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Thailand Strategy: 4Q19

It's time for climax!

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Quarterly Strategy – 4Q19

It's time for climax!

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The global economy is now at a critical juncture as the US-China trade dispute and tariff barriers start to drag global trade and manufacturing activity. There is risk of the global slowdown morphing into a recession if the trade dispute extends into 2020. However, there are signs of a trade agreement between the US and China in the next 3-6 months. And if we can avert a recession, the massive stimulus orchestrated by central banks around the globe would support recovery and asset prices. Hence, we maintain a bullish year-end SET Index target of 1,800-1,850, with a preference for the energy and tourism sectors in 4Q19.

An extended trade war could induce a recession

The US-China trade dispute is starting to drag global trade and manufacturing activity. Manufacturing indices in all major economies have fallen to negative territory, even in the seemingly resilient US economy. Although it is technically not an economic downturn, there is risks the extended trade dispute could morph into a recession. We would monitor key economic indicators such as manufacturing index, capacity utilization rate (Cap U) and non-farm payrolls, as they could be early signs of a recession. We estimate if Cap U drops below 75%, unemployment would accelerate and job creation would drop below 100k per month, which would indicate a recession is on the horizon.

From trade war to trade deal

The world economy is at a crucial juncture, between heading into recession or extending the global expansion cycle. The direction would depend on progress in US-China trade talks. Historical evidence suggests the trade conflict is at its worst and there would be progress in the next 3-6 months. Both Trump and Xi have a chance to return to the negotiating table in October to resolve the conflict. But, we expect meaningful progress at the APEC meeting on November 16-17.

Global stimulus fireworks to support recovery and asset prices

If a full-blown trade war can be averted, economic conditions should gradually recover within the next 3-6 months premised on the timing and magnitude of massive easing policies around the globe. Risky assets would promptly respond in a positive manner and the USD should soften against most currencies as market sentiment turns to risk-on mode. The SET Index is unlikely to outperform global markets but we are optimistic the benchmark index will yield positive returns in 2019. Our model projects 15% return in 2019, implying a year-end SET Index target of 1,800-1,850 supported by 2.8% GDP growth and 1.5% policy rate. We prefer cyclical over defensive industries in a maturing economy, and recommend the energy and tourism sectors. Our top picks for 4Q19 include AOT, MINT, ERW, PTTEP and TOP.

4Q19 top picks – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
AOT	34,091	73.5	87.0	18.4	BUY	4.4	8.7	17.3	17.3	40.2	36.9	6.7	6.1	1.2	1.3
ERW	465	5.7	7.2	26.3	BUY	-8.1	11.8	8.4	8.8	29.1	26.0	2.5	2.3	1.4	1.7
MINT	5,699	38.0	47.0	23.7	BUY	14.4	11.2	9.6	8.5	25.5	23.0	18.7	19.8	1.4	1.3
PTTEP	16,756	130.0	160.0	23.1	BUY	24.9	0.7	11.5	10.9	11.2	11.1	1.2	1.2	4.4	4.5
TOP	4,769	72.0	80.0	11.1	BUY	5.3	46.9	8.7	12.1	13.5	9.2	1.2	1.1	3.3	4.9

Source: Bloomberg, Krungsri Securities

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It's time for climax!

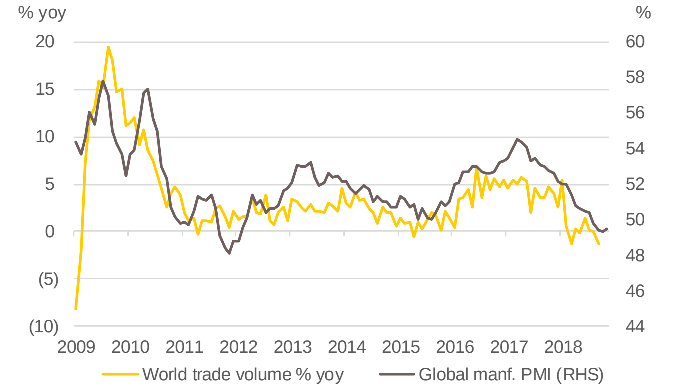
The last chapter of the trade war

The US-China trade dispute is running into the last chapter. The end-game will determine the direction of the global economy, whether the world would head into a recession or an extended expansion cycle. The war started more than two years ago, when the USTR initiated investigations in August 2017 on allegations China violated technology transfer, intellectual property and innovation protection laws.

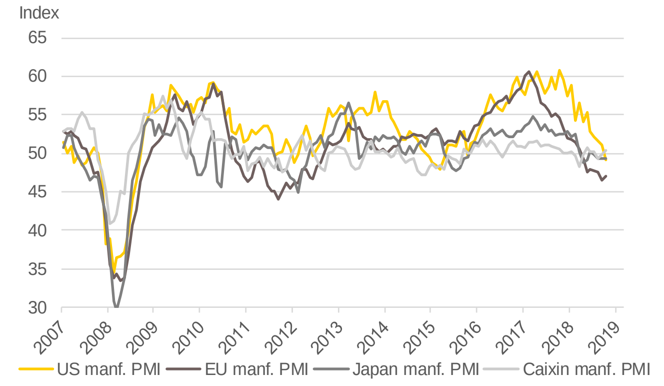
The US has imposed an average tariff rate of 21.2% on Chinese goods worth about US$375b, while China is levying average 21.8% tariff on US$110b in US goods. The effects of the trade dispute and tariff barriers is starting to show, dragging global trade volume and manufacturing activity. Manufacturing indices in all major economies, including the EU, Japan and China, have fallen into negative territory, even the seemingly resilient US economy.

Against a weakening economic backdrop, the market has revised down 2019 world GDP growth by 30bps to 3.2% mostly because the US-China trade war has cast a dark cloud over the global trade landscape. Meanwhile, there is larger downward revision to 2019 GDP growth forecast for Thailand because of a greater degree of economic openness. Consensus estimate for Thai 2019 GDP growth has been slashed from 3.9% to 3.0%, and may be trimmed further to below 3.0% within the next few months. This is because Thai exports had fallen by 6.1% in 1H19 and the overall economy grew only 2.6% in the period despite solid private consumption growth of 4.6%. Things might go from bad to worse if the impressive domestic spending in 1H19 loses stream in 2H19 because of drought and sudden flooding in several areas. Fiscal stimulus appears hopeless as the junta government lacks understanding of business and policy innovation to stir the economy back on track.

Figure 1: US-China trade dispute is the culprit dragging global trade and manufacturing indices around the world

