STRATEGY | 3Q23

UPSIDE
(Lower than expected)

DOWNSIDE
(Higher than expected)

InnovestX Research

3Q23 InnovestX Strategy – Beauty is only skin deep

Global economy may go into a synchronized slowdown in 2H23. We see the US and European economies as at risk of a recession in 2H, prompting the Fed to cut interest rates, while the Chinese and Thai economic momentum will be slower than expected. With greater economic risks ahead, we believe the global economy may go into a synchronized slowdown in the second half of the year.
Fatigued China. The expected revenge spending and unleashing of pent-up demand did not pan out and we overestimated the pace of China's recovery. We are not optimistic about China in 2H23 despite low valuation. Exports are also a worry in 2H23 for exporting sectors food, logistics, petrochemicals and electronics.
Destocking a headwind to growth. Destocking could lead to slower GDP growth and earnings than anticipated as it may take 1-2 quarters to bring inventory down to normal levels. We do not expect a strong global recovery until destocking is complete, especially for semiconductors, automotive and machinery.
Thai economy faces risk from inside and outside. From outside, a global economic slowdown and China's destocking will pressure GDP growth, while at home, regulatory risk from an anti-monopoly policy will overhang a dominant business group, dampening sentiment. A delayed setup of a new government is a threat to growth in 2H23.

New government's policies bring uncertainty. If the new government follows through on its campaign promise to increase the minimum wage to 450 baht and raise corporate tax rate to 23% from 20%, the first will slice 4% off earnings and the second will carve off 3%. On the other hand, if it brings electric rates down by Bt0.7 per unit (-15%), earnings will be bumped up 3%. The end result would be a fall of 3% in net profit of companies under coverage from base case and could lead to de-rating of valuations of large companies.
Cut growth outlook and target. We cut our economic forecast for this year to 2.7% from 3.0% on changes in our assumptions for exports, private investment and government spending. A 4% earnings downgrade led to a 5-6% cut in the 2023 SET Index target, to 1,650 from 1,750.
Benign mode, downside tails in 2H. Stay defensive & selective. The key focus in 2H23 is completion of destocking, coming of El Nino, and semiconductor recovery. With uncontrollable tail risks, we recommend staying defensive and selective on cyclical sectors and focus on business outlook and earnings recovery.
Limited impact from policies with earnings recovery. Market volatility is high from macroeconomic uncertainties. We see a chance to add to stocks with high recovery visibility and limited impact from the new government's policies. Our top picks in 3Q23 are BBL, BDMS, BEM, HMPRO and OSP.

3Q23 Economic Outlook

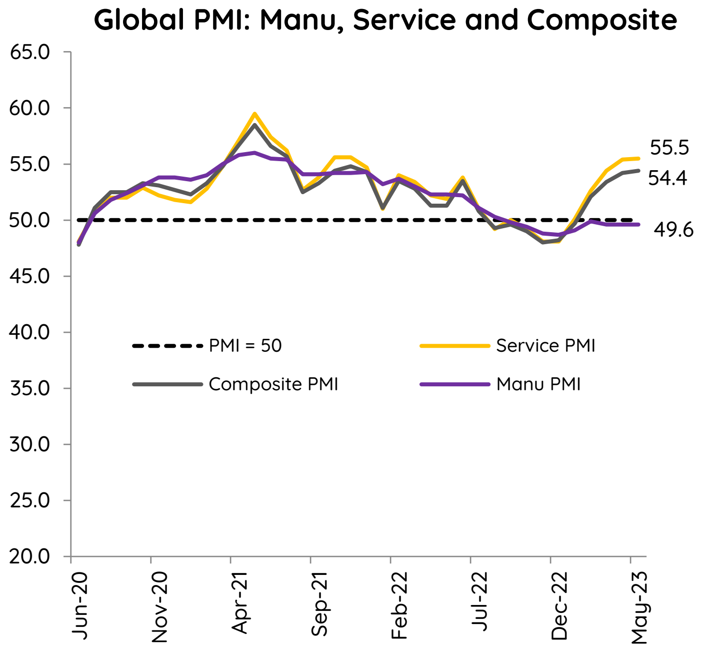
Summary: Econ in 3Q23: Headwinds in the third quarter

- The world economy is currently divided into two groups: most of the manufacturing sector is contracting while the service sector continues to expand rapidly, though at the same time, the service sector in some countries is starting to show signs of slowing down. We believe that going forward, the global economy faces three risk factors: 1) economic slowdown, with inflation and interest rates remaining high, 2) risks from tighter financial liquidity and 3) slower economic growth in China and emerging markets.
- With greater economic risks ahead, we believe that the global economy may go into a synchronized slowdown in the second half of the year.
- The Thai economy faces four primary risks:
    1. Export slowdown. In terms of merchandise, exports of major industrial products from Thailand to major economies continue to contract. This indicates a slowdown in the global economy. Looking forward, high inventory levels and global economic deterioration will pressure future demand for Thai export goods.
    2. A prolonged political vacuum, leading to a de facto tight fiscal policy. As of writing, the formation of the government remains murky. There are also various risk factors that must be monitored. For example, the eight-party coalition does not have the votes needed to form the government (376 seats, both MP and Senate). Moreover, there are several legal cases that must be resolved by the Election Commission of Thailand (ECT) and/or the Constitutional Court, making it difficult for the formation of the government by August, as per the Election Commission's timeline. We believe the new government may be formed in September-October, which implies further delay in passing the new budget. This will delay the disbursement of capital (or investment) budgets by up to 2-3 quarters, which in turn means public consumption and public investment will contract more strongly in the second half of the year.
    3. Contractionary monetary policy despite continued declines in inflation. Inflation in May 2023 continued to decline, but The Bank of Thailand (BoT) is still "leaving the door open" on the possibility of raising interest rates. This leads us to view that the BoT will likely keep interest rates at 2%, which would turn the real policy interest rate positive in the second half of the year, a negative for the economy.
    4. A possible drought from El Nino. We are keeping an eye on the SOI (Southern Oscillation Index). If the SOI goes into negative territory in Q3 and drags on into Q4, it could lead to an El Nino in late 2023-early 2024, which could lead to severe contraction of agricultural production as was seen in 2015-17. In our view, the crops most vulnerable to drought are cereals, particularly rice and maize.
- As a result, we have revised down our economic forecast for this year from 3.0% to 2.7%, with a sharp reduction in consumption and government investment. as well as in private investment and consumption The export sector will contract in response to a worsening global economy. Inflation will decline sharply due to a slowdown in both domestic and international economies.

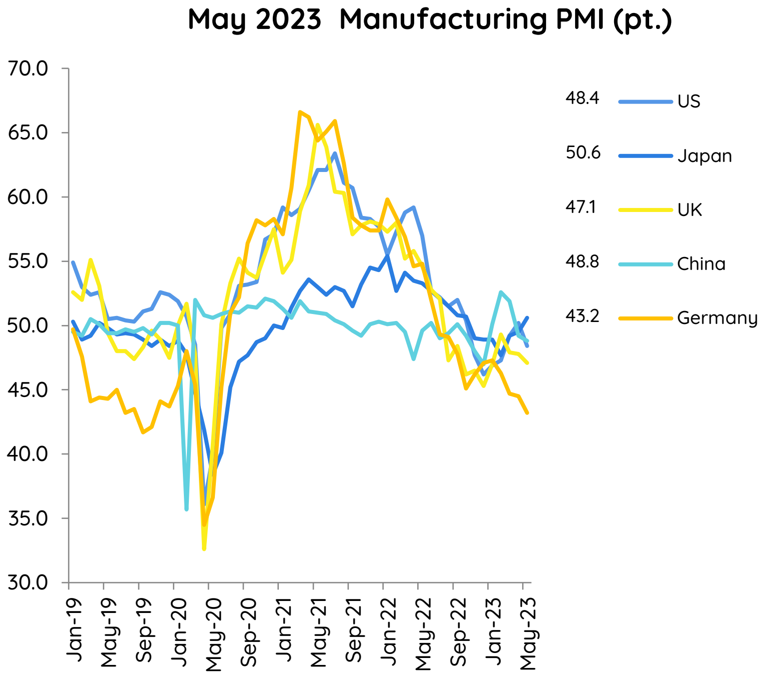
The global economy

The global economy can be divided into two groups

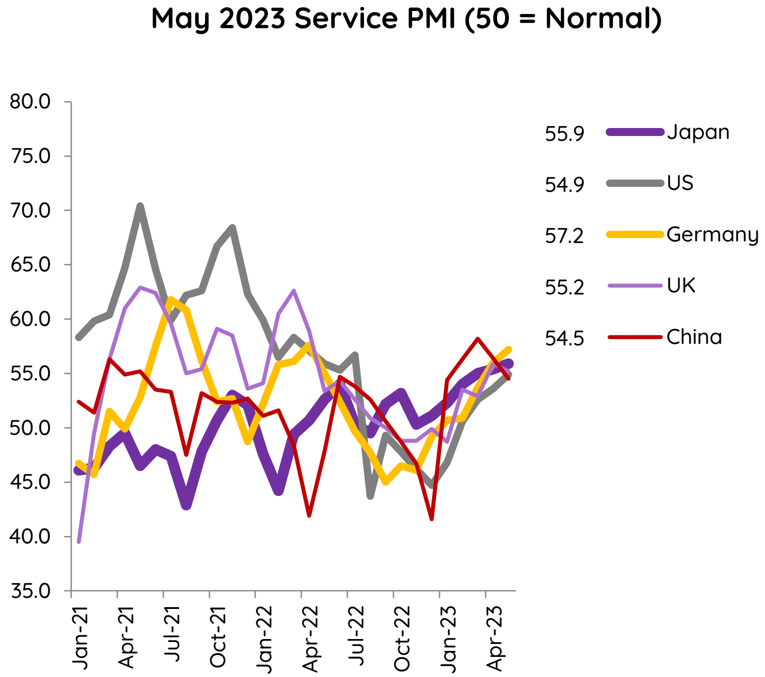
- The Purchasing Managers' Index (PMI) indicates that business activity in the world's major economies is divided into two groups: the majority of the manufacturing sector is contracting, while the service sector continues to expand briskly as a result of economic reopening. However, there are signs of a slowdown in some countries.



Source: CEIC

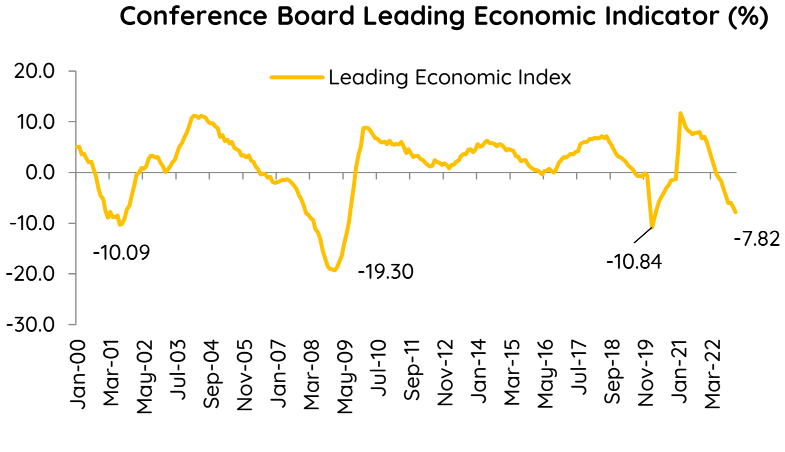


Source: CEIC
(Note: China PMI is official PMI)

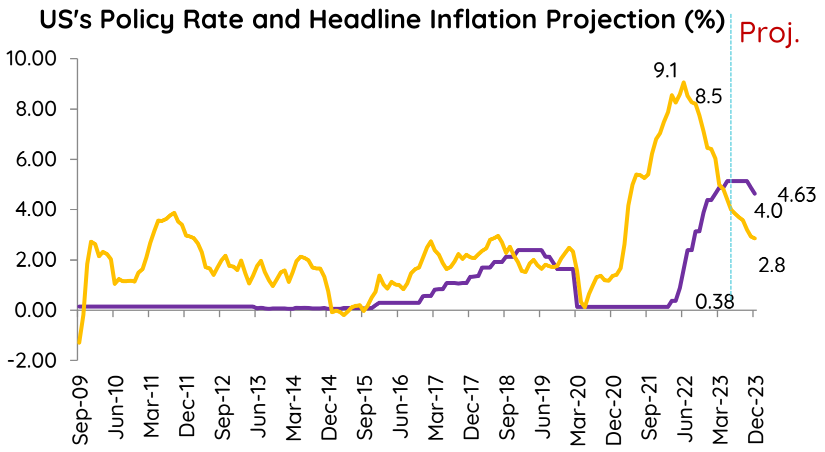


Source: CEIC
(Note: China PMI is official PMI)

The global economy faces 3 risk factors



Source: CEIC



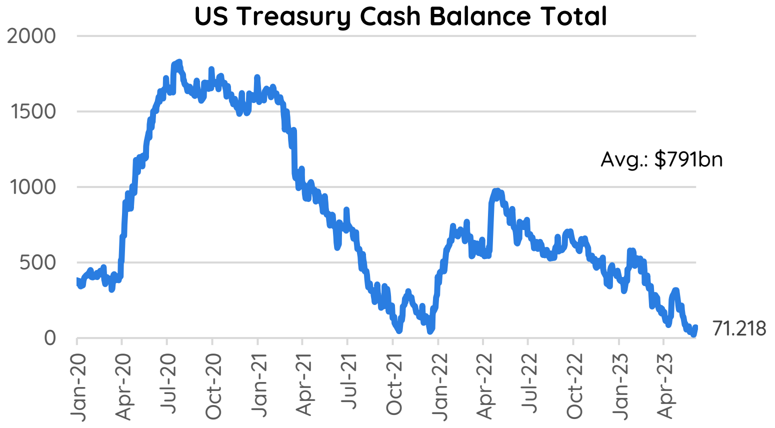
Source: InnovestX Research

Economic slowdown with pesistent inflation + high interest rates

Chinese and emerging markets slow

The risk of tighter financial liquidity

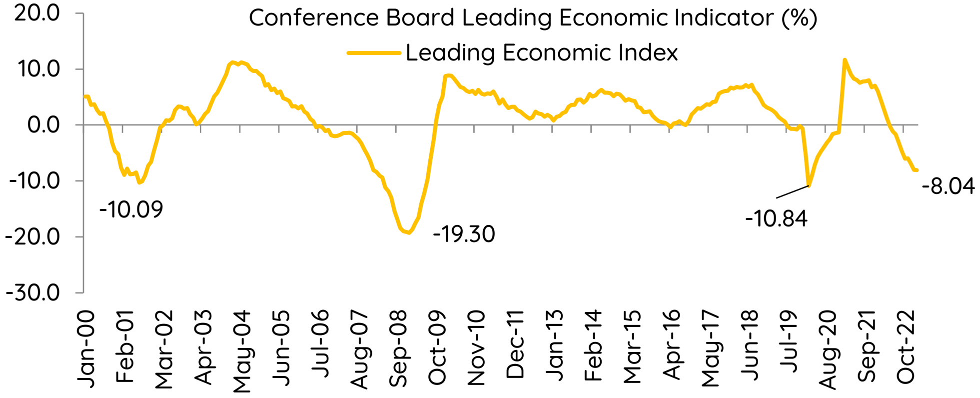
Source: CEIC



Source: Bloomberg

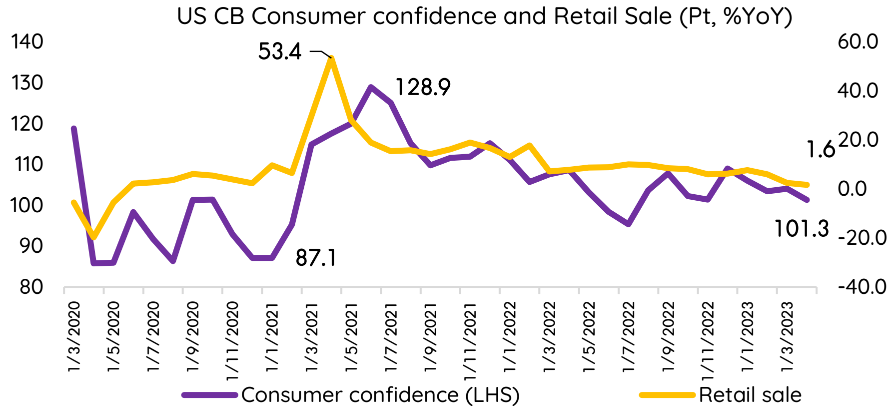
US economy slow, but inflation is still high, pushing the Fed to hold interest rates.

US leading economic index drops for 13th consecutive month



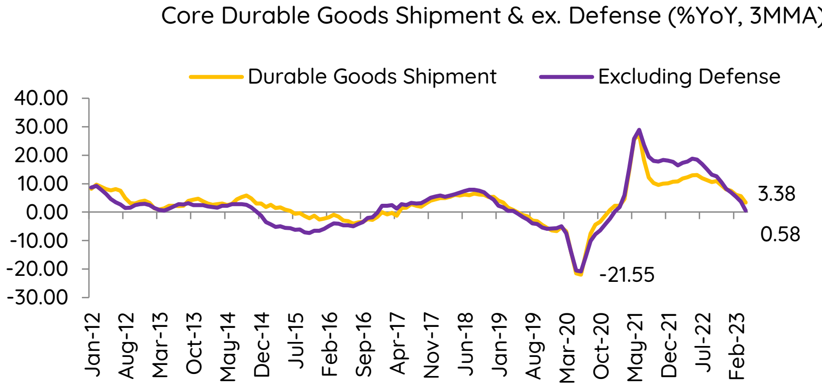
Source: CEIC

US retail sales slowing on sentiment, while Fed Beige book signals continued economic slowdown



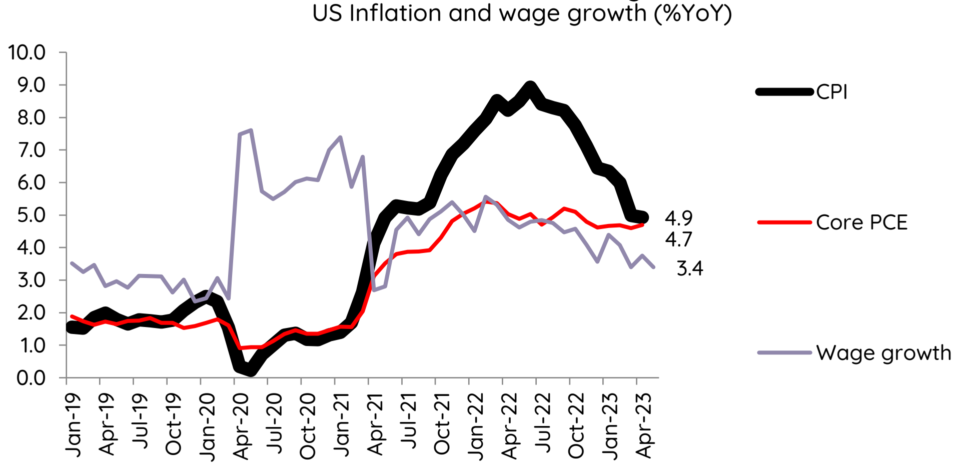
Source: Bloomberg

Private investment (measured by orders for durable goods) slowed sharply



Source: CEIC

Inflation and wages slowing, but still relatively high, pressuring the Fed to keep interest rates high

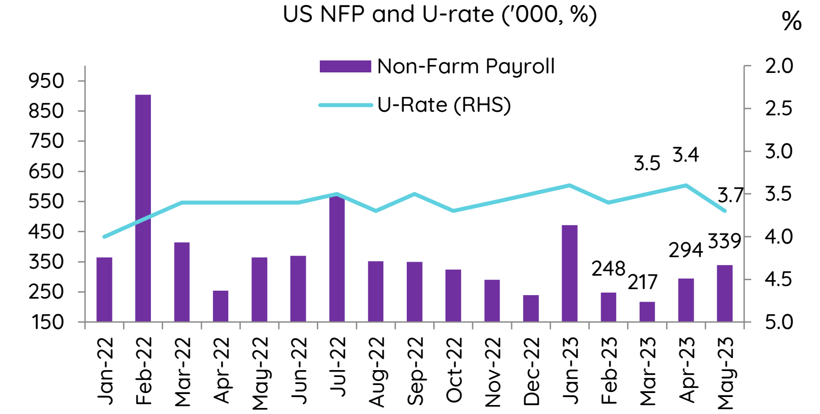


Source: CEIC

We expect to see employment decline going forward

- Currently, US total and manufacturing employment are higher than pre-COVID level, but services are lower, implying further contraction in manufacturing employment going forward. We believe more layoffs will be seen in manufacturing, IT and construction sectors.

Job creation still increased more than expected, but the unemployment rate started to move up.



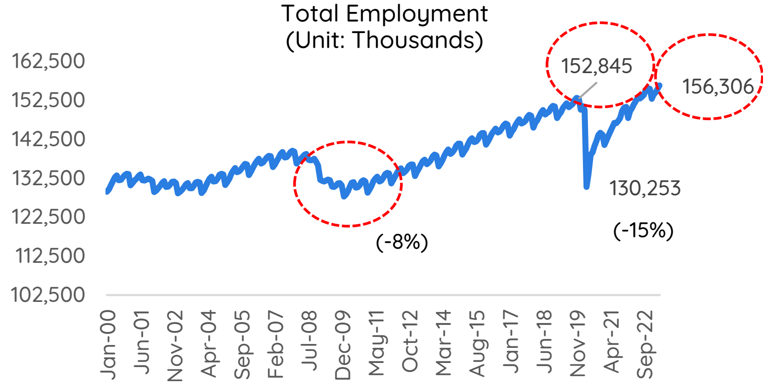
Source: CEIC

Most of the employment increase came from the service sector, especially Leisure and Hospitality.

	Before Covid (Mn)	May 2023 (Mn)	Employment add in May (k)
Total Employment	152.8	156.3	339
Leisure + Hospitality	17.2	16.4	48
Manufacturing	21.0	21.4	-2
IT	2.88	3.06	-9
Construction	7.61	7.97	25

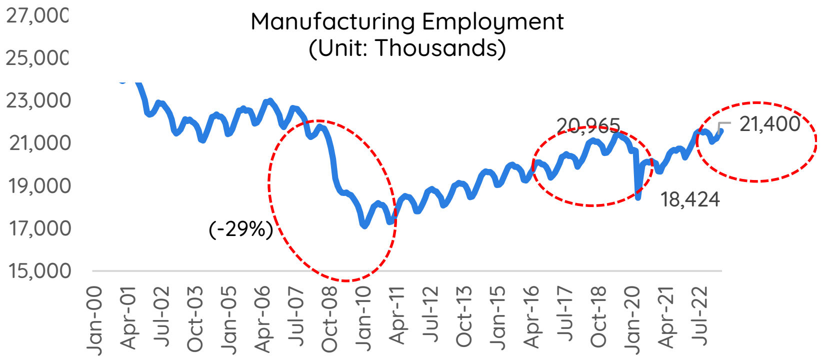
Source: CEIC

Total employment is now higher than pre-COVID period and we expect it to fall in the near future as it did in the 2008-2009 crisis.



Source: CEIC

Employment in the manufacturing sector is currently higher than before COVID and is likely to decline sharply going forward.

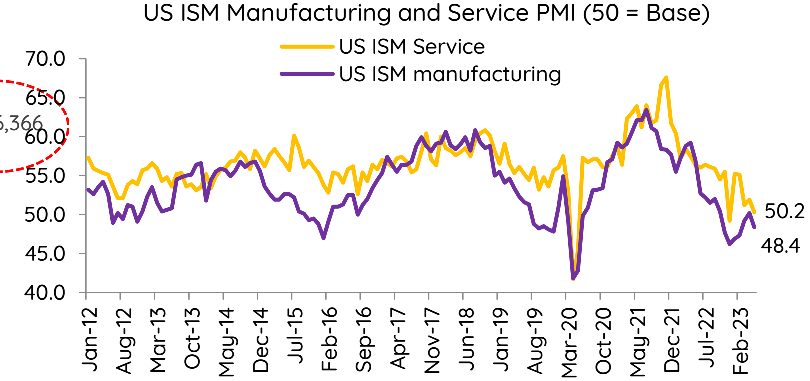


Source: CEIC

while the recreational sector is likely to employ more for a while.

