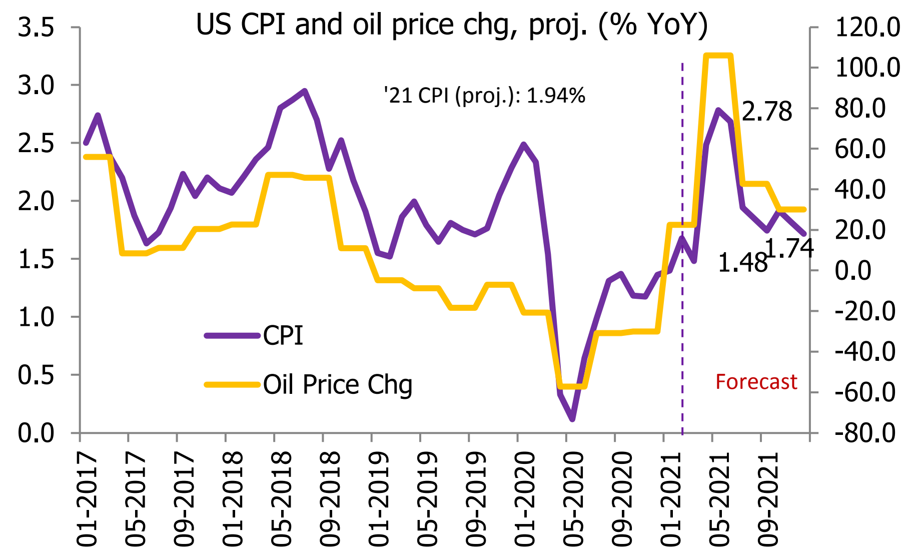
Forecasting US inflation from oil and other factors

- Although oil prices are forecast to decline due to higher supply than demand, in order to forecast inflation, the change in oil price (% YoY) is the major factor, and we project this to rise significantly in 2Q off a low base.
- As of the latest data (Jan 21), correlation between CPI and oil price chg. is very strong (83%), R2 = 68%. If we put this into a model and adjust it with other economic variables, percentage will go up in 2Q to ~2.7% and down in 3Q to ~1.8%, with 4Q at 1.8%, bringing the full year to 1.9%.



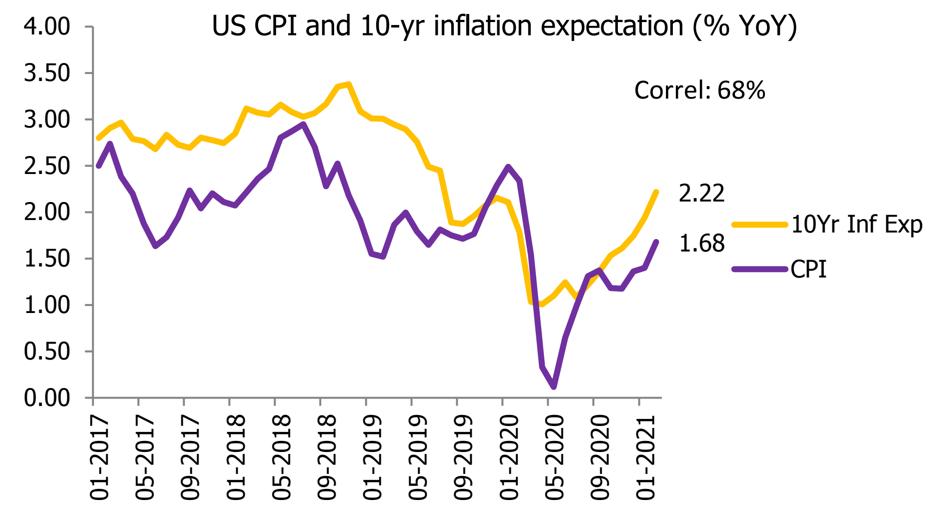
Source: OPEC, Bloomberg, CEIC, SCBS Research

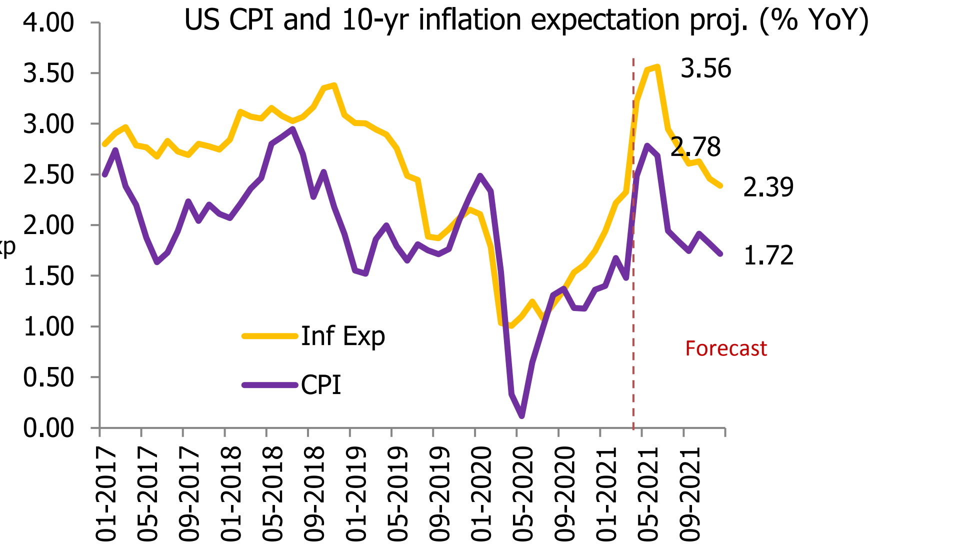




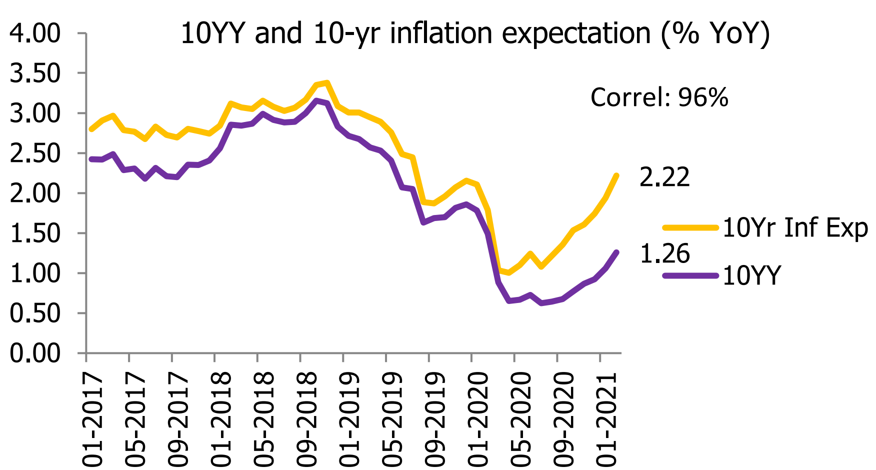
Forecasting inflation expectation and bond yield by using projected inflation

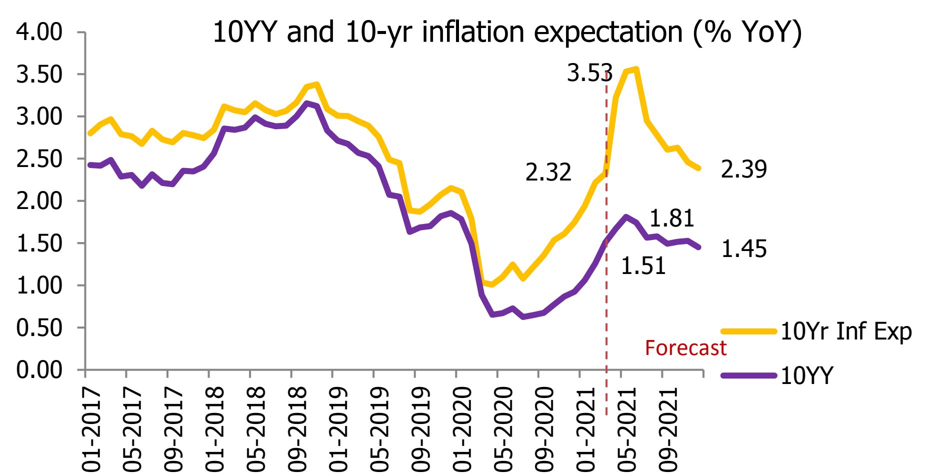
- Currently, 10-yr inflation expectation is 2.22%, and if we compare the 10-yr inflation expectation with current inflation, it appears that correlation is up to 68%. Using this relationship for the projection, inflation expectation is expected to continue to rise in 2Q to ~3% before falling to ~2.4% at the end of the year.





- Finally, the forecasted inflation expectation is used as an independent variable to the forecast of 10-yr bond yield. The calculation indicates that 10YY will continue to rise to 1.8% in the middle of the year. In the second half of the year, yield will fall to 1.6% in 3Q and 1.5% in 4Q.





Source: Bloomberg, CEIC, SCBS Research

Summary of the systematic projections between oil prices, inflation, expectations and bond yield

- From our forecast workup, demand for oil will gradually increase upon 1) the reopening of economic activity in tandem with a decline in the number of cases, 2) widespread inoculations and the arrival of herd immunity, as well as 3) the Biden government's economic stimulus package. As a result, oil demand will rise from 4Q20's 93.4mn bpd to 95.0mn bpd in 1Q21 and gradually go up to 97.0mn bpd in 4Q21.
- On the production side, we expect production to gradually increase after OPEC+, especially Saudi Arabia, increases production to compensate for their budget deficits and in response to increasing global demand. Production volumes will gradually increase from 4Q20's 91.97mn bpd to 92.0mn bpd in 1Q21 and continue to go up to 96.0mn bpd in 4Q21.
- The margin of both variables will determine oil demand surplus/deficit; we believe oil demand surplus will be largest in 1Q21 at 3mn bpd. After that, oil demand may gradually decline to 1mn bpd in 4Q21. This will put Brent crude at US$62/bbl in 1Q21, before falling slightly to US$57.6/bbl in 4Q21. The rate of change in oil price will rise substantially to 106.1% in 2Q21, before dropping to 42.7% and 30.0% in the second half. That would make the US inflation rate (CPI) increase substantially in 2Q21 to 2.65% from 1.52% in 1Q21. Nevertheless, CPI inflation is projected to gradually decline to 1.84% in 3Q and 1.82% in 4Q.
- Using these inflation forecasts, we can then project the inflation expectation for the next 10 years - the main component of the 10YY (which correlates more than 68% with current inflation figures). We project a rise from about 2.2% to 3.44% in 2Q21, before gradually declining to 2.78% in 3Q and 2.49% in 4Q21. This will lead to a rise in 10-year bond yield from the average current level of 1.28% in 1Q21. In 2Q21 we project the 10-year bond yield at 1.74%, before declining to 1.55% in 3Q21 and 1.50% in 4Q21.

Interrelationship between and Projection of Oil price, Inflation, Expectation and Bond Yield

Variable	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
World Oil Demand (mbpd)	100.79	93.10	82.82	91.18	93.89	95.00	96.00	96.00	97.00
World Oil Supply (mbpd)	100.84	100.16	91.53	90.15	91.97	92.00	94.00	95.00	96.00
Oil Demand S/D (mbpd)	-0.05	-7.06	-8.70	1.03	1.92	3.00	2.00	1.00	1.00
Oil Price ($/Bl.)	63.40	50.60	29.30	42.90	44.30	62.00	60.37	61.22	57.60
Oil Price CHG (%YoY)	-7.01	-20.81	-57.10	-30.81	-30.13	22.53	106.05	42.70	30.03
US CPI (%YoY)	2.03	2.12	0.36	1.22	1.24	1.52	2.65	1.84	1.82
10-Yr Inflation Exp. (%)	2.06	1.64	1.12	1.22	1.63	2.16	3.44	2.78	2.49
US 10-Yr Bond Yield (%)	1.79	1.39	0.68	0.65	0.85	1.28	1.74	1.55	1.50

Source: OPEC, Bloomberg, CEIC, SCBS Research

Thai economy: current status and projection

What we expect in 2Q21
Thai Economic Theme: 4-3-2-1 Still hold on!

When the new COVID-19 outbreak hit Thailand in the second half of December, we expected this outbreak to have a lower impact on the economy than the first. We also believed the authorities would enact measures to stimulate the economy (esp. consumption) to mitigate the effects. This will uphold the economy. Thus, when the authorities announced the "We win" (Rao Chana) measure in the amount of Bt2.1bn, we were not surprised. We expect the measure will help add ~0.5% to economic growth, offsetting the hit earlier estimated at ~0.5% from the second outbreak. As a result, the economy will be at its bottom in January in this economic cycle and will gradually recover. After the proceeds from the accelerated disbursement trickle down to the economy, it will recover strongly in the second quarter off last year's low base and from stimulus measures.

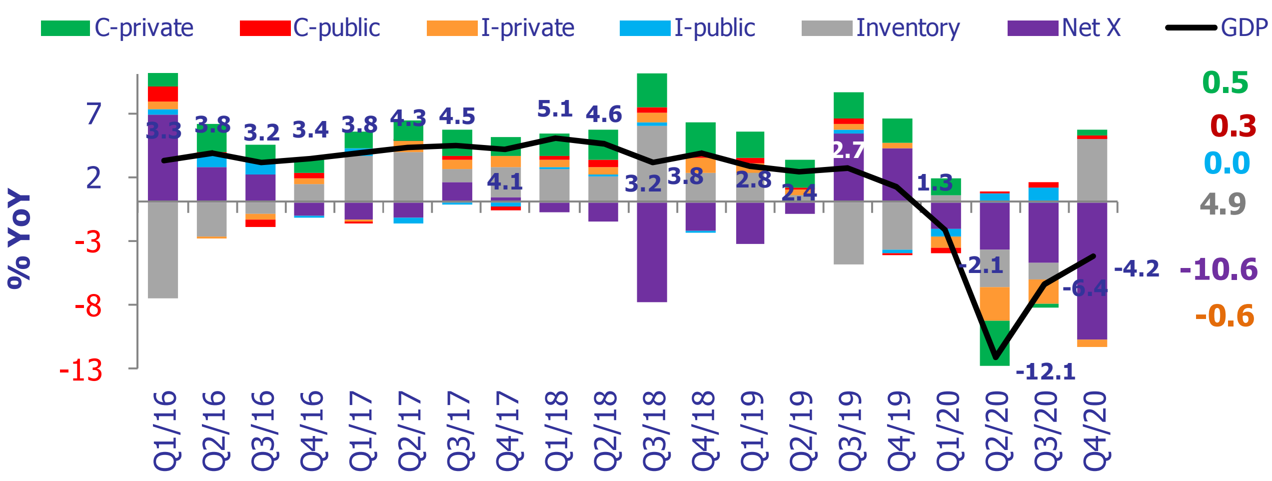
Hence, we maintain our 4-3-2-1 economic growth theme, with consumption potentially taking some risks in the first quarter. But we will recover more strongly in the second half. Overall, the Thai economy will continue to grow close to 3%; investment and exports of goods and services are likely to remain low at 2% (with merchandise exports tending more positive, but service exports likely to contract) and inflation approaching 1%.

Looking forward, five issues are worth keeping an eye on: 1) whether or not the number of cases worldwide will drop significantly; 2) when (or if) the government will open to a vaccine passport, allowing immunized tourists to enter the country without quarantine; 3) whether or not the stronger global economy will translate into greater demand for export products; 4) whether or not the disbursement of the government budget and extra measures will be according to plan and whether there will be additional stimulus; and 5) whether monetary policy be further eased.

Thailand's 4Q20 GDP contracted by 4.2%

Better than the market forecast of -5.4%, causing the full year to contract 6.1%.

Contribution to Thailand's GDP Growth



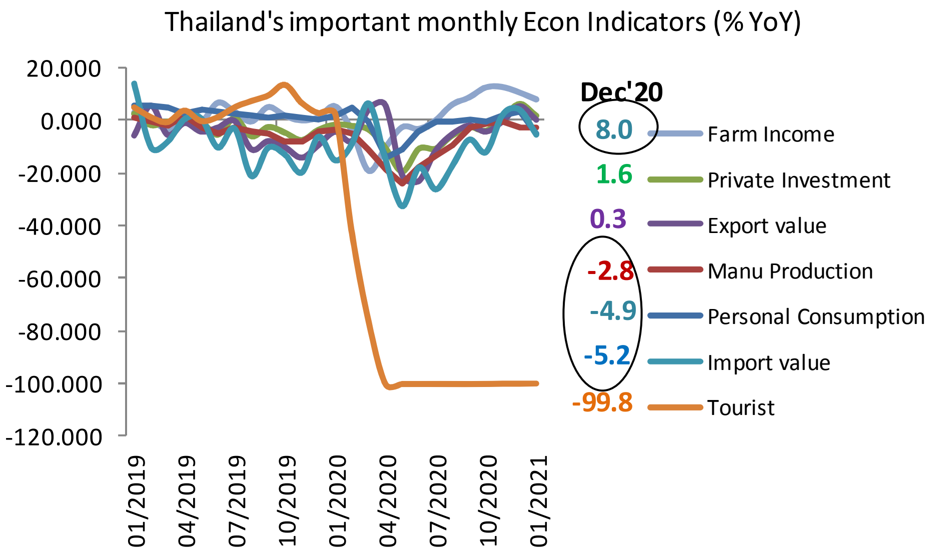
Source: NESDC, CEIC, SCBS Research

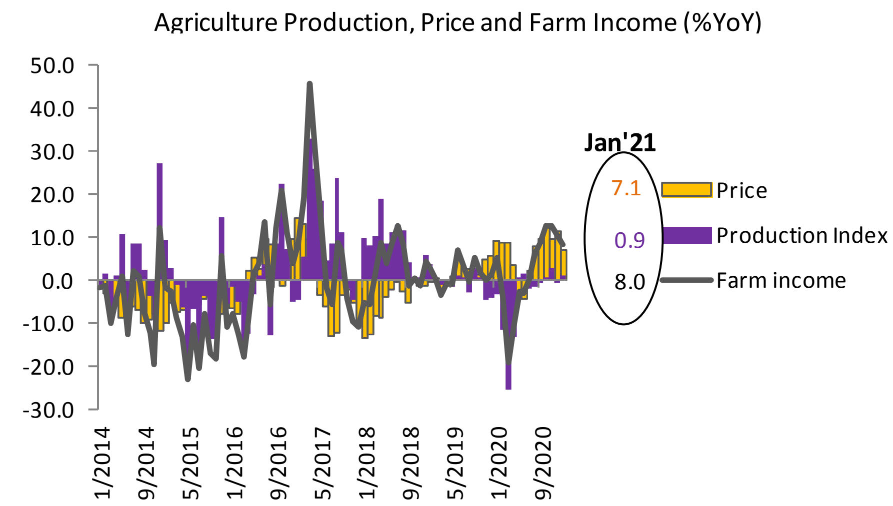
- Compared to the previous quarter, GDP grew 1.3%, with the main engine coming from production rather than spending. This resulted in an increase in inventory (contributing 4.9% to economic growth), including computers, automobiles, plastics, jewelry and rice. The biggest sector laggard was the service sector, with tourism revenue shrinking 73%, pushing the net exports of goods and services to contribute an economic contraction of 10.6%.
- In the manufacturing sector, tourism-related sectors such as Transportation, Hotels and retail wholesale contracted. Manufacturing-related sectors such as agriculture and ICT industries also contracted but at a lower amount.