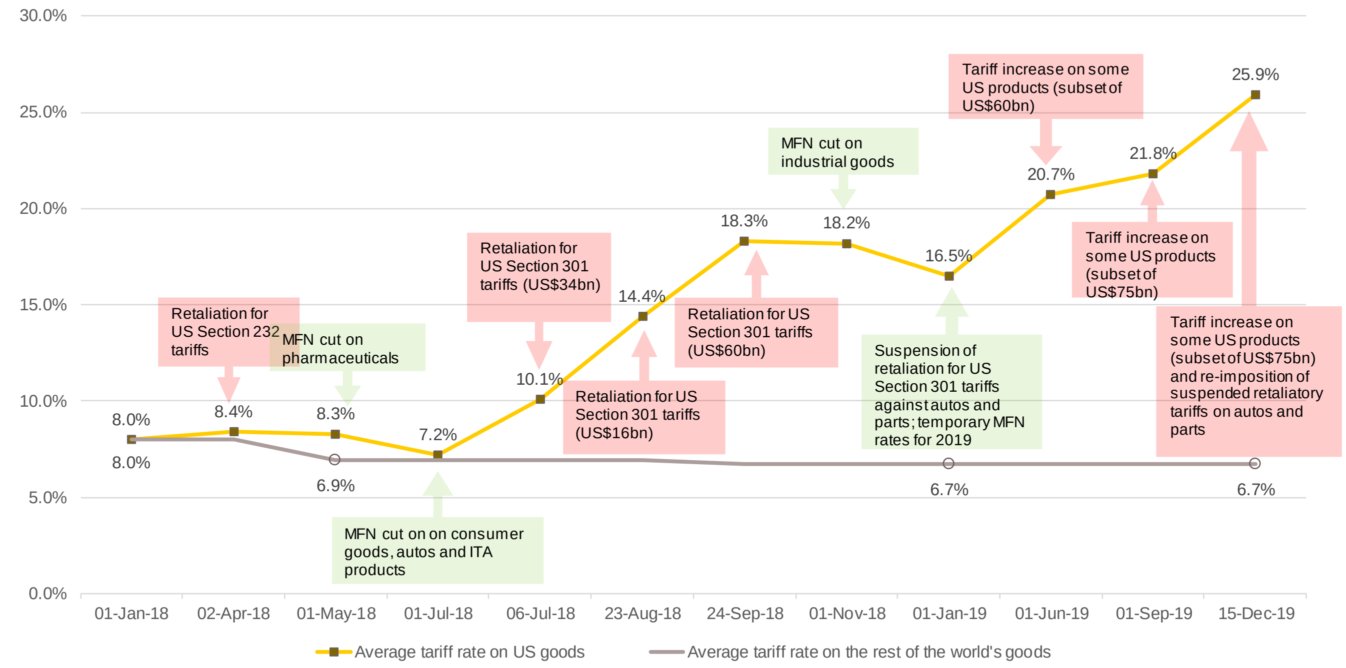


Source: Bloomberg, Krungsri Securities



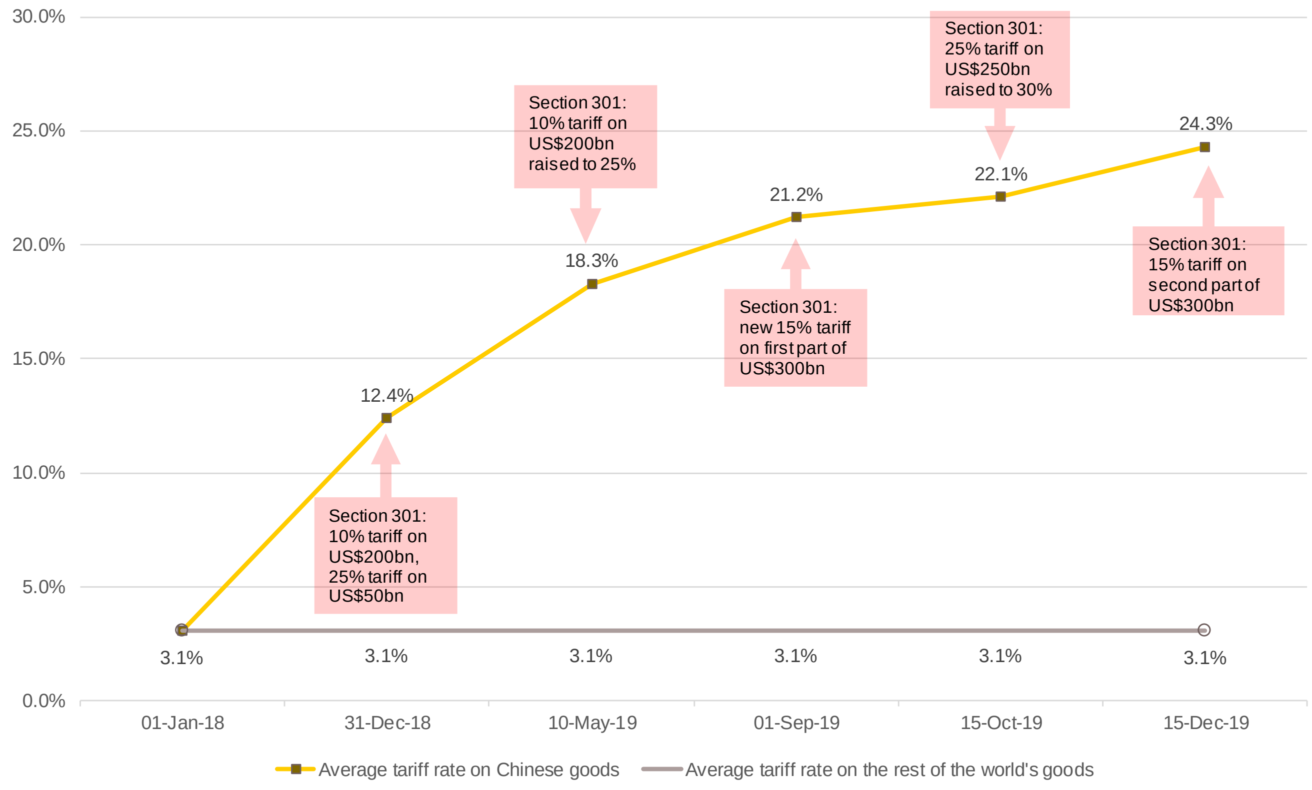
Source: Bloomberg, Krungsri Securities

Figure 2: Average China tariffs on US goods will rise to 25.9% vs 6.7% levied on goods from other countries



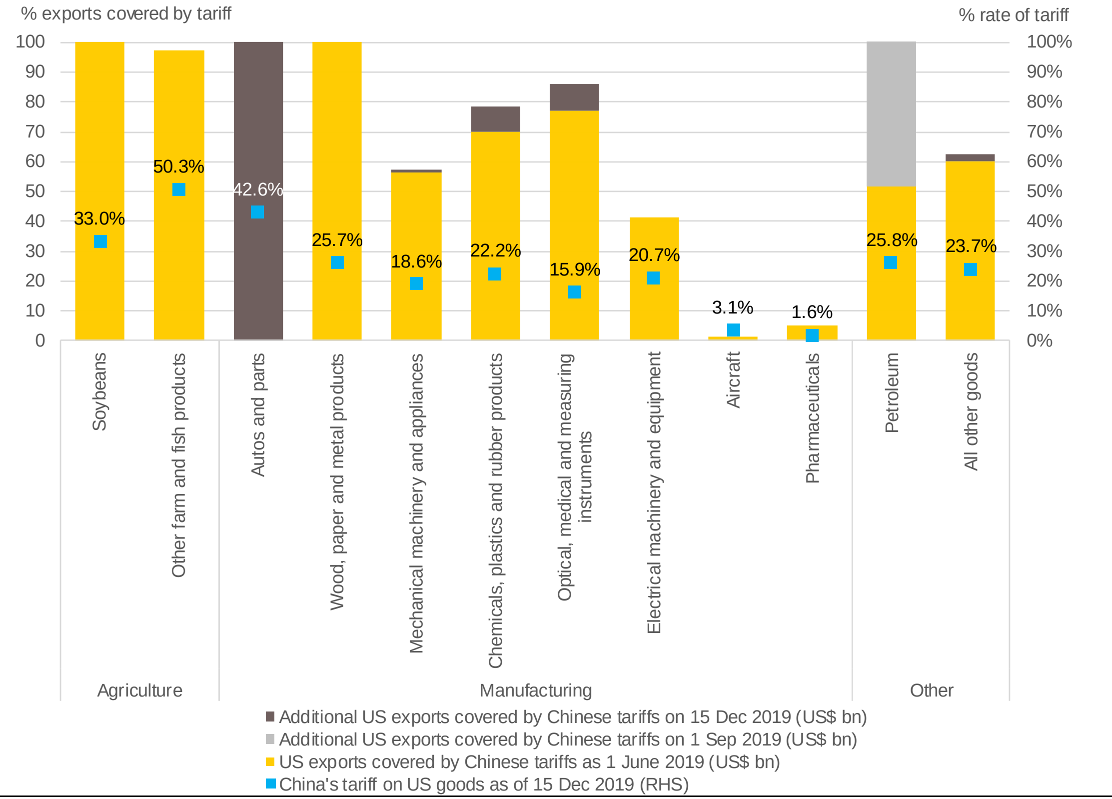
Source: PIIE, Krungsri Securities

Figure 3: Average US tariff on Chinese goods will rise to 24.3% compared to 3.1% for goods from Rest of the World



