
Market Strategy
3Q 2021
SCBS
Supply chain shortage
Inflation & yield
Taper tantrum
Geopolitical risk
Growth peak
SMALL CAP
&
DEFENSIVE
GROWTH

SCBS Market Strategy 3Q2021 – Shields up

The wind has changed direction. Economic policies in major countries such as the US and China are beginning to be tightened and geopolitical risk is on the horizon. We expect various factors to lead to market volatility in 2H21, especially changes in central bank policy stance. With this in mind, the best way to hedge your bets is to reduce volatility by adding more defensive stocks for which volatility is inherently low.

Inflation will get back to normal in 2022. The global economy is experiencing four types of supply shocks, resulting in higher input cost and inflation. As supply shock arises out of short-term events rather than structural changes, we expect to see a gradual return to a normalized inflation rate in 2022. We prefer companies with high and stable margins over those with low and volatile margins. Defensive sectors that have high pricing power, such as Healthcare, ICT and Commerce, could see lower margin pressure in an environment of a widening spread between PPI and CPI in 2H21.

Peak growth is approaching. US and China economic momentum is hitting a plateau and starting to decelerate. We believe global economic recovery will enter the late expansion stage in 2022. When growth is strong but passes its peak in momentum, market returns tend to slow and defensive stocks and those with low volatility and high quality are expected to outperform.

Market cycle is transitioning from Hope to Growth phase. Yield curve is shifting from steepening to flattening in 2Q21, meaning that the Hope phase, driven by valuations and occurring during the late contraction period, has passed. We are now in the Growth phase, a phase associated with fundamental profit growth rather than valuation expansion. We expect defensive stocks to outperform with higher visibility and lower volatility than cyclical stocks.

3Q has tended to be weak, with 4Q performance stronger. For the past decade, market volatility always rises in 3Q and has the highest change. However, we expect 4Q – typically the strongest quarter – to slow down this year against the macro backdrop and unclear post-pandemic recovery. We recommend investors increase exposure in defensive sectors to reduce volatility and protect against unpredictable events.

May be down but not out. Markets are now having to worry about inflationary pressure in addition to the pace and durability of the cyclical recovery. Inflation is only temporarily high and the likelihood it will derail market recovery is low. Global economic recovery is not yet wholly reflected in markets. Service sectors and EM are likely to benefit from vaccine rollouts. Thus, a significant sell off is an opportunity to buy. The key entry point is 1,500-1,550.

SET Index target. Our 2022 SET Index target based on fundamentals is 1,600, aligning with our view that net profit in 2022 will return to pre-COVID-19 level. Our key strategy to generate alpha in 2H21 is to move toward sector rotation and select stocks with strong fundamentals and reasonable valuation. We believe cyclicals have fully priced in a strong recovery and look for value opportunities among the defensive portions of the market.

Prefer small cap and defensive stocks. Focus on stocks in defensive sectors with idiosyncratic fundamental earnings drivers, carry a reasonable valuation and are less dependent on macro factors to drive outperformance. Our top picks in 3Q21 are CRC, GPSC, PM, RJH, and SFT.

ECONOMY

3Q21 Economic Outlook
Summary: Global economy

In the first half of this year, the world economy and investments have performed rather well. First-quarter GDP growth in many countries is trending upward, while higher purchasing managers' indices, especially in developed countries, point to a manufacturing recovery. However, recently the picture of the world economy has started to change. In previously strong-growth economies such as the US and China, recent figures have been disappointing, including job data in the US and retail sales in both countries. We expect the slower momentum will continue in the third quarter.

Meanwhile, we are seeing an inflation surprise as a result of price increases for several commodities. Some, such as copper, iron ore, aluminum and cobalt, have rallied to record highs. Prices of agricultural products such as corn, wheat, rubber, palm oil, sugar and others have also risen to their highest in years.

Consequently, we are seeing signals of tighter controls in major economies such as the US and China, including tax increases and the likelihood that the US Federal Reserve will start scaling back its bond buying in the fourth quarter of this year, following the June 16 meeting in which the committee moved up the rate hike cycle initiation to 2023 from 2024 previously. In China, tighter regulation of financial institutions has affected three risky business groups: mining, real estate and special-purpose companies owned by local governments. The Chinese government is also continuing to tighten its grip on tech businesses.

Meanwhile, developing countries, especially in Asia, continue to be preoccupied with the worst coronavirus surge to date. New variants, notably the one first detected in India, are more contagious, last longer and can be more deadly. Infections and deaths continue to mount even as vaccination programs stumble in most countries.

Summary: Thailand's economy

The third COVID wave has hit Thailand especially hard. During the second wave from mid-December to late January, authorities stimulated the economy through various handout programs to consumers, yet the domestic sector, especially private consumption, still contracted. A rebound in merchandise exports was unable to mitigate the impact of the tourism collapse. As a result, overall exports of goods and services contracted significantly and contributed to the overall shrinkage of the economy in the first quarter.

Looking forward, we believe sluggish domestic demand will persist, given that we are unable to open the country to foreign tourists. Phuket has made great progress with vaccinations and is on track to open its "sandbox" program for vaccinated foreign visitors on July 1. But concerns about COVID variants may prompt Western tourists to delay travel to Asia in general and Thailand in particular. One major deterrent is the 7-14-day quarantine they may face when they return to their home countries. We believe the fate of the economy will depend on the speed of the vaccine rollout. According to our calculations, 70% of the population of Thailand will have received at least one dose of vaccine by October or November. This could support a full recovery of the economy in the fourth quarter, after the arrival of tourists and a full reopening of the economy. The impact of a Bt224bn stimulus package approved by the cabinet on May 5 will also help. It includes the continuation of cash giveaway programs such as "We Win" and "S.33 We Love Each Other", and phase 3 of the co-payment scheme. A new project, "the more you spend, the more you get", could be a significant incentive to consumption in the fourth quarter, when almost two-thirds of the total budget is to be allocated. A new decree supporting Bt500bn in additional borrowing, will, in our view, provide further fiscal stimulus -- or a credit line if the economy has not fully recovered and we face another round of COVID.

In all, if the current outbreak subsides and the government can maintain its 120-day target to reopen the country as announced by the Prime Minister, domestic tourism is likely to revive in the second half of 2021. At the same time, we see several risks, including the recent "clusters" of new outbreaks, delays in vaccine production and an outbreak of the new variant.

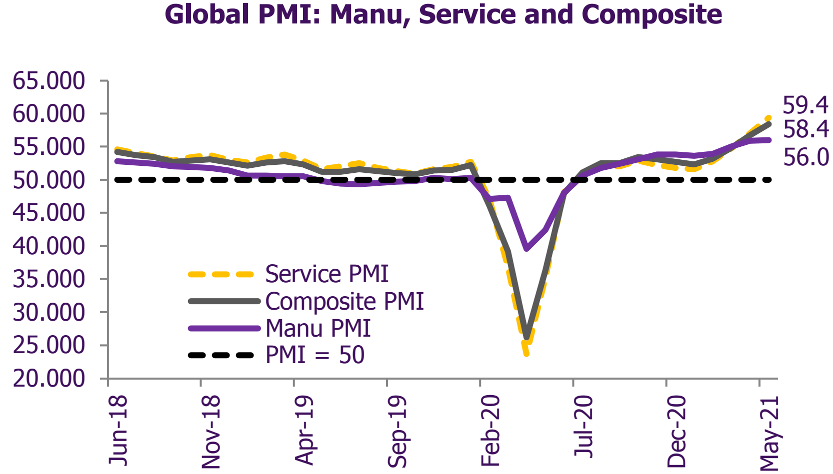
Content

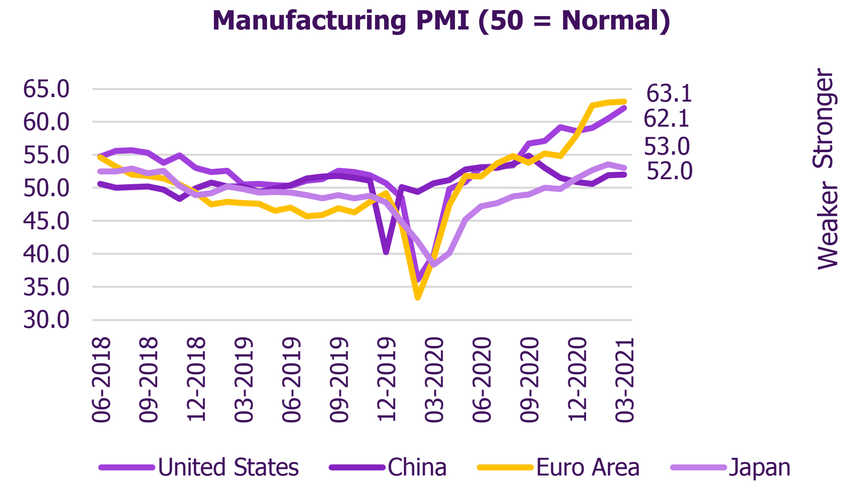
- **Global economy**
  - **The picture of the world economy began to change**
    - US and China economic momentum is hitting a plateau and starting to decelerate
    - Inflation is rising, as seen in the producer price index, consumer prices and inflation expectations, including the prices of various commodities
      - Risk: Oil Prices escalate to US$100 per barrel, per OPEC+ demand projection
    - Economic policy of major countries such as the US and China are beginning to tighten
      - Risk: Fed behind the curve, leading to further tightening
    - DM-EM Economic Divergence: EMs face a new round of epidemic, DMs continue their recovery

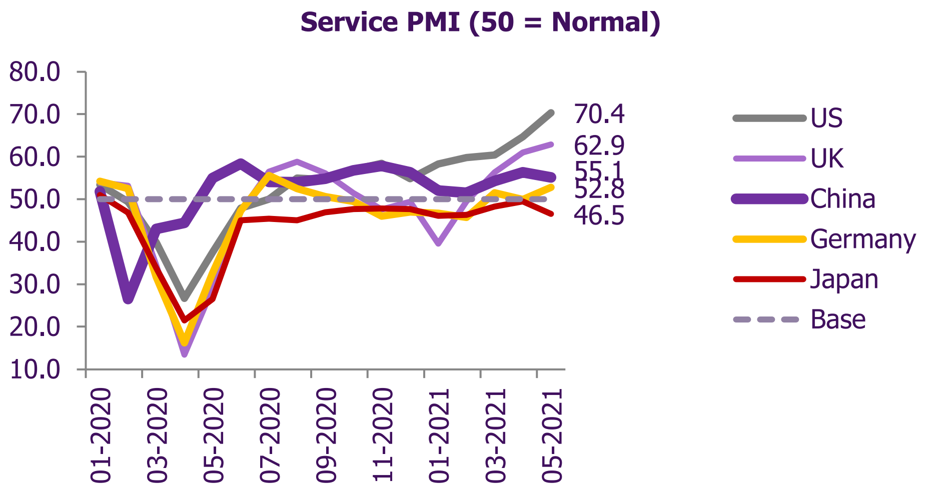
- **Thai economy**
  - The Thai economy is being heavily affected by the third round of the outbreak
  - 1Q21 GDP shrank 2.6%: consumption shrank despite the 'we win' program.
  - SCBS revised down 2021 GDP forecast to 2.0%, with 500,000 tourists this year; vaccinations are an important factor
    - PM's 120-day target to reopen the country is in accordance with our projection
  - The Bt224bn May 5 economic measures aim to boost the economy in 2H21
    - The Bt500bn loan decree is seen as a credit line for the economy.

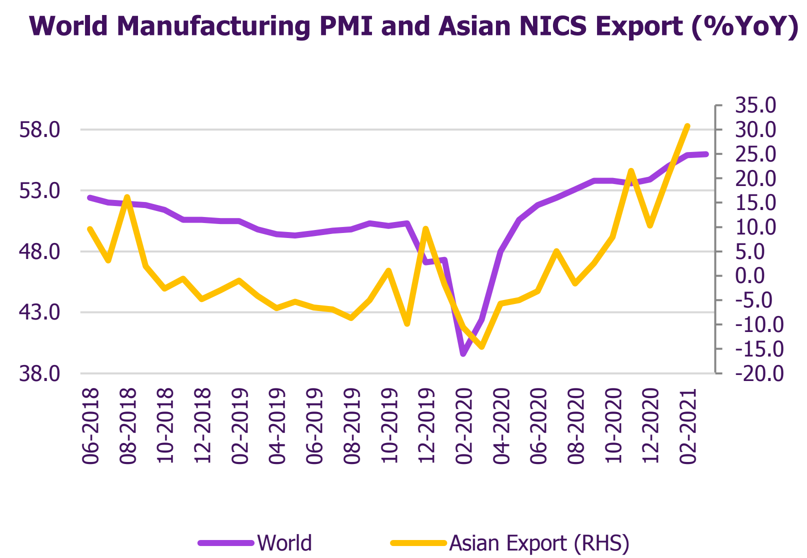
Global economy

PMIs indicate 1) Manufacturing sector will begin to slow down compared to Service, 2) China and US economic growth will begin to slow, but Europe's will continue in 3Q, 3) Asia exports benefit from global economic recovery.





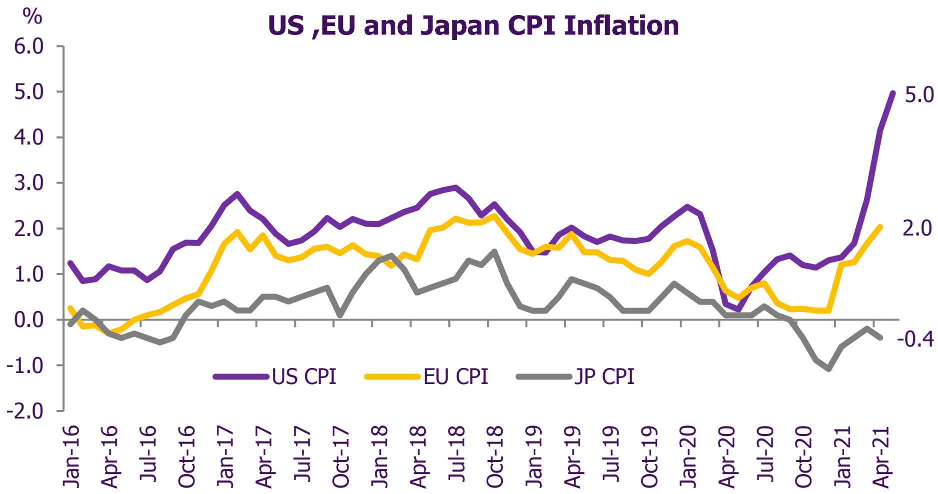


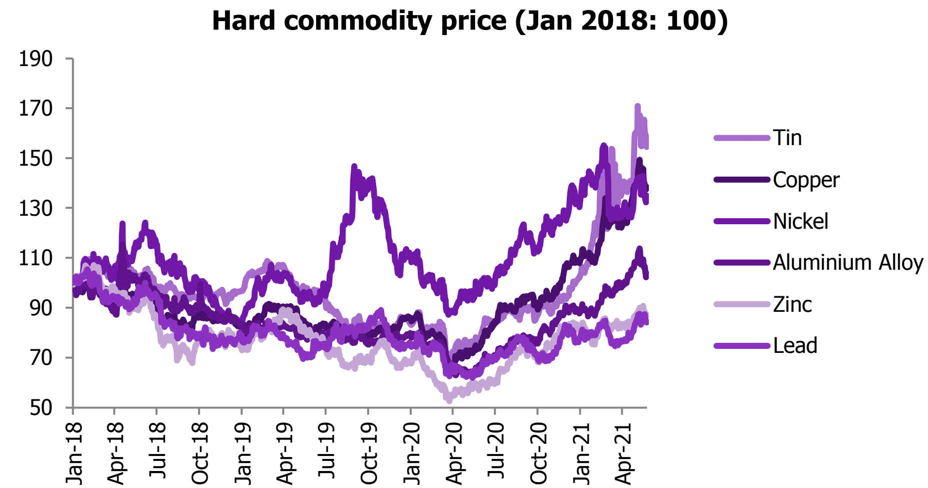


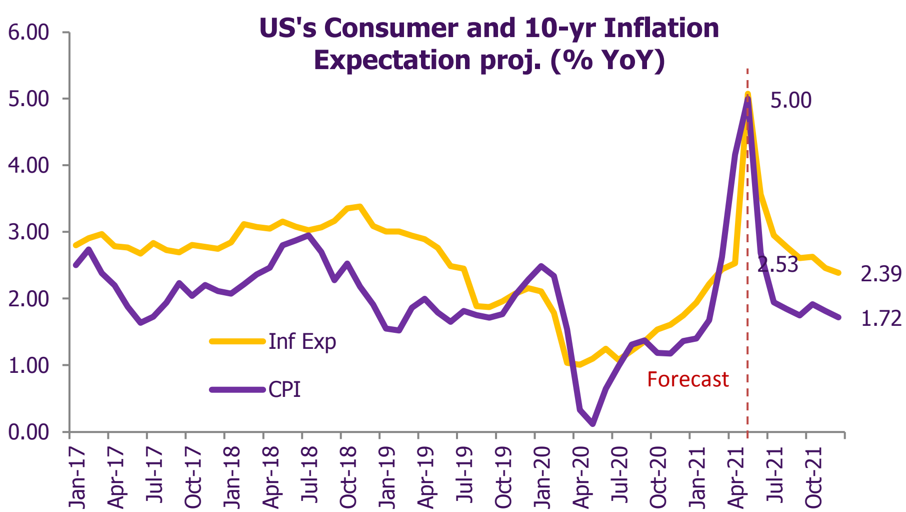
Source: CEIC, SCBS Research

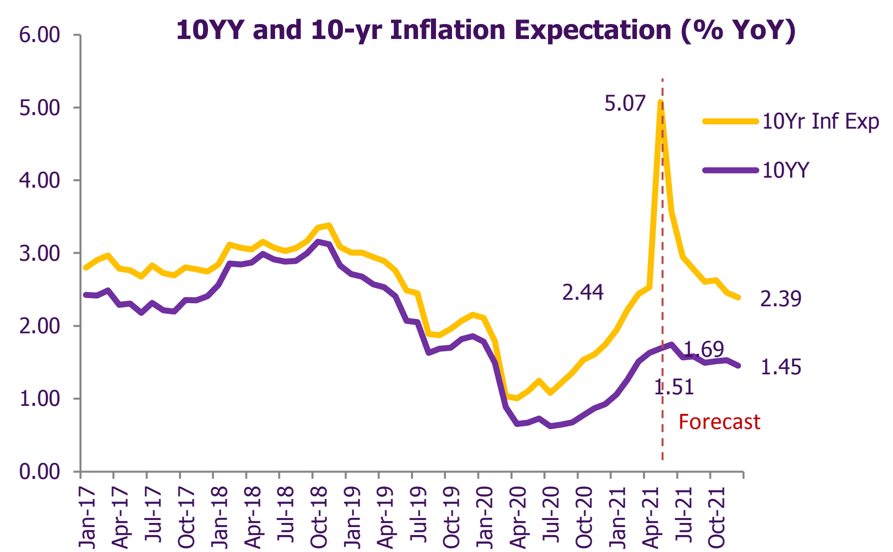
SCBS

Rising inflation off a low base as well as higher commodity prices, which may drive inflation expectations higher.









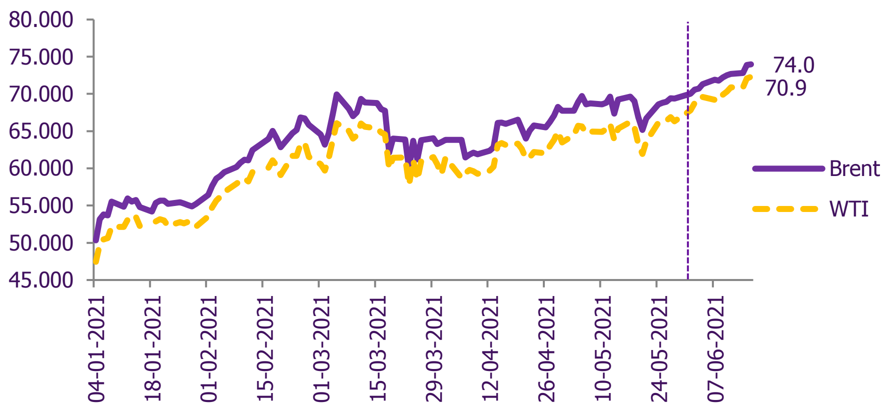
Source: CEIC, Bloomberg, SCBS Research

Risk: Oil at $100 a barrel

At its early June meeting, OPEC+ raised production by 2mn bpd from April-July and raised its demand forecast to 6mn bpd through the end of the year. As a result, the price of Brent crude oil rose above US$70 for the first time in years.

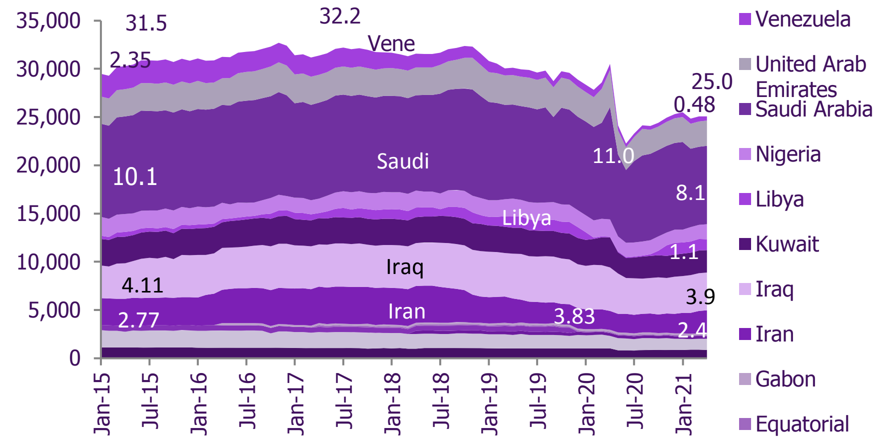
Oil prices rise due to OPEC+ revision of oil demand

Brent and WTI crude oil price 2020 ($/bl.)



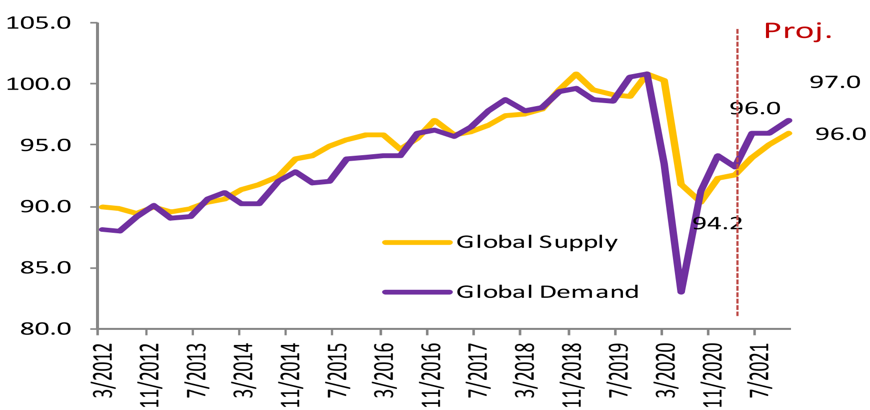
While OPEC+ supply rise is limited at 2mn barrels from April

OPEC Crude Production (mbd)



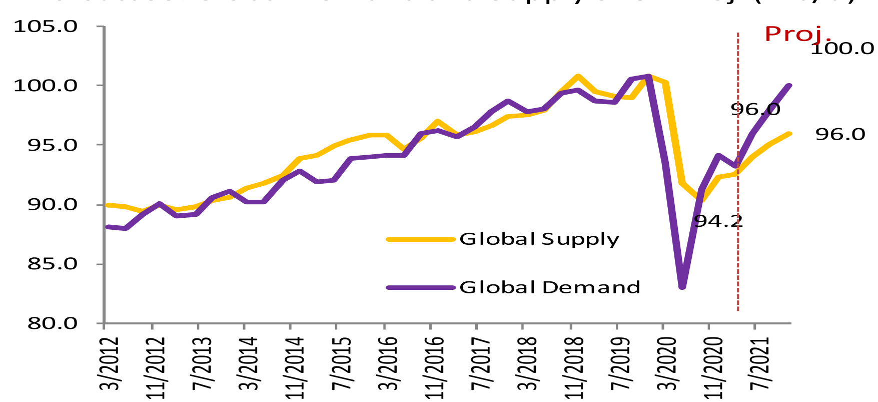
Unlike, OPEC+, we believe that demand and supply will increase gradually

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



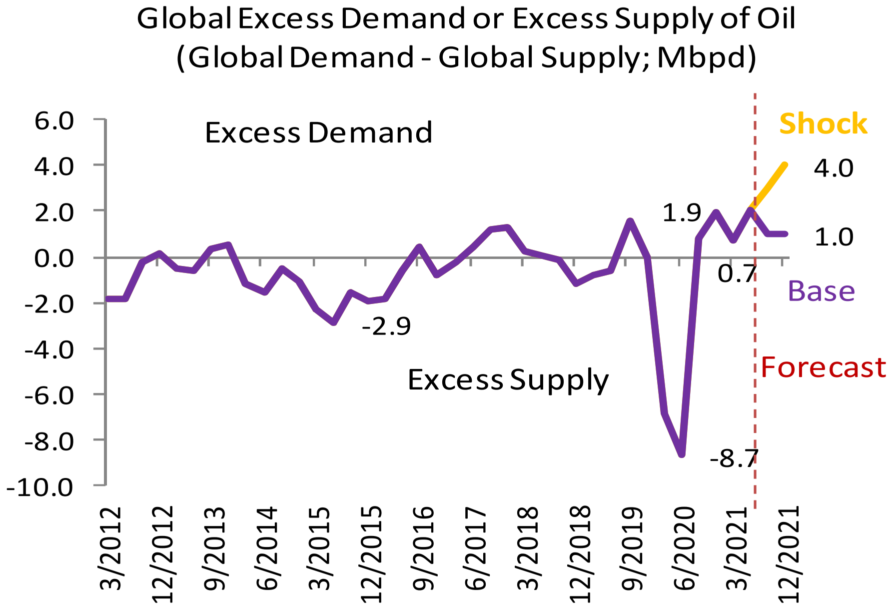
However, if the OPEC+ forecast is correct, it would bring excess demand to 4mn barrels per day

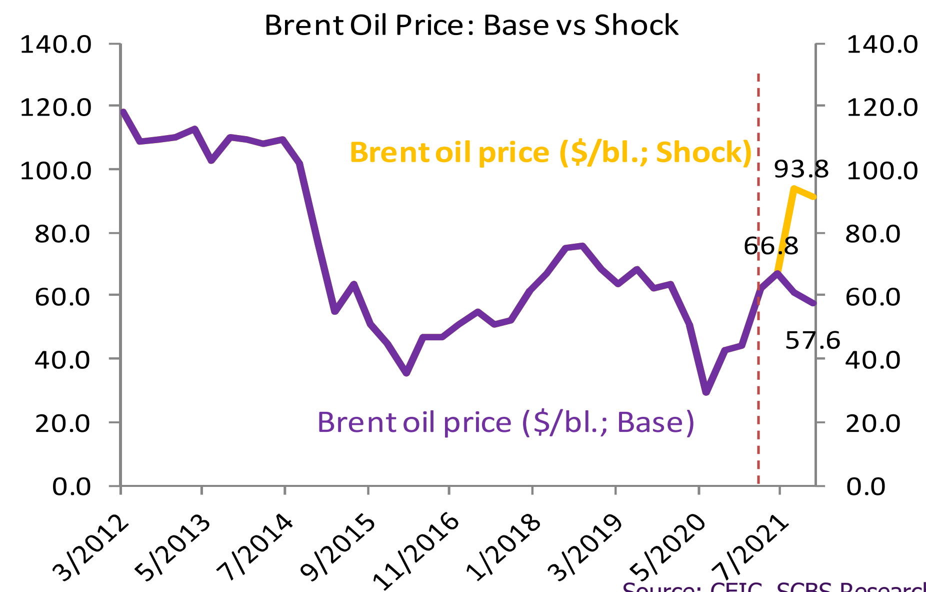
Worst case: Global Demand and Supply of Oil Proj. (mb/d)



Source: CEIC, SCBS Research

If demand surplus reaches 4mn barrels per day as OPEC+ expects, oil prices could peak at US$93.8 in 3Q21 before a slight decline.





