SCBS strategy

SET index	Close: 26/8/2021	1,601.91	+1.42 / +0.09%	Bt81,237mn
SET50 index	Close: 26/8/2021	964.79	-0.66 / -0.07%	Bt36,216mn

2H21: Where should we focus?

The earnings beats in 2Q21 did not surprise the market, which is now looking at the weaker growth outlook in 2H21. We are shifting our focus to continued supply constraints and margin pressure in 2H21. Chance of capital calls and balance sheet deterioration is low. We prefer large cap stocks, those with high pricing power and domestic reopening ties over small caps, tourism-related sectors and manufacturing. Our core portfolio continues to focus on defensive growth. Our picks for the 2H21 earnings theme are BBL, BDMS, BEM, CPALL, CRC, HANA, SPALI, and TU.

#1 Strong 2Q will be offset by weak 3Q. Net profit in 2Q21 rose 4% QoQ and 120% YoY, 8% ahead of estimates, backed by strong revenue growth. Export-related sectors, logistics, healthcare and small caps were the winners while domestic-related and manufacturers did poorly in 2Q21. We expect this trend to continue in 3Q21. Financial status is stable and liquidity high, limiting the probability of cash calls. Large companies are more aggressive on investment and deleveraging than small companies.

#2 Cost pressure. We began to see signs of margin pressure in 2Q21 and expect this pressure to remain elevated. Global supply chain disruption during a demand recovery has led to longer delivery time and higher cost. Operating costs such as shipping, oil, metals and agricultural are on the rise in 3Q21. The widening PPI and CPI spread in 3Q21 indicates further margin pressure. We take a cautious view toward Air Transport, Packaging, Petrochemical, Automotive, Construction Materials and Agribusiness, where pricing power is low and margin volatile.

#3 Large cap over small cap. Large companies have had superior cost control and pricing power since 2H20, tagging the steady recovery in revenue. Earnings quality at large companies was better than at small companies in 2Q21. Small companies are more vulnerable and sensitive to rising raw material costs and rapid domestic COVID-19 transmission than large companies.

#4 Limited room for earnings upgrades. We see downside risk to consensus earnings revisions in 2H21 for Transportation, Commerce, Finance, Tourism and Property, which have been hurt by lockdown restrictions. We expect consensus to upgrade earnings when the level of the fully vaccinated goes above 50% of Thailand's population, triggering the reopening of the country in late 4Q21.

#5 Global cyclical peak, domestic weak? It is too early to answer that question. Improvement in the global economy will strengthen demand for export goods. Global semiconductor sales are expected to grow 14% HoH and 27% YoY in 2H21. At the same time, domestic related sectors are struggling in the face of rising COVID-19 cases and lockdown restrictions. We expect earnings of global cyclical stocks to continue to grow both HoH and YoY while earnings for domestic-related stocks will fall both HoH and YoY, but are likely to bottom in 3Q21.

#6 Domestic reopening over tourism reopening. The effectiveness of the lockdown and rising vaccination rate in Thailand are slowing the number of new COVID-19 cases as of Aug 21. If this trend continues, domestic reopening is likely in 4Q21. However, it may take until 2H22 for full international reopening, i.e., when herd immunity is reached worldwide. Earnings visibility for domestic reopening stocks is clearer than for the tourism sector.

... Focus on earnings quality, high pricing power, large cap and domestic reopening. We believe further multiples expansion is unlikely in a market that may already be starting to anticipate the earnings slowdown and downgrade. We recommend rotating from small caps that outperformed on earnings recovery and lean into large-cap stocks with high pricing power. Large-cap stocks have high risk tolerance during market volatility brought by QE tapering and tightening monetary policy. As COVID-19 risk remains high, we prefer domestic reopening stocks over tourism stocks, which are likely to take longer to recover.

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Low base effect again; revenue up but offset by increasing cost

Aggregate 2Q21 earnings of 805 companies came in at B277.2bn, surging 120% YoY up 4% QoQ thanks to the low base effect from the lockdown during the first wave of COVID-19. Fueling the growth in 2Q21 was high revenue growth of 29% YoY, though this was diluted by a rise in operating expense of 22% YoY. Data shows that earnings at 37% of our coverage exceeded expectations, down from 40% in 1Q21, as operating cost rose more quickly than anticipated. Excluding banking, revenue was up YoY, with EBITDA margin expanding 380bps YoY (vs +800bps YoY in 1Q21). Net profit skyrocketed in 2Q21. Export-related sectors, logistics and healthcare were the winners while domestic-related and manufacturers did poorly in 2Q21. We are clearly seeing decelerating growth in the manufacturing sectors arising out of the tight lockdown restrictions and supply chain shortage. Domestic and services sectors are remaining weak in 3Q21.

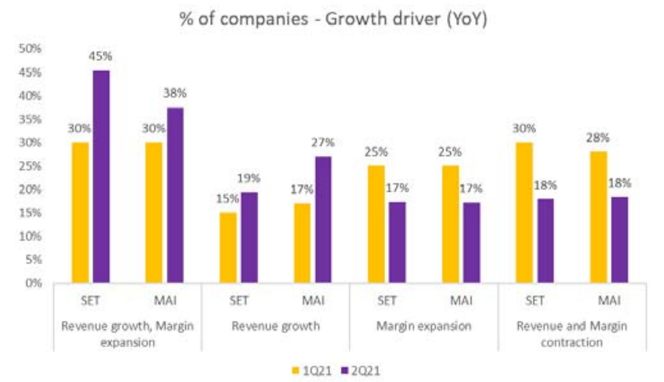
Figure 1: Summary of quarterly results in 2Q21

	No. of	Net Profit (Bt mn)						
Sector	**Co.**	**2Q21**	**2Q20**	**% YoY**	**%QoQ**	**1H21**	**1H20**	**% YoY**
AGRO & FOOD INDUSTRY	**59**	**15,696**	**7,001**	**124.2**	**9.6**	**30,027**	**19,480**	**54.1**
Agribusiness	11	6,654	1,736	283.4	(0.9)	13,379	3,120	328.7
Food & Beverage	48	9,042	5,266	71.7	18.9	16,649	16,360	1.8
CONSUMER PRODUCTS	**39**	**9,079**	**609**	**1,390.3**	**(24.5)**	**21,099**	**2,400**	**779.0**
Fashion	18	1,517	(615)	n.m.	37.1	2,624	226	1,062.6
Home & Office Products	11	68	21	219.3	(46.1)	195	296	(34.1
Personal Products & Pharmaceuticals	10	7,493	1,203	522.9	(30.5)	18,280	1,879	873.0
FINANCIALS	**61**	**64,959**	**42,337**	**53.4**	**6.2**	**126,122**	**103,099**	**22.3**
Banking	11	52,372	31,338	67.1	9.8	100,082	82,491	21.3
Finance & Securities	32	9,370	6,860	36.6	(2.5)	18,976	15,220	24.7
Insurance	18	3,217	4,139	(22.3)	(16.4)	7,064	5,388	31.1
INDUSTRIALS	**90**	**48,858**	**5,363**	**811.1**	**63.8**	**78,697**	**3,812**	**1,964.7**
Automotive	17	1,585	(1,405)	n.m.	(26.9)	3,753	277	1,256.2
Industrial Materials & Machinery	14	717	492	45.7	(1.4)	1,445	666	117.0
Paper & Printing Materials	1	234	228	2.6	(18.9)	523	534	(2.0
Petrochemicals & Chemicals	16	37,144	1,835	1,923.9	97.0	56,000	(3,549)	n.m
Packaging	19	3,825	4,010	(4.6)	1.1	7,613	6,549	16.2
Steel	23	5,352	202	2,552.4	33.4	9,363	(665)	n.m
PROPERTY & CONSTRUCTION	**155**	**37,038**	**22,831**	**62.2**	**(2.5)**	**74,951**	**49,074**	**52.7**
Construction Materials	20	23,703	14,257	66.3	19.1	43,608	23,031	89.3
Property Development	54	9,791	6,181	58.4	(22.7)	22,471	17,711	26.9
Property Fund & REITs	55	3,183	2,181	46.0	(22.7)	7,299	7,410	(1.5
Construction Services	26	362	213	69.9	(72.4)	1,572	922	70.5
RESOURCES	**61**	**66,125**	**31,687**	**108.7**	**(20.7)**	**149,505**	**13,212**	**1,031.5**
Energy & Utilities	60	66,072	31,642	108.8	(20.8)	149,448	13,161	1,035.6
Mining	1	53	45	19.8	1,767.0	56	52	8.4
SERVICES	**121**	**14,217**	**(4,269)**	**n.m.**	**67.5**	**33,832**	**(11,797)**	**n.m**
Commerce	28	10,183	5,473	86.0	(7.0)	21,136	18,841	12.2
Health Care Services	23	5,324	901	491.1	81.1	8,264	6,905	19.7
Media & Publishing	26	641	(1,524)	n.m.	(20.1)	1,444	(3,223)	n.m
Professional Services	5	99	34	189.4	(9.5)	208	120	72.9
Tourism & Leisure	13	(3,312)	(3,744)	11.5	(58.7)	(5,399)	(3,825)	(41.1
Transportation & Logistics	26	1,283	(5,408)	n.m.	n.m.	8,179	(30,615)	n.m
TECHNOLOGY	**40**	**19,709**	**20,577**	**(4.2)**	**7.4**	**38,057**	**38,488**	**(1.1**
Electronic Components	9	3,375	2,732	23.5	11.0	6,414	4,637	38.3
Information & Communication Technology	31	16,334	17,845	(8.5)	6.7	31,642	33,851	(6.5
Companies Under Rehabilitation	3	(172)	(196)	12.2	7.7	(359)	(362)	0.6
Medium Sized Enterprise (mai)	176	1,700	(36)	n.m.	(25.7)	3,990	5	82,194.1
SET	**629**	**275,509**	**125,941**	**118.8**	**3.8**	**551,930**	**217,407**	**153.9**
SET + mai	**805**	**277,209**	**125,905**	**120.2**	**3.6**	**555,920**	**217,412**	**155.7**