GDP Growth Production side

Growth	Share	Yr2017	Yr2018	Yr2019	Yr2020	20Q1	20Q2	20Q3	20Q4
GDP	100.0%	4.2	4.2	2.3	-6.1	-2.1	-12.1	-6.4	-4.2
Agri	6.2%	4.8	5.8	-0.6	-3.4	-9.9	-3.1	-1.1	0.9
Manufacturing	26.3%	2.9	3.4	-0.7	-5.7	-2.4	-14.7	-5.3	-0.7
Electric	2.9%	1.8	2.2	4.6	-8.4	1.3	-12.7	-9.4	-13.3
Construction	2.7%	-3.0	2.3	1.6	2.3	-9.3	7.5	10.8	-0.3
Wholesale, Retail	15.6%	6.4	6.4	4.5	-3.7	3.6	-10.9	-6.1	-3.1
Transport	6.8%	8.0	4.0	3.0	-21.0	-5.5	-36.6	-22.2	-21.1
Hotel & Rest.	6.2%	10.8	7.9	7.8	-36.6	-23.3	-49.9	-39.3	-35.2
ICT	5.3%	3.9	8.4	12.3	4.7	4.4	4.1	4.5	5.7
Financial	7.2%	6.7	3.6	2.2	2.7	4.3	1.7	1.6	3.3
Real Estate	3.9%	6.7	5.4	3.8	1.4	1.7	0.9	1.5	1.3

Monthly economy indicators in January signal a slowdown (we see it as bottom)



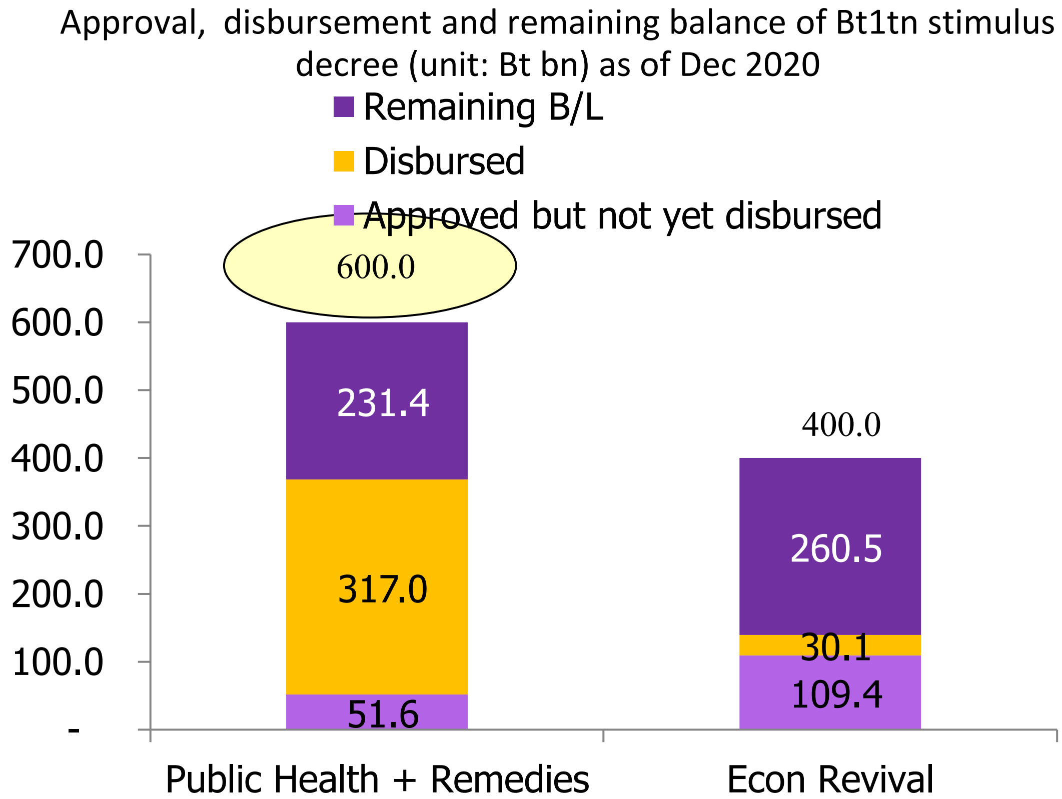


Source: BOT, OAE, CEIC, SCBS Research

SCBS

The new outbreak will slow the economy somewhat

But the new economic stimulus ("We win": Bt2.1bn) + new stimulus measures (such as the "We love each other" and the 4.6mn farmers' households) will help alleviate the impact of the crisis.



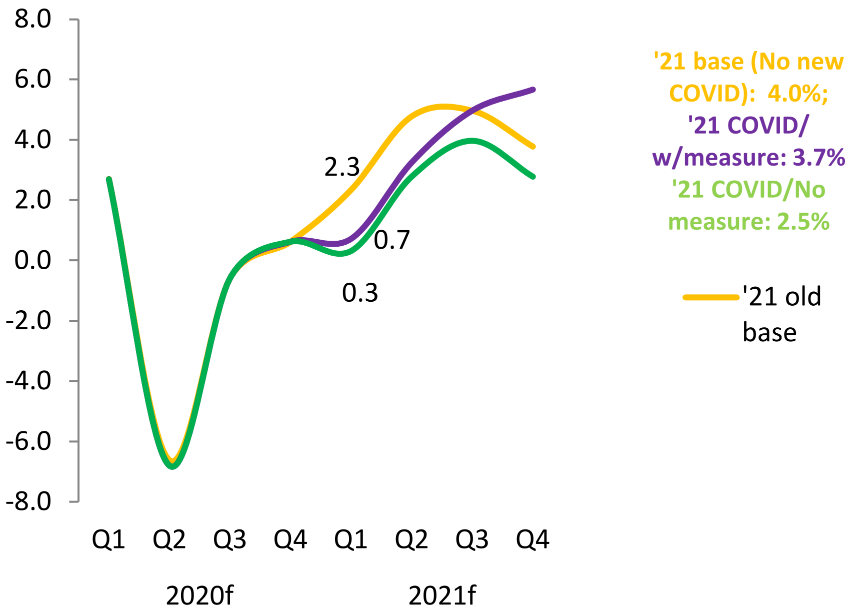
Source: Ministry of Finance, Various Sources, SCBS Research

The new outbreak will slow the economy somewhat

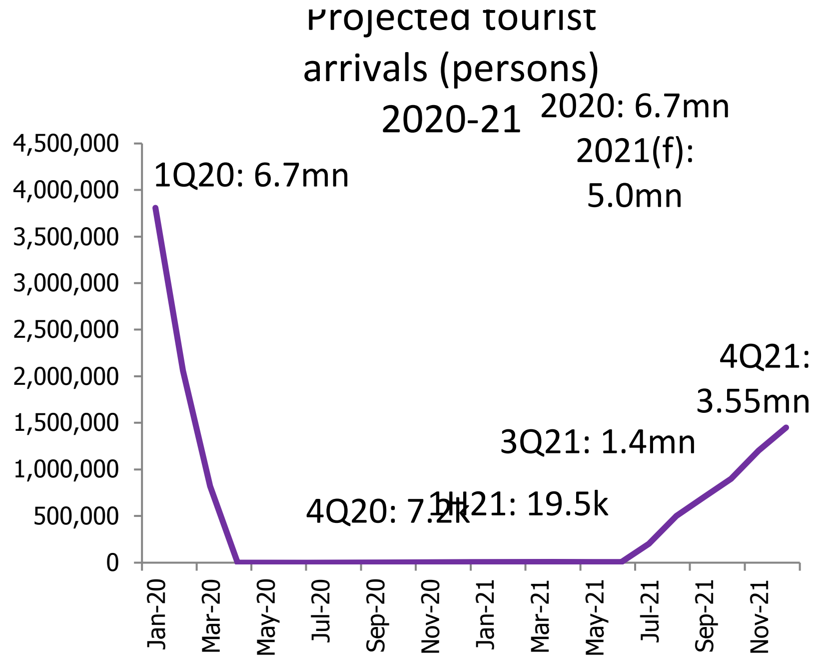
But the new economic stimulus ("We win": Bt2.1bn) + new stimulus measures (such as the "We love each other" and the 4.6mn farmers' households) will help alleviate the impact of the crisis.

The new outbreak may have some impact on consumption in 1Q, but this will improve in the next quarter due to the disbursement of economic stimulus + farmer income and better export performance.

2021 Thai Private Consumption Growth projection: before and after new COVID outbreak (proj.)(%)



The direct impact of the new outbreak may slow the welcoming of inbound tourists without quarantining them. As a result, we cut our forecast for tourists this year to 5mn, which is equal to the FPO forecast.



Source: NESDC, TAT, CEIC, SCBS Research

Comparison of Thai economic projections by NESDC, BOT, FPO and SCBS

Macro growth projection	Actual 2019	Actual 2020	NESDC 2021	BOT 2021	FPO 2021	SCBS 2021
GDP Growth	2.3	-6.1	3.0*	3.2	2.8	3.1
Gross fixed capital formation:	2.0	-4.8	5.7	N/A	N/A	3.2
- Private	2.7	-8.4	3.8	4.9	3.4	2.2
- Public	0.1	5.7	10.7	7.9	12.1	9.4
Private consumption	4.0	-1.0	2.0	2.8	2.5	3.7
Public consumption	1.7	0.8	5.1	5.1	6.1	4.8
Export value in $ terms (%)	-3.3	-6.6	5.8	5.7	6.2	6.2
Import value in $ terms (%)	-5.6	-13.5	6.5	7.7	7.8	5.0
Current account to GDP (%)	7.0	3.3	2.3	N/A	2.3	3.0
Headline inflation (%)	0.7	-0.8	1.5	1.0	1.3	0.9
USD/THB	31.0	31.3	31.0*	N/A	29.9	30.0
Policy rate (%)	1.25	0.50	N/A	N/A	N/A	0.50
No. of inbound tourists (mn)	39.8	6.7	3.2	5.5	5.0	5.0

- Compared to government agencies, we continue to believe that consumption is likely to expand better than others expect due to the new economic stimulus package and pent-up demand after the epidemic, while exports of goods grew well from the return of world demand.
- Looking forward, five issues are worth keeping an eye on: 1) whether or not the number of cases worldwide will drop significantly; 2) when (or if) the government will open to a vaccine passport, allowing immunized tourists to enter the country without quarantine; 3) whether or not the stronger global economy will translate into greater demand for export products; 4) whether or not the disbursement of the government budget and extra measures will be according to plan and whether there will be additional stimulus; and 5) whether monetary policy be further eased.

Source: NESDC, BOT, FPO, CEIC, SCBS Research

Strategy 2Q21

Summary of our key strategies for 2Q21

		Our summary views
Macroeconomic outlook		There is rising economic activity, as seen in indicators such as confidence indicators, PMI, retail sales, and industrial production. In the presence of rising bond yield, a broad-based rise in financial cost, from government finance to higher mortgage rates to rising private sector financial cost is inevitable.
Econ bright spots		Service-related sectors, sectors with high pricing power and agribusiness are the bright spots.
Economic cycle		We are in early expansion with a strong recovery in manufacturing services. Bond yield and inflation expectations are increasing. Growth will accelerate further in 2H21 off a low base effect and reopening service activities in international markets.
Earnings outlook		2021 EPS of our SCBS coverage (70% of market cap) will increase 46% YoY, but earnings will remain below pre COVID-19 level and likely to return to that point in 2022, when 25% YoY earnings growth is expected.
Reopening		Case growth has slowed across most major regions. This is seen as early evidence of vaccine-induced herd immunity. Vaccination speed in the EU and US are on track to reach 50% of total population in Jun-Jul 2021. We expect a partial reopening for international activities in 4Q21.
Yield		We think Utilities, Property and REITs are likely to lag as they have tended to underperform when both rates and inflation are rising. Energy, Commerce, Healthcare, Petrochemical are usually the best performing sectors and provide diversification benefits in a rising yield environment.
Commodities		The recent commodity bull market has been fed by several forces and we believe that most of these are temporary in nature and are insufficient to drive a supercycle. Short-term trading is the key to success.
2Q21 strategy		Expect cyclical rotation to continue but upside is limited. The SET appears at risk of a short-term correction in 2Q21. We believe the pullback provides a better opportunity to build position for 2H21.
2H21 strategy		Focus on fundamentals in 2022 and the domestic political situation. The market is full of expectations and is far ahead of reality. Wait for a key entry point for higher margin of safety to buy on dip. The key focus should be defensive growth rather than commodities and cyclical stocks.
SET Index target	**Upper bound**	Valuation will be re-rated to pre-COVID-19 and could lead the market to go up to 1,600. Our end-2021 SET Index target is in the range of 1,500-1,550.
	Key entry point	The key entry point is 1,450, in the case of a market correction.
Sector	**Overweight**	Healthcare, Tourism, Transportation, Agribusiness
	Neutral	Electronics, F&B, Building Materials, Petrochemical, Bank, Entertainment/Media, Energy
	Underweight	REIT, Utilities, Property, Telecom
Recommendation		Focus on service reopening theme, improving earnings growth outlook and strong balance sheet. Our 2Q21 top picks are MINT, BDMS, BEM, TWPC and DOD

Our recommendations in 1Q21 outperformed the SET by 28% thanks to IP, TOP, PTTEP, MINT

1Q21 is approaching its end with a strong rally in the Thai stock market. The drop in infections and the rapid vaccination rollout continued to drive markets up from 4Q20 levels. In addition, manufacturing activities continue to show solid momentum, with surging commodities prices, aided by extended fiscal support and easing momentary policies boosting demand for risky assets. The SET started the year on a hot note, gaining 8.2% YTD, after rallying 17% in 4Q20 and 53% from the Mar 2020 low. The 8% gain is the 4^{th} best 1Q return after more than 7% return in 4Q.

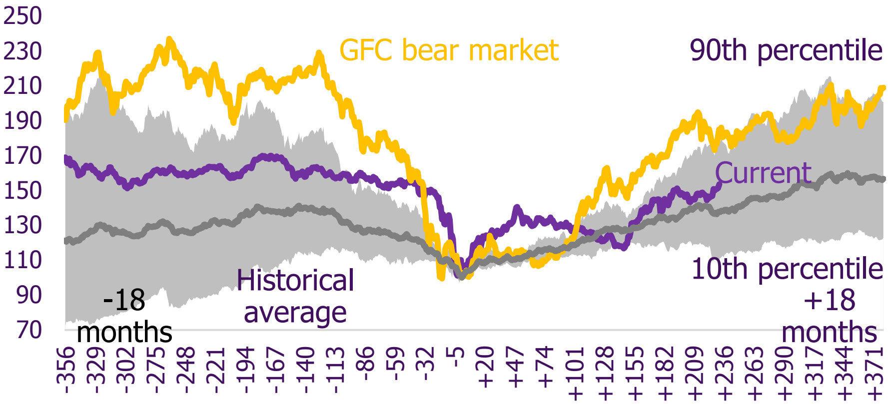
In 1Q21, we saw small caps and value stocks outperform large caps and growth stocks. Technology-related stocks underperformed due to rotation and rich valuation. Backed by increasing pace for global COVID-19 vaccinations and steady relaxations of lockdowns, cyclical stocks outperformed defensive stocks. With that backdrop, the SET is outperforming peers that have made it up 4% QTD. Based on the rate of recovery, we believe Thailand is seeing a strong recovery in asset prices while economic recovery is weaker than peers because the service sector is as yet unable to revive. All sectors except Electronics brought positive returns.

Markets have faced the dichotomy of an incredibly high level of uncertainty from rising bond yield and worsening supply shortages in many sectors that triggered a sell-off and improving economic recovery. As expected, the day of easy returns is over, as mispriced assets became more difficult to detect and correct given the hot start to the year.

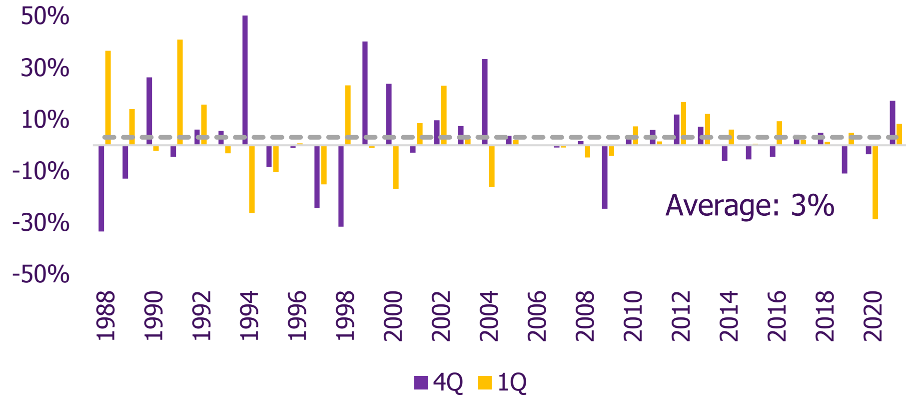
Our top picks in 1Q21 offered average returns of 39%, representing an alpha of nearly 28% thanks to IP (+129%), TOP (+30%), PTTEP (+21%), and MINT (+19%). Only HMPRO (-4%) underperformed.

A hot start to the year but not the best 1Q

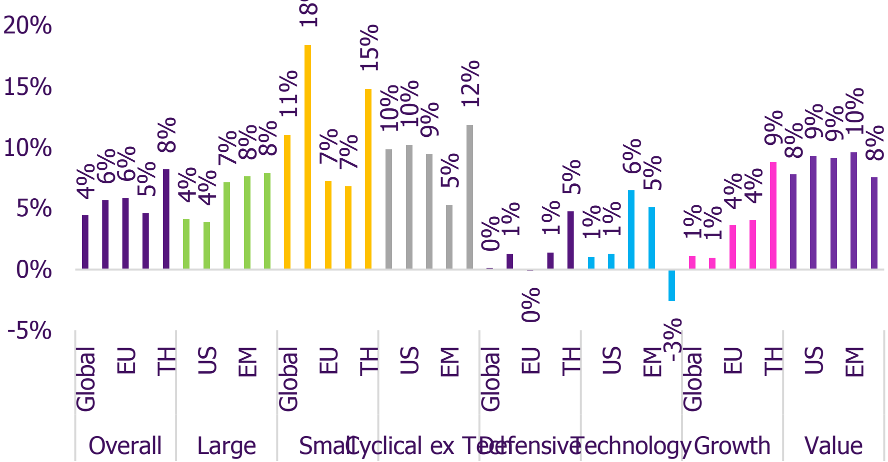
The SET saw faster-than-average post-bear market recovery at 54% from Mar lows



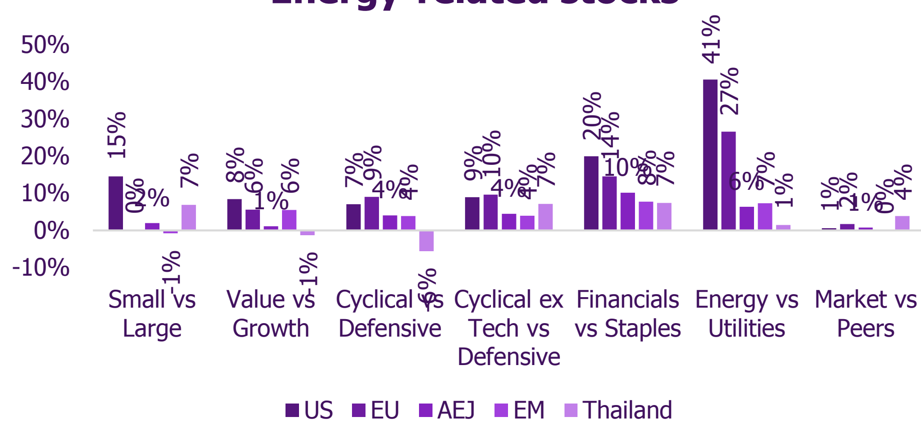
A strong start - the second best 1Q in history after a rally of above 10% in 4Q



Performance comparison in 1Q21 (as of Mar 12, 2021)

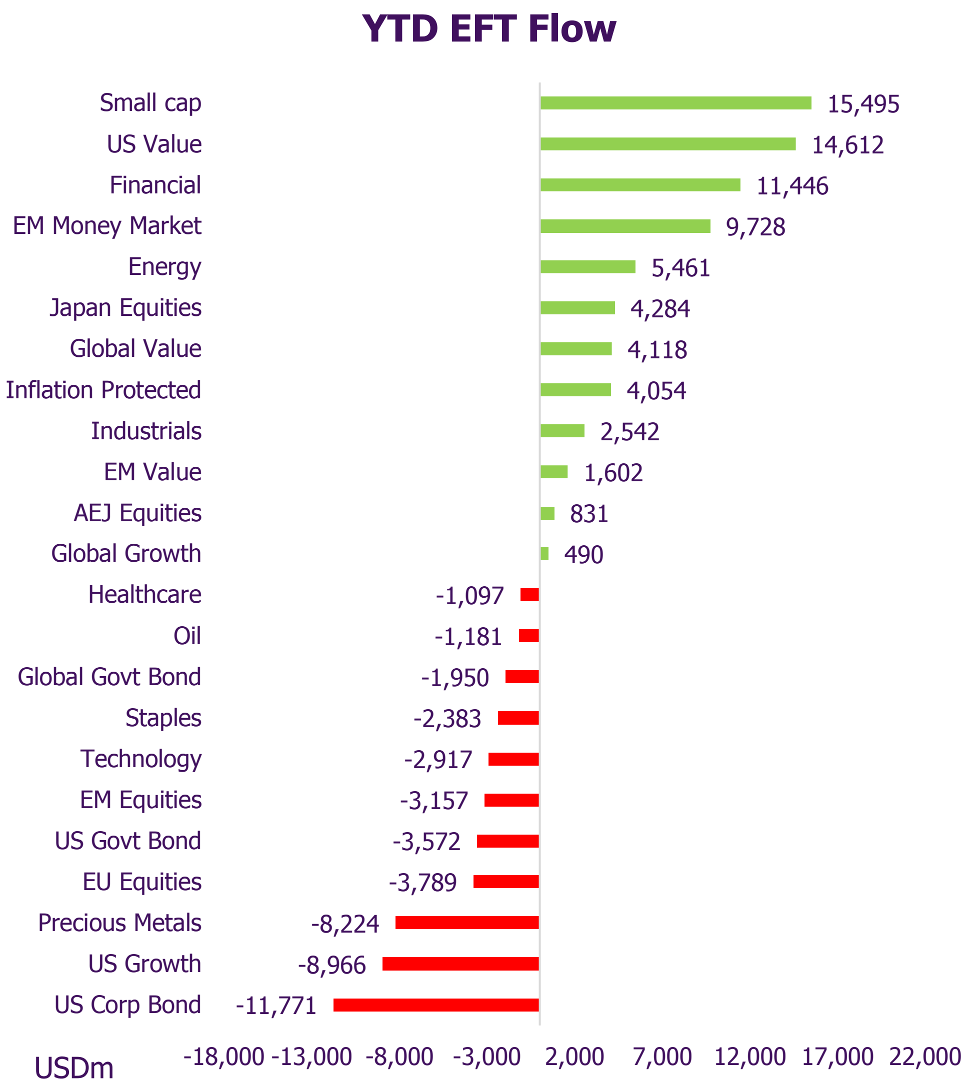


Thailand outperforms peers YTD, driven by cyclical stocks such as Banks and Energy-related stocks



SCBS

What are passive investors doing?