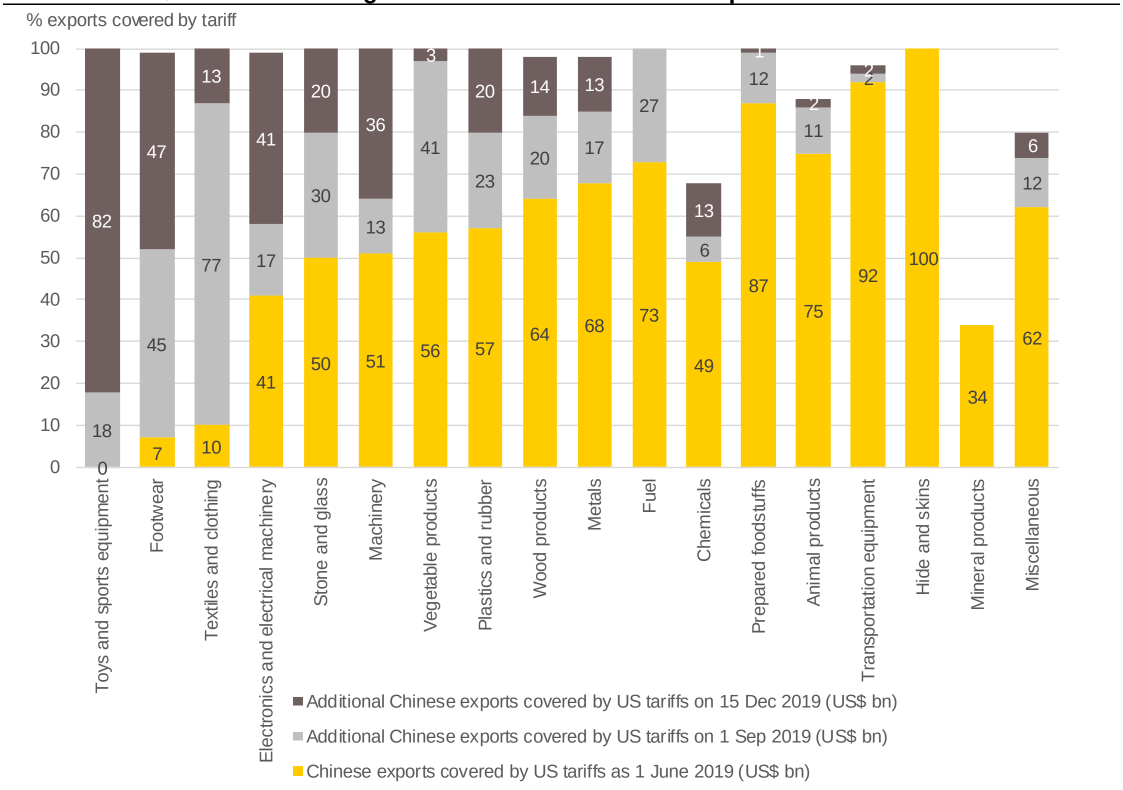
Source: PIIE, Krungsri Securities

Figure 4: China hit hard on American farmers as agricultural products are a major US export to China, next to aircraft



Source: PIIE, Krungsri Securities

Figure 5: US consumers should start to feel the pain of the trade war as the latest round of tariffs on US$300b in Chinese goods would involve consumer products

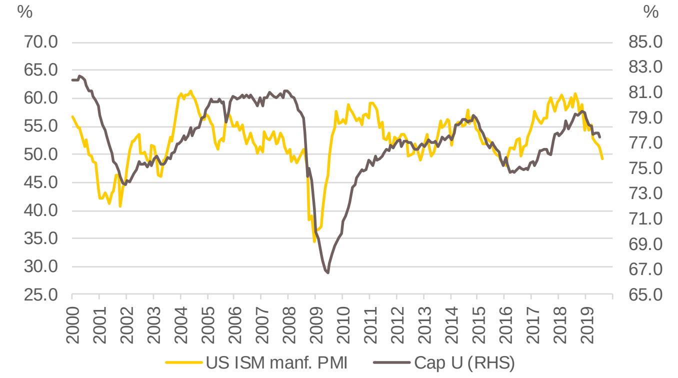


Source: PIIE, Krungsri Securities

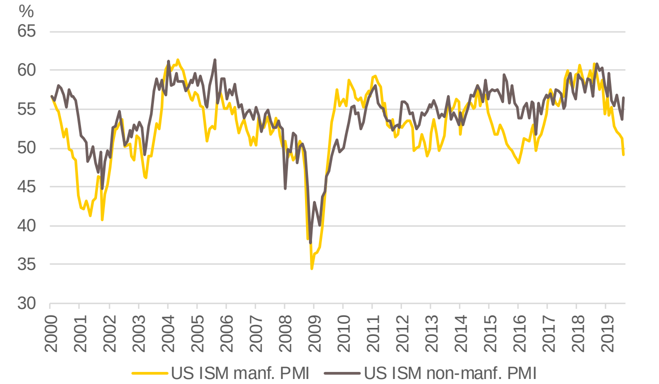
Trade war will inevitably affect the domestic sector

The extended US-China trade war will weaken the global economy. The global slowdown coupled with an inverted yield curve could indicate a recession in the future. Also, leading economic indicators such as the US ISM Manufacturing Index continues to fall along with capacity utilization rates. Several central banks are concerned about the slowing economy, but a global recession would be more pronounced only if the US joins the chorus. So far, the rhetoric in the US has been modest because US job market remains resilient and unemployment rate is at a 5-decade low of 3.6%. Many economists believe the jobs data show the US economy is superior to rest of the world. Some also argue the smaller degree of reliance on external demand coupled with solid domestic consumption would minimize the impact of the trade war and the US economy would not fall into a recession. Indeed, the US ISM Services PMI, which reflects domestic demand, has continued to expand despite the slowing manufacturing sector. We believe the deteriorating manufacturing sector in the US has simply not yet filtered through to the job market. Also, workers in the manufacturing sector account for only 19% of the US labor market while 79% is in the services sector. This means the trade war would have a laggard impact on personal income and domestic spending.

Figure 6: Manufacturing sector has weakened along with lower Cap U, but services sector remains resilient

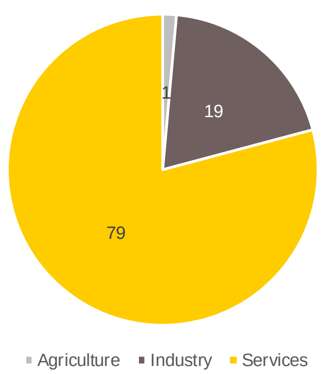


Source: Bloomberg, Krungsri Securities

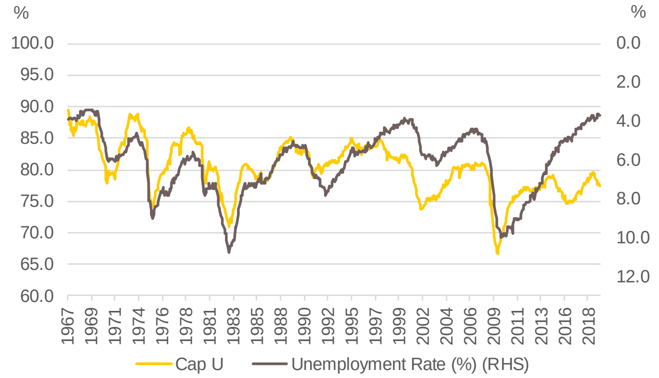


Source: Bloomberg, Krungsri Securities

Figure 7: Trade war impact and slower manufacturing sector would have laggard impact on the job market, and in turn, personal income and consumer spending



Source: Bloomberg, Krungsri Securities



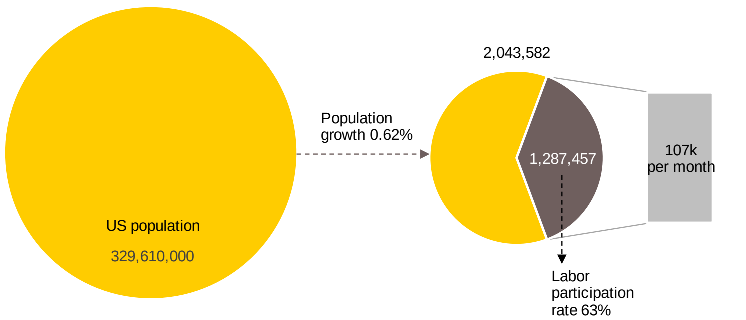
Source: Bloomberg, Krungsri Securities

NFP falling below 100k would signal a recession in the future

The weak manufacturing sector could have a laggard impact on the services sector but there will certainly be spillover effects. One the trade war drags manufacturing activity, that would eat into jobs, which would in turn reduce personal income and consumer spending, and hurt businesses in the services sector. Premise don this, it is unlikely the US domestic consumption can still stand tall against the global headwinds. However, if the service sector joins the down cycle, the economic contraction would be broad-base and likely to lead to a recession.