Source: SET, SCBS Investment Research

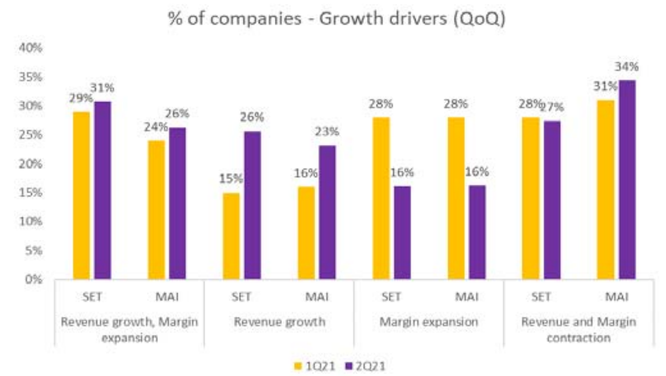
About 10% of small companies reported revenue growth both QoQ and YoY compared to 15% of large companies. There is some differences in earnings quality between small and large companies. Large companies have had superior cost control and pricing power since 2H20, tagging a steady recovery in revenue. Thus, earnings quality for large companies was better than for small companies in 2Q21, seen in a higher proportion of companies in terms of both revenue growth and margin expansion. Net profit for medium sized companies was up 548% YoY, beating small companies in sSET (+293% YoY) and large-caps in SET50 (+108% YoY). However, small companies are more vulnerable to the rapidity of domestic transmission of COVID-19 than large companies, with 34% of small companies seeing contraction in both revenue and margin on a QoQ basis, higher than the 27% seen at large companies. Sectors within the small cap benchmark reporting actual growth YoY and fast QoQ growth in 2Q21 included Agribusiness, Basic Resources and Technology that gained momentum from rising soft and hard commodities and strong technology demand from work-from-home evolution and on-line education.

Figure 2: Percentage of companies in terms of growth drivers in 2Q21- %Chg YoY



Source: SCBS Investment Research

Figure 3: Percentage of companies in terms of growth drivers in 2Q21- %Chg QoQ



Source: SCBS Investment Research

Global cyclical and small cap beat expectations the most, while manufacturing and domestic consumption missed.

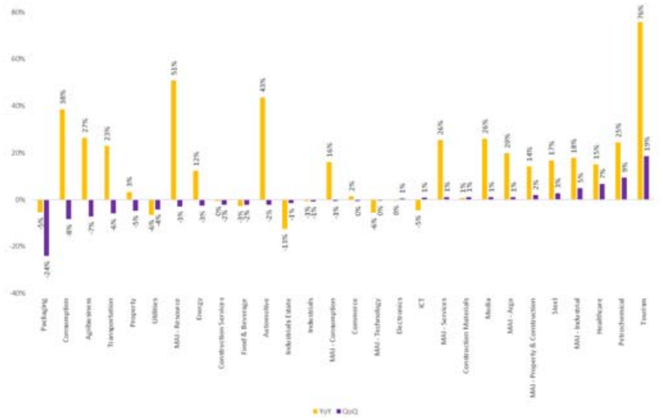
Cyclical sectors such as Industrials, Logistics, Petrochemical, Steel, Construction Materials and Electronics that benefit from recovery in global economic activities and rising commodities prices as well as Healthcare, which benefited from the massive spread of COVID-19, were the winners while Food & Beverage, Packaging and Utilities did poorly in 2Q21 due to the unremitting surge in COVID-19 infections and rising raw material costs. Although operating performance in the service sectors remained weak, net profit showed signs of significant improvement thanks to cost control measures. On the flip side, sectors struggling the most were F&B, Packaging, Industrials, Electronics and Industrial Estates on the back of margin pressure. Manufacturing and domestic consumption sectors are more vulnerable than service sectors such as Healthcare and Logistics in 3Q21 due to tight lockdown restrictions, cost pressure from supply chain shortages and slowdown in global economic growth. Moreover, the strength shown by small companies in their 1H21 net profit growth of 720% YoY is likely to fade due to decelerating revenue growth and rising raw material costs.

Figure 4: Earnings performance by sector in 2Q21

	Revenue		Expense		SG&A to sales		EBITDA		EBITDA Margin		Reported Net Profit		Net Profit Margin	
	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY
Agribusiness	5%	78%	12%	51%	-2%	-2%	-8%	235%	-4%	12%	-3%	285%	-1%	7%
Food & Beverage	8%	-3%	10%	-1%	-2%	-2%	-6%	-11%	-2%	-1%	-12%	-7%	-1%	0%
Consumption	-8%	49%	1%	11%	0%	-12%	-22%	355%	-7%	25%	-26%	1062%	-7%	25%
Automotive	-9%	104%	-7%	60%	0%	-5%	-17%	3413%	-2%	19%	-28%	211%	-2%	24%
Industrials	9%	33%	10%	33%	-3%	-3%	2%	19%	-1%	-1%	1%	45%	0%	0%
Petrochemical	23%	65%	13%	40%	-3%	-5%	69%	266%	6%	12%	103%	1428%	5%	12%
Packaging	8%	17%	32%	23%	3%	0%	38%	-11%	4%	-5%	-6%	-22%	-1%	-4%
Steel	15%	60%	12%	43%	0%	-5%	29%	455%	2%	10%	31%	2357%	1%	8%
Construction Materials	9%	30%	8%	29%	-1%	-5%	10%	45%	0%	2%	19%	67%	1%	3%
Property	-1%	0%	3%	-3%	2%	-3%	-11%	37%	-3%	7%	-22%	116%	-3%	5%
Industrials Estate	-1%	-25%	0%	-13%	-3%	-19%	3%	-28%	2%	-2%	9%	-47%	1%	-6%
Construction Services	-3%	-2%	-1%	-2%	-1%	-3%	-12%	15%	-1%	2%	-72%	193%	-2%	1%
Energy	9%	54%	11%	42%	1%	0%	-5%	86%	-3%	3%	-29%	203%	-3%	2%
Utilities	9%	-3%	14%	3%	-1%	-6%	6%	15%	-1%	7%	16%	0%	1%	1%
Commerce	1%	9%	2%	8%	0%	-1%	-3%	31%	0%	2%	-7%	85%	0%	1%
Healthcare	17%	37%	10%	22%	-2%	-7%	40%	108%	4%	9%	81%	471%	4%	9%
Media	-5%	27%	-6%	1%	-8%	-12%	-1%	213%	1%	21%	-20%	139%	-1%	24%
Tourism	15%	95%	-3%	19%	-20%	-75%	304%	166%	20%	50%	27%	42%	19%	77%
Transportation	2%	21%	8%	-2%	-9%	-20%	6%	3898%	1%	22%	181%	108%	1%	24%
ICT	-3%	-2%	-4%	3%	-5%	-3%	4%	0%	3%	1%	7%	-14%	1%	-1%
Electronics	3%	30%	3%	30%	0%	0%	9%	19%	0%	-1%	11%	22%	0%	0%
Total ex Financials	**7%**	**29%**	**8%**	**22%**	**-1%**	**-3%**	**4%**	**60%**	**-1%**	**3.84%**	**1%**	**165%**	**0%**	**4%**
SET50 ex Financials	**9%**	**30%**	**9%**	**23%**	**-1%**	**-1%**	**7%**	**53%**	**0%**	**3%**	**5%**	**108%**	**0%**	**3%**
SET50-100 ex Financials	**6%**	**39%**	**8%**	**31%**	**0%**	**-8%**	**-7%**	**92%**	**-2%**	**5%**	**-12%**	**548%**	**-1%**	**5%**
sSET	**3%**	**15%**	**3%**	**8%**	**-1%**	**-11%**	**4%**	**74%**	**0%**	**6%**	**-2%**	**293%**	**0%**	**8%**
MAI	**4%**	**19%**	**3%**	**14%**	**1%**	**-5%**	**-7%**	**57%**	**-1%**	**3%**	**-15%**	**4166%**	**-1%**	**4%**
Argo	-3%	12%	-5%	-8%	-1%	1%	9%	1%	0%	2%	23%	22%	1%	1%
Consumption	-14%	42%	-14%	26%	-2%	-5%	-12%	58%	0%	0%	-55%	-3%	-5%	-2%
Industrial	7%	15%	2%	-3%	1%	1%	-17%	52%	-4%	-3%	-3%	15%	0%	0%
Property & Construction	-16%	3%	-18%	-11%	1%	-3%	-8%	94%	-1%	2%	-2772%	54%	-2%	2%
Resource	-4%	46%	-1%	-5%	0%	-23%	9%	8%	0%	21%	3%	123%	0%	21%
Services	0%	15%	-1%	-11%	3%	-4%	-13%	232%	-3%	0%	-36%	111%	-3%	2%
Technology	-12%	15%	-12%	21%	-1%	-1%	21%	21%	3%	0%	56%	25%	3%	1%
MAI	**4%**	**19%**	**3%**	**14%**	**1%**	**-5%**	**-7%**	**57%**	**-1%**	**3%**	**-15%**	**4166%**	**-1%**	**4%**
Defensive	**3%**	**4%**	**4%**	**0%**	**-1%**	**-2%**	**0%**	**14%**	**-1%**	**2%**	**-1%**	**30%**	**0%**	**1%**
Cyclicals	**9%**	**45%**	**9%**	**23%**	**-1%**	**-3%**	**6%**	**101%**	**0%**	**5%**	**2%**	**438%**	**0%**	**5%**