ETF and EPFR: rapid COVID-19 vaccinations and historic government and central bank support helped stabilize financial markets and sustain momentum for ETFs. Bond yield is on the rise on the back of inflation expectations and steady economic recovery.

YTD, more evidence of investor appetite for cyclically sensitive stocks has been demonstrated by inflows of US$15.5bn in small-cap and US$17.1bn in value ETFs. Broad reflation sectors such as Energy and Financial ETFs have gathered global inflows of US$5.5bn and US$11.4bn so far this year, boosted by sharp increases in crude oil price and bond yield. In addition, flows for inflation-protected fixed income were bolstered by net inflows of US$4.1bn, the most in three years. Corporate and government bonds had net outflows of US$14.1bn and US$4.7bn. Precious metal is facing huge money outflow of US$8.2bn.

SCBS

Key themes and lessons from 4Q20 earnings

Net profit for 727 companies sank 69% QoQ and 82% YoY due to seasonality and weak service activities. Although net profit plunged, data shows 65% of stocks under coverage met SCBS expectations and 18% beat consensus estimates. Energy and materials were the key sectors providing earnings surprises. Utilities, on the other hand, was the source of earnings disappointment.

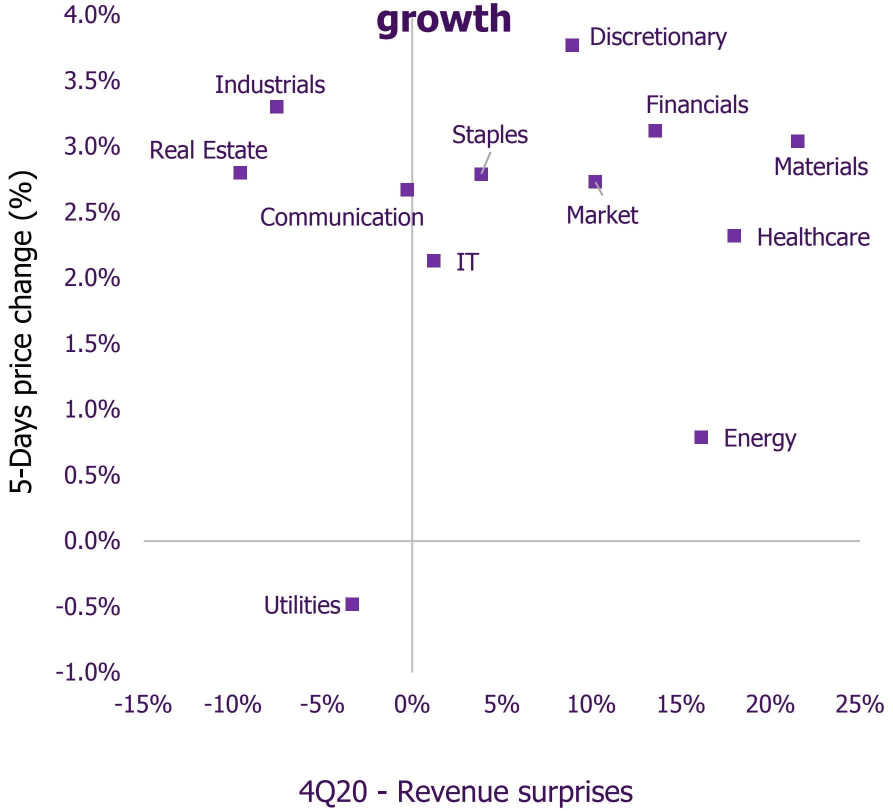
There were no surprises in 4Q20 performances, and in fact the market seemed to have already priced in 4Q20 performances. Materials, Energy and Healthcare faced sell-on-fact, while Real Estate, Consumer Discretionary, Financials and Technology gained momentum despite weaker-than-expected earnings.

Stock price reactions have been mixed. The market gave no reward or return for companies that exceeded expectations given a strong rally for energy and material sector. In fact, it seemed that 4Q20 earnings were irrelevant. Market participants were looking ahead at a brighter day from COVID-19 vaccinations and a strong revenue recovery and past the weak earnings in 4Q20. Industrials, consumer discretionary, financials and real estate offered excess return despite a weaker-than-expected earnings growth in 4Q20. We think the market will shift its focus to earnings surprises given the strong rally in 1Q21 and the basket full of hope.

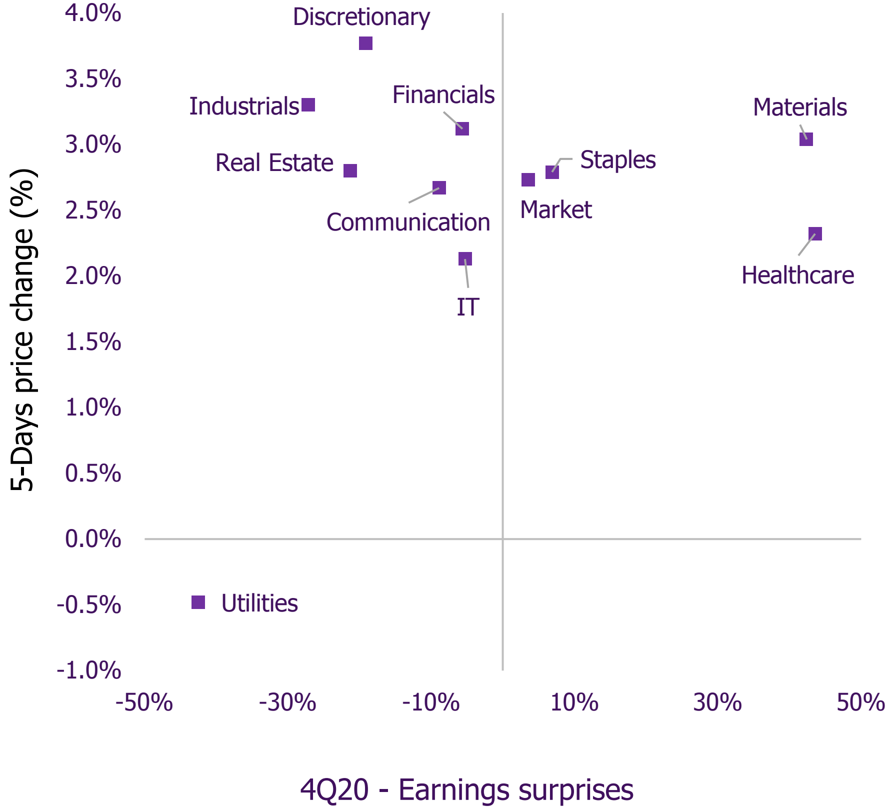
Management commentary shifted to discuss the likelihood of recovery and new businesses beyond the pandemic. Most companies that have been hurt by COVID-19 are uncertain about when they might see demand for their business activities return. Large companies are focusing on cost control measures to increase profitability amid revenue growth uncertainty. SMIDs are focusing on new products and services to find new opportunities and to diversify.

Price reaction and earnings & revenue surprises

Market participants gave a reward to revenue recovery in 4Q20 despite a weaker-than-expected earnings growth



… 4Q20 earnings surprises were irrelevant; the market is focusing on revenue recovery



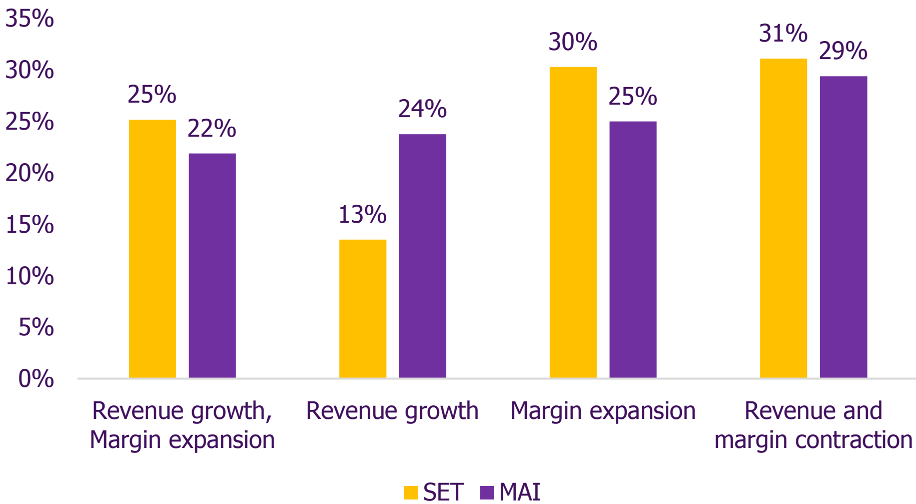
Strong recovery: Manufacturers over service providers

	Revenue		Expense		SG&A to sales		EBITDA		EBITDA Margin		Reported Net Profit		Net Profit Margin	
	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY
Agribusiness	38%	55%	23%	15%	-2%	-7%	89%	642%	8%	23%	139%	1870%	6%	16%
Food & Beverage	0%	-2%	-1%	-2%	-2%	-5%	1%	14%	0%	2%	-35%	-42%	-1%	-2%
Consumption	19%	31%	3%	-7%	-3%	-9%	66%	517%	10%	27%	89%	3276%	10%	26%
Automotive	21%	0%	21%	-5%	2%	-4%	11%	45%	-1%	5%	33%	396%	1%	6%
Industrials	14%	10%	13%	5%	-1%	-2%	9%	85%	0%	5%	29%	1584%	1%	5%
Petrochemical	8%	5%	5%	0%	0%	1%	33%	76%	2%	5%	179%	905%	3%	4%
Packaging	3%	3%	0%	-2%	-1%	1%	15%	39%	2%	5%	31%	54%	2%	3%
Steel	2%	-14%	0%	-13%	-3%	9%	49%	-25%	2%	-1%	322%	-50%	2%	-2%
Construction Materials	-3%	-10%	0%	-13%	2%	3%	-15%	18%	-3%	4%	-25%	18%	-2%	2%
Property	6%	-18%	14%	-2%	8%	10%	-23%	-52%	-6%	-13%	-49%	-79%	-5%	-14%
Industrials Estate	19%	1%	18%	-7%	1%	-6%	18%	21%	-1%	6%	39%	54%	3%	7%
Construction Services	5%	-10%	7%	-7%	5%	2%	-12%	-26%	-2%	-2%	-680%	-174%	-1%	-3%
Energy	7%	-24%	7%	-26%	-1%	-2%	4%	3%	0%	4%	12%	0%	0%	1%
Utilities	-5%	-5%	3%	-8%	-1%	-6%	-17%	5%	-5%	4%	-15%	24%	-2%	4%
Commerce	4%	-7%	4%	-5%	-1%	1%	6%	-10%	0%	0%	16%	-40%	0%	-2%
Healthcare	12%	-5%	8%	-8%	-4%	-5%	22%	12%	2%	4%	23%	-3%	1%	0%
Media	18%	-20%	22%	-17%	7%	27%	-8%	-12%	-6%	2%	-80%	-81%	-3%	-2%
Tourism	5%	-57%	12%	-28%	12%	26%	-3462%	-129%	-16%	-38%	-14%	-297%	-4%	-56%
Transportation	21%	-62%	113%	31%	125%	238%	-536%	-367%	-130%	-183%	-235%	-982%	-132%	-216%
ICT	5%	-13%	8%	-10%	1%	10%	-2%	-6%	-3%	3%	-13%	-26%	-1%	-1%
Electronics	8%	36%	12%	30%	2%	-1%	-18%	77%	-4%	3%	-22%	184%	-3%	4%
Total ex Financials	6%	-14%	9%	-11%	2%	5%	-13%	-20%	-3%	-1%	-69%	-82%	-3%	-4%
SET50 ex Financials	8%	-19%	-3%	0%	-2%	-1%	5%	0%	-1%	4%	9%	-23%	0%	0%
SET50-100 ex Financials	14%	-19%	2%	-2%	0%	3%	12%	6%	0%	4%	30%	20%	1%	2%
sSET	11%	-22%	-11%	-2%	2%	13%	-2%	-33%	-2%	-2%	-72%	-95%	-1%	-5%
Defensive	3%	-5%	3%	-5%	-1%	0%	1%	6%	0%	2%	-1%	-9%	0%	0%
Cyclicals	7%	-19%	12%	-14%	4%	8%	-25%	-38%	-5%	-3%	-198%	-135%	-4%	-7%

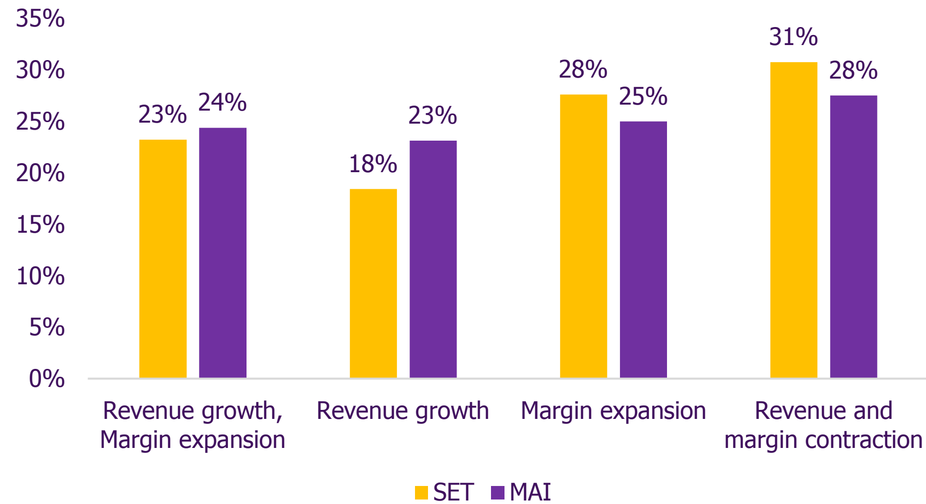
Manufacturing sectors were the winners while cyclical sectors did poorly in 4Q20. Sectors with revenue and margins growing in tandem were Agribusiness, Automotive, Electronics, Petrochemical and Packaging. Sectors that showed an increased margin as the driver for earnings growth were Construction Materials, Healthcare and Utilities. Sectors struggling most were Property, Media, Tourism, Transportation, Construction Services and Commerce. In 4Q20, manufacturers and exporters such as Agribusiness, Automotive, Electronics, Petrochemical and Packaging showed strong growth YoY. Meanwhile, service sectors such as Media, Tourism and Transportation and Healthcare reported a further decline in revenue and earnings.

Small cap recovery faster than large cap

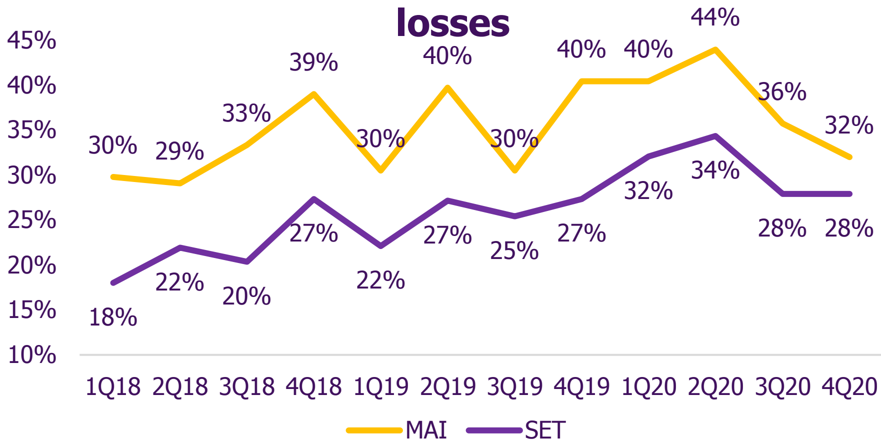
% of companies - growth drivers (YoY)



% of companies - growth drivers (QoQ)



% of listed companies that reported losses



About 24% of small companies reported revenue growth both QoQ and YoY compared to 18% of large companies. However, large companies (28% of total) outperformed small companies (25%) on margin expansion thanks to superior cost control measures. The proportion of companies in mai that are either barely breaking even or operating at a loss declined to 32% in 4Q20 from 36% in 3Q20, 44% in 2Q20 and 40% in 4Q19. Net profit on the mai was up 39% YoY, beating SET50-100 (+20% YoY), SET50 (-23% YoY) and sSET (-95% YoY).