Source: CEIC, SCBS Research

Projection of Oil price (Base case)

Variable	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21 (f)	3Q21 (f)	4Q21 (f)
World Oil Demand (mb	100.79	93.10	82.82	91.18	94.20	93.30	96.00	96.00	97.00
World Oil Supply (mbp	100.84	100.16	91.53	90.15	92.60	92.30	94.00	95.00	96.00
Oil Demand S/D (mbpc	-0.05	-7.06	-8.70	1.03	1.60	1.00	2.00	1.00	1.00
Oil Price ($/Bl.)	63.40	50.60	29.30	42.90	44.30	62.00	66.80	61.22	57.60
Oil Price CHG (%YoY)	-7.01	-20.81	-57.10	-30.81	-30.13	22.53	127.99	42.70	30.03

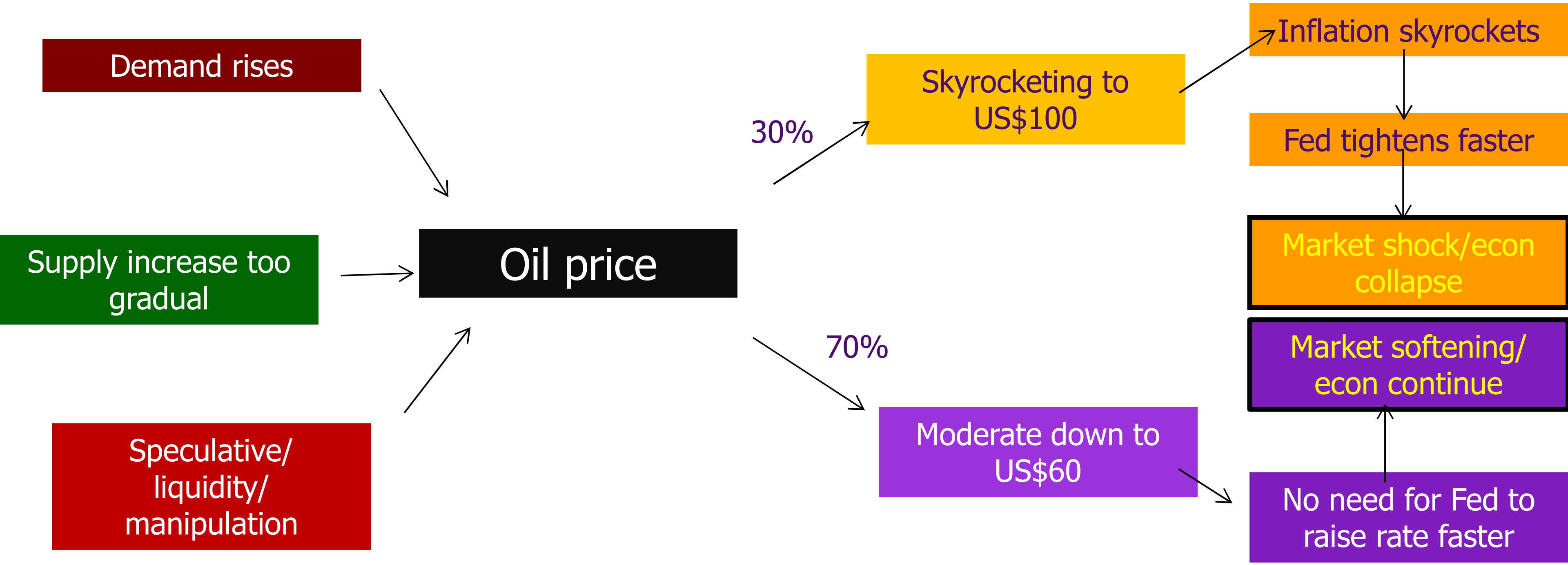
Projection of Oil price (Worst case)

Variable	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21 (f)	3Q21 (f)	4Q21 (f)
World Oil Demand (mb	100.79	93.10	82.82	91.18	94.20	93.30	96.00	98.00	100.00
World Oil Supply (mbp	100.84	100.16	91.53	90.15	92.60	92.30	94.00	95.00	96.00
Oil Demand S/D (mbpc	-0.05	-7.06	-8.70	1.03	1.60	1.00	2.00	3.00	4.00
Oil Price ($/Bl.)	63.40	50.60	29.30	42.90	44.30	62.00	66.80	93.83	91.28
Oil Price CHG (%YoY)	-7.01	-20.81	-57.10	-30.81	-30.13	22.53	127.99	118.72	106.05

SCBS

The likelihood of oil prices and their impact on the economy

As our base case, we posit that crude oil will remain stable in the range of US$60-70 per barrel on the back of a gradual recovery in demand while supply increases somewhat (with 70% confidence). However, if demand continues to increase but supply does not increase accordingly, the price of crude oil could go up to US$100 a barrel.



We believe there are three factors that will make it difficult for oil prices to reach that US$100.

1. Demand side: 1) a new wave of COVID outbreaks in Asia and 2) decreasing air travel demand due to changes in work behavior (e.g., work from anywhere, virtual meetings)
2. Supply side: 1) US shale oil producers may increase production; 2) Iran may increase production after it reaches a nuclear deal with superpowers.
3. Liquidity and speculation: 1) At present, oil price in the futures market at the end of the year is a backwardation of about US$1.6 per barrel as OPEC+ manages expectations in order keep shale oil producers offline; 2) the Fed is likely to begin tightening.

We therefore believe average crude oil price will be US$60-70 through the end of the year.

Source: SCBS Research

Scenario analysis: Impact on the economy and financial sectors

- If oil prices approach US$100 by the end of the year (worst case), inflation could hit 4-5% while US 10-year bond yields could exceed 2%.
- If such a situation arises, the Fed may need to taper its QE or raise interest rates more rapidly than expected (QE tapering in early 2022 and raising rates in 2024), which will put pressure on the already fragile global economic recovery.
- After the FOMC's June meeting, we now believe Fed will move up the tightening cycle to tame the speculation process. We now believe QE tapering will begin in Nov or Dec 2021 and rates will begin to step up in 2023 or sooner.

Source: CEIC, SCBS Research

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

Variable	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Oil Price ($/Bl.)	63.40	50.60	29.30	42.90	44.30	62.00	66.80	61.22	57.60
Oil Price CHG (%YoY)	-7.01	-20.81	-57.10	-30.81	-30.13	22.53	127.99	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

Projection of Oil price (Worst case)

Variable	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21 (f)	3Q21 (f)	4Q21 (f)
Oil Price ($/Bl.)	63.40	50.60	29.30	42.90	44.30	62.00	66.80	93.83	91.28
Oil Price CHG (%YoY)	-7.01	-20.81	-57.10	-30.81	-30.13	22.53	127.99	118.72	106.05
US CPI (%YoY)	2.03	2.12	0.36	1.22	1.24	1.99	4.31	4.15	3.82
10-Yr Inflation Exp. (%)	2.06	1.64	1.12	1.22	1.63	2.23	2.71	3.08	3.35
US 10-Yr Bond Yield (%	1.79	1.39	0.68	0.65	0.85	1.31	1.74	1.88	2.45

Key findings from FOMC Jun 16, 2021

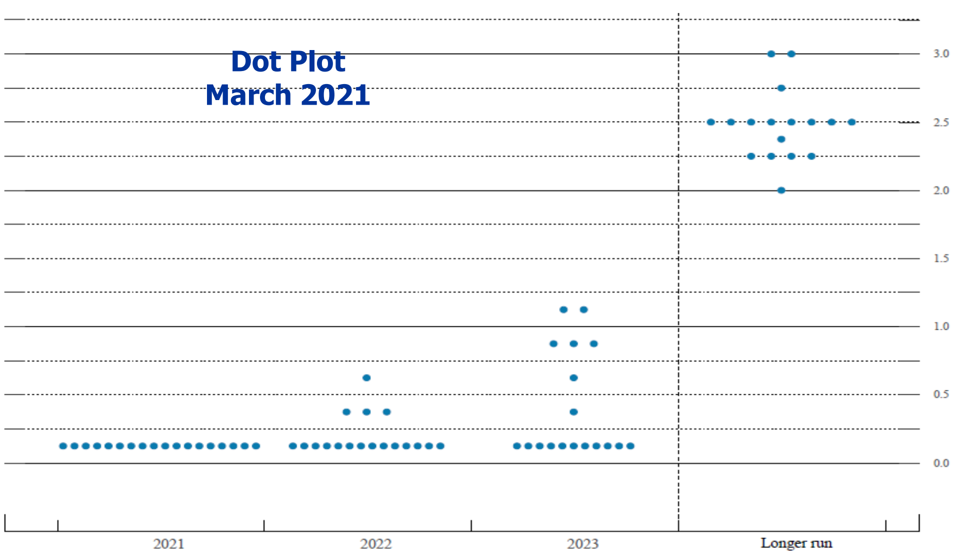
1) FFR and QE remain unchanged, 2) dot plot moves rate hikes to 2023 from 2024, 3) QE may end earlier this year due to better labor market conditions, 4) Powell: to start "talking about talking about" tapering

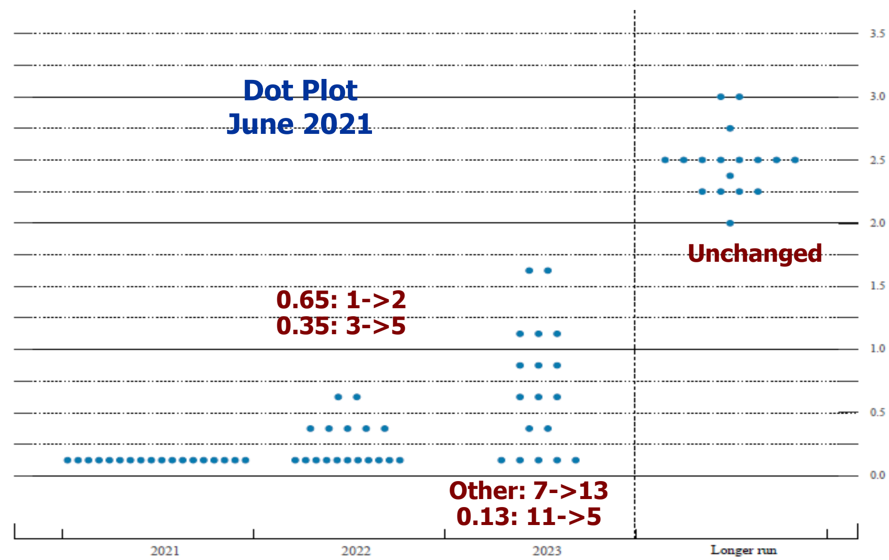
Variable (%)	2021	2022	2023	Longer run
GDP	7.0	3.3	2.4	1.8
(Mar Proj.)	6.5	3.3	2.2	1.8
U-rate	4.5	3.8	3.5	4.0
(Mar Proj.)	4.5	3.9	3.5	4.0
Core PCE	3.0	2.1	2.1	
(Mar Proj.)	2.2	2.0	2.1	
Fed Funds	0.1	0.1	0.6	2.5
(Mar Proj.)	0.1	0.1	0.1	2.5

Source: FOMC, SCBS Research

Our view

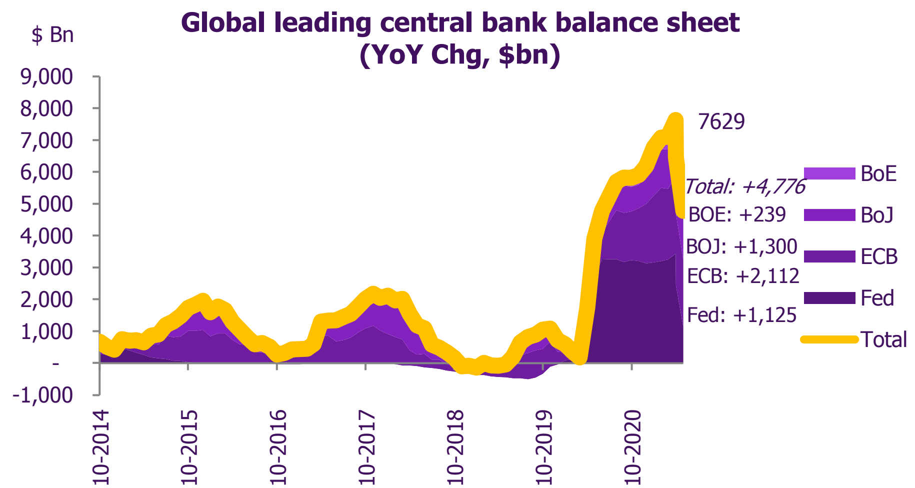
1. The FOMC is worried about rising inflation risks, thus signaling an acceleration in interest rates and an upward adjustment of near-term inflation expectations.
2. The FOMC is likely to begin QE tapering earlier this year. This will come after a significant improvement in employment after the US$300/week unemployment benefit expires in September.
3. It is possible the FOMC may adjust its interest rate hike trend even faster if inflation does not decrease going forward. These pictures clearly signal a tightening in monetary policy is ahead.

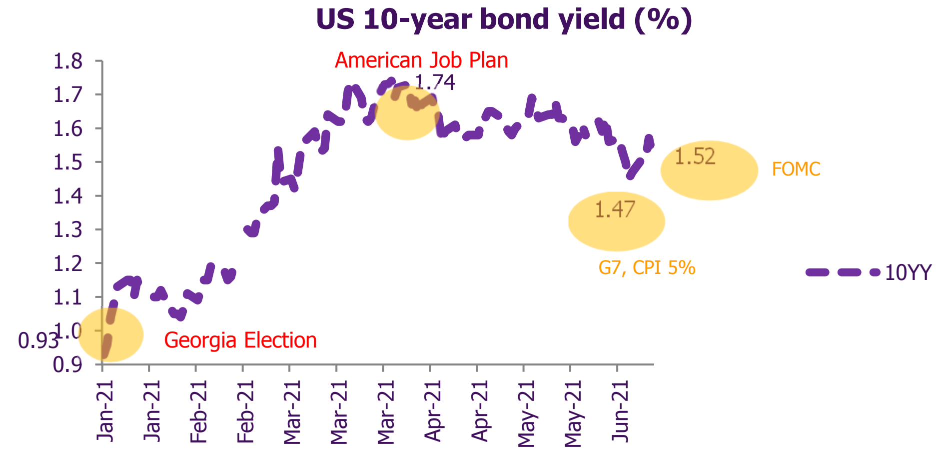


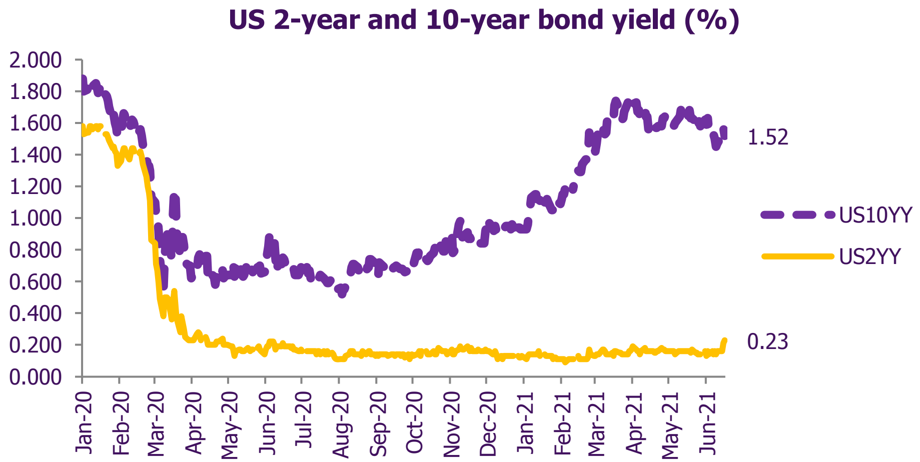


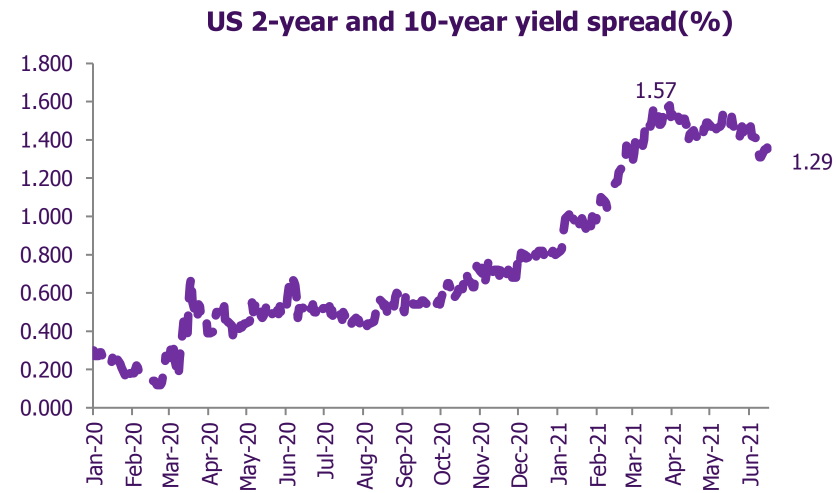
What is the 10-year bond yield signaling?

We view the market as believing that the economy is slowing and risks are increasing due to 1) signs of weak economic growth, 2) tightening monetary and fiscal policy, and 3) geopolitical problems.









Source: CEIC, SCBS Research

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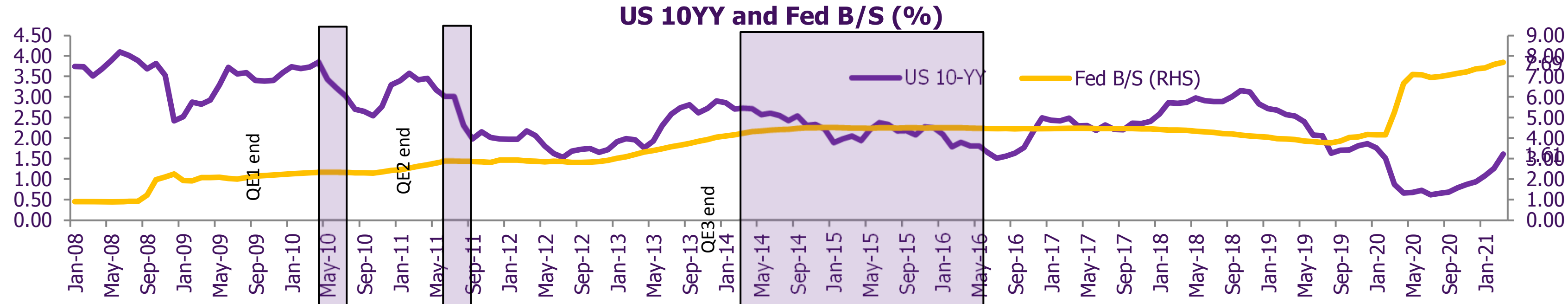
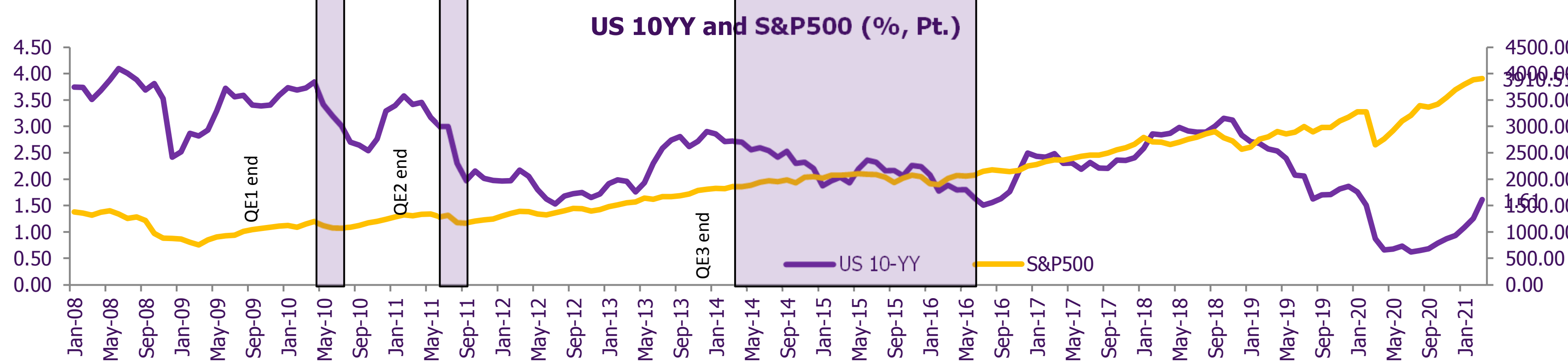
We believe that various risks will cause market volatility going forward

	B/S Chg			S&P chg			10YY chg			FMS biggest risk
	Start	End	Chg	Start	End	chg	Start	End	chg	
1/2010 - 9/2010	2.25	2.35	+.10	1124	1112	-12	3.73	2.65	-1.1	End of QE, budget deficit
6/2011 - 9/2011	2.87	2.85	-.02	1287	1173	-114	3.00	1.98	-1.0	EU fiscal debt crisis
3/2014 - 7/2016	4.23	4.46	+.23	1864	2149	+285	2.72	1.50	-1.2	China hard landing





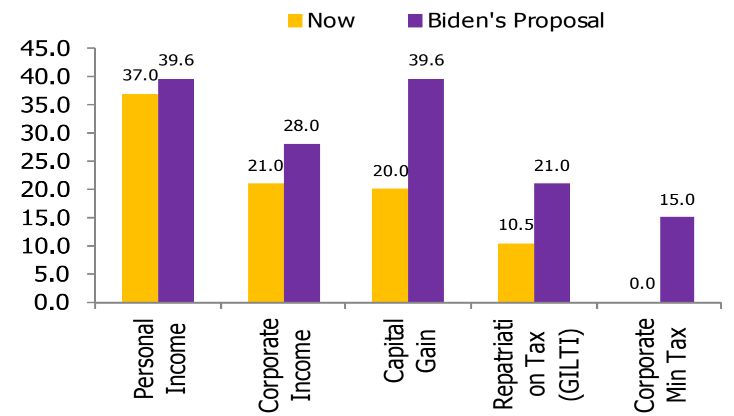
Source: CEIC, Various Sources, SCBS Research

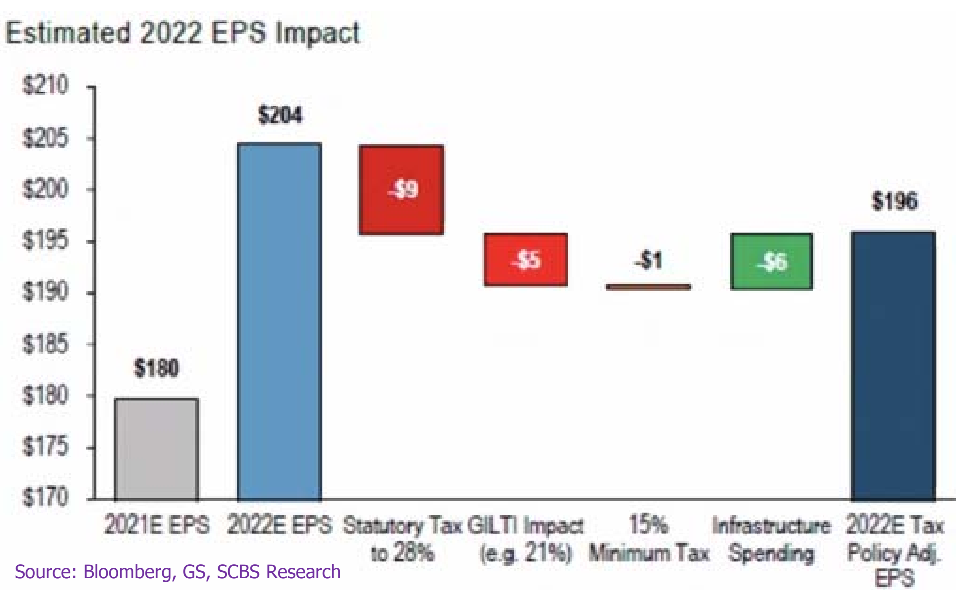
Fiscal policy is likely to be tightened

- We view Biden's tax policy as a significant risk to the economy from:

1. The proposal to raise taxes in five categories: corporate tax, individual tax, capital gain tax, remittance tax and minimum tax
2. The capital gains tax will be retroactively calculated to April 2021.
3. A minimum 15% corporate tax, regardless of deductions, is the primary and uncompromising agenda for this administration.
4. Treasury sec Yellen is pushing G-7 and OECD to accept the proposal to raise global corporate tax to a minimum rate of 15%.
5. Calculations indicate the impact of the tax hike on earnings will account for approximately 4.4% of revenue in 2022.