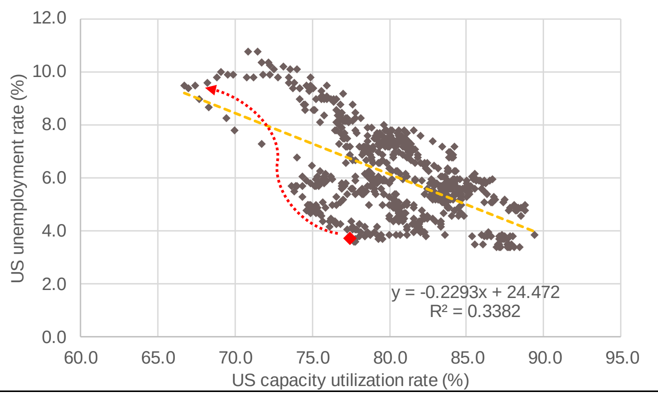
Given that the direction of the global economy would be influenced by the health of the US economy, it is important to monitor economic developments in the US. The question is, which indicator would be the best warning alarm? We think it would be the jobs report. Although the data is considered a laggard indicator by most economists, it is not less important. The US Services PMI data shows the services sector is not yet affected by the trade war because unemployment rate remains low. But once the private sector or manufacturers start to crumble below the weight of the global slowdown, they will start to lay off staff, which would hurt domestic spending as well as the services sector. We estimate capacity utilization rate below 75% would trigger a pronounced decline in non-farm payrolls, and when job creation plunges below 100k/month, the economy would start on the course towards recession.

Figure 8: US needs >100k new jobs/month to control unemployment rate

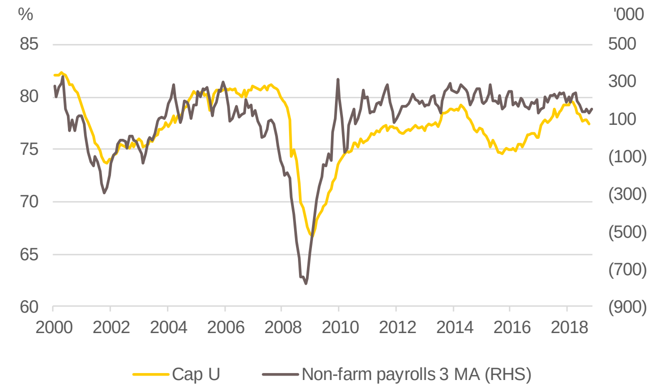


Source: Bloomberg, Krungsri Securities

Figure 9: Cap U falling below 75% would push up unemployment rate



Source: Bloomberg, Krungsri Securities



Source: Bloomberg, Krungsri Securities

Global economy at a crucial juncture

Latest economic data are pointing towards a deeper slowdown and a recession ahead. The global economy is now at a crucial juncture, between heading into a recession or extending the global expansion cycle. The direction largely depends on progress in US-China trade talks. Our analysis of past experiences suggests an agreement in the near future. A trade war usually starts with economic conflict but often ends with negotiation and compromise. On average, trade disputes last about 2-3 years. This implies the ongoing US-China trade conflict is probably at its worst (in terms of timing, and the tariffs are at the second highest level), and there could be an agreement in 2020.

Admittedly, it would not be easy to bring the US and China back to the negotiating table because relations between the two have been relatively unpleasant and is very different from the European-Japanese alliance. However, Trump would not allow complications to drag trade talks past 1H20 because of the general election would start on November 3, 2020. Hence, we expect a clear trade policy within the next 3-6 months, whether Trump would persist with the trade war or end this economic agony. Both Trump and Xi still have a chance to return to the negotiating table in October to resolve the trade conflict, and we expect meaningful progress at the APEC meeting on November 16-17.

Figure 10: Trade war usually starts with economic conflict but often ends with negotiation and compromise

Smooth – Hawley Act 1930-34 (US – Europe)

- US imposed 50% tariffs
- Main culprit for "The great depression"
- Republican Herbert Hoover was not reelected
- Democrat Franklin Roosevelt won election.
- Congress passed the Reciprocal Trade and Agreement Act in 1934.
- Beginning of UN and GATT in 1947

Chicken war 1961-64 (US – Europe)

- Europe imposed tariff on chicken imports from the US and US retaliated with 25% tariff on a bunch of commodities including potato starch, dextrin, brandy and light trucks in 1964.
- Automobile manufacturers from Europe and Japan relocated assembly plants to the US and Canada to avoid the tariffs.
- The 25% tariff first imposed in 1964 still applies to imported light trucks today.

Source: Krungsri Securities

Jabs at Japan 1980-85 (US – Japan)

- US criticized Japan for manipulating its currency and having a large trade surplus.
- The dispute was settled by the Plaza Accord, an agreement to depreciate the USD against the JPY.

Pasta Spat 1985-87 (US – Europe)

- The US imposed tariffs on European pasta after complaints of discrimination against US citrus products. Europe retaliated with higher tariffs.
- However, both parties managed to avert a major trade war after agreeing to end the dispute in 1987.

Battle of Bananas 1993-2012 (US – Europe)

- The newly-formed EU unified its banana policy in favor of imported bananas from its colonies in Africa and Caribbean, while restricting bananas from Latin America where most American companies including Chiquita had invested.
- The US filed a complaint against the EU to the WTO and won the case.

Source: Krungsri Securities

Choosing between Hoover's great depression or Clinton's U-turn

Trump may now have to choose between Hoover's Great Depression (1930-1934) or Clinton's U-Turn (1989-1994). The first would be the culmination of a full-blown trade war, and the second would reverse the course and steer the world economy back on track.

We think Clinton's U-turn strategy is be the most likely outcome as Trump's political ideology is similar to Ronald Reagan's. This is reflected in his *Make American Great Again* (MAGA) election campaign, as well as tax policy (1981 vs 2018). While Reagan carved his name in history for winning the Cold War, Trump is trying to write his own history by successfully securing a trade deal for Americans, not a loser who led the US economy into a recession. Trump still has a chance to reverse the course through negotiations with China to resolve the trade conflict, like what Clinton did. But if Trump fails, the trade war would be prolonged and an economic downturn would be unavoidable.

Back in 1989 when the world denounced China for the bloodshed at Tiananmen Square, the US adopted an arms embargo and threatened to implement trade sanctions on China. This created tension in US-China relations. But Clinton could not withstand pressure from private sector. He not only reversed the aggressive diplomacy and granted China Most-favored-Nation (MFN) status, but also invited President Jiang Zemin to the White House in 1997. And in return, Clinton and his family visited China in 1998. This case demonstrates Trump can also opt for a U-Turn strategy.

Figure 11: Trump may have to choose between Hoover's Great Depression of Clinton's U-Turn

Clinton's U-Turn (1989-1994)

- Despite improving Sino-US relations, there was a brief period of tension when the world denounced China for the bloodshed at Tiananmen Square in 1989.
- European countries and the US adopted arms embargo including suspending sales of military weapons and equipment to China. Bill Clinton also threatened to implement trade sanctions and threatened not to renew most-favored-nation (MFN) trading status for China.
- Sino-US relations were under pressure until 1994 when Clinton decided to reverse the course and granted China MFN status despite allegations of human rights violations as he could not withstand the pressure from the private sector.
- Clinton later invited President Jiang Zemin to the White House in 1997 and visited China with his family in 1998.