SCBS

Stable financial status; service sectors are a concern

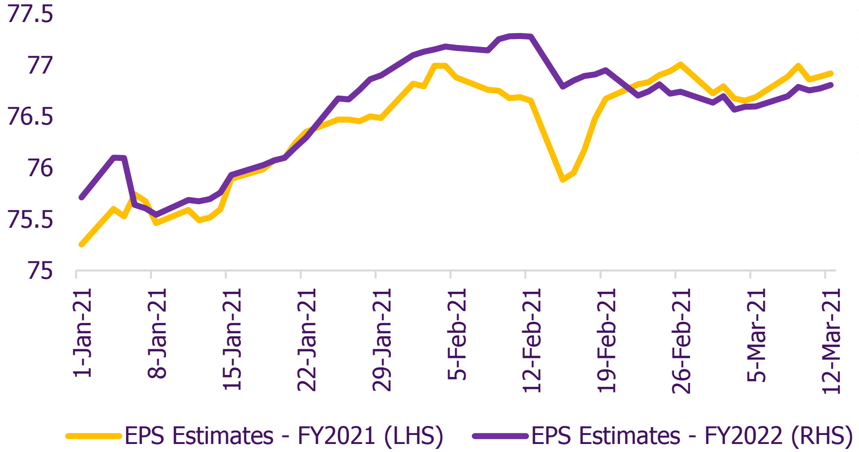
	Account Receivable		Inventory		Account Payable		Total Liabilities		Equity		Debt	
	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY
Agribusiness	37%	61%	50%	37%	42%	82%	25%	18%	9%	29%	25%	16%
Food & Beverage	-6%	-12%	-3%	-5%	-2%	-16%	-3%	27%	1%	5%	-3%	29%
Consumption	7%	22%	0%	1%	23%	50%	1%	7%	5%	27%	-1%	2%
Automotive	20%	16%	22%	14%	34%	20%	2%	5%	2%	2%	-1%	3%
Industrials	25%	30%	14%	47%	21%	72%	7%	57%	3%	11%	5%	56%
Petrochemical	13%	7%	0%	1%	12%	11%	5%	29%	1%	-1%	4%	30%
Packaging	2%	-4%	8%	6%	7%	3%	-4%	-2%	7%	15%	-5%	-3%
Steel	-1%	1%	-5%	-15%	-21%	-28%	-9%	-8%	2%	0%	-8%	-6%
Construction Materials	-6%	-6%	4%	-5%	0%	12%	-4%	10%	4%	11%	-4%	10%
Property	11%	-27%	10%	0%	-7%	-29%	-2%	12%	1%	-2%	-2%	13%
Industrials Estate	77%	52%	34%	59%	71%	62%	-3%	-5%	5%	10%	-4%	-6%
Construction Services	11%	-2%	8%	-9%	5%	-3%	-2%	1%	0%	-3%	-2%	1%
Energy	21%	-16%	17%	-16%	-21%	-19%	-1%	9%	0%	-2%	0%	10%
Utilities	-6%	9%	8%	15%	-7%	12%	3%	23%	4%	8%	3%	23%
Commerce	19%	-8%	11%	0%	17%	-9%	8%	27%	2%	12%	8%	30%
Healthcare	18%	12%	11%	6%	21%	4%	-1%	13%	5%	2%	-1%	13%
Media	49%	17%	18%	3%	37%	14%	1%	30%	6%	0%	-1%	32%
Tourism	39%	-21%	67%	1%	17%	-48%	-2%	60%	-8%	-13%	-2%	67%
Transportation	57%	-24%	611%	569%	62%	12%	7%	32%	-34%	-50%	6%	33%
ICT	1%	-13%	3%	-15%	6%	-4%	0%	26%	3%	-14%	0%	29%
Electronics	-3%	25%	2%	22%	-1%	34%	2%	19%	1%	12%	2%	16%
Total ex Financials	**9%**	**-7%**	**14%**	**2%**	**2%**	**-7%**	**1%**	**19%**	**0%**	**-1%**	**1%**	**20%**
Defensive	**1%**	**-6%**	**4%**	**-2%**	**8%**	**-6%**	**2%**	**25%**	**3%**	**5%**	**1%**	**27%**
Cyclicals	**15%**	**-7%**	**17%**	**3%**	**-2%**	**-8%**	**0%**	**15%**	**-1%**	**-4%**	**0%**	**16%**

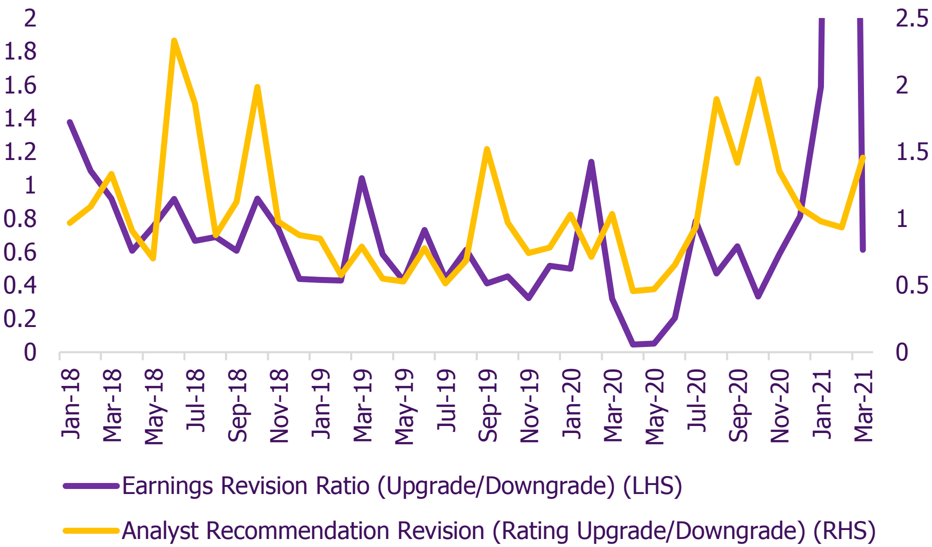
	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Agribusiness	1.0	0.9	1.0	1.0	0.8	0.8	0.9
Food & Beverage	1.8	1.7	1.6	2.0	2.0	2.1	2.0
Consumption	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Automotive	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Industrials	1.0	1.2	1.3	1.8	1.8	1.8	1.8
Petrochemical	0.8	0.8	0.9	1.1	1.1	1.1	1.1
Packaging	0.7	0.6	0.7	0.7	0.7	0.6	0.6
Steel	1.0	1.0	0.8	0.8	0.8	0.8	0.7
Construction Materials	1.0	1.1	1.1	1.2	1.2	1.2	1.1
Property	1.4	1.4	1.2	1.4	1.4	1.4	1.3
Industrials Estate	1.6	1.8	2.0	2.1	2.0	1.8	1.7
Construction Services	2.6	2.6	2.5	2.7	2.6	2.7	2.6
Energy	1.1	1.2	1.3	1.4	1.4	1.4	1.4
Utilities	1.7	1.7	1.3	1.5	1.5	1.4	1.4
Commerce	2.1	1.8	2.0	2.1	2.2	2.1	2.3
Healthcare	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Media	0.7	0.6	0.6	0.8	0.8	0.9	0.8
Tourism	1.8	1.7	1.6	2.6	2.6	2.8	3.0
Transportation	1.6	1.6	1.5	2.2	2.2	2.5	4.1
ICT	2.7	2.6	2.8	4.3	4.2	4.2	4.1
Electronics	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Total	**1.4**	**1.4**	**1.3**	**1.6**	**1.6**	**1.6**	**1.6**
Defensive	**1.8**	**1.7**	**1.6**	**2.0**	**2.0**	**1.9**	**1.9**
Cyclicals	**1.2**	**1.2**	**1.2**	**1.4**	**1.4**	**1.4**	**1.5**

The D/E ratio is stable at 1.6x in 4Q20. This indicates that there is no real sign of balance sheet weakness. Most sectors showed improving financial status and manageable liquidity, especially for defensive sectors such as F&B, Healthcare and Utilities. On the other hand, we are concerned about tourism-related sectors such as Hotel and Transportation, both hard hit by COVID-19. D/E for Hotel and Transportation jumped to 3-4x from 1-1.5x in 4Q19. Reopening is the key for improving financial status for service sectors and deleveraging for manufacturers.

Earnings revisions on the rise; ratings being upgraded

Consensus earnings expectation for FY2021-22 up 2% YTD





Consensus 2021 EPS estimate has been raised by 2% QTD. Sector-level EPS revisions and price movement have followed a similar trend, with sectors that show a strong earnings recovery outperforming, as seen in consensus earnings upgrades in 4Q20 and a positive bias for strong economic recovery in 2H21.

Macro-driven sectors such as Energy, Materials, Agribusiness, Automotive and Financials have shown an impressive rally aligned with a strong earnings revision trend. Domestic-related sectors such as Utilities, Property, Packaging and Communication services have undergone minimal earnings revisions as well as limited price declines. Transportation and Tourism sectors have jumped 11% and 23% while consensus 2021 EPS estimates were cut by 29% and 85%.

Overall analyst ratings are being upgraded, the highest since Oct 2020. Consensus is betting on strong recovery from rapid global vaccinations over idiosyncratic fundamentals.

Economic and earnings recovery in 2021, but lagging peers, to resume pre-COVID-19 in 2022

We expect GDP growth of 3.1% in 2021 and global growth of 6%. This sharp improvement should drive an earnings acceleration. The level of GDP growth will drive earnings as much as the change in GDP growth. We had a sampling in 4Q20, which was strong on accelerating revenue recovery. Small companies are seeing the light at the end of the tunnel with fewer losses as economies unlocked.

Manufacturing activities could support growth in 1H21 thanks to exceptionally strong demand growth. Meanwhile, we are concerned about supply shortage in various sectors that could pressure growth in 2H21. The expansion of reopening in 2H21 after vaccinations and falling COVID-19 new cases is good news for service sectors and will boost earnings growth. Thus, we remain convicted of a moderately-paced Thai recovery on expectation of a widely available vaccine. Immunization should lead to protection and the ending of lockdowns will usher in a sequential tourism recovery from 2H21, driving earnings up.

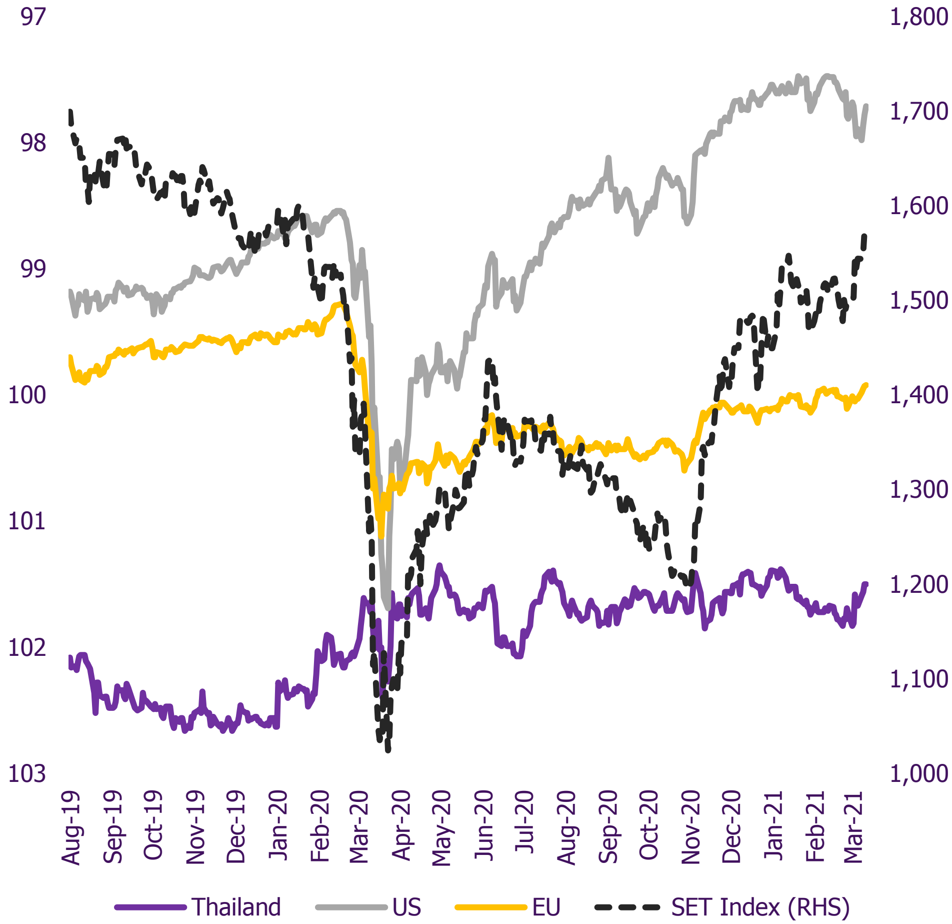
On this basis, we expect earnings for companies under SCBS coverage to grow 46% YoY in 2021 and 25% in 2022 after the sharp decline in 2020. EPS growth in 2021 will be driven by Energy, Petrochemical, Insurance, Transportation and F&B. Our base forecast is that forward earnings will take to end-2022 to get back to pre COVID-19 level. 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 a COVID-19 vaccine becomes available.

U-shaped recovery, earnings to rise 46% in 2021

	Growth (%)					
	19A	20A	21F		22F	
			SCBS	Consensus	SCBS	Consensus
Agribusiness	15.2	13.1	(15.2)	(12.3)	11.8	11.7
Automotive	(38.8)	(39.5)	66.7	64.7	20.5	40.1
Banking	4.3	(32.1)	7.7	11.6	14.0	12.0
Commerce	3.4	(38.2)	26.5	33.1	19.1	21.3
Construction Materials	(25.2)	9.2	10.8	6.0	5.0	4.4
Energy & Utilities	(19.6)	(72.5)	256.8	257.4	19.7	19.9
Finance & Securities	34.9	(25.6)	15.5	19.1	12.1	16.3
Food & Beverage	41.1	(66.7)	113.9	98.9	60.0	58.1
Health Care Services	40.3	(49.1)	5.1	13.7	27.3	22.3
Information & Communication Technology	30.6	(20.5)	(16.5)	(11.5)	5.7	11.3
Insurance	12.9	(49.1)	120.4	103.4	10.1	14.2
Media & Publishing	11.0	31.9	9.4	-	7.1	-
Packaging	(13.1)	22.6	27.1	27.9	12.3	14.5
Paper & Printing Materials	11.1	17.2	(0.6)	10.1	3.0	12.5
Petrochemicals & Chemicals	(74.0)	(81.4)	699.0	763.3	23.5	22.1
Property Development	(10.3)	(30.3)	8.4	11.0	15.3	17.0
Tourism & Leisure	(19.3)	(305.1)	(54.9)	(61.8)	(136.4)	(155.8)
Transportation & Logistics	19.7	(121.3)	88.5	591.0	(341.3)	(79.1)
Total	**(7.5)**	**(45.6)**	**46.2**	**41.3**	**25.0**	**25.1**

Financial condition back normal, no worries

Easing financial condition; short-term sentiment is improving



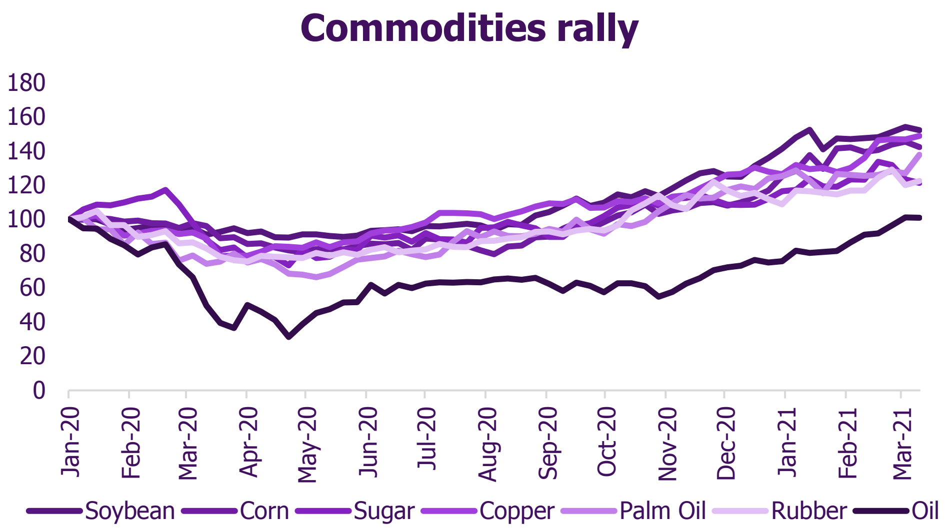
Central banks are set to spend 2021 maintaining their eased monetary policies even though the global economy is expected to accelerate away from the COVID-19 pandemic thanks to rapid vaccination.

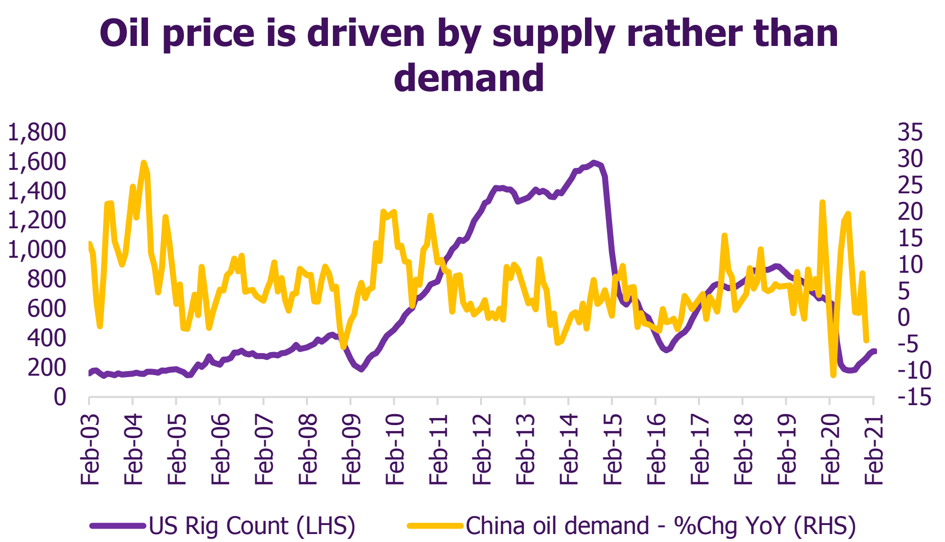
We expect central banks to stay put through 2021 for the most part to support their economies. However, Thailand and EM will find easing made more difficult by a further rise in yield and a strengthening dollar that could trigger capital outflows. With policy rates at their floor, central banks will resort to alternative measures to stimulate recovery and protect against aggressive outflows.

Thailand's financial condition is improving and there is no worry about rising yields. The SET is approaching pre-COVID-19 level with high expectation of reopening in 2H21.

SCBS

Commodities not yet in a supercycle



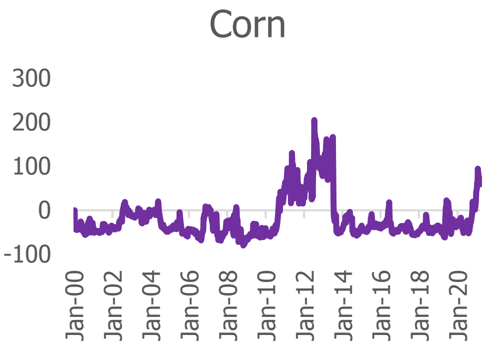


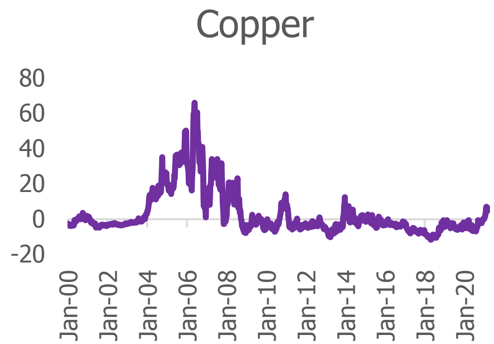
The recovery of commodities has been uneven. While industrial metals have rallied, traditional energy commodities (like oil and coal) have been much slower to recover. Currently, commodities prices are being propelled higher amid hopes that a robust post-pandemic recovery in 2021 will release pent-up demand for raw materials as well as large government spending.

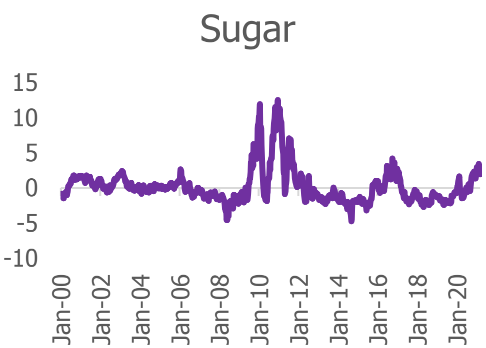
The recent commodity bull market has been fed by several forces and we believe that most of these are temporary in nature and are insufficient to drive a supercycle.

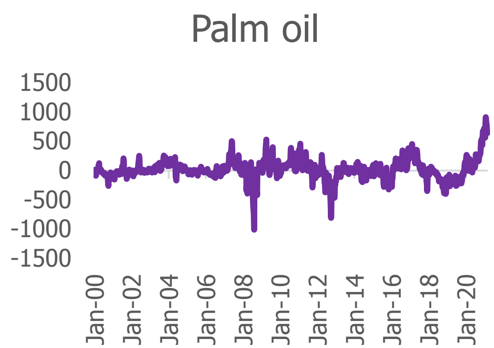
i) China aims to transition its economy toward consumption, leading demand growth to slow.
ii) Supply shortage will end within a year for agricultural products. Oil supply is being manipulated by OPEC.
iii) Panglossian view cannot drive a supercycle.
iv) Shale oil wells are profitable at US$60/bbl
v) Adoption of climate change policies.

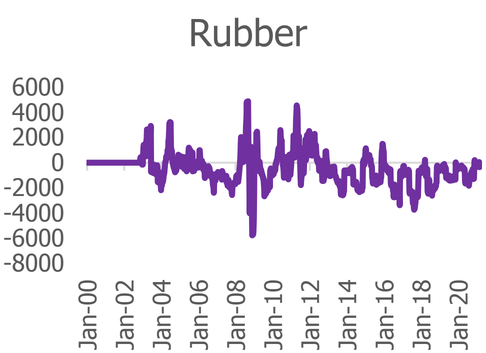
Commodities up on global supply tightening

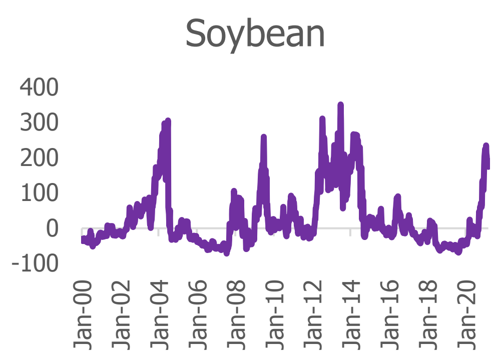












Prices for commodities such as wheat, corn, sugar and soybeans have been trending up since Aug 2020, while oil price began to increase in Nov 2020. There are two key factors driving prices.