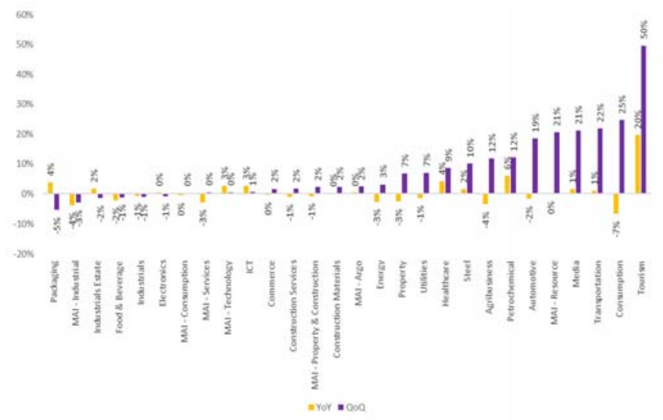
Source: SET, SCBS Investment Research

Figure 5: Revenue growth vs expense growth



Source: SET, SCBS Investment Research

Figure 6: EBITDA margin growth by sector



Source: SET, SCBS Investment Research

Despite positive surprise, market is focusing on weak 3Q21 with hope for 4Q21

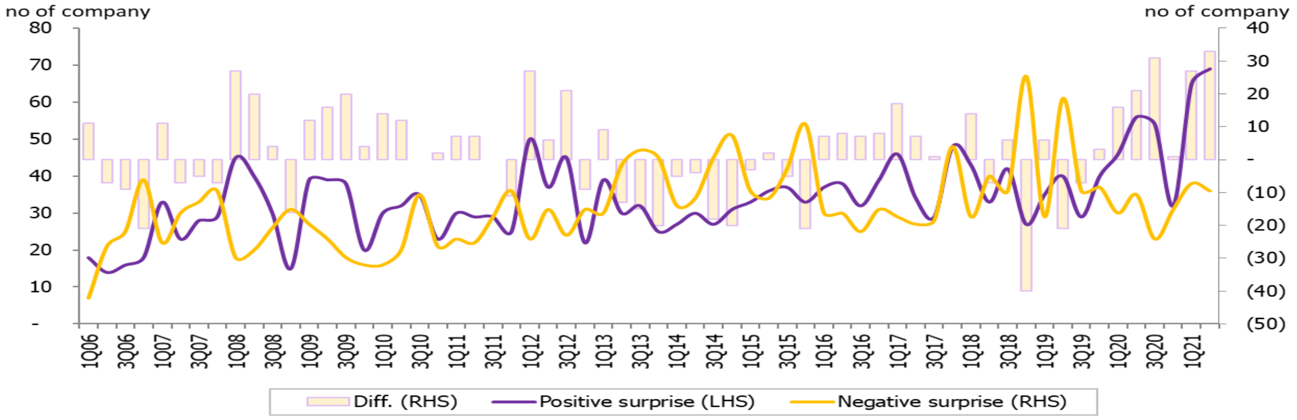
More than 50% of the market's sectors, including Petrochemical, Healthcare, Construction Materials and Industrial Materials as well as small companies reported stronger-than-expected net profit growth. Despite the favorable results, price reaction has been more muted than in previous quarters, when misses were particularly penalized by the market. Likewise, the price reaction to positive surprises has been subdued, as the market is shifting focus to the weaker earnings growth in 3Q21 rather than the earnings beats in 2Q21, faced with tight lockdown restrictions, cost pressure and supply chain disruption globally. Technology-related stocks such as Electronics as well as Healthcare showed a positive return as market participants are looking ahead to continued strong growth in 3Q21. We think the market will shift focus to earnings revisions and earnings quality in the remainder of the year given high expectations with unclear earnings visibility because of the spread of COVID-19 in every corner of the earth.

Figure 7: Actual vs consensus forecasts for 2Q21 earnings

		Consensus			Earnings Surprise			Sector members with...		
	No. Est.	2Q20F	2Q20A	%Surprise	Pos.	In-line	Neg.	Positive surprise	In-line	Negative surprise
Agribusiness	3	6,083	5,664	-7%	1	2	-	GFPT	NER, STA	-
Automotive	2	478	488	2%	-	2	-	-	AH, SAT	-
Banking	10	46,415	51,758	12%	4	6	-	BAY, KTB, SCB, TTB	BBL, KBANK, KKP, LHFG, TCAP, TISCO	-
Commerce	11	8,405	8,161	-3%	4	3	4	COM7, CPALL, MEGA, SINGER	DOHOME, GLOBAL, HMPRO	BJC, CRC, MAKRO, RS
Construction Materials	8	19,301	22,864	18%	4	4	-	SCC, SCCC, TASCO, TPIPL	DCC, DRT, EPG, TOA	-
Construction Services	8	638	639	0%	2	1	5	CK, ITD	SRICHA	PYLON, RT, SEAFCO, STEC, TEAMG
Electronic Components	5	2,891	3,142	9%	2	3	-	HANA, KCE	DELTA, NEX, SVI	-
Energy & Utilities	22	62,727	58,972	-6%	3	14	5	BCP, BGRIM, GUNKUL	BANPU, BCPG, EA, EGCO, GPSC, IRPC, OR, PTG, PTT, RATCH,	CKP, EASTW, GULF, PTTEP, SPRC
Finance & Securities	11	7,258	7,359	1%	2	8	1	AEONTS, BAM	JMT, KTC, MICRO, MTC, NCAP, SAK, SAWAD, TIDLOR	CHAYO
Food & Beverage	15	5,486	6,717	22%	4	6	5	ASIAN, HTC, MINT, TU	CBG, CPF, ICHI, OSP, TFG, TVO	M, NRF, RBF, TKN, ZEN
Health Care Services	11	3,385	4,060	20%	7	2	2	BCH, BH, CHG, EKH, LPH, RJH, THG	BDMS, VIBHA	RP9, RPH
Industrial Materials & Mach	1	467	524	12%	1	-	-	STARK	-	-
Information & Communicat	10	14,379	15,419	7%	4	4	2	DTAC, HUMAN, SYNEX, TRUE	ADVANC, DIF, INTUCH, JASIF	JAS, THCOM
Insurance	1	219	222	1%	-	1	-	-	TQM	-
Media & Publishing	6	103	121	18%	2	2	2	MAJOR, VGI	JKN, WORK	BEC, PLANB
Packaging	2	2,207	2,437	10%	1	1	-	SMPC	SCGP	-
Paper & Printing Materials	1	250	234	-6%	-	1	-	-	UTP	-
Personal Products & Pharm	2	7,707	7,312	-5%	-	1	1	-	STGT	KISS
Petrochemicals & Chemical	3	25,962	33,454	29%	3	-	-	GGC, IVL, PTTGC	-	-
Property Development	17	9,202	10,335	12%	8	8	1	AMATA, ANAN, AWC, LPN, SENA, SF, SPALI, WH	AP, CPN, LH, ORI, PSH, QH, SC, SIRI	ROJNA
Property Fund & REITs	13	1,969	1,955	-1%	8	2	3	ALLY, CPNREIT, HREIT, IMPACT, LPF, SPRIME, TI	B-WORK, GVREIT	BOFFICE, FTREIT, LHSC
Tourism & Leisure	3	(1,773)	(1,868)	-5%	1	1	1	SHR	CENTEL	ERW
Transportation & Logistics	14	493	591	20%	4	6	4	BA, BEM, BTS, WICE	AAV, AOT, JWD, KEX, TFFIF, TTA	BTSGIF, NYT, PSL, RCL
mai	7	148	185	25%	4	3	-	D, IIG, SFT, XO	SPA, YGG, NETBAY	-
Total	**186**	**224,396**	**240,748**	**7.3%**	**69**	**81**	**36**			