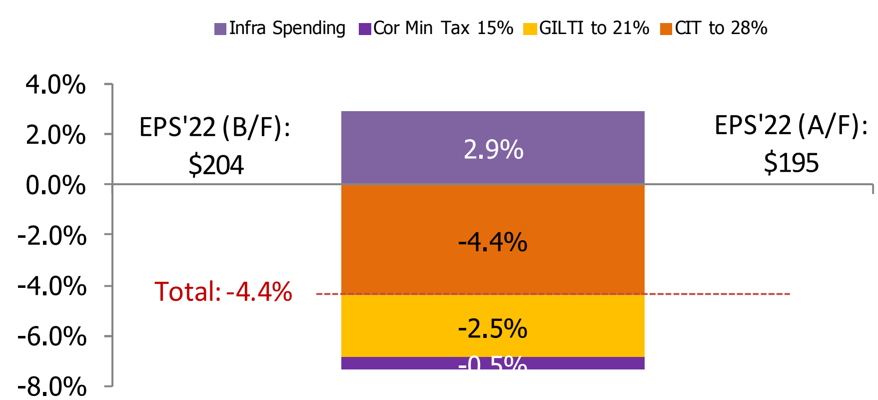
Maximum tax rate of Biden's proposal vs existing (%)





Source: Bloomberg, GS, SCBS Research

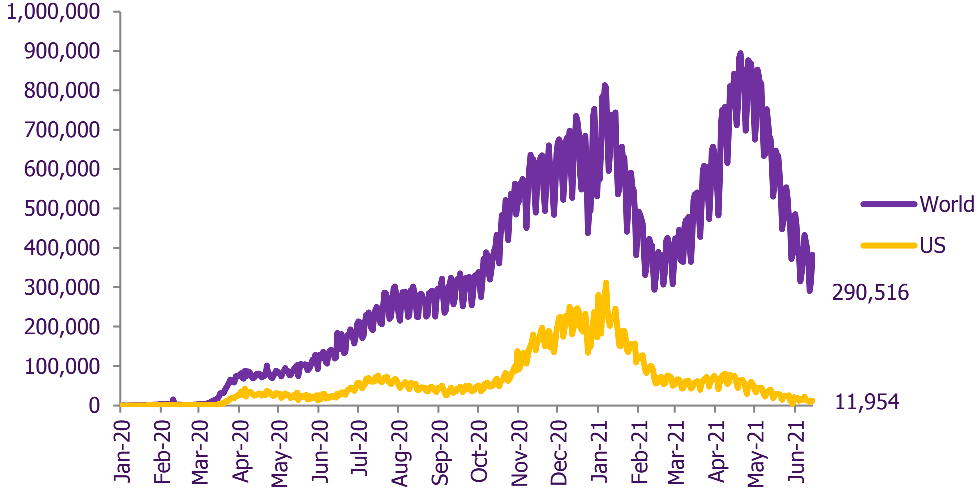
Impact of Biden's tax and infrastructure proposal to 2022 EPS (%of before Tax EPS in 2022)

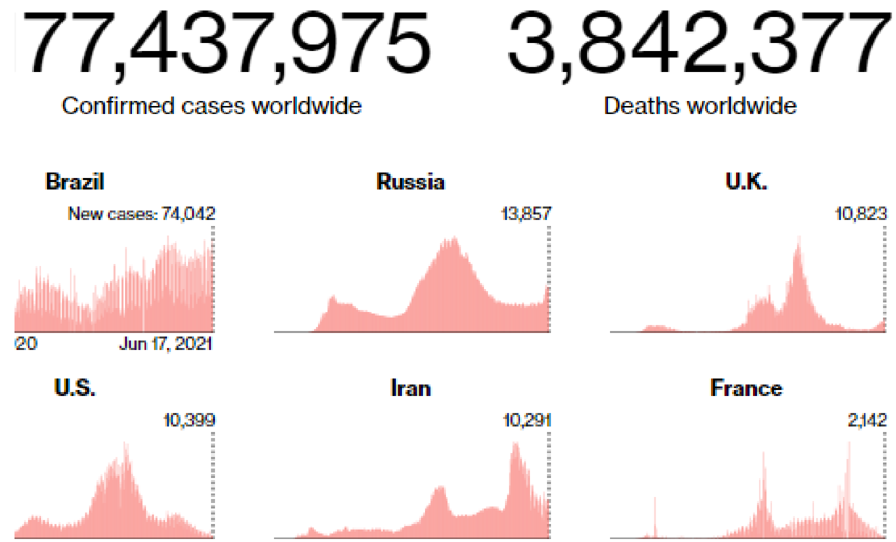


Note: (1) EPS'22 (A/F): $195 (+8.4% from EPS'21@$180)
(2) GILTI: Global Intangible Low-Taxed Income (GILTI) designed to derived tax income from US companies attempted to avoid tax using CFC (Control-foreign corporation) rule.

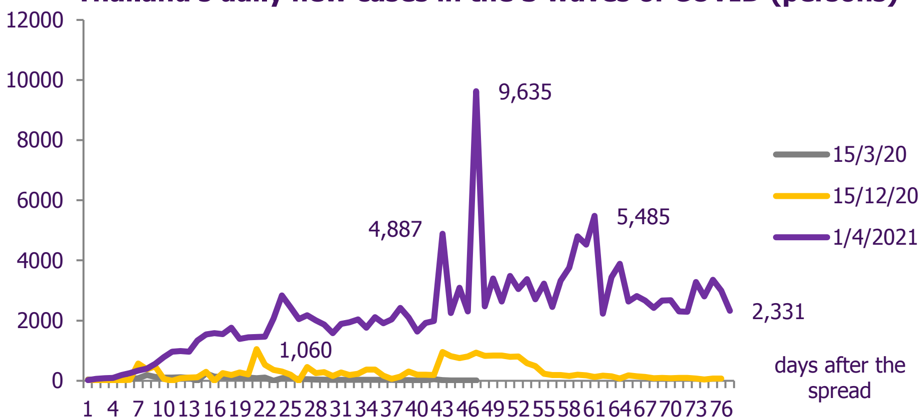
Risk: New infections in EM are still high. While the number of vaccinations is low, it should ramp up in the second half of the year.

Global and US daily new case (Persons)





Thailand's daily new cases in the 3 waves of COVID (persons)



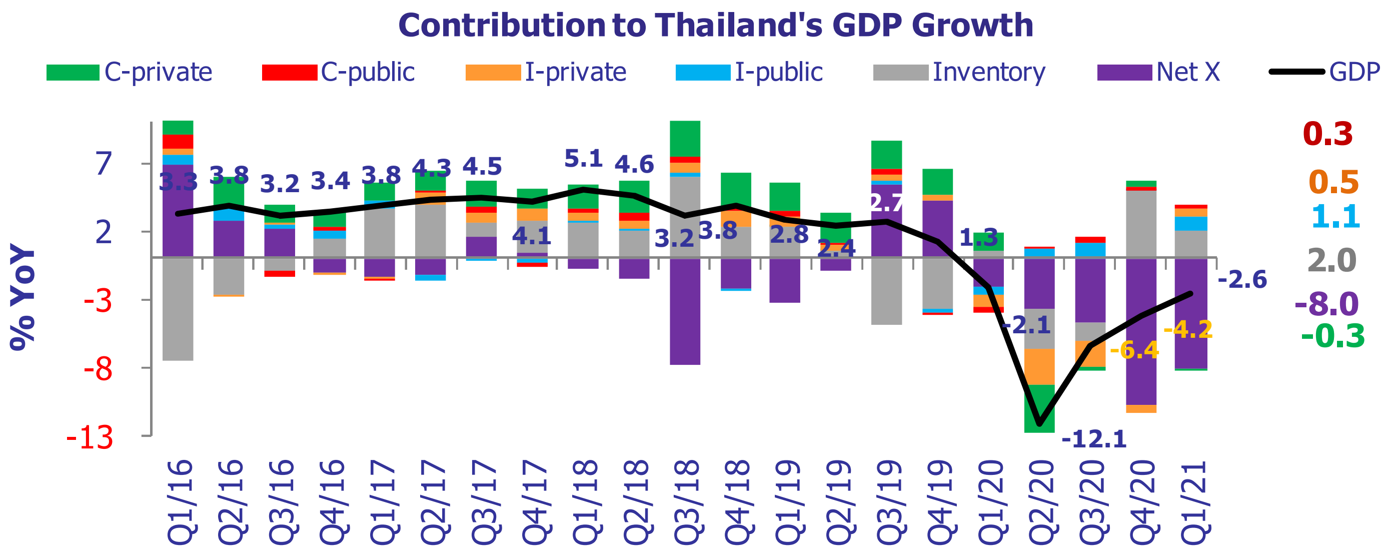
Source: CEIC, Bloomberg, SCBS Research

Vaccination rate (% of total population)

Country	June 2021	1H2021	2H2021
Israel	58.8%	>75%	100%
UAE	66.0%	>75%	100%
US	49.2%	>50%	>75%
UK	54.6%	>75%	>75%
Europe	35.5%	>40%	>75%
China	33.8%	40%	>75%
Malaysia	7.8%	10%	50%
Thailand	5.0%	8%	50%

Thai economy

1Q21 GDP contracted 2.6% YoY, better than expected, but we are concerned about consumption

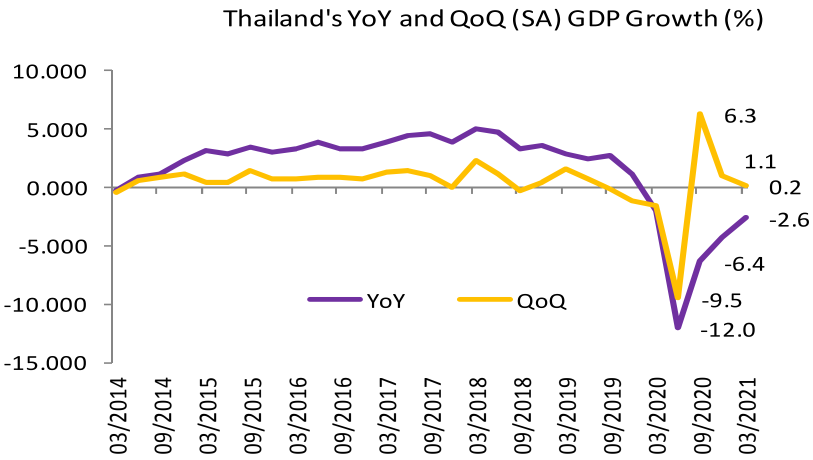


- The Thai economy in 1Q21 contracted at the rate of 2.6% YoY (+0.2% QoQ), better than market forecast of -3.3%. Components are as follows:
  1. Consumption declined despite the economic stimulus measures. In terms of category, semi-durable and durable consumption declined, while consumption of non-durable goods and service expanded. We view it as downside risk.
  2. Overall investment has improved. Private investment grew by 3.0%, mainly investment in machinery and equipment. Public investment grew by 19.6%, partly off the 2020 low base, and partly due to the acceleration in investment projects, mainly by state-owned enterprises such as EGAT, PTTEP and CAT Telecom, etc. (We view it as an upside, but a headwind from the economic slowdown may cause the private sector to slow down investment.)
  3. Merchandise export volume was positive for the first time since 2Q20 at 3.2%, while value grew 5.3%, driven by machinery, automobiles, auto parts, petrochemicals and electrical appliances. However, service export volume continued to contract at 63.5% mainly due to lost tourism income. This gives a current account deficit of 1.9% of GDP and a negative contribution to GDP growth of 8.0% to the 2.6% GDP contraction. (We are concerned because the losses from tourism outweigh the positives from merchandise exports.)
  4. Inventory change increased in industrial products such as sugar, plastics, synthetic rubber, computers, automobiles, while the inventory of electronic devices and circuit boards decreased due to the increased demand for exports and production of 5G devices . In other words, inventory rundown has begun compared to last quarter.

Source: NESDC, SCBS Research

Thailand's economic growth is worrisome; NESDC forecasts imply downside risks

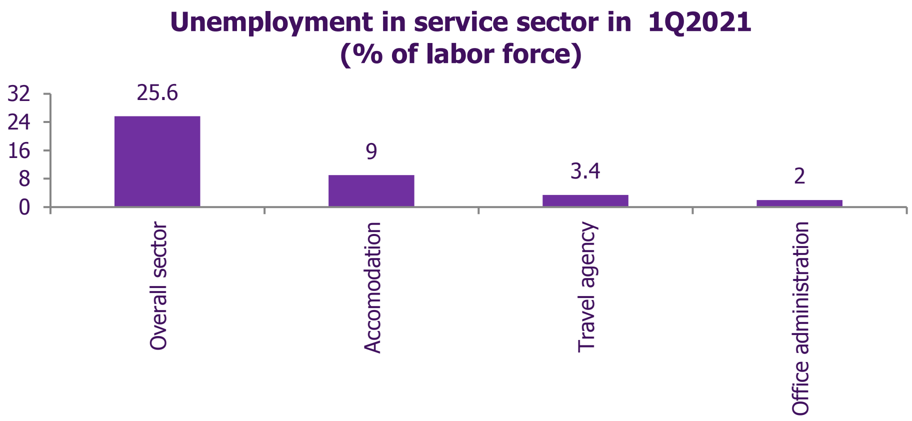
Momentum of Thai GDP growth has materially slowed down. (Even if it's not a technical Recession)



The NESDC slashed its tourist forecast, but the per capita income from tourist increased enormously (from Bt66K/head to Bt340K/head).

Overseas tourists	2018	2019	2020	2021f
Number (mn) %YoY	38.2 (7.3)	39.9 (4.4)	6.7 (-83.2)	0.5 (-92.5)
Revenue (Bt trn) %YoY	1.82 (2.5)	1.85 (1.9)	0.44 (-76.2)	0.17 (-60.2)

The unemployment rate in the tourism sector (about 20% of total employment) has increased enormously.



Rising household debt, rising NPLs, and rising public debt will undermine the effectiveness of stimulus measures and further pressure consumption

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Household Debt/ GDP	78.40	78.40	78.90	79.90	80.20	83.80	86.60	89.30
NPL/Total Loan	2.94	2.95	3.01	2.98	3.04	3.08	3.13	3.11
SML/ Total Loan	2.56	2.74	2.59	2.82	7.77	7.53	7.06	6.65
Public Debt/ GDP	41.80	41.30	41.1	41.20	41.70	44.80	49.40	51.80

Source: NESDC, CEIC, SCBS Research

Factor affecting the tourism industry

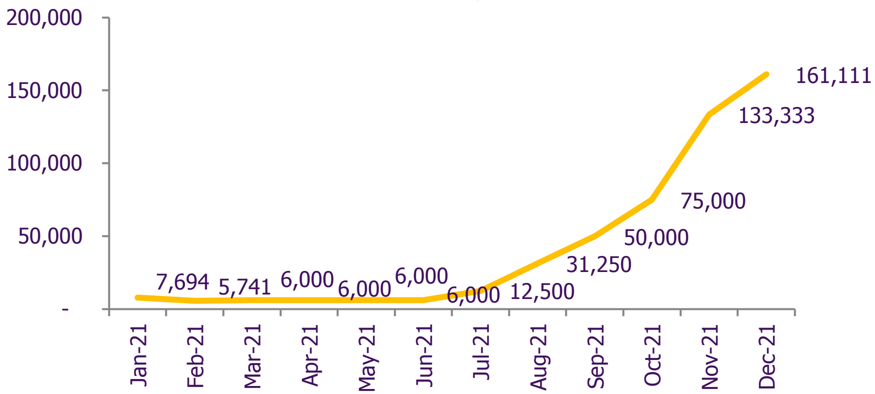
We cut the projection of inbound tourists this year from 3mn to 500,000 to incorporate three factors

1) We believe that the Phuket sandbox campaign, in which vaccinated foreign tourists can visit Phuket and seven other pilot provinces without the mandatory 14-day quarantine, can be done, but inbound tourists will not increase significantly until 4Q due to the fact that COVID variants might prompt Western tourists to delay travel to Asia in general and Thailand in particular. One major deterrent is the possible 7-14-day quarantine when they return to their home countries.

2) Vaccinations: By our calculations, 70% of the population of Thailand will have received at least one dose of a vaccine by October or November, assuming the average daily vaccination rate of 300,000 dose per day.

(3) The current vaccine is effective at containing the Indian (or delta) and other virus strains, hence inbound tourists will accelerate in the last quarter to more than 100,000 people per month in 4Q21.

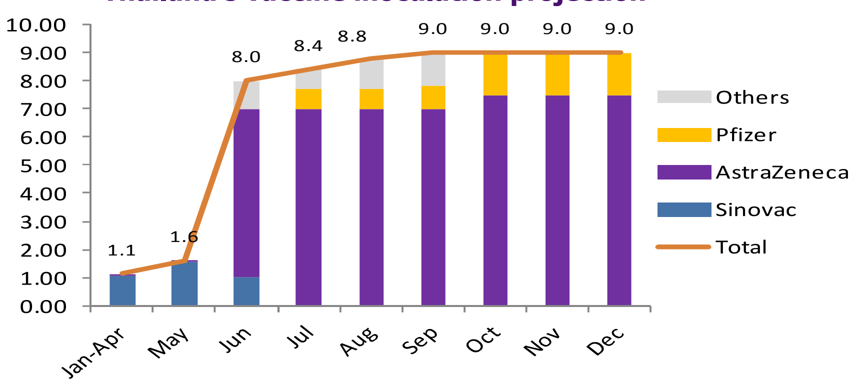
No. of tourist arrivals projected in 2021 (persons)



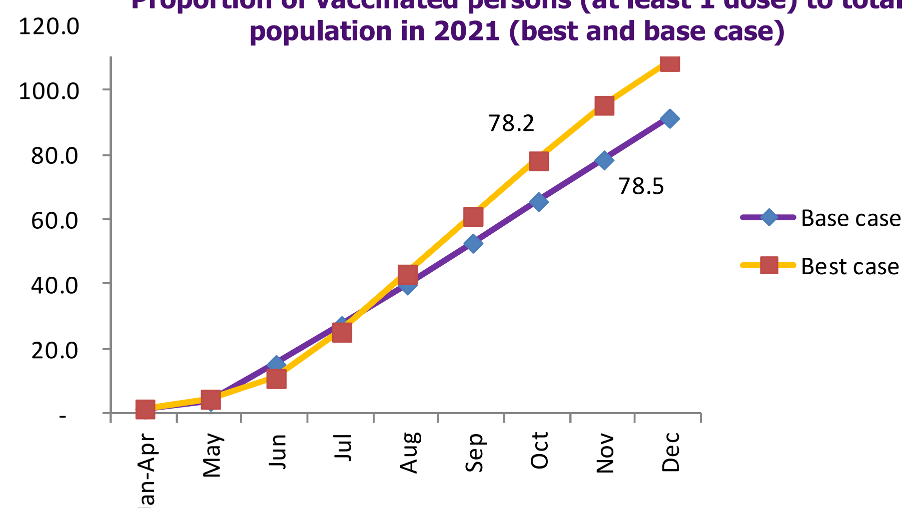
No. of tourists projected (quarterly)

(,000)	1Q	2Q	3Q	4Q	2021
Visitors (/mth)	19.5 (6.5)	18.0 (6.0)	93.8 (31.3)	369.5 (123.2)	500.6

Thailand's vaccine inoculation projection



Proportion of vaccinated persons (at least 1 dose) to total population in 2021 (best and base case)



Source: CEIC, Various Sources, SCBS Research

SCBS Thai economic projections

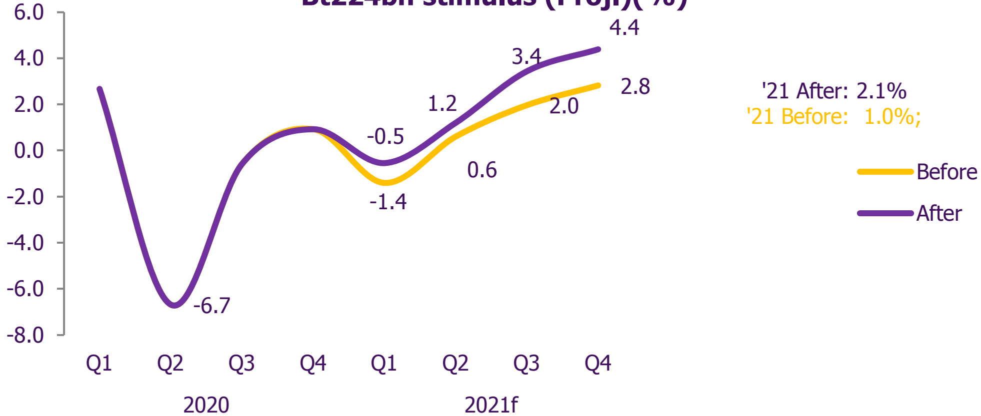
Macro growth projection	Actual 2019	Actual 2020	SCBS (Old) 2021	SCBS (New) 2021F	SCBS (New) 2022F
GDP growth	2.3	-6.1	3.1	2.0	4.0
Gross fixed capital formation:	2.0	-4.8	3.2	4.9	8.5
- Private	2.7	-8.4	2.2	2.6	8.1
- Public	0.1	5.7	9.4	7.1	9.9
Private consumption	4.0	-1.0	3.7	2.2	4.5
Public consumption	1.7	0.8	4.8	3.6	2.2
Export value in $ terms (%)	-3.3	-6.6	6.2	10.0	4.0
Import value in $ terms (%)	-5.6	-13.5	5.0	14.4	4.6
Current account to GDP (%)	7.0	3.3	3.0	0.7	5.2
Headline inflation (%)	0.7	-0.8	0.9	1.2	1.4
USD/THB	31.0	31.3	30.0	30.5	30.0
Policy rate (%)	1.25	0.50	0.50	0.25	0.50
No. of inbound tourists (mn)	39.8	6.7	5.0	0.5	20.0
Tourism revenue (Bt trn)	1.9	0.33	0.43	0.043	1.7

Source: NESDC, CEIC, SCBS Research

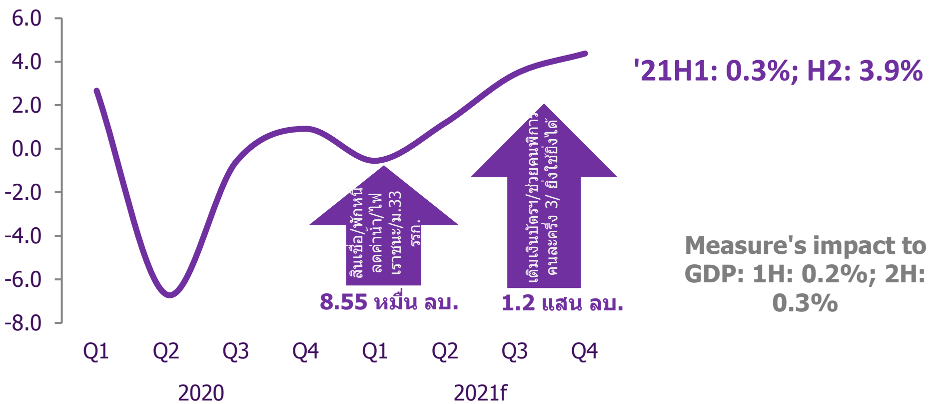
Impact of May 5 economic stimulus measures (Bt225bn) on consumption and overall economy

We believe the new round of economic stimulus measures that the Cabinet approved on May 5 will help increase consumption by about 2.1% from around 1.0% if there had been no new round of measures. The difference will be noticeable in 2H21. This is because more than 2/3 of the measures will support the economy in 2H21. In particular, the phase 3 of "half-half co-payment scheme" will support the consumption of non-durable products, while the "the more you use, the more you get scheme" will mainly support the consumption of durable products. We believe that it may produce results similar to the first round of outbreaks. The result of the increase in consumption is expected to be more than twice the size of the Bt225bn stimulus or Bt470bn, as announced by the government.

