



# Kerry Express (Thailand)

# KEX

Kerry Express (Thailand)  
Public Company Limited

Bloomberg KEX.TB  
Reuters KEX.BK

## Facing near-term headwind; wait for upside

**We initiate coverage as NEUTRAL with a DCF-based TP of Bt50. Although we see a good future for KEX from Thailand's rising trend towards e-commerce, the stock has been pressured down by weak domestic consumption in 1H21, now reflected in share price. The good news is that we see upside not yet in our assumptions lying in new businesses and M&A. The unclear timeline means no catalyst for the near term. We would turn more positive if we see 1) signs of consumption recovery, 2) more clarity on new business and 3) upside from M&A.**

**Unexciting 1H21F in the price.** COVID-19, which hit Thailand in early 2020, initially created a surge in demand for online shopping. Based on a discussion with management, panic buying started in Feb 2020 and continued through 2Q20, giving parcel volume growth of 15.4% YoY and earnings growth of 36.4% YoY in 1H20. This high base plus the currently weak consumer sentiment means an unexciting 1H21F net profit and we expect a YoY contraction in net profit. However, share price has underperformed the SET by 14.6% YTD, suggesting this is already in share price. YoY growth is expected to turn positive in 2H21F to give a 2021F net profit of Bt1.5bn, up 6.6% YoY. In 1Q21F, we expect net profit of Bt352mn, down 6.0% QoQ and 5.4% YoY. It will release results on May 13.

**Waiting for upside from new business and M&A.** KEX announced four new business initiatives in 1Q21: Kerry Media, Kerry Can-Sell, Kerry Cool and Kerry Enterprise. We believe the objective is to improve branch and network efficiency. Upside in terms of revenue generation is hard to quantify at this stage due to limited information and we leave it as potential earnings upside. KEX has Bt9.7bn cash (12% of its market cap) sitting on its balance sheet as of 4Q20, mainly IPO proceeds, which we expect it to use for M&A, which it is studying. This is another upside to our forecast.

**Long-term growth story from rising e-commerce intact.** According to the most recent data from *Frost & Sullivan*, Thailand's e-commerce penetration is still low at 3.7% of total retail sales in 2019, giving much room for e-commerce to grow to reach our expected e-commerce penetration of 9.5% in 2024F; this is also in line with the estimate by *Frost & Sullivan*.

**Current valuation reflects existing business.** We expect KEX to report mild recovery in 2021F net profit. The strong earnings recovery is expected in 2022F when consumption is expected to recover. We estimate 3-year earnings CAGR of 12.6% (2020-2023F). Based on this, we believe current valuation at 52.6x 2021F PE already reflects existing business.

### Forecasts and valuation

Year to 31 Dec	Unit	2019	2020	2021F	2022F	2023F
Revenue	(Btmn)	19,782	18,917	19,588	21,934	25,582
EBITDA	(Btmn)	2,354	4,202	2,904	3,490	4,208
Core profit	(Btmn)	1,329	1,405	1,515	1,748	2,007
Reported profit	(Btmn)	1,329	1,405	1,515	1,748	2,007
Core EPS	(Bt)	5.54	0.81	0.86	0.98	1.13
DPS	(Bt)	2.45	0.22	0.26	0.29	0.34
P/E, core	(x)	8.2	56.0	52.6	46.1	40.1
EPS growth, core	(%)	12.1	(85.4)	6.6	14.1	14.8
P/BV, core	(x)	4.9	7.3	6.4	5.6	5.1
ROE	(%)	71.4	21.5	13.0	13.0	13.3
Dividend yield	(%)	na.	0.5	0.6	0.7	0.7
FCF yield	(%)	na.	0.6	2.1	1.8	2.9
EV/EBIT	(x)	6.4	37.8	34.3	29.7	25.3
EBIT growth, core	(%)	14.2	10.1	8.7	14.5	14.1
EV/CE	(x)	3.3	8.4	8.4	7.7	7.3
ROCE	(%)	38.1	17.2	17.7	18.8	21.1
EV/EBITDA	(x)	4.6	16.6	23.7	19.6	15.8
EBITDA growth	(%)	33.2	78.5	(30.9)	20.2	20.6

Source: SCBS Investment Research

## Tactical: NEUTRAL

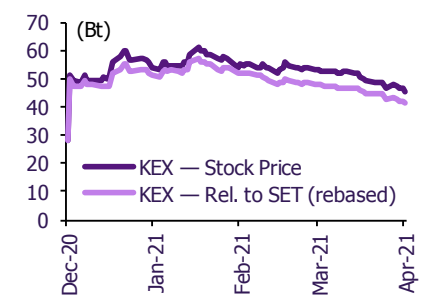
(3-month)

### Stock data

Last close (Apr 23) (Bt)	45.25
Target price (Bt)	50.00
Mkt cap (Btbn)	78.74
Mkt cap (US\$mn)	2,508

Beta	H
Mkt cap (%) SET	0.45
Sector % SET	8.27
Shares issued (mn)	1,740
Par value (Bt)	0.50
12-m high / low (Bt)	73 / 45.3
Avg. daily 6m (US\$mn)	28.69
Foreign limit / actual (%)	49 / 6
Free float (%)	25.1
Dividend policy (%)	≥ 30

### Price performance



Source: SET, SCBS Investment Research

### Share performance

(%)	1M	3M	12M
Absolute	(14.2)	(16.2)	n.a.
Relative to SET	(13.3)	(19.2)	n.a.

Source: SET, SCBS Investment Research

### Analyst

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**Value proposition**

KEX has positioned itself as Thailand's leading and fastest growing private express delivery company and the pioneer of convenient and private express delivery solutions in Thailand, offering a comprehensive range of integrated parcel delivery services to customers in the C2C, B2C and B2B segments.

**Business outlook**

KEX is excellently positioned to capture the growing use of e-commerce in Thailand as consumer behavior changes to favor ordering online. Growth potential is huge as e-commerce penetration in Thailand is low at 3.7% in 2019 vs 26.7% in South Korea and 9.0% in Japan according to *Frost & Sullivan*.