Source: CEIC

ISM indicates continued slowdown in manufacturing and services sectors which should affect employment soon



Source: Bloomberg

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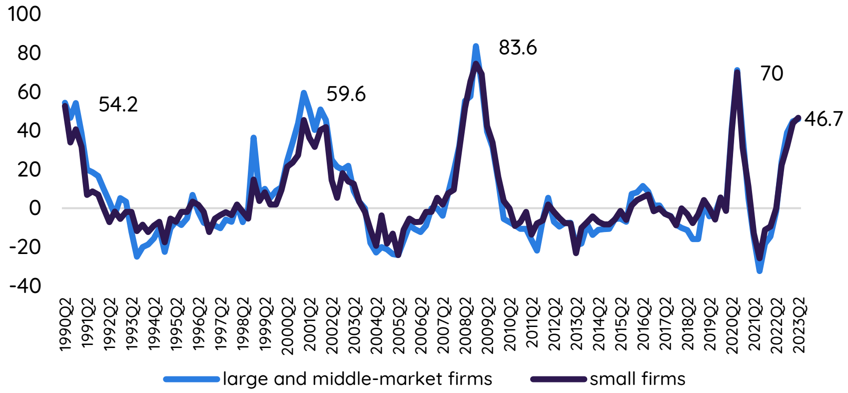
The risk of tighter financial liquidity

The banking crisis caused regional banks to tighten lending.

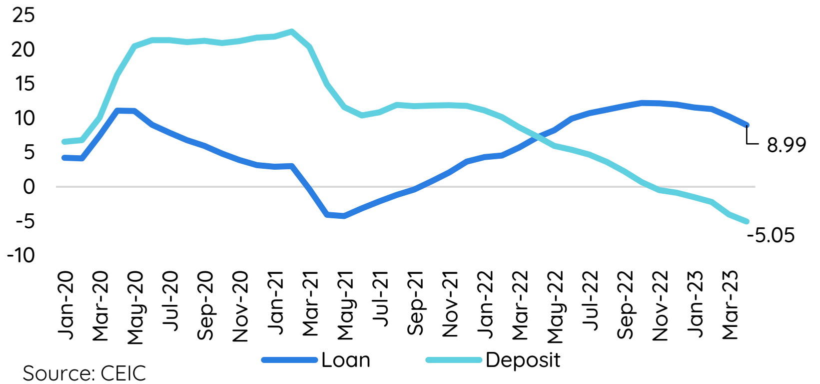
Net percentage of banks tightening standards for C&I loans



Source: CEIC, INVX

Credit slowed down after the banking crisis, while deposits contracted more heavily

US Loan and Deposit growth (%YoY)



Source: CEIC

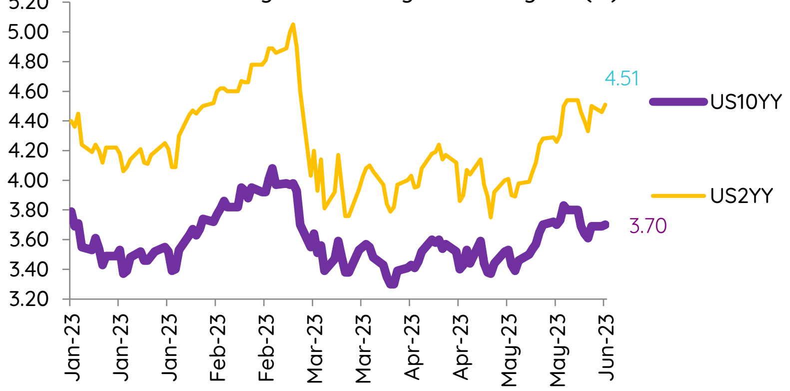
The debt ceiling extension will lead the Treasury Department to issue bonds to replenish the cash balance, which will drain liquidity from the system

US Treasury Cash Balance Total

Source: CEIC, INVX

US Treasury yields have bounced since the debt ceiling debate in May, and are still elevated.

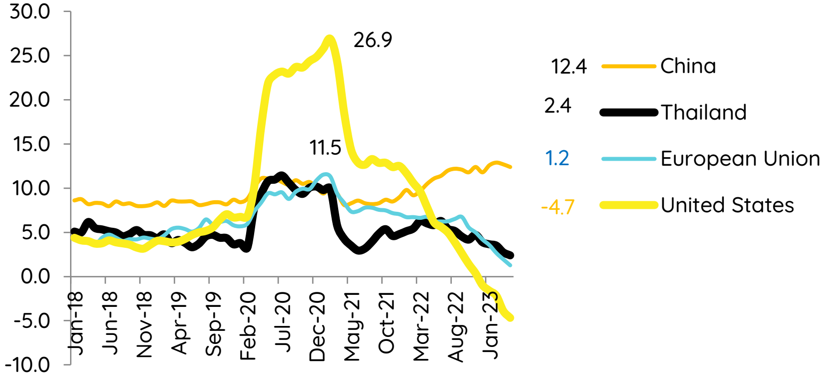
US 2-year and 10-year bond yield (%)



Source: CEIC, INVX

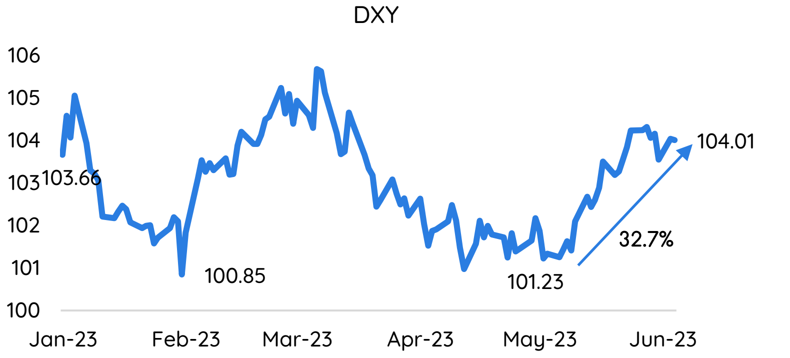
Rising interest rates + QT continue to shrink the US money supply.

Money supply growth, selected countries (%YoY)



Source: CEIC, INVX

Dollar strengthens on financial market risks + EM economy slowdown, which imply tightening financial condition.



Source: CEIC, INVX

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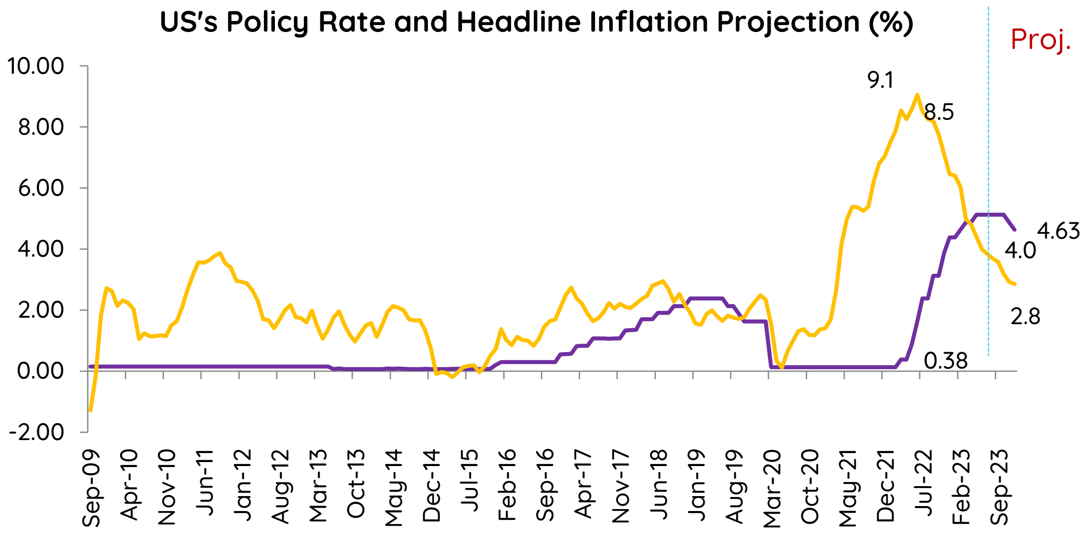
Fed Funds Rate projection

With the service sector and the labor market still strong amid the gradual reduction in inflation, we expect the Fed to keep interest rates high until the fourth quarter. Meanwhile, high interest rates in a climate of a gradual fall in inflation will bring real policy rate to positive, pressuring the economy in the future.

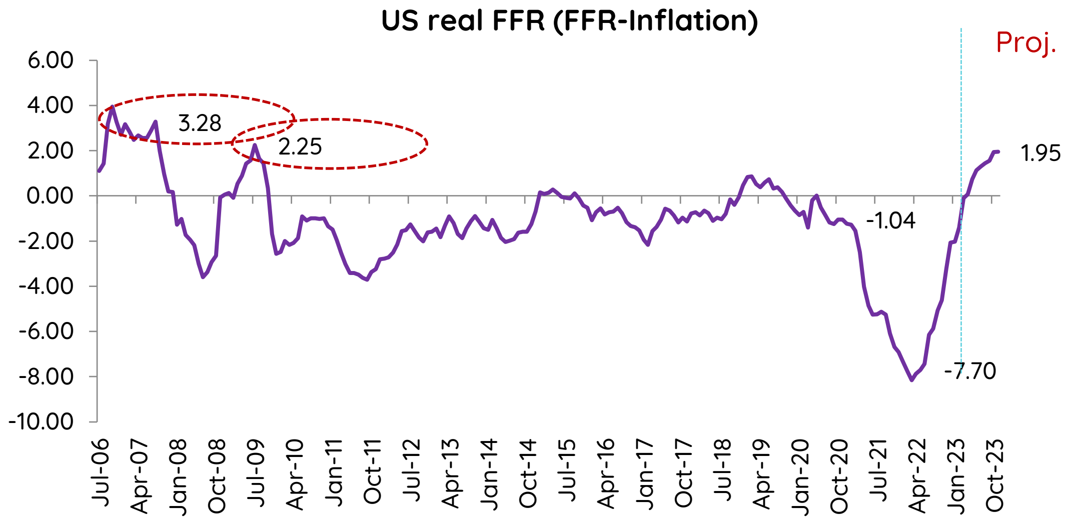
2023 US interest rate and inflation projections (May 2023)

2023	Dec	Jan	Feb	Mar	Apr	May (f)	Jun (f)	Jul (f)	Aug (f)	Sep (f)	Oct (f)	Nov (f)	Dec (f)
CPI (INVX proj.)	6.5	6.4	6.0	5.0	4.9	4.4	4.0	3.8	3.7	3.6	3.2	2.9	2.8
FFR	4.38	4.38	4.63	4.88	4.88	5.13*	5.13	5.13	5.13	5.13	5.13	4.88	4.63
Chg	0.50	-	0.25	0.25	-	0.25	0.0	0.0	-	0.0	-	-0.25	-0.25
Real FFR	-2.07	-2.03	-1.41	-0.10	0.07	0.73	1.13	1.30	1.44	1.55	1.94	1.95	1.78

Note: May FFR is the actual result of the meeting.



Source: CEIC, INVX



Source: Fed, CEIC, INVX

Economic numbers are getting worse than we expected (excluding the labor market)

1.25yrs (+500bps) 0.5yrs

EP 3: 22Q1-...	3/2022	06/2022	09/2022	12/2022	01/2023	02/2023	03/2023	04/2023	05/2023	06/2023	07/2023	08/2023	09/2023	10/2023	11/2023	12/2023
FFR	0.38	1.63	3.1	4.4	4.4	4.6	4.88	4.88	5.13	5.13	5.13	5.13	5.13	5.13	4.88	4.63
CPI	8.5	9.1	8.2	6.5	6.4	6.0	5.0	4.8	4.9	4.0	3.8	3.7	3.6	3.2	2.9	2.8
GDP	3.5	1.9	2.1	0.9	1.9	1.9	1.9	0.6	0.6	0.6	0.1	0.1	0.1	-0.4	-0.4	-0.4
ISM Manu	58.8	52.7	52.0	46.2	46.9	47.3	49.2	50.2	48.4	46.0	45.9	45.7	45.6	45.5	45.3	45.2
ISM Service	58	52.7	49.3	49.2	55.2	55.1	51.2	51.9	50.3	50.0	49.9	49.6	49.5	49.3	48.9	48.7
NFP	414	370	350.0	239.0	472.0	248.0	217.0	294.0	166.6	339.0	145.3	64.7	60.7	25.0	-10.7	-21.3
U-rate	3.6	3.6	3.5	3.5	3.4	3.6	3.5	3.4	3.7	3.7	3.8	3.8	3.8	3.8	4.0	4.0
Retail Sales	7.1	8.8	8.4	6.2	7.6	5.9	2.4	1.6	1.6	1.42	1.3	1.2	1.032	0.8	0.4	0.248
Core K-Goods shipment	14.6	15.7	11.7	5.3	7.1	3.8	0.7	-2.5	-0.9	-1.36	-1.7	-2.2	-2.524	-2.9	-3.7	-4.076

Real number Forecast

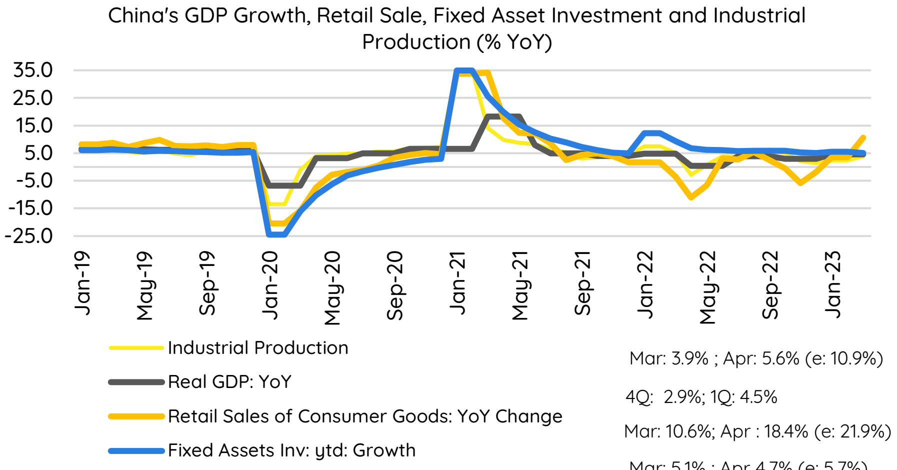
Source: CEIC, INVX

- In analyzing the overall US economy, we use the Economic Heatmap analysis conducted during 2Q23. We find that the latest US economic indicators are decelerating more than we had predicted, including GDP, inflation, Manufacturing, Services, Retail Sales and Durable Goods Orders. The only figure that is stronger than expected is the employment sector.
- However, although non-farm payrolls in April rose more than the market expected, the unemployment rate also increased sharply, while weekly wages growth continued to decline as well. The number of jobless claims increased drastically in the most recent week, indicating that the labor market is beginning to slow down.
- If this momentum continues, we believe the service sector and employment are likely to begin to slow down more strongly, especially after inflation falls below the policy interest rate (implying positive real policy rate). We believe this is the precondition for the Fed to cut interest rates, which we expect to happen in November. At the same time, if the financial crisis occurs before November, it is possible the Fed will cut interest rates before then.

China grew much slower due to low confidence, weak global economy and high inventory

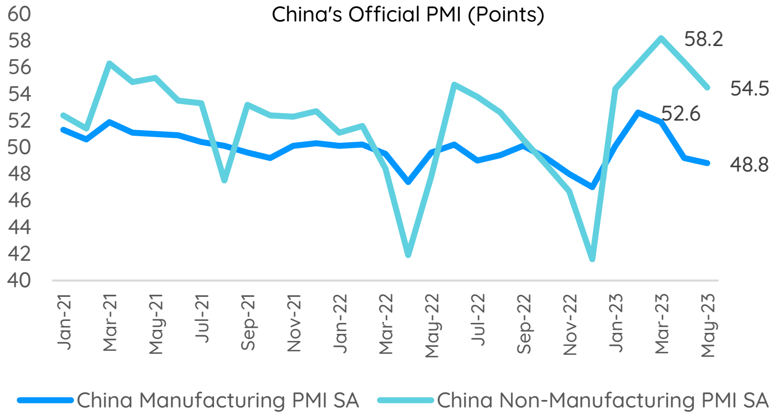
China's economy in April grew much slower than market expectations due to low consumer confidence and weak manufacturing sector.

China's economy in April grew less than expected across all indices.



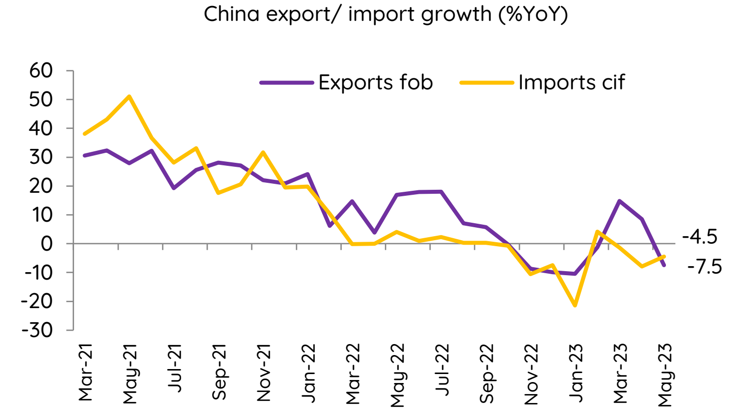
Source: CEIC

May's official PMI slips into negative territory



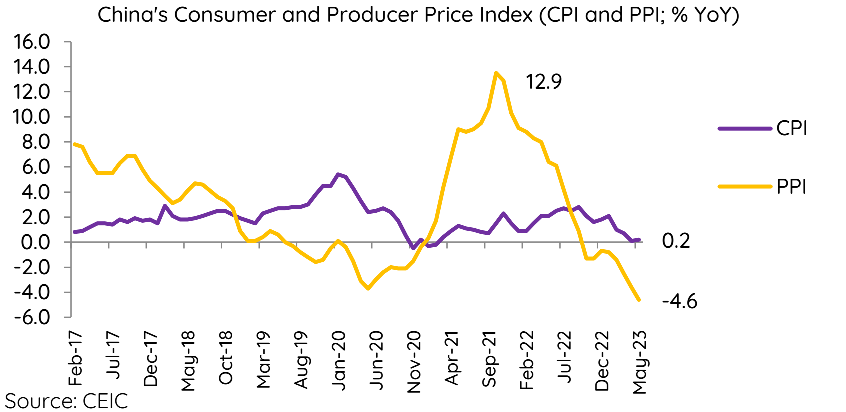
Source: Bloomberg

Chinese exports shrink again, indicating greater economic risk



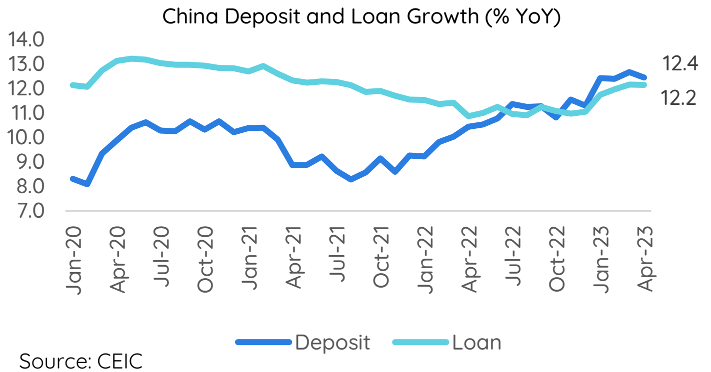
Source: CEIC

Consumer inflation growth low. Negative producer inflation indicates lower than expected demand



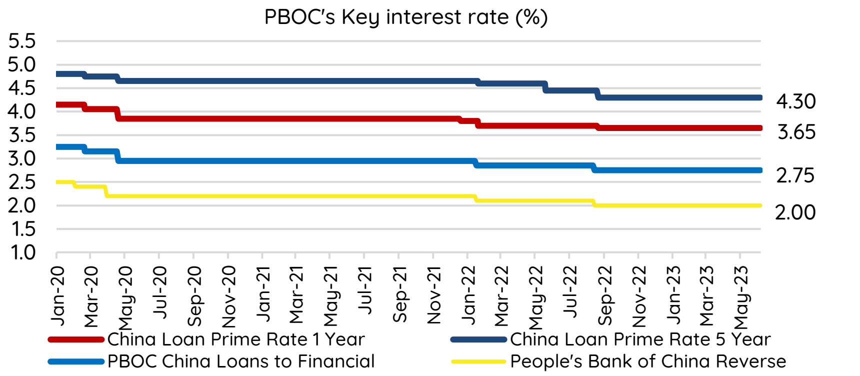
Source: CEIC

Deposits continued to expand more than loans, indicating low Consumer confidence



Source: CEIC

Authorities asked the four major banks to reduce deposit rates, opening the way for the PBOC to further reduce RRR or interest rates.



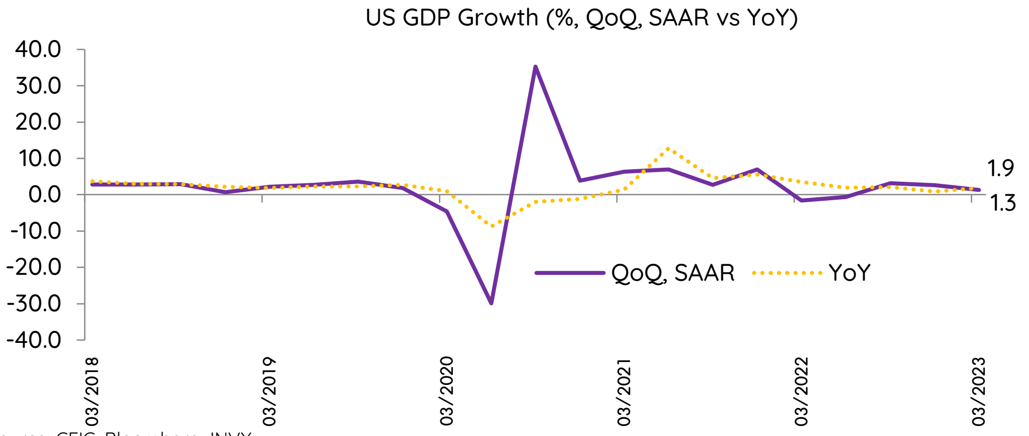
Source: Bloomberg

Global economy may go into a synchronized slowdown in 2H

Global economy may go into a synchronized slowdown in 2H

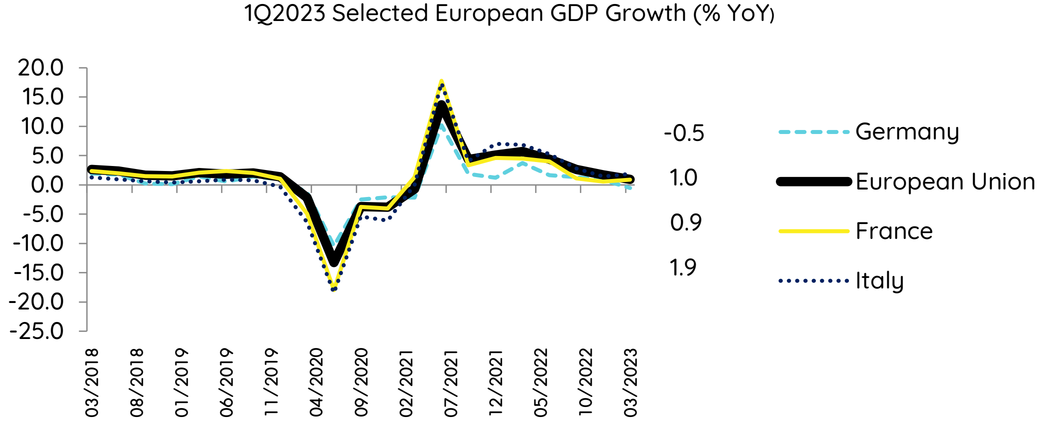
- We believe in the second half of the year, the global economy may go into a synchronized slowdown.
- Although the Chinese economy was better than expected in 1Q23, there are more risks going forward. The US and Europe grew at a slower pace than expected.
- Looking forward we believe the economies of the US and Europe are at risk of a recession in 2H, which will prompt the Fed to cut interest rates, while China and Thai economic momentum is slower than expected.