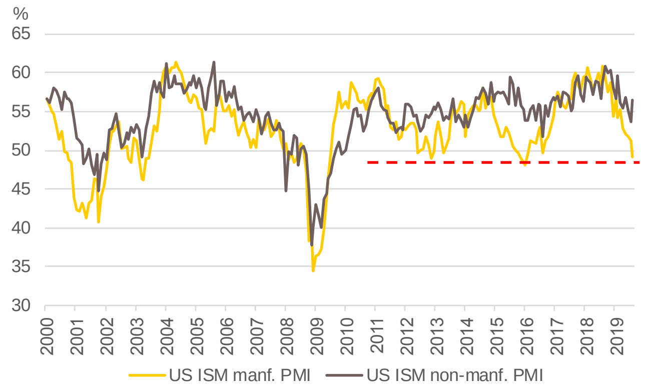
Source: Krungsri Securities

Hoover's The great depression (1930-1934)

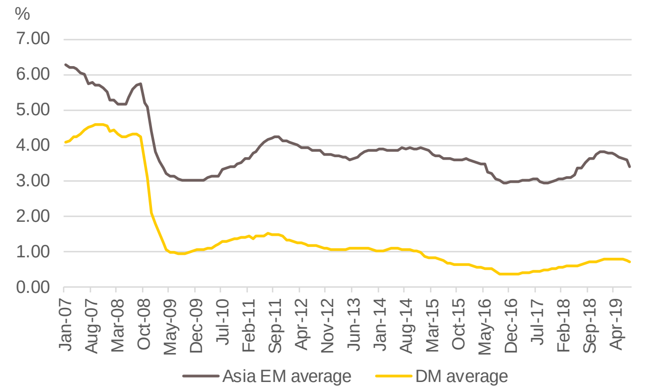
- The Smooth-Hawley Act was proposed by Republicans which is seen as one of the major culprits that hampered global trade and triggered the great depression.
- Under that act, the US imposed up to 50% tariffs on imports to protect the domestic economy, especially the agriculture sector following a severe drought along with falling farm prices.
- However, in 1932, the Democrats campaigned to lower tariffs and Congress passed the Reciprocal Trade and Agreement Act in 1934 after President Franklin Roosevelt from Democrats won the election.
- In the aftermath of WWII, major countries agreed to strengthen international cooperation which led to the formation of the United Nation (UN) and GATT in 1947.

Source: Krungsri Securities

Figure 12: Key economic indicators are forming triple bottoms, while central banks offer insurance rate cuts in defiance of the economic downturn

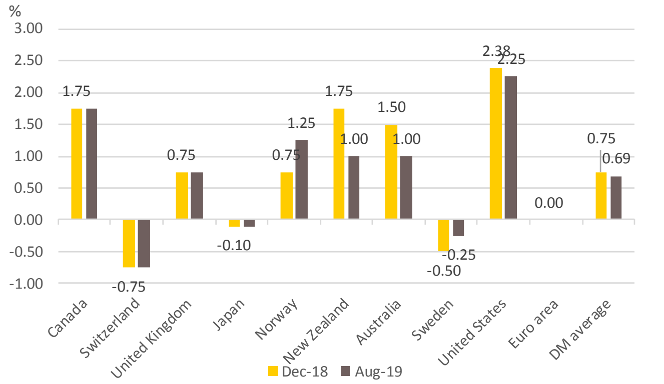


Source: Bloomberg, Krungsri Securities

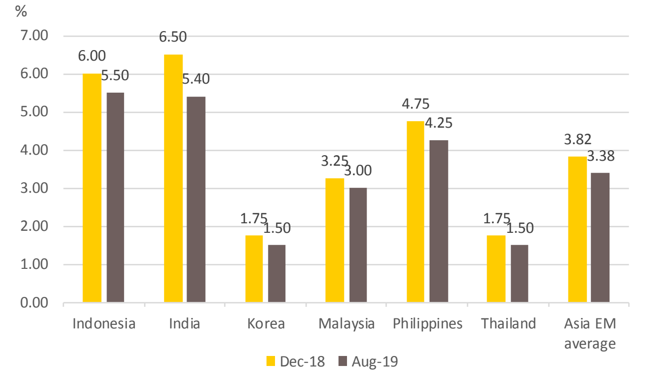


Source: Bank of International Settlement, Krungsri Securities

Figure 13: It was not only central banks in DMs that orchestrated easing policies but also those in EMs

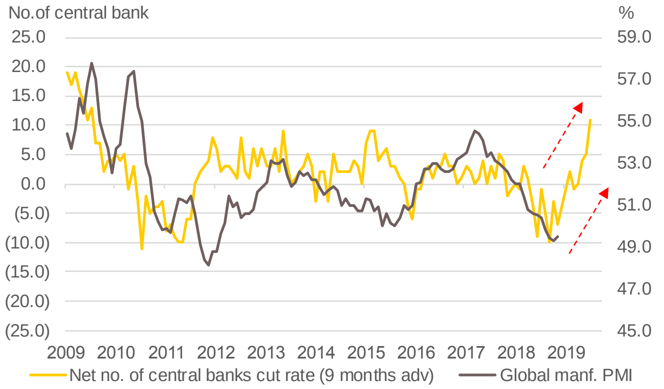


Source: Bank of International Settlement, Krungsri Securities

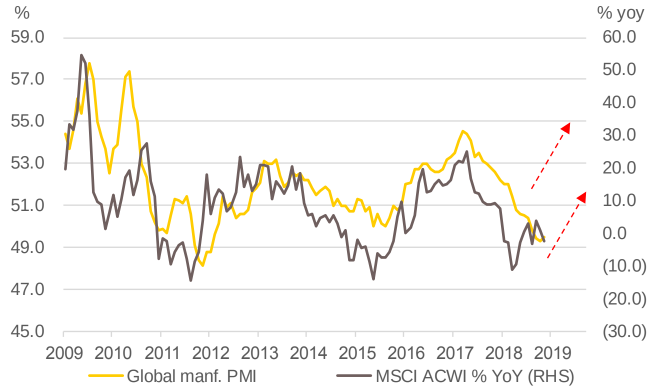


Source: Bank of International Settlement, Krungsri Securities

Figure 14: If ongoing economic slowdown does not lead to recession, massive stimulus from central banks around the globe would support economic recovery and asset prices in the next 3-6 months



Source: Bank of International Settlement, Krungsri Securities



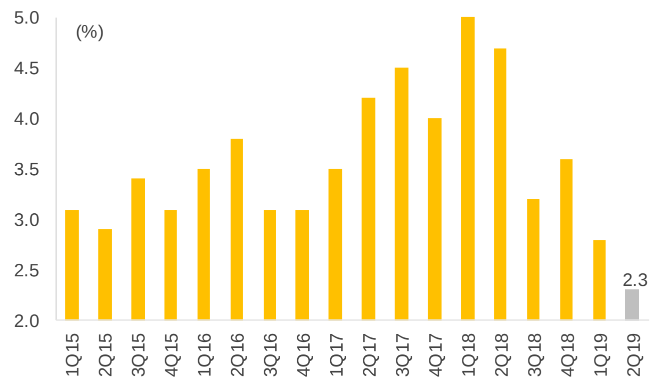
Source: Bloomberg, Krungsri Securities

Thailand

Pawing through the choppy seas

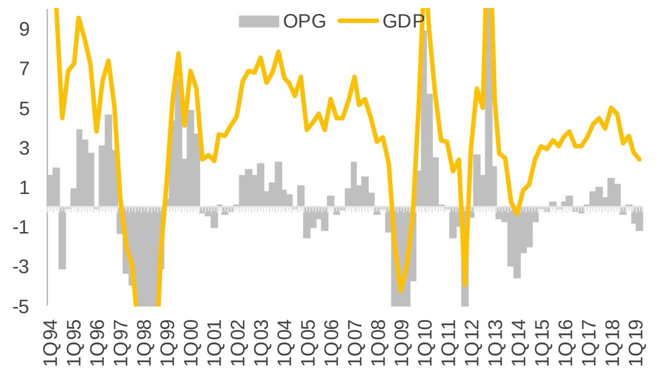
Given the ongoing global risks, we conclude that the Thai economy has been resilient as it managed to register moderate growth in 2Q19. GDP growth slowed to +2.3% yoy and +0.6% qoq (seasonally adjusted), following +2.8% growth in the previous quarter. Note that Thailand has registered two consecutive quarters of below-trend growth. Given that 1H19 growth reached +2.6% yoy, Thailand needs to expand by 3.2% in the second half of the year to meet Krungsri Research's 2019 growth forecast of +2.9%. At this point, we believe the positive momentum should resume in the final quarter of the year premised on (i) receding global risks, (ii) tailwinds from sustained low interest rates (bond yields), (iii) positive impulse from central bank rate cut, and (iv) accelerating budget disbursement.