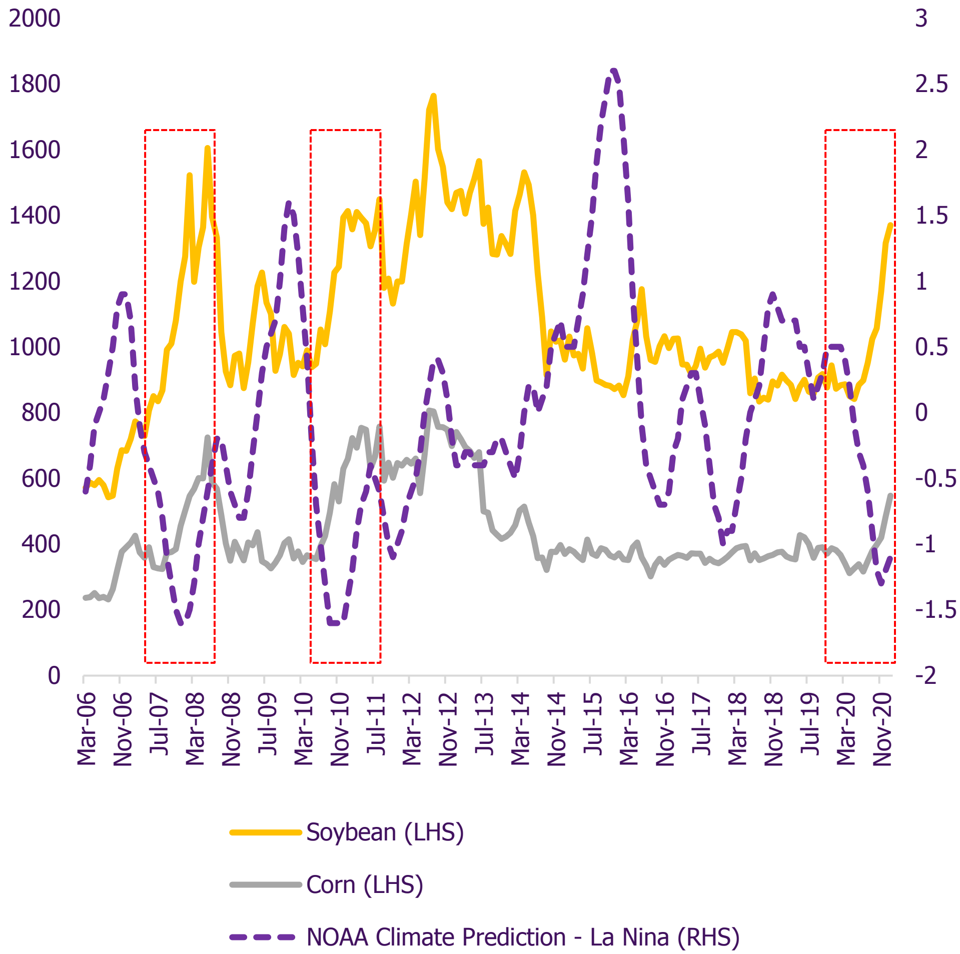
i) Robust demand from export markets, most notably China, along with global economic recovery.

ii) Dry conditions in key corn and soybean areas in South America that have cut crop yields and thereby the global supply outlook.

The futures curve suggests corn, palm oil, sugar and soybeans are facing supply shortages. Brazilian mills shifted from sugar to ethanol production, leading to supply tightening. Rubber and copper have well-balanced D/S dynamics.

La Nina prediction and new supply estimates

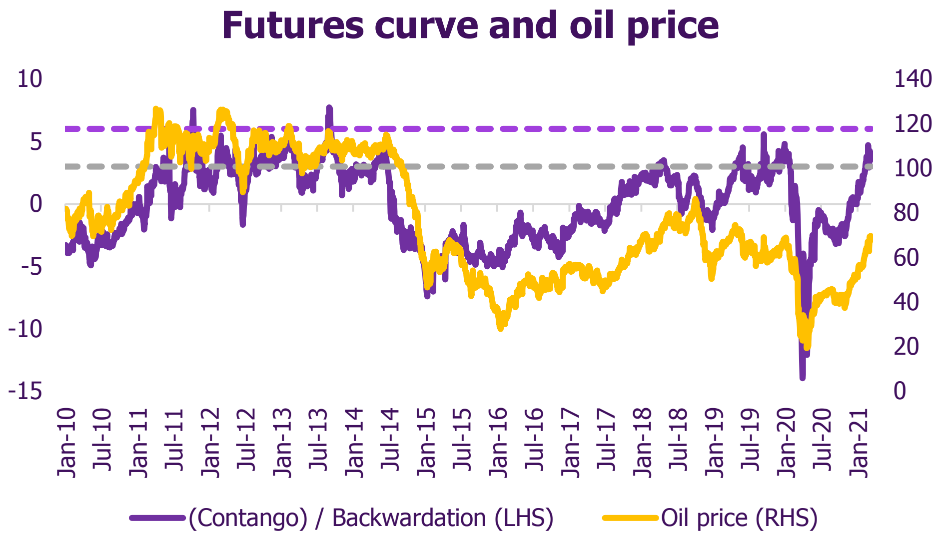
La Nina and supply shortage and soft commodities price

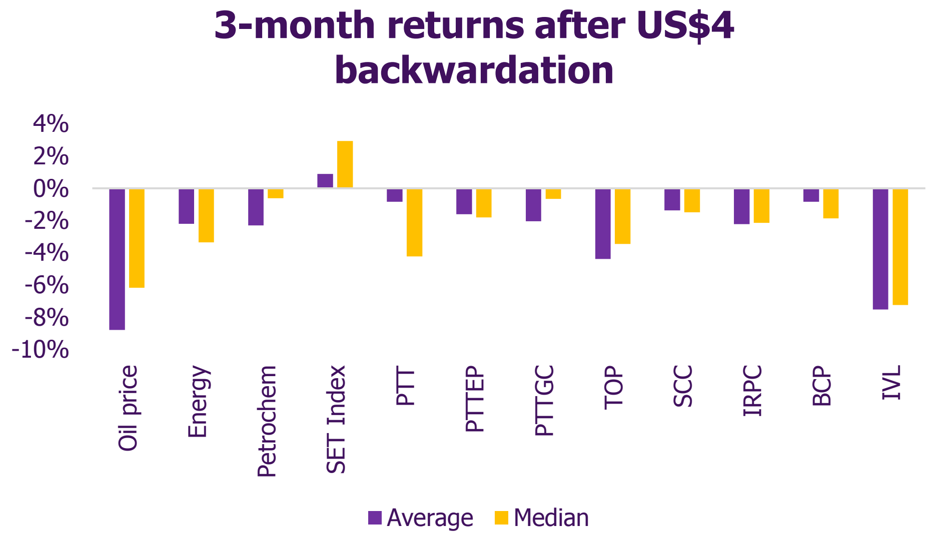


According to the World Meteorological Organization, La Niña appears to have peaked in October-November as a moderate strength event. There is a 65% likelihood that it will persist during February-April, with a 70% chance that the tropical Pacific will return to ENSO-neutral conditions by the April-June 2021 season.

We thus expect the easing La Nina to bring soybeans (50-145 days), corn (60-100 days), tapioca (8-11 months), and sugar cane (1 year) back into the market from 2H21. Although we expect OPEC to gradually bump up production in order to balance the oil market, we feel oil price has limited upside, with downside depending on OPEC's production decision in 2H21. This leads us to recommend investors reduce position in stocks related to soft commodities in 2H21 amid supply growth. The demand-supply imbalance peak has been passed. Supply shortages and demand recovery are now partially priced in.

How to play backwardation



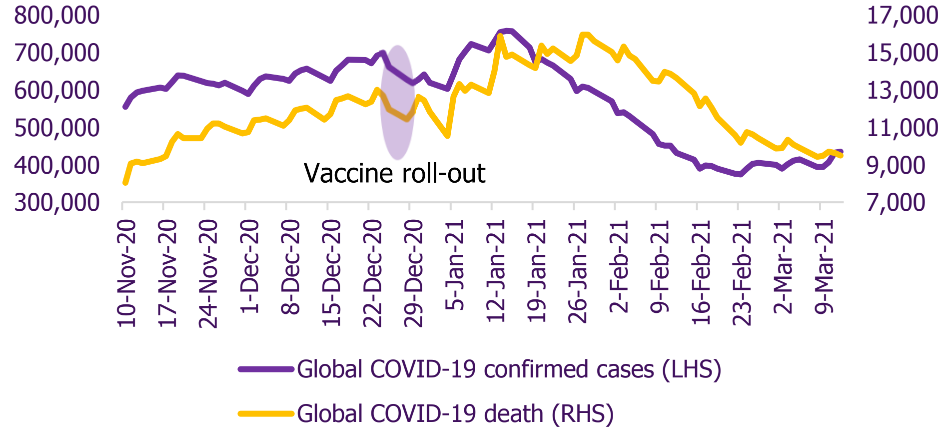


Optimism for a recovery in oil demand as COVID-19 vaccines are rolled out while oil producers keep supply at low levels has pushed the futures curve of oil price into the largest backwardation since Jan 2020 at nearly US$4/bbl. The current bullish backwardation of Brent oil price indicates that the market has already priced in OPEC+ staying disciplined about supply management. However, we feel OPEC+ will increase production in 2H21, pressuring oil price and increasing volatility.

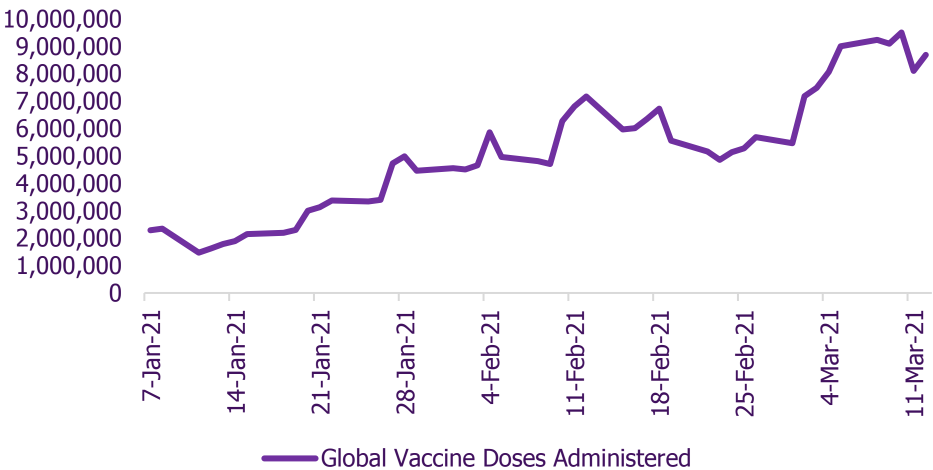
Our analysis shows the average and median of expected three-month returns after oil price reaches US$4 backwardation are -9% and -6% respectively and all oil price-related stocks fell in the range 1-6% over three months.

Light at the end of the pandemic tunnel

COVID-19 vaccines bring down infections and death rate



COVID-19 vaccinations are accelerating

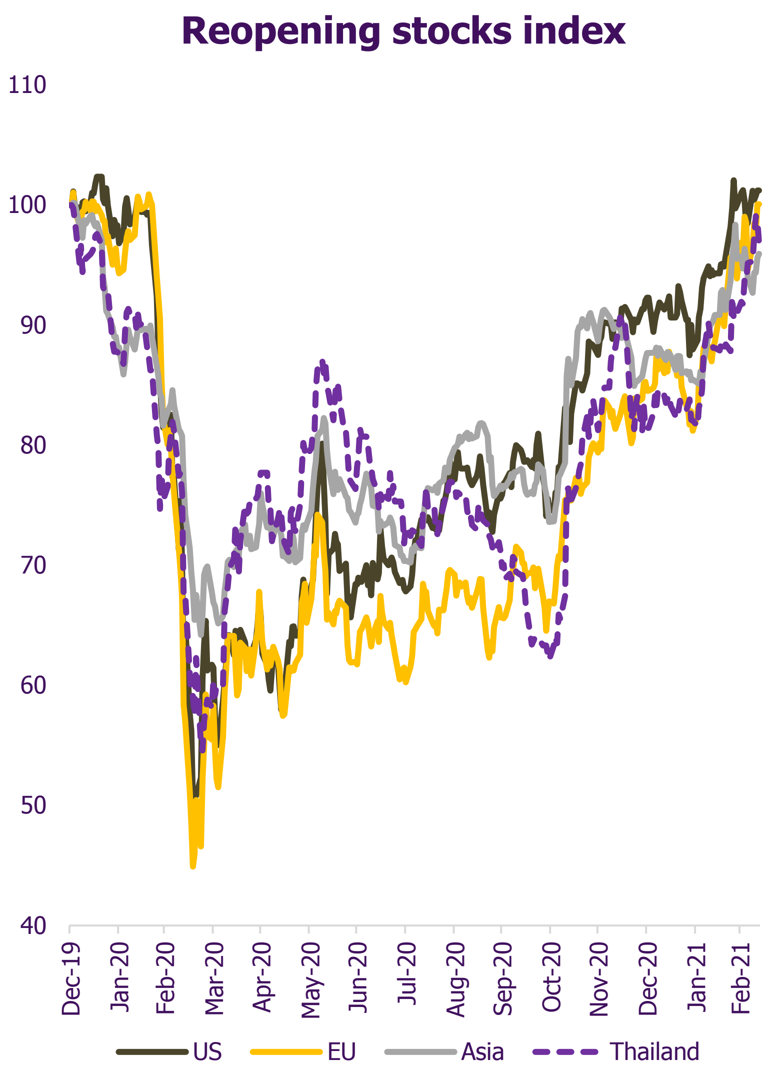


The massive global drive to vaccinate the world against COVID-19 appears to have led to a fall in new inflections and hospitalizations as well as death rate. In Mar 2021, case growth has slowed across most major regions, early evidence of vaccine-induced herd immunity.

The number of COVID-19 vaccinations globally has surpassed the total number of confirmed cases, a landmark that underscores progress made in controlling the pandemic. Vaccination speeds in the EU and US are on track to reach 50% of their total population in Jun-Jul 2021. Accompanying a rapid roll-out of vaccinations, most countries are working to control new infections by keeping restrictions in place, including mask wearing and social distancing.

Key concerns are: 1) slow vaccinations in Asia and 2) the threat of new variants in the UK and South Africa that appear to be under control for now.

It is time to reopen service activities

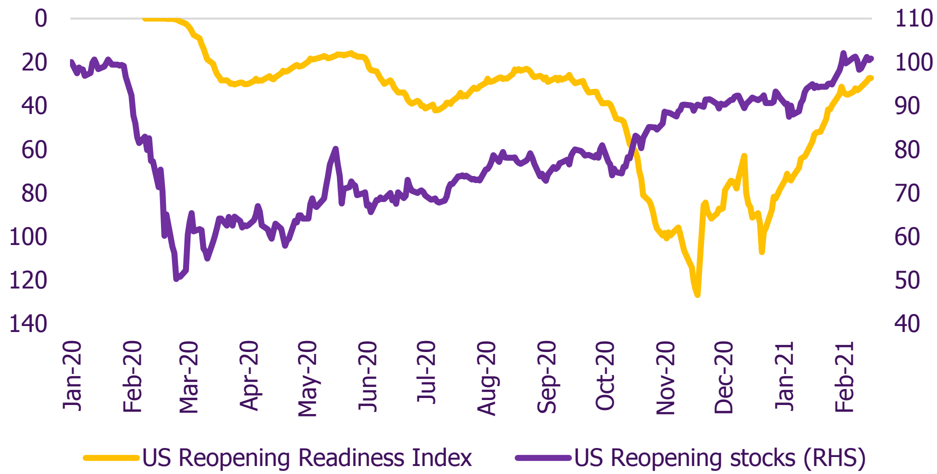


After months of costly shutdowns, closed borders and curtailed personal freedoms, the concept of vaccine passports and reduced quarantine period are gaining traction with governments eager to navigate the next phase of the pandemic. Manufacturing activities have recovered to pre-COVID-19 levels while service sectors continue to operate at below breakeven level. According to OTA guidance and the government timeline, recovery will only begin from 2H21 as leisure travel restarts in Jun and accelerates in 3Q21; corporate recovery will only start in Sep 2021. Thailand will begin to start its recovery as international travel resumes in 4Q21.

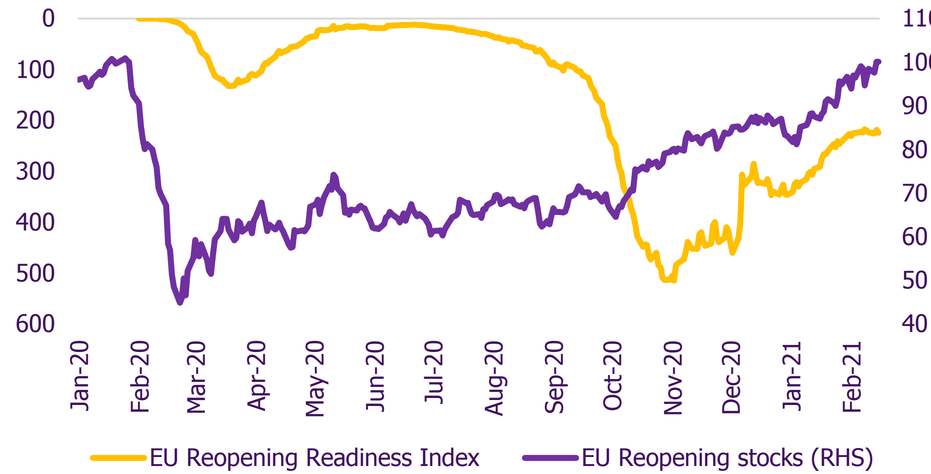
Based on our Reopening Readiness Index, most countries except Europe are ready to reopen travel activities. However, most reopening stocks have already attained pre-COVID-19 levels. We suggest investors focus more on second-tier reopening stocks such as Commerce and Healthcare sectors.

Reopening Readiness Index –key to opening up the economy and resuming service activities

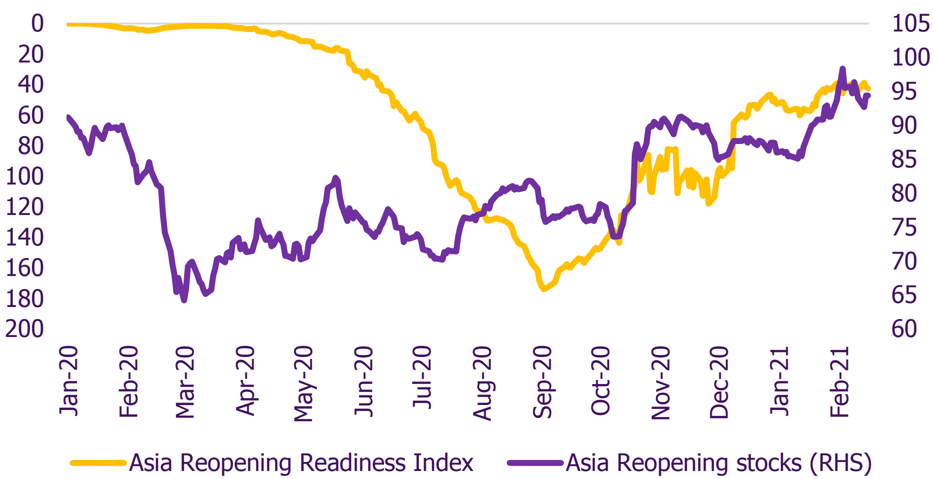
US



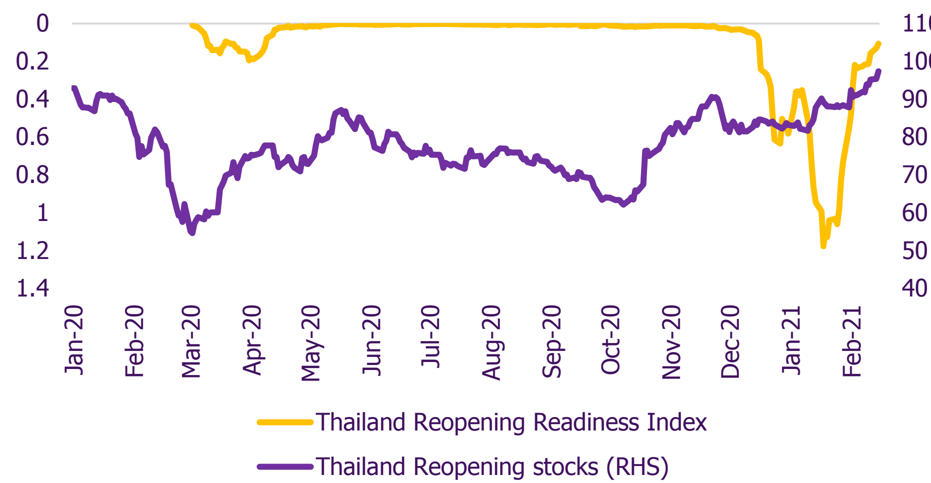
Europe



Asia



Thailand



SCBS

Bond yield rise is healthy signs, not source of concern

Yield on US government 10-year bonds has risen to 1.6% from 0.9% at the start of this year, reflecting growing investor confidence about the outlook for the US economy in 2021; this aligns with Thai government 10-year yield, which has risen 73bps to stand currently at 2%. Rising bond yield during economic recovery is not a concern: what is of concern is the speed at which Thai bond yield is rising at more than 20bps/month.