US GDP growth slows on investment and inventories



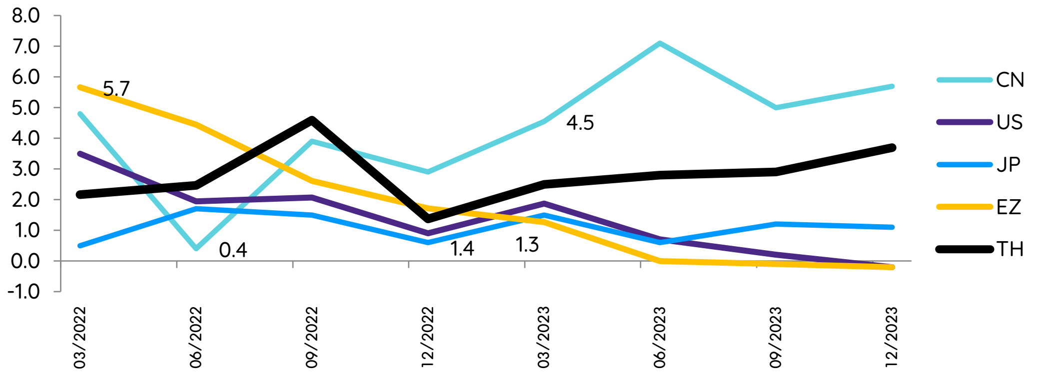
Source: CEIC, Bloomberg, INVX

European annual GDP growth is slowing, with quarterly GDP contracting into recession due a contraction in Germany's economy.



Source: CEIC

INVX's Global-5 Quarterly GDP growth Proj. (May'23, % YoY)



Source: InnovestX Research

INVX's Global-5 Quarterly GDP growth Proj. (Jun'23, % YoY)

(%YoY)	1Q23 (f)	2Q23 (f)	3Q23 (f)	4Q23 (f)	2022	2023 (f)
US	1.9	.6	0.1	-0.4	2.1	0.6
EZ	1.0	0.4	-0.1	-0.3	3.6	0.3
CN	4.5	7.1	4.6	5.0	3.0	5.3
JP	1.3	0.6	1.2	1.1	1.1	1.1
TH	2.7	2.5	2.5	3.0	2.6	2.7
Avg-5	2.3	2.3	1.8	2.5	2.6	2.1

Source: InnovestX Research

The Thai economy will face four risks

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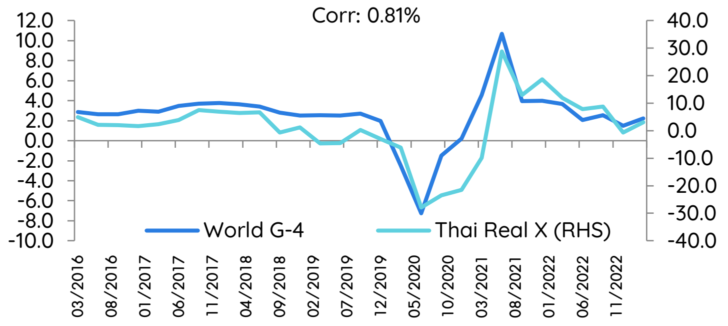
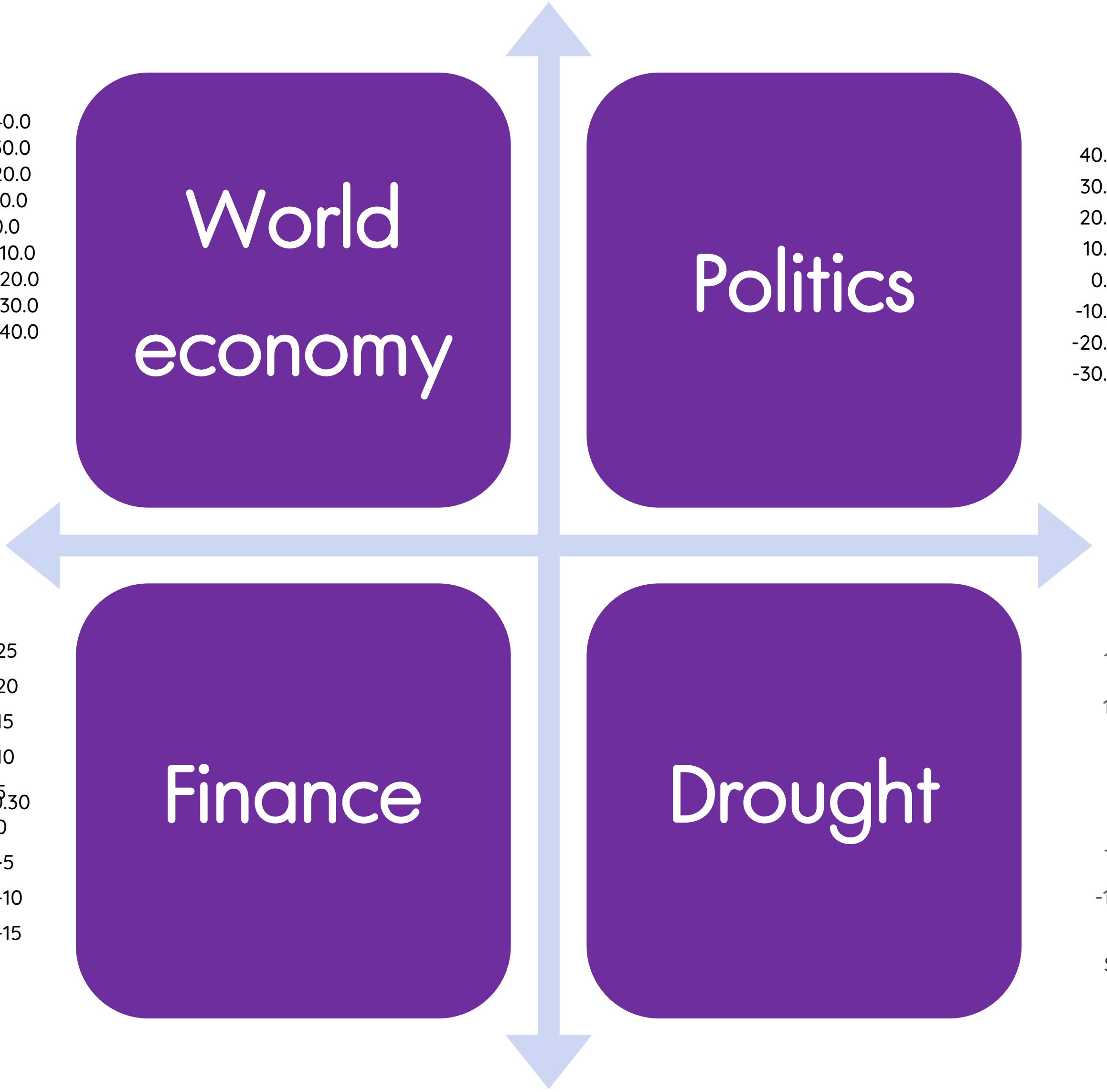
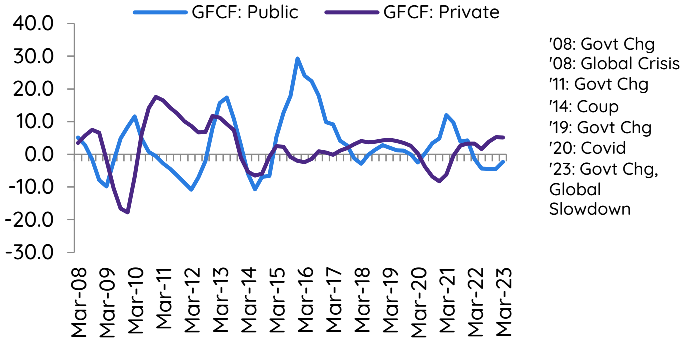
World G-4 GDP and Real Thai Export (%YoY)



Source: CEIC

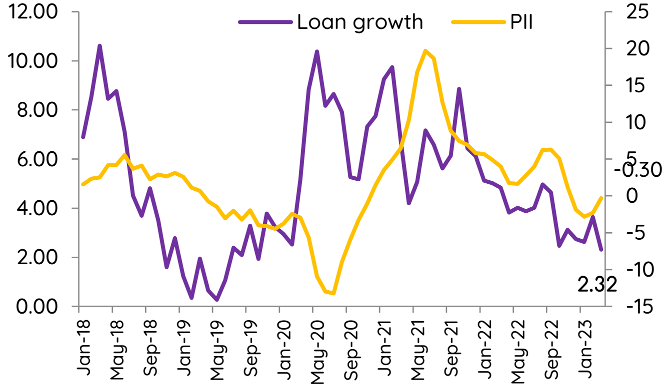


Real Thai Gross Fixed Capital Formation (Investment): Private and Public (%YoY)



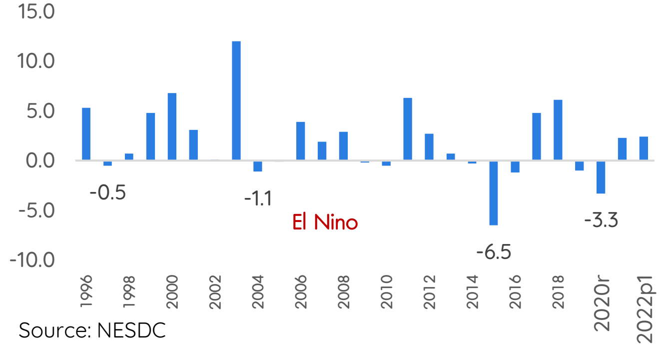
Source: CEIC

Loan and Private Investment Index (PII) growth (%YoY, 3MMA)



Source: CEIC

Thai Agriculture GDP Growth (% YoY)



Source: NESDC

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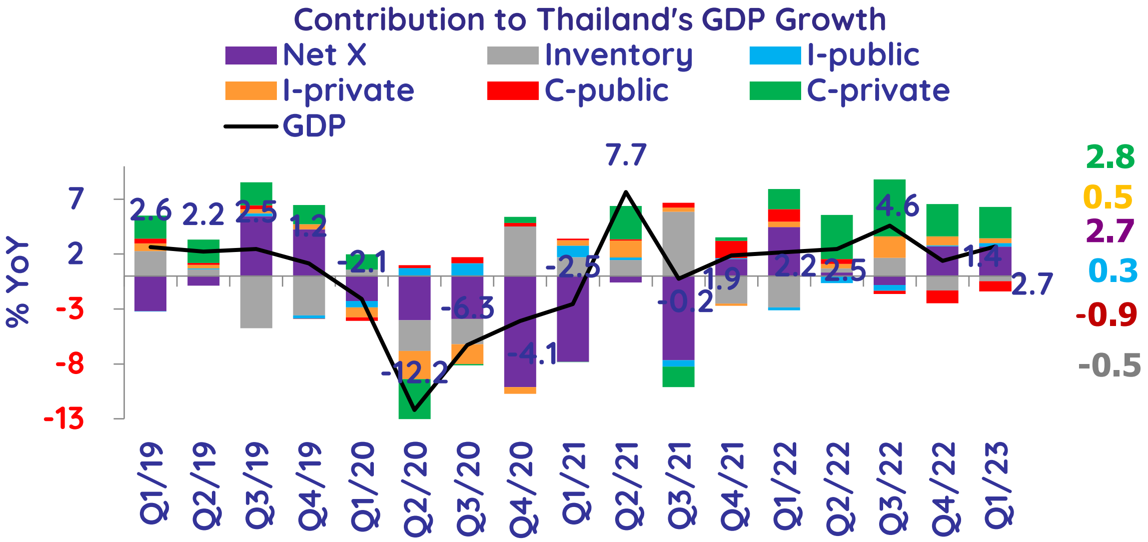
1. The biggest risk to the Thai economy is from exports.

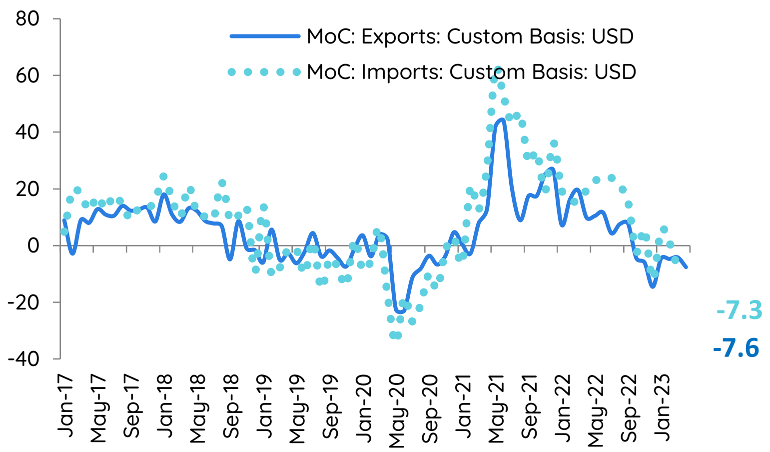


Source: NESDC, INVX

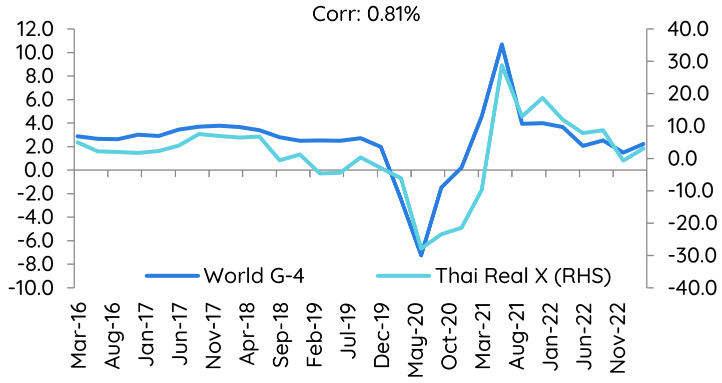
- The Thai economy in 1Q23 grew 2.7% YoY or 1.9% QoQ. (seasonally adjusted), which is in line with our expectation of 2.5%.
- As for momentum, the Thai economy was beginning to recover after reopening, but risks arising from the global economy affected the manufacturing and export sectors, causing the Thai economy to grow less than it should.
- Export of services (tourism revenue) increased by 87.8%, but the volume of merchandise exports contracted by more than 6.4%, resulting in an expansion in net exports of goods and services of 3.0% (and contributing to GDP growth at 2.7%).
- Exports in April 2023 fell 7.6% YoY. In terms of market, the contraction is broad-based (except for exports to China, which were amplified by exports of durian). In terms of product, export of industrial products such as computers, rubber products, oil, chemicals and plastic resins have now fallen for six months.

- Our analysis shows that exports of major industrial goods continues to contract, pointing to a slowdown in global demand. At the same time, a high level of inventories while the global economy continues to slow will lead to low demand for industrial products, continuing to pressure the Thai export sector.
- Going forward, we are more concerned about export risks. We have revised down the value of merchandise exports from no growth (0%) to a contraction of 2%.

Growth of Export and Import Value (Custom Basis/ % YoY)



World G-4 GDP and Real Thai Export (%YoY)



Source: CEIC

2. The Thai economy is at risk from a political vacuum

- We see the prior coalition grouping as unlikely to be able to form a government, because it would be a minority government in the lower house, making it an easy target of a no-confidence vote. This means a new coalition with the Move Forward Party and the Pheu Thai Party may be able to join forces to form a government. However, there remains a risk because it will need to garner votes from senator (with the total number of 376 or above). A mixed government led by the Pheu Thai, Bhumjaithai and Palang Pracharat parties also seems to stand a chance. But Pheu Thai may have to wait for the situation to mature (meaning that the new government may not last long).

	Old coalition	New coalition	Mixed Coalition
Political Stability	Unstable because it would be an easy target for a no confidence vote	Uncertainty about the timing of the government formation .	Greater stability in the parliament, but low stability outside the parliament

Party	Number of MPs
3. Bhumjaithai	71
4. Palang Pracharat	40
5. United Thai National	36
6. Democrat	25
8. Chart Thai Pattana	10
10. Chart Phatthana Kla	2
Total	184 + 250 = 434

Party	Number of MP
1. Move Forward	151
2. Pheu Thai	141
7. Others (e.g. Prachachat, Thai Liberal Party and Fair)	15
9. Thaisangthai	6
Total	312 (+ Senate = ?)

Party	Number of MPs
2. Pheu Thai	141
3. Bhumjaithai	71
4. Palang Pracharat	40
Total	252 + 250 = 502

Source: ECT

Unlikely

Scenario 1

Scenario 2

We expect the new government to be formed later than the ECT's timeline.

Date	ECT Timeline
14 May 2023	General election
Early July 2023	The Election Commission of Thailand announces the results of the election of 500 MPs within 60 days from the election day
Mid July 2023	Opening ceremony for the House of Representatives, appointing the Speaker and Deputy Speaker for the House of Representatives
End of July 2023	Parliament votes to elect a new prime minister and wait for royal approval
Within Aug 2023	PM forming cabinet and waiting for Royal endorsement
Within Aug 2023	Cabinet sworn in and announcing government policy

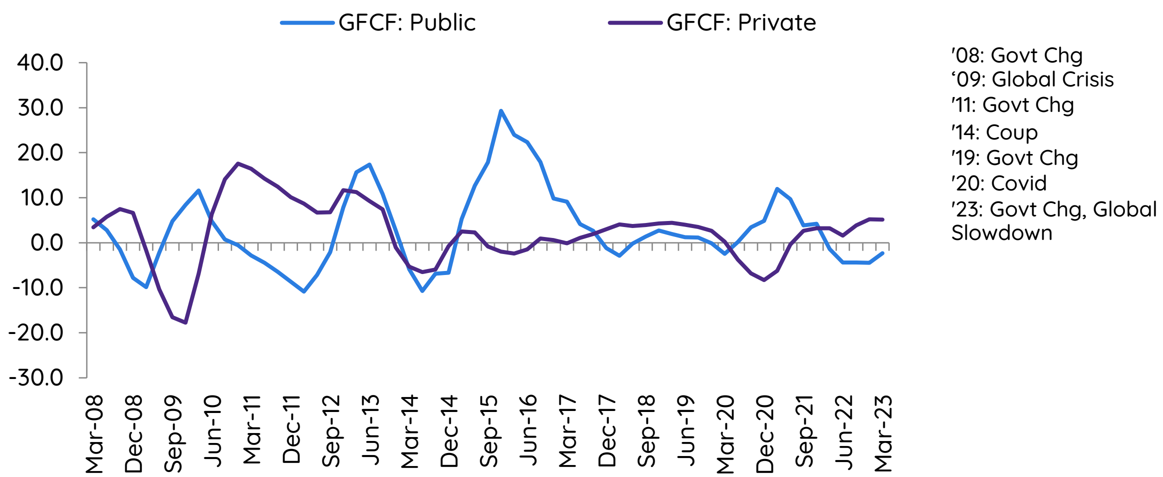
Source: ECT

- A prolonged political vacuum leads to a state of de facto tight fiscal policy. Currently, the formation of a new government is still murky. There are various risk factors that must be monitored. For example, the eight-party coalition still does not have the votes needed to form the government (376 seats, both MPd and Senators).
- Moreover, there are several legal cases that must be resolved by the Election Commission of Thailand (ECT) and/or the Constitutional Court, making it difficult for government to form by August, as per the Election Commission's timeline.
- We see the formation of the government as more likely in September-October, which would imply a further delay in enacting the new fiscal budget, which will in turn delay disbursement of capital (or investment) budgets by up to 2-3 quarters.
- This means that public consumption and public investment will contract more strongly in the second half of the year.

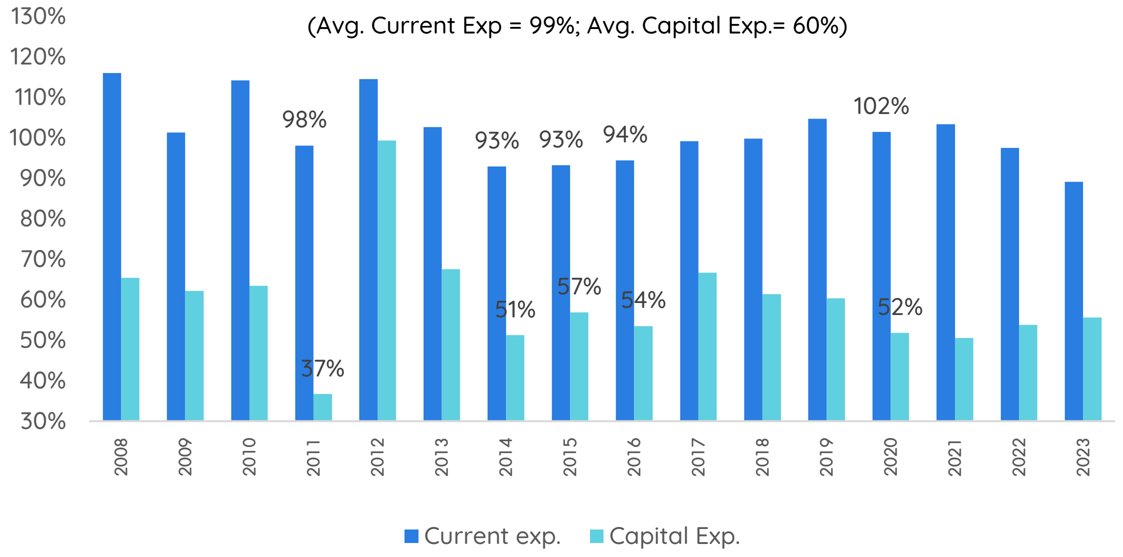
Budget disbursement and private investment affected by political factors

- In every year in which there was a change in government, budget disbursements and private investment have been affected. For example, the change of government in 2007-08 (PM Samak) caused public investment in 2008 to contract; in 2011-12 (Abhisit-Yingluck government) public investment contracted, with disbursement of capital expenditure far below target (only 37% vs. the average of 60%), while the 2014 coup d'état led to a contraction in public and private investment, while both current and capital expenditure disbursement have been below target for three years. We believe that the formation of a new government this time will be delayed, which will slash budget disbursement. This will be a double blow to government spending, which saw a contraction from the high base in previous years (call fiscal drag, in Economic jargon).
- With that in mind, we have downgraded public consumption and public investment to contractions of 2.7% and 0.1% in 2023, from previously expected growth of 0.9% and 3.0% respectively.