Figure 15: Thailand economy is on a slower growth path



Source: NESDC, Krungsri Securities

Figure 16: Thailand has marked two consecutive quarters of sub-trend growth

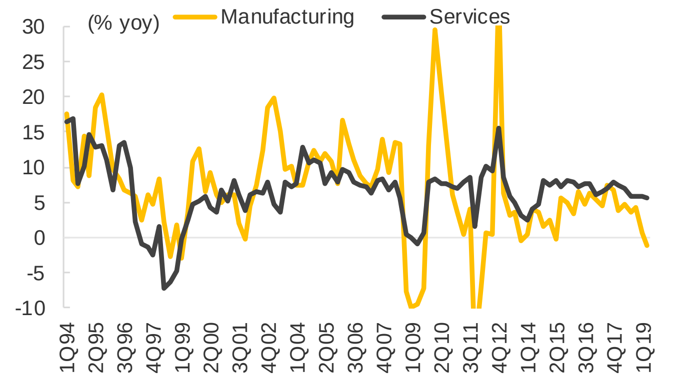


Source: Bloomberg, Krungsri Securities

Thai economy has been driven by non-manufacturing sector

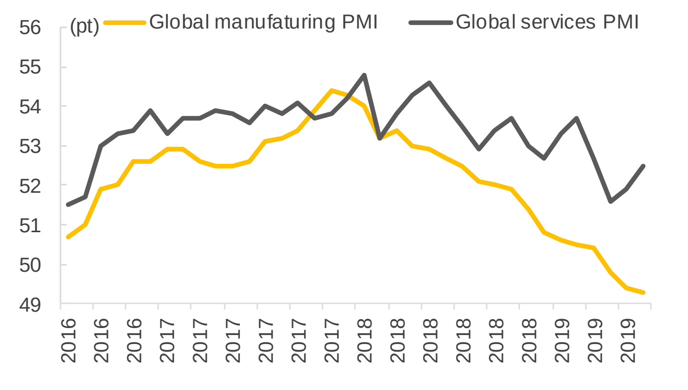
The economic slowdown appears to be driven mostly by decelerating manufacturing activity as global trade weakened. But the services sector remains a bright spot, and has continued to hold up relatively well (see chart below). This is consistent with global trends and has led us to believe the ongoing US-China trade dispute has hurt the chain of tradable goods but not services. This also implies overall economic conditions (and sentiment) could improve relatively quickly as the service sector accounts for 60% of GDP while manufacturing takes up only 25%.

Figure 17: Services sector has provided most of the boost recently …



Source: NESDC, Krungsri Securities

Figure 18: … in line with the global pattern

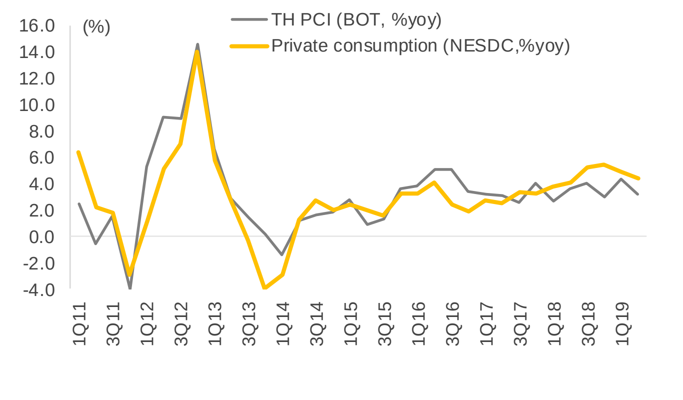


Source: Bloomberg, Krungsri Securities

Private consumption will continue do the heavy lifting

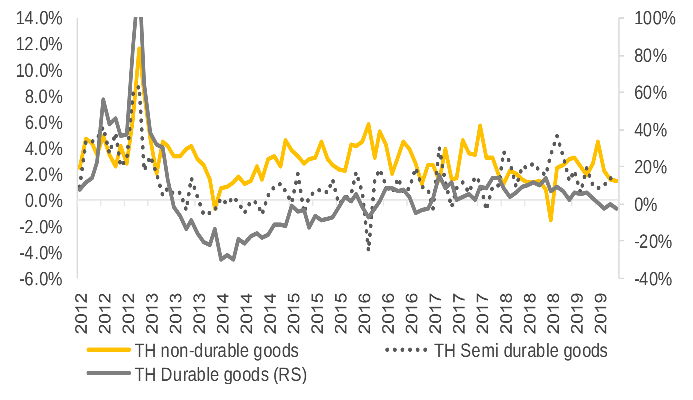
The hard-fact is that private consumption appears to be only promising growth engine for Thailand, as far as demand side is concerned. Private consumption growth has been durable in the last few quarters but we are starting to see signs of a slowdown. The Private Consumption Index (PCI) had slowed to +2.6% yoy in July compared to +3.8% in 1H19. And it appears that spending on durable goods was the biggest loser. Thailand needs a sizable fiscal stimulus to sustain an acceptable overall growth trajectory. But to date, we have not seen any package that meets the criteria. That said, there is a chance consumption would continue to slide down until there are positive catalysts.

Figure 19: Private consumption is trending down gradually



Source: NESDC, BoT, Krungsri Securities

Figure 20: Spending on durable goods appear to be losing momentum

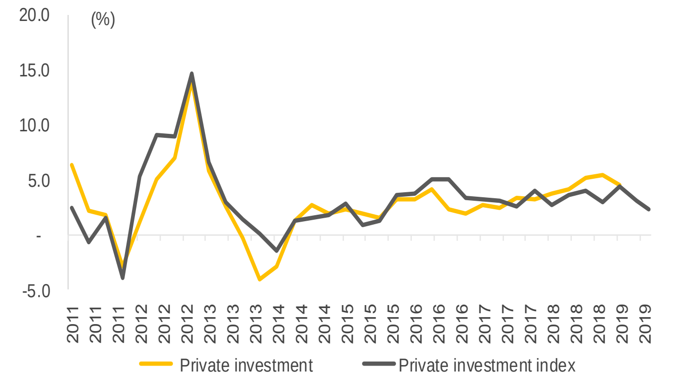


Source: BoT, Krungsri Securities

Gloomy outlook for investment

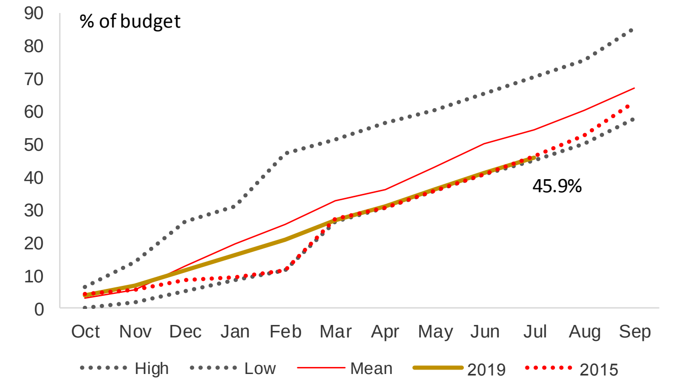
Private investment is a function of (i) the level of domestic production driven by exports, and (ii) business sentiment. These two factors have been hammered by the escalating US-China trade war. Hence, it would be satisfactory for private investment to register low single-digit growth over the next few quarters. The most disappointing development is public investment which rose only 0.7% in 1H19 compared with 3.3% expansion in 2018. Public investment normally acts as an automatic stabilizer when other economic components weaken, but it does not seem to be functioning properly in Thailand. The main reason for this is the slow government budget disbursement, which has been running well below mean levels since the start of FY2019. Unless the government successfully solves the problem, public investment is likely to drag rather than boost growth (in terms of contribution to GDP growth).