With an increased focus on interest rates and inflation, our findings suggest that 1) stocks have showed a weak and inconsistent correlation with bond yield over time, 2) a period of rising bond yield has coincided with positive stock returns, 3) inflation is more correlated to SET Index returns than nominal rate, 4) strong growth could offset the higher discount rate and 5) rising interest rate hurts margins.

Since 1998, asset allocation implications from rising bond yields and inflation expectations have been straightforward as inflation was anchored and growth usually picked up, i.e.: 1) equities outperformed bonds, 2) non-US equities (and bonds) outperformed the US, 3) oil outperformed safe havens such as Gold, 4) HY outperformed IG and 5) value stocks outperformed growth stocks. Sector-wise, commodities related sectors such as Energy and Petrochemical were usually the best performing sectors while Commerce and Healthcare also provided diversification benefits from rising yield.

We suggest investors consider avoiding both short-duration equities and bond proxies such as high dividend yield and REIT and long-duration equities such as secular growth stocks. Cash-rich large-caps should outperform leveraged stocks and credit-sensitive small caps. Stick with high-quality stocks if volatility continues to rise and stick with stocks over bonds.

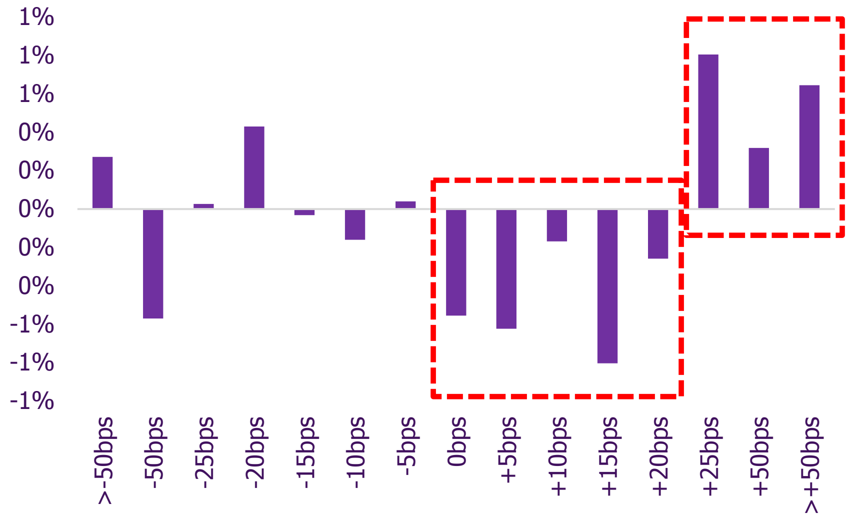
Speed of faster yield rises are matter for SET Index

It is difficult to analyze and calculate interest rate will start to hurt equity returns. A confluence of other factors appears to matter more than level, in our view. The speed of the move in bond yield will matter. Monthly returns of SET Index are positively correlated with Thai and US bond yields because yields tends to rise on improving growth prospect during an economic expansion stage.

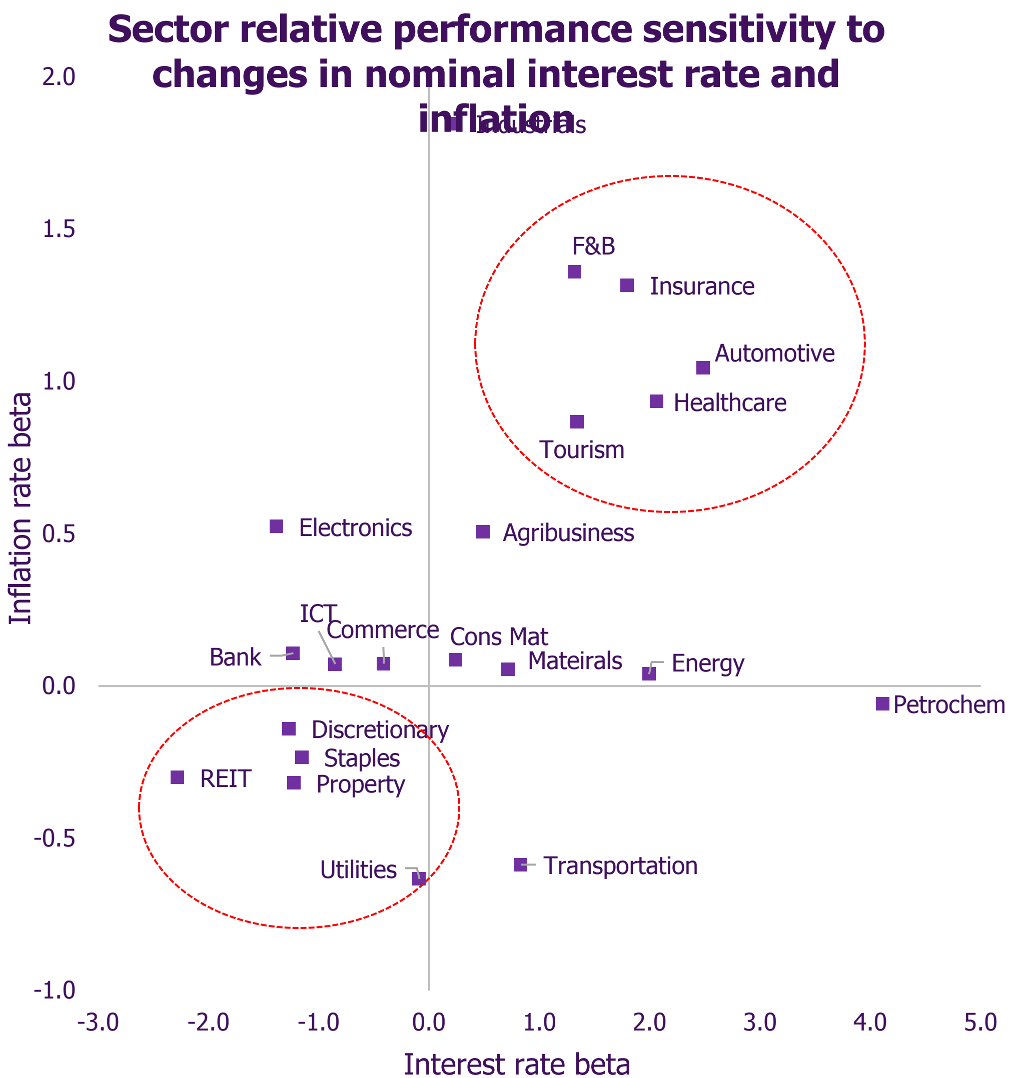
The sweet spot of SET Index performance tends to be when Thai yields rise but less than 20bps per month. At the faster rate more than 25bps per month could lead to valuation compression and likely to pressure on SET Index returns, while small cap outperformed large cap because Thai large cap has higher leverage than small cap. Baht have a similar relationship to the speed of Thai yield increases as equities, tending to do well when nominal yields do not rise by more than 20bp per month.

Thai equities perform well when yields rise at less than 20bps per month, but small-cap is less tolerant to rising yields

Baht and yield movement



What sectors are most correlated with interest rates?



Both nominal and real interest rates are rising along with higher inflation expectations. A historical sector playbook based on a sector's historical performance sensitivity to changes in nominal rate and inflation rate shows:

i) The bond proxy sectors of Utilities, PF&REIT and Property have tended to underperform when both rates and inflation are rising.

ii) Petrochemical and Energy have outperformed when real rates are rising.

iii) Industrials, F&B, Automotive, Healthcare, and Insurance have the most positive inflation betas, while Utilities, Transportation, and Property have historically underperformed most when inflation picks up.

iv) Sectors that have strong positive correlation with changes in yield and change in inflation in an uptrend are Healthcare, Insurance, F&B, Automotive and Tourism.

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Sector relative performance sensitivity to changes in interest rates and speed of rise in yield

	Commerce	Bank	Transportation	ICT	F&B	Property	Healthcare	Petrochem	Electronics	Energy	Utilities
>-50bps	-1%	-2%	-7%	-2%	-3%	-3%	-1%	-8%	-2%	-4%	-1%
-50bps	3%	1%	2%	1%	2%	3%	2%	3%	2%	3%	2%
-25bps	-1%	-2%	3%	-2%	-1%	-1%	0%	-1%	0%	-2%	-3%
-20bps	0%	-2%	0%	-1%	1%	-1%	1%	-1%	0%	-2%	-1%
-15bps	0%	0%	2%	1%	0%	0%	0%	1%	5%	0%	1%
-10bps	3%	3%	5%	4%	4%	5%	5%	0%	4%	3%	5%
-5bps	1%	0%	-1%	0%	1%	0%	0%	1%	3%	2%	0%
0bps	6%	4%	1%	2%	2%	5%	4%	4%	2%	2%	8%
+5bps	3%	3%	1%	1%	2%	3%	3%	4%	4%	3%	3%
+10bps	1%	1%	2%	2%	0%	1%	2%	0%	1%	1%	1%
+15bps	3%	4%	1%	2%	4%	4%	2%	6%	0%	7%	3%
+20bps	4%	3%	3%	3%	1%	5%	3%	5%	2%	8%	1%
+25bps	-1%	-2%	-2%	1%	-3%	-1%	5%	-1%	-3%	-3%	-1%
+50bps	2%	1%	2%	0%	2%	1%	0%	3%	-3%	0%	-2%
>+50bps	1%	-2%	0%	-1%	3%	-1%	5%	4%	2%	3%	3%

Norminal Rates	Interest rate Beta	Correlation	Real Rates	Interest rate Beta	Correlation	Inflation	Inflation Beta	Correlation
Petrochem	4.1	21%	Petrochem	1.0	10%	Industrials	1.8	5%
Automotive	2.5	14%	Transportation	0.7	9%	F&B	1.4	19%
Healthcare	2.1	10%	Utilities	0.6	7%	Insurance	1.3	16%
Energy	2.0	7%	Energy	0.3	2%	Automotive	1.0	12%
Insurance	1.8	10%	Mateirals	0.1	2%	Healthcare	0.9	9%
Tourism	1.3	7%	Staples	0.0	0%	Tourism	0.9	10%
F&B	1.3	9%	Cons Mat	0.0	0%	Electronics	0.5	4%
Transportation	0.8	5%	Property	-0.1	-1%	Agribusiness	0.5	4%
Mateirals	0.7	5%	Commerce	-0.1	-1%	Bank	0.1	2%
Agribusiness	0.5	2%	Discretionary	-0.1	-1%	Cons Mat	0.1	1%
Cons Mat	0.2	2%	ICT	-0.2	-2%	Commerce	0.1	1%
Industrials	0.2	0%	Healthcare	-0.2	-2%	ICT	0.1	1%
Utilities	-0.1	0%	Automotive	-0.2	-3%	Mateirals	0.1	1%
Commerce	-0.4	-3%	Agribusiness	-0.3	-2%	Energy	0.0	0%
ICT	-0.9	-5%	Tourism	-0.4	-4%	Petrochem	-0.1	-1%
Staples	-1.2	-6%	Bank	-0.5	-8%	Financials	-0.1	-1%
Property	-1.2	-8%	Financials	-0.6	-8%	Discretionary	-0.1	-1%
Bank	-1.2	-10%	Insurance	-0.6	-8%	Staples	-0.2	-2%
Discretionary	-1.3	-6%	Electronics	-0.7	-5%	Property	-0.3	-4%
Electronics	-1.4	-5%	F&B	-0.8	-12%	Transportation	-0.6	-7%
Financials	-2.2	-14%	Industrials	-1.8	-5%	Utilities	-0.6	-7%

During a bond bear market, who has diversification benefits?

		Equity				Commodities		
Start	End	SET	EM	DM	AEJ	Gold	Oil	Commodities
Oct-98	Jan-00	0%	35%	20%	28%	-9%	102%	27%
Jun-03	Jun-04	40%	30%	22%	27%	14%	22%	24%
Jun-05	Jun-06	0%	32%	15%	22%	41%	32%	13%
Mar-08	Jun-08	-6%	-2%	-2%	-9%	1%	39%	16%
Dec-08	Jun-09	33%	34%	5%	34%	5%	52%	5%
Oct-10	Apr-11	11%	9%	14%	8%	15%	51%	19%
Jul-12	Sep-13	15%	4%	23%	9%	-18%	3%	-12%
Jan-15	Jul-15	-9%	-6%	5%	-5%	-15%	-1%	-9%
Jul-16	Mar-17	3%	10%	8%	10%	-8%	24%	1%
Sep-17	May-18	3%	4%	5%	7%	1%	35%	7%
Average		**9%**	**15%**	**10%**	**12%**	**3%**	**33%**	**9%**
Median		**3%**	**10%**	**8%**	**9%**	**1%**	**32%**	**9%**

During bond bear markets since 1998, asset allocation implications for rising yield and inflation are: 1) equities outperformed bonds, 2) non-US equities outperformed the US, 3) value stocks outperformed longer duration growth stocks, 4) HY outperformed IG and 5) oil and commodities outperformed safe assets and JPY. Sector-wise, Energy, Commerce, Healthcare, and Petrochemical were usually the best performing sectors and provide diversification benefits during the rising yield environment.

		Sectors															
Start	End	Energy	Utilities	Commerce	Bank	Trans	ICT	F&B	Property	Healthcare	Con Mat	Petrochem	Electronics	Automotive	Hotel	Staples	Discretionary	Materials
Oct-98	Jan-00	-37%	-63%	16%	2%	-35%	90%	-17%	-14%	8%	15%	-1%	38%	27%	-4%	-20%	31%	8%
Jun-03	Jun-04	104%	27%	35%	35%	87%	48%	-7%	23%	57%	41%	86%	-2%	40%	8%	-5%	-11%	51%
Jun-05	Jun-06	14%	-12%	30%	5%	-6%	-12%	25%	-2%	70%	-16%	-10%	0%	-19%	44%	14%	0%	-9%
Mar-08	Jun-08	2%	-11%	-3%	-14%	-16%	-4%	-3%	-19%	10%	-9%	0%	-6%	-3%	-1%	1%	-20%	-7%
Dec-08	Jun-09	35%	15%	26%	62%	45%	14%	20%	41%	18%	41%	53%	28%	20%	-3%	39%	6%	50%
Oct-10	Apr-11	19%	-8%	7%	8%	-10%	12%	12%	-1%	23%	11%	37%	0%	-18%	16%	9%	7%	22%
Jul-12	Sep-13	-2%	7%	17%	4%	78%	37%	-15%	47%	25%	26%	6%	51%	2%	74%	-3%	-3%	18%
Jan-15	Jul-15	-6%	-2%	-3%	-24%	-8%	-9%	-12%	-13%	11%	5%	9%	2%	-9%	2%	3%	-20%	9%
Jul-16	Mar-17	16%	0%	7%	4%	-4%	-3%	5%	-3%	-6%	3%	20%	21%	10%	-8%	9%	-10%	11%
Sep-17	May-18	24%	-2%	15%	-5%	9%	-4%	-14%	2%	10%	-13%	20%	-29%	5%	6%	14%	-7%	6%
Average		**17%**	**-5%**	**12%**	**9%**	**14%**	**17%**	**-2%**	**3%**	**23%**	**13%**	**22%**	**10%**	**5%**	**9%**	**6%**	**-3%**	**16%**
Median		**15%**	**-2%**	**15%**	**4%**	**-5%**	**5%**	**-7%**	**-2%**	**15%**	**11%**	**15%**	**1%**	**3%**	**2%**	**6%**	**-5%**	**10%**

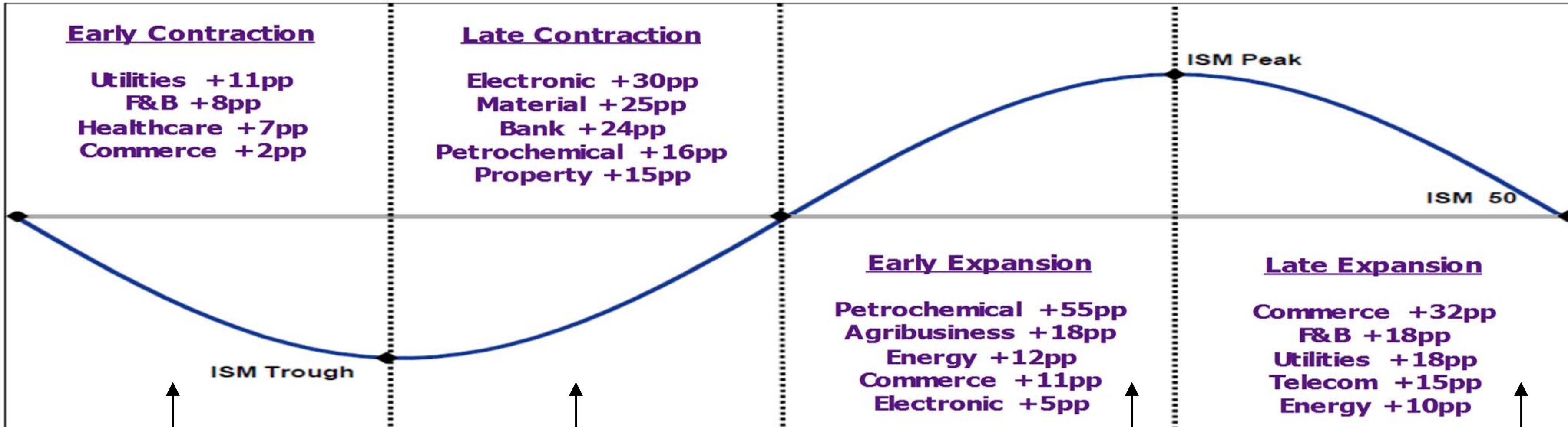
Distribution across yield curve regimes, changing a curve impacts asset & sector allocation

As there is no magic number for the level of rates that hurts stocks, we use the futures curve regime to analyze the returns pattern for sector excess return and relative performance for key asset classes. There is a significant dispersion across regimes for both the broad market and relative sector returns. The market tends to do the best during bear steepening (long-term rates rise faster than short-term) and bear flattening (short-term rates rise faster than long-term).

Investors should weight their portfolios toward higher quality stocks as a hedge against rising volatility in the case of a faster rise in rates than expected. We recommend investors monitor the shift of yield curve from bear steepening to bear flattening upon a change monetary policy stance at central banks after economies return to pre-COVID-19 levels.

1) The SET has had its best returns in bear steepening periods, which occur in reflationary regimes and are often found early in the business cycle when the economy emerges from recession.
2) Cyclical sectors, global plays and commodities such as Energy and Petrochemical historically have offered the highest excess returns during bear steepening.
3) We think the market has partially priced in the early stage of economic expansion and rising bond yield. We are looking for a shift in the yield curve regime from bear steepening to bear flattening or bull flattening given a tightening stance by central banks.
4) When curve changes, overall returns of risky assets remain positive but decelerate to single-digit returns and defensive stocks such as Commerce, F&B and Healthcare are expected to outperform.