Bullish views	Bearish views
1. KEX benefits from rising e-commerce penetration in Thailand, which is still low.	1. Weak near-term earnings outlook in 1H21F from COVID-19 impact and high base in 1H20.
2. Potential upside from its new business and M&A	2. Stretched valuation for existing business at over 50x 2021F PE vs 3-year earnings CAGR of 12.6% (2020-2023)
	3. High competition that will make it difficult to maintain margin

**Key catalysts**

Factor	Event	Impact	Comment
Latest development	Third round of COVID-19 outbreak in April 2021	Negative	This will hurt parcel volume as the new wave will further damage domestic consumption and sentiment, extending to online shopping.
Near-term earnings outlook	2Q21F	Flat QoQ, drop YoY	We expect earnings growth to be flat QoQ in 2Q21F as purchasing power will remain weak and a third wave of COVID-19 started in April, dampening consumer sentiment. For YoY, the drop will be off the high base (panic buying during the first round of COVID-19 last year).
Factors to be aware in 2021	Potential M&A	Positive	This will provide earnings and TP upside to SCBS and consensus forecasts.

**Sensitivity analysis**

Factor	Earnings impact	TP impact
1ppt change in parcel volume growth	0.9%	Bt0.3/share (0.6%)

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	2016	2017	2018	2019	2020	2021F	2022F	2023F
Total revenue	(Btmn)	na.	6,626	13,565	19,782	18,917	19,588	21,934	25,582
Cost of goods sold	(Btmn)	na.	(5,241)	(11,152)	(16,704)	(15,850)	(16,429)	(18,356)	(21,475)
<b>Gross profit</b>	<b>(Btmn)</b>	na.	<b>1,386</b>	<b>2,413</b>	<b>3,078</b>	<b>3,067</b>	<b>3,159</b>	<b>3,578</b>	<b>4,107</b>
SG&A	(Btmn)	na.	(536)	(1,047)	(1,514)	(1,314)	(1,343)	(1,482)	(1,702)
Other income	(Btmn)	na.	49	102	113	93	191	203	219
Interest expense	(Btmn)	na.	(0)	(1)	(24)	(112)	(113)	(114)	(115)
<b>Pre-tax profit</b>	<b>(Btmn)</b>	na.	<b>898</b>	<b>1,467</b>	<b>1,652</b>	<b>1,734</b>	<b>1,894</b>	<b>2,185</b>	<b>2,508</b>
Corporate tax	(Btmn)	na.	(168)	(282)	(324)	(329)	(379)	(437)	(502)
Equity a/c profits	(Btmn)	na.	0	0	0	0	0	0	0
Minority interests	(Btmn)	na.	0	0	0	0	0	0	0
<b>Core profit</b>	<b>(Btmn)</b>	na.	<b>730</b>	<b>1,185</b>	<b>1,329</b>	<b>1,405</b>	<b>1,515</b>	<b>1,748</b>	<b>2,007</b>
Extra-ordinary items	(Btmn)	na.	0	0	0	0	0	0	0
<b>Net Profit</b>	<b>(Btmn)</b>	na.	<b>730</b>	<b>1,185</b>	<b>1,329</b>	<b>1,405</b>	<b>1,515</b>	<b>1,748</b>	<b>2,007</b>
EBITDA	(Btmn)	na.	996	1,767	2,354	4,202	4,704	5,290	6,008

### Balance Sheet

FY December 31	Unit	2016	2017	2018	2019	2020	2021F	2022F	2023F
Total current assets	(Btmn)	na.	2,039	2,231	2,818	11,278	12,369	13,901	15,740
Total fixed assets	(Btmn)	na.	516	2,182	2,706	2,259	2,334	3,114	3,501
<b>Total assets</b>	<b>(Btmn)</b>	na.	<b>2,710</b>	<b>4,768</b>	<b>6,014</b>	<b>19,318</b>	<b>20,542</b>	<b>22,913</b>	<b>25,198</b>
Total loans	(Btmn)	na.	0	200	800	800	0	0	0
Total current liabilities	(Btmn)	na.	2,130	3,199	2,861	4,698	4,192	4,672	5,436
Total long-term liabilities	(Btmn)	na.	28	79	920	3,773	3,810	3,848	3,887
<b>Total liabilities</b>	<b>(Btmn)</b>	na.	<b>2,157</b>	<b>3,278</b>	<b>3,781</b>	<b>8,471</b>	<b>8,002</b>	<b>8,520</b>	<b>9,322</b>
Paid-up capital	(Btmn)	na.	120	120	120	8,981	9,541	10,101	10,101
<b>Total equity</b>	<b>(Btmn)</b>	na.	<b>552</b>	<b>1,490</b>	<b>2,233</b>	<b>10,847</b>	<b>12,540</b>	<b>14,393</b>	<b>15,876</b>

### Cash Flow Statement

FY December 31	Unit	2016	2017	2018	2019	2020	2021F	2022F	2023F
Core Profit	(Btmn)	na.	730	1,185	1,329	1,405	1,515	1,748	2,007
Depreciation and amortization	(Btmn)	na.	98	299	678	3,856	2,396	2,690	3,085
Operating cash flow	(Btmn)	na.	1,855	1,795	1,641	5,215	2,698	3,402	4,318
Investing cash flow	(Btmn)	na.	(1,038)	(1,650)	(1,675)	(4,712)	(999)	(1,991)	(1,980)
Financing cash flow	(Btmn)	na.	120	(513)	375	8,285	(623)	105	(524)
<b>Net cash flow</b>	<b>(Btmn)</b>	na.	<b>937</b>	<b>(368)</b>	<b>341</b>	<b>8,787</b>	<b>1,076</b>	<b>1,516</b>	<b>1,814</b>

### Key Financial Ratios

FY December 31	Unit	2016	2017	2018	2019	2020	2021F	2022F	2023F
Gross margin	(%)	na.	20.9	17.8	15.6	16.2	16.1	16.3	16.1
Operating margin	(%)	na.	12.8	10.1	7.9	9.3	9.3	9.6	9.4
EBITDA margin	(%)	na.	15.0	13.0	11.9	22.2	14.8	15.9	16.5
EBIT margin	(%)	na.	13.6	10.8	8.5	9.8	10.2	10.5	10.3
Net profit margin	(%)	na.	11.0	8.7	6.7	7.4	7.7	8.0	7.8
ROE	(%)	na.	132.2	79.5	59.5	13.0	12.1	12.1	12.6
ROA	(%)	na.	53.9	31.7	24.6	11.1	7.6	8.0	8.3
Net D/E	(x)	na.	net cash	net cash	net cash	net cash	net cash	net cash	net cash
Interest coverage	(x)	na.	5,018.0	1,747.7	97.9	37.5	25.7	30.6	36.5
Debt service coverage	(x)	na.	5,018.0	8.8	97.9	4.6	25.7	30.6	36.5
Payout Ratio	(x)	na.	97.6	20.9	44.3	27.2	30.0	30.0	30.0