Real Thai Gross Fixed Capital Formation (Investment): Private and Public (%YoY)



Thai Government Budget Disbursement Rate (% of Budget)

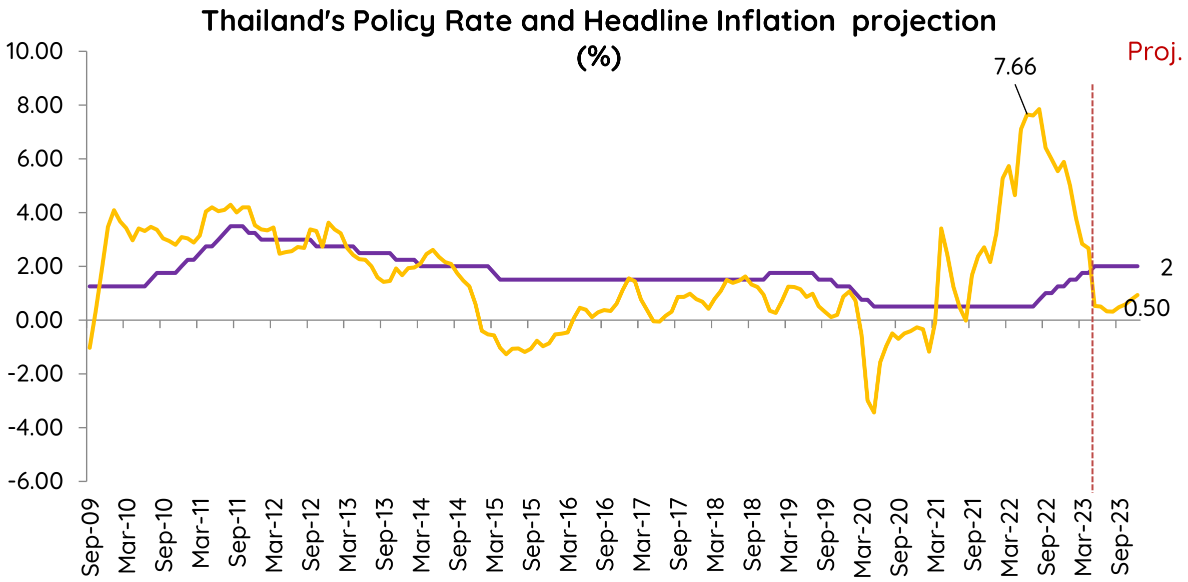


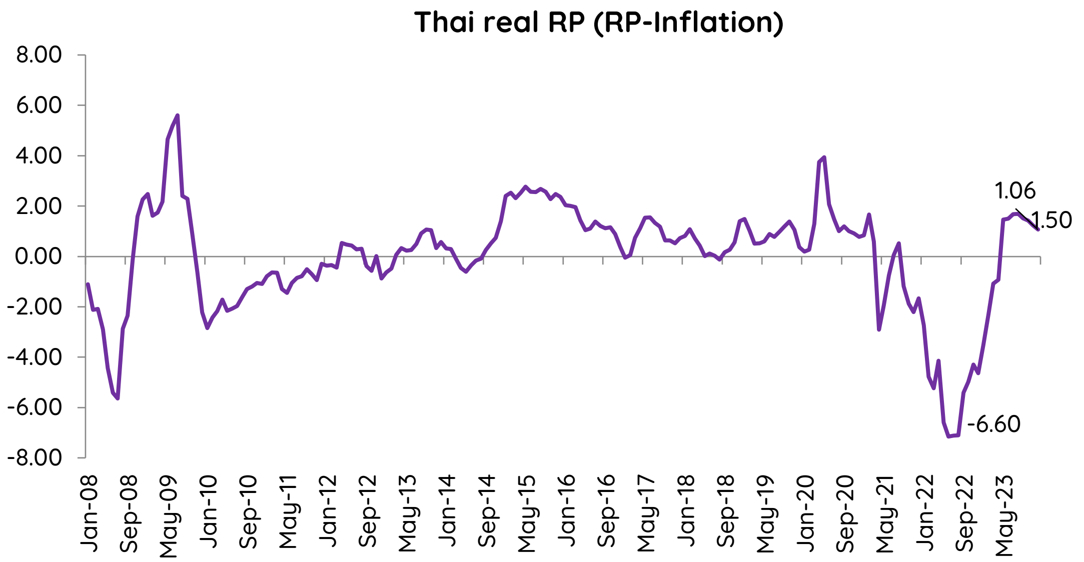
Source: CEIC, INVX

3. The Thai economy is at risk from tight monetary policy

- Inflation in May 2023 continued to decline to 0.5%, below our 2.4% estimate due to a sharp fall in energy prices and lower domestic demand. We expect inflation for the whole year to grow at an average of about 1.56%. However, at the latest monetary policy meeting, the Bank of Thailand (BoT) raised its policy interest rate to 2% and left the door open to again raise interest rate. This leads us to believe that the BoT is likely to have to keep interest rate at 2%, which would turn the real policy interest rate positive in the second half of the year, which is contractionary.

2023	Jan	Feb	Mar	Apr	May	Jun (f)	Jul (f)	Aug (f)	Sep (f)	Oct (f)	Nov (f)	Dec (f)	Avg.
CPI	5.02	3.79	2.83	2.67	0.53	0.50	0.32	0.31	0.49	0.57	0.76	0.94	1.56 (Avg)
RP	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00 (end)
Real RP	-3.52	-2.29	-1.08	-0.92	1.47	1.50	1.68	1.69	1.51	1.43	1.24	1.06	0.31 (Avg.)

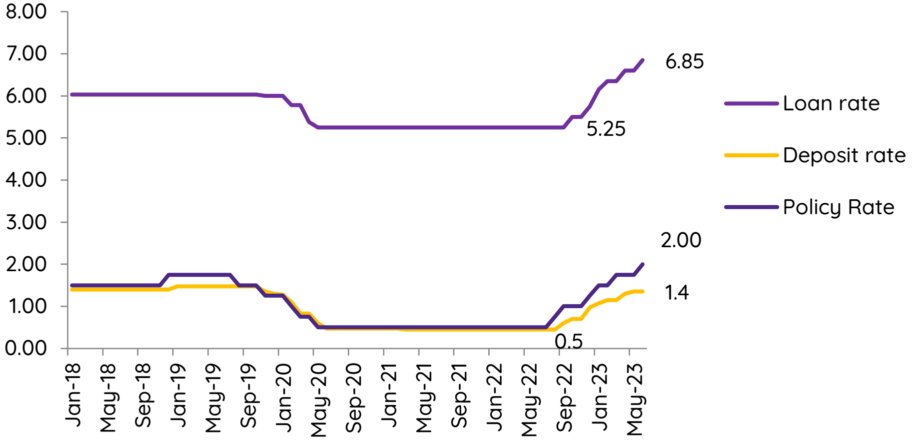




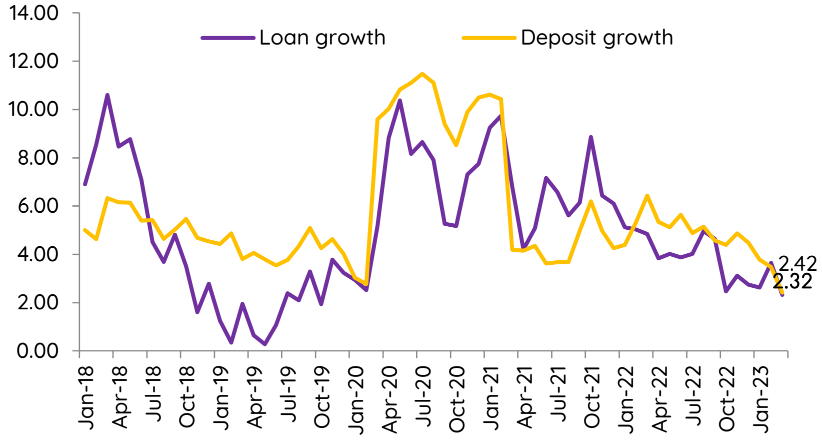
Source: CEIC, INVX

Tight monetary policy leads to higher financial cost and shrinking credit

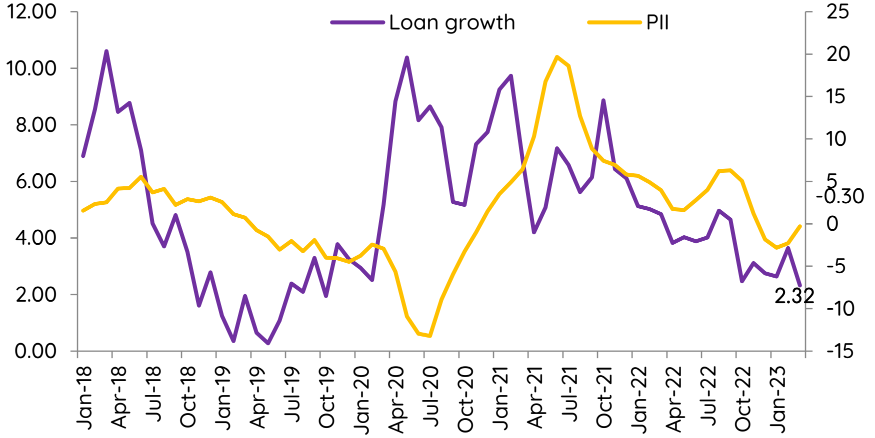
Loan (MLR) and Deposit rate (1-yr) of Thai Financial institution (%YoY)



Loan and Deposit growth of Thai Financial institution (%YoY)

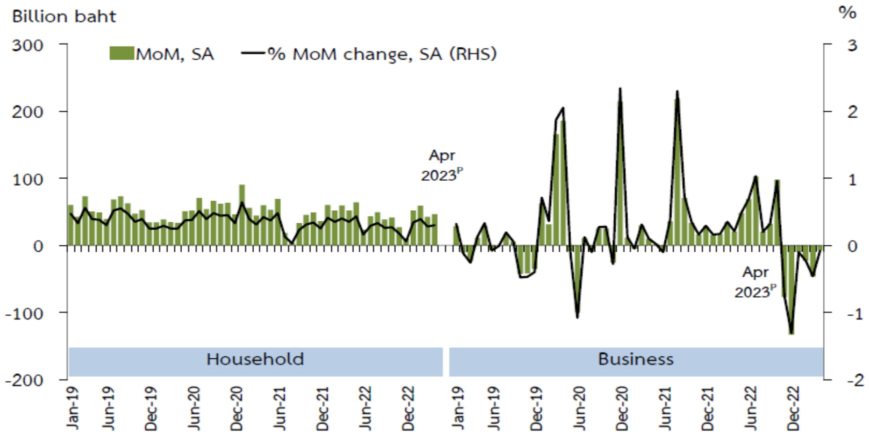


Loan and Private Investment Index (PII) growth (%YoY, 3MMA)



Source: CEIC, BOT

Net Changes in Outstanding Loans



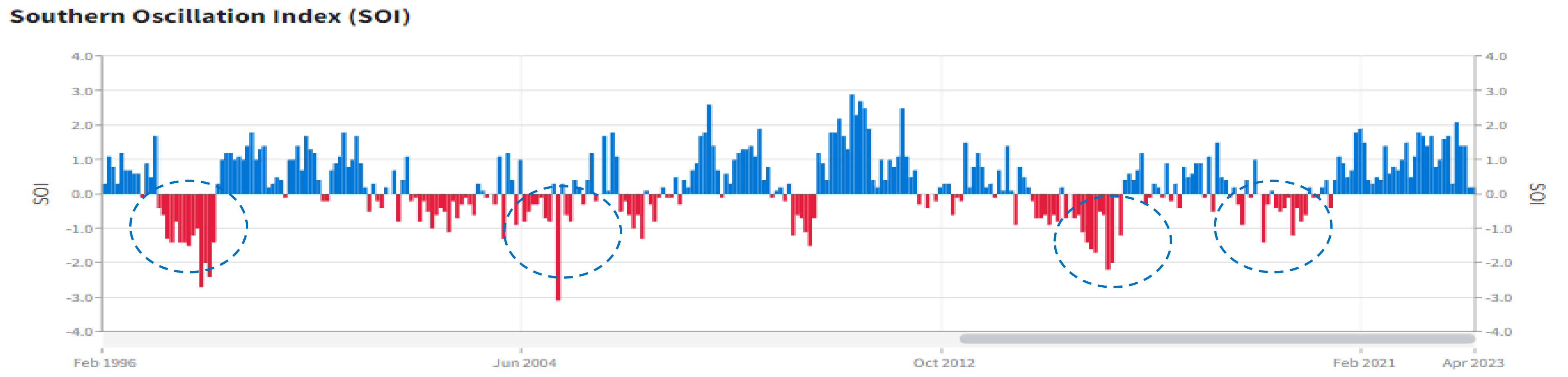
Note: net changes in outstanding loans extended by other depository corporations,

- We expect the business sector to be heavily affected by interest rate increases. At of now, the policy rate has risen by 150 bps, bringing MLR lending rates up 160 bps (while deposit rates have increased by 90 bps).
- Higher interest rates led to a clear slowdown in loan growth from 8.9% p.a. in Oct 2021 to 2.3% in Mar 2023.
- Loan shrinkage has a significant impact on investment. In March, investment had contracted 0.3% per year (3-month average).

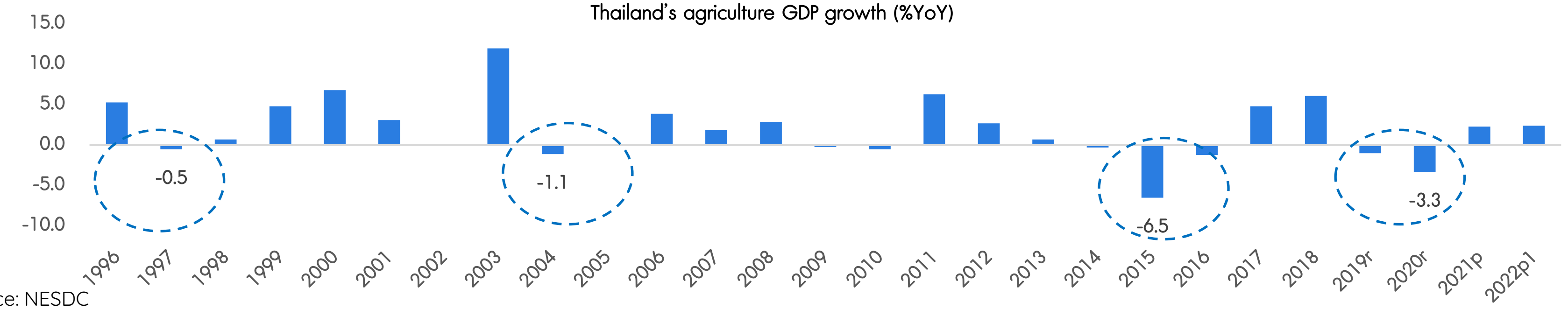
Looking forward, tightening monetary condition will cause commercial bank interest rates to increase accordingly. Private investment is likely to shrink further. (Note: buying a house is considered an investment in GDP calculations.)

4. The Thai economy is at risk from a drought brought by El Nino.

- We are keeping an eye on the SOI (Southern Oscillation Index), which is an indicator of southern hemisphere climate variability and a measure of the risk of El Nino. If the index contracts over a period of time, El Nino may take place in the following 3-6 months and affect cultivation and agricultural production in Thailand and lead to an agricultural crisis.



Source: https://www.cpc.ncep.noaa.gov/data/indices/soi



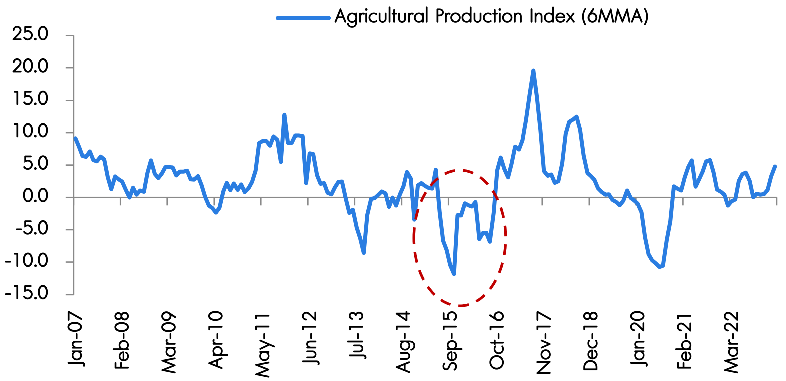
Source: NESDC

- Since 1993, the index indicates four major El Nino upswings: 1) 1997-1998, 2) 2004-05, 3) 2015-17, and 4) 2019-2020.
- It can be seen that in the El Nino years, agricultural production is affected. As a result, the agricultural economy (Agriculture GDP) contracted, shrinking by 0.5% in 1997, 1.1% in 2004, 6.5% in 2015 and 3.3% in 2020.

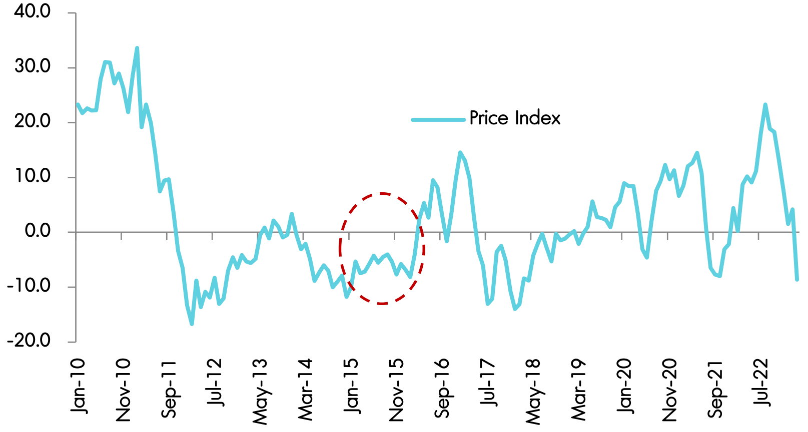
If the SOI index contracts, what will be the impact on the agricultural sector?

- During episode 3 (2015-17), especially in the third quarter of 2015, the Agricultural Production index shrank more than 10%, especially the production of cereals, cassava, maize and rice, with rice contracting the most at about 70% in the 2nd-3rd quarter. In addition, during that period, the price of agricultural products also contracted 5-10%, mainly due to the contraction of rubber prices. (which was due to a slowdown in the Chinese economy as a result of China's hard landing, resulting in a decreased demand for rubber), causing farm income to shrink by 15-20% during that period.

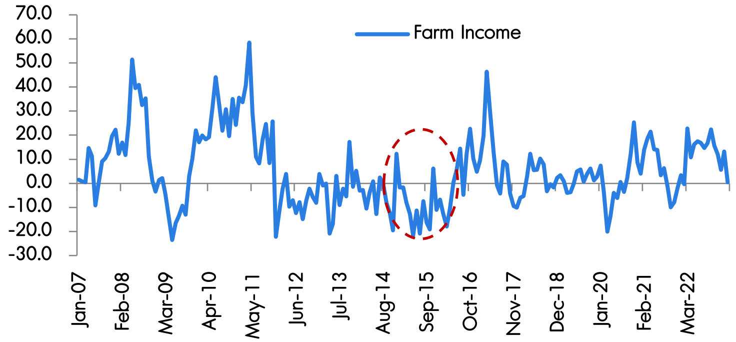
Agricultural Production Index (6MMA)



Price Index



Farm Income



	3/2014	6/2014	9/2014	12/2014	3/2015	6/2015	9/2015	12/2015	3/2016	6/2016	9/2016	12/2016	3/2017	6/2017	9/2017	12/2017
Crop	-2.6	2.9	7.3	1.8	3.8	-20.3	-18.5	-3.7	-11.9	-13.8	-5.2	9.4	13.6	28.1	22.9	-2.1
Grains and	-3.9	-7.4	1.3	4.2	6.3	-51.0	-49.2	-13.8	-17.8	-15.6	-20.4	26.4	13.5	55.5	123.4	-8.9
Cassava	-19.6	23.9	16.7	13.9	24.8	-21.2	-19.2	-18.4	-9.8	84.9	44.6	7.5	6.2	-17.3	-39.4	-10.5
Maize	-12.2	-14.5	-17.9	1.4	14.4	-8.3	-65.0	6.7	-32.0	-16.9	11.4	12.4	-20.2	8.8	175.0	-17.7
Paddy	1.4	-9.6	3.9	29.5	12.3	-58.4	-49.2	-18.1	-38.5	-33.6	-45.3	39.0	28.0	97.8	297.9	-14.3

Source: CEIC

- Therefore, it can be said that if the SOI index enters negative territory in the third quarter and extends into the fourth quarter, it may lead to an El Nino in late 2023-early 2024, which may also lead to a contraction in agricultural production, similar to 2015-17. However, it is important to monitor whether or not the price decreases as well as the production volume. If the global economic slowdown causes the price of agricultural products to drop as well, this could lead to a decline in farm income to the level similar to that of episode 3. We believe that the crops most vulnerable to drought are cereals, especially rice and maize.

Latest government agency estimates for the Thai economy compared to InnovestX

- In view of these risks, we have revised down our economic forecast for this year from 3.0% to 2.7%, with a sharp reduction in consumption and government investment as well as in private investment and consumption. The export sector continues to contracts due to the worsening global economy. Inflation will decline sharply due to a slowdown in both domestic and international economies.

Macro growth projection	Actual 2021	Actual 2022	FPO (Apr'23) 2023f	BOT (Mar'23) 2023f	BOT (May'23) 2023f	NESDC (May'23) 2023f	InnovestX (May'23) 2023f	InnovestX (June'23) 2023f
GDP growth	1.5	2.6	3.6	3.6	3.6	3.2	3.0	2.7
Private investment	3.0	5.1	2.3	2.1	1.7	1.9	2.5	0.5
Public investment	3.4	-4.9	2.6	3.7	2.5	2.7	3.0	-0.1
Private consumption	0.6	6.3	4.1	4.0	4.4	3.7	4.0	3.2
Public consumption	3.7	0.0	-2.1	-2.2	-2.8	-2.6	0.9	-2.7
Export value in US$ terms (%)	19.2	5.5	-0.5	-0.7	-0.1	-1.6	0.0	-2.0
Import value in US$ terms (%)	15.0	12.4	-0.2	1.2	0.7	-1.9	2.1	0.0
Current account to GDP (%)	-2.2	-3.4	0.8	1.0	1.2	1.4	0.0	0.0
Headline inflation (%)	1.2	6.1	2.6	2.9	2.5	3.0	2.7	1.6
USD/THB	32.0	35.1	33.17	N/A	N/A	33.3	35.0	35.0
Policy rate (%)	0.50	1.25	N/A	N/A	N/A	N/A	2.00	2.00
No. of inbound tourists (mn)	0.43	11.2	29.5	28.0	29.0	28.0	25.0	25.0

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

3Q23 Strategy

InnovestX Securities Co., Ltd.

3Q23 InnovestX Strategy – Beauty is only skin deep

Global economy may go into a synchronized slowdown in 2H23. We see the US and European economies as at risk of a recession in 2H, prompting the Fed to cut interest rates, while the Chinese and Thai economic momentum will be slower than expected. With greater economic risks ahead, we believe the global economy may go into a synchronized slowdown in the second half of the year.

Fatigued China. The expected revenge spending and unleashing of pent-up demand did not pan out and we overestimated the pace of China's recovery. We are not optimistic about China in 2H23 despite low valuation. Exports are also a worry in 2H23 for exporting sectors food, logistics, petrochemicals and electronics.

Destocking a headwind to growth. Destocking could lead to slower GDP growth and earnings than anticipated as it may take 1-2 quarters to bring inventory down to normal levels. We do not expect a strong global recovery until destocking is complete, especially for semiconductors, automotive and machinery.

Thai economy faces risk from inside and outside. From outside, a global economic slowdown and China's destocking will pressure GDP growth, while at home, regulatory risk from an anti-monopoly policy will overhang a dominant business group, dampening sentiment. A delayed setup of a new government is a threat to growth in 2H23.

New government's policies bring uncertainty. If the new government follows through on its campaign promise to increase the minimum wage to 450 baht and raise corporate tax rate to 23% from 20%, the first will slice 4% off earnings and the second will carve off 3%. On the other hand, if it brings electric rates down by Bt0.7 per unit (-15%), earnings will be bumped up 3%. The end result would be a fall of 3% in net profit of companies under coverage from base case and could lead to de-rating of valuations of large companies.

Cut growth outlook and target. We cut our economic forecast for this year to 2.7% from 3.0% on changes in our assumptions for exports, private investment and government spending. A 4% earnings downgrade led to a 5-6% cut in the 2023 SET Index target, to 1,650 from 1,750.

Benign mode, downside tails in 2H. Stay defensive & selective. The key focus in 2H23 is completion of destocking, coming of El Nino, and semiconductor recovery. With uncontrollable tail risks, we recommend staying defensive and selective on cyclical sectors and focus on business outlook and earnings recovery.

Limited impact from policies with earnings recovery. Market volatility is high from macroeconomic uncertainties. We see a chance to add to stocks with high recovery visibility and limited impact from the new government's policies. Our top picks in 3Q23 are BBL, BDMS, BEM, HMPRO and OSP.

Our 2Q23 recommendations

Underperformed the SET by 7%

We are nearing the end of 2Q23 and the Thai stock market is down 3.4%, underperforming regional peers by 3-5% and the global market by 7%, experiencing three quarters of underperformance relative to peers due to: 1) uncertainty over formation of the new government, 2) concerns over economic policies and fiscal uncertainty, 3) China's weaker-than-expected recovery, 4) weak external demand that will weigh on exports and 5) earnings downgrades.