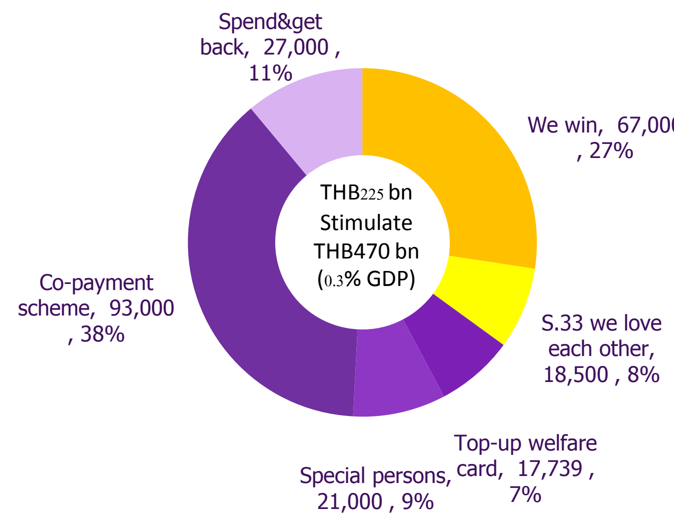
2021 Thai Private Consumption growth projection: before and after Bt224bn stimulus (Proj.)(%)



2021 Thai Private Consumption Growth projection (%)



The May 5 government measure breakdown (THBmn)



Note: Yellow, end 1H: Purple 2H

Source: Various sources, CEIC, SCBS Research

SCBS

The impact of new economic stimulus measures (Bt500bn) on consumption and the overall economy

Objective	Responsible agency	Amount (Bt bn)
To tackle the new outbreak (public health purposes)	Ministry of Health	30
To "heal" affected people (stimulate consumption)	Ministry of Finance	300
To revive the economy and society (stimulate investment)	Ministry of Finance	170

- As for the new decree allowing Bt500bn in additional borrowing, in our view, this will provide further fiscal stimulus -- or a credit line if the economy has not fully recovered and we face another round of COVID.

- We believe that if the government really needs to use this credit line, it will probably begin to gradually disburse the budget in the first and second objective totaling 330 billion baht. The disbursement will benefit consumption, especially the durable goods and non-durable goods. The "half-half co-payment scheme" will be the main measure since it can be use to stimulating grassroots consumption. (in which the producer of non-durable goods is likely to receive the most benefit.)

- In addition, if the current outbreak is subside and the government can maintain the 120-day target to reopen the country as the Prime Minister annouced, it is likely that the domestic tourism can be revived in the second half of 2020. This is possible due to the revival of "We Travel Together scheme" which has been popular before the starting of second and third outbreak. Nevertheless, factors to be monitor closely include: the recent "clusters" of outbreak, the ramp-up of vaccine production and the outbreak of the new varient.

Source: CEIC, Government Gazette, SCBS Research

(Extra) Impact of economic stimulus measures on consumption

1st Round	Budget disbursed	Actual vs Projected Consumption	Multiplier	Sector benefitting
1st Round	B347bn	B940bn (6% GDP)	2.7X	Durable/ Nondurable
2nd Round	B302bn	B16.5bn (0.4%GDP)	0.055X	Durable/Service
3rd Round (Proj.)	B225bn	B407bn (2.7% GDP)	1.8X	Durable/ Nondurable
4th Round (Credit line)	B300bn	N/A		

- In the first round of measures, the stimulus was very successful. The actual amount of stimulus disbursed was about Bt350bn, which boosted consumption by about Bt940bn, a multiplier of 2.7X.

- In the second round, the measure was not very successful, because the disbursement period was too short (two months) before the start of the third round. The actual amount of money disbursed in the second round was Bt302bn, but was able to boost consumption only Bt17bn, a multiplier of 0.06X.

- In the third round, we expect that the actual injection will amount to around Bt225bn. If this measure is effective, it will boost consumption by about Bt407bn, a multiplier of 1.8X. Sectors that are likely to benefit are durables from "the more you use, the more you get scheme" and non-durables from the co-payment scheme.

- In the fourth round, we view it as a credit line to prepare for a new and prolonged outbreak for which the current stimulus funds (the third round) are insufficient.

Source: Various Sources, SCBS Research

SCBS

Strategy

Key summary of our strategy in 3Q21

		Our summary views
Macroeconomic outlook		We are seeing signals of tighter controls in major economies such as the US and China, including tax increases and the likelihood that the US central bank will start scaling back its bond buying in 4Q21. Slow vaccinations in EM is slowing economic recovery and opening the risk posed by new variants. Service sectors eye 3Q21 as timing to reopen as restrictions ease and international borders are gradually reopened.
Economic bright spots		Service-related sectors, sectors with high pricing power, logistics, export-related sectors, electric vehicles.
Economic cycle		Peak growth is approaching, and growth will then decelerate. Most DMs will enter late expansion in 4Q21. Service sectors will dominate growth in 2H21. EM will enter late expansion in 2H22 due to slow vaccinations. Demand and supply in many sectors will become more balanced in 2022.
Market cycle		The market cycle is transitioning from Hope to Growth phase, where the emphasis is on earnings growth rather than valuation expansion. Yield curve regime is shifting from steepening to flattening. 3Q is generally the weakest quarter with highest volatility. In 2H21, market should focus on micro headwinds rather than macro tailwinds.
Earnings outlook		2021 EPS of SCBS coverage (70% of market cap) will grow 50% YoY, but earnings are below pre-COVID-19 levels and are unlikely to get back to those levels until 2022, with growth of 19% YoY. In 2H21, we are concerned about margin pressure from supply chain shortages and rising raw material costs.
Peak growth		When growth is strong but passes its peak in momentum, market returns tend to slow; at this time, defensive stocks and those with low volatility and high quality are expected to outperform with average historical excess returns post peak of 4%, while cyclical will underperform. If yield curve flattens more, we would look for value opportunities among defensive stocks.
Inflation & supply shortage		Supply shortage is a key component of rising inflation. We feel the demand/supply dynamic will become more balanced in 2022. A surge in agricultural prices and sea freight rates are short-term events, while strong chip and industrial metals demand are medium to long-term issues. Climate policy is causing a short-term imbalance.
Tightening policies		Sooner than expected policy tightening and bond tantrum will create volatility because these stances are related to liquidity and valuation. Based on historical market reaction, defensive sectors performed well throughout a tightening cycle and three months after the final hike and also outperformed cyclical during tapering.
2H21 strategy		Our focus is on sector rotation and selection of stocks with strong fundamentals and reasonable valuation. We believe cyclicals have fully priced in a strong recovery and look for value opportunities among defensive parts of the market that can protect against policy downside and market risks in 2H21.
SET Index target		Success of reopening and faster-than-expected vaccinations could support a rally in the SET in 3Q21, though the likelihood is low. In the bull case scenario, the SET has limited upside at 1,700-1,750. Our base-case scenario SET Index target is 1,600.
Sector	**Overweight**	Healthcare, Commerce, Utilities, F&B and Land Transport
	Neutral	Energy, Hotel, Electronics, Building Materials, Petrochemical, Property, Bank, and Telecom
	Underweight	Agribusiness, Automotive, Air transportation, Entertainment/Media, Shipping
Recommendation		Focus on stocks in defensive sectors with idiosyncratic fundamental earnings drivers, reasonable valuation and less dependence on macro factors to drive outperformance. Top picks are CRC, GPSC, PM, RJH, SFT.

Our recommendations in 2Q21 outperformed the SET by 3% thanks to DOD, BDMS, MINT and TWPC

2Q21 has nearly come to an end with a continuous rally (+2%) from 1Q21 for the Thai stock market. The improvement in manufacturing activities and better-than-expected export growth show a solid momentum. In addition, Thailand has limited impact from supply chain shortages, while benefiting largely from the surge in commodities prices. Easing global financial condition is supporting demand for risky assets thanks to rapid mass vaccinations in developed markets. Meanwhile, the Thai stock market has underperformed compared with emerging markets (+5%), Asia ex Japan markets (+3%) and global markets (+7%) due to slower-than-expected COVID-19 vaccinations and clouded growth in the service sectors.

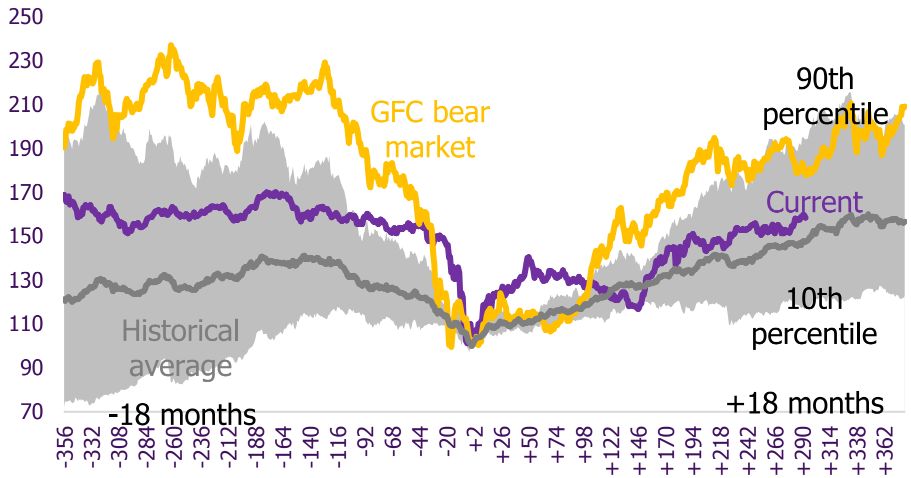
In 2Q21, we saw small caps, defensive and growth stocks outperform large caps, cyclical ex tech and value stocks. Most investment styles offered limited gain and lower return in Thailand than in peer markets except for technology stocks. High expectations and financial market uncertainties including inflation, supply chain shortages and a delay in reopening triggered a sector rotation to defensive from cyclical as well as into stocks with stories that are in strong earnings growth sectors and into mid and small cap stocks.

Although the Thai stock market showed positive returns in 2Q21, contribution has been concentrated in two sectors: Construction Services and Electronic Components, together accounting for more than 90% of the market rally. Meanwhile, the consensus call on Banking disappointed. Foreign investors sold a net US$1bn in Thai equities in 2Q21, slightly greater than in 1Q21.

Although Thailand is in the midst of the third wave of COVID-19, the market is optimistic about the mass vaccination and reopening timeframe. Our top picks that focused on inflation and reopening themes in 2Q21 offered average returns of 6.3%, and all of our top picks delivered positive returns, representing excess return of nearly 3% thanks to TWPC (+17%), MINT (+7%), BDMS (+6%) and DOD (+4%). BEM (+1%) underperformed.

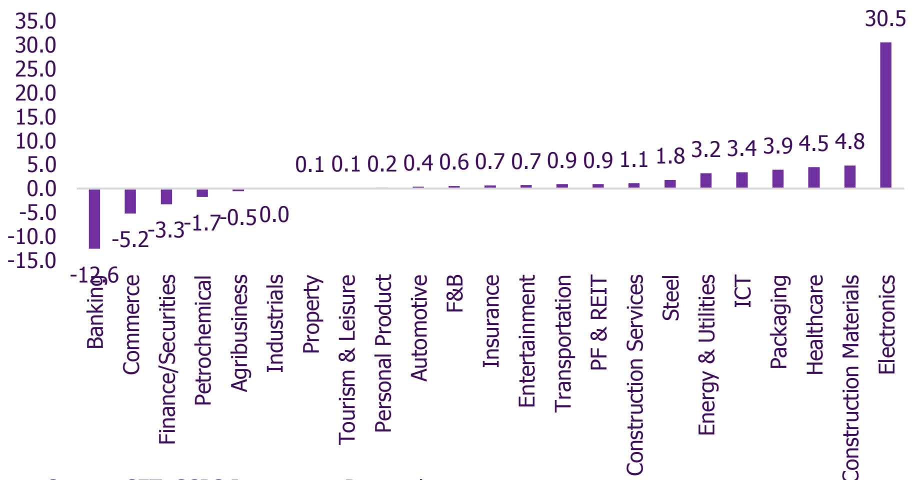
Not everything is good as it seemed in 2Q21

SET Index is moving at the same speed as previous post bear market recoveries



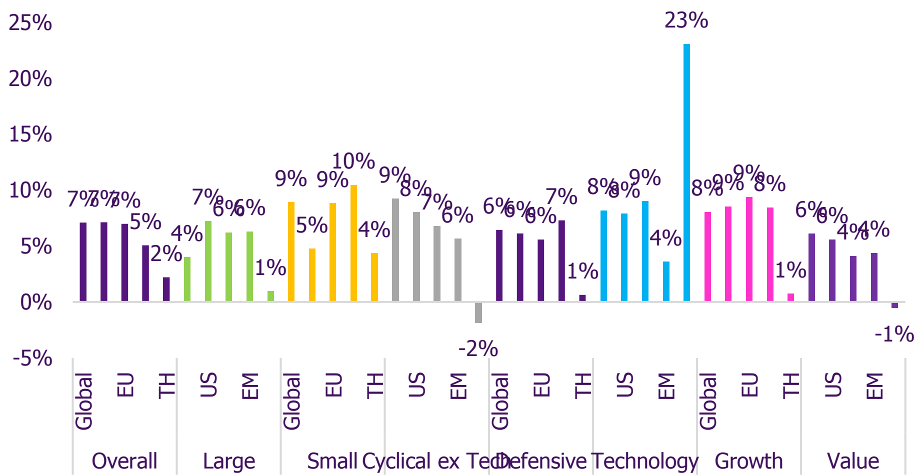
Source: Bloomberg, SCBS Investment Research

Major contributors in 2Q21 are concentrated in contractors and Electronics



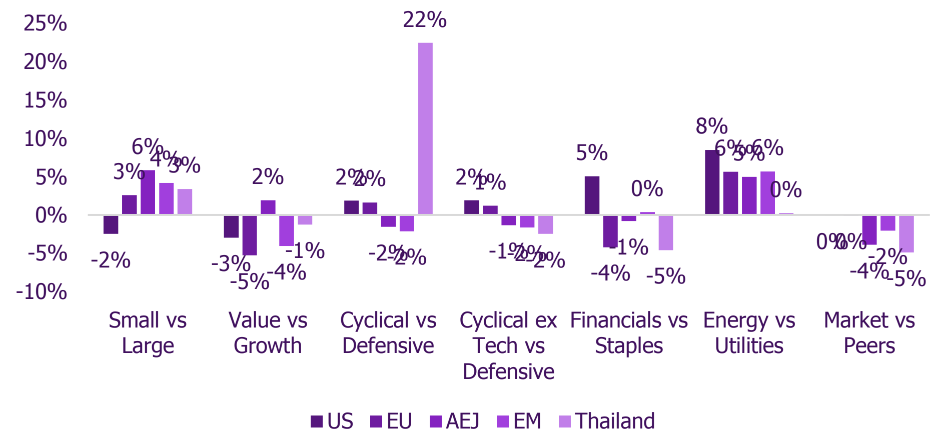
Source: SET, SCBS Investment Research

Performance comparison in 2Q21 (as of Jun 15)



Source: Bloomberg, SET, SCBS Investment Research

Thailand underperforming peers in 2Q21, dragged by Banks and Petrochemicals



Source: Bloomberg, SET, SCBS Investment Research

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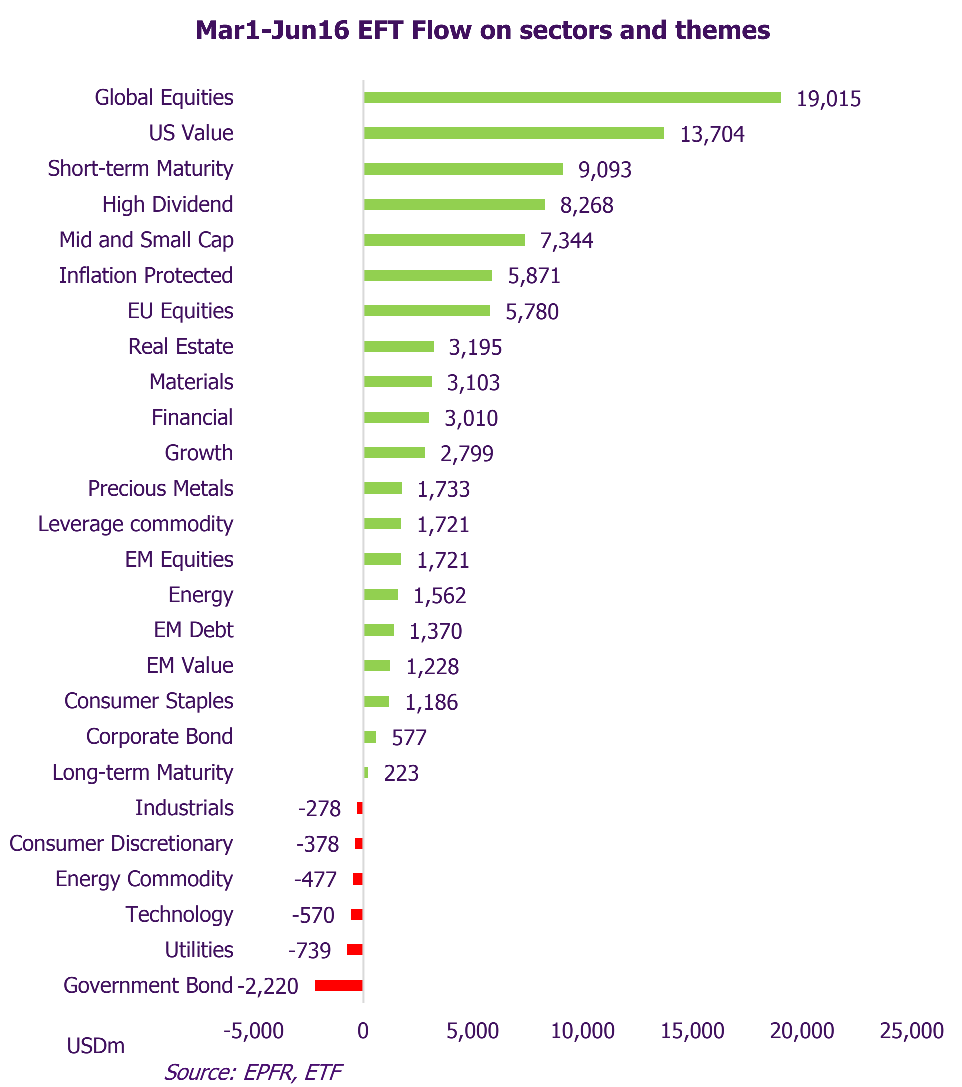
Building position on inflation theme, defensive assets are gaining momentum



Source: EPFR, ETF

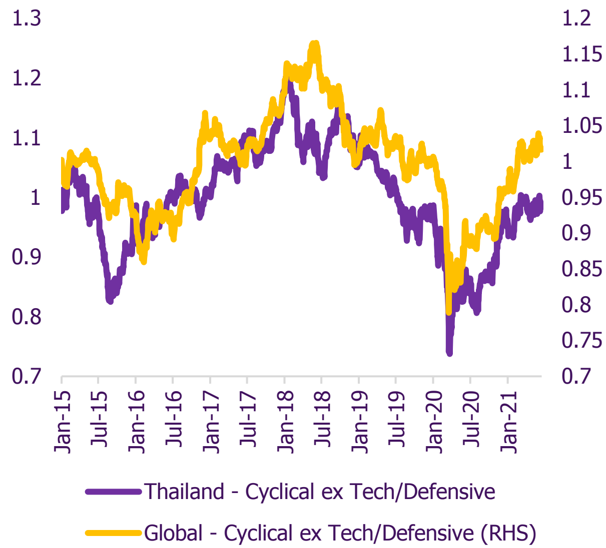
According to the ETF and EPFR, a steady economic recovery from rising COVID-19 vaccinations and supportive monetary policies has boosted flows into equity. Value and small-cap ETFs have seen inflows of US$14.9bn and US$7.3bn. Inflows into reflation sectors have fallen to US$7.5bn in 2Q21 from US$19.6bn in 1Q21. Instead, investors are building positions in high-dividend, inflation-protected bonds and into short-term maturities rather than long-duration sectors such as technology and utilities on concerns over surging inflation and yield. Currently, supply chain shortages are pressuring industrials sectors, bringing net outflows in 2Q21.

However, flows show moderately lower equity flows and firm bond inflows. In addition, defensive sectors such as healthcare and consumer staples have gathered net inflows of US$1.5bn and US$1.2bn and precious metals reversed from a net outflow in 1Q21. In our opinion, some investors are preparing for high volatility in 2H21.

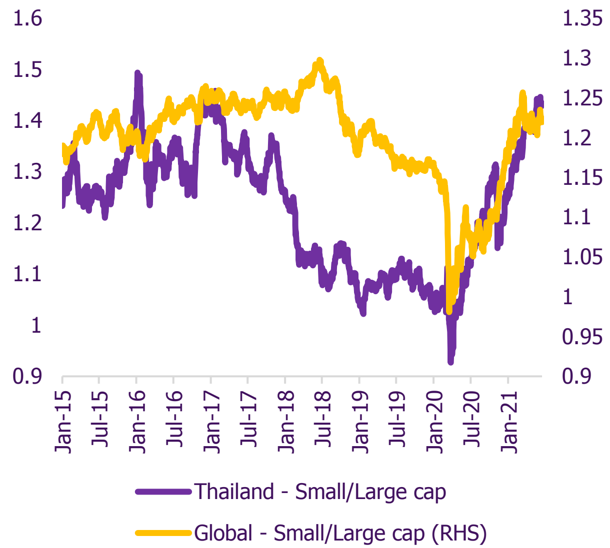
SCBS

Rotation is not over, but it has limited room to run

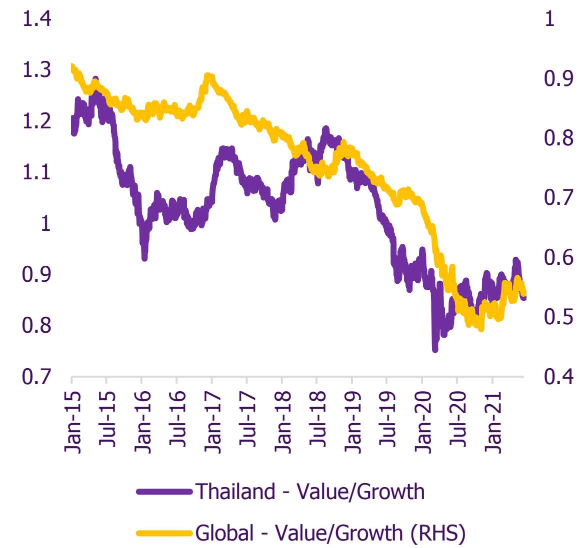
Cyclical ex Tech/Defensive rotation



Small/Large cap rotation



Value/Growth rotation



Source: Bloomberg, SET, SCBS Investment Research

The rotation towards cyclical from defensive sectors has been driven by the global economic recovery as reflected in manufacturing activities and robust trading growth as well as the rise in commodity prices. In addition, the rotation away from large cap to small cap has been fully justified by the rebound in earnings growth and investor risk appetite during market recovery. However, we see limited value rotation as growth narrative is still the main driver amid high expectations. Despite slow ramp-up of vaccinations in Thailand, the rotation game is aligned with global peers. We believe the cyclical rotation is partially priced in, while there is further room if growth momentum surprises on the upside. Small cap growth stories are still attractive, but valuations have overshot. Thus, we think rotation will start to become less tied to macroeconomic factors and less consistent given the high uncertainties in 2H21. Defensive sectors with high growth offer an alpha opportunity in 2H21.

SCBS

Five key themes and lessons from 1Q21 earnings

We have gathered anecdotal evidence of fundamentals from financial statements and trends from the earnings of Thai listed companies. In the most recent quarter, we highlight five themes:

i) **Stellar season but subdued price movement.** Despite large surprises, price reaction was relatively subdued, suggesting that a great deal of the prospective growth had already been priced in. We think positive earnings surprises will be rewarded less than in the past, while companies that missed will be punished more severely on the back of high expectations.

ii) **No major changes in financial standing.** D/E ratios declined slightly in 1Q21. This is an early sign of balance sheet improvement. Most companies are preparing liquidity to weather any worsening in COVID-19 and to increase shareholder returns.