### Main Assumptions

FY December 31	Unit	2016	2017	2018	2019	2020	2021F	2022F	2023F
Parcel volume	(mn)	na.	71	174	274	294	323	388	462
Revenue per parcel	(Bt/parcel)	na.	93	78	72	64	60	56	55
Cost per parcel	(Bt/parcel)	na.	81	70	66	58	55	51	50

## Financial statement

### Profit and Loss Statement

FY December 31	Unit	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Total revenue	(Btmn)	na.	na.	na.	na.	na.	5,386	4,489	4,228
Cost of goods sold	(Btmn)	na.	na.	na.	na.	na.	(4,497)	(3,805)	(3,600)
<b>Gross profit</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>889</b>	<b>683</b>	<b>628</b>
SG&A	(Btmn)	na.	na.	na.	na.	na.	(436)	(307)	(176)
Other income	(Btmn)	na.	na.	na.	na.	na.	20	20	33
Interest expense	(Btmn)	na.	na.	na.	na.	na.	(25)	(31)	(28)
<b>Pre-tax profit</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>448</b>	<b>366</b>	<b>457</b>
Corporate tax	(Btmn)	na.	na.	na.	na.	na.	(83)	(74)	(82)
Equity a/c profits	(Btmn)	na.	na.	na.	na.	na.	0	0	0
Minority interests	(Btmn)	na.	na.	na.	na.	na.	0	0	0
<b>Core profit</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>365</b>	<b>292</b>	<b>375</b>
Extra-ordinary items	(Btmn)	na.	na.	na.	na.	na.	0	0	0
<b>Net Profit</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>365</b>	<b>292</b>	<b>375</b>
EBITDA	(Btmn)	na.	na.	na.	na.	na.	474	397	485

### Balance Sheet

FY December 31	Unit	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Total current assets	(Btmn)	na.	na.	na.	na.	na.	4,008	2,892	11,278
Total fixed assets	(Btmn)	na.	na.	na.	na.	na.	2,489	2,361	2,259
<b>Total assets</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>10,456</b>	<b>10,603</b>	<b>19,318</b>
Total loans	(Btmn)	na.	na.	na.	na.	na.	800	800	800
Total current liabilities	(Btmn)	na.	na.	na.	na.	na.	3,445	2,470	2,938
Total long-term liabilities	(Btmn)	na.	na.	na.	na.	na.	4,461	5,923	5,533
<b>Total liabilities</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>7,905</b>	<b>8,393</b>	<b>8,471</b>
Paid-up capital	(Btmn)	na.	na.	na.	na.	na.	720	720	8,981
<b>Total equity</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>2,551</b>	<b>2,210</b>	<b>10,847</b>

### Cash Flow Statement

FY December 31	Unit	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Core Profit	(Btmn)	na.	na.	na.	na.	na.	365	292	375
Depreciation and amortization	(Btmn)	na.	na.	na.	na.	na.	0	0	0
Operating cash flow	(Btmn)	na.	na.	na.	na.	na.	2,219	(542)	(29)
Investing cash flow	(Btmn)	na.	na.	na.	na.	na.	(561)	(211)	296
Financing cash flow	(Btmn)	na.	na.	na.	na.	na.	742	(244)	8,027
<b>Net cash flow</b>	<b>(Btmn)</b>	na.	na.	na.	na.	na.	<b>2,399</b>	<b>(997)</b>	<b>8,294</b>

### Key Financial Ratios

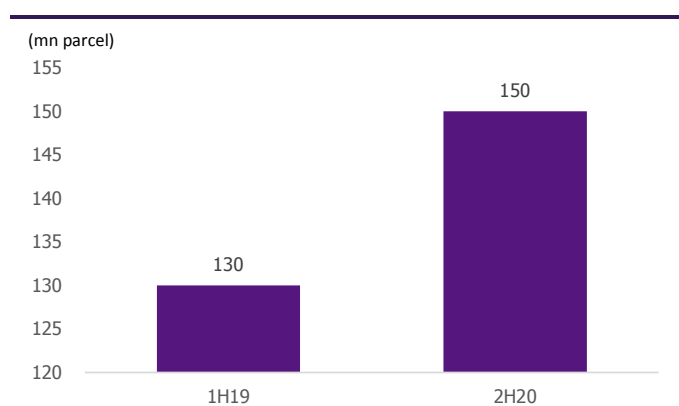
FY December 31	Unit	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Gross margin	(%)	na.	na.	na.	na.	na.	38.8	49.8	49.4
Operating margin	(%)	na.	na.	na.	na.	na.	(32.6)	7.1	2.6
EBITDA margin	(%)	na.	na.	na.	na.	na.	(3.4)	25.8	19.5
EBIT margin	(%)	na.	na.	na.	na.	na.	(29.3)	9.5	4.5
Net profit margin	(%)	na.	na.	na.	na.	na.	(24.7)	6.9	2.4
ROE	(%)	na.	na.	na.	na.	na.	(18.8)	(8.7)	(4.4)
ROA	(%)	na.	na.	na.	na.	na.	(10.6)	(4.9)	(2.4)
Net D/E	(x)	na.	na.	na.	na.	na.	net cash	net cash	net cash
Interest coverage	(x)	na.	na.	na.	na.	na.	(1.4)	22.3	19.4
Debt service coverage	(x)	na.	na.	na.	na.	na.	(1.4)	22.3	19.4

### Weak 1H21F earnings should be in the price

**Expect contraction YoY in 1H21F before recovery in 2H.** The arrival of COVID-19 in Thailand in early 2020 initially created a spike up in demand for online shopping. Based on a discussion with management, the panic buying started in Feb 2020 and continued through the end of 2Q20, bringing YoY parcel volume growth of 15.4% with earnings growth of 36.4% in 1H20. When the COVID-19 situation eased off in 2H20, panic buying faded, but the hurt to the economy began to hit overall consumption, both online and offline and KEX was no exception. In 2H20, parcel volume was flat YoY and net profit dropped 15.2% YoY.