Excess returns and economic cycles & yield regime



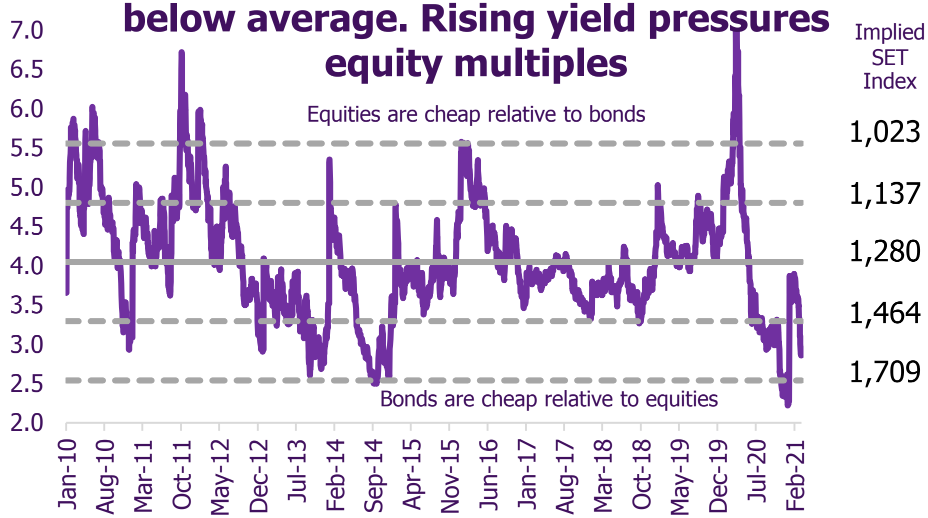
	Bull Steepening	Bear Steepening	Bear Flattening	Bull Flattening
SET	-10%	16%	10%	0%
DM	-19%	19%	0%	10%
EM	-17%	31%	5%	6%
DXY	1%	3%	-1%	5%
THB	5%	0%	1%	4%
Gold	7%	-5%	1%	13%
Commodities	-11%	13%	0%	-6%
Brent	-11%	49%	6%	-7%
Energy	5%	17%	-10%	2%
Utilities	-6%	-25%	-11%	32%
Commerce	8%	-1%	-6%	20%
Bank	-24%	-9%	-6%	3%
Trnasportation	-32%	4%	-4%	7%
ICT	-10%	8%	-11%	4%
F&B	15%	-23%	-9%	24%
Property	6%	-19%	-9%	0%
Healthcare	0%	-11%	-8%	32%
Con Mat	-9%	-13%	-4%	-8%
Petrochem	-26%	18%	1%	-19%
Electronics	-30%	1%	9%	2%
Automotive	-6%	13%	-9%	-7%
Hotel	0%	-10%	-7%	13%
Staples	19%	-18%	7%	10%
Discretionary	-4%	-16%	-12%	5%
Materials	-16%	-2%	-4%	-13%

Clean energy is the long-term growth story

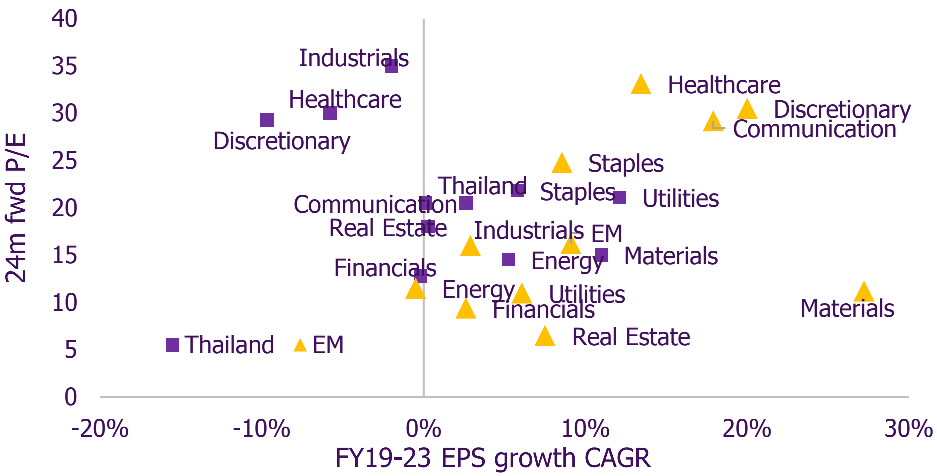
EU	China	US	Japan
The EU Commission plans to increase its target reduction in overall CO2 in the EU by 2030 (vs. 1990) to 55%.	The China Society of Automotive Engineers (China-SAE) on October 27 unveiled its Energy Saving and New Energy Vehicle Technology Roadmap 2.0,	On July 14, the Biden campaign announced a plan to spend US$2tn on environmental measures over the next four years.	Guidelines published mainly by METI call for a powertrain mix in Japan in 2030 with ICE vehicles at 30-50%, HEVs at 30-40%, and EVs/PHEVs at 20-30%.
Road transport accounts for ~20% of EU CO2 emissions; we see a risk that 2030 passenger car CO2 targets could be tightened further.	The roadmap includes a sales weighting target for internal combustion engine (ICE) vehicles at 0% in 2035	Campaign outlined a goal to increase green infrastructure, such as EV rapid-charging stations, to reinstate the tax credit on EV purchases and ultimately to achieve net zero emissions no later than 2050.	Plans to shift further toward electrification in response to the 2050 carbon neutral declaration.
Government incentives and subsidies will be an important support to EV sales volume.	China-SAE also announced specific measures: 1) reduce carbon emissions by more than 20% versus peak by 2035, assuming emissions peak around 2028; 2) install ordinary charging facilities in at least 150mn locations and fast charging facilities in at least 1.46mn locations by 2035.		
The average government incentive for EVs in Europe (average for the UK, France, and Germany) is €4,700 (€2,400 for PHEVs).	Ministry of Ecological Environment announced Measures for Carbon Emissions Trading (for trial Implementation), which took effect from Feb 1, 2021.		
According to a study by The International Council on Clean Transportation (ICCT), German car drivers use the battery to power their PHEV for about 18% of total kilometers driven, far below the 62% rate assumed under New European Drive Cycle (NEDC) testing.			
The UK has proposed banning the sale of ICE from 2035, and eight other European countries are planning to ban them by 2040. This would mean that ICE vehicles could no longer be sold in 37% of the European market.	Paris Agreement: The common target is to keep the increase in the average global temperature in the 21st century to less than 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C. EVs will become the mainstream technology from 2030 as a result of the adoption of life cycle assessment (LCA), changes in power mix based on the Paris Agreement, and a decline in battery prices.		

Mind the valuation gap; valuation is rebalancing

Thai bond/equity yield gap is at >1SD below average. Rising yield pressures equity multiples



SET Index and MSCI EM sector consensus estimates



The SET is trading at upper band valuation and seems richly valued despite earnings recovery. The earnings yield gap at 2.9% indicates that equities are inexpensive relative to bonds. However, the SET is trading at 20x 2021F which is +2SD over 10-year average, which seems to us to be a rich valuation. We believe rising interest rates could lead to a rebalancing in valuation and will not make stocks look comparatively attractive relative to bonds. However, abundant liquidity and high risk appetite could support share price despite rich valuation. Comparing Thai and EM sectors, most Thai industries have higher valuation and lower earnings growth than EM. Thus, we do not expect significant sustainable inflow from foreign investors despite vaccine availability.

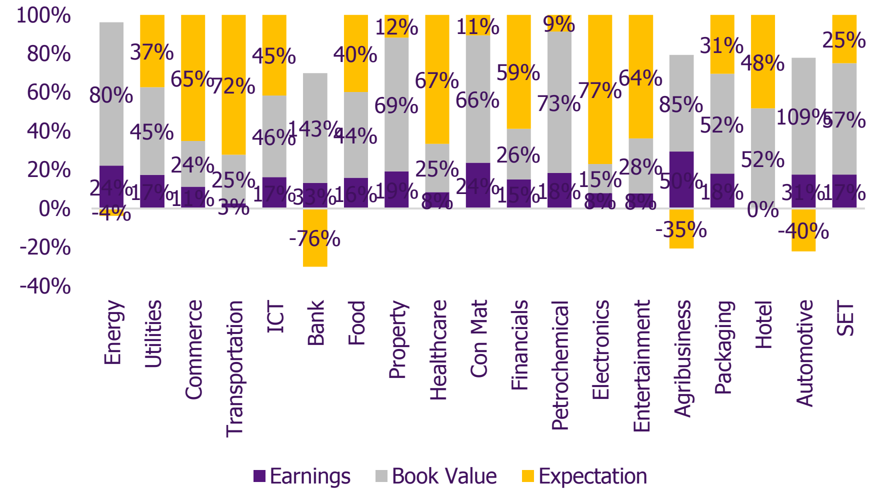
Our interest focuses on fundamental value and new growth narrative rather than betting on multiples expansion, foreign investor money inflow and yield movement.

Market is full of hope and high expectations

SET Index is back to pre-COVID-19 level but lags peers

	Global	US	EU	AEJ	EM	China	Thailand
IT	141%	141%	117%	153%	165%	117%	241%
Healthcare	110%	112%	95%	125%	143%	146%	88%
Financials	102%	112%	89%	103%	92%	101%	91%
ICT	129%	130%	91%	145%	144%	88%	81%
Cons Disc	138%	133%	118%	129%	142%	145%	89%
Industrials	116%	117%	112%	112%	105%	132%	85%
Cons Staples	102%	105%	106%	107%	105%	166%	98%
Energy	85%	87%	85%	100%	88%	92%	90%
Utilities	100%	97%	103%	93%	91%	107%	89%
Real Estate	97%	102%	86%	87%	82%	89%	93%
Materials	125%	129%	106%	131%	134%	159%	105%
REIT	97%	101%	73%				74%
Market	**119%**	**122%**	**102%**	**130%**	**122%**	**113%**	**100%**

Stock valuation may be a sector story with much hope (earnings remain weak)



The SET has by and large recovered to pre-COVID-19 level, while domestic economic and manufacturing activities have gradually recovered to about half of pre-COVID-19 level, but international travel remains at a standstill. Thus, the market is betting on vaccine availability and reopening of service activities in 2H21, while overall earnings will resume the pre-COVID-19 track in 2022; this means the market is full of hope with low probability of unexpected events. Our calculations tabulate EPS forecasts for the next three years with current book value and expectations or other factors. This shows that the SET is expected to jump about 28% from 13% in 3Q20 and 20% in 4Q20, but within EM and EU peers' range of 27-29%. The SET is expected to move sideways in the absence of fresh positive catalysts after a strong rally and wait for earnings recovery in 2H21.

…SET is fully valued

The SET is trading at a P/B ratio of 1.7x, in line with our fundamental P/B of 1.7x based on sector ROE profile, payout ratio and long-term growth rate. Our calculations suggest a 2021 SET Index target based on fundamentals of 1,480, aligning with our view that holds that net profit in 2021 will be below actual net profit in 2019 (average and year-end SET index at 1,640 and 1,560). The 2Q21 trading range target is 1,450-1,600. We feel the SET is fully valued in terms of fundamentals. We take a more cautious view on a SET level at over 1,600 because we believe the post-COVID-19 business outlook of listed companies is not truly clear and the scars from COVID-19 could pressure growth.

We expect potential market returns from the faster-than-expected global vaccinations and reopening for international travel and service activities in 2H21. Based on our valuation approaches, we assume a higher band from the fundamental perspective in order to see upside on a bull case scenario. The SET could go up to surpass 1,700 or about 10% from current level. But we expect to see a bull case scenario for the SET in 4Q21 matching the reopening timeline in Oct 2021.

We believe a stronger-than-expected earnings and economic recovery are limited given a strong rally in 4Q20-1Q21. Although growth dominates the share price rally, we are concerned about the rapid increase in yield and inflation that could pressure valuation and profitability.

Stocks are highly valued on an absolute basis relative to history. The aggregate index trades above the 90th percentile on a variety of metrics including P/E, EV/sales, EV/EBITDA, price/book and market cap/GDP. This suggests caution is warranted. We expect a rebalancing of sector valuations. Combining various valuation approaches points to limited valuation upside from current levels. We recommend investors wait for a wider margin of safety at our key entry point of 1,450.

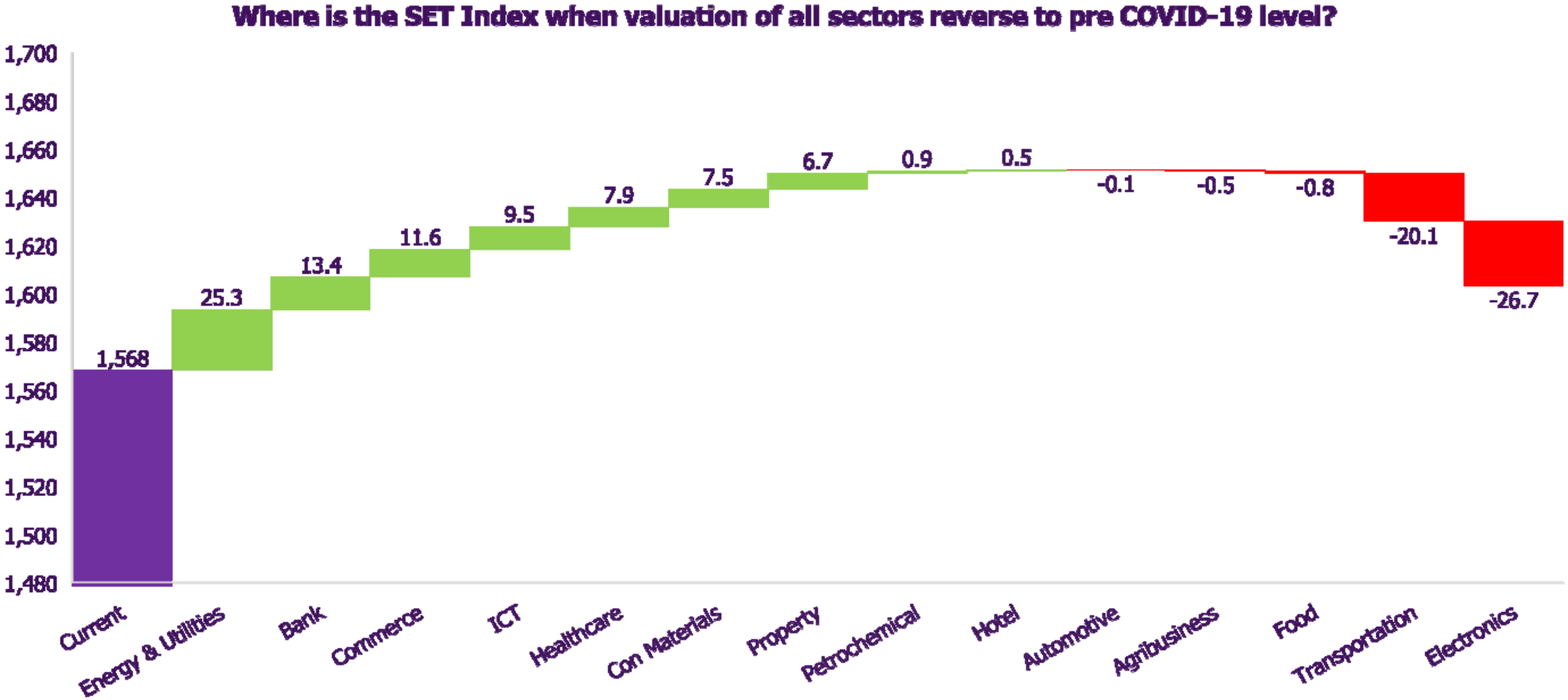
SET Index target range in 2021 is 1,500-1,550

		Target PB		Market Cap	
	Book value (2021)	SD band	Justified PB	SD band	Justified PB
Energy	2,214,629	1.3	1.2	2,879,018	2,546,823
Utilities	246,070	2.3	2.1	565,961	516,747
Bank	2,439,407	0.9	0.7	2,195,466	1,805,161
Trans	391,282	3.3	3.4	1,291,230	1,330,358
ICT	559,843	4.4	3.54	2,463,311	1,981,846
Food	517,940	2.2	2.2	1,139,467	1,139,467
Commerce	408,266	5.4	5.4	2,204,635	2,204,635
Petro	489,773	1.3	1.2	636,705	587,727
Healthcare	179,743	5.7	5.7	1,024,535	1,024,535
Electronics	86,381	3.1	2.6	267,782	224,591
Property	721,110	1.6	1.3	1,153,776	937,443
Hotel	45,501	2.7	1.2	122,853	54,601
Media	53,549	2.7	2.6	144,581	139,226
Con Mat	469,301	1.9	1.6	891,671	750,881
Finance	202,015	3	3.3	606,045	666,650
Cons	116,741	1.1	0.7	128,415	81,719
Others	773,850	1	1	773,850	773,850
Implied target				1,632	1,480

Approach	Current level	Target valuation (Based case)	Implied SET Index	Potential Upside / Downside	Bull case	Implied SET Index	Potential Upside / Downside	Bear case	Implied SET Index	Potential Upside / Downside
P/E	17.2	16.7	1,520	-3%	19.0	1,729	10%	15.0	1,365	-13%
P/B and ROE	1.7	1.7	1,565	0%	1.9	1,710	9%	1.5	1,342	-14%
Equity Risk Premium	ERP 7% / Rf 0.5%	ERP 6.5% / Rf 1%	1,655	6%	ERP 6% / Rf 1.5%	1,820	16%	ERP 7.5% / Rf 0.5%	1,517	-3%
Earnings Yield Gap	386	416	1,486	-5%	341	1,694	8%	491	1,324	-16%
		Average	1,556	-1%		1,738	11%		1,387	-12%
		Median	1,542	-2%		1,720	10%		1,353	-14%

SCBS

What if valuation of all sectors reaches pre-COVID?



The recent SET rally is partially explained by earnings revisions, mostly driven by expectation and valuation expansion. The valuation band is temporarily less meaningful in the short-term given a rich valuation and widening standard deviation. We believe it is too early to use +1SD above mean given limited changes in long-term fundamentals and competitiveness. Thus, we use the pre-COVID-19 level as the short-term SET upside. The SET could go up to 1,600 points or 3% from current level. Key drivers are Energy & Utilities, Bank, Commerce, Healthcare, while key drags are Transportation, and Electronics.

Market correction may lie ahead, Sell in May

The market is worried about stretched valuations and potential market overheating given the strong rally and high expectations. Moreover, rising yield could pressure long duration asset valuations.

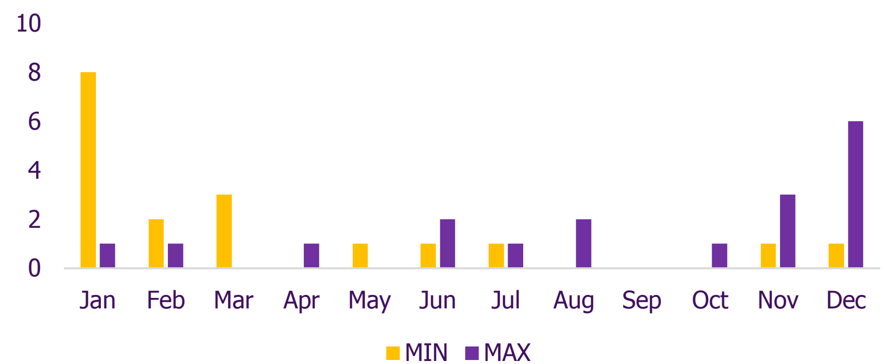
According to historical data, there is a high probability the market will pull back in May and 3Q after strong positive returns in Nov-Mar. Over the last couple of decades, Mar has been an important month for market reflection points such as the Internet bubble (peak in Mar 2001), the global financial crisis (bottom in Mar 2009) and COVID-19 pandemic (bottom in Mar 2020). Based on our analysis, the high of the year is reached in 4Q nearly 65% of the time. On the other hand, SET hits its annual peak and trough in 2Q about 17% of time.

After the elevated risky asset price in every corner of the earth, the market looks fairly rickety. In addition, seasonality could turn less favorable in 2Q, which is typically the weak quarter, as we move from the most favorable and highest volatility part of the year. Thus, the SET appears at risk of a short-term correction in 2Q21. However, we think the pullback provides a better opportunity to build position for 2H21.