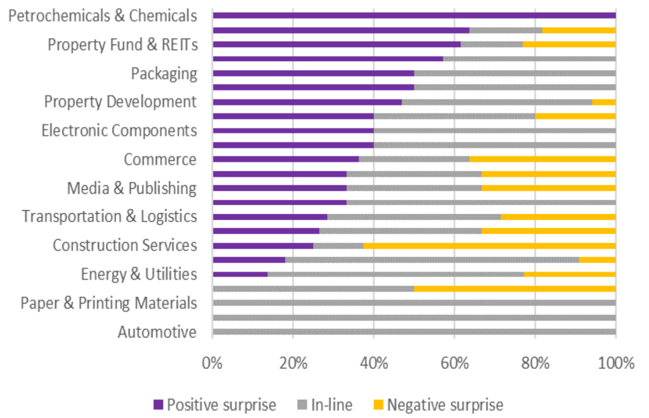
Source: SET, SCBS Investment Research

Figure 8: Positive surprise overwhelmed negative surprise and hit the record in 2Q21



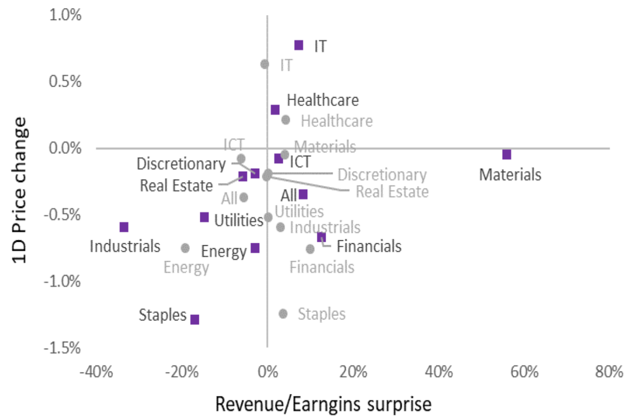
Source: SET, SCBS Investment Research

Figure 9: Positive surprises stand out in Petrochem, Healthcare, Packaging and Construction Materials



Source: Bloomberg, SCBS Investment Research

Figure 10: Despite positive surprises, price reaction has been subdued on a weak outlook in 3Q21



Source: SCBS Investment Research

Stable financial status and continued high liquidity

Although we saw signs of balance sheet improvement in 4Q20-1Q21, the financial status of listed companies was showed more stability than improvement in 2Q21. Some sectors such as Commerce and Energy showed rising leverage despite strong earnings growth: these sectors are expanding capacity ahead of recovery and new business activities in our view. The overall D/E ratio remained steady at 1.5x in 2Q21. How long COVID-19 will run rampant and require lockdown restrictions is unpredictable in 2H21. We are concerned about tourism-related sectors such as Hotel and Transportation, both suffering from the lengthier and more severe wave of COVID-19 than anticipated. Company cash holdings remain high but have fallen from peak in 4Q20. Most are looking for new investment opportunities and deleveraging after the impressive operational improvement in 1H21. We think companies will be looking to increase shareholder returns. This may also indicate that most companies believe the COVID-19 pandemic is manageable and liquidity is high enough to handle the COVID-19 risks.

Figure 11: No signs of further balance sheet deterioration in 2Q21

	Account Receivable		Inventory		Account Payable		Total Liabilities		Equity		Debt	
	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY	%Chg QoQ	%Chg YoY
Agribusiness	-31%	48%	-19%	48%	-7%	75%	-3%	35%	2%	27%	-3%	34%
Food & Beverage	-16%	-22%	-23%	-28%	-24%	-20%	4%	2%	1%	10%	5%	3%
Consumption	-38%	-1%	-17%	-3%	-28%	30%	2%	12%	-1%	18%	7%	10%
Automotive	-47%	67%	-15%	46%	-38%	122%	-1%	14%	1%	8%	5%	9%
Industrials	-5%	69%	10%	91%	14%	116%	6%	27%	1%	9%	5%	20%
Petrochemical	1%	58%	6%	36%	8%	75%	4%	22%	7%	14%	4%	20%
Packaging	12%	13%	42%	28%	19%	31%	28%	15%	41%	14%	28%	15%
Steel	-6%	40%	-6%	15%	-1%	25%	9%	10%	5%	12%	10%	9%
Construction Materials	2%	25%	1%	26%	-1%	44%	-3%	4%	5%	15%	-3%	2%
Property	-23%	-12%	-6%	-10%	-23%	4%	-1%	-6%	1%	6%	-1%	-6%
Industrials Estate	-14%	-23%	-18%	35%	-25%	-18%	4%	-4%	1%	12%	5%	-3%
Construction Services	-38%	-40%	-44%	-44%	-24%	-15%	1%	3%	-1%	0%	3%	4%
Energy	-3%	81%	14%	55%	-10%	69%	5%	15%	1%	11%	5%	13%
Utilities	14%	2%	13%	12%	-16%	4%	5%	15%	1%	19%	6%	15%
Commerce	0%	31%	-7%	14%	-7%	22%	0%	10%	-2%	5%	1%	9%
Healthcare	4%	30%	-2%	16%	0%	42%	-1%	1%	-3%	4%	-1%	0%
Media	-28%	-2%	-18%	-32%	-19%	-41%	-5%	1%	-1%	8%	-4%	5%
Tourism	-10%	224%	-16%	22%	2%	124%	4%	11%	6%	-7%	4%	10%
Transportation	-49%	-4%	14%	-40%	-2%	96%	5%	24%	0%	-5%	7%	14%
ICT	-41%	-51%	-32%	-34%	-50%	-53%	0%	1%	2%	1%	3%	4%
Electronics	-4%	10%	9%	26%	3%	26%	0%	30%	4%	13%	0%	31%
Total ex Financials	**-11%**	**17%**	**-4%**	**6%**	**-12%**	**26%**	**2%**	**9%**	**2%**	**10%**	**3%**	**8%**
Defensive	**-18%**	**-20%**	**-14%**	**-7%**	**-25%**	**-15%**	**2%**	**6%**	**0%**	**10%**	**3%**	**7%**
Cyclicals	**-8%**	**41%**	**-1%**	**9%**	**-6%**	**56%**	**3%**	**11%**	**3%**	**9%**	**3%**	**9%**
MAI	**-4%**	**4%**	**10%**	**5%**	**29%**	**51%**	**4%**	**2%**	**0%**	**5%**	**4%**	**2%**
Argo	4%	23%	3%	10%	-25%	18%	0%	0%	-3%	4%	0%	0%
Consump	-22%	47%	-19%	31%	-22%	63%	-3%	-1%	0%	9%	-3%	-1%
Industial	-18%	-12%	83%	121%	174%	214%	11%	10%	-2%	3%	11%	10%
Propcon	-4%	10%	-3%	-14%	0%	12%	2%	2%	-1%	-2%	2%	2%
Resource	4%	6%	1%	-25%	-3%	12%	4%	1%	-1%	6%	4%	1%
Service	-6%	-1%	8%	-12%	-1%	3%	1%	-2%	1%	10%	1%	-2%
Tech	41%	19%	-16%	17%	14%	3%	4%	-1%	7%	17%	4%	-1%

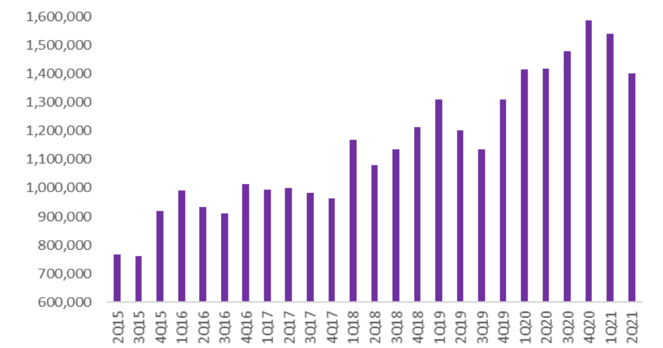
Source: SET, SCBS Investment Research

Figure 12: D/E is more stable across sectors except in services and tourism related sectors