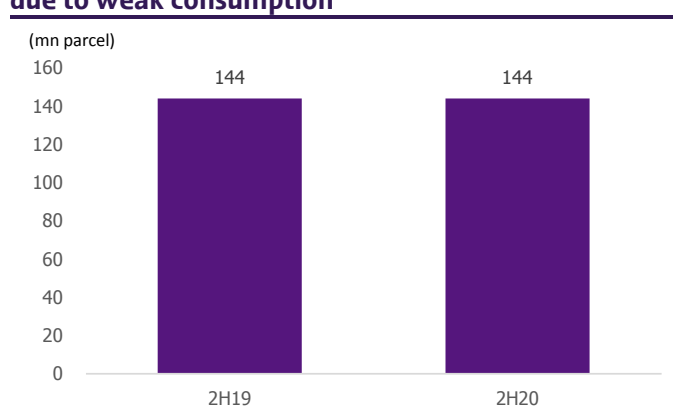
In 1H21F, the high base for parcel volume and net profit in 1H20 will giving an unexciting 1H21F net profit. We expect KEX to report a YoY contraction in and net profit, with YoY growth expected to turn positive in 2H21F, to bring 2021F net profit growth of 6.6% YoY to Bt1.5bn. Since share price has underperformed the SET by 14.6% YTD, the unexciting 1H21F earnings is likely already reflected in the price.

**Figure 1: Parcel volume grew 15.4% YoY in 1H20 ...**



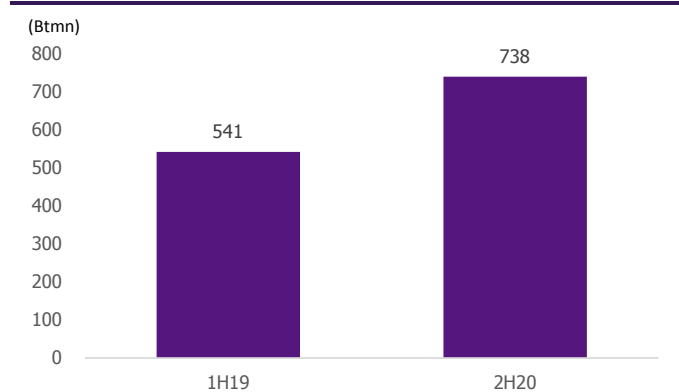
Source: Company data and SCBS Investment Research

**Figure 2: ... but dropped HoH and was flat YoY in 2H20 due to weak consumption**



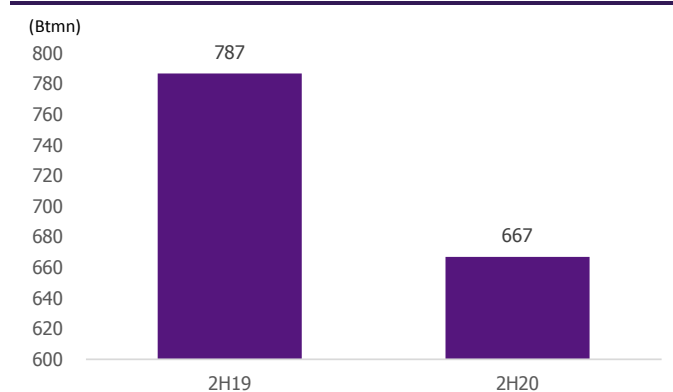
Source: Company data and SCBS Investment Research

**Figure 3: 1H20 net profit grew 36.4% YoY**



Source: Company data and SCBS Investment Research

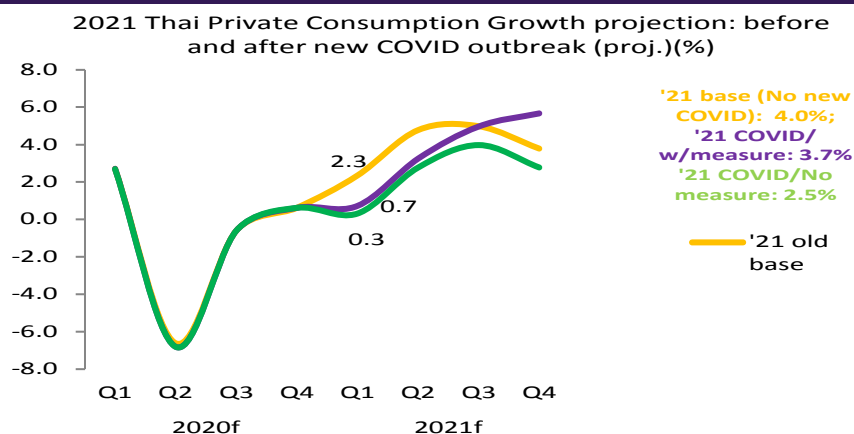
**Figure 4: ...but fell 15.2% YoY in 2H20**



Source: Company data and SCBS Investment Research

**Domestic consumptions to recover in 2H21F.** Our SCBS economist believes the new COVID-19 outbreak to have some impact on consumption in 1Q21, continuing into 2Q21 after the most recent outbreak, mostly on middle-income people who travel a lot. However, SCBS expects the disbursement of economic stimulus, improving farmer income and better export performance to help improve consumption in 2H21F.

**Figure 5: Thai private consumption growth projection**



Source: SCBS Investment Research

## Waiting for upside from new businesses

**Announced four new business initiatives in 1Q21.** KEX announced four new business initiatives in 1Q21: Kerry Media, Kerry Can-Sell, Kerry Cool and Kerry Enterprise. These are designed to help improve efficiency at its branches and network. We leave revenue generation from the new businesses as upside to our forecast pending more information.

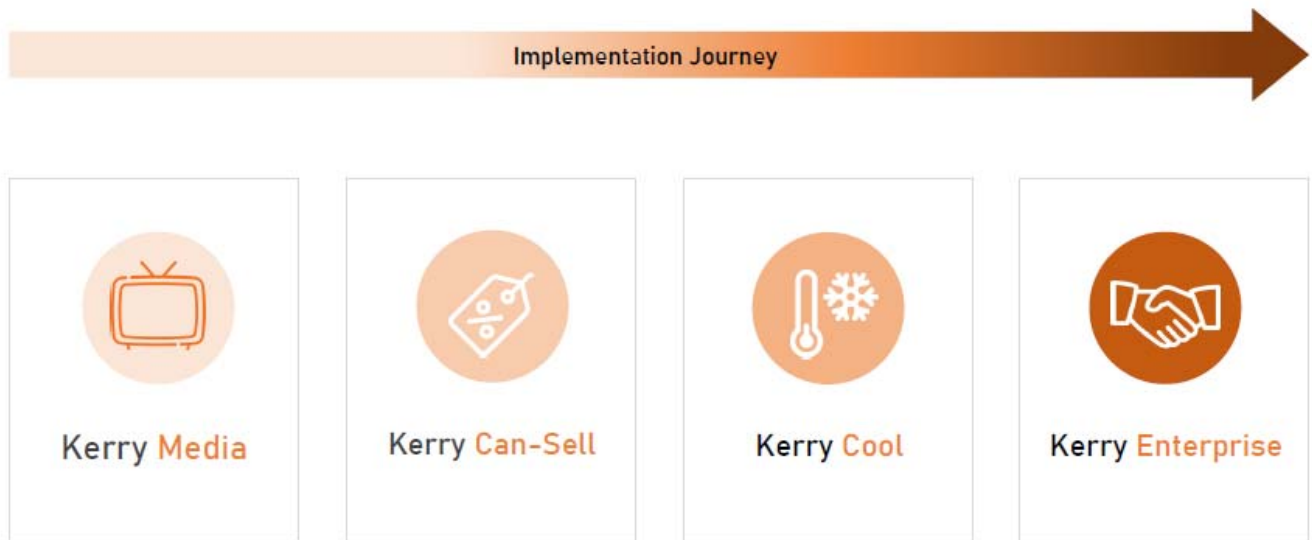
**Kerry Media** – KEX plans to be more active with VGI to boost its advertising income (0.1% of total revenue in 2020), via car wraps, advertising in stores, etc. Apart from this, management is working on other parties to increase advertising income. One idea is to create a new box (Brand A x Kerry) and put samples into the parcel box to help promote the products.