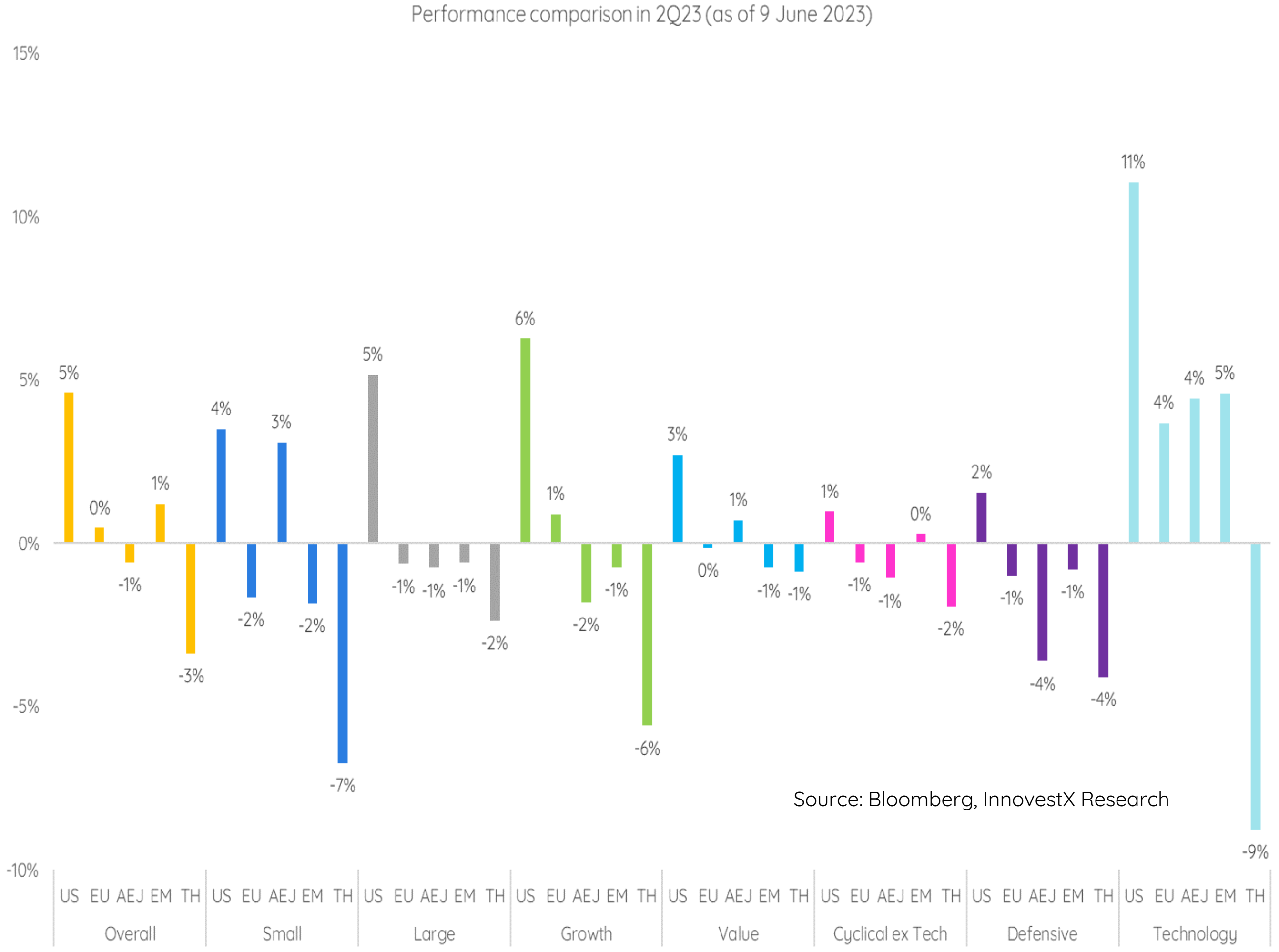
The Thai stock market has offered negative returns in 2QTD and is one of the worst performers in the latest global market rally. Index contribution has been concentrated in four sectors: Bank (KTB, TTB, BBL), Consumer Finance (MTC, TIDLOR), Automotive (AH, STANLY) and Construction Materials (SCC), while Packaging (SCGP), Utilities (GULF, GPSC, BGRIM), Construction (STEC), Electronics (DELTA), and Energy (PTTGC, EA, PTT, TOP) disappointed. Foreign investors have sold a net US$1,269mn in Thai equities QTD, decelerating from an outflow in 1Q23 of US$1,558mn. Foreign flows have been similar in ASEAN peers: Malaysia with -US$318mn, Vietnam with –US$257mn and the Philippines with -US$60mn, while foreign investment in Indonesia (+US$924mn) turned positive in 2Q23.

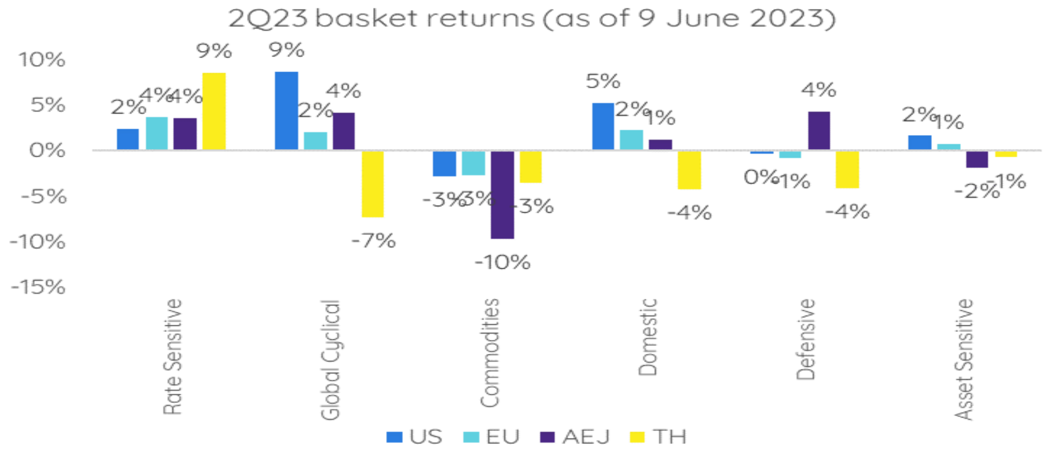
Our key theme in 2Q23 was a manufacturing recession, falling inflation, export contraction and earnings downgrades and this seems to have aligned with market reactions. Meanwhile, China's slower-than-expected recovery and surprise election results put pressure on large companies, the reopening theme and earnings upside. Amid recession fears and aggressive new government policies, investors do not believe earnings did truly bottom out in 1Q23.

Our top picks that focused on domestic demand, earnings recovery, high exposure to reopening with strong balance sheets offered average returns of -10%, as all of our stock picks except CPALL underperformed.

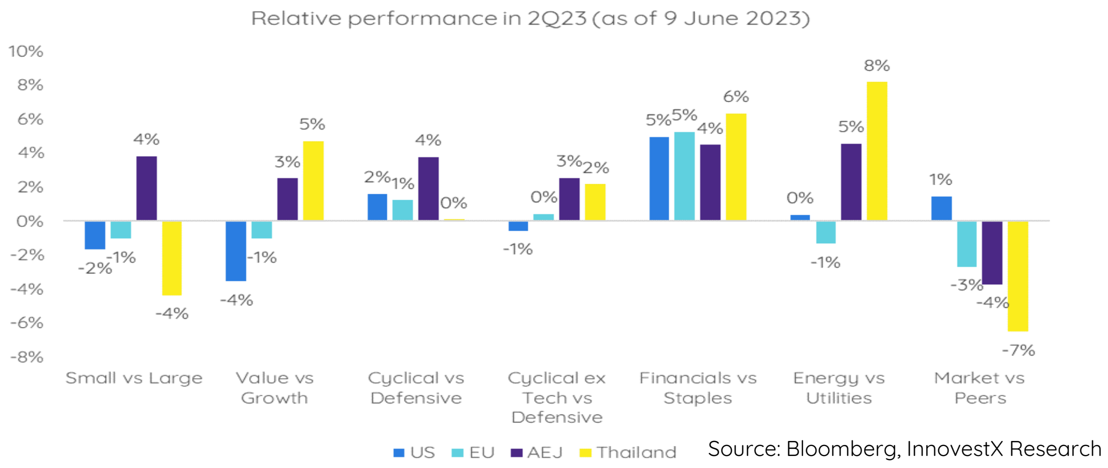
Price performance in 2Q23

Large cap, technology, rate-sensitive outperformed





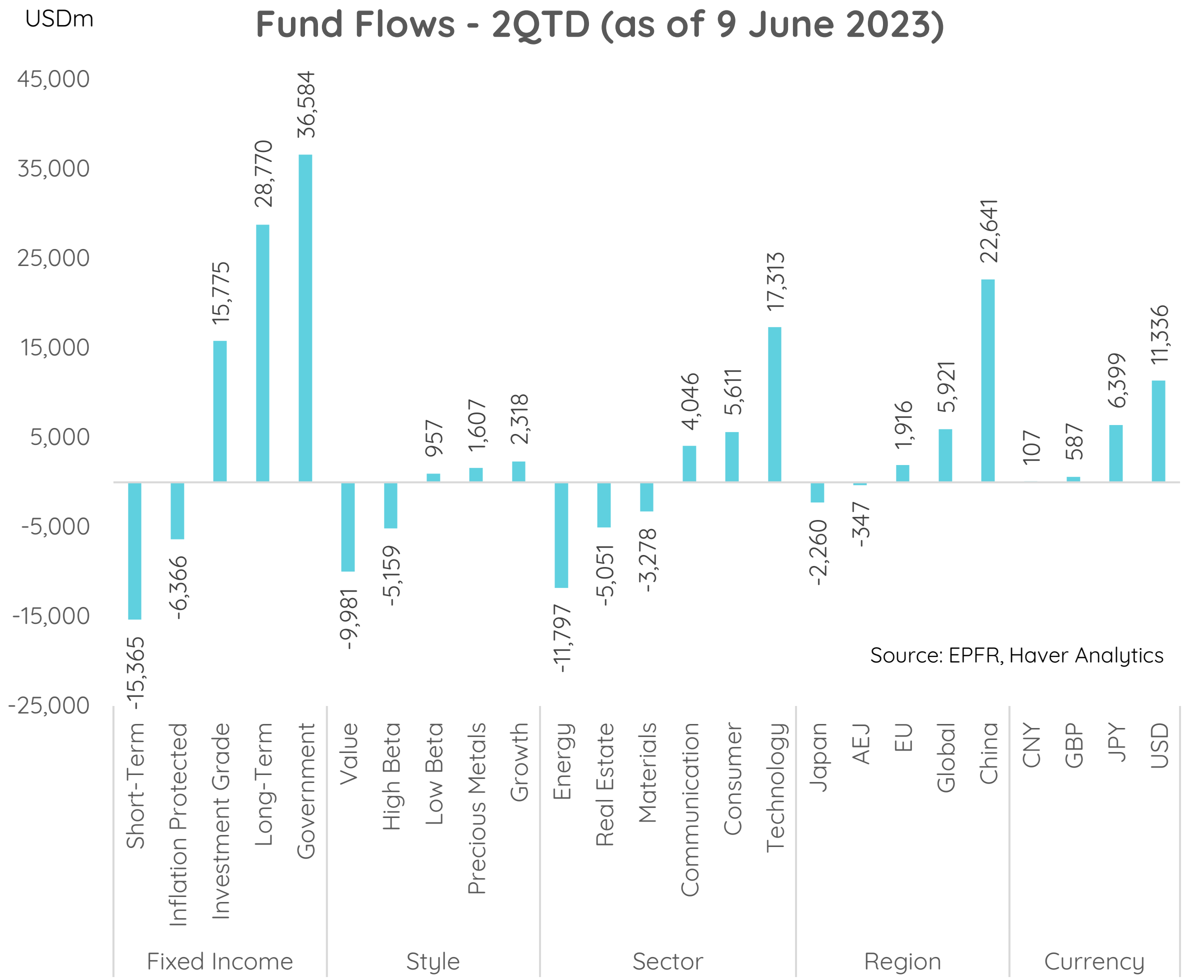
Source: Bloomberg, InnovestX Research



Source: Bloomberg, InnovestX Research

Dynamics of fund flows

Safe assets and defensives



Flows into mutual funds and related investment products were positive across both bond and currency funds in 2QTD, while flows into equity, commodity and sector funds were mixed.

Within the fund flow patterns in 2Q23, we saw:

1) Government and IG bonds saw a huge inflow on the back of falling inflation, peaking of the FOMC's hawkishness and the need for some protection from recession fears.
2) Despite a slower-than-expected recovery in China, equities are reviving on optimism about China's reopening, leading to strong inflow into China markets, while the EU and Japan are facing outflows due to profit-taking.
3) Defensive, low beta and precious metals received inflow in order to reduce external risks and volatility.
4) Sectors linked to more economically sensitive sectors such as Financial, Industrials, Energy and Materials all registered outflows in 1Q23 as global demand falters.

Market sentiment is expected to remain muted as headwinds are stronger than tailwinds. Thus, we recommend investors accumulate more high quality stocks with solid earnings recovery after the correction. A defensive portfolio would add value in a volatile market, while the satellite portfolio should focus on earnings recovery with high growth visibility.

Market outlook

Key points of our 3Q23 strategy

		Summary of our views
Macroeconomic outlook		We see the global economy as facing three risk factors: 1) economic slowdown; Inflation + interest rates remain high, 2) risks from tighter financial liquidity, and 3) slower economic growth in China and emerging markets. We believe the US and European economies are at risk of a recession in 2H, which will prompt the Fed to cut interest rates, while Chinese and Thai economic momentum will be slower than expected. With greater economic risks looking forward, we believe that the global economy may enter into a synchronized slowdown in 2H23.
Economic bright spots		Domestic consumption demand, tourism-related sectors, electronics products, software
Wall of worry		The economic growth is soft, below trend but at a non-recessionary pace and deflating only slowly. We see a high chance of recession. There is a long list of concerns that are unlikely to be resolved without clear economic recovery, we expect the grind higher to be choppy. In sum, the upside is less than expected and the downside is larger than expected in 2H23. A credit crunch and default cycle are underestimated risks in 2H23.
China's slow recovery		The expectation of revenge spending and unleashing of pent-up demand was wrong. We overestimated the pace of China's recovery and we are less optimistic about China in 2H23 despite low valuation. We see exports as worrisome in 2H23, bad news for export-oriented sectors and stocks exposed to China such as food, logistics, petrochemicals and electronics. Key risks are the job market, debt default, high debt to GDP, and deflation.
Domestic political risks		Although we have seen some signs of a political deadlock, we do not expect a return to protests and unrest in 2H23. Based on latest economic stance, we see the negative impacts as outweighing the positives. If the new government increases the minimum wage to 450 baht and raises corporate tax rate to 23% from 20%, we calculate the first will carve 4% off earnings and the second 3%. if it brings electric cost down by Bt0.7 per unit (-15%), earnings can be expected to increase by 3%. The combination would lead to a 3% drop in net profit of companies under coverage from the base case scenario.
Benign mode, downside tails in 2H		Investors may need another 2-3 months of resilient data to overcome a wall of worry and feel assured that the US economy will avoid recession and China will show a strong recovery in 2H23. The key focus in 2H23 is completion of destocking, coming of El Nino and semiconductor recovery. With uncontrollable tail risks, we recommend staying defensive and selective on cyclical sectors and focus on business outlook and earnings recovery.
Strategy (3Q23)		Economic growth will underwhelm and corporate profit in 2Q23 will stay under pressure. The unusually long lead time of this (potential) recession allowed global equity markets to trough in 4Q22 rather than during the (potential) recession. Our strategy is to stay defensive with stocks experiencing gradual earnings recovery or earnings bottoming and high pricing power with limited impacts from policies. We stay selective on cyclical sectors and outperformers with high valuations such as consumer discretionary, China-related stocks and technology.
SET Index target		Our 2023 SET Index target is 1,650. Next year's target is 1,750. In 3Q23, our key entry point is 1,500-1,550. Recommend to take profit at above 1,600.
Sector weighting (3Q23)	**Overweight**	Bank, Beverage, Commerce, Electronics, Healthcare, Media, Tourism
	Neutral	Air Transportation, Automotive, Building Materials, Energy, Land Transport, REIT
	Underweight	Agribusiness, Foods, Petrochemical, Residential/IE, Telecommunication, Utilities
Recommendations		We look at stocks that 1) have good balance sheets and cash flows, 2) are gaining momentum from domestic demand and reopening, 3) are showing bottoming earnings and steady recovery, 4) have limited impacts from new government policies. Our top picks in 3Q23 are BBL, BDMS, BEM, HMPRO, OSP

Investment roadmap from a macro perspective

<table>
<tr><th></th><th>3Q23</th><th>4Q23</th><th>1Q24</th><th>2Q24</th></tr>
<tr><td>US</td><td>4 Growth down, inflation down
Bond over Stocks
Style - Low beta, quality, defensive, dividend yield
Sector - Consumer Staples, Utilities, REIT, Healthcare, Telecom
Fixed Income - Long duration, IG</td><td colspan="2">1 Growth up, inflation down
Stocks over bonds
Style - Secular growth, high beta, mid caps
Sector - Tech, Discretionary, Industrials, Telecom, Materials
Fixed Income - HY</td><td>4 Growth down, inflation down
Bonds over stocks
Style - Low beta, quality, defensive, dividend yield
Sector - Consumer Staples, Utilities, REIT, Healthcare, Telecom
Fixed Income - Long duration, IG</td></tr>
<tr><td>EU</td><td colspan="2">4 Growth down, inflation down Bonds over Stocks
Style - Low beta, quality, defensive, dividend yield
Sector - Consumer Staples, Utilities, REIT, Healthcare, Telecom
Fixed Income - Long duration, IG</td><td colspan="2">1 Growth up, inflation down Stocks over bonds
Style - Secular growth, high beta, mid caps
Sector - Tech, Discretionary, Industrials, Telecom, Materials
Fixed Income – HY</td></tr>
<tr><td>China</td><td>1 Growth up, inflation up
Stocks over bonds
Style - Secular growth, high beta, mid caps
Sector - Tech, Discretionary, Industrials, Telecom, Materials
Fixed Income - HY, EM Debt</td><td colspan="2">2 Growth up, inflation up
Stocks, commodities over bonds
Style - Secular growth, high beta, small cap, cyclical growth
Sector - Tech, Discretionary, Industrials, Financials
Fixed Income – HY</td><td>3 Growth down, inflation up
Bonds over stocks
Style - Secular growth, quality, low beta
Sector - Utilities, Tech, Energy
Fixed Income - Long duration, TIPS</td></tr>
<tr><td>Thailand</td><td>4 Growth down, inflation down
Style - Low beta, quality, defensive, dividend yield
Sector - Consumer Staples, Utilities, REIT, Healthcare, Telecom
Fixed Income - Long duration, IG</td><td colspan="3">1 Growth up, inflation down
Stocks over bonds
Style - Secular growth, high beta, mid caps
Sector - Tech, Discretionary, Industrials, Telecom, Materials
Fixed Income – HY</td></tr>
</table>

Source: InnovestX Research

What are we looking for in 2H23?
Benign mode, downside tails

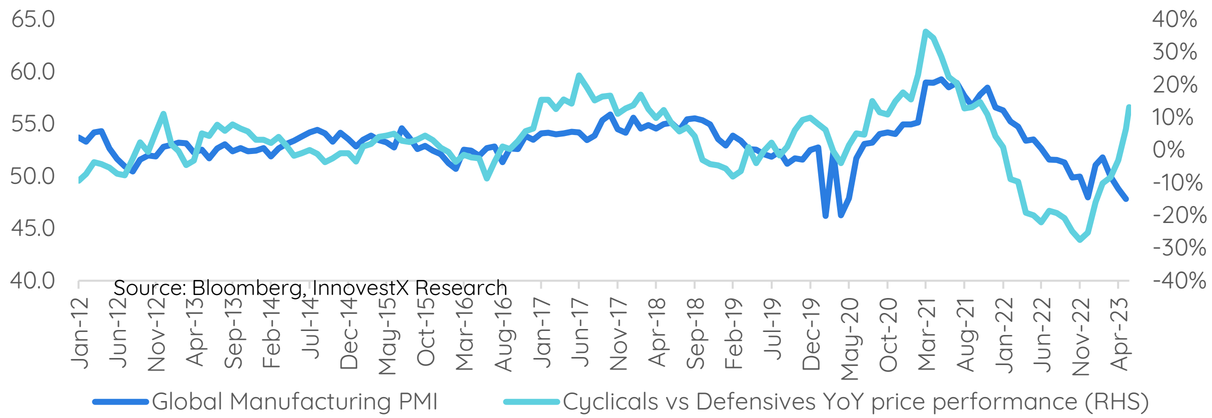
	Expectation	Action
Interest rate	1) Peak of hawkishness, 2) stay higher for longer, 3) cut during recession, 4) Fed rarely raises rate again after pausing	We prefer long duration government bonds and high-quality corporate bonds over equities. Waiting to buy Financials during uncontrollable risk and liquidity
China Slowdown	1) Stimulus is highly likely but not aggressive, 2) slower-than-expected earnings recovery, 3) rising default rate, 4) pricing competition	We are waiting for a destocking cycle to end some time in 3Q23 before buying in the dip. Focusing on domestic consumption and policy supports
Reopening	1) Easy parts of recovery passed, 2) China's outbound tourism recovering at a slow pace, 3) revenge spending is not high	Avoid tourism-related stocks whose price is above pre-COVID-19 level. Positive momentum of reopening is fading. Online travel agents are our key focus
Consumer spending	1) Discretionary demand is falling, 2) staples demand remains steady, 3) excess savings in US is diminishing	Prefer consumer staples such as food and beverages, pharmaceuticals, household products over discretionary such as automotive. We like retailers.
Recession	1) High chance to see in US and EU, 2) tight financial condition such as T-bill issuance, tight lending standards and QT, 3) rising credit spread	We prefer fixed income over equities with 8-10% returns during the last recession. Avoid those with high yield and weak balance sheets. Utilities, staples, healthcare.
Destocking / Inventory	1) Could take 1-2 quarters to complete, 2) negative to GDP growth and margin pressure, 3) volume to grow but ASP to fall	We are concerned about a destocking cycle especially in semiconductors and automotive. Destocking will lead to supply chain disruption. Once done, China and semiconductors would see a strong recovery.
El Nino	1) Highly likely with more than 90% possibility, 2) agricultural prices for corn, cotton, wheat winter vegetables to increase	Avoid mining from a halt in production and transportation, Avoid hydro powerplants, negative to food industry, positive to debt collection
US-China conflicts	1) Expect tension to continue, 2) mistrust remains, 3) unresolved any time soon	Hold cash or liquid assets for market correction. If tension is rising, we recommend reduce exposure in technology sectors.
Thai politics	1) Rising wage rate, 2) energy price restructure, 3) tax hike, 4) expect a political gridlock and some protests	Food, Electronics, Automotive and Tourism would be highly affected by a rise in minimum wage. Prefer large caps with limited inclusive policy impact.
Semiconductor cycle	1) Slow demand growth, 2) high inventory days, 3) hope for a strong recovery in 2H23, especially for PC and phones, 4) new product launches	Concerns on slower-than-expected China demand and longer-than-expected destocking cycle. AI related stocks have rich valuation, prefer software
Inflation	1) Peaked, falling but sticky, 2) it could reach central bank target in 2024, 3) depends on China's recovery, which is slow	Prefer companies with high pricing power such as retailers, healthcare, consumer services

Source: Bloomberg, InnovestX Research

Wall of worry

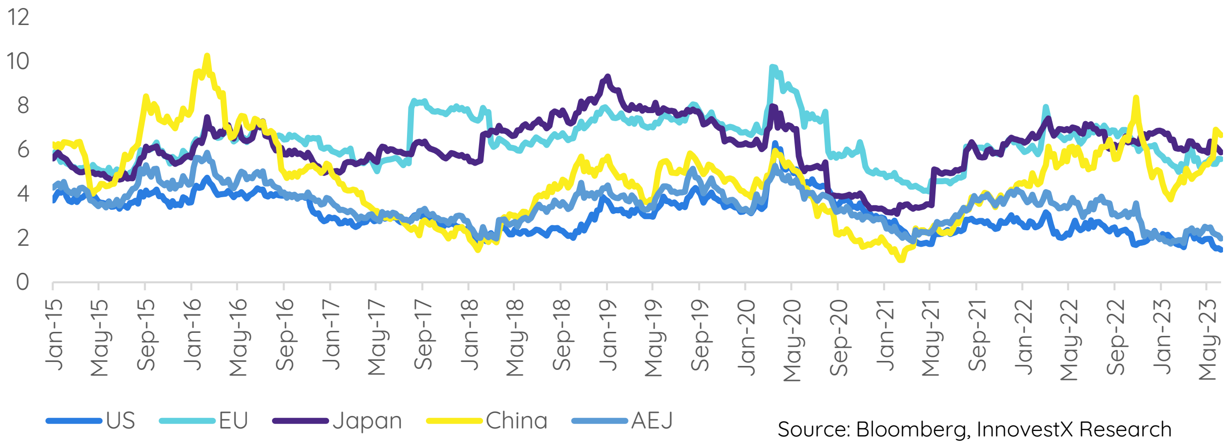
The waiting game: Stay defensive and selective

The relative performance of Cyclical versus Defensive parts of the market continue to point to economic growth



Source: Bloomberg, InnovestX Research

Equity risk premiums have fallen sharply over the past year

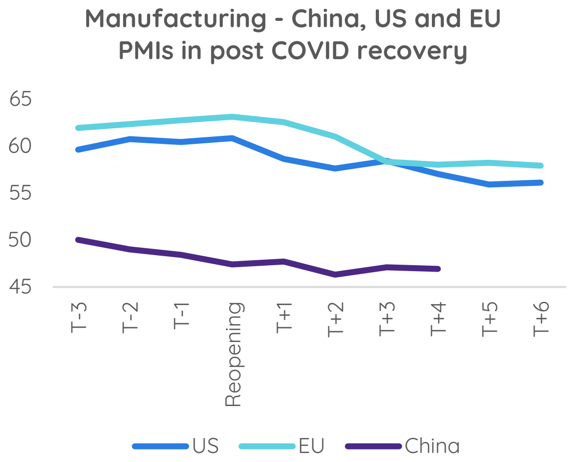


Source: Bloomberg, InnovestX Research

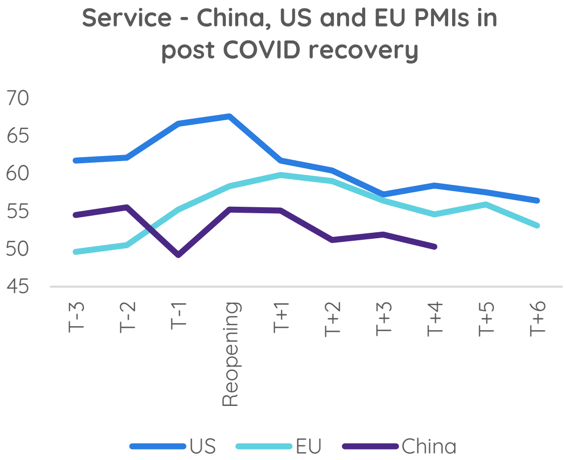
The current economic growth is soft, below-trend but at a non-recessionary pace and deflating only slowly. The next stage is the US recession that we were the first to forecast late last year. We continue to believe it will start in 4Q23. The rate hike cycle is not over yet, and we think it is too early to price out the possibility of a further hike given a continuous positive real rate. In credit, we think a default cycle is brewing with spreads likely to widen sharply around the turn of the year. We are keeping an eye on a new wave of corporate defaults in China.