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
Agribusiness	1.0	0.9	1.0	1.0	0.8	0.8	0.9	0.9	0.8
Food & Beverage	1.6	1.6	1.5	1.7	1.7	1.7	1.6	1.6	1.6
Consumption	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Automotive	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Industrials	1.0	1.2	1.3	1.8	1.8	1.8	1.8	2.0	2.1
Petrochemical	0.9	0.9	0.9	1.1	1.2	1.1	1.2	1.3	1.2
Packaging	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.7	0.6
Steel	1.0	1.0	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Construction Materials	1.1	1.1	1.1	1.2	1.2	1.2	1.1	1.2	1.1
Property	1.5	1.5	1.2	1.5	1.5	1.5	1.4	1.4	1.3
Industrials Estate	1.6	1.8	2.0	2.1	2.0	1.8	1.7	1.7	1.7
Construction Services	2.6	2.5	2.5	2.7	2.6	2.7	2.6	2.6	2.7
Energy	1.1	1.2	1.3	1.4	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	1.4
Commerce	2.1	1.9	2.0	2.1	2.2	2.2	2.3	2.2	2.3
Healthcare	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Media	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	0.7
Tourism	1.8	1.7	1.6	2.6	2.6	2.7	2.9	3.2	3.1
Transportation	0.9	0.9	0.9	1.1	1.1	1.1	1.3	1.3	1.4
ICT	2.7	2.6	2.8	4.3	4.2	4.2	4.1	4.3	4.2
Electronics	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0
Total	**1.3**	**1.3**	**1.3**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Defensive	**1.7**	**1.7**	**1.6**	**1.9**	**1.9**	**1.9**	**1.9**	**1.8**	**1.8**
Cyclicals	**1.2**	**1.2**	**1.2**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**
MAI	**1.00**	**0.99**	**1.01**	**1.09**	**1.09**	**1.08**	**1.06**	**1.04**	**1.05**

Source: SET, SCBS Investment Research

Figure 13: Corporate cash holdings remain high, no further sign of financial stress for listed companies



Source: SET, SCBS Investment Research

Companies are looking for growth opportunities, while some are deleveraging

According to the latest data reported in 2Q21 financial statements, cash flow from operations for large companies improved significantly both QoQ and YoY. Meanwhile, cash flow from operations at small companies declined QoQ and YoY despite stronger growth than at large companies. In terms of investing activities, we find that both large and small companies have shifted their focus from liquidity preservation from 2Q20-1Q21 to investment opportunities for post-pandemic recovery. However, defensive sectors remain cautious and conservative on investment as capex is lower than the same period last year. As for financing activities, both large and small companies are deleveraging, but large companies are deleveraging more aggressively than are small companies due to better cash from operations. We believe companies with higher debt are going to have a harder time recovering post crisis. We are not concerned about the decline in cash holdings because the use of funds is reasonable and operational improvement strong. However, we are concerned about the negative free cashflow in 3Q21 that would deplete cash holdings in the short-term.

Figure 14: Operating improvement is used for investment and deleveraging

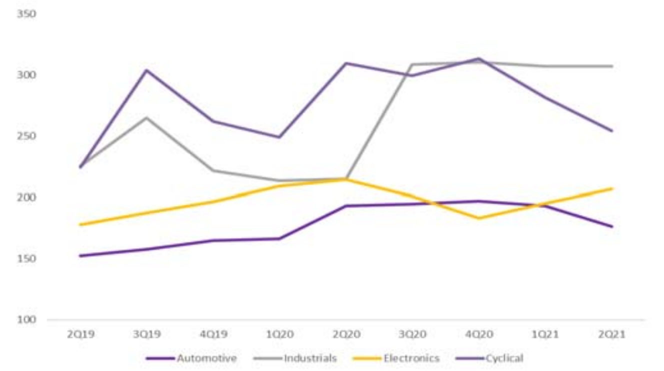
	Cash from operation			Cash from investing			Cash from financing		
	Btm	QoQ	YoY		QoQ	YoY		QoQ	YoY
SET	**573,013**	**287,512**	**14,350**	**-655,138**	**-198,715**	**-50,336**	**-113,258**	**-183,366**	**-245,848**
MAI	**3,016**	**-645**	**-7,219**	**-4,018**	**-1,613**	**-1,914**	**-1,035**	**947**	**5,618**
Agribusiness	16,958	11,964	4,168	-5,021	-3,103	-2,796	-11,225	-12,344	-15,395
Auto	5,233	1,745	1,484	-3,357	-813	-491	-3,025	-2,347	-2,179
Commerce	40,251	18,345	7,434	-33,517	-10,521	-12,679	-27,208	-20,828	-34,264
Con Mat	37,698	17,557	-11,451	-47,943	-8,566	-17,027	-17,157	-28,453	-38,807
Construction	6,632	708	5,142	-3,085	-464	-251	92	2,095	3,869
Energy	188,559	106,485	39,580	-324,576	-86,102	-82,403	23,983	-44,415	-1,143
Utilities	52,465	21,807	2,704	-75,365	-34,009	-1,189	3,295	2,977	-27,615
Electronics	3,082	2,065	-4,586	-7,589	-3,349	-1,647	-4,438	-6,953	-1,615
Fashion	1,275	270	434	-387	-1,555	-1,309	-1,668	-928	-315
Financials	4,035	1,350	-20,750	-467	-36	440	-6,870	892	1,545
Foods	21,571	2,997	-20,333	-7,356	5,962	13,994	-27,525	-6,822	-70,510
Healthcare	15,456	6,289	6,852	-6,974	-2,962	2,760	-16,554	-16,853	-15,964
Home	1,180	472	193	-261	-195	119	-651	-421	-509
ICT	79,347	41,884	-16,809	-63,688	-24,132	1,716	-18,593	-16,649	46,030
Industrials	1,741	1,466	-4,423	-2,489	-1,456	5,969	844	337	-3,308
Media	4,141	1,390	-1,066	-3,478	-2,199	1,811	-926	-792	-788
Petrochem	39,475	23,832	5,277	-59,669	-14,764	30,065	21,338	-15,961	-52,736
Packaging	3,970	2,510	-1,120	-2,385	-1,779	-426	-499	-590	1,254
Property	27,272	14,527	17,020	-10,805	-7,827	23,072	-8,379	-4,939	-27,130
Service	2,259	406	-580	-1,928	-332	-1,814	-1,132	-674	236
Steel	1,206	-3,071	-5,584	-1,683	-1,111	-1,001	783	1,518	6,286
Technology	170	-229	-18	-127	46	-332	-317	229	91
Tourism	**150**	382	1,176	**-3,599**	-1,469	-999	**2,279**	1,959	-417
Transportation	**-4,903**	-2,828	-12,614	**14,883**	3,596	-2,142	**-6,028**	1,059	16,027
Cyclicals	**338,951**	**180,529**	**12,090**	**-463,706**	**-131,282**	**-51,281**	**-12,344**	**-110,306**	**-114,525**
Defensive	**209,090**	**91,322**	**-20,153**	**-186,900**	**-65,662**	**4,603**	**-86,585**	**-58,176**	**-102,323**

Source: SCBS Investment Research

Current inventory level does not reflect recent global supply chain disruption

While the global semiconductor shortage spurred a series of production cut announcements by global automakers, Thai automakers were among the least affected in 2Q21. The number of COVID-19 infections threatens to aggravate shortages of semiconductors and electronic components. However, inventory levels of industrial machinery, automotive parts and electronics manufacturers have limited impact from global supply chain disruption based on 2Q21 financial data. Key manufacturing countries such as Taiwan and the US have reportedly experienced production delays and supply-demand mismatch. According to *Susquehanna Research*, chip lead time, the gap between ordering a semiconductor and taking delivery, increased by more than eight weeks to 20.2 weeks in Jul 2021 from the previous month. Moreover, global production in Sep 2021 will be cut 40% because of the global microchip shortage. In addition, the delivery time index reveals continuous delays in delivery time. Thus, supply constraints in various countries could impact Thailand, likely in 2H21. It could affect Thai manufacturers either in the form of production disruption and/or cost pressure.