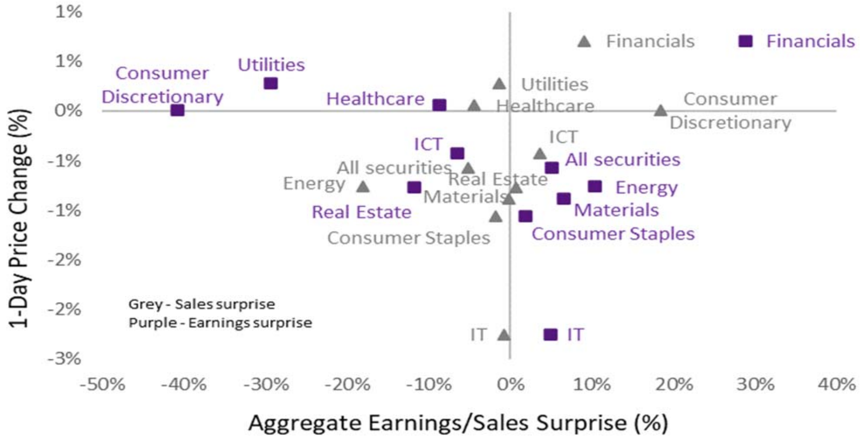
iii) **Small-caps offered more growth than large-cap.** The proportion of mai-listed companies operating at a loss fell to 31% in 1Q21, the lowest since 3Q19, driven by revenue growth and margin expansion. We expect this trend to continue in 2Q21-3Q21.

iv) **Short-term margin expansion is at risk.** The effects of the disruption in the global supply chain on Thailand may include rising raw material prices, higher logistics costs and longer delivery time than normal. Since Thai companies are a part of the global supply chain, attention needs to be paid to the magnitude to which supply constraints in various countries could impact Thailand in 2Q-3Q21. In addition, we think the market underestimates risk of margin pressure.

v) **Diversification to new markets and spin offs were a new development.** Managements are concerned about recovery from COVID given the slower ramp-up of vaccinations than hoped. Management feedback contains a material increase in comments about inflation and input costs. Firms discussed the implications of diversification to new markets and new business models as well as asset spin-offs, reflecting liquidity and rich valuations.

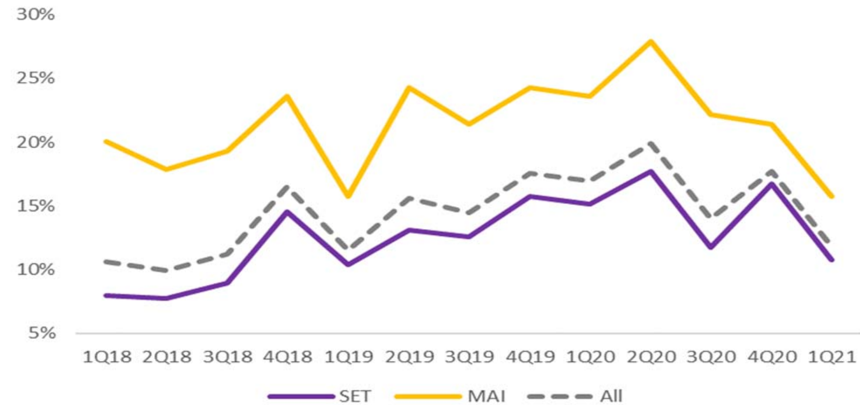
Highlights from 1Q21 earnings

Price reaction to both sales and earnings surprises has been relatively subdued



Source: SET, SCBS Investment Research

% of companies on SET and mai reporting negative EBITDA is declining thanks to cyclical businesses



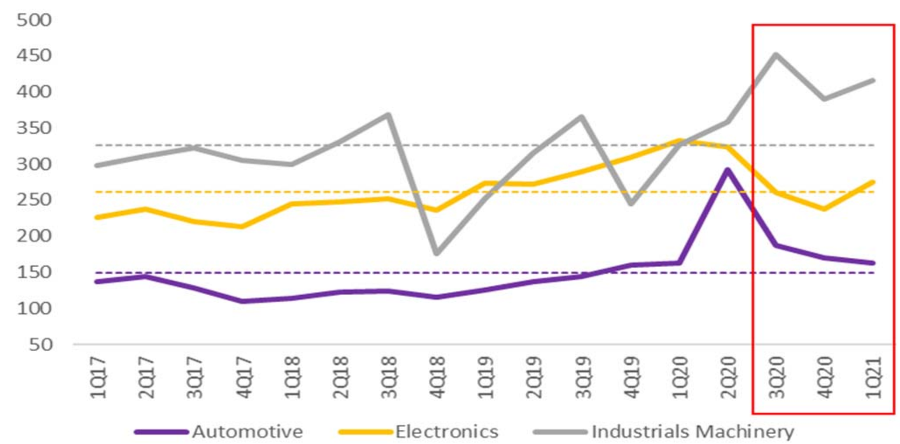
Source: SET, SCBS Investment Research

D/E is improving across sectors except in services and tourism related sectors

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21
Agribusiness	1.0	0.9	1.0	1.0	0.8	0.8	0.9	0.9
Food & Beverage	1.6	1.6	1.5	1.7	1.7	1.7	1.6	1.6
Consumption	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Automotive	0.5	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	2.0
Petrochemical	0.9	0.9	0.9	1.1	1.2	1.1	1.2	1.3
Packaging	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
Steel	1.0	1.0	0.8	0.8	0.8	0.8	0.7	0.7
Construction Materials	1.1	1.1	1.1	1.2	1.2	1.2	1.1	1.2
Property	1.5	1.5	1.2	1.5	1.5	1.5	1.4	1.4
Industrials Estate	1.6	1.8	2.0	2.1	2.0	1.8	1.7	1.7
Construction Services	2.6	2.5	2.5	2.7	2.6	2.7	2.6	2.6
Energy	1.1	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Utilities	1.7	1.7	1.3	1.5	1.5	1.4	1.4	1.4
Commerce	2.1	1.8	2.0	2.1	2.2	2.1	2.3	2.2
Healthcare	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Media	0.7	0.7	0.7	0.9	0.9	1.0	1.0	0.9
Tourism	1.8	1.7	1.6	2.6	2.6	2.8	3.0	3.2
Transportation	0.7	0.8	0.7	0.9	0.9	0.9	1.1	1.1
ICT	2.7	2.6	2.8	4.3	4.2	4.2	4.1	4.3
Electronics	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0
Total	**1.3**	**1.3**	**1.3**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Defensive	**1.8**	**1.7**	**1.6**	**1.9**	**1.9**	**1.9**	**1.9**	**1.8**
Cyclicals	**1.2**	**1.2**	**1.2**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**

Source: SET, SCBS Investment Research

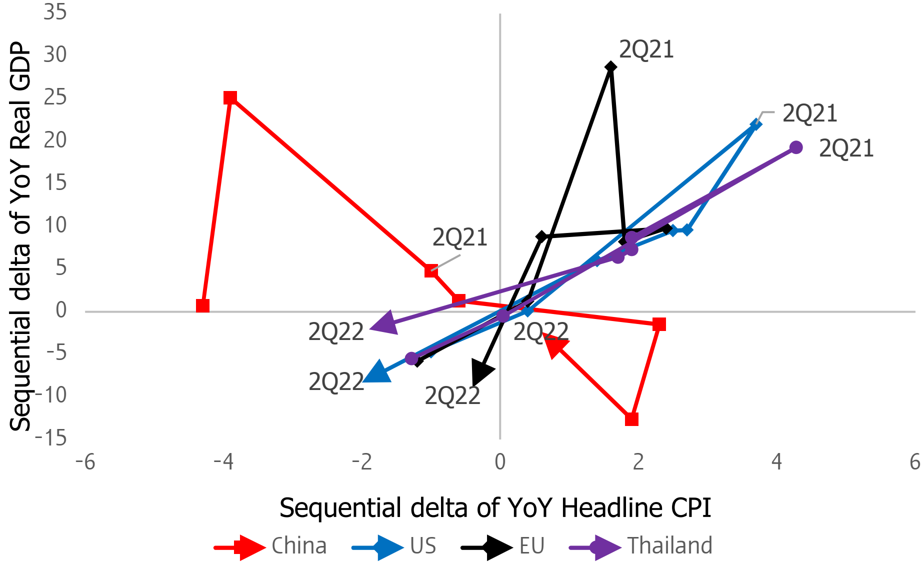
Impact from the chip shortage in 1Q21 was limited, but we could see impact in 2Q-3Q21



Source: SET, SCBS Investment Research

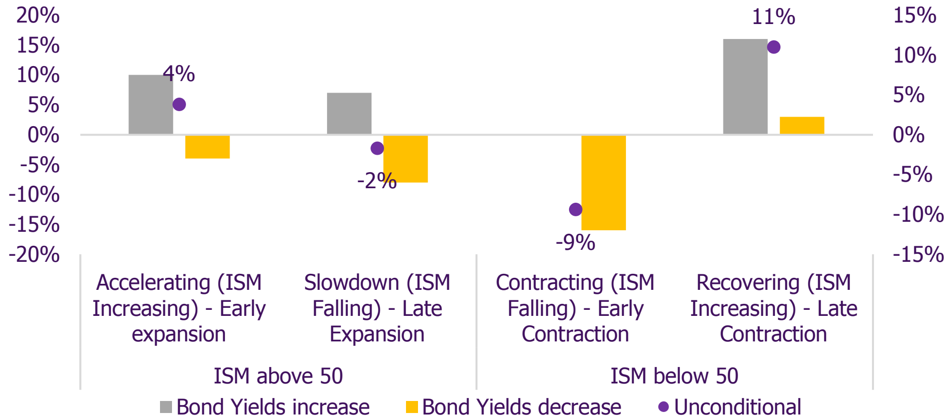
SCBS

Peak growth is approaching and entering late expansion



Source: CEIC, Bloomberg, SCBS Investment Research

Bond yields have historically been the key determinant of cyclicals vs defensive performance

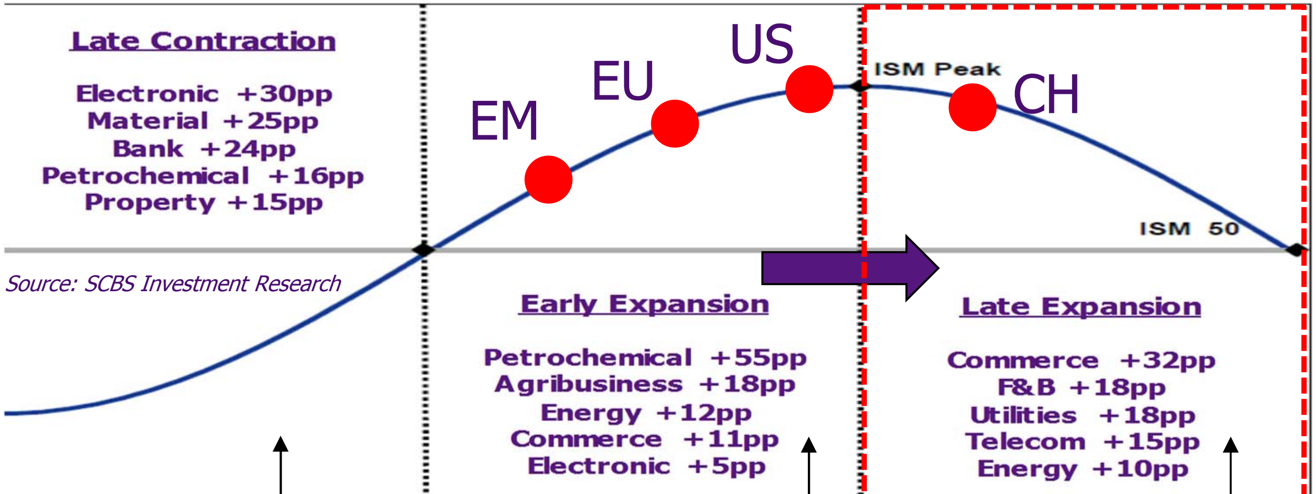


Source: Bloomberg, SCBS Investment Research

We are embarking on a faster recovery that in the past, risky assets, including the SET, have rebounded strongly and cyclical portions of the market have outperformed, aligning with previous cycles. This indicates that the good news of prospective growth has already been priced in. According to consensus, the rate of change in GDP growth is expected to slow. We expect global economic recovery to enter late expansion in 2022. Inflation is expected to fall. Based on our analysis, when growth is strong but passes its peak, market returns tend to slow, and defensive stocks with low volatility and high quality are expected to outperform.

Relative performance is more dependent on bond yields. Rising bond yields and a steeper yield curve tend to support continued outperformance of cyclicals, even as growth slows. On the other hand, if the yield become flatter, we would look for value opportunities amongst defensive stocks.

Yield curve is shifting from steepening to flattening



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

	Bear Flattening
SET	10%
DM	0%
EM	5%
DXY	-1%
THB	1%
Gold	1%
Commodities	0%
Brent	6%
Energy	-10%
Utilities	-11%
Commerce	-6%
Bank	-6%
Trnasportation	-4%
ICT	-11%
F&B	-9%
Property	-9%
Healthcare	-8%
Con Mat	-4%
Petrochem	1%
Electronics	9%
Automotive	-9%
Hotel	-7%
Staples	7%
Discretionary	-12%
Materials	-4%

	Bull Flattening
SET	0%
DM	10%
EM	6%
DXY	5%
THB	4%
Gold	13%
Commodities	-6%
Brent	-7%
Energy	2%
Utilities	32%
Commerce	20%
Bank	3%
Trnasportation	7%
ICT	4%
F&B	24%
Property	0%
Healthcare	32%
Con Mat	-8%
Petrochem	-19%
Electronics	2%
Automotive	-7%
Hotel	13%
Staples	10%
Discretionary	5%
Materials	-13%

We think the market has partially priced in the early stage of economic expansion and rising bond yield. The yield curve is shifting from bear steepening to flattening on a tightening stance at central banks. When the curve changes, overall returns of risky assets - including the SET - remain positive but decelerate to single-digit returns and defensive stocks like Commerce, F&B, and Healthcare are expected to outperform

SCBS

Implications of peak growth in global economies

1

China's sector returns after PMI peaked

Source: Bloomberg, SCBS Investment Research

2

		Average excess returns post PMI peak (2002-2020)			
		+1m	**+3m**	**+6m**	**+12m**
Cyclical	Energy	0%	3%	-5%	-10%
	Bank	0%	-2%	-2%	-13%
	Transportation	-2%	1%	-2%	-4%
	Property	-2%	-4%	-5%	-9%
	Construction Materials	-1%	3%	7%	4%
	Financials	-1%	-3%	-4%	7%
	Petrochem	1%	-2%	-5%	0%
	Electronics	-1%	-6%	-5%	-6%
	Entertainment	0%	-1%	-5%	-3%
	Tourism	1%	2%	3%	-3%
	Agricultural	1%	3%	2%	-6%
Defensive	Utilities	-3%	4%	2%	17%
	Commerce	-1%	1%	-2%	1%
	ICT	0%	3%	5%	5%
	Food	-2%	3%	3%	5%
	Healthcare	1%	9%	17%	23%
	PF&REIT	-2%	5%	3%	-3%
	Cyclical sectors	**0%**	**0%**	**-2%**	**-4%**
	Defensive sectors	**-1%**	**4%**	**5%**	**8%**

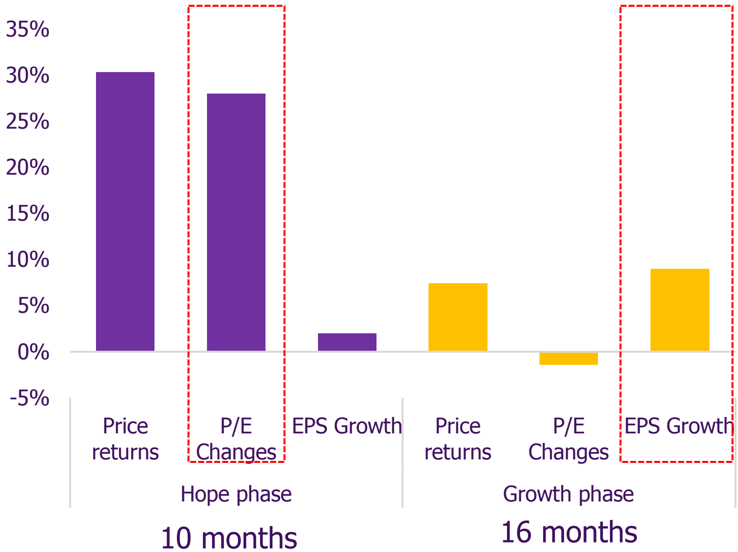
Source: Bloomberg, SCBS Investment Research

We see the China market as a proxy for late expansion, slow growth and tight policies. Based on the return pattern after PMI manufacturing peaked in Feb 2021, we find that defensive sectors such as Consumer Staples, Healthcare and Utilities outperformed cyclical sectors such as Materials, Industrials, Financial and Real Estate, which entered correction territory. Thus, the SET still has upside for economic recovery, but excess returns will come from defensive rotation.

Market returns tend to be much weaker, and the more risk-exposed parts of the global economic activities tend to lose their momentum. Cyclicals usually lose their leadership, with defensives taking over following a peak in manufacturing activities. Average excess returns for defensive stocks post PMI peak is put at 4% for the following three months, while cyclical stocks will underperform the overall market by 1-2% for the next 3-6 months.

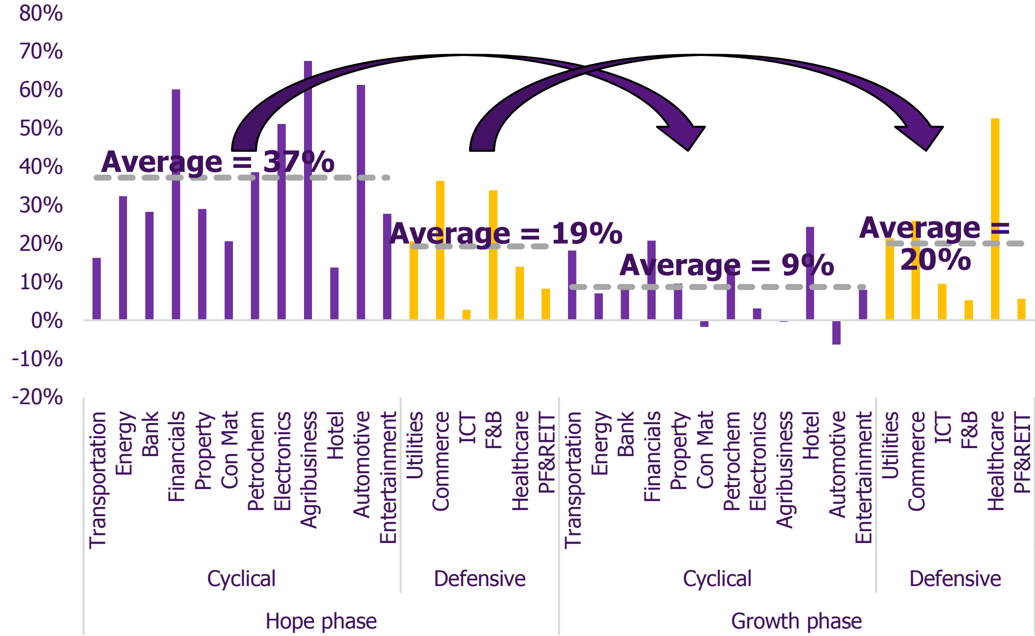
Market cycle is transitioning from Hope to Growth phase

Returns composition comparison between hope and growth phase



Source: SCBS Investment Research

Sector returns comparison between hope and growth phase



In our view, the Hope phase, which is driven by valuations and occurs during late contraction, has been passed, and we are now in the Growth phase, which is associated with fundamental profit growth. Hope and expectation contribute about 30% of the SET. Thus, it is time to shift from economic recovery and policy support to earnings growth outlook and long-term competitiveness. According to historical data, the Hope phase is normally shorter (10 months) and returns are stronger (30%) than the Growth phase, which takes 16 months with 7% returns. Sector-wise, positive returns for cyclical stocks decelerate from 37% in the Hope phase to 9% in the Growth phase, while average return for defensive stocks is more stable at 20%. Thus, we expect defensive stocks to outperform with higher visibility and lower volatility than cyclical stocks.

Tightening and bond tantrum could create volatility

	3 months prior		Throughout		3 months after last hike	
	2004	2015	2004	2015	2004	2015
Energy	0%	-4%	70%	62%	-5%	6%
Bank	-5%	-2%	8%	11%	12%	0%
Transportation	-6%	8%	-12%	59%	16%	6%
Property	-25%	4%	-21%	7%	15%	2%
Construction Materials	-14%	-1%	-20%	-16%	13%	8%
Financials	-13%	14%	-36%	47%	8%	4%
Petrochem	-22%	-6%	-5%	65%	2%	-5%
Electronics	-14%	9%	-16%	-21%	6%	-1%
Entertainment	-20%	-5%	-15%	-21%	-1%	15%
Tourism	-3%	17%	62%	0%	2%	11%
Agricultural	-11%	0%	28%	3%	-2%	3%
Utilities	-7%	-16%	3%	21%	14%	11%
Commerce	-6%	-2%	44%	37%	3%	4%
ICT	-7%	-15%	-3%	-19%	2%	8%
Food	-11%	10%	43%	-3%	3%	9%
Healthcare	-5%	3%	20%	11%	2%	0%
Cyclical sectors	**-12%**	**3%**	**4%**	**18%**	**6%**	**4%**
Defensive sectors	**-7%**	**-4%**	**21%**	**9%**	**5%**	**7%**
SET	**-11%**	**-2%**	**8%**	**15%**	**4%**	**5%**

Source: SCBS Investment Research

The Federal Reserve forecasts at least two rate hikes by the end of 2023. Historically, markets worry about a rate hike before one takes place, while generating robust returns during the tightening cycle with average returns of 11%. Meanwhile, style/factor and sector returns becomes less consistent and more ambiguous relative to the market. Defensive sectors perform well throughout a tightening cycle and three months after the last hike. Gradual tightening cycles have historically been friendly to market multiples.

	3 months before tapering announcement	Tapering announcement	3 months after tapering begins	3-6 months after tapering begins	6-12 months after tapering begins
Energy	-6%	-15%	9%	1%	-9%
Bank	-19%	-22%	11%	12%	8%
Transportation	-38%	-15%	10%	8%	25%
Property	-36%	-38%	19%	12%	1%
Construction Materials	-18%	-19%	8%	4%	17%
Financials	-42%	-34%	6%	17%	23%
Petrochem	-12%	-8%	2%	-1%	-13%
Electronics	-19%	17%	15%	10%	15%
Entertainment	-24%	-33%	16%	-1%	8%
Tourism	-31%	-24%	13%	14%	-2%
Agricultural	-11%	-8%	9%	6%	2%
Utilities	-1%	-6%	15%	9%	7%
Commerce	-22%	-24%	9%	14%	-9%
ICT	-36%	-26%	15%	-8%	17%
Food	0%	-16%	5%	8%	2%
Healthcare	-32%	-25%	22%	18%	11%
Cyclical vs Defensive	**-5%**	**1%**	**-3%**	**-1%**	**1%**
Value vs Growth	**2%**	**3%**	**-5%**	**2%**	**-6%**
Large vs Small	**12%**	**11%**	**-6%**	**-8%**	**-3%**
SET	**-22%**	**-22%**	**11%**	**6%**	**5%**

Source: SCBS Investment Research

Our analysis of market reaction to a taper tantrum in 2013 showed that defensive outperformed cyclical during the taper tantrum. Large cap stocks offered higher returns than small cap before the tapering announcement but underperformed small cap after tapering began. As tightening and taper tantrum could bring back liquidity and create volatility, we recommend rotate into large defensives during the tapering announcement.

Five major supply chain shortages

Agricultural prices hit a 5-year high on the back of continuous strong demand from China and demand recovery in developed markets, while La Nina has hit agricultural output.

Although many countries are planning to reopen to international activities, we see signs of room for supply growth in the next few years that could pressure RevPAR recovery.

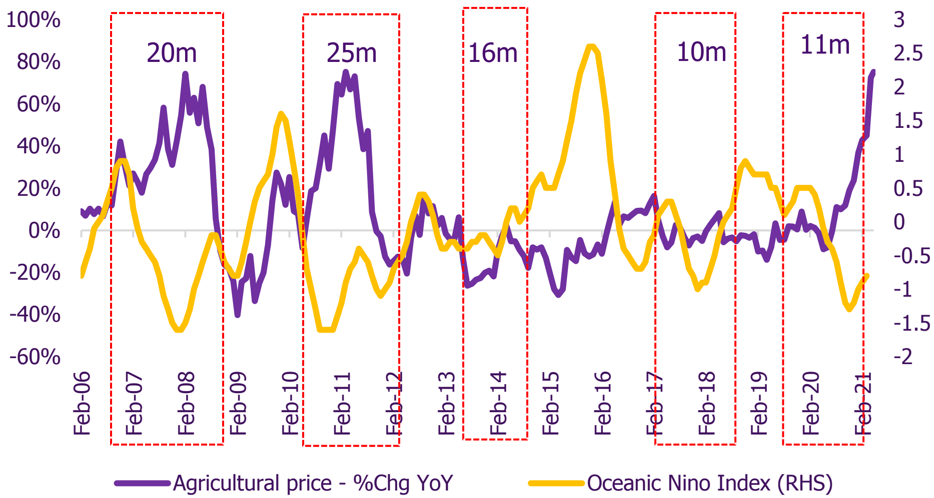
Stronger-than-expected electronic products and new product launches along with faster-than-expected recovery in car sales caused a chip shortage and resolution could take quarters rather than months.

Soaring trade demand globally coupled with port bottleneck from COVID-19 measures have led to a surge in sea freight rates and container shortages.

Rise in industrial metal has been driven by new business applications such as batteries, semiconductors and electric vehicles as well as long-term clean energy policy support. Meanwhile, China is trying to curb speculative forces.