There is a long list of concerns such as a recession, a credit crunch, an inverted yield curve, sticky inflation and geopolitical issues that are unlikely to be resolved without clear economic recovery. We expect the grind higher to be choppy. In sum, the upside is less than expected and the downside is larger than expected in 2H23. Our strategy is to stay defensive with stocks seeing a gradual earnings recovery and with high pricing power. We stay selective on cyclical sectors and outperforming stocks with high valuation such as consumer discretionary, China-related and tech.

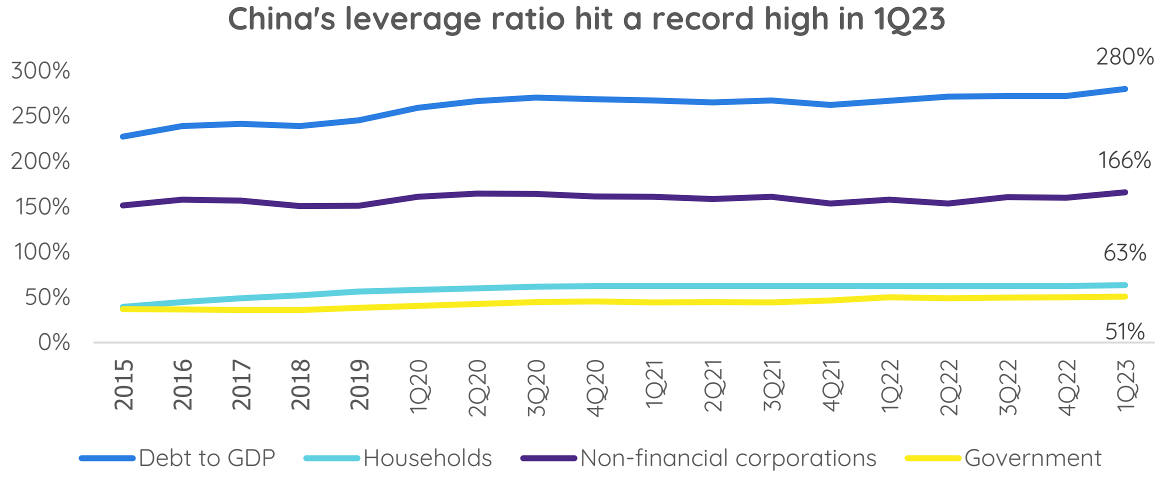
China fatigue
Slower-than-expected recovery in China



Source: CEIC, InnovestX Research



Source: CEIC, InnovestX Research



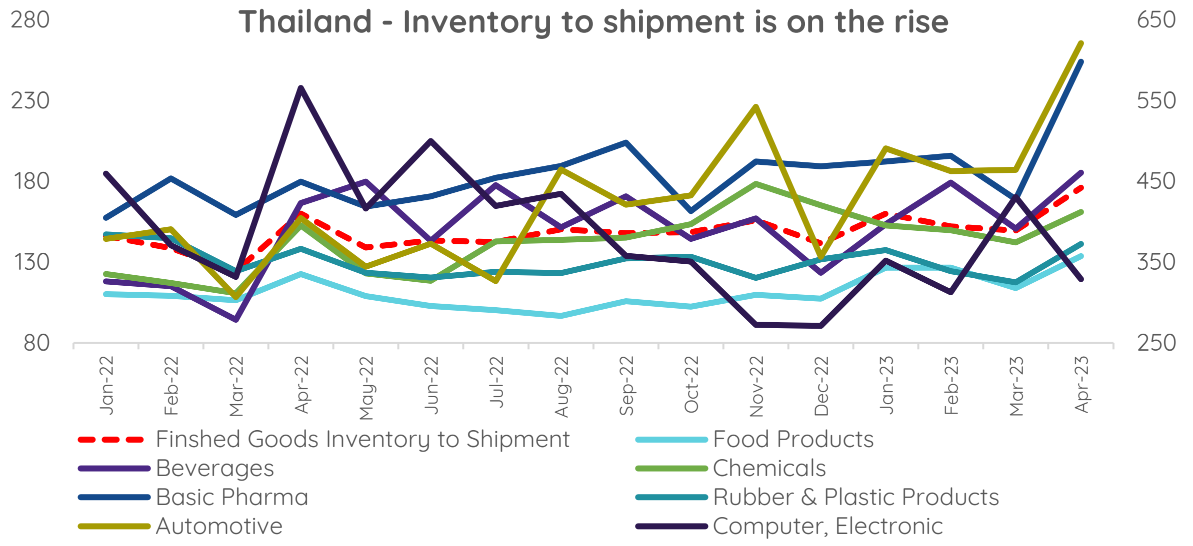
Source: NBS, InnovestX Research

China lifted its zero-COVID policy in Dec 2022 and scrapped longstanding quarantine requirements for international arrivals in Jan 2023 and has been on a steady rebound since then. However, the expectation of revenge spending and unleashing of pent-up demand was wrong. We overestimated the pace of recovery with recovery slower than expected in 5M23 compared with the US and EU in the same reopening period, raising concerns over the sustainability of its post-COVID recovery. Fresh concerns include the job market, property debt default (10% of GDP), high debt to GDP (280%) and the possibility of deflation.

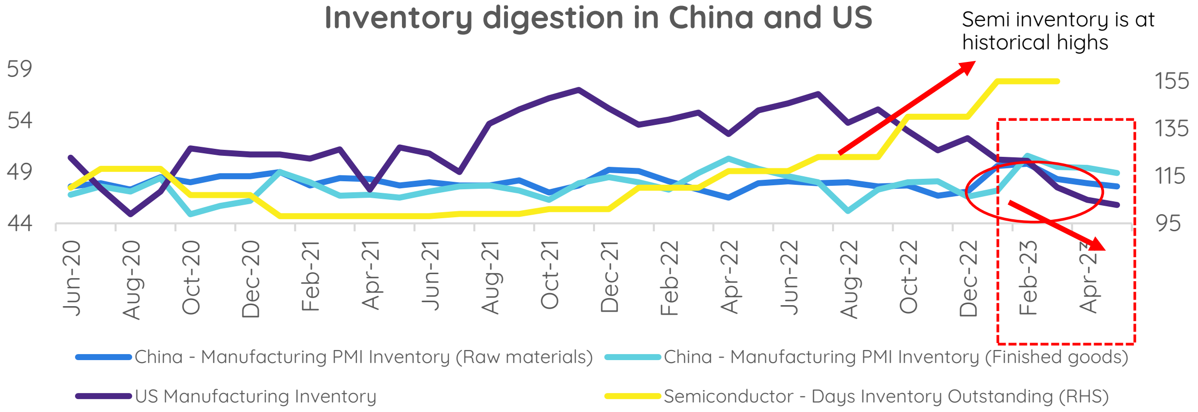
We think China's lackluster return was driven by comparatively less constructive growth, inflation and policy outlook along with US-China tension. In 2H23, we are looking at a supply-side restocking response to be the key growth driver. However, we think the possibility of forceful policy stimulus is low. Thus, we are less optimistic about China in 2H23 despite low valuation. We are worried about exports in 2H23, which would be bad news for export-oriented sectors and China-exposed stocks such as food, logistics, petrochemicals and electronics. Domestic consumption is key in 2H23.

Inventory cycle

Destocking a headwind to growth



Source: CEIC, Ministry of Industry,



Source: CEIC, Federal Reserve, PBOC, InnovestX Research

Global PMI and trade data in Apr-May suggest industrial activity remains soft. The rising inventory to shipment ratio for a wide variety of products ranging from automotive, pharmaceuticals and beverages to chemicals and textiles in Thailand reflects a front-loaded reopening boost that is starting to fade, weak export demand and a turn in the inventory cycle. The latter two factors may improve somewhat in 4Q23 on continuous destocking in China and the US in 2Q23. Current destocking could lead to slower growth in GDP and earnings than expected due to margin pressure. In addition, slowdowns in inventory build always cause supply chain disruption in China, leading to sticky inflation and tight monetary policy.

It will take time to bring inventory down to normal levels and we expect this to take place in 3Q23. The inventory cycle is a major reason why industrial production was weak in April and why risk to our 2Q-3Q23 growth forecast is skewed to the downside. We do not expect a strong global recovery or bottoming until destocking is complete, especially for semiconductors, automotive and machinery.

The only certainty is uncertainty
Let’s stay cautious until the rain lets up

	Scenario 1 Moving Forward (Lead) + seven parties incl Pheu Thai	Scenario 2 Pheu Thai (Lead) + seven parties incl Moving Forward	Scenario 3 Pheu Thai (Lead) + any party excl Moving Forward
Timeline	August 2023	Late September 2023	October 2023
Advantage	It would bolster confidence, reduce inequality and ensure fair economic growth	More creative economic policies than scenario 1	Fewer political problems and expected to stay in power longer than scenario 1 and scenario 2
Disadvantage	Policies to tackle monopolies, market dominance and taxation on the wealthy as outlined appear to create policy uncertainty. Low stability outside the parliament.	Create political uncertainty and problems between the two parties in order to drive individual policies. It would affect economic stimulus packages and would complicate effective policymaking	Slowest (delayed for 1-3 months). It could dampen business and investor confidence and could affect GDP growth by 0.2%. It could generate escalation of social tension.
Political view	Amending constitution, military and police reform, Eased lese majeste laws, reform the educational system	Focus on economic growth with populist policies and initiative economic policies	Conservative. Stability above growth. Continuity of existing policies
Key policies	Decentralized budget, zero-based budgeting, support SMEs, land reform, restructure power price, expand public welfare, Bt450 minimum wage	Focusing on the low-income, tripling farmers’ income, Bt600 min wage in 4 years, promote soft power, boost the public health system	Policies are geared toward populism. Provide aid to the aged, infrastructure development and EEC
Risks	Trying to get into power without upsetting its passionate base and backlash among supporters	Prolonged government formation could be bad for the economy and confidence	It could cause political uncertainty and mass street protests in the short-term
Chances	Highest but chances of the Senate and non-coalition parties voting for Pita are not high	Highly likely but depending on Pita’s cases on shareholding in a media company and a false asset declaration to NACC	Lowest. If Pheu Thai Party form a coalition government without Moving Forward, it could loss of trustworthiness

Source: InnovestX Research

New government's policies uncertain
Negative outweighs positive

Proposed coalition agreement outline

Politics	Economic	Social
Push for a new constitution drafted by directly elected representatives	Increase income, reduce inequality and ensure fair economic growth	Pass a same-sex marriage law
Push for reform of the bureaucracy, police, armed forces and justice system	Revise laws and regulations; improve the financial liquidity of SMEs	Promote sustainable peace in southern border provinces
Replace military conscription with voluntary recruitment	Terminate monopolies in all industries	Combat narcotic drug problems
Promote a culture of transparency to tackle corruption	Promote fair land ownership and land reforms	Reclassify cannablis as a narcotic and more regulations
Decentralise budgetary authority to local administrations	Restructure power tariffs and the electricity production structure	Improve workers' rights and ensure fair wages
Implement foreign policy to restore Thailand's leadership role in ASEAN	Implement zero-based budgeting	Boost the public health system
	Expand public welfare to cover people of all ages	Solve problems related to ultra-fine dust
	Promote sustainable fisheries	
	Greenhouse gas emissions to achieve net zero	

Source: InnovestX Research

We do not take sides; we do not have a political view. Although we are seeing some signs of a political deadlock, we do not expect a return to protests and unrest in 2H23. We expect a clear picture of the direction of the new government's economic policies will boost confidence as well as the outlook of business and earnings. We are focusing only on economic policies. Based on an agreement by the parties, there are five key agendas that would affect the profit-generating capacity of listed companies. First, policy proposals to tackle monopoly and market dominance, though without details. Second, reform the energy sector, which has largely been blamed for high energy prices, and revise government concessions in renewable energy given to large corporations. Three, raise the minimum daily wage to 450 baht (+27%). Four, levying a wealth tax, capital gains tax and raising corporate tax from 20% to 23%. Five, put marijuana back on the narcotics list, allowing it for only non-recreational purposes. The agreement signed by the coalition offers to pay Bt1,200/month (+50%) to parents of newborns and Bt3,000/month to the aged, raised from Bt600-1,000/month, positive for consumption.

Falling electricity cost will not offset wage and tax hike

These factors could affect earnings in 2024 by 3%

Sensitivity analysis

	Wage hike	Tax rate increase 3ppt	Electricity cost fall 15%	Total impact on 2024 earnings
Food	-41%	-2%	8%	-34%
Transport	-7%	-4%	3%	-8%
Automotive	-6%	-3%	2%	-7%
Tourism	-10%	-3%	8%	-5%
Healthcare	-2%	-4%	1%	-5%
Beverage	-4%	-4%	8%	-4%
Commerce	-8%	-4%	7%	-4%
Consumer Finance	0%	-4%	0%	-4%
Insurance	0%	-4%	0%	-4%
Asset management	0%	-4%	0%	-4%
Bank	0%	-4%	0%	-4%
Securities	0%	-4%	0%	-4%
Small cap	-2%	-3%	1%	-4%
Property	-4%	-3%	1%	-4%
Media	-2%	-4%	3%	-3%
Total	**-3%**	**-3%**	**3%**	**-3%**
Petrochemical	-9%	-3%	10%	-2%
Electronics	-7%	0%	7%	-1%
Telecom	-1%	-4%	5%	0%
Conmat	-2%	-2%	5%	1%
Energy	-2%	-1%	4%	1%

Source: InnovestX Research

While we are waiting for further details from the new government in 3Q23, we take a look at the most recent details available and the effect on earnings for companies in our universe: 1) electric rates, 2) wage increase and 3) corporate tax hike.

Our calculations suggest the negative weighs heaviest. If the new government increases the minimum wage to 450 baht, earnings will drop 4%; if it raises corporate tax rate to 23% from 20%, earnings would fall 3%. Based on 2013 data, operating profit margin fell 100bps on average, implying that net profit could fall 9% from a wage hike in 2024.

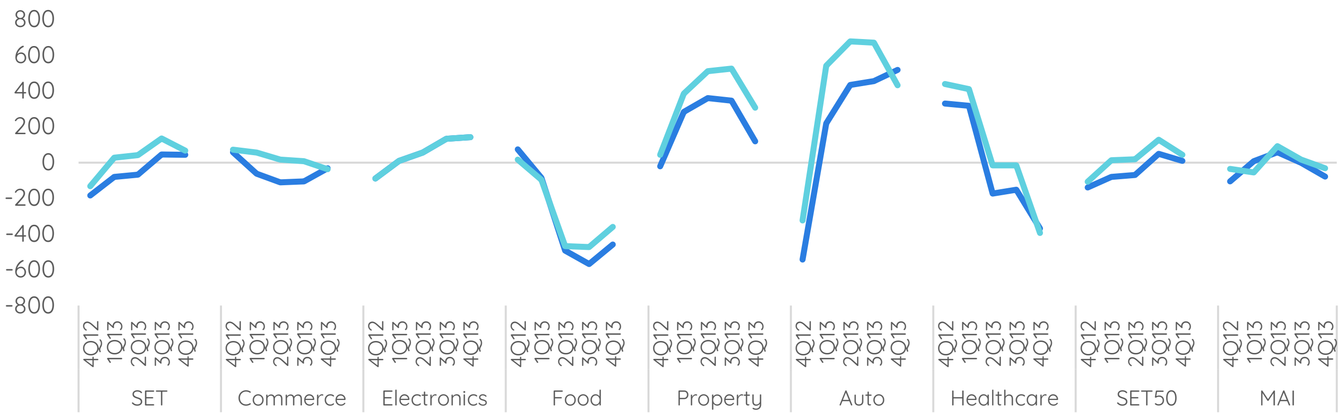
Some segments, such as fragile SMEs and labor intensive businesses such as Food, Electronics, Automotive and Tourism, would be highly affected by the rising minimum wage. At the same time, a cut in electric rates by Bt0.7 per unit (-15%) could raise earnings by 3%. The net effect would be a 3% fall in net profit of companies under coverage from our base case scenario.

Overall, we are concerned that the new government's policies would lead to 2024 earnings downgrades for Transportation, Automotive and Foods. Other sectors would have to control costs and pass cost through to reduce the impact, and this could take 1-2 years, as seen in 2012-2014.

Will history repeat itself?

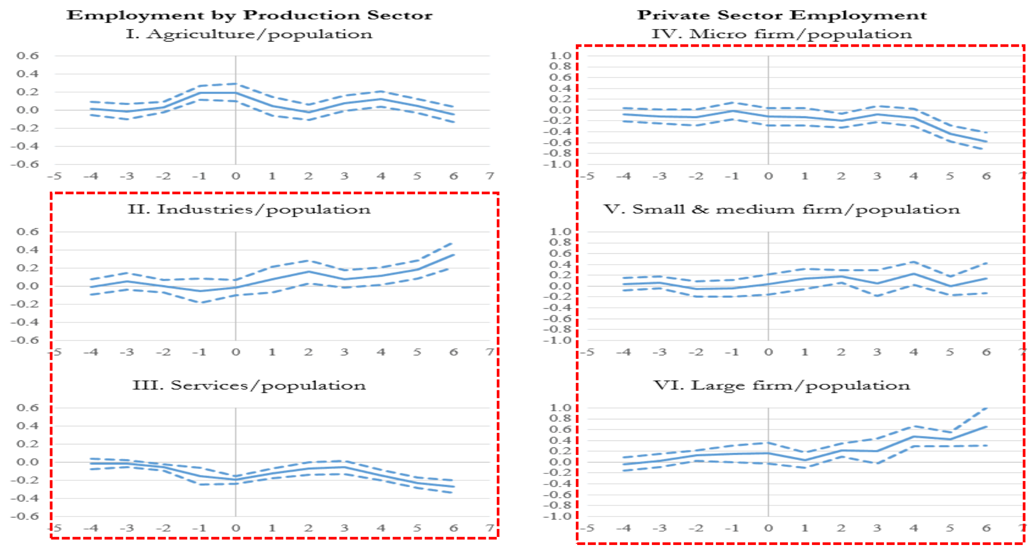
Lessons from 2012-2014

Operating and net profit margin trend during the implementation of minimum wage Bt300 per day in 2012-2013



Source: SET, Innovest X Research

Time paths of responses of employment by production sector and size of firm



Source: Puey Ungphakorn Institute For Economic Research

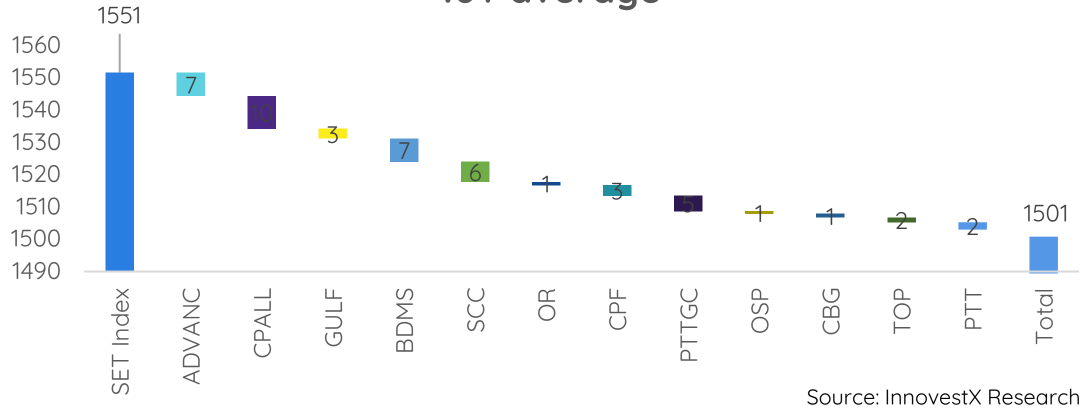
Many studies find a negative effect from minimum wage increases on employment in the formal sector by comparing manufacturing firms with higher minimum wages. However, there is no clear relationship between unemployment rate and production relocation and minimum wage. Based on studies out of Princeton University, an increase of 10% in the minimum wage rate increases nominal sales by 1.1% and real sales by 0.7%. During Thailand's latest wage hike in 2012-2014, we find: 1) downward adjustment took six quarters, 2) reduction of employment in SMEs and lower labor tightness, 3) large firms temporarily saw profit reduced (margin fell 100-200bps vs small companies -50-100bps), 4) it forced investment in Technology and automation.

In our view, if the wages rise a lot, small companies will feel more pain than large companies in both the short-term and long-term. A labor shortage in some sectors could delay the impact. The government needs to find measures to absorb the shock.

Inclusive growth is challenging for large companies

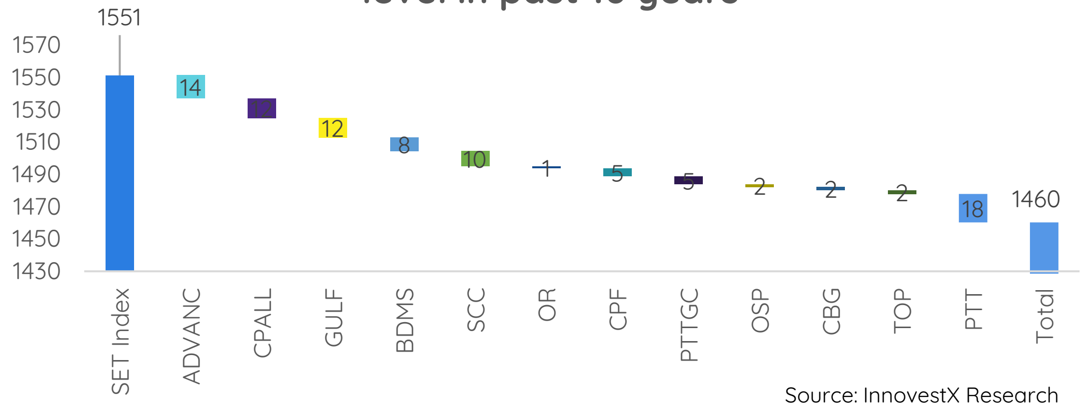
Valuation pressure

SET Index impacts - Valuation de-rate to -1SD to 10Y average



Source: InnovestX Research

SET Index impacts - Valuation de-rate to lowest level in past 10 years



Source: InnovestX Research

The Moving Forward Party's policy focuses on inclusive growth to tackle monopolies, saying all players should benefit, not just large companies. Large industries, from power to telecoms and liquor makers, will be under scrutiny as Moving Forward pledges to promote more competition. To implement this policy, we think they will use taxation, renegotiation of concessions and easing rules and regulations as tools to raise the competitiveness of small players.