**Kerry Can-Sell** – Initially, KEX used some of its under-utilized space in the Kerry Shop to sell products from Osotspa (OSP), beginning with two products (M-150 and C-Vitt). So far, this is still a pilot project, so is available in few stores. Going forward, the company plans to add more products to its own stores, now numbering around 3,000. We view this business model as helping it improve store efficiency.

**Kerry Cool** – KEX plans to expand its service into delivery of food products (raw meat, cold pressed juice, etc.) that require cold storage. The company is now studying the project and plans to launch this service in 2H21.

**Kerry Enterprise** – This is basically a B2B business. KEX plans to leverage its B2B customers by offering services that meet customer requirements to increase revenue from this business segment. B2B business accounted for 1.9% of total revenue in 2020. This appears to be another potential upside.

**Figure 6: New business initiatives in 1Q21**



Source: Company data and SCBS Investment Research

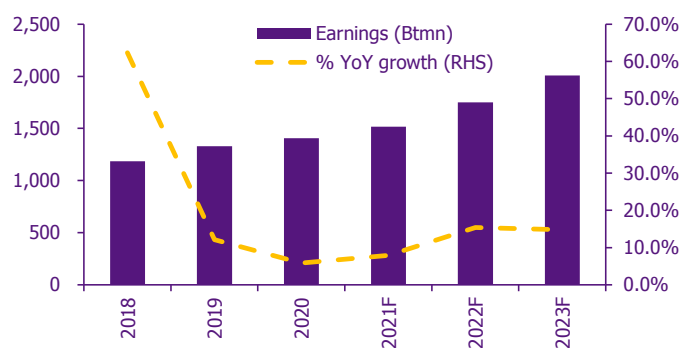
**...and also upside from M&A**

**Potential M&A is another upside.** During the IPO, KEX said it planned to use the IPO proceeds for vertical and horizontal integration. KEX has Bt9.7bn cash (12% of its market cap) sitting on its balance sheet as of 4Q20. So far, the plan is still under study, though management would like to conclude an M&A deal this year. Though there may be slippage on the timeline, we view this as upside to our forecast. As plans are not yet concrete, we did not factor this into our forecast. To date, IPO proceeds have been used to repay Bt800mn debt.

**Valuation already reflects existing business**

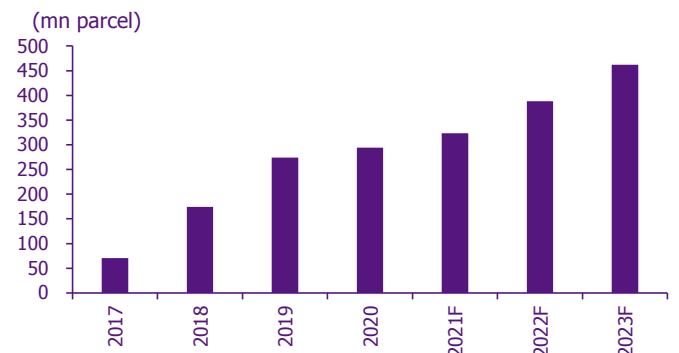
**Expect earnings 3-year CAGR (2020-2023) of 12.6%.** We expect KEX to report 2021F net profit of Bt1.5bn, up 6.6% YoY, with recovery slowed by the weakness of consumption, especially in 1H21F, due to COVID-19. Our assumptions are based on 10% parcel volume growth (from 7.3% in 2020) and EBIT per parcel of Bt5.5 (from Bt5.9). Strong earnings recovery is expected in 2022F, when we expect parcel volume to grow 20%, but we conservatively assume EBIT per parcel to drop to Bt5.3 to incorporate competition. Overall, we expect its 3-year earnings CAGR of 12.6% (2020-2023). Based on this, we believe current valuation at 52.6x 2021F PE appears fair for existing business. Further re-rating would be warranted by greater clarity on new businesses and M&A.

**Figure 7: Expect 3-year earnings CAGR of 12.6%**



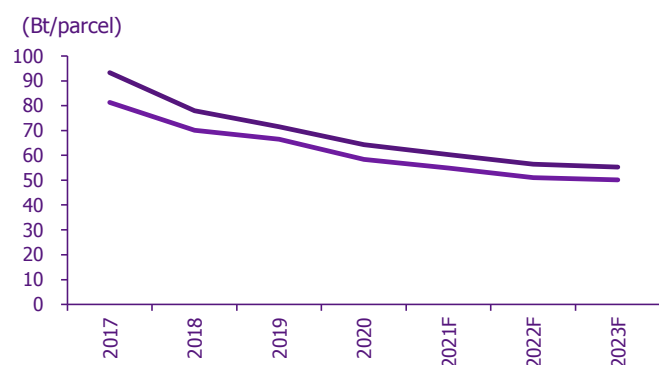
Source: Company data and SCBS Investment Research

**Figure 8: Parcel volume assumptions**



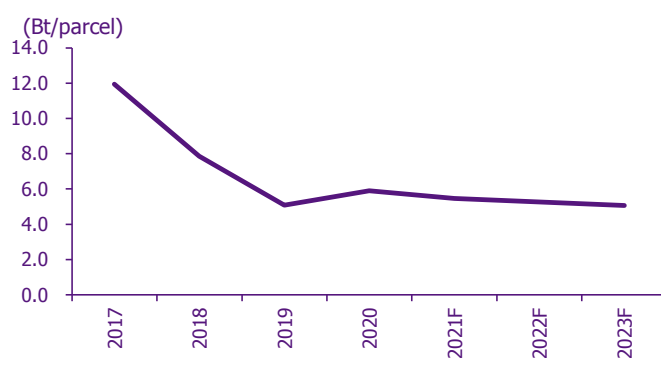
Source: Company data and SCBS Investment Research