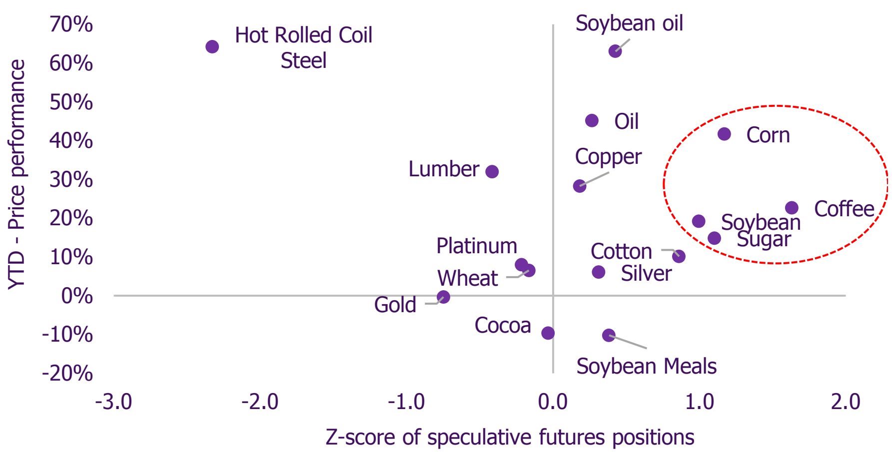
#1 Agricultural shortages → Short-term

La Nina effect on agricultural price



Source: NOAA, Bloomberg, SCBS Investment Research

Strong rally has been driven by speculative position



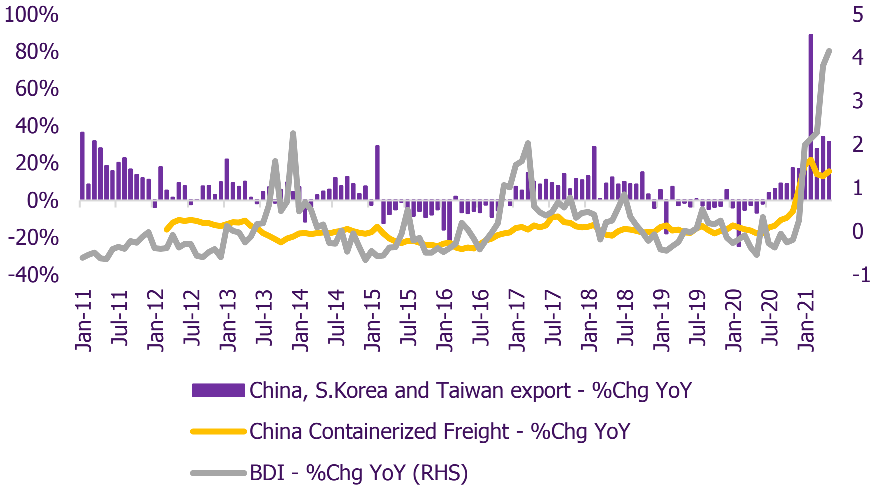
Source: CFTC, Bloomberg, SCBS Investment Research

There are three reasons behind the surge in agricultural prices: 1) La Nina, 2) speculative position and 3) strong demand from China and DMs. According to the WASDE report, the majority of agricultural products, excepting soybean meal, face supply deficits due to strong demand from China, DM demand recovery and climatic events. A severe drought in Brazil and in the US from La Nina has damaged crops. The imbalance in demand and supply of agricultural products, has led to rising speculative positions, especially in corn, soybeans, coffee and sugar.

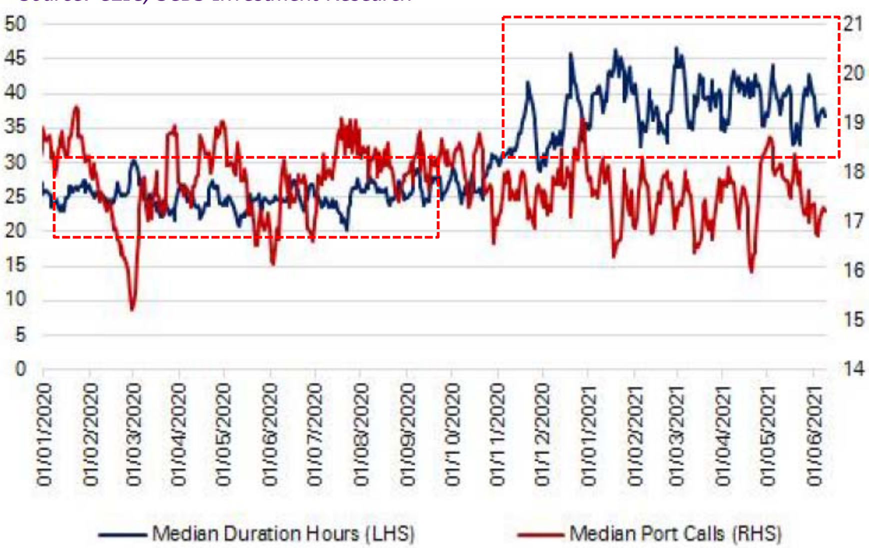
La Nina typically last 9-12 months, with some episodes persisting for as long as two years: matching the current episode, which started in May 2020. We expect the impact from La Nina to subside in 2022, with normalized demand growth. We expect agricultural prices to increase and then peak in 3Q21 and fall to a normal level in 2022. We believe agricultural prices have already priced in the La Nina effect.

#2 Sea freight → Short-term

North Asia export growth vs Freight Indices



Source: CEIC, SCBS Investment Research



Source: Clarksons

Conditions are near-perfect in the shipping industry, with volume pushed up by strong export growth and supply chain disruption squeezing capacity, driving freight rates to record levels after more than a decade of overcapacity pressure. Port congestion is reaching new heights. Time in ports is now 35-45 hours above the average of 25 hours in 2016-1019 due to disruption caused by COVID precautions.

We feel that freight rates are nearing peak, but rates should begin to head down as port congestion eases once lockdowns ease. Although there is no immediate supply side pressure, as most of the capacity is scheduled to be delivered in 2022-2024, the growing orderbook could pressure sentiment as it could signal a possible supply/demand imbalance. Global growth is expected to decelerate in 2H21 as demand growth returns to normal. Freight rates remain subject to geopolitical tensions and trade protectionism.

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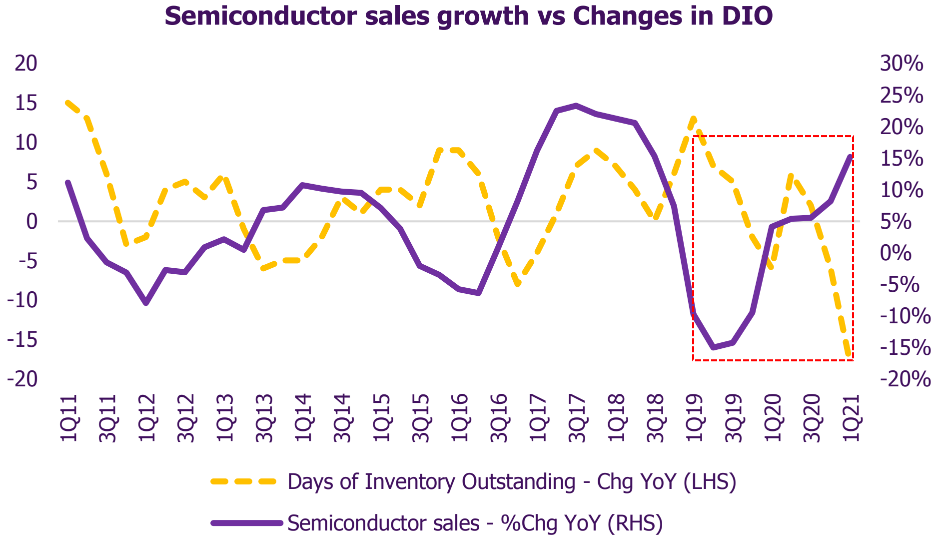
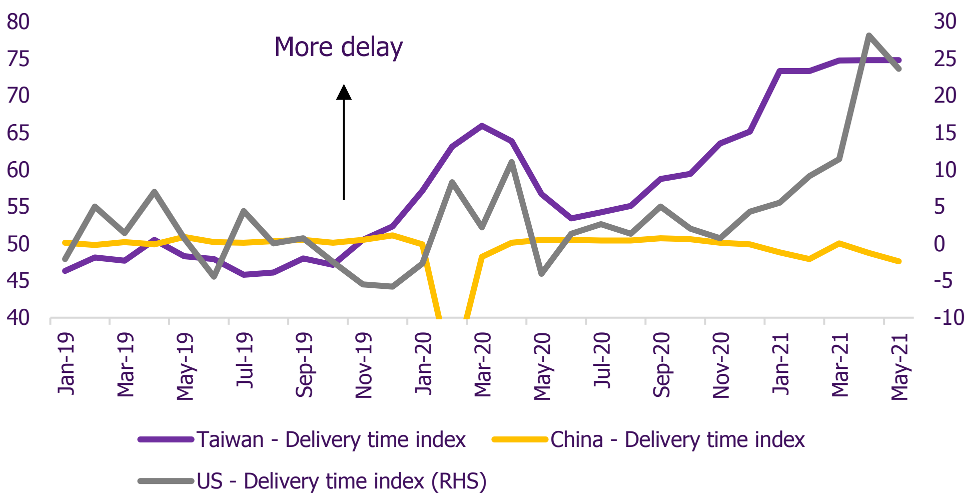
#3 Semiconductor shortage → Medium term



Source: SIA, Bloomberg, SCBS Investment Research



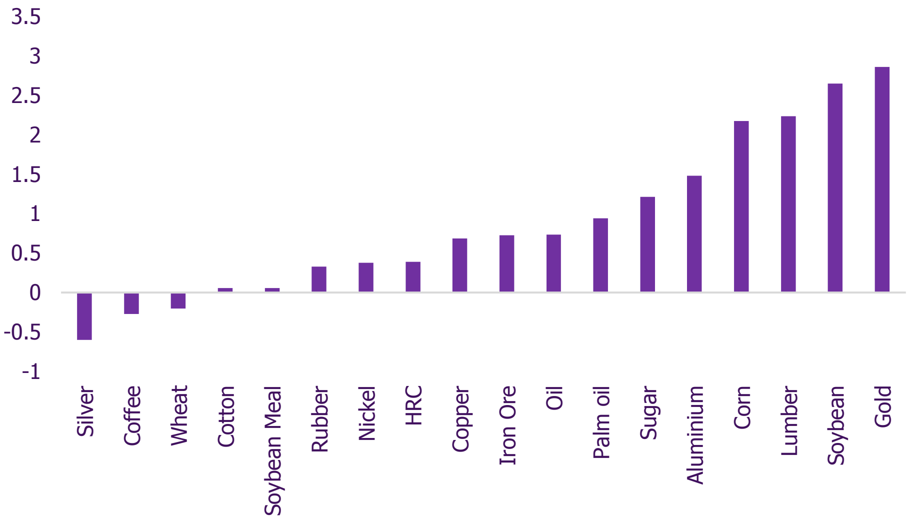
Source: IHS Markit, SCBS Investment Research

The chip shortage is a result of the COVID-19 pandemic that increased demand for electronics. Production could not keep pace with demand. This was aggravated by a more rapid recovery in auto demand than anticipated, with pent-up demand and the rapid launch of electric vehicles acting as another pressure on production capacity. Semiconductor sales jumped 17% YoY in 4M21, while inventory days fell to their lowest in five years as tight capacity led suppliers to draw down inventory to fulfill demand. At the same time, delivery time for electronic products and cars face greater delays globally.

We think demand growth will remain strong in 2Q-3Q21. The below-normal seasonal inventory suggests solid near-term demand from restocking in 2H21. The supply chain's capacity tightness may continue for the remainder of the year. New investment in capacity is needed. Thus, the capacity tightness will not be eased until 2023.

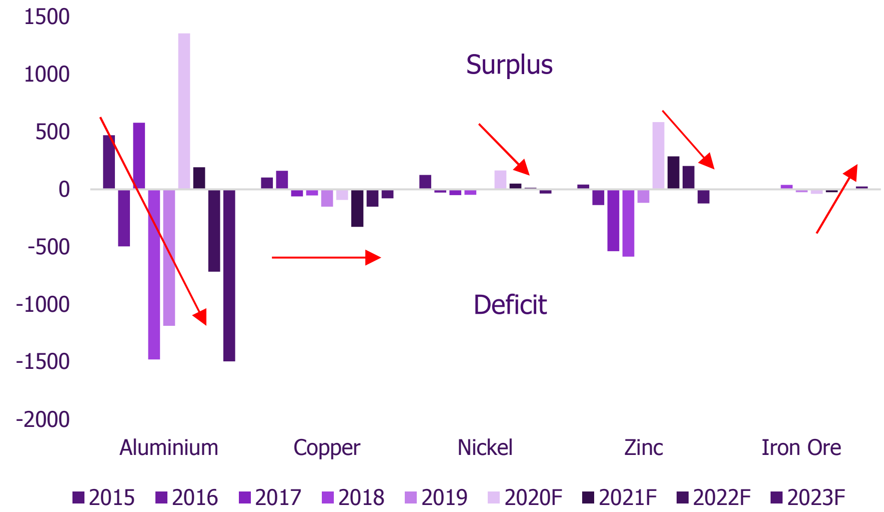
#4 Industrial metals → Long-term

Z-score of forward curve



Source: CFTC, SCBS Investment Research

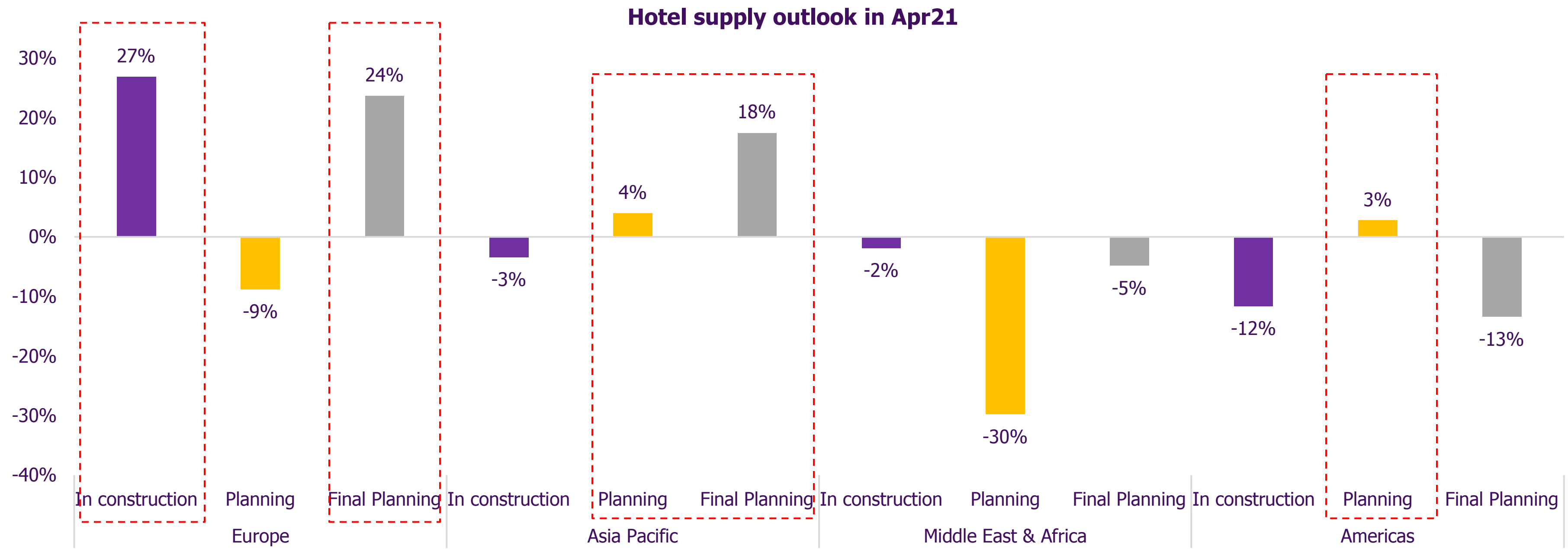
Metals supply demand balances



Source: Woodmac

Industrial metal price has fallen from a recent peak of 7% from China's efforts to curb short-term speculation on commodities and destocking efforts. However, industrial metals have jumped 14% YTD as industrial metals benefit from three sources of demand: 1) Chinese infrastructure stimulus, 2) economic recovery in DMs with strong chip demand growth, 3) surge in clean energy investment across EVs, wind, solar and battery technology. Based on the forward curve, all industrial metals are in backwardation, indicating a lesser degree of supply tightness than seen in agricultural products. In addition, we do not view the current level as an excessive speculative position. Based on Woodmac, most industrial metals except iron ore will see a supply deficit in the long term. Thus, a long-term supply deficit and tightening trend will reemerge and a price rally resume. Once clean energy investment materializes, demand will grow rapidly. Industrial metal price is expected to be in a long-term uptrend.

#5 Room supply → Long-term



Source: STR Global, SCBS Investment Research

According to STR Global pipeline data, Europe is the only world region showing increased hotel construction activity in comparison with Apr 2020. Rooms under planning and final planning in Asia increased 4% and 18% YoY. Hotel operators in the US are starting to plan for new capacity. This indicates that hotel operators are optimistic about the outlook for long-term RevPAR growth. New supply may not materialize yet and it is likely to take 12-18 months before supply growth is actually seen. Investors will keep an eye on room supply growth as it could signal room rate pressure concurrent with growing room supply amid a gradual recovery in occupancy rate. On the demand side, teleconferencing technology could be a threat to business travel. In Thailand, we are concerned about hotel room supply growth in 2023-2024.

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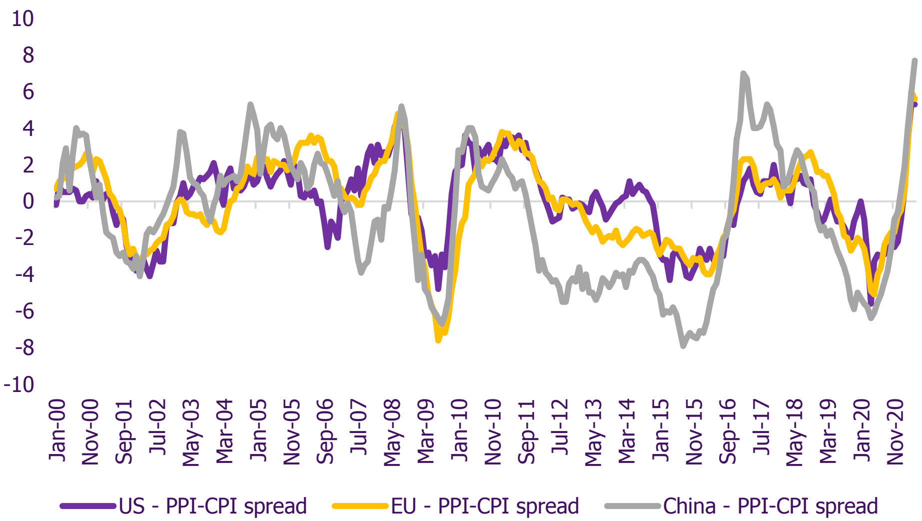
Keep an eye on development of supply shortage

	Agricultural products	Electronics	Metals	Bottlenecks in shipping	New room capacity
3Q21	Longer La Nina is pressuring agricultural productivity and delaying harvests, keeping agricultural prices high.	Demand for semiconductors is rising and growing YoY despite the high 2020 base. Factories are expected to produce for restocking (after being nearly used up in 1H21) and in preparation for a high season in the fourth quarter. We see the period as late cycle for electronics.	As the global economy recovers and countries prepare to reopen, we expect metal prices to stay high, but may stumble in response to short-term issues.	Bottlenecks continue, leading to speculation, but we see many recommendation downgrades as prices have risen too much. We recommend investors take profit when shipping bottlenecks start to be relieved.	We do not expect to see new room capacity in 3Q21 and 4Q21 as hotels do not need to add to capacity when demand is only just coming back. The government targets arrivals from the US and Europe in the quarter.
4Q21	Soybean and corn harvest season. Productivity is likely to move up as La Nina weakens. Cassava harvest in Thailand will begin in Dec.	Restocking is likely to subside, and we expect electronics sales to peak in the quarter. After this, supply shortages will ease.	Short-term negative factors to prices include slowing economic recovery and monetary policy tightening. However, prices are still supported by clean infrastructure projects and increasing demand for EVs.	When service activities come back and manufacturing activities slow, we expect demand for shipping to flatten. The bottleneck in shipping will gradually be relieved when more laborers return to work.	Some EM countries will start reopening and international traffic is likely to increase significantly, supported by mass vaccinations in 2H21-1Q22.
2022	La Nina in North and South America will weaken, allowing the crops to rise and this will pull prices down, especially soybean, wheat, corn and sugar prices.	Growth in chip demand is expected to slow down. Drop in pent-up demand, decrease in restocking and relief of supply shortages will bring market to equilibrium. Growing EV demand lifts semiconductor demand.	Metals are likely to pull back in line with a slowdown in economic recovery, but global renewable energy policy will support demand. We expect copper, aluminum and nickel prices to continue to move up, but steel price will fall from new supply from the US and Europe.	Demand and supply will return to equilibrium as bottlenecks in shipping are resolve. New vessels (new supply) may decrease freight rate.	Global tourism is expected to recover but not return to pre-pandemic levels. New room capacity is expected to gradually come at the end of the year.

Source: SCBS Investment Research

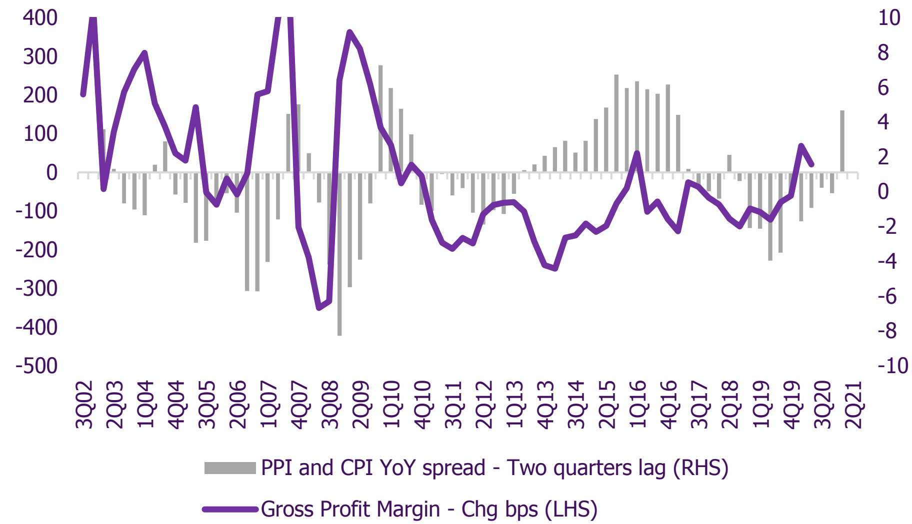
...Short-term margin expansion is at risk.

PPI and CPI spread widening, signaling margin pressure on manufacturer profit



Source: CEIC, SCBS Investment Research

Thailand CPI vs PPI spread could have an impact on margin in the next two quarters



Source: Ministry of Commerce, SET, SCBS Investment Research

Currently, a supply shortage has created a surge in prices for agricultural products (+15% YTD, +7% QTD), freight (+43% YTD, +24% QTD), industrial metals (+15% YTD, +7% QTD) and chips (+124% YTD, +86% QTD). Input cost inflation has become an unavoidable short-term risk. We are increasingly concerned about potential margin pressure that could bring lower growth than expected in 2Q-3Q21. Based on our analysis, historically the Thailand PPI and CPI spread has a better predictive power on subsequent margin changes in the next two quarters than commodities (R-sq at 48%). The largest spread of PPI and CPI since the global financial crisis in 2008 suggests that short-term margin expansion from economic recovery is at risk.

Implication for Thai listed companies

	Agricultural shortage	Chip shortage	Industrial metals shortage	Sea freight shortage	Room supply
Food	Thailand agricultural output is affected by climate change and higher-than-expected rainfall, but to a lesser degree than La Nina in the Americas. Feed cost is rising, but operators have strong pricing power. We are concerned about margin pressure on drink manufacturers			Transportation and logistics cost is expected to remain elevated through 2H21 and to normalize in 2022	
Transportation		Air freight and container shipping are the key beneficiaries from a longer-than-expected electronic demand growth cycle		Freight rate will likely remain high in 3Q-4Q21. Easing lockdown measures and laborers returning to work could alleviate port bottlenecks.	
Electronic components		Strong revenue growth is driven by both volume and price, aligned with a global semiconductor demand uptrend. Restocking is another short-term driver in 2H21.	The more expensive copper and silver will increase the price of electronic parts and pressure profitability. However, this should not reduce profit, as demand remains strong	Logistics cost is on the rise in the short-term and is expected to return to normal in 2022.	
Automotive		Chip shortage is starting to have a negative impact on automakers from 2Q21 onward. Many OEMs are temporarily shutting down factories, cutting OT, and slashing vehicle production. Car delivery delays continue.	Rising steel and chip prices could lead to higher production cost in 2H21 but OEMs can pass through cost or negotiate cost with suppliers.	Limited impact on Thai auto parts manufacturers given a low exposure to the export segment.	