Figure 21: Thailand investment is running down the hill



Source: NESDC, Krungsri Securities

Figure 22: Budget disbursement has been disappointing

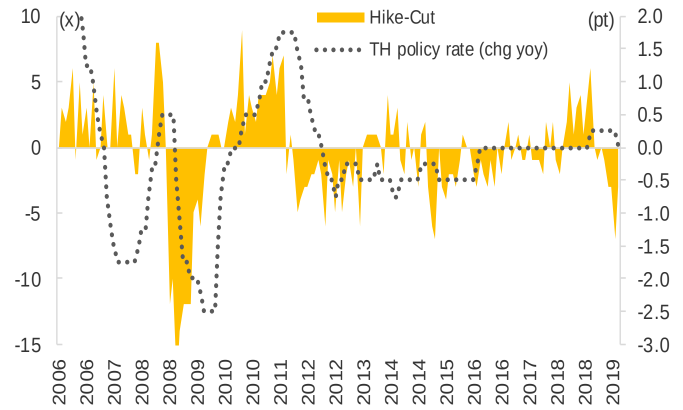


Source: Fiscal Policy Office (FPO), Krungsri Securities

Heavier pressure on the Bank of Thailand

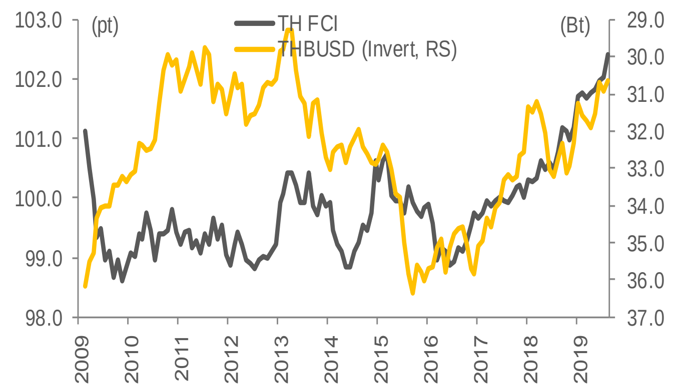
Monetary policy is not a magic potion, but the last-resort policy when economic risks are looming. We applaud the Bank of Thailand's (BoT) decision to cut policy rate by 25bp at the last meeting. However, investors might not want to wait the 6 to 9 months it normally takes for monetary policy easing to filter down to the real economy. This is especially when fiscal policy is not fully functional. The other worrying economic headwind is strong THB, which at a certain level could drag economic growth substantially. The chart below shows the currency appreciation has tightened Thailand's financial condition (FCI) which undermines the objective of monetary policy easing. The bottom line is that we see mounting pressure for the central bank to take more action in the foreseeable future.

Figure 23: BoT has been keeping up with global central banks



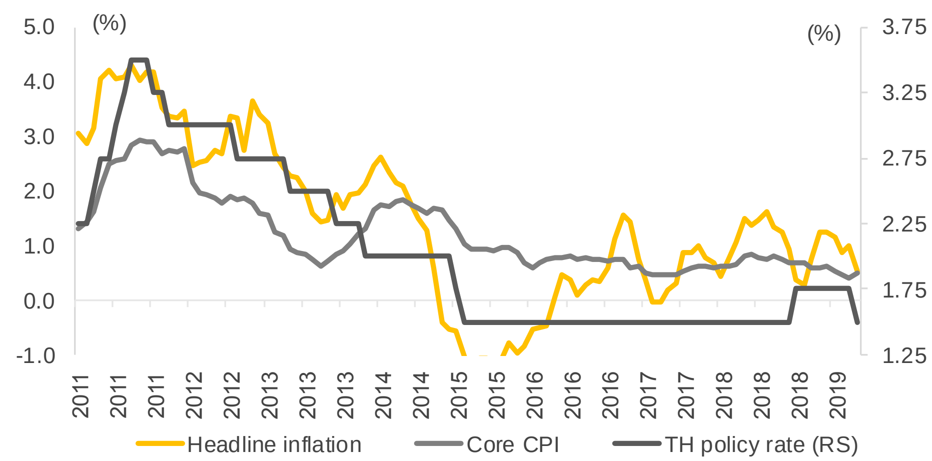
Source: Bloomberg, Krungsri Securities

Figure 24: THB appreciation is a persistent headwind for the economy



Source: Bloomberg, Krungsri Securities

Figure 25: BoT is also expected to be data-driven



Source: Bloomberg, Krungsri Securities

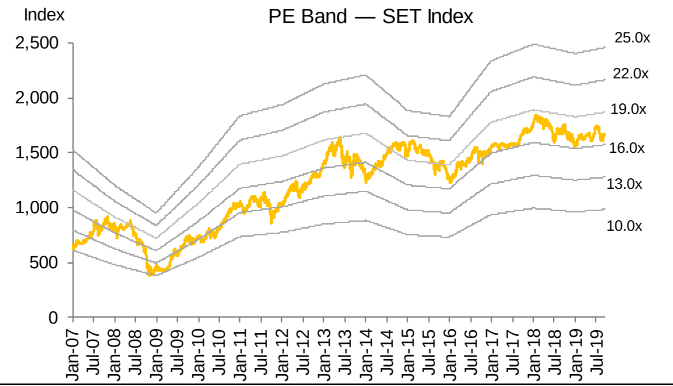
Positioning for the climax

If Trump and Xi manage to reach an amicable agreement and avert a full-blown trade war, economic conditions would recover gradually within the next 3-6 months, premised on the timing and magnitude of massive easing policy orchestrated around the globe. Risky assets would promptly respond in a positive manner and the USD should soften against most currencies as market sentiment turns to risk-on mode.

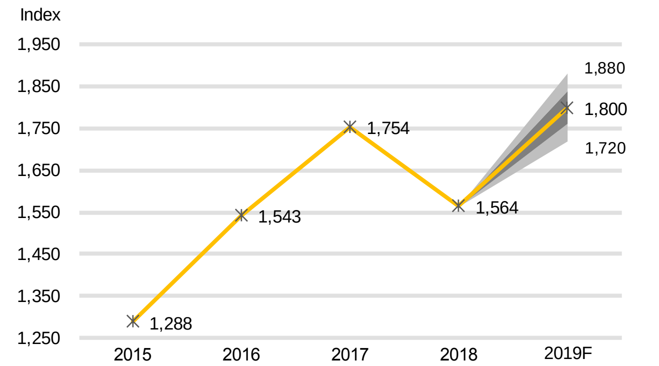
In Thailand, the SET Index is unlikely to outperform global markets but we are optimistic the benchmark index will yield positive returns in 2019. Our model projects 15% return in 2019, implying a year-end SET Index target of 1,800-1,850 supported by 2.8% GDP growth and 1.5% policy rate. We prefer cyclical over defensive industries in a maturing economy, and recommend the energy and tourism sectors.

Premised on our assumption that US and China would reach a trade deal, global demand would recover along with the USD. On this note, we see the energy sector outperforming the broad market, notably with the implementation of IMO 2020 amid supply-side risks. On the domestic front, fiscal stimulus seems hopeless because the government has still not gotten its act together. We do not expect active rollout of fiscal stimulus as that has failed to inspire the economy twice in August. Instead, we are pinning our hopes on the strong recovery in the tourism sector as the growth driver, as tourist arrivals have been rising and would gain traction during the high season at the end of the year.

Figure 26: We are bullish on 4Q19 with year-end SET Index target at 1,800-1,850



Source: Bloomberg, Krungsri Securities



Source: Bloomberg, Krungsri Securities

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AIRPORTS OF THAILAND
(AOT TB/ AOT.BK)

BUY
Target price Bt87.0 (18.4%) **Price Bt73.50**

On time

Strong international throughput support our view tourism sector would recover in 2H19. We revised down AOT's earnings after including a one-time provision under labor law, but recently approved DMK Phase 3 development plans by the board indicate bidding for DMK Duty-free will be as scheduled, in 4Q19-1Q20. We reiterate a BUY call for AOT with a TP of Bt87. The stock is trading at 22.6x forward EV/EBITDA, or +1.5SD of its 5-year mean multiple vs 27.8x FY20F target valuation (+2.5SD of mean).

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International throughput grew 7.6% yoy in 1-14 Sep 2019

That outperformed domestic throughput which remained weak at -4.4%. Airports with a large share of Chinese tourist arrivals (DMK, CNX, HKT) outperformed BKK airport. Hence, we remain optimistic Chinese tourist arrivals will continue to recover momentum in September.

DMK Phase 3 development plan on track; keep eyes on concession bidding

Prachachat reported the AOT board has approved the Bt40b plan to increase DMK processing capacity from 30m passengers per year to 40m by end 2023. That plan needs cabinet approval, but it indicates bidding for DMK Duty-free concessions would be held in 4Q19-1Q20, in our views. We reiterate there could be strong competition, similar to the BKK Airport concession. This suggests further upside to concession income; we estimate every Bt1.5b increment in our assumed concession revenue would lift target price by Bt1/share.