We believe this regulatory risk will pressure large dominant business groups for some time. According to a study of Japanese alcohol deregulation (1994), the EU payment system (2018) and US tech antitrust (2021), there is little evidence that large companies will lose significant market share and sales after deregulation in the long run. Although it is difficult to estimate earnings damage on this issue, we believe this will dampen sentiment and valuation.

Based on valuation simulation, valuations of 12 large companies who have high Herfindahl-Hirschman Index (HHI) are expected to fall to -1SD and be at the lowest level in 10 years. This could slice 49 and 91 points respectively off the SET Index in 2024.

Sector and earnings outlook

Earnings outlook in 2023

Weaker than expected in 1H23; see downside in 2024

	Net Profit (Btm)			Growth (%)		
	22A	23F	24F	22A	23F	24F
Agribusiness	2,044	1,364	1,397	876.6	(33.3)	2.4
Automotive	4,509	4,736	5,079	28.9	5.0	7.2
Banking	201,271	230,789	246,640	9.1	14.7	6.9
Commerce	42,858	51,887	61,618	9.6	21.1	18.8
Construction Materials	25,946	32,196	38,174	(52.6)	24.1	18.6
Energy & Utilities	242,855	248,792	260,644	9.7	2.4	4.8
Finance & Securities	29,689	31,571	35,549	4.9	6.3	12.6
Food & Beverage	37,990	22,554	29,351	150.8	(40.6)	30.1
Health Care Services	24,391	22,518	24,434	15.0	(7.7)	8.5
ICT	20,098	30,498	36,015	(47.3)	51.7	18.1
Insurance	13,245	15,807	18,602	8.4	19.3	17.7
Packaging	5,801	7,045	8,107	(30.1)	21.4	15.1
Personal Products & Pharma	124	174	215	4.0	40.8	23.7
Petrochemicals & Chemicals	23,207	31,467	49,280	(67.6)	35.6	56.6
Property Development	36,277	34,986	37,211	40.9	(3.6)	6.4
Tourism & Leisure	174	2,190	3,042	nm	1,159.4	38.9
Transportation & Logistics	(17,675)	17,338	33,168	nm	nm	91.3
InnovestX Universe	692,805	785,913	888,526	(1.3)	13.4	13.1

Source: InnovestX Research

In 2023, GDP and earnings growth are supported by tourism recovery and strong pent-up demand. However, China's slower-than-expected recovery led to weaker-than-expected exports and a worrisome tourism traffic growth slowdown leading to earnings downgrades.

In late 1Q23, consensus and INVX expected earnings to grow 18-25% in 2023. Currently, we expect earnings for companies under InnovestX coverage to grow 13% YoY in 2023 (vs consensus of +5%). All sectors except Tourism are facing earnings pressure. Foods, Energy and Petrochemical sector earnings have been cut on global slowdown worries.

Optimism remains high for 2024 even though the World Bank cut its global growth estimate. We think a delay of government formation into 4Q23 with few signs of recovery in China could lead to another round of downgrades. In addition, minimum wage and tax rate hikes are downside risks for growth in 2024.

Sector outlook for 3Q23
Vulnerable inside, Uncertainty outside

Air Transportation

Positive industry backdrop in 3Q23 is rising flights from China after CAAT has given more slots to serve increasing demand. It guides to an increase in the number of flights from China to 430 flights/week since June 1 (from ~100 flights/week). AAV plans to increase flight frequency from 40 flights/week in 1Q23 to 100 flights/week in 2Q23 and 110 flights/week in 3Q-4Q23 (vs. 140 flights/week in 2019). With this, we expect earnings for AOT and AAV in 3Q23 to improve YoY and QoQ.

Automotive

We expect sales and earnings of auto parts suppliers in 3Q23 to increase YoY on stronger sales from new orders and increase QoQ on seasonality with less pressure on gross margin from lower electricity cost. We flag concerns on economic uncertainty, increasing cost of living and rising interest rates that may derail auto demand.

Bank

For 3Q23F, we expect earnings to rise YoY (better NII from higher NIM) and QoQ (better toplines and lower provisions). We expect NPLs to peak in 3Q23.

Commerce

Sector earnings to grow YoY in 3Q23F, backed by better SSS growth and margin from revived economic activities, more tourists, but be stable QoQ from seasonality. Rental income recovery will add to earnings growth.

Construction Materials

We expect sector 3Q23 earnings to remain low (drop YoY) off high energy & utilities costs as well as the impact from the delay in disbursement by the new government. However, there may be more price adjustments to cover costs. We expect the sector's earnings to decrease QoQ on the seasonality effect.

Electronics

We expect 3Q23 earnings to recover off pent-up demand and DELTA, KCE, and HANA also plan to expand their EV-related capacities in 2H23 to support the strong demand for EV-related products. A key risk is a global economic recession that would pressure overall demand.

Energy

Oil & Gas: Oil price is expected to edge up in 3Q23 on summer demand and oil refineries are back from maintenance shutdown. Strong crack spread for gasoline and jet fuel will support GRM, offset by weak diesel spread.
Utilities: Lower fuel cost will reduce pressure on SPPs despite possible Ft cut for Sep-Dec. Electricity tariff could be trimmed further if the caretaker government decides to alleviate the public's cost burden while continuing to alleviate EGAT's debt burden. SPPs would also benefit from better energy efficiency of the new power plants under the SPP Replacement scheme.

Finance

We expect earnings to fall for most finance companies in 3Q23F on YoY (larger provisions) but be stable QoQ (robust loan growth offset by falling NIM and higher provisions). We expect NPLs to peak in 3Q23.

Food & Beverage

Food: We expect 3Q23F sector earnings to rise QoQ from seasonality but drop YoY, hit by weaker margin from lower local livestock prices from additional supply (led by illegally imported pigs and swine meat and more supply from the alleviation of ASF) amid continued high feed costs.

Beverages: We expect sector earnings to grow YoY and QoQ from less pressure from cost of goods sold. Competition remains high with slight improvement in domestic demand and seasonal demand from overseas.

Healthcare

We expect operations and earnings in 3Q23 for hospital operators to improve QoQ on seasonality, growing non-COVID-19 services and improving international patient services.

BCH's and CHG's earnings will enter a YoY uptrend in 2H23 after the downturn in 2H22-1H23 off the high base from COVID-19 services. Thai private hospitals are back to an expansion phase with initial cost burden from opening new hospitals.

Hotel

We maintain our view of 25mn international tourist arrivals in 2023 (up from 11.2mn in 2022) and this will support a strong hotel occupancy rate and rising ARR. For AWC, CENTEL and ERW, whose hotels are primarily situated in Thailand, we expect earnings in 3Q23 to improve YoY and QoQ on seasonality. For MINT, operations in Europe in 3Q are normally softer than 2Q but we expect this year's lower season to be stronger from rising demand for business travel.

ICT

Earnings for the sector should continue to improve QoQ and YoY, supported by higher tourism-related revenue and better consumption. However, there is a risk ARPU to be monitored since TRUE has to comply with remedial measures to reduce average price and also potential regulatory risk from the new government.

Land Transportation

Strong earnings recovery driven by improving traffic and ridership will continue in 3Q23 as numbers have not reached pre-COVID level yet. However, investors should monitor potential regulatory risk for the sector after the new government takes office.

Petrochemicals

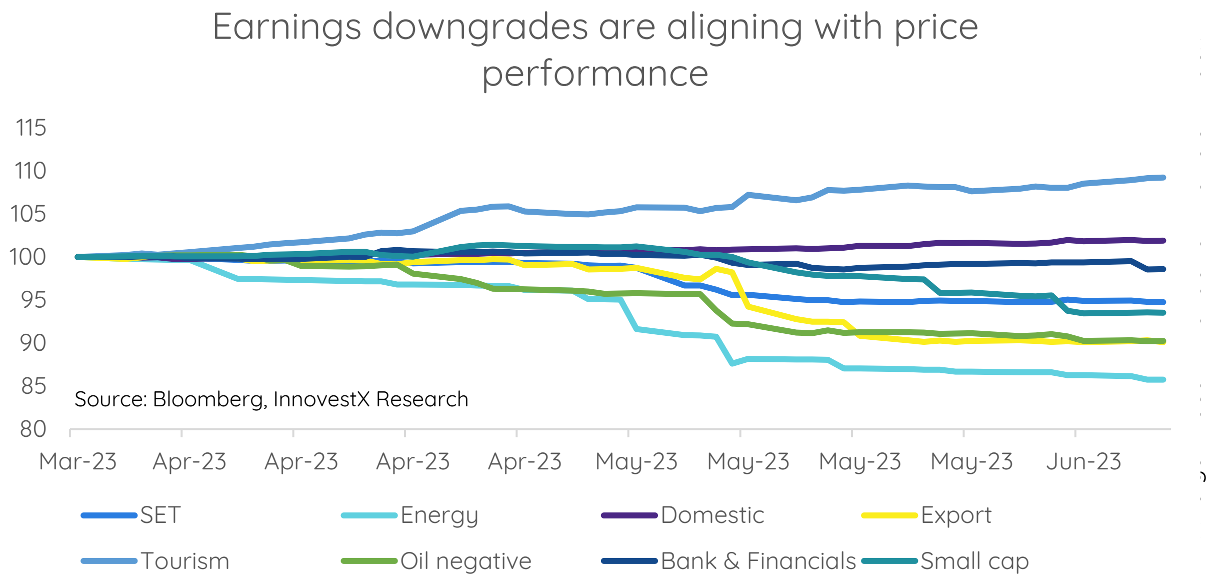
Demand recovery could remain gradual in 3Q23 given fears of economic recession in Europe and the US and new capacities despite positive impact from China's reopening. Higher feedstock cost, i.e. naphtha, is another risk as demand for gasoline blend stock increases. Product spread is expected to remain weak until market sentiment improves at the stronger pace to offset new supply, mainly in Asia.

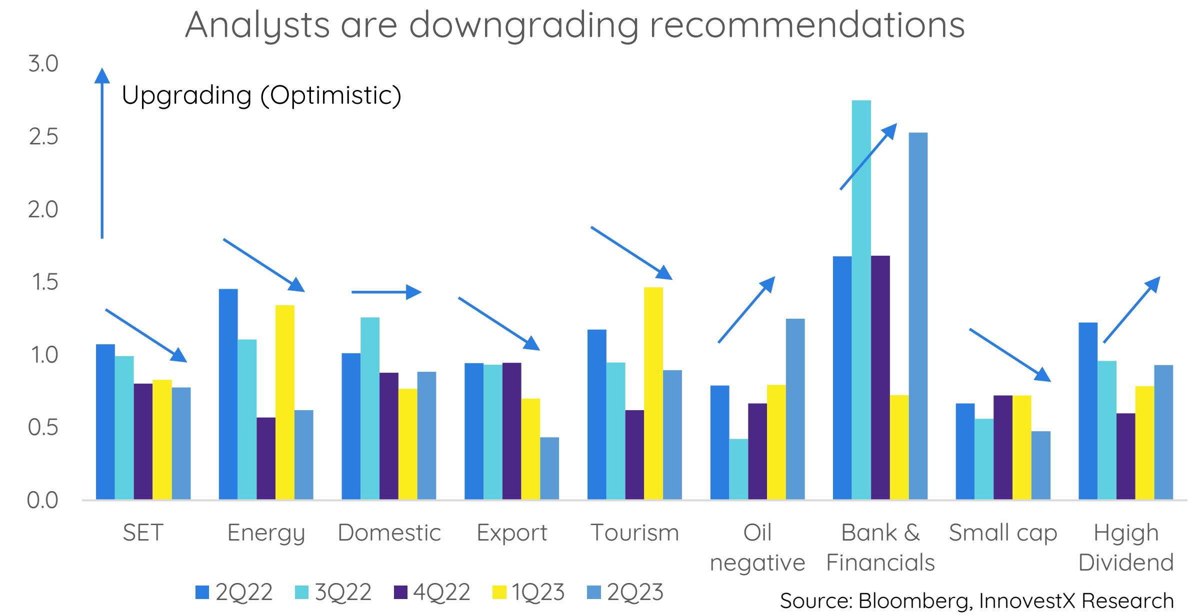
Property

3Q23 will be pressured by higher mortgage rate, Earnings are expected to drop YoY off a high base but will be up QoQ from backlog recognition. Presales should be up QoQ from more launches in 3Q23 but expected to be lower YoY.

Source: InnovestX Research

Earnings outlook in 2023
Will earnings downgrades continue?





Consensus 2023 EPS estimates have been downgraded 4% after weaker-than-expected growth in 1H23 on cost pressure and weakness in manufacturing and exporting sectors caused by China's weakness. High contributors to the downward revisions are: 1) Energy, on the back of falling oil price (down 4% QoQ, 30% YoY), 2) export-related sectors (-8% YoY) from slowdown of China's economic recovery and 3) small-cap, from cost pressure and faltering demand growth. At the same time, domestic and tourism-related sectors were upgraded 2% and 9% thanks to sustained domestic consumption and global reopening. Overall, we think the darkening global growth outlook is factored into earnings. The weak China recovery, US recession and longer-than-expected inventory adjustment could lead to further downgrades. In addition, earnings estimates in 2024 for Thai firms may be slashed in response to the new government's increase in the minimum daily wage and corporate tax rate.

Summary of 3Q23 sector outlook

	3Q22	4Q22	1Q23	2Q23	3Q23	Catalyst	Risks
Tourism	8	8	8	8	8	Expect accelerating flow of Chinese tourists in 2H23 after CAAT has opened more slots to serve increasing demand. Continued strong ARR.	Economic slowdown and rising wage rate. Cost inflation that would damage profitability.
Beverage	7	7.5	6	7	7	Improving gross margin from lower cost with domestic demand recovery.	Intense competition in energy drink market with cost fluctuation and higher marketing expenses.
Commerce	7	7	8	8	7	Revived economic activities, more tourists and lower electricity costs.	Key risks are changes in purchasing power, higher costs from inflationary pressure and the change in government policies (higher minimum wage and the abolition of monopolies).
Electronics	5	5	6	6.5	7	Expect earnings to recover QoQ in 3Q23 from the high season with new capacity installation to support solid EV-related demand with greater stabilization of the baht vs. the USD	An economic recession and more geopolitical issues are expected to impact overall electronics demand and IT spending.
Energy (Oil & Gas)	7	8	8	8	7	Seasonal demand for gasoline will support GRM.	Higher crude premium following Saudi Arabia's added production cut., weaker demand growth than expected due to fears of an economic slowdown, new government policy to intervene in oil marketing business.
Healthcare	7	7	7	7	7	Growing non-COVID-19 services. Stronger EBITDA margin from higher revenue proportion from international patients and specialized services. SC capitation rate hike in May 2023	Unpredictable events that will interrupt patient traffic. Intense competition as hospitals are back to expansion phase, particularly in and around EEC. Workforce shortage.
Utilities	7	8	8	8	7	Lower fuel cost and new operating capacities	Lower electricity demand from industrial users given global economic slowdown, lower Ft rate, new government policy to intervene in the power business.
Bank	6	6	6	6	6	NIM expansion from interest rate hikes, attractive valuation.	Asset quality risk from a global economic slowdown.
Insurance	6	7	7	6	6	Rising VNB and EV	Downside risk on premium growth as a result of lower purchasing power from high inflation, volatile capital market
Property	7	7.5	6	6	6	Presales could be hurt by higher interest rate while earnings will be down YoY but slightly improve QoQ.	Higher interest rate with higher rejections.
Chemical	5	4	4	5	5	Seasonal demand given peak production of downstream producers, continued positive impact from China's reopening	Capacity additions, mainly in China, higher naphtha cost, lower than expected gas feedstock from the Gulf of Thailand, new government policy in allocating gas supply to petrochemical business.
Con Mat	4	4	6	5	5	Expect earnings to remain soft QoQ on seasonality and weak demand, with high utilities cost partially offset by rising ASP.	Key risks: changes in purchasing power and higher costs from inflationary pressure
ICT	6	6	4	5	5	Earnings should continue to improve QoQ and YoY, supported by higher tourism-related revenue and better consumption	Full ARPU impact after TRUE has to reduce avg. price by 12% to comply with remedial measure and policy risk from new government.
Land Transport	7	6	6	4	5	Strong earnings improvement QoQ and YoY from rising traffic and ridership; share prices have fallen to reflect potential regulatory risk	Rising regulatory risk
Automotive	5	5	5	5	4	New orders and new model launches. Less pressure from electricity cost	Economic uncertainty, rising cost of living and higher interest rates that may derail auto demand, both local and export. Rising wage rate.
Finance	5	5	4	3	4	Slower but still robust loan growth, peaking NPLs	Asset quality risk from inflation headwinds and the global economic slowdown, rising cost of funds and rising competition from banks
Food	7	6	6	3	4	Lower local livestock prices amid continued high feed costs	Key risks are weaker product prices from additional supply, fragile purchasing power caused by inflationary pressure, higher feed costs, and changed government policies (higher minimum wage)

Source: InnovestX Research

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Earnings momentum in 2Q23 and 3Q23

	2Q23		3Q23		Reasons
	QoQ	YoY	QoQ	YoY	
Automotive	-	+	+	+	YoY earnings growth in 3Q23 is supported by rising sales from new orders and growing auto production while QoQ earnings improvement will be supported by seasonality and easing pressure from electricity cost.
Bank	=	+	+	+	In 2Q23F, we expect earnings to rise YoY (better NII from higher NIM) and be stable QoQ (better NII but lower non-NII from gain on financial instruments) with stable credit cost. In 3Q23F, we expect earnings to rise YoY (better NII from higher NIM) and QoQ (better toplines and lower provisions). We expect NPLs to peak in 3Q23.
Commerce	-	+	=	+	Revived economic activities, more tourists, and easing electricity costs QoQ.
Energy (Oil & Gas)	+	-	=	+	Energy – core profit could improve YoY in 3Q23 on lower impact from stock loss and more demand for transport fuel driven by China's reopening. Market GRM will be supported by gasoline in 3Q23 but could be lower QoQ.
Healthcare	-	=	+	+	Earnings drivers are growing non-COVID-19 services and international patient services. BCH's and CHG's earnings are entering a YoY uptrend in 2H23 after a downturn in 2H22-1H23 off the high base from COVID-19 services.
ICT	+	+	+	+	Earnings should start to improve in 3Q23 due to rising tourist-related income and better consumption.
Insurance	+	+	+	+	Better combined ratio (from a shift in product mix and PAD release on matured policies), recovering new business premium growth and rising EV and VNB
Land Transport	+	+	+	+	Benefits from returning domestic activities.
Petrochemicals	=	-	+	+	Profit could turn around YoY on better earnings at PTTGC due to more ethane supply from PTT. Global economic uncertainties could continue to delay rebalancing of demand-supply.
Tourism	-	+	+	+	YoY better earnings will be driven by growing international tourist arrivals, bringing higher RevPar, while QoQ earnings improvement will be supported by seasonality and expected stronger flow of tourists from China.
Utilities	+	+	=	+	Utilities – lower pressure from fuel cost will continue to support core earnings despite lower Ft rate. More profit contribution from hydropower business.
Conmat	-	-	-	-	We expect 3Q23 core earnings to remain soft QoQ on seasonality and expect earnings to remain weaker YoY on weak demand and continued high energy and utilities costs.
Electronics	=	-	+	-	Earnings are expected to improve QoQ in 3Q23 on seasonality and new capacities at DELTA, KCE and HANA to support strong backlog of orders, especially from EV-related products.
Finance	=	-	=	-	For 2Q23F and 3Q23F, we expect most finance companies to see earnings fall YoY (larger provisions) but be stable QoQ (robust loan growth to be offset by falling NIM and higher provisions). We expect NPLs to peak in 3Q23.
Food	+	-	+	-	Lower local livestock prices amid continued high feed costs.
Property	+	-	+	-	Dropping YoY from high base while improving QoQ from backlog recognition schedule.

Source: InnovestX Research

Sector weightings and valuations in 3Q23

Sector	Recommended sector weighting	Current SET weight	2022 returns	YTD returns	Growth 23F	Growth 24F	Net profit CAGR 22-24	P/E 23F	P/E 24F	P/B 23F	P/B 24F	Dividend yield 23F	Dividend yield 24F	Ev/Ebitda (x) 23F	Ev/Ebitda (x) 24F
Bank	Overweight	9.9%	-6%	3%	15%	7%	11%	8.0	7.5	0.7	0.6	3.6	4.1	-	-
Commerce	Overweight	10.3%	5%	-8%	21%	19%	20%	31.4	26.4	1.9	1.9	1.5	1.7	12.8	11.6
Electronics	Overweight	7.2%	57%	13%	12%	78%	7%	60.3	53.8	6.9	4.1	0.0	0.0	43.9	39.1
Healthcare	Overweight	5.2%	25%	-1%	-8%	9%	0%	32.5	30.0	5.0	4.6	2.3	1.8	18.4	17.0
Air Transportation	Neutral	5.6%	23%	-4%	173%	100%	n.m.	n.m.	76.5	8.6	7.4	0.0	0.0	30.0	19.6
Automotive	Neutral	0.5%	-2%	-2%	5%	7%	6%	7.8	7.3	0.9	0.8	7.4	5.7	3.7	3.1
Building Materials	Neutral	3.4%	-8%	-6%	24%	19%	21%	14.9	12.6	0.9	0.9	2.9	3.3	10.7	8.7
Energy	Neutral	19.8%	2%	-14%	2%	5%	4%	11.5	11.0	1.0	0.9	4.4	4.1	5.1	4.8
Food & beverage	Neutral	6.4%	-5%	-7%	-41%	30%	-12%	28.9	22.2	1.2	1.2	2.7	0.9	10.5	10.0
Hotel	Neutral	0.8%	36%	0%	1159%	39%	318%	40.0	28.8	3.4	3.0	-	1.0	12.8	10.7
Land Transportation	Neutral	1.2%	5%	-14%	-27%	-12%	21%	52.5	38.6	1.9	1.9	0.0	0.0	27.7	26.0
REITs / PF / IF	Neutral	1.6%	-10%	-5%	-55%	-9%	20%	8.5	7.6	1.7	1.7	0.1	0.2	8.1	7.2
Agribusiness	Underweight	0.4%	-20%	-12%	-33%	2%	-17%	10.9	10.7	0.8	0.8	1.7	1.8	7.7	7.3
Petrochemical	Underweight	2.3%	-11%	-16%	36%	57%	46%	11.9	7.6	0.7	0.7	3.8	3.4	6.8	5.3
Residential/IE	Underweight	5.9%	14%	-8%	-4%	6%	1%	12.3	11.5	1.2	1.1	4.3	4.5	12.9	11.9
Telecoms	Underweight	8.0%	-14%	-3%	52%	18%	34%	29.3	24.8	5.1	4.8	10.5	2.8	6.5	6.0
Utilities	Underweight	4.4%	9%	-15%	21%	-34%	68%	31.2	24.0	2.8	2.6	0.0	0.0	19.3	14.8

Source: Bloomberg, InnovestX Research

SET Index scenario & picks

SET Index targets: 1,650 for 2023 and 1,750 for 2024

Cut target by 5-6% from previous expectation

			PB	Target PB		Market Cap	
	Book value (2023)	Book value (2024)	Current	2023	2024	2023	2024
Energy	3,306,345	2,976,198	0.7	0.9	0.8	2,975,710	2,500,006
Utilities	199,261	210,330	1.9	1.8	1.7	358,670	357,561
Bank	2,836,387	2,974,996	0.7	0.7	0.8	1,985,471	2,498,997
Trans	473,887	504,512	3.2	3.1	3.2	1,469,049	1,634,620
ICT	539,181	557,810	2.8	3.0	2.8	1,617,544	1,561,868
Food	754,704	767,616	1.6	1.6	1.7	1,207,527	1,304,948
Commerce	774,384	820,649	2.5	5.1	5.0	3,949,356	4,136,072
Petro	597,031	630,393	0.7	0.7	0.8	417,922	504,314
Healthcare	213,185	225,794	4.6	4.7	5.0	1,001,971	1,138,004
Electronics	117,519	134,789	12.3	8	9	940,149	1,213,103
Property	781,443	823,843	1.5	1.4	1.4	1,094,021	1,153,381
Tourism	69,335	73,113	2.1	2.5	2.5	173,338	182,782
Media	100,526	100,888	1.9	2.2	2.3	221,157	232,042
Con Mat	570,133	600,212	1.1	1.2	1.1	684,159	660,233
Finance	339,427	373,284	2.2	2.5	2.8	848,567	1,045,195
Others	1,226,973	1,244,332		1	1	1,226,973	1,244,332
Implied SET Index target						1,649	1,747

Source: Bloomberg, InnovestX Research

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SET Index scenario for 2023

Stick to the same game plan but change in magnitude

1Q23

"Bad news is good news". Earnings are slowing and financial stability risks rising globally. Although economic indicators show diminished growth momentum, the global economy is not at imminent risk of sliding into recession. A Fed pivot is not around the corner amid sticky inflation. EU and China are in better shape from hopes of a reopening momentum. Weak earnings in all regions.