Figure 15: Inventory level does not reflect recent global supply chain disruption

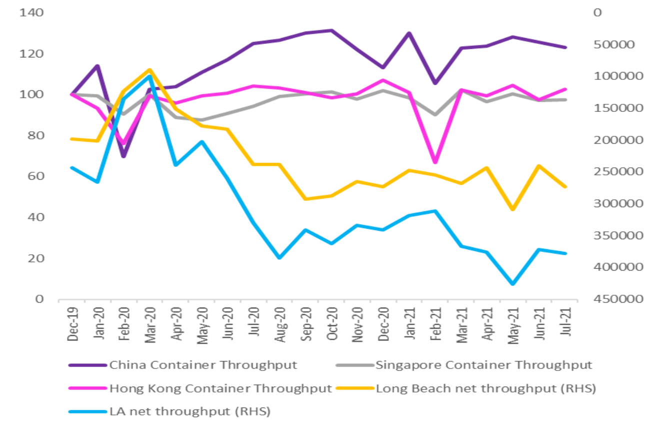


Source: SET, SCBS Investment Research

Figure 16: The long wait for chips. The gap between ordering a chip and delivery is still growing

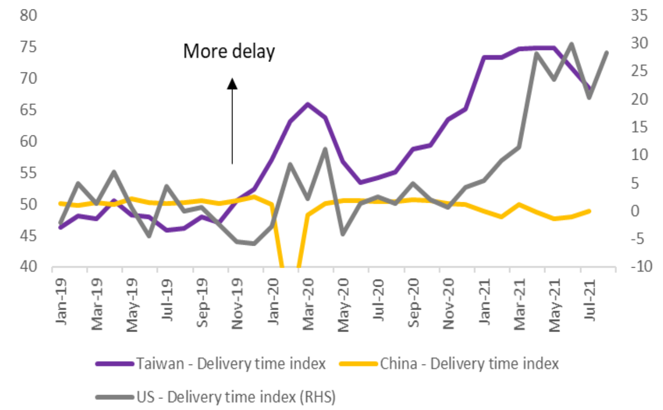
Source: Susquehanna Financial Group

Figure 17: Container lines running out of containers as bottlenecks in the US and China remain unsolved



Source: CEIC, SCBS Investment Research

Figure 18: Supplier delivery time index indicates that delivery is taking longer than usual

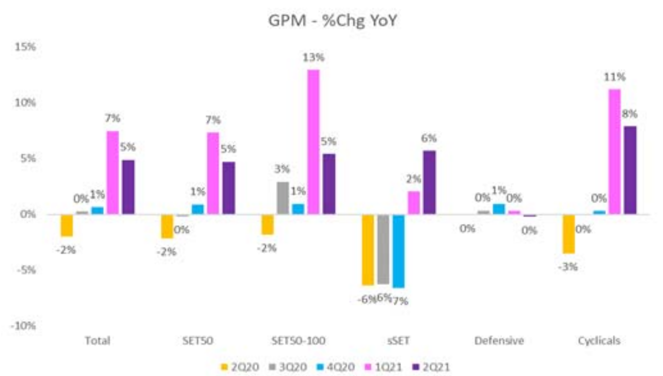


Source: CEIC, SCBS Investment Research

Higher pricing power is key in the rising cost environment

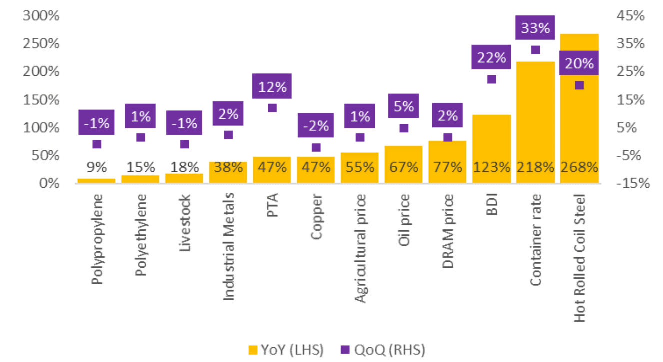
Global supply chain disruptions, clean energy supportive policies and global economic recovery enabled by the vaccine rollout have led to longer delivery times and higher costs both QoQ and YoY; these include shipping cost (+22-33% QoQ, +123-218% YoY), oil price (+5% QoQ, +67% YoY), industrial metals (+2% QoQ, +38% YoY), DRAM price (+2% QoQ, +77% YoY), and agricultural (+1% QoQ, +55% YoY). Although margins in 1H21 expanded significantly off the low base, the impact from the global supply chain disruption from COVID-19 is expected to take effect in 2H21 in view of the further widening in PPI and CPI spread in Jul 2021. This may pressure corporate margins and profits as corporates cannot fully pass rising costs on to customers. Our analysis leads us to take a cautious view on margin pressure in Air Transportation, Packaging, Petrochemical, Automotive, Construction Materials and Agribusiness. In addition, small-cap stocks are more sensitive and vulnerable to rising raw material costs than large cap. As investors are ignoring stellar EPS beats and forecasts if margins are disappointing, we prefer large cap over small cap in the presence of margin pressure and prefer companies with high pricing power.

Figure 19: Gross margin expanded off a low base



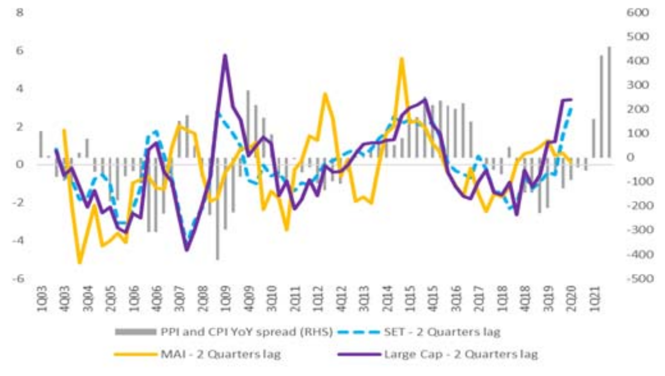
Source: SET, SCBS Investment Research

Figure 20: Key operating costs are on the rise in 3Q21



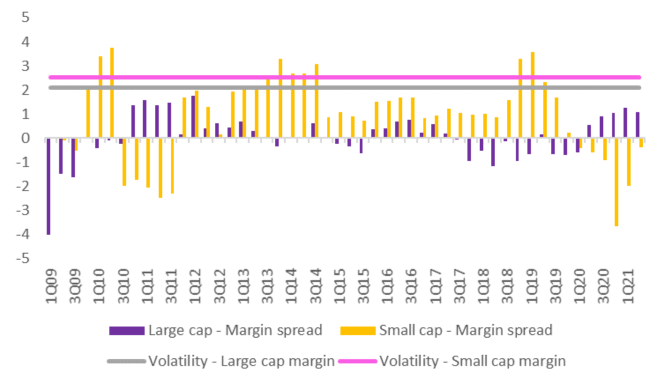
Source: Bloomberg, SCBS Investment Research

Figure 21: Continuous widening PPI-CPI spread may pressure margins and profit outlook



Source: SCBS Investment Research

Figure 22: Pricing power is key; small cap is more sensitive and vulnerable to cost pressure



Source: SCBS Investment Research

Earnings estimates are being downgraded

Based on consensus estimates, 1H21 earnings contributed 59% of 2021 forecasts, above the 5-year average (2014-2019) of 56%. This implies that earnings in 2H21 will fall 31% from 1H21 upon no easing in the lockdown restrictions plus cost pressure from global supply chain disruption. We estimate growth of 54% YoY off the low base in 3Q20. Taking this with our SCBS analyst outlook, we see downside risk for consensus earnings revisions in 2H21 in Transportation, Commerce, Finance, Tourism and Property, hardest hit by the lockdown restrictions and the delays in the reopening of both domestic and international markets. If average oil price is below US$70/bbl in Sep 2021 to 4Q21, earnings in energy-related sectors are likely to be downgraded. Meanwhile, Automotive and Electronics sectors are expected to see earnings upgrades if there is limited supply chain shortage.

Figure 23: Earnings growth in 2H21 will be worse than in 1H21

	Average 1H (2014-2019)	1H21 % of FY21	Average 2H (2014-2019)	2H21 % of FY21	%Chg HoH	%Chg YoY
AGRI	46%	58%	54%	42%	-27%	0%
AUTO	52%	44%	48%	56%	27%	-6%
BANK	51%	58%	49%	42%	-29%	12%
COMM	45%	45%	55%	55%	21%	-2%
CONMAT	55%	68%	45%	32%	-53%	-23%
CONS	48%	60%	52%	40%	-34%	-7%
ENERG	71%	54%	29%	46%	-16%	36%
ETRON	51%	44%	49%	56%	27%	22%
FIN	46%	48%	54%	52%	10%	21%
FOOD	50%	40%	50%	60%	47%	25%
HELTH	52%	42%	48%	58%	36%	23%
ICT	61%	51%	39%	49%	-4%	-11%
MEDIA	68%	10%	32%	90%	826%	397%
PAPER	48%	52%	52%	48%	-8%	1%
PERSON	39%	61%	61%	39%	-36%	-15%
PETRO	57%	81%	43%	19%	-77%	1%
PF&REIT	50%	51%	50%	49%	-3%	1%
PKG	56%	49%	44%	51%	4%	71%
PROP	43%	49%	57%	51%	6%	-10%
STEEL	51%	27%	49%	73%	166%	539%
TOURISM	58%	64%	42%	36%	-44%	65%
TRANS	58%	-48%	42%	148%	-410%	65%
Total	**56%**	**59%**	**44%**	**41%**	**-31%**	**54%**