Figure 9: Revenue and cost per parcel



Source: Company data and SCBS Investment Research

Figure 10: EBIT per parcel



Source: Company data and SCBS Investment Research

## 1Q21F results preview

**Expect 1Q21F net profit to drop QoQ and YoY.** We expect net profit of Bt352mn in 1Q21F, down 6.0% QoQ and 5.4% YoY. The YoY drop was off the high base in 1Q20 as noted earlier, as panic buying from first round of COVID-19 started in Feb 2020. On QoQ, 1Q20 was a low season and consumer sentiment continued weak in 1Q21F. The good news is that KEX lowered the starting price to Bt25 from Bt30 in Jan, which will help alleviate the impact of seasonality in 1Q21F. We therefore expect parcel volume to grow 10% QoQ to 77mn in 1Q21. In terms of profitability, we expect EBIT per parcel to see near-term pressure from price reduction. We estimate EBIT per parcel in 1Q21 of Bt5.4 (from Bt6.5 in 4Q20). We believe KEX will adjust the cost quickly, so 2Q21 EBIT per parcel will improve. It will release results on May 13.

Figure 11: 1Q21F results preview

Unit: Btmn	1Q20	4Q20	1Q21F	QoQ	YoY
Sales and services income	4,814	4,228	4,200	-0.7%	-12.8%
Cost of sales and services	(3,948)	(3,600)	(3,500)	-2.8%	-11.3%
<b>Gross profit</b>	<b>866</b>	<b>628</b>	<b>700</b>	11.4%	-19.2%
SG&A	(395)	(176)	(285)	61.8%	-27.9%
<b>Operating profit</b>	<b>471</b>	<b>452</b>	<b>415</b>	-8.2%	-11.9%
Other income/ (expense)	20	33	50	53.7%	152.2%
<b>EBIT</b>	<b>491</b>	<b>485</b>	<b>465</b>	-4.1%	-5.2%
Interest expense	(28)	(28)	(30)	7.5%	7.8%
<b>EBT</b>	<b>463</b>	<b>457</b>	<b>435</b>	-4.8%	-6.0%
Income tax	(90)	(82)	(83)	1.0%	-8.4%
Minority interests	0	0	0	na.	na.
<b>Core profit</b>	<b>373</b>	<b>375</b>	<b>352</b>	-6.0%	-5.4%
Extra items	0	0	0	na.	na.
<b>Net income</b>	<b>373</b>	<b>375</b>	<b>352</b>	-6.0%	-5.4%

### Ratio analysis

SG&A to sales (%)	8.2	4.2	6.8
Operating profit margin (%)	9.8	10.7	9.9
Net profit margin (%)	7.7	8.9	8.4

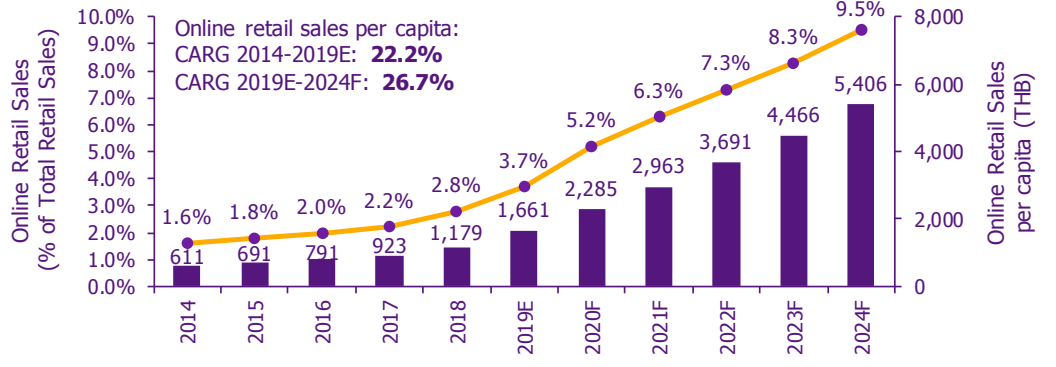
Source: Company data and SCBS Investment Research



### Long-term growth story on rising e-commerce intact

**A prime beneficiary of rising e-commerce penetration in Thailand.** According to the latest information from *Frost & Sullivan*, Thailand e-commerce penetration is still low at 3.7% of total retail sales in 2019. This suggests ample room for e-commerce to grow in Thailand to reach our expected e-commerce penetration of 9.5% in 2024F, lining up with the estimate by *Frost & Sullivan*.

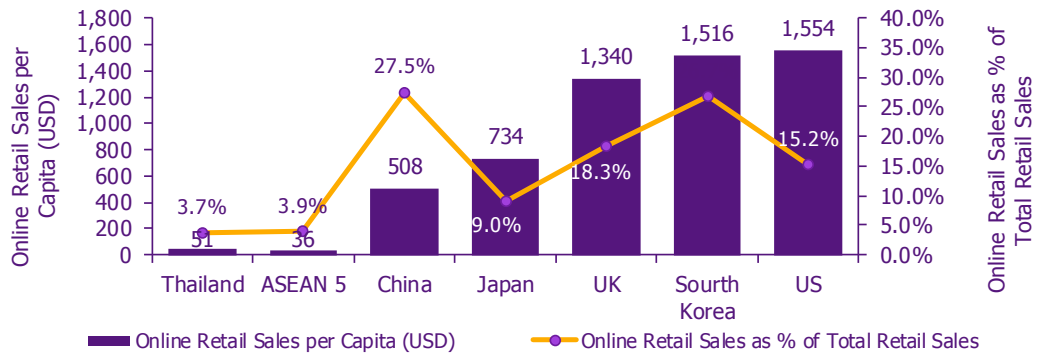
**Figure 12: Percent of online retail sales to total retail sales in Thailand**



Source: Frost & Sullivan

On average, the value of online retail sales per capita remains low in Thailand and ASEAN countries compared to that of more advanced economies, where online sales represent a higher percentage of total retail sales. In time, Thailand’s online retail sales per capita is expected to reach that of more developed countries, in line with the country’s favorable economic outlook, greater Internet availability and rising expenditure by Thai consumers.