Jump in Nov-1Q leads to sell in May

	Nov-Dec	1Q	Apr	May	Jun	3Q	4Q
1988	-5%	36%	6%	3%	7%	-2%	-13%
1991	-6%	41%	1%	-8%	-5%	-12%	6%
1992	11%	16%	-8%	-9%	9%	13%	5%
1998	-17%	23%	-10%	-21%	-18%	-5%	40%
2001	-1%	8%	3%	3%	4%	-14%	10%
2002	10%	23%	-1%	10%	-5%	-15%	7%
2010	7%	7%	-3%	-2%	6%	22%	6%
2012	5%	17%	3%	-7%	3%	11%	7%
2013	7%	12%	2%	-2%	-7%	-5%	-6%
2016	-8%	9%	0%	1%	1%	3%	4%
Median			**1%**	**-2%**	**2%**	**-3%**	**6%**
Average			**-1%**	**-3%**	**-0.5%**	**-0.4%**	**7%**
Hit rate			**45%**	**55%**	**36%**	**55%**	**18%**

Month of SET price extremes in up years

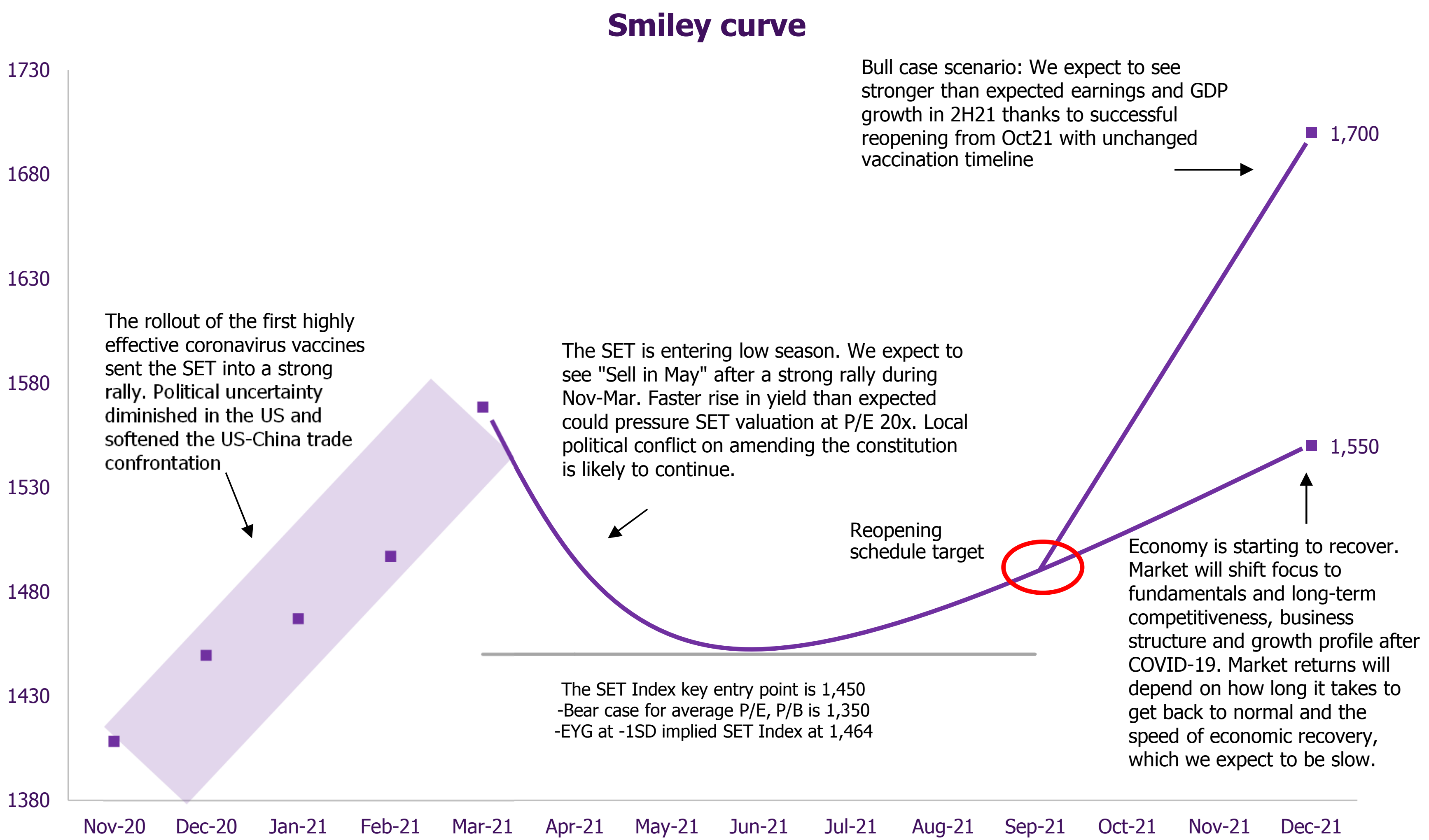


Investment roadmap in 2021 – Smiley curve

Our baseline assumptions for 2021 include: 1) US and EU will achieve herd immunity in 3Q21 and expect to resume international travel and service activities, 2) steady progress on vaccinations in Thailand and Asia from 2H21 onward on a mass scale, 3) reduced US political uncertainty, 4) recovery in Thai tourism in 2H21, 5) BoT stays put with a stable policy rate of 0.5%, 6) baht maintains its strength in 2021, 7) FED and ECB will maintain eased monetary policies, and 8) GDP and earnings continue to recover in 2021 but remain below pre-COVID-19 level. These positive assumptions, beginning with vaccinations and extending to GDP and earnings recovery and reopening inbound tourism will support equities prices. However, we are concerned about the change in guidance indicating a tightening monetary policy stance and faster-than-expected rising bond yield. The market will be full of expectations toward the upside. Thus, we expect the market to pull back in 2Q21 with a market correction of 7-10%.

As expected, we live in a Goldilocks environment with a fresh catalyst from vaccine availability, global cooperation and earnings recovery in 1Q21. We are focusing on a vaccine that will serve as an insurance policy against headwinds from COVID-19 and start another layer of recovery as well as the reopening timeline in 2H21. We are concerned about the gap between expectations and market realization. In 2H21, the economy will start to recover. The market will shift focus to fundamentals and long-term competitiveness, business structure and growth profile after COVID-19. Market returns will depend on how long it takes to get back to normal and the speed of economic recovery and success of reopening in 3Q21, supporting a SET rally. In the bull case scenario, we expect to see a stronger earnings and GDP growth than expected in 2H21 thanks to successful reopening from Oct 2021 with an unchanged vaccination timeline that could push the SET to 1,700.

SET Index scenario for 2Q-4Q21 – smiley curve



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Focus on service reopening theme, improving earnings growth outlook and strong balance sheet: Our picks in 2Q21 are MINT, BDMS, BEM, TWPC, DOD

We expect cyclical rotation to continue but see limited upside at less than 10% after a strong rally in both cyclical and value stocks. Our top picks in 1Q21 (HMPRO, IP, MINT, PTTEP, TOP) outperformed by 28%. Vaccine availability and expectations for a return of economic activity circulated in the stock price story. We think the market will shift its focus toward the reopening theme that could bring faster-than-expected recovery in 2H21 given accelerated global vaccinations and introduction of a vaccine passport. Defensive sectors such as Commerce and Healthcare could outperform, undergirded by diversification benefits and a history of providing positive returns when bond yield is rising. We think Utilities, Property and REIT are likely to lag because they have tended to underperform when both rates and inflation are rising.

We look at stocks that benefit from a vaccine and economic normalization and those with strong recovery prospects and limited financial risk or strong balance sheets. We suggest investors view positively companies that: 1) operate in industries that have manageable headwinds, 2) exhibit a strong recovery after a vaccine is available, 3) remain competitive in the longer term, 4) sectors with price or market underperformance in 1Q21. Our top picks in 2Q21 are MINT, BDMS, BEM, TWPC and DOD.

Stock picks in 2Q21

	Rating	Price	Target	ETR	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
		(Bt/Sh)	(Bt/Sh)	(%)	20A	21F	22F	20A	21F	22F	20A	21F	22F	20A	21F	22F	20A	21F	22F	20A	21F	22F
BDMS	Outperform	21.40	28.0	32.1	55.8	47.6	35.8	(37)	17	33	3.8	3.7	3.5	7	8	10	2.6	1.3	1.7	22.5	20.4	16.7
BEM	Outperform	8.70	10.3	19.8	64.9	43.3	32.9	(20)	50	31	3.5	3.4	3.3	5	8	10	1.1	1.4	1.8	31.3	28.3	23.2
DOD	Outperform	13.40	16.0	22.2	18.6	18.1	15.0	240	3	20	4.5	4.5	4.5	11	22	22	0.0	2.8	3.3	13.8	11.5	9.8
MINT	Outperform	30.25	34.0	12.4	n.m.	n.m.	125.3	n.m.	49	n.m.	1.9	2.4	2.4	(24)	(15)	2	0.0	0.0	0.3	N.M.	63.9	16.2
TWPC	Outperform	4.52	5.4	22.9	n.m.	14.8	13.5	(115)	3,381	9	0.8	0.8	0.8	1	5	6	3.0	3.4	3.7	9.3	5.4	5.1
Average					**46.4**	**30.9**	**44.5**	**17**	**700**	**23**	**2.9**	**3.0**	**2.9**	**0**	**6**	**10**	**1.3**	**1.8**	**2.2**	**19.2**	**25.9**	**14.2**

Focus on service reopening theme, improving earnings growth outlook and strong balance sheet: Our picks in 2Q21 are MINT, BDMS, BEM, TWPC, DOD

	Yield	Reopening	Commodities	Earnings	Positive Story
MINT	Financial concerns have been eased: bondholders approved the waiver of financial covenant testing until end-2022	We are encouraged that vaccine availability will bring travel back. Positive news on both the efficacy and the rollout of vaccines as well as business on the books showing positive trends.		Our expectation is that the first half of the year will continue to be challenging, until vaccines are widely distributed. The worst is behind us.	
BDMS	Healthcare was usually the best performing sectors and provide diversification benefits during the rising yield environment.	Easing travel restrictions will allow more fly-in and medical tourism patients to come to Thailand, hopefully in 2H21. We expect the international patient segment (~30% of pre-COVID-19 revenue) to come back strongly in 2022.		We expect 17% core earnings growth in 2021, turning from a 37% contraction in 2020. YoY growth resumes in 2Q21 off a normalized earnings base (the low earnings began in 2Q20 hit by the COVID-19 pandemic), with recovery in 2H21.	Collaboration with Ping An Health Insurance Company of China, Ltd. Starting to provide more services such as Telemedicine.
BEM		We believe Jan's expressway and MRT traffic numbers will prove to be the year's lowest. School and working place are partially returning to normal. After the vaccination, we expect strong traffic recovery.		Expect to see strong earnings recovery in 2021F, supported by improving expressway traffic and MRT ridership. We expect 50% earnings growth in 2021	If the ruling of Supreme Administrative Court favors MRTA, we would see near-term speculation in BEM as we see it as having a greater chance of winning the orange line project
TPWC	TWPC is net cash company that should have limited impacts from rising rates		Floods have led to a decline in cassava yields and support price. Cassava price remains high at 2 year high (+7-10% YoY). Core price surges could lead to higher demand for substitute products such as tapioca	We expect 1Q21 will be the peak quarter for FY21 earnings due to strong orders from China markets and easing containers bottleneck	TWPC will focus more on the earnings turnaround story. Key product to focus in 2021 are organic tapioca starch and bioplastic.
DOD	Company has low level of financial leverage				DOD is the supplier of hemp seeds and F&B containing hemp as an ingredient. DOD has the lowest risk and highest visibility in hemp supply chain.

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Summary of sector recommendations

Sector	Recommended sector weighting	Current SET weight	YTD returns	FY21	CAGR19-23	P/E	P/B	Dividend yield
Healthcare	Overweight	4%	5%	17%	-6%	42.2	4.0	1.6%
Land Transportation	Overweight	7%	0%	21%	14%	32.4	2.1	2.7%
Agribusiness	Overweight	1%	40%	114%	510%	4.5	1.2	6.0%
Hotel	Overweight	1%	19%	56%	18%	133.7	1.9	na
Energy	Neutral	12%	6%	130%	7%	14.5	1.2	3.4%
Bank	Neutral	10%	14%	14%	0%	10.5	0.7	3.5%
Commerce	Neutral	10%	11%	24%	5%	31.8	4.2	1.7%
Electronics	Neutral	3%	-41%	12%	38%	43.7	6.7	1.3%
Building Materials	Neutral	4%	1%	10%	10%	13.3	1.5	3.7%
Food & beverage	Neutral	7%	13%	42%	7%	23.4	2.3	2.2%
Petrochemical	Neutral	4%	15%	275%	29%	20.2	1.4	2.3%
Automotive	Neutral	0%	6%	260%	22%	13.0	0.9	4.9%
REITs / PF / IF	Underweight	2%	2%	45%	-7%	18.8	1.2	5.2%
Air Transportation	Underweight	0%	17%	53%	na	86.2	0.5	na
Residential/IE	Underweight	6%	11%	58%	1%	18.0	1.5	2.8%
Utilities	Underweight	10%	6%	21%	16%	21.4	2.2	2.0%
Entertainment / Media	Underweight	1%	10%	215%	16%	63.4	3.6	1.0%
Telecoms	Underweight	7%	-1%	-5%	-6%	19.2	2.2	4.6%

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CG Rating 2020 Companies with CG Rating

Companies with Excellent CG Scoring

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2S, ABM, ACE, ACG, ADB, AEC, AEONTS, AGE, AH, AHC, AIT, ALLA, AMANAH, AMARIN, APCO, APCS, APURE, AQUA, ASAP, ASEFA, ASIA, ASIAN, ASIMAR, ASK, ASN, ATP30, AUCT, AWC, AYUD, B, BA, BAM, BBL, BFIT, BGC, BJC, BJCHI, BROOK, BTW, CBG, CEN, CGH, CHARAN, CHAYO, CHG, CHOTI, CHOW, CI, CIG, CMC, COLOR, COM7, CPL, CRC, CRD, CSC, CSP, CWT, DCC, DCON, DDD, DOD, DOHOME, EASON, EE, ERW, ESTAR, FE, FLOYD, FN, FORTH, FSS, FTE, FVC, GENCO, GJS, GL, GLAND, GLOBAL, GLOCON, GPI, GULF, GYT, HPT, HTC, ICN, IFS, ILM, IMH, INET, INSURE, IRC, IRCP, IT, ITD*, ITEL, J, JAS, JCK, JCKH, JMART, JMT, KBS, KCAR, KGI, KIAT, KOOL, KTIS, KWC, KWM, L&E, LALIN, LDC, LHK, LOXLEY, LPH, LRH, LST, M, MACO, MAJOR, MBAX, MEGA, META, MFC, MGT, MILL, MITSIB, MK, MODERN, MTI, MVP, NETBAY, NEX, NINE, NTV, NWR, OCC, OGC, OSP, PATO, PB, PDG, PDI, PICO, PIMO, PJW, PL, PM, PPP, PRIN, PRINC, PSTC, PT, QLT, RCL, RICHY, RML, RPC, RWI, S11, SALEE, SAMCO, SANKO, SAPPE, SAWAD, SCI, SCP, SE, SEG, SFP, SGF, SHR, SIAM, SINGER, SKE, SKR, SKY, SMIT, SMT, SNP, SPA, SPC, SPCG, SR, SRICHA, SSC, SSF, STANLY, STI, STPI, SUC, SUN, SYNEX, T, TAE, TAKUNI, TBSP, TCC, TCMC, TEAM, TEAMG, TFG, TIGER, TITLE, TKN, TKS, TM, TMC, TMD, TMI, TMT, TNITY, TNP, TNR, TOG, TPA, TPAC, TPCORP, TPOLY, TPS, TRITN, TRT, TRU, TSE, TVT, TWP, UEC, UMI, UOBKH, UP, UPF, UPOIC, UT, UTP, UWC, VL, VNT, VPO, WIIK, WP, XO, YUASA, ZEN, ZIGA, ZMICO

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Corporate Governance Report

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To recognize well performers, the list of companies attaining "Good", "Very Good" and "Excellent" levels of recognition
(Not including listed companies qualified in the "no announcement of the results" clause from 1 January 2019 to 19 November 2020) is publicized.
* บริษัทหรือกรรมการหรือผู้บริหารของบริษัทที่มีข่าวด้านการกำกับดูแลกิจการ เช่น การกระทำผิดเกี่ยวกับหลักทรัพย์ การทุจริต คอร์รัปชัน เป็นต้น ซึ่งการใช้ข้อมูล CGR ควรตระหนักถึงข่าวดังกล่าวประกอบด้วย

Anti-corruption Progress Indicator

Certified (ได้รับการรับรอง)

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Declared (ประกาศเจตนารมณ์)

7UP, ABICO, AF, ALT, AMARIN, AMATA, AMATAV, ANAN, APURE, B52, BKD, BM, BROCK, BUI, CHO, CI, COTTO, DDD, EA, EFORL, EP, ERW, ESTAR, ETE, EVER, FSMART, GPI, ILINK, IRC, J, JKN, JMART, JMT, JSP, JTS, KWG, LDC, MAJOR, META, NCL, NOBLE, NOK, PK, PLE, ROJNA, SAAM, SAPPE, SCI, SE, SHANG, SINGER, SKR, SPALI, SSP, STANLY, SUPER, SYNEX, THAI, TKS, TOPP, TRITN, TTA, UPF, UV, WIN, ZIGA

N/A

3K-BAT, A, A5, AAV, ABM, ACAP, ACC, ACE, ACG, ADB, AEC, AEONTS, AFC, AGE, AH, AHC, AIT, AJ, AJA, AKR, ALL, ALLA, ALUCON, AMC, AOT, APCO, APCS, APEX, APP, AQ, ARIN, ARIP, AS, ASAP, ASEFA, ASIA, ASIAN, ASIMAR, ASN, ATP30, AU, AUCT, AWC, BA, BAM, BC, BCT, BDMS, BEAUTY, BEC, BEM, BFIT, BGT, BH, BIG, BIZ, BJC, BLAND, BLISS, BOL, BR, BSM, BTNC, BTW, CAZ, CBG, CCET, CCP, CGD, CHARAN, CHAYO, CHG, CITY, CK, CKP, CMAN, CMO, CMR, CNT, COLOR, COMAN, CPH, CPL, CPR, CPT, CPW, CRANE, CRC, CRD, CSP, CSR, CSS, CTW, CWT, D, DCON, DHOUSE, DOD, DOHOME, DTCI, DV8, EASON, ECF, EE, EKH, EMC, EPG, ESSO, ETC, F&D, FANCY, FLOYD, FMT, FN, FORTH, FVC, GENCO, GIFT, GL, GLAND, GLOBAL, GLOCON, GRAMMY, GRAND, GREEN, GSC, GTB, GULF, GYT, HFT, HPT, HTECH, HUMAN, HYDRO, ICN, IFEC, IHL, IIG, III, ILM, IMH, IND, INGRS, INOX, INSET, IP, IRCP, IT, ITD, JAK, JAS, JCK, JCKH, JCT, JR, JUBILE, JUTHA, JWD, KAMART, KC, KCM, KDH, KEX, KIAT, KISS, KK, KKC, KOOL, KTIS, KUMWEL, KUN, KWM, KYE, LALIN, LEE, LEO, LH, LIT, LOXLEY, LPH, LST, MACO, MANRIN, MATCH, MATI, MAX, M-CHAI, MCS, MDX, MEGA, METCO, MGT, MICRO, MIDA, MILL, MITSIB, MJD, MK, ML, MM, MODERN, MORE, MPIC, MVP, NC, NCAP, NCH, NDR, NER, NETBAY, NEW, NEWS, NEX, NFC, NOVA, NPK, NRF, NTV, NUSA, NVD, NYT, OHTL, OISHI, OR, OSP, OTO, PACE, PACO, PAE, PAF, PERM, PF, PICO, PIMO, PJW, PMTA, POLAR, POMPUI, PORT, POST, PPM, PR9, PRAKIT, PRAPAT, PRECHA, PRIME, PRIN, PRO, PROUD, PTL, RAM, RBF, RCI, RCL, RICHY, RJH, ROCK, ROH, RP, RPC, RPH, RS, RSP, RT, S, S11, SA, SABUY, SAFARI, SAK, SALEE, SAM, SAMART, SAMCO, SAMTEL, SANKO, SAUCE, SAWAD, SAWANG, SCGP, SCM, SCP, SDC, SEAFCO, SF, SFLEX, SFP, SFT, SGF, SHR, SIAM, SICT, SIMAT, SIS, SISB, SK, SKE, SKN, SKY, SLM, SLP, SMART, SMT, SO, SOLAR, SONIC, SPA, SPCG, SPG, SPVI, SQ, SR, SSC, STAR, STARK, STC, STEC, STGT, STHAI, STI, STPI, SUC, SUN, SUTHA, SVH, SVOA, SWC, SYMC, T, TACC, TAPAC, TC, TCC, TCCC, TCJ, TCOAT, TEAM, TEAMG, TGH, TGPRO, TH, THANA, THE, THG, THL, THMUI, TIGER, TITLE, TK, TKN, TM, TMC, TMI, TMW, TNDT, TNH, TNPC, TOA, TPAC, TPBI, TPCH, TPIPL, TPIPP, TPLAS, TPOLY, TPS, TQM, TQR, TR, TRC, TRT, TRUBB, TSE, TSF, TSI, TSR, TSTE, TTI, TTT, TTW, TVT, TWP, TWZ, TYCN, UAC, UMI, UMS, UNIQ, UP, UPA, UPOIC, UREKA, UT, UTP, UVAN, VARO, VCOM, VI, VIBHA, VL, VNG, VPO, VRANDA, W, WAVE, WGE, WINNER, WORK, WORLD, WP, WPH, WR, YCI, YGG, YUASA, ZMICO

Explanations

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.