Source: SET, SCBS Investment Research

Figure 24: SCBS sector outlook – 2H21 and 2022

	Outlook			Growth Trend	
Sector	**3Q21**	**4Q21**	**2022**	**3Q21**	**2022**
AirTrans	Intra-provincial travel has been limited to solely necessary travel and all domestic flights from or to dark red areas have been cancelled – and this includes Bangkok. Key concern is liquidity shortage.	Expect improvement in the COVID-19 situation. Pent-up demand will drive operational improvement	Recovery mainly loaded in 2H22. While we believe Thai tourism is on the path to recovery, the speed of recovery in Thailand's tourism, particularly in early stages, cannot be stated with certainty. Expect to see the development of a restructuring plan for airline operators.	-QoQ -YoY	+YoY
Auto	Higher season will be offset by slower production for both automakers and auto suppliers due to the COVID-19 pandemic in Thailand. Margin concern from rising steel price given the lag before prices can be adjusted.	Expect improving operations from 3Q21 based on a view of better control over COVID-19. Margin concern should be relaxed after price adjustment.	Expect normalized earnings growth in 2022. Key to monitor is global semiconductor shortage.	=QoQ +YoY	+YoY
Bank	Expect QoQ weaker earnings due to lower non-NII (slowing business activities) and higher provisions to cope with a deterioration in asset quality.	Expect seasonal acceleration in loan growth, continued hefty provisions, seasonal rise in opex	Expect a moderate earnings recovery from easing provisions with a slight pick-up in loan growth. There is an upside from a potential delay of a 23 bps hike in FIDF cost back to the normal rate of 0.46%.	-QoQ, +YoY	+YoY
Commerce	Operations to be hit by weak SSS from lockdown restrictions to control COVID-19 spread, weak purchasing power and sentiment, and lower rental income from more rent discounts/waivers	Expect SSS and rental income to decline at a slower pace than in 3Q21, from fragile purchasing power and sentiment, continued rent discounts	Expect growth from revived SSS growth and rental income from 2021's low base from lockdown restrictions and revival of purchasing power	-QoQ, -YoY	+YoY
ConMat	Expect stable/weaker growth YoY from higher energy costs amid stagnant sales volume from COVID-19	Expect stable growth from higher energy costs amid better sales volume	Expect stable growth from higher energy costs amid better sales volume	- QoQ, flat or down YoY	Flat YoY
Electronics	Operating performance is expected to be strong on the back of solid demand growth with limited supply growth. Baht weakness will support short-term growth.	Demand growth is expected to show some deceleration due to high base effect. Disruption in supply is likely to reduce growth performance.	Growth remains strong from technology transformation, while we are concerned about supply growth from recovery of supply disruption and new supply. In addition, fading work-from-home and on-line learning could pressure short-term growth	+QoQ +YoY	+YoY
Energy	Operating performance is expected to improve on gradual recovery of GRM but domestic demand remains at risk due to the lockdown. Power business will enjoy higher profit contribution from hydropower plants but lower demand from industrial users is a key risk.	Demand for refined oil products will recover QoQ due to easing lockdown and more air travel. We expect crack spread for diesel and jet fuel to continue to recover. Oil price should be more stable as OPEC+ will continue to monitor demand to manage supply additions into the market.	Profit for oil and gas operations will be normal after overshooting in 2021 due to oil price hike. E&P profit is expected to increase from higher sales volume while the power sector will continue to realize profit from new capacity, both greenfield and acquired assets.	-QoQ +YoY	-YoY

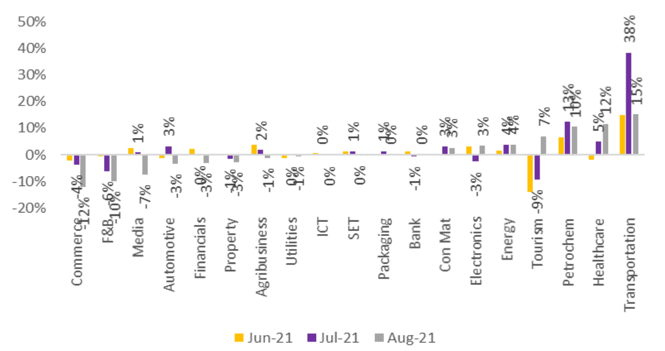
Sector	Outlook			Growth Trend	
	3Q21	4Q21	2022	3Q21	2022
Finance	Expect QoQ weaker earnings due to higher provisions to cope with a deterioration in asset quality. Loan growth is expected to remain good for vehicle title loans but stay weak for unsecured loans (as a result of tighter credit policy). NIM is expected to be under pressure from vehicle title loans.	Expect QoQ stable earnings with accelerating loan growth, stable NIM, manageable deterioration in asset quality.	Expect a moderate earnings recovery from accelerating loan growth.	-QoQ, +YoY	+YoY
Food	Growth from aquatic players is set to be stable or improve from healthy sales and margin and weak THB; Growth from livestock players will soften YoY from narrower gap between livestock prices and costs	Growth from aquatic players is expected to be stable or improve upon healthy sales and margin, and weak THB; growth at livestock players is expected to soften YoY from narrower gap between livestock prices and costs	Growth driven by specific factors, i.e. GFPT's startup of new production capacity; growth from others will be relatively stable YoY	Mixed TU: Stable/ rise QoQ, YoY GFPT: +QoQ, -YoY CPF: -QoQ, YoY	Mixed GFPT: +YoY TU &CPF: Flat YoY
Healthcare	COVID-19-related services are still strong in 3Q21 driven by the severity of the third wave leading to more demand for hospitalization.	Expect normalized revenue from COVID-19-related services based on a view of improvement in the pandemic situation and rising vaccination rate.	BCH and CHG: Expect earnings to drop in 2022 of an exceptionally high base in 2021 from the COVID-19-related services. BDMS and BH: Expect earnings to grow based on improving operations for Thai and international patients.	+QoQ +YoY	Mixed
Hotel	Domestic travel is adversely affected by the third wave of COVID-19 and the government's restrictions that include a night curfew and limited intra-provincial travel. Cost control and liquidity management are the key focus.	Expect improvement in the COVID-19 situation. Pent-up demand will improve occupancy rate and hoteliers' operations.	While we believe Thai tourism is on the path to recovery, the speed of recovery in Thailand’s tourism, particularly in early stages, cannot be stated with certainty since demand for travel is affected by low vaccination levels in some countries, new variants of the virus and each country’s restrictions to prevent spread. Earnings improvement should materialize in 2H22, based on an increase in international tourists and lower cost structure to pull down breakeven point.	-QoQ -YoY	+YoY
ICT	Lockdown will curtail subscriber acquisition. This negatively impacts the prepaid segment, which will also be hurt by the overall weak spending, eroding mobile revenue for the sector.	Expect mobile revenue to improve slightly QoQ on higher 5G adoption (more affordable 5G handsets to come in 2H21) and better subscriber acquisition activity (lockdown eased)	We should see a mild recovery in mobile revenue following economic recovery. In addition, revenue from the enterprise segment and fixed broadband will continue to grow.	-QoQ -YoY	+YoY
Insurance	Expect QoQ earnings recovery from an improvement in combined ratio, despite a slowdown in premium growth	Expect QoQ earnings recovery from an improvement in combined ratio and a recovery in premium growth	Expect earnings recovery from an improvement in combined ratio and a recovery in premium growth	+QoQ, +YoY	+YoY

	Outlook			Growth Trend	
Sector	**3Q21**	**4Q21**	**2022**	**3Q21**	**2022**
Land Transport	Expect the sector to be hit hard by the lockdown in July and August	We should see strong QoQ earnings recovery as we expect the lockdown to ease as vaccination rate goes up.	Strong earnings recovery, driven by improving traffic and ridership, will continue in 2022 off the low base in 2021 and we believe everything will return to near normal.	-QoQ -YoY	+YoY
Petrochemicals	Product spread will soften due to new supply while demand outlook remains uncertain. Earnings performance is expected soften after peak in 2Q21.	Earnings performance will slip further QoQ on narrower spread and higher expenses due to adjustment for full-year results.	Profit will soften YoY after product spread rose to a record high in 2021 due to the polar vortex in 1Q21. Upside to earnings is from new acquisitions but this may not offset the impact of lower product spread YoY.	-QoQ +YoY	-YoY
Property (Residential)	Demand weakened by the lockdown for both low-rise and condos. New launches will be delayed to 4Q21 after construction sites were closed for one month. Although earnings will be backed by backlog transfers, this will not be enough to support growth.	Expected to be the highest quarter from backloaded backlog transfers and pent-up demand from 3Q21. New project launches are expected to be made in the first half of the quarter.	Recovery in presales and new launches, expect to see growth both in low-rise and condos supporting revenue in the short and long term. Gross margin will recover slightly from less pressure from inventory fire sales.	-QoQ -YoY	+YoY