Trimmed FY19F earnings by 2.6% after including provision under labor law

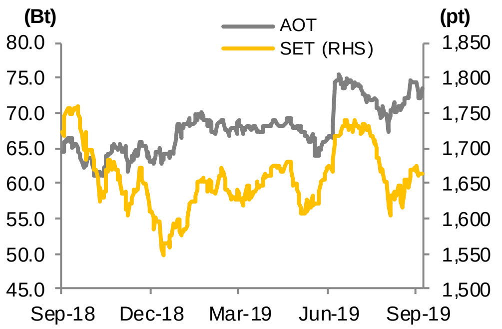
After the cabinet approved the new labor law last week, we expect AOT to book a Bt740m provision in 4Q19. Of that, Bt30m would be expenses for this fiscal year as there will be 61 retiring employees. We revised earnings by 2.6% based on this provision and latest passenger growth data.

Reiterate BUY rating, Bt87 TP

Our 2020F TP is based on DCF valuation (8.4% WACC) and implies 27.8x FY20F EV/EBITDA (at +2.5SD of its 5-year historical average multiple). Key downside risks include disruptions such as political unrest, natural disasters, and terrorist attacks, weaker inbound tourism, weak consumption dampening domestic tourism, rise/reduction in PSC rate, and larger-than-expected capex plan.

Key data	Unit	
12M high/ low	(Bt)	76.3/ 60.0
Market cap	(Btm/ USDm)	1,049,999/ 34,353
3M avg. daily turnover	(Btm/ USDm)	2,126.0/ 69.2
Free float	(%)	28.8
Issued shares	(m shares)	14,286
Major shareholders:		**%**
1) Finance Ministry		70.0
2) Stock Exchange Of Th		4.7
3) State Street Corp		1.7

Stock price performance



	Unit	ytd	1M	3M	12M
Total return	(%)	14.4	4.3	10.5	15.8
Total return vs SET	(%)	7.6	2.0	10.3	19.0

Financial Summary

Year to 31 Dec	Unit	2017	2018	2019F	2020F	2021F
Revenue	(Btm)	56,301	61,919	65,730	71,504	93,588
Revenue growth	(%)	7.6	10.0	6.2	8.8	30.9
EBITDA	(Btm)	32,784	37,650	40,092	43,851	62,667
EBITDA growth	(%)	3.3	14.8	6.5	9.4	42.9
Profit, core	(Btm)	20,443	25,036	26,149	28,430	42,746
Profit growth, core	(%)	6.9	22.5	4.4	8.7	50.4
Profit, reported	(Btm)	20,684	25,171	25,363	28,430	42,746
Profit growth, reported	(%)	7.1	21.7	0.8	12.1	50.4
EPS, core	(Bt)	1.43	1.75	1.83	1.99	2.99
EPS growth, core	(%)	7.1	21.7	0.8	12.1	50.4
DPS	(Bt)	0.68	0.86	0.87	0.97	1.46
P/E, core	(x)	47.7	39.2	41.4	36.9	24.6
P/BV, core	(x)	7.5	6.8	6.7	6.1	5.4
ROE	(%)	16.3	18.2	16.8	17.3	23.4
Dividend yield	(%)	1.0	1.2	1.2	1.3	2.0
FCF yield	(%)	2.0	2.4	1.2	1.3	2.6

Krungsri vs Bloomberg consensus

	Unit	(+)	(=)	(-)
Bloomberg consensus	(Cnt.)	21	7	4
	Unit	**KSS**	**BB**	**%diff**
Target price	(Bt)	87.0	79.0	10.1
2019F net profit	(Btm)	25,363	26,143	-3.0
2020F net profit	(Btm)	28,430	28,680	-0.9

Earnings revision

Bloomberg	Unit	2019F	2020F
1M	(%)	-0.83	-0.08
3M	(%)	-4.18	-2.52
ytd	(%)	-4.71	-2.42
Krungsri			
From last report	(%)	0.00	0.00

Source: Bloomberg, Krungsri Securities

Financial statement

Profit and Loss Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total revenue	(Btm)	39,407	45,506	52,319	56,301	61,919	65,730	71,504	93,588
Cost of goods sold	(Btm)	9,281	9,620	12,222	14,632	14,747	15,732	17,016	19,512
Gross profit	(Btm)	30,125	35,886	40,097	41,670	47,172	49,999	54,488	74,076
SG&A	(Btm)	13,212	13,920	14,749	14,531	15,164	16,296	17,855	19,509
Other income	(Btm)	1,821	1,537	1,357	1,400	1,381	1,606	1,842	2,185
Interest expense	(Btm)	1,836	1,605	1,377	1,195	1,016	946	1,019	1,019
Pre-tax profit	(Btm)	15,078	20,361	23,971	25,944	30,992	32,757	35,614	53,548
Corporate tax	(Btm)	3,007	4,585	4,821	5,445	5,903	6,551	7,123	10,710
Equity a/c profits	(Btm)	0	0	0	0	0	0	0	0
Minority interests	(Btm)	-42	-21	-32	-56	-54	-56	-61	-92
Core profit	(Btm)	12,029	15,755	19,118	20,443	25,036	26,149	28,430	42,746
Extra-ordinary items	(Btm)	191	2,974	201	241	135	-787	0	0
Net Profit	(Btm)	12,220	18,729	19,318	20,684	25,171	25,363	28,430	42,746
EBITDA	(Btm)	22,564	28,154	31,751	32,784	37,650	40,092	43,851	62,667
Core EPS	(Bt)	0.84	1.10	1.34	1.43	1.75	1.83	1.99	2.99
Net EPS	(Bt)	0.86	1.31	1.35	1.45	1.76	1.78	1.99	2.99
DPS	(Bt)	0.03	0.49	0.50	0.68	0.86	0.87	0.97	1.46

Balance Sheet

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total current assets	(Btm)	47,355	51,925	64,158	71,655	77,068	79,365	80,298	90,366
Total long-term assets	(Btm)	106,433	107,699	108,059	106,755	110,640	124,808	140,653	158,565
Total assets	(Btm)	153,789	159,624	172,216	178,410	187,709	204,173	220,951	248,931
Total current liabilities	(Btm)	17,965	15,854	18,429	20,728	23,203	22,170	23,741	27,423
Total long-term liabilities	(Btm)	38,577	34,958	32,209	25,993	20,237	24,694	25,286	27,609
Total liabilities	(Btm)	56,542	50,812	50,638	46,721	43,439	46,864	49,026	55,032
Paid-up capital	(Btm)	14,286	14,286	14,286	14,286	14,286	14,286	14,286	14,286
Total equity	(Btm)	97,247	108,812	121,579	131,689	144,269	157,309	171,924	193,899
Minority interest	(Btm)	203	225	257	312	366	423	484	576
BVPS	(Bt)	6.79	7.60	8.49	9.20	10.07	10.98	12.00	13.53

Cash Flow Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Core Profit	(Btm)	12,220	18,729	19,318	20,684	25,171	25,363	28,430	42,746
Depreciation and amortization	(Btm)	5,650	6,188	6,404	5,645	5,642	6,389	7,219	8,101
Operating cash flow	(Btm)	21,431	18,881	22,967	32,522	31,350	31,777	37,033	53,965
Investing cash flow	(Btm)	-7,486	-16,549	-13,531	-10,698	-13,700	-20,313	-22,687	-24,539
Financing cash flow	(Btm)	-486	-7,057	-7,142	-9,757	-12,285	-12,379	-13,876	-20,864
Net change in cash	(Btm)	6,585	-7,012	2,259	4,240	-841	2,141	531	8,654

Key Financial Ratios

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Gross margin	(%)	75.3	78.1	76.0	73.3	75.6	75.5	75.6	78.7
EBITDA margin	(%)	60.0	64.0	62.3	59.7	62.2	62.5	62.9	68.6
EBIT margin	(%)	45.0	50.0	49.7	49.4	52.9	52.6	52.6	59.7
Net profit margin	(%)	32.5	42.6	37.9	37.7	41.6	39.6	40.8	46.8
ROE	(%)	12.7	15.3	16.6	16.1	18.1	17.3	17.3	23.4
ROA	(%