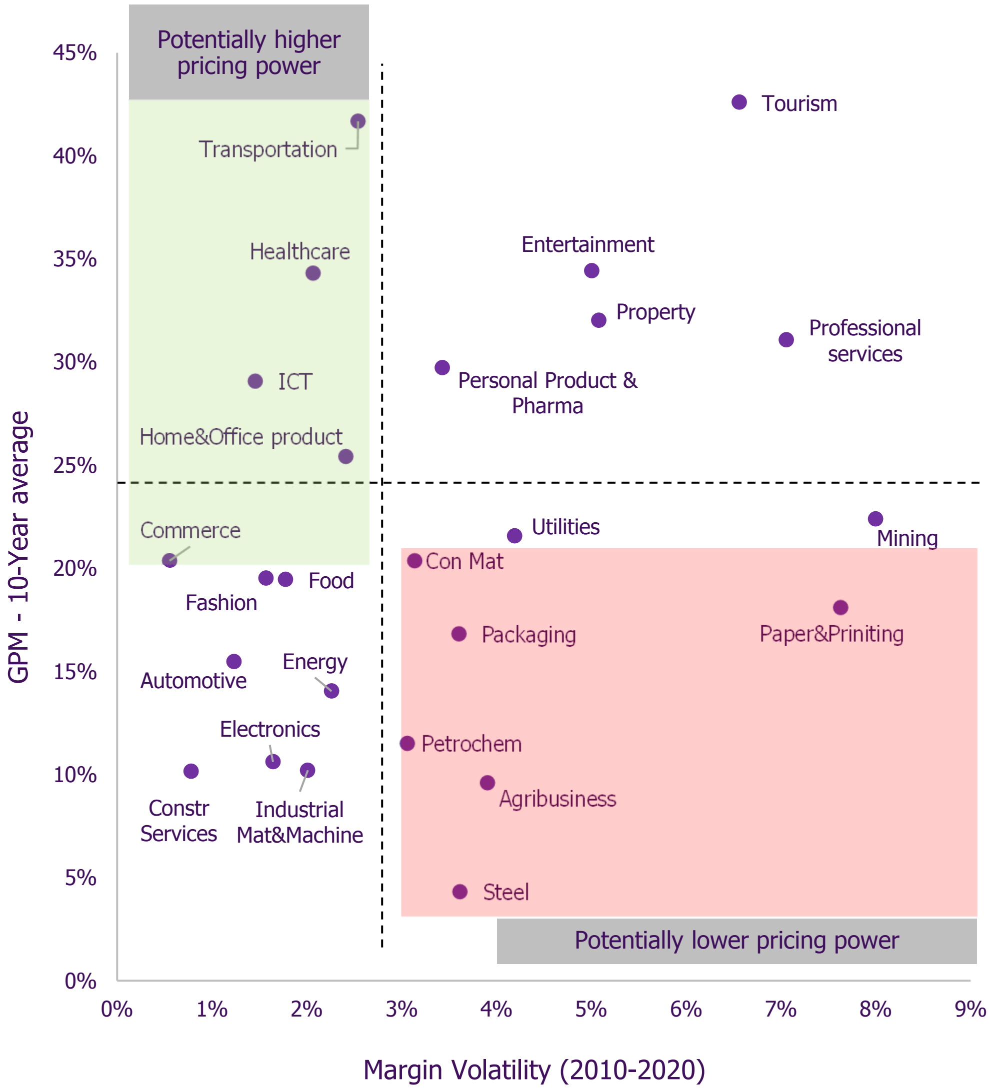
Source: SCBS Investment Research

Implication for Thai listed companies (2)

	Agricultural shortage	Chip shortage	Industrial metals shortage	Sea freight shortage	Room supply
Construction			Large construction companies have the least effect from rising steel and copper prices due to 1) longer project duration, 2) better inventory management and 3) higher negotiating power with supplier.		
Petrochemical			Clean tech and climate policy could cut fossil fuel demand. Rapid reduction in fossil fuel production could lead to slow production of PVC or increase ethylene demand in the short-term.		
Tourism					Recovery is expected but speed of recovery depends on the speed of vaccinations. In 2022-2024, abundant room supply will enter the market, cannibalizing existing supply.
Steel			Steel manufacturers are key beneficiaries of surging iron ore price. However, production from the US and EU could more than offset the production from China and lead to a price correction in 2022.		

Source: SCBS Investment Research

Identifying pricing power opportunities



Source: SCBS Investment Research

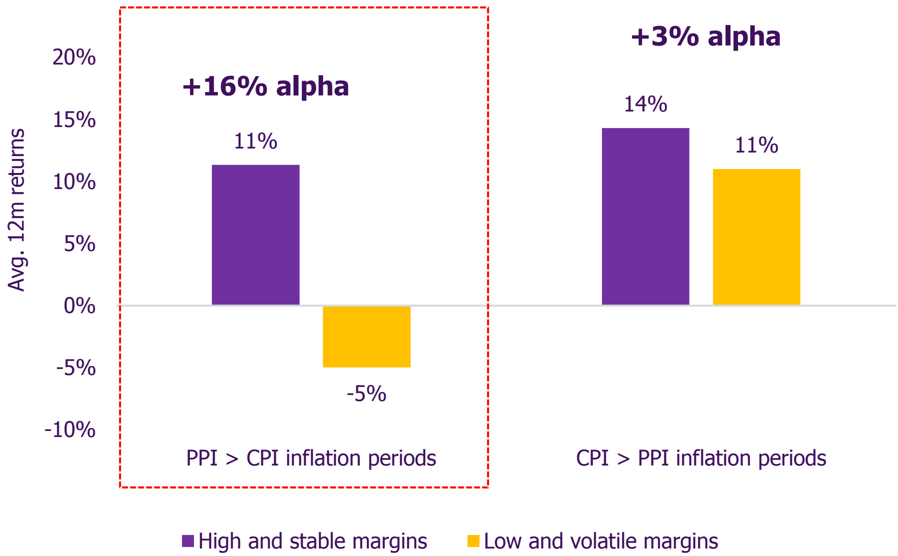
In an environment of margin pressure, companies with competitive advantage are generally better able to assert their pricing power and defend against input cost inflation.

We compare the level of gross margin with the volatility during 2010-2020 and find that Healthcare, ICT, Home & Office Products, Transportation and Commerce are positioned well in terms of potential pricing power as these sectors can maintain high margin with low deviation. However, Steel, Agribusiness, Petrochemical, Paper & Printing and Mining have low and volatile margins and potentially lower pricing power due to high competition and volatile commodities prices.

We believe this trend will continue in 2H21. Defensive sectors such as Healthcare, ICT, Food and Commerce could be able to reduce margin pressure in the environment of rising spread for PPI and CPI.

Focusing on high and stable margins

High and stable margins outperform during input cost pressure



Source: SET, SCBS Investment Research

Top and bottom five sectors with implied margin impact from input price inflation

		Potential GM YoY impact
Potential GM contraction	Tourism	-1.9%
	Construction services	-1.1%
	Personal products	-0.8%
	Food	-0.3%
	Entertainment	-0.3%
	Property	-0.1%
Potential GM expansion	Home & Office products	0.1%
	Professional Services	0.9%
	Commerce	0.5%
	Healthcare	1.0%
	Transportation	4.0%
	Industrial Materials and Machinery	5.3%

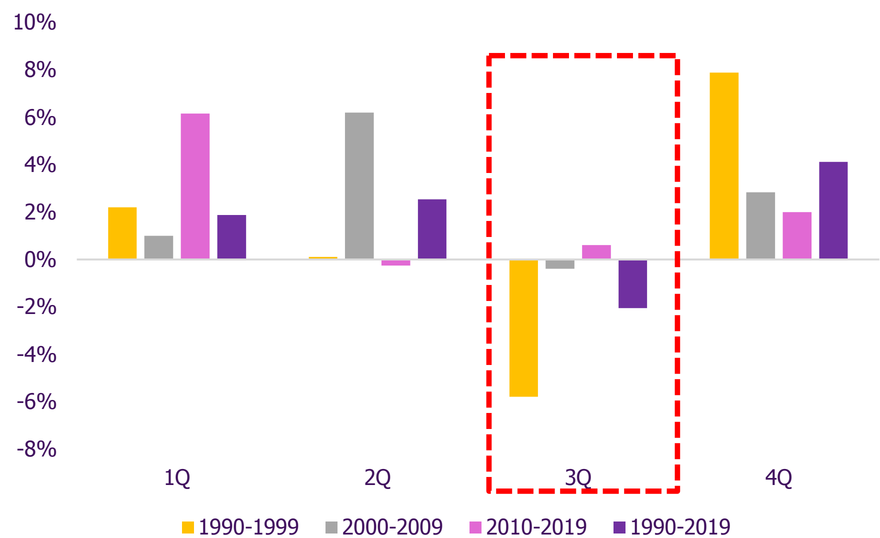
Based on our company-level analysis, stocks with higher and stable margins relative to peers have outperformed those with low and volatile margins during input cost pressure (PPI>CPI). Interestingly, stocks offer higher returns in a period of demand-pull (CPI>PPI) than in input cost pressure. Low and volatile stocks offer negative returns during input cost pressure on the back of inferior pricing power. Based on a regression study between PPI–CPI spread and margin changes YoY, sectors with potential gross margin expansion during input cost pressure, including Commerce, Healthcare, Transportation, Professional Services and Industrial Machinery. Most had high pricing power compared with Construction Services, Food, Property, which have limited pricing power due to intense competition.

3Q usually the weakest with volatility; large defensives tended to perform well

Over the past decade, 3Q is the weakest with the average returns of 0.7%. Based on historical data, 3Q has tended to be weak, while performance improves in 4Q. Market volatility always rises in 3Q with the highest changes in the past decade. Large cap, growth style and defensives have tended to be strong in 3Q but reverse in 4Q. This year's strong rally in 1H21 may have brought the usual 3Q weakness forward, in our view. The SET hits its annual peak and trough in 3Q about 9% of the time.

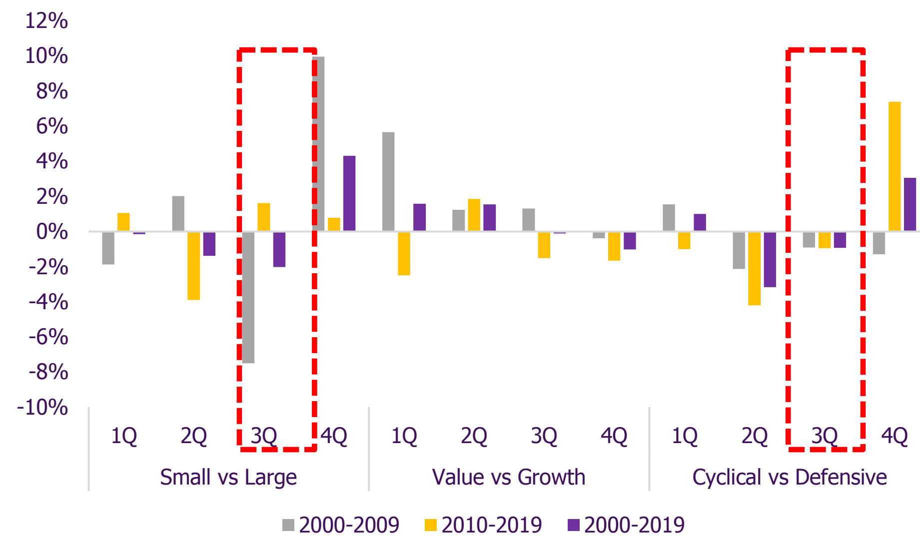
However, we believe that 4Q21, usually the strongest, may slow on concerns over slower growth, faster-than-expected rate hike, taper tantrum, margin pressure and rising political risk. We recommend investors increase exposure in defensive sectors to reduce volatility and protect against unpredictable events.

3Q has tended to be weak while 4Q performance has improved



Source: SET, SCBS Investment Research

Large cap, growth style and defensives tend to outperform in 3Q, but reverse in 4Q

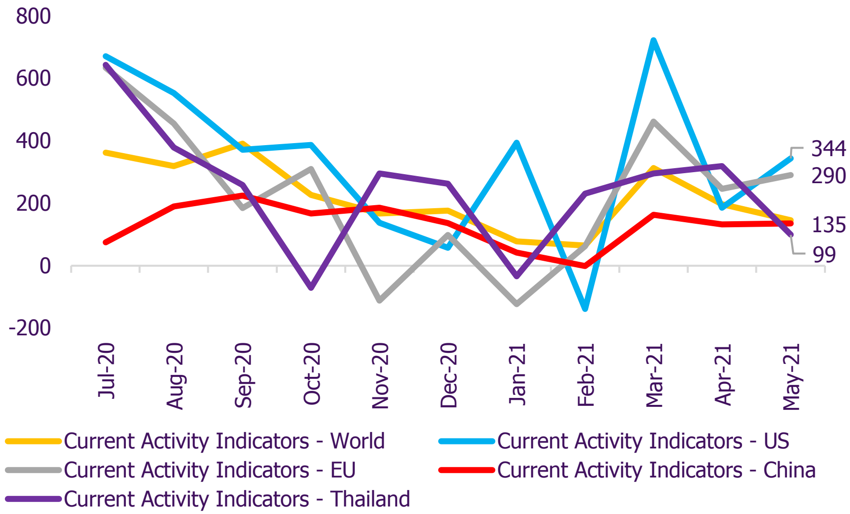


Source: Bloomberg, SET, SCBS Investment Research

Uneven recovery is reflected in the price

Thailand's activities is at the lowest recovery level relative to peers

Jan19 = 100



Source: Bloomberg, SCBS Investment Research

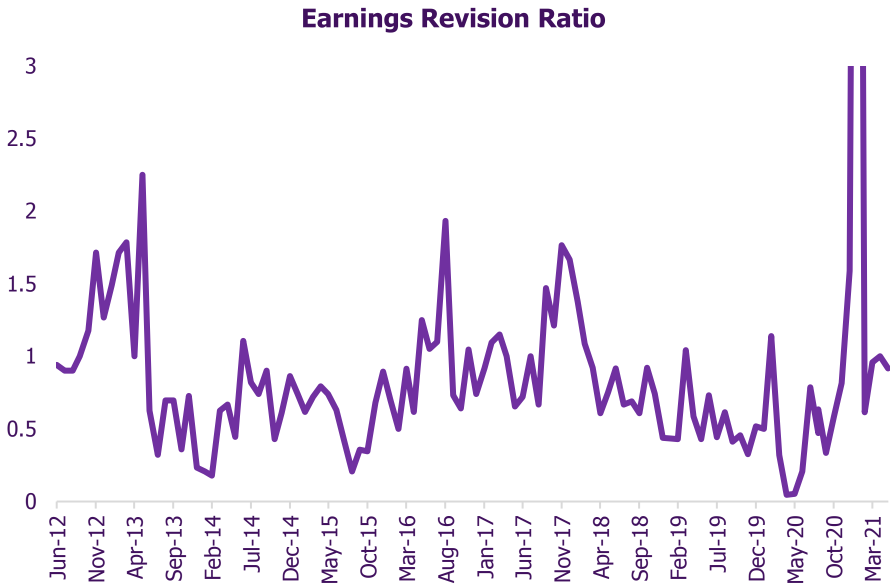
SET returns to pre-COVID-19 level, defensive sectors are lagging peers; cyclical performance looks like EU.

	Global	US	EU	Asia	EM	China	Thailand
IT	146%	145%	128%	152%	162%	114%	579%
Financials	107%	114%	97%	104%	97%	100%	85%
Energy	86%	90%	83%	105%	95%	102%	91%
Materials	129%	134%	115%	134%	138%	157%	120%
Cons Disc	144%	138%	132%	124%	128%	146%	93%
Industrials	118%	119%	119%	113%	116%	139%	85%
Real Estate	104%	111%	94%	91%	84%	91%	96%
Healthcare	117%	118%	104%	129%	155%	160%	97%
ICT	133%	135%	95%	133%	132%	87%	88%
Cons Staples	107%	107%	116%	109%	108%	181%	86%
Utilities	97%	93%	100%	94%	94%	109%	83%
REIT	105%	110%	80%				75%
Market	**123%**	**125%**	**108%**	**127%**	**121%**	**118%**	**102%**

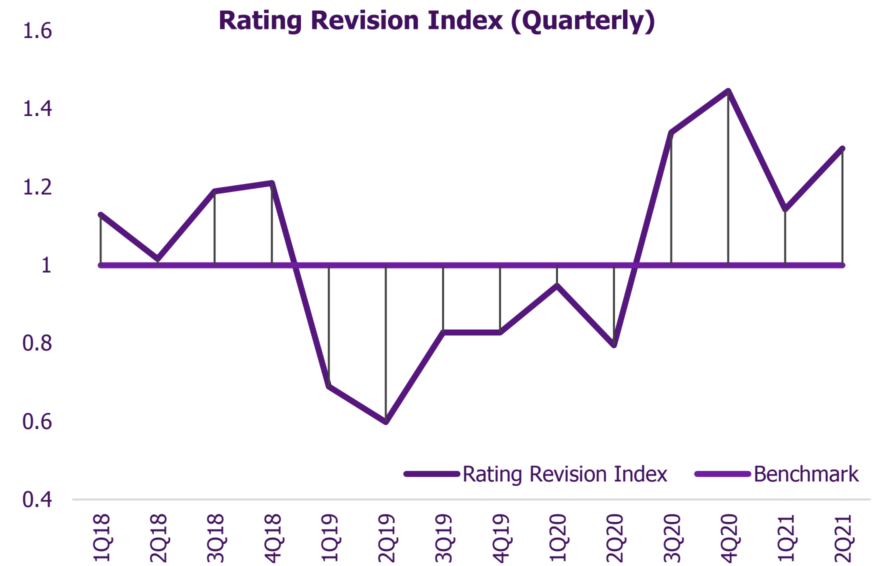
Source: SET, SCBS Investment Research

The SET has by and large recovered to pre-COVID-19 level, while domestic economic and manufacturing activities have gradually recovered, but international travel remains at a standstill. Thailand's activities level is at the lowest recovery relative to peers thanks to the stubbornly high COVID-19 infection rate. Thus, the market is pricing vaccine availability and reopening activities into 2H21 as the SET is higher than pre-COVID-19, while the overall earnings will resume pre-COVID-19 levels in 2022, indicating that the market is full of hope. Sector-wise, most cyclical stocks such as Technology, Energy, Materials and Real Estate are moving in line with global peers. Consumer discretionary and industrials are lagging peers due to unclear timing of a tourism recovery as vaccinations move more slowly than anticipated. Defensive sectors such as Healthcare, Consumer Staples, and Utilities are laggard plays given a substantially slower price recovery than peers.

Estimates rose throughout the reporting season



Source: SCBS Investment Research

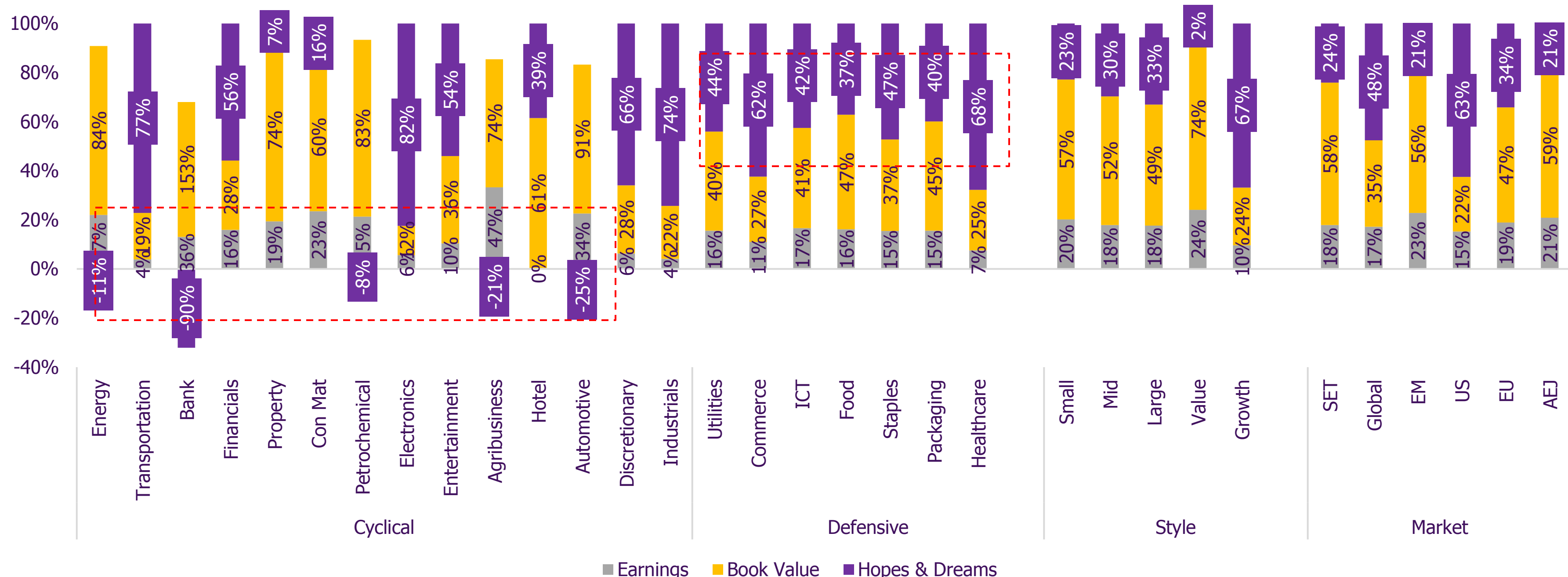


Source: SCBS Investment Research

Consensus 2021 EPS estimate has been raised by 6.8% QTD (6.5% YTD). Sector-level EPS revisions and price movements have followed a similar trend, with sectors that show a strong earnings recovery outperforming, as seen in consensus earnings upgrades in QTD and a positive bias for strong economic recovery in 2H21. Macro-driven sectors such as Energy, Petrochemical, Agribusiness, and Automotive have shown a continuous rally aligned with a strong earnings revision trend. Although Healthcare and Food are facing earnings downgrades, prices have rallied, as consensus is looking for strong earnings recovery in 2Q-3Q21. Transportation and Tourism sectors have seen a limited price increase while consensus 2021 EPS estimates have been upgraded by 39% and 18%, indicating market doubts about the vaccination campaign and reopening timeframe. Overall analyst ratings are being downgraded in 2Q21 after an upgrade in 1Q21. Consensus is thinking that optimism has been partially priced in. We think idiosyncratic fundamentals may have a greater influence on a stock rally than macroeconomic factors and vaccinations.

Forget earnings: it’s still hope driving stocks

Stock valuation may be a sector story brightened by hope, while earnings show a gradual recovery



Source: Bloomberg, SCBS Investment Research

Using our calculations, we tabulate EPS forecasts for the next three years, with current book value and expectations or hopes and dreams. This shows that the SET has expectations of about 24%, up from 6% in 2Q20 but down from 28% in 1Q21 thanks to recent earnings upgrades by analysts. In addition, the Thai market has higher expectations than EM and AEJ. The drop in the portion of hopes and dreams is an early indication that the market cycle is transitioning from the Hope to the Growth phase. At the same time, some cyclical stocks look cheap with a high contribution from earnings and book value. We see this as a value trap because they will suffer from heavy disruption, low earnings visibility and significant macro hurdles. At this point, we prefer stocks with quality earnings and higher valuation and defensive stocks over macro-related stocks with lower valuations and earnings quality.

Macro to micro, stimulus upside to policy downside

Macroeconomic tailwind

Global economies are recovering rapidly thanks to supportive monetary and fiscal policies as well as faster-than-expected vaccinations that has sped up the return of business activities. Demand for durable goods is strong than expected and this has offset the weak service sectors. Near-zero interest rates support financial markets and valuation expansion.

Microeconomic headwind

We believe the optimism on macro prospects and positive developments in macro factors have been priced in. We are concerned about the slower recovery in revenue than expected because of the COVID-19 variants. Short-term margin expansion is at risk from continuous supply chain shortage. Thai corporates have faced greater indebtedness and it will take time to deleverage.

Stimulus upside

All central banks globally are using aggressive monetary policies with unlimited liquidity injection along with government stimulus to protects against COVID-19 downside. Co-operation on huge long-term clean energy investment in the US and EU support long-term competitiveness.

Policy downside

In 2H21, room for upside from monetary and fiscal stimulus is limited. The market is shifting its focus to policy tightening and international politics that could cause a short-term overhang. Lower liquidity could lead to high volatility. As policies are unpredictable, we recommend closely monitoring for negative developments that will pressure market returns.