**Figure 13: Online retail sales per capita and online retail sales as a percentage of total retail sales, fiscal year 2019**



Source: Frost & Sullivan

## Initiating coverage as NEUTRAL with DCF-based TP of Bt50

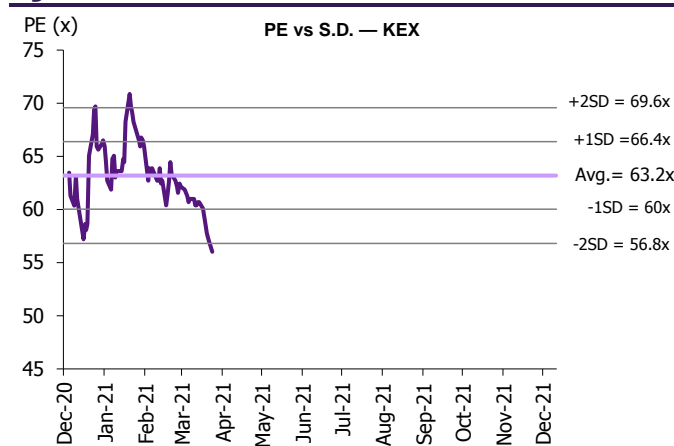
**Betting on the upside.** Our TP is based on 7.6% WACC and 3% long-term growth. Although we believe KEX has a good long-term outlook from rising e-commerce penetration in Thailand, the stock is under pressure from weak domestic consumption in 1H21F. Apart from this, we see the current valuation of the existing business in terms of PE as stretched. Hence, the stock is unlikely to outperform the SET in the next three months. We therefore put our tactical recommendation (3-month) at NEUTRAL until we see 1) better signs of consumption recovery, 2) more clarity on new business and 3) upside from M&A.

Figure 14: Peer comparison

Company name	Country	Mkt. Cap. (US\$mn)	PE (x)		EPS Growth (%)		PBV (x)		Div. Yield (%)		ROE (%)		EV/EBITDA (x)	
			21F	22F	21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
<b>China Express Delivery</b>														
ZTO Express Cayman Inc	China	26,700	35.7	28.7	8.3	24.3	3.3	3.0	0.7	0.9	9.8	10.7	20.3	16.1
Yunda Holding Co Ltd	China	6,346	21.3	17.2	15.4	23.5	2.5	2.2	1.0	1.2	11.7	13.0	9.5	8.0
STO Express Co Ltd	China	2,057	22.1	22.7	101.5	(2.5)	1.4	1.3	1.0	1.4	4.9	5.3	10.5	8.1
<b>Regional Express Delivery</b>														
Yamato Holdings Co Ltd	Japan	10,630	21.6	18.9	12.4	13.8	1.8	1.7	1.4	1.5	9.0	9.7	7.0	6.3
SG Holdings Co Ltd	Japan	15,621	23.2	21.8	(0.9)	6.2	3.6	3.2	1.3	1.4	16.8	16.0	12.6	11.9
CJ Logistics Corp	South Korea	3,598	21.0	19.3	47.3	8.7	1.2	1.1	n.a	n.a	5.5	5.6	9.3	8.7
<b>Thailand Express Delivery</b>														
Kerry Express Thailand PCL	Thailand	2,505	45.5	39.5	(10.4)	15.1	6.2	5.7	0.9	1.1	13.7	15.2	17.9	15.2
<b>Average</b>			<b>27.2</b>	<b>24.0</b>	<b>24.8</b>	<b>12.7</b>	<b>2.8</b>	<b>2.6</b>	<b>1.1</b>	<b>1.3</b>	<b>10.2</b>	<b>10.8</b>	<b>12.4</b>	<b>10.6</b>

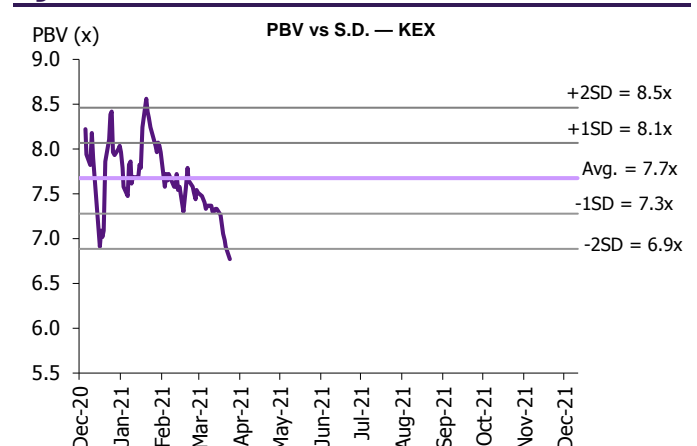
Source: Company data, SCBS Investment Research and Bloomberg Finance L.P.

Figure 15: KEX PE band



Source: SET and SCBS Investment Research

Figure 16: KEX PBV band



Source: SET and SCBS Investment Research

## Risks and concerns

**Rising competition.** The strong growth in the express parcel delivery service industry in Thailand over the past few years due to rising e-commerce in Thailand has led many other players to enter the market, both domestic and international and thus some pricing competition. However, we believe KEX has far higher service points than peers to the point where this will more than offset the difference in pricing. Moreover, KEX continues to bring down its pricing to hang on to its market share. Lastly, we believe the size of the market is large enough for all players to grow, as e-commerce penetration in Thailand is still low at only 3.7%.

**Loss of key customers in the B2C segment.** Lazada, Shopee and JD Central are its lead customers in the B2C segment and the B2C segment accounted for 45.1% of the company's total revenue in 2020. Losing one customer would have a significant negative impact on revenue. However, we believe it has some protection in the fact that it is the largest private express delivery company in Thailand with a proven track record of good service quality. We thus believe the risk of losing a key customer is low.

**E-commerce platform handling own logistics.** Currently, e-commerce platform players (Lazada, Shopee, JD Central, etc.) mainly use third parties to handle logistics. We are now beginning to see e-commerce platform players set up their own logistics, such as Lazada Express, Shopee Express, etc. This could be a threat as these players are major KEX customers. This development needs to be closely monitored. However, management believes that all those using the e-commerce platform would find it difficult to run a parcel delivery service and would eventually need a third party like Kerry Express to help support their logistics. We expect e-commerce players to continue relying extensively on private express delivery companies to maintain lean operations and focus on their own core business while meeting logistics requirements (particularly during peak periods), as private express delivery companies increasingly invest to improve their service level and operational efficiency.