Source: SCBS Investment Research

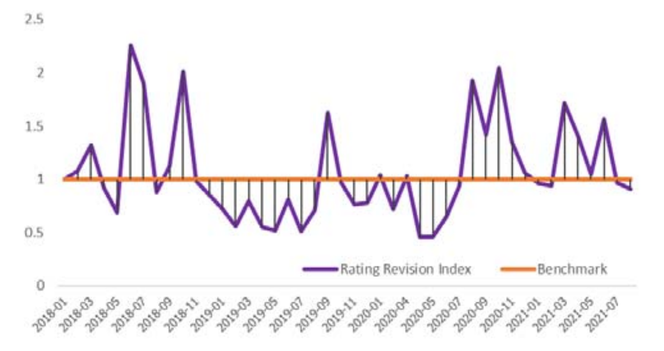
Consensus 2021 and 2022 EPS estimates have been trimmed by 0.5% and 1.2% in Aug 2021. Sectors that were downgraded in recent months are Commerce, F&B, Media and Automotive due to lockdown restrictions. Transportation and Tourism have shown a continuous strong earnings revision trend on the back of better-than-expected earnings in 2Q21 and hopes for an easing in lockdown restrictions after new COVID-19 cases began to decline in Aug 2021. Healthcare is gaining momentum in earnings upgrades because most hospitals benefit from the rising COVID-19infection rate. Macro-driven sectors such as Energy and Petrochemical have seen earnings upgrades, indicating a positive view about the vaccine rollout and reopening timeframe in 2H21. Overall analyst ratings are being downgraded in 3Q21 in response to the tight lockdown restrictions. We believe consensus will upgrade earnings when Thailand's fully vaccinated population goes above 50% of the total population, triggering the country's reopening, which we expect to see in late 4Q21.

Figure 25: Earnings revisions tend to reflect sector-specific stories including COVID-19 and 2Q21 results



Source: Bloomberg, SCBS Investment Research

Figure 26: Analyst recommendations have turned more bearish after reporting season and lockdown

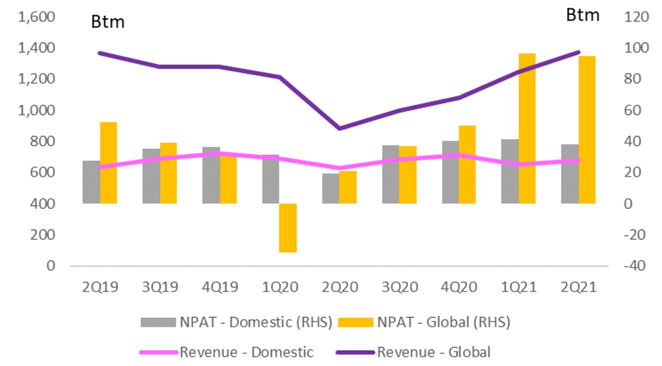


Source: Bloomberg, SCBS Investment Research

Global plays peaked? Domestic hit bottom?

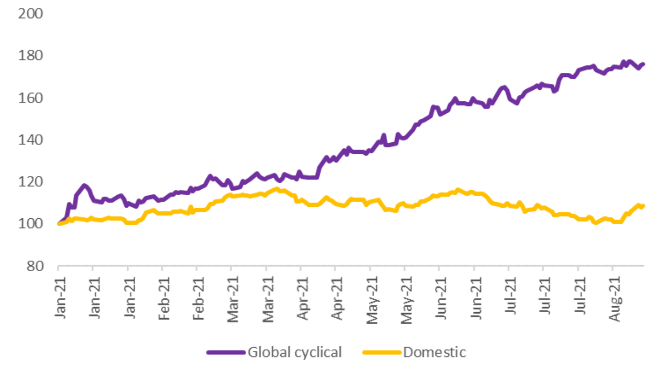
The improvement in global economic and business outlooks have been a common theme in management earnings commentary, while the domestic market remains weak on the back of rampant spread of COVID-19 nationwide. The strong price rally is aligned with continuous operating and financial performance recovery since 2Q20. According to the latest data, SIA forecasts global semiconductor sales to grow 14% HoH and 27% YoY in 2H21. At the same time, domestic-related sectors are struggling in the face of rising COVID-19 infection cases in Thailand that have led to a more severe and lengthier lockdown than anticipated with a slower reopening than expected. This aligns with our forecast for an earnings decline both QoQ and YoY for domestic-related sectors in 2H21. Thus, domestic-related stocks underperform relative to the market and global cyclical-related stocks. As global activities continue to grow strongly and in the face of a continued lockdown, we expect earnings of global cyclical stocks to grow further both HoH and YoY, with a fall in earnings for domestic-related stocks both HoH and YoY, with 3Q21 likely to be the bottom.

Figure 27: Net profit of global cyclicals is better than domestic sectors and expected to continue in 3Q21



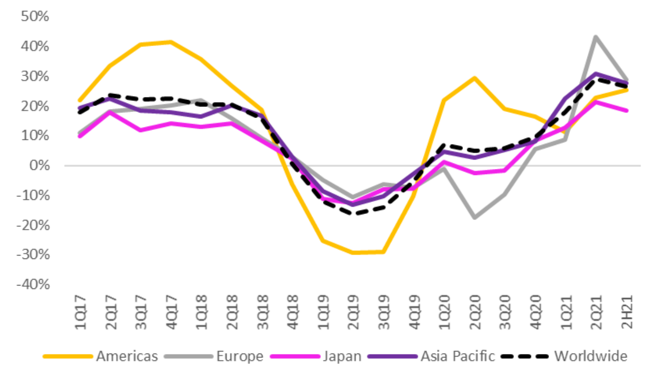
Source: SET, SCBS Investment Research

Figure 28: Global cyclical outperformed domestic stocks, aligned with revenue and earnings growth



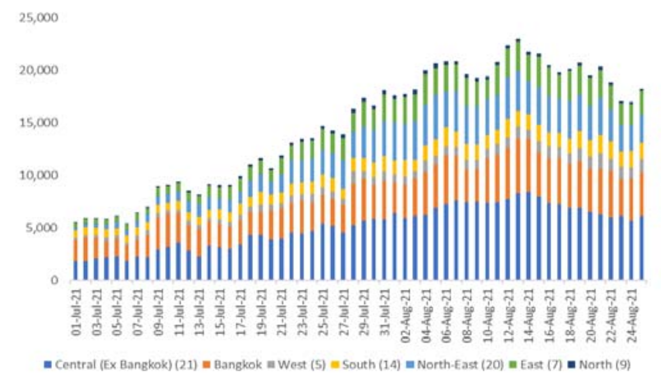
Source: SCBS Investment Research

Figure 29: Semiconductor sales are on the rise, while growth is expected to slow down in 2022



Source: SIA, SCBS Investment Research

Figure 30: Domestic COVID-19 cases remain high, significant easing of lockdown is unlikely



Source: Ministry of Public Health, SCBS Investment Research

Focus on earnings quality, high pricing power, large cap and domestic reopening

In 3Q21, the market has been focused on sentiment rather than fundamentals, which has led to a strong rally despite the weakening growth in 3Q21. From now on, we expect the market to look at fundamentals and earnings quality as the positive surprise on macroeconomics to share price will subside. We believe further multiples expansion is unlikely in a market that may already be starting to anticipate the earnings slowdown and earnings downgrades. We recommend market participants rotate from small cap that outperformed upon earnings recovery and lean into large caps and those with high pricing power as small-cap stocks are more sensitive and vulnerable to cost pressure than large-cap stocks. In addition, large cap has high risk tolerance during the market volatility that will arise from QE tapering and tightening monetary policy. As COVID-19 risk remains elevated, we prefer domestic reopening stocks over international tourism stocks, with domestic reopening coming sooner than international. Our key picks from these earnings themes are BBL, BDMS, BEM, CPALL, CRC, HANA, SPALI, and TU.

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Corporate Governance Report

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To recognize well performers, the list of companies attaining “Good”, “Very Good” and “Excellent” levels of recognition

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Anti-corruption Progress Indicator

Certified (ได้รับการรับรอง)

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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, AEONTS, AFC, AGE, AH, AHC, AIT, AJ, AJA, AKR, ALL, ALLA, ALT, ALUCON, AMARIN, AMC, AMR, 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, BYD, 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, MENA, 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, 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, SECURE, SF, SFLEX, SFP, SFT, SGF, SHR, SIAM, SICT, SIMAT, SISB, SK, SKE, SKN, SKY, SLM, SLP, SMART, SMD, SMT, SNNP, SO, SOLAR, SONIC, SPA, SPCG, SPG, SPVI, SQ, SR, SSC, STANLY, STAR, STARK, STC, STEC, STECH, 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, VIBHA, VL, VNG, VPO, VRANDA, W, WAVE, WGE, WINMED, WINNER, WORK, WORLD, WP, WPH, XPG, 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.