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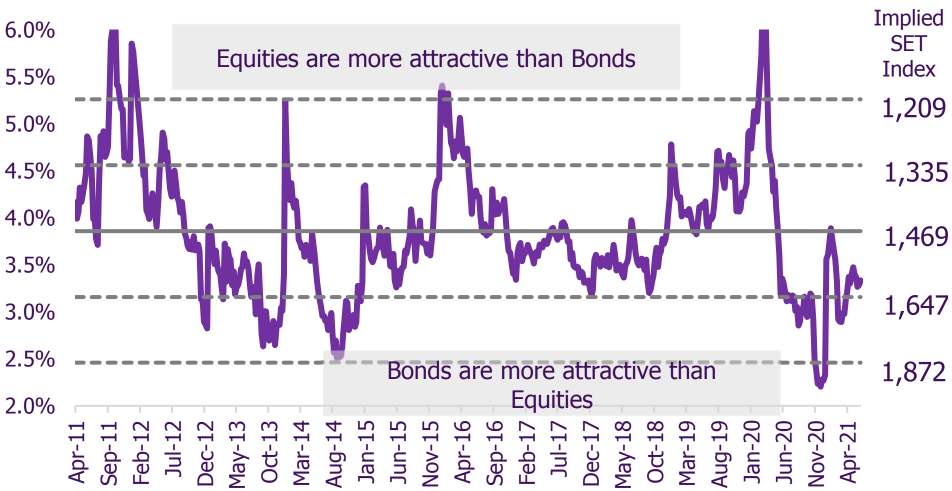
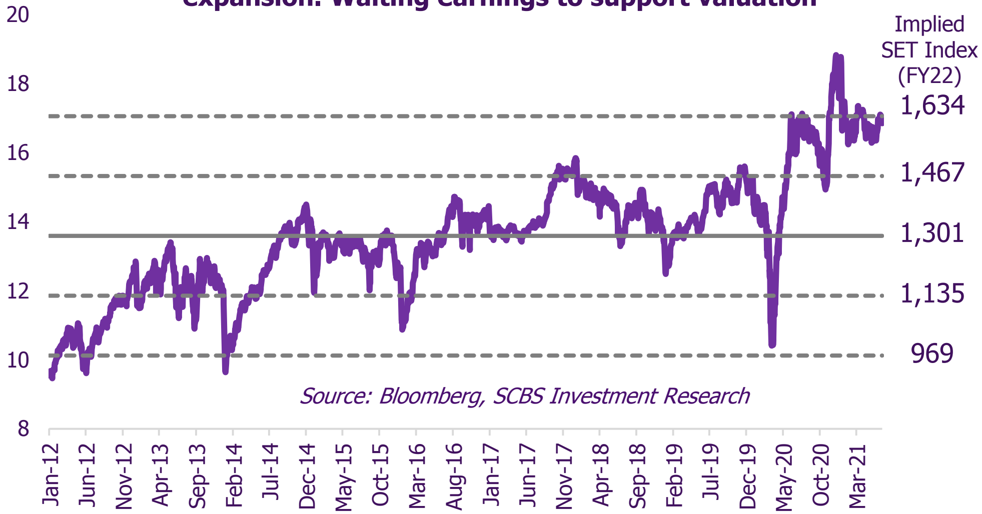
Valuation is stretched, it is time to focus on earnings

Thai bond/equity yield gap is at 1SD below average. Rising rates could pressure equity multiples



Source: Bloomberg, ThaiBMA, SCBS Investment Research

24m Forward P/E is at the upper bound driven by valuation expansion. Waiting earnings to support valuation



Source: Bloomberg, SCBS Investment Research

The SET Index is trading in the upper valuation band and seems richly valued despite earnings recovery. The earnings yield gap at 3.3% indicates that equities are expensive relative to bonds. However, the SET is trading at 19.3x 2021F and 16.8x 2022F, which is +2SD over 10-year average – a stretched valuation in our view. We believe rising interest rates could lead to valuation rebalancing and will not make stocks look comparatively attractive relative to bonds. In addition, the market cycle will shift from the Hope phase to the Growth phase, meaning market returns will be driven by earnings growth rather than valuation expansion. Falling liquidity and high volatility may also pressure further valuation re-rating. Thus, valuation expansion ahead seems limited. Stronger earnings growth than expected will be a key support to share price and valuation.

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

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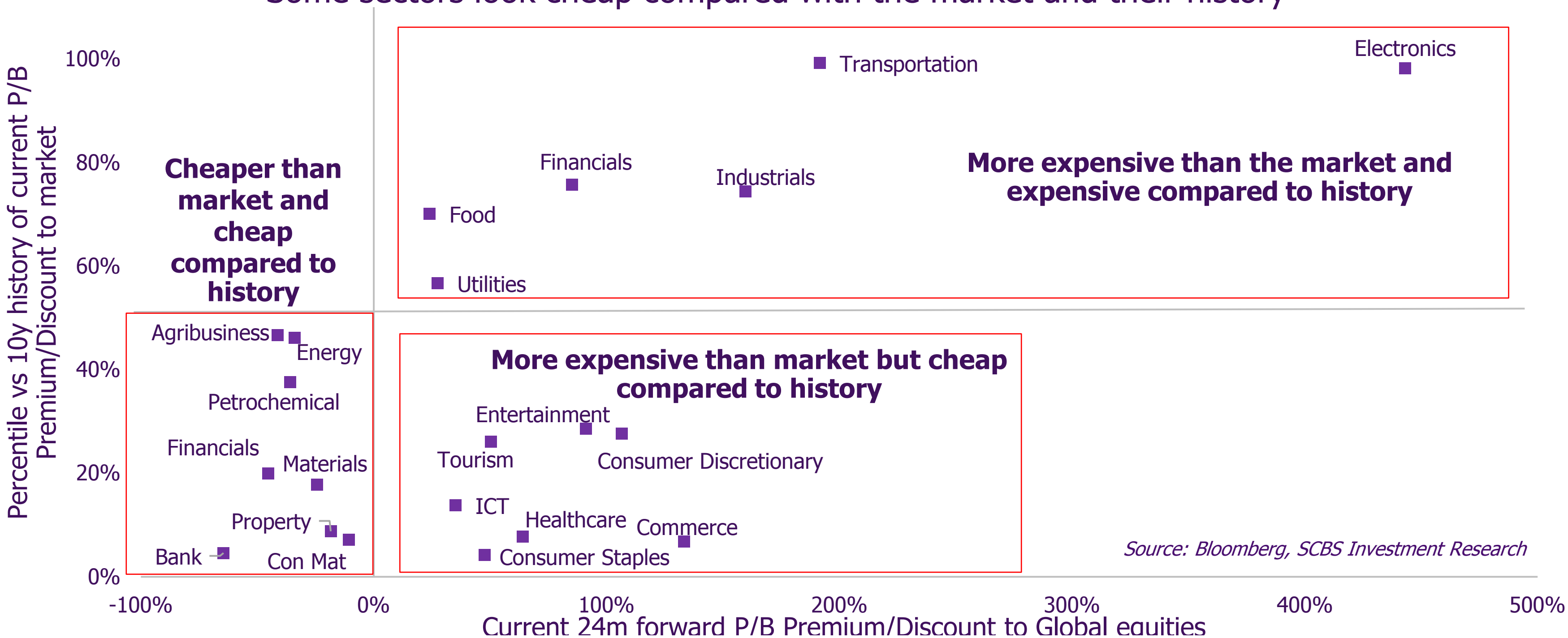
The premium on defensives has faded materially

Some sectors look cheap compared with the market and their history



On a sector valuation basis by comparing current relative valuation based on 24 months forward consensus expectations and the percentile of relative valuation in the past 10 years, cyclical stocks look cheap relative to the market and history but most of the sectors are considered to be value traps, such as Banks, Energy, Auto, Petrochemical and Property, all offering low earnings visibility. Expensive sectors such as Industrials and Electronics have already priced in a strong recovery. On the other hand, some quality stocks in defensive sectors such as Consumer Staples, Commerce and Healthcare are starting to offer value because the premium to the market faded in 2020-2021. They offer the benefit of diversification when bond yields rise and as volatility protection against macro backdrops.

SET Index is fully valued, but driven by hope

The SET is trading at a P/B ratio of 1.8x, slightly higher than our fundamental P/B of 1.7x based on sector ROE profile, payout ratio and long-term growth rate. Our calculations show a 2022 SET Index target based on fundamentals of 1,600, aligning with our view that holds that net profit in 2022 will return to pre-COVID-19 level. The 3Q21 trading range target is 1,500-1,600. We believe the SET Index is fully valued in terms of fundamentals. We have a more cautious view on the SET at above 1,600 because we believe the business outlook for listed companies is not crystal clear in terms of post-COVID-19, margin pressure in 2H21 as well as scars from COVID-19 could pressure growth, as well as the upcoming macro backdrop. A SET Index at above 1,600 would be driven by sentiment, news flow and expectations rather than fundamentals and reasonable valuations.

We think the faster global vaccination levels and reopening for international travel and service activities in 2H21 have been partially priced in given the strong rally in those that benefit from reopening to the point where they have passed pre-COVID-19 levels. The SET could go up to surpass 1,700 or about 6% upside from the current level on a successful reopening and vaccination level and falling infection rate. We see a bull case scenario for the SET in 4Q21 that matches the expected reopening in Oct 2021.

We believe the stronger-than-expected earnings and economic recovery will have a limited effect given the strong rally in 4Q20-1H21. Although earnings growth dominates the share price rally, we are concerned about the rapid rise in yield, continuous rise in inflation, and an interest rate hike 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 at 1,500.

SET Index target is 1,600

		Target PB		Market Cap	
	Book value (2022)	SD band	Justified PB	SD band	Justified PB
Energy	2,425,012	1.4	1.2	3,454,124	2,910,014
Utilities	282,981	2.7	2.2	771,439	622,557
Bank	2,611,791	0.8	0.7	2,093,709	1,828,254
Trans	317,038	3.4	3.4	1,082,497	1,077,930
ICT	575,626	4.1	3.5	2,373,418	2,037,715
Food	563,468	2.4	2.2	1,352,142	1,239,629
Commerce	432,564	5.3	5.4	2,284,592	2,335,847
Petro	552,189	1.3	1.2	697,012	662,626
Healthcare	186,269	5.5	5.7	1,029,346	1,061,733
Electronics	93,325	4.3	2.6	405,007	242,645
Property	756,466	1.5	1.3	1,131,066	983,406
Tourism	40,828	3.3	2.2	135,901	91,291
Media	63,746	3.6	2.6	226,959	165,740
Con Mat	533,283	2.2	1.6	1,166,093	853,253
Finance	277,780	3.1	3.3	850,393	916,674
Cons	101,671	1.4	0.8	140,303	82,986
Others	1,006,266	1	1	1,006,266	1,006,266
Implied target				**1,767**	**1,585**

Source: Bloomberg, SCBS Investment Research

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Investment roadmap in 2H21

For the remainder of the year, the goldilocks environment from vaccine availability, reopening of economic activities and earnings recovery are already reflected in stock prices. However, the spread of new variants of COVID-19 in various countries has made full reopening doubtful. We are concerned about the gap between expectations and market realization. On top of that, markets face the dichotomy of an incredibly high level of uncertainty, including geopolitical risks, faster-than-expected interest rate hike, tightening policy by central banks and various unpredictable speculative curb measures from China amid stretched valuations. In addition, the stronger than expected global economic recovery is raising concerns about the approach of peak growth in the market. The key issue in 2H21 is supply chain shortage after skyrocketing agricultural prices, freight rate, industrial metals prices and chip prices. We feel short-term margin expansion is at risk given the continued strong margin expansion estimates.

We recommend to shift focus from optimism from macroeconomic factors, stimulus policies and positive news flow to hedging against volatility from margin pressure from supply chain shortage, tightening policies and lower liquidity as well as threats from geopolitical risks. Fundamental and long-term competitiveness are gradually recovering, while prices have overshot. Market returns will depend on earnings rather than valuation expansion. Successful reopening and faster-than-expected vaccinations could support a SET rally, but the likelihood is low. In a bull case scenario, the SET has limited upside at 1,700-1,750. (Our base-case scenario SET Index target is 1,600.)

Thus, our focus to generate alpha in 2H21 is toward sector rotation and selection of stocks with strong fundamentals and reasonable valuation. We believe cyclicals have fully priced in a strong recovery and look for value opportunities among defensive parts of the market.

Summary of sector outlook in 2H21

	Analyst score	Catalysts/Risks
Commerce	9	Robust farm income, high steel price and better sentiment and activities as mass vaccinations progress. All modern trade retailers can benefits from stimulus measure. (Analyst picks – CRC, HMPRO)
Healthcare	8	A short-term windfall from a surge of COVID-19 related services due to the severity of the third wave. Development of reopening country in 3Q-4Q21 will positive to international patient services. (Analyst picks – BDMS, RJH)
F&B	8	Benefits from reopening and stimulus policy from government. Overseas market expect to resume in 2H21. Rising raw materials cost such as aluminum and sugar are our concerns (Analyst picks – CBG, PM)
Land transport	8	Expect to see strong traffic recovery in 2H21, supporting by mass vaccination and reopening. Thailand will start open the country in 4Q21. This would help drive the traffic recovery further. (Analyst pick – BEM)
Utilities	7	New capacity could be announced and demand from industrial users continues to improve. (Analyst picks – GPSC)
Finance	7	Expected an accelerating loan growth, manageable asset quality but weaker NIM from rising price competition. There is an upside from a potential release of some excess LLR. Regulatory risk remined a concern. (Analyst pick – MTC)
Insurance	7	Expected a gradual recovery in premium growth and an improvement in combined ratio. There is an upside on ROI from favorable capital market. There is a concern on higher claim from COVID-19. (Analyst pick – TQM)
Tourism	7	A catalyst is progress toward country's reopening in 3Q-4Q21 after 15 months of shutdown. Key to monitor is demand to travel that may be impacted by new variants of the virus and each country's restrictions to prevent spread. (Analyst pick – MINT)
Chemical	6	Capacity additions, mainly from China. Higher oil price could narrow spread. (Analyst pick – PTTGC)
Bank	6	Inexpensive valuation but unexciting earnings outlook of rising NPLs and hefty credit cost with weak loan growth and NIM. Asset quality remained a concern, while the upside is on potential extension cut in FIDF cost. (Analyst pick – BBL)
Property	6	Backlog in 2H21 support earnings, while growth in 2H21 will be small due to high base effect. Concerns are high rejection rate and unclear property stimulus policies. (Analyst pick – SPALI)
ICT	6	Expect earnings growth to recovery YoY in 2H21, but key concern is on 5G use case for enterprise segment. We believe the attraction for the sector would be a safe place during market correction (Analyst pick – ADVANC)
Energy	5	Limited upside for oil price on more OPEC supply; higher GRM given an increase of jet fuel demand as vaccination rate increases. (Analyst pick – PTT)
Food	5	Higher feed costs in 3Q21 (lagging spot prices by three months), amid 3Q20's high base in livestock margin as well as high base in seafood margin. (Analyst pick – TU)
Construction materials	5	Higher fuel costs (coal and natural gas costs) in 2H21, amid moderate rise in demand. (Analyst pick – SCC)
Automotive	3	Concerns over the margin pressure from rising raw material price and operation hiccup from chip shortage. (Analyst pick - AH)

Source: SCBS Investment Research

Summary of sector weighting and valuation

Sector	Recommended sector weighting	Current SET weight	2020 returns	YTD returns	Growth		Net profit CAGR 20-23	P/E		P/B		Dividend yield	
					21F	22F		21F	22F	21F	22F	21F	22F
Healthcare	Overweight	4%	-16%	15%	0%	30%	15%	52.3	40.1	4.5	4.4	1.5%	1.8%
Commerce	Overweight	9%	-13%	12%	7%	21%	26%	38.3	31.6	3.8	3.6	1.6%	1.8%
Utilities	Overweight	9%	-3%	0%	42%	27%	30%	35.3	27.8	3.5	3.3	1.4%	1.9%
Food & beverage	Overweight	6%	-3%	15%	21%	126%	47%	36.5	16.1	1.5	1.5	1.7%	1.8%
Land Transportation	Overweight	2%	-27%	5%	-18%	34%	5%	48.0	35.8	2.3	2.3	2.3%	2.9%
Energy	Neutral	22%	-9%	6%	278%	11%	68%	15.6	14.1	1.2	1.1	2.9%	3.1%
Hotel	Neutral	1%	-19%	30%	-43%	-111%	n.m.	(21.8)	202.7	4.1	4.1	0.0%	0.4%
Electronics	Neutral	5%	379%	20%	22%	21%	21%	62.3	51.3	6.9	6.3	1.6%	2.0%
Building Materials	Neutral	4%	-5%	16%	36%	0%	10%	11.2	11.2	1.3	1.2	4.7%	4.7%
Petrochemical	Neutral	3%	5%	7%	880%	4%	137%	16.3	15.7	1.1	1.1	3.0%	3.1%
Residential/IE	Neutral	6%	-18%	15%	12%	14%	13%	17.3	15.2	1.3	1.2	3.6%	3.9%
REITs / PF / IF	Neutral	2%	-26%	5%	21%	5%	8%	12.0	11.4	0.8	0.8	9.1%	9.6%
Bank	Neutral	9%	-24%	7%	16%	8%	14%	9.3	8.6	0.6	0.6	3.2%	3.7%
Telecoms	Neutral	7%	-15%	7%	-17%	6%	5%	25.1	23.7	3.7	3.7	3.3%	4.6%
Agribusiness	Underweight	1%	62%	34%	-46%	19%	-2%	19.6	16.5	0.9	0.9	1.7%	1.2%
Automotive	Underweight	0%	11%	19%	131%	10%	44%	9.2	8.3	1.0	0.9	4.9%	5.4%
Air Transportation	Underweight	5%	-16%	6%	-3378%	180%	n.m.	n.m.	77.3	6.6	6.1	0.0%	0.3%
Entertainment / Media	Underweight	1%	-19%	21%	17%	7%	16%	17.0	15.8	2.2	2.0	2.4%	2.5%

Source: Bloomberg, SCBS Investment Research

Focus on quality defensive growth and low volatility – Our 3Q21 picks are CRC, GPSC, PM, RJH, SFT

Vaccine availability and expectations of the return of economic activity have circulated in the stock price story. A strong rally in tourism-related stocks, logistics and shipping stocks associated with our reopening theme was seen in 2Q21. In 3Q21, macroeconomic factors will become less relevant to stock returns given the strongest growth and fastest recovery in a decade in 1H21. In addition, recent performance reveals that many of the pro-cyclical sectors favorably exposed to a recovering economy have already rallied well ahead of a full earnings recovery in 2023.

Against the backdrop of a potential peaking in manufacturing growth, rising volatility from geopolitical risk and tightening monetary policies and normalized earnings results, we think it is time to focus on stocks with idiosyncratic fundamental earnings as drivers, those with reasonable valuations and that are less dependent on macroeconomic tailwinds to drive outperformance.

We like stocks in defensive sectors that: 1) have high domestic exposure with clear and unique drivers, 2) remain competitive in the long-term, 3) low volatility, and 4) limited financial risk or strong balance sheet. Our top picks in 3Q21 are CRC, GPSC, PM, RJH and SFT.

Peer comparison

	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
CRC	Outperform	36.50	42.0	15.6	n.m.	69.0	40.4	n.m.	n.m.	71	3.8	3.9	3.6	(2)	6	9	1.1	0.6	1.0	17.6	13.3	11.4
GPSC	Outperform	76.50	95.0	26.1	28.7	25.2	23.3	28	14	8	2.1	2.0	1.9	7	8	8	1.7	2.0	2.1	14.1	12.9	12.0
PM	Outperform	11.50	16.5	47.2	9.3	9.3	8.7	(8)	(0)	7	1.1	1.1	1.0	13	12	12	3.8	3.8	4.0	11.2	10.8	10.4
RJH	Outperform	30.25	33.0	12.3	22.0	22.7	21.1	21	(3)	7	6.0	5.6	5.3	28	26	26	3.3	3.2	3.4	16.2	14.4	13.3
SFT	Outperform	6.45	8.3	30.3	36.3	25.4	20.3	37	43	25	4.3	3.8	3.4	12	15	17	1.1	1.6	2.0	18.2	14.5	11.7
Average					**24.1**	**30.3**	**22.8**	**20**	**14**	**24**	**3.5**	**3.3**	**3.0**	**12**	**13**	**14**	**2.2**	**2.2**	**2.5**	**15.5**	**13.2**	**11.7**

Source: SCBS Investment Research

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CG Rating 2020 Companies with CG Rating

Companies with Excellent CG Scoring

AAV, ADVANC, AF, AIRA, AKP, AKR, ALT, AMA, AMATA, AMATAV, ANAN, AOT, AP, ARIP, ARROW, ASP, BAFS, BANPU, BAY, BCP, BCPG, BDMS, BEC, BEM, BGRIM, BIZ, BKI, BLA, BOL, BPP, BRR, BTS, BWG, CENTEL, CFRESH, CHEWA, CHO*, CIMBT, CK, CKP, CM, CNT, COL, COMAN, COTTO, CPALL, CPF, CPI, CPN, CSS, DELTA, DEMCO, DRT, DTAC, DTC, DV8, EA, EASTW, ECF, ECL, EGCO, EPG, ETE, FNS, FPI, FPT, FSMART, GBX, GC, GCAP, GEL, GFPT, GGC, GPSC, GRAMMY, GUNKUL, HANA, HARN, HMPRO, ICC, ICHI*, III, ILINK, INTUCH, IRPC, IVL, JKN, JSP, JWD, K, KBANK, KCE, KKP, KSL, KTB, KTC, LANNA, LH, LHFG, LIT, LPN, MAKRO, MALEE, MBK, MBKET, MC, MCOT, METCO, MFEC, MINT, MONO, MOONG, MSC, MTC, NCH, NCL, NEP, NKI, NOBLE*, NSI, NVD, NYT, OISHI, ORI, OTO, PAP, PCSGH, PDJ, PG, PHOL, PLANB, PLANET, PLAT, PORT, PPS, PR9, PREB, PRG, PRM, PSH, PSL, PTG, PTT, PTTEP, PTTGC, PYLON, Q-CON, QH, QTC, RATCH, RS, S, S & J, SAAM, SABINA, SAMART, SAMTEL, SAT, SC, SCB, SCC, SCCC, SCG, SCN, SDC, SEAFCO, SEAOIL, SE-ED, SELIC, SENA, SIRI, SIS, SITHAI, SMK, SMPC, SNC, SONIC, SORKON, SPALI, SPI, SPRC, SPVI, SSSC, SST, STA, SUSCO, SUTHA, SVI, SYMC, SYNTEC, TACC, TASCO, TCAP, TFMAMA, THANA, THANI, THCOM, THG, THIP, THRE, THREL, TIP, TIPCO, TISCO, TK, TKT, TMB, TMILL, TNDT, TNL, TOA, TOP, TPBI, TQM, TRC, TRUE, TSC, TSR, TSTE, TSTH, UAC, TTA, UBIS, TTCL, UV, TTW, VGI, TU, VIH, TVD, WACOAL, TVI, WAVE, TVO, WHA, TWPC, WHAUP, U, WICE, WINNER

Companies with Very Good CG Scoring

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

Companies with Good CG Scoring

7UP, A, ABICO, AJ, ALL, ALUCON, AMC*, APP, ARIN, AS, AU, B52, BC, BCH, BEAUTY, BGT, BH, BIG, BKD, BLAND, BM, BR, BROCK, BSBM, BSM, BTNC, CAZ, CCP, CGD, CITY, CMAN, CMO, CMR, CPT, CPW, CRANE, CSR, D, EKH, EP, ESSO, FMT, GIFT, GREEN, GSC*, GTB, HTECH, HUMAN, IHL, INOX, INSET, IP, JTS, JUBILE, KASET, KCM, KKC, KUMWEL, KUN, KWG, KYE, LEE, MATCH, MATI, M-CHAI, MCS, MDX, MJD, MM, MORE, NC, NDR, NER, NFC, NNCL, NPK, NUSA, OCEAN, PAF, PF, PK, PLE, PMTA, POST, PPM, PRAKIT, PRECHA, PRIME, PROUD, PTL, RBF, RCI, RJH, ROJNA, RP, RPH, RSP, SF, SFLEX, SGP, SISB, SKN, SLP, SMART, SOLAR, SPG, SQ, SSP, STARK, STC, SUPER, SVOA, TC, TCCC, THMUI, TIW, TNH, TOPP, TPCH, TPIPP, TPLAS, TTI, TYCN, UKEM, UMS, VCOM, VRANDA, WIN, WORK, WPH

Corporate Governance Report

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not conform nor certify the accuracy of such survey result.
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)

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, HEMP, 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, MCOT, META, MFC, MFEC, MINT, MONO, MOONG, 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, PPPM, 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, SEAOIL, SE-ED, SELIC, SENA, SGP, SINGER, SIRI, SIS, SITHAI, SMIT, SMK, SMPC, 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, TMD, TMILL, TMT, TNITY, TNL, TNP, TNR, TOG, TOP, TOPP, TPA, TPCS, TPP, TRU, TRUE, TSC, TSTH, TTB, TTCL, TU, TVD, TVI, TVO, TWPC, U, UBIS, UEC, UKEM, UOBKH, UPF, UV, UWC, VGI, VIH, VNT, WACOAL, WHA, WHAUP, WICE, WIIK, XO, ZEN

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, ADD, 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, ASW, 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, DMT, DOD, DOHOME, DTCI, 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, MODERN, MORE, MPIC, MUD, MVP, NC, NCAP, NCH, NDR, NER, NETBAY, NEW, NEWS, NEX, NFC, NOVA, NPK, NRF, NSL, 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, PROEN, PROS, PROUD, PTL, RAM, RBF, RCI, RCL, RICHY, RJH, ROCK, ROH, ROJNA, RP, RPC, RPH, 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, SMD, 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, TIDLOR, TIGER, TITLE, TK, TKN, TM, TMC, TMI, TMW, TNDT, TNH, TNPC, TOA, TPAC, TPBI, TPCH, TPIPL, 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, WINMED, WINNER, WORK, WORLD, WP, WPH, WR, XPG, YCI, YGG, YUASA

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.