**Weak purchasing power.** The revenue of the company is directly linked to online shopping (e-commerce), which is in turn linked to domestic consumption. The weak economy is hurting domestic consumption and subsequently online shopping, with fewer parcels needing to be delivered. However, we believe consumption is recovering. In addition, we expect the growth in e-commerce penetration to help make up for the weak purchasing power issue. Overall, we believe KEX's earnings will continue to grow despite the current situation.

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#### Anti-corruption Progress Indicator

##### Certified (ได้รับการรับรอง)

2S, ADVANC, AF, AI, AIE, AIRA, AKP, AMA, AMANAH, AMATA, AMATAV, AP, APCS, AQUA, ARROW, ASK, B, BAFS, BAM, BANPU, BAY, BBL, BCH, BCP, BCPG, BGC, BGRIM, BJCHI, BKI, BLA, BPP, BROOK, BRR, BSBM, BTS, BWG, CEN, CENTEL, CFRESH, CGH, CHEWA, CHOTI, CHOW, CIG, CIMBT, CM, CMC, COM7, COTTO, CPALL, CPF, CPI, CPN, CSC, DCC, DELTA, DEMCO, DIMET, DRT, DTAC, DTC, EA, EASTW, ECL, EGCO, EP, EPG, ERW, ETE, FE, FNS, FPI, FPT, FSS, FTE, GBX, GC, GCAP, GEL, GFPT, GGC, GJS, GLOCON, GPI, GPSC, GSTEEL, GUNKUL, HANA, HARN, HMPRO, HTC, ICC, ICHI, IFS, ILINK, INET, INSURE, INTUCH, IRC, IRPC, ITEL, IVL, K, KASET, KBANK, KBS, KCAR, KCE, KGI, KKP, KSL, KTB, KTC, KWC, KWG, L&E, LANNA, LHFG, LHK, LPN, LRH, M, MAKRO, MALEE, MBAX, MBK, MBKET, MC, MODERN, META, MFC, MFEC, MINT, MONO, MOONG, MPG, MSC, MTC, MTI, NBC, NEP, NINE, NKI, NMG, NNCL, NOK, NSI, NWR, OCC, OCEAN, OGC, ORI, PAP, PATO, PB, PCSGH, PDG, PDI, PDJ, PE, PG, PHOL, PL, PLANB, PLANET, PLAT, PM, PPP, PPM, PPS, PREB, PRG, PRINC, PRM, PSH, PSL, PSTC, PT, PTG, PTT, PTTEP, PTTGC, PYLON, Q-CON, QH, QLT, QTC, RATCH, RML, RWI, S & J, SAAM, SABINA, SAPPE, SAT, SC, SCB, SCC, SCCC, SCG, SCN, SEAOL, SE-ED, SELIC, SENA, SGP, SINGER, SIRI, SIS, SITHAI, SMIT, SMK, SMPSC, SNC, SNP, SORKON, SPACK, SPC, SPI, SPRC, SRICHA, SSF, SSSC, SST, STA, SUSCO, SVI, SYMC, SYNTEC, TAE, TAKUNI, TASCO, TBSP, TCAP, TCMC, TFG, TFI, TFMAMA, THANI, THCOM, THIP, THRE, THREL, TIP, TIPCO, TISCO, TKS, TKT, TMB, TMD, TMILL, TMT, TNITY, TNL, TNP, TNR, TOG, TOP, TOPP, TPA, TPCORP, TPP, TRU, TRUE, TSC, TSTH, TTCL, TU, TVD, TVI, TVO, TWPC

##### Declared (ประกาศเจตนารมณ์)

7UP, ABICO, APURE, B52, BKD, BROCK, CI, ESTAR, EVER, FSMART, J, JKN, JMART, JMT, JSP, LDC, MAJOR, NCL, NOBLE, PK, PLE, SHANG, SKR, SPALI, SSP, SUPER, TGH, THAI, TQM, TTA, 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, ALT, ALUCON, AMARIN, AMC, ANAN, AOT, APCO, APEX, APP, AQ, ARIN, ARIP, AS, ASAP, ASEFA, ASIA, ASIAN, ASIMAR, ASN, ASP, ATP30, AU, AUCT, AWC, AYUD, BA, BC, BCT, BDMS, BEAUTY, BEC, BEM, BFIT, BGT, BH, BIG, BIZ, BJC, BLAND, BLISS, BM, BOL, BR, BSM, BTNC, BTW, BUI, CAZ, CBG, CCET, CCP, CGD, CHARAN, CHAYO, CHG, CHO, CITY, CK, CKP, CMAN, CMO, CMR, CNT, COLOR, COMAN, CPH, CPL, CPR, CPT, CPW, CRANE, CRC, CRD, CSP, CSR, CSS, CTW, CWT, D, DCON, DDD, DHOUSE, DITTO, DOD, DOHOME, DTCTI, DV8, EASON, ECF, EE, EFORL, EKH, EMC, ESSO, ETC, F&D, FANCY, FLOYD, FMT, FN, FORTH, FVC, GENCO, GIFT, GL, GLAND, GLOBAL, 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, JTS, 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, POMPIU, PORT, POST, PPM, PR9, PRAKIT, PRAPAT, PRECHA, PRIME, PRIN, PRO, PROEN, PROSPROUD, PTL, RAM, RBF, RCI, RCL, RICHY, RJH, ROCK, ROH, ROJNA, RP, RPH, RSP, RS, RSP, RT, S, S11, SA, SABUY, SAFARI, SAK, SALEE, SAM, SAMART, SAMCO, SAMTEL, SANKO, SAUCE, SAWAD, SAWANG, SCGP, SCI, SCM, SCP, SDC, SE, SEAFCO, SF, SFLEX, SFP, SFT, SGF, SHR, SIAM, SICT, SIMAT, SISB, SK, SKE, SKN, SKY, SLM, SLP, SMART, SMT, SO, SOLAR, SONIC, SPA, SPCG, SPG, SPVI, SQ, SR, SSC, STANLY, STAR, STARK, STC, STEC, STGT, STHAI, STI, STPI, SUC, SUN, SUTHA, SVH, SVOA, SWC, SYNEX, T, TACC, TAPAC, TC, TCC, TCCC, TCJ, TCOAT, TEAM, TEAMG, TGPRO, TH, THANA, THE, THG, THL, THMUI, TIGER, TITLE, TK, TKN, TM, TMC, TMI, TMW, TNDT, TNH, TNPC, TOA, TPBI, TPCH, TPIPP, TPLAS, TPOLY, TPS, TQR, TR, TRC, TRITN, 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 January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.