Global market +6.8%
Bond market +3%
Gold +8%
SET Index -3.6%

Source: Bloomberg, InnovestX Research

2Q23

Economic growth data is waning and showing a signs of weakening. The collapse of SVB, SNB and FRB led to banking stress. Renewed US-China tension and weaker-than-expected China recovery pressuring Asia markets. Moving Forward's electoral surprise puts Thai business on edge. Meanwhile, we see encouraging signs of easing price pressure. Enthusiasm over AI boosted technology stocks.

Global market +2.9%
Bond mart -1.4%
Gold -0.4%
SET Index -3.2%

The key entry point is in the range of 1,500-1,550

3Q23

Earnings will bottom out and start to recover. 2H should be better than 1H. The degree of market rally will be driven at the micro level. It may not as good as previously expected due to weaker growth than expected. T-bill sales and rising provisions could drain liquidity and weight activity. Thai politics and global recession are key risks in 2H23.

4Q23

Market returns seem limited because growth in 2024 assumes normalization with limited news flow in 4Q23. Avoidance of a recession could limit downside in 2H23. However, the Fed may cut interest rate in 4Q23, which could support the market. We hope the new government will launch stimulus measures to boost spending.

Growth upside may be capped by higher rates for longer. We think that equities are likely to still have downside if a recession takes place in 2H23. Sluggish China recovery could pressure markets. Delays in seating Thailand's new government could be seen as s threat to growth and money inflows.

Key entry level and profit-taking level

Entry point below 1,550; take profit at above 1,600

Approach	Current level	Target valuation (Based case)	Implied SET Index	Potential Upside / Downside	Bull case	Implied SET Index	Potential Upside / Downside	Bear case	Implied SET Index	Potential Upside / Downside
P/E	16.4	17.4	1,658	6%	18.8	1,792	15%	15.0	1,430	-8%
P/B and ROE	1.5	1.6	1,687	8%	1.8	1,898	22%	1.4	1,476	-5%
Equity Risk Premium	ERP 7% / Rf 1%	ERP 7% / Rf 2%	1,643	5%	ERP 6% / Rf 2%	1,765	13%	ERP 7.5% / Rf 2.25%	1,444	-7%
Earnings Yield Gap	373	358	1,605	3%	290	1,802	16%	425	1,457	-7%
		Average	1,648	6%		1,814	16%		1,452	-7%
		Median	1,651	6%		1,797	15%		1,450	-7%

Source: Bloomberg, InnovestX Research

Yield Gap	EPS FY2023 -5%	-1%	Base (EPS 102)	+1%	+5%
2.9%	1,712	1,784	1,802	1,820	1,892
3.6%	1,525	1,589	1,605	1,621	1,686
4.3%	1,384	1,442	1,457	1,472	1,530
Forward P/E					
-1SD (14.4x)	1,369	1,427	1,441	1,456	1,514
Avd (17.4x)	1,644	1,713	1,730	1,747	1,817
+1SD (20.3x)	1,918	1,999	2,019	2,039	2,120

Source: Bloomberg, InnovestX Research

Combining various approaches points to limited valuation upside. We are not expecting a bull case scenario given a global economic slowdown and political uncertainty. We quantify potential base and bear case scenarios which point to median 6% valuation upside and 7% valuation downside from current levels.

Compared against our SET fundamental target of 1,650 in 2023, we use bear case valuations as a key entry point at 1,500-1,550. In 3Q23, the Thai market is expected to be a trading market in the range of 1,500 to 1,600.

We believe the slow global economic activities with recession fears, sluggish China recovery and political uncertainty could pull the SET Index below 1,550 in 3Q23. On the other hand, the Fed's pivot with a "no landing" scenario, bottom for earnings, and China stimulus may put market sentiment in the upper bound of 1,600-1,650 in 2H23. We have negative bias toward the downside on the SET Index in 3Q23.

Our top picks in 3Q23 – BBL, BDMS, BEM, HMPRO, OSP
Limited impacts from policies with earnings recovery

Based on our analysis, there are four stock characteristics will enable outperforming the market in 3Q23. We look at stocks that have:

1) Good balance sheets that will cushion in a highly uncertain environment and broad-based macro challenges.
2) Continuous domestic demand appeal.
3) Earnings recovery in 2H23 from demand recovery and easing cost pressure with signs of earnings bottom in 1H23.
4) Limited impacts from the new coalition government's policies.

Going forward into 2H23, as demand growth slows and risks increase, we expect stocks with strong balance sheets and high visibility of steady earnings recovery to outperform. We prefer domestic exposure as domestic demand is more resilient than external demand. We are looking for companies that have limited impacts from new government policies such as hikes in wages and corporate taxes, tackling monopolies and reforming the energy price structure. Thus, our top picks in 3Q23 are BBL (strong earnings growth, largest NIM expansion), BDMS (high earnings visibility, reopening, high season), BEM (earnings recovery), HMPRO (moderate earnings recovery, domestic consumption, balanced risk-reward), OSP (easing cost pressure, demand recovery).

Top picks valuation table

	Rating	Price	Target	ETR	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)			EV/EBITDA (x)		
		(Bt/Sh)	(Bt/Sh)	(%)	22A	23F	24F	22A	23F	24F	22A	23F	24F	22A	23F	24F	22A	23F	24F	22A	23F	24F
BBL	Outperform	163.00	197.0	24.8	10.6	7.1	6.6	11	50	7	0.6	0.6	0.5	6	8	9	2.8	4.0	4.3	-	-	-
BDMS	Outperform	28.75	34.0	20.0	36.2	32.3	29.9	63	12	8	5.1	4.8	4.4	14	15	15	2.1	1.7	1.7	20.11	17.91	16.53
BEM	Neutral	8.35	9.5	15.6	52.4	32.6	26.1	141	61	25	3.7	3.5	3.3	6	10	12	1.4	1.8	2.3	31.4	25.4	21.2
HMPRO	Outperform	13.80	17.0	25.9	29.2	25.6	22.7	14	14	13	7.5	6.9	6.2	26	28	29	2.8	2.7	3.1	17.5	15.7	14.1
OSP	Outperform	30.00	32.0	11.0	46.6	32.4	30.2	-41	44	7	4.9	4.9	5.1	10	15	17	3.0	4.3	4.6	23.5	18.3	17.8
Average					35.0	26.0	23.1	38	36	12	4.4	4.1	3.9	13	15	16	2.4	2.9	3.2	18.5	15.5	13.9

Source: InnovestX Research

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CG Rating 2022 Companies with CG Rating

Companies with Excellent CG Scoring

AAV, ADVANC, AF, AH, AIRA, AJ, AKP, AKR, ALLA, ALT, AMA, AMARIN, AMATA, AMATAV, ANAN, AOT, AP, APURE, ARIP, ASP, ASW, AUCT, AWC, AYUD, BAFS, BAM;BANPU, BAY, BBIK, BBL, BCP, BCPG, BDMS, BEM, BEYOND, BGC, BGRIM, BIZ, BKI, BOL, BPP, BRR, BTS, BTW, BWG, CENTEL, CFRESH, CGH, CHEWA, CHO, CIMBT, CK, CKP, CM, CNT, COLOR, COM7, COMAN, COTTO, CPALL, CPF, CPI, CPN, CRC, CSS, DDD, DELTA, DEMCO, DOHOME, DRT, DTAC, DUSIT, EA, EASTW, ECF, ECL, EE, EGCO, EPG, ETC, ETE, FN, FNS, FPI, FPT, FSMART, FVC, GC, GEL, GFPT, GGC, GLAND, GLOBAL, GPI, GPSC, GRAMMY, GULF, GUNKUL, HANA, HARN, HENG, HMPRO, ICC, ICHI, III, ILINK, ILM, IND, INTUCH, IP, IRC, IRPC, ITEL, IVL, JTS, JWD, K, KBANK, KCE, KEX, KGI, KKP, KSL, KTB, KTC, LALIN, LANNA, LHFG, LIT, LOXLEY, LPN, LRH, LST, MACO, MAJOR, MAKRO, MALEE, MBK, MC, MCOT, METCO, MFEC, MINT, MONO, MOONG, MSC, MST, MTC, MVP, NCL, NEP, NER, NKI, NOBLE, NSI, NVD, NYT, OISHI, OR, ORI, OSP, OTO, PAP, PCSGH, PDG, PDJ, PG, PHOL, PLANB, PLANET, PLAT, PORT, PPS, PR9, PREB, PRG, PRM, PSH, PSL, PTG, PTT, PTTEP, PTTGC, PYLON, Q-CON, QH, QTC, RATCH, RBF, RS, S, S&J, SAAM, SABINA, SAMART, SAMTEL, SAT, SC, SCB, SCC, SCCC, SCG, SCGP, SCM, SCN, SDC, SEAFCO, SEAOIL, SE-ED, SELIC, SENA, SENX, SGF, SHR, SICT, SIRI, SIS, SITHAI, SMPC, SNC, SONIC, SORKON, SPALI, SPI, SPRC, SPVI, SSC, SSSC, SST, STA, STEC;STGT, STI, SUN, SUSCO, SUTHA, SVI, SYMC, SYNTEC, TACC, TASCO*;TCAP, TEAMG;TFMAMA, THANA, THANI, THCOM, THG*;THIP, THRE, THREL, TIPCO, TISCO, TK, TKN, TKS, TKT, TMILL, TMT, TNDT, TNITY, TOA, TOP, TPBI, TQM, TRC, TRUE*;TSC, TSR, TSTE, TSTH, TTA, TTB, TTCL, TTW, TU, TVDH, TVI, TVO, TWPC, U, UAC, UBIS, UPOIC, UV, VCOM, VGI, VIH, WACOAL, WAVE, WHA, WHAUP, WICE, WINNER, XPG, ZEN

Companies with Very Good CG Scoring

2S, 7UP, ABICO, ABM, ACE, ACG, ADB, ADD, AEONTS, AGE, AHC, AIE, AIT, ALUCON, AMANAH, AMR, APCO, APCS, AQUA, ARIN, ARROW, AS, ASAP, ASEFA, ASIA, ASIAN, ASIMAR, ASK, ASN, ATP30, B, BA, BC, BCH, BE8, BEC, SCAP, BH, BIG, BJC, BJCHI, BLA, BR, BRI, BROOK, BSM, BYD, CBG, CEN, CHARAN, CHAYO, CHG, CHOTI, CHOW, CI, CIG, CITY, CIVIL, CMC, CPL, CPW, CRANE, CRD, CSC, CSP, CV, CWT, DCC, DHOUSE, DITTO, DMT, DOD, DPAINT, DV8, EASON, EFORL, ERW, ESSO, ESTAR, FE, FLOYD, FORTH, FSS, FTE, GBX, GCAP, GENCO, GJS, GTB, GYT, HEALTH, HPT, HTC, HUMAN, HYDRO, ICN, IFS, IIG, IMH, INET, INGRS, INSET, INSURE, IRCP, IT, ITD, J, JAS, JCK, JCKH, JMT, JR, KBS, KCAR, KIAT, KISS, KK, KOOL, KTIS, KUMWEL, KUN, KWC, KWM, L&E, LDC, LEO, LH, LHK, M, MATCH, MBAX, MEGA, META, MFC, MGT, MICRO, MILL, MITSIB, MK, MODERN*, MTI, NBC, NCAP, NCH, NDR, NETBAY, NEX, NINE, NATION, NNCL, NOVA, NPK, NRF, NTV, NUSA, NWR, OCC, OGC, ONEE, PACO, PATO, PB, PICO, PIMO, PIN, PJW, PL, PLE, PM, PMTA, PPP, PPPM, PRAPAT, PRECHA, PRIME, PRIN, PRINC, PROEN, PROS, PROUD, PSG, PSTC, PT, PTC, QLT, RCL, RICHY, RJH, ROJNA, RPC, RT, RWI, S11, SA, SABUY, SAK, SALEE, SAMCO, SANKO, SAPPE, SAWAD, SCI, SCP, SE, SECURE, SFLEX, SFP, SFT, SGP, SIAM, SINGER, SKE, SKN, SKR, SKY, SLP, SMART, SMD, SMIT, SMT, SNNP, SNP, SO, SPA, SPC, SPCG, SR, SRICHA, SSF, SSP, STANLY, STC, STPI, SUC, SVOA, SVT, SWC, SYNEX, TAE, TAKUNI, TCC, TCMC, TFG, TFI, TFM, TGH, TIDLOR, TIGER, TIPH, TITLE, TM, TMC, TMD, TMI, TNL, TNP, TNR, TOG, TPA, TPAC, TPCS, TPIPL, TPIPP, TPLAS, TPS, TQR, TRITN, TRT, TRU, TRV, TSE, TVT, TWP, UBE, UEC, UKEM, UMI, UOBKH, UP, UPF, UTP, VIBHA, VL, VPO, VRANDA, WGE, WIIK, WIN, WINMED, WORK, WP, XO, YUASA, ZIGA

Companies with Good CG Scoring

A, A5, AI, ALL, ALPHAX, AMC, APP, AQ, AU, B52, BEAUTY, BGT, BLAND, BM, BROCK, BSBM, BTNC, CAZ, CCP, CGD, CMAN, CMO, CMR;CPANEL, CPT, CSR, CTW, D, DCON, EKH, EMC, EP, EVER, F&D, FMT, GIFT, GLOCON, GLORY, GREEN, GSC, HL, HTECH, IHL, INOX, JAK, JMART, JSP;JUBILE, KASET, KCM, KWI, KYE, LEE, LPH, MATI, M-CHAI, MCS, MDX, MENA, MJD, MORE, MPIC, MUD, NC, NEWS, NFC, NSL, NV, PAF, PEACE, PF, PK, PPM, PRAKIT, PTL, RAM, ROCK, RP, RPH, RSP, SIMAT, SISB, SK, SOLAR, SPACK, SPG, SQ, STARK, STECH, SUPER, SVH, PTECH, TC;TCCC, TCJ, TEAM, THE, THMUI, TKC;TNH, TNPC, TOPP, TPCH, TPOLY, TRUBB, TTI, TYCN, UMS, UNIQ;UPA, UREKA, VARO, W, WFX, WPH, YGG

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. InnovestX 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 2021 to 27 October 2022) is publicized.

* บริษัทหรือกรรมการหรือผู้บริหารของบริษัทที่มีข่าวด้านการกำกับดูแลกิจการ เช่น การกระทำผิดเกี่ยวกับหลักทรัพย์ การทุจริต คอร์รัปชัน เป็นต้น ซึ่งการใช้ข้อมูล CGR ควรตระหนักถึงข่าวดังกล่าวประกอบด้วย

Anti-corruption Progress Indicator

Certified (ได้รับการรับรอง)

2S, 7UP, ADVANC, AF, AI, AIE, AIRA, AJ, AKP, AMA, AMANAH, AMATA, AMATAV, AP, APCS, AS, ASIAN, ASK, ASP, AWC, AYUD, B, BAFS, BAM, BANPU, BAY, BBL, BCH, BCP, BCPG, BE8, BEC, BEYOND, BGC, BGRIM, BKI, BLA, BPP, BROOK, BRR, BSBM, BTS, BWG, CEN, CENTEL, CFRESH, CGH, CHEWA, CHOTI, CHOW, CIG, CIMBT, CM, CMC, COM7, COTTO, CPALL, CPF, CPI, CPL, CPN, CRC, CSC, DCC, DELTA, DEMCO, DIMET, DRT, DUSIT, EA, EASTW, ECF, ECL, EGCO, EP, EPG, ERW, ESTAR, ETC, ETE, FNS, FPI, FPT, FSMART, FSS, FTE, GBX, GC, GCAP, GEL, GFPT, GGC, GJS, GPI, GPSC, GSTEEL, GULF, GUNKUL, HANA, HARN, HEALTH, HENG, HMPRO, HTC, ICC, ICHI, IFS, III, ILINK, ILM, INET, INOX, INSURE, INTUCH, IRC, IRPC, ITEL, IVL, JKN, JR, K, KASET, KBANK, KBS, KCAR, KCE, KGI, KKP, KSL, KTB, KTC, KWI, L&E, LANNA, LHFG, LHK, LPN, LRH, M, MAJOR, MAKRO, MALEE, MATCH, MBAX, MBK, MC, MCOT, META, MFC, MFEC, MILL, MINT, MONO, MOONG, MSC, MST, MTC, MTI, NCAP, NEP, NKI, NOBLE, NOK, NRF, NWR, OCC, OGC, ORI, PAP, PATO, PB, PCSGH, PDG, PDJ, PG, PHOL, PIMO, PK, PL, PLANB, PLANET, PLAT, PM, PPP, PPPM, PPS, PR9, PREB, PRG, PRINC, PRM, PROS, PSH, PSL, PSTC, PT, PTECH, PTG, PTT, PTTEP, PTTGC, PYLON, Q-CON, QH, QLT, QTC, RABBIT, RATCH, RML, RS, RWI, S&J, SAAM, SABINA, SAK, SAPPE, SAT, SC, SCB, SCC, SCCC, SCG, SCGP, SCM, SCN, SEAOIL, SE-ED, SELIC, SENA, SGP, SINGER, SIRI, SITHAI, SKR, SMIT, SMK, SMPC, SNC, SNP, SORKON, SPACK, SPALI, SPC, SPI, SPRC, SRICHA, SSF, SSP, SSSC, SST, STA, STGT, STOWER, SUSCO, SVI, SYMC, SYNTEC, TAE, TAKUNI, TASCO, TCAP, TCMC, TFG, TFI, TFMAMA, TGH, THANI, THCOM, THIP, THRE, THREL, TIDLOR, TIPCO, TISCO, TKS, TKT, TMD, TMILL, TMT, TNITY, TNL, TNP, TNR, TOG, TOP, TOPP, TPA, TPCS, TPP, TRT, TRU, TRUE, TSC, TSI, TSTE, TSTH, TTA, TTB, TTCL, TU, TURTLE, TVDH, TVI, TVO, TWPC, UBE, UBIS, UEC, UKEM, UOBKH, UPF, UV, VCOM, VGI, VIH, WACOAL, WHA, WHAUP, WICE, WIIK, XO, YUASA, ZEN, ZIGA

Declared (ประกาศเจตนารมณ์)

AAI, AH, ASW, BBGI, CBG, CI, CPW, CV, DMT, DOHOME, EKH, EVER, FLOYD, GLOBAL, GREEN, ICN, ITC, J, JAS, JMART, JMT, JTS, LEO, LH, MEGA, MENA, MODERN, NER, OR, OSP, OTO, PRIME, PRTR, RBF, RT, SA, SANKO, SFLEX, SIS, SUPER, SVOA, SVT, TEGH, TGE, TIPH, TKN, TMI, TPLAS, VARO, W, WIN, WPH

N/A

24CS, 3K-BAT, A, A5, AAV, ABM, ACAP, ACC, ACE, ACG, ADB, ADD, AEONTS, AFC, AGE, AHC, AIT, AJA, AKR, AKS, ALL, ALLA, ALPHAX, ALT, ALUCON, AMARC, AMARIN, AMC, AMR, ANAN, AOT, APCO, APEX, APP, APURE, AQUA, ARIN, ARIP, ARROW, ASAP, ASEFA, ASIA, ASIMAR, ASN, ATP30, AU, AUCT, AURA, B52, BA, BBIK, BC, BCT, BDMS, BEAUTY, BEM, BGT, BH, BIG, BIOTEC, BIS, BIZ, BJC, BJCHI, BKD, BLAND, BLESS, BLISS, BM, BOL, BR, BRI, BROCK, BSM, BTG, BTNC, BTW, BUI, BVG, BYD, CAZ, CCET, CCP, CEYE, CGD, CH, CHARAN, CHASE, CHAYO, CHG, CHIC, CHO, CITY, CIVIL, CK, CKP, CMAN, CMO, CMR, CNT, COLOR, COMAN, CPANEL, CPH, CPR, CPT, CRANE, CRD, CSP, CSR, CSS, CTW, CWT, D, DCON, DDD, DEXON, DHOUSE, DITTO, DOD, DPAINT, DTCENT, DTCI, DV8, EASON, EE, EFORL, EMC, ESSO, F&D, FANCY, FE, FMT, FN, FORTH, FTI, FVC, GABLE, GENCO, GIFT, GL, GLAND, GLOCON, GLORY, GRAMMY, GRAND, GSC, GTB, GTV, GYT, HFT, HL, HPT, HTECH, HUMAN, HYDRO, IFEC, IHL, IIG, IMH, IND, INGRS, INSET, IP, IRCP, IT, ITD, ITNS, ITTHI, JAK, JCK, JCKH, JCT, JDF, JSP, JUBILE, KAMART, KC, KCC, KCM, KDH, KEX, KGEN, KIAT, KISS, KJL, KK, KKC, KLINIQ, KOOL, KTIS, KTMS, KUMWEL, KUN, KWC, KWM, KYE, LALIN, LDC, LEE, LIT, LOXLEY, LPH, LST, MACO, MANRIN, MASTER, MATI, MAX, M-CHAI, MCS, MDX, MEB, METCO, MGC, MGT, MICRO, MIDA, MITSIB, MJD, MK, ML, MORE, MOSHI, MPIC, MTW, MUD, MVP, NATION, NC, NCH, NCL, NDR, NETBAY, NEW, NEWS, NEX, NFC, NNCL, NOVA, NPK, NSL, NTSC, NTV, NUSA, NV, NVD, NYT, OHTL, OISHI, ONEE, PACE, PACO, PAF, PCC, PEACE, PERM, PF, PICO, PIN, PJW, PLE, PLT, PLUS, PMTA, POLAR, POLY, POMPUI, PORT, POST, PPM, PQS, PRAKIT, PRAPAT, PRECHA, PRI, PRIN, PRO, PROEN, PROUD, PSG, PTC, PTL, RAM, RCL, READY, RICHY, RJH, ROCK, ROH, ROJNA, RP, RPC, RPH, RSP, S, S11, SABUY, SAF, SAFARI, SALEE, SAM, SAMART, SAMCO, SAMTEL, SAUCE, SAWAD, SAWANG, SBNEXT, SCAP, SCI, SCP, SDC, SE, SEAFCO, SECURE, SENX, SFP, SFT, SGC, SGF, SHANG, SHR, SIAM, SICT, SIMAT, SISB, SJWD, SK, SKE, SKN, SKY, SLM, SLP, SM, SMART, SMD, SMT, SNNP, SO, SOLAR, SONIC, SPA, SPCG, SPG, SPVI, SQ, SR, SSC, SSS, STANLY, STARK, STC, STEC, STECH, STHAI, STI, STP, STPI, SUC, SUN, SUTHA, SVR, SWC, SYNEX, TACC, TAPAC, TC, TCC, TCCC, TCJ, TCOAT, TEAM, TEAMG, TEKA, TFM, TGPRO, TH, THAI, THANA, THE, THG, THL, THMUI, TIGER, TITLE, TK, TKC, TLI, TM, TMC, TMW, TNDT, TNH, TNPC, TOA, TPAC, TPBI, TPCH, TPIPL, TPIPP, TPOLY, TPS, TQM, TQR, TR, TRC, TRITN, TRUBB, TRV, TSE, TSF, TTI, TTT, TTW, TVT, TWP, TWZ, TYCN, UAC, UBA, UMI, UMS, UNIQ, UP, UPOIC, UREKA, UTP, UVAN, VIBHA, VL, VNG, VPO, VRANDA, WARRIX, WAVE, WFX, WGE, WINMED, WINNER, WORK, WORLD, WP, XPG, YGG, YONG

Explanations

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of April 17, 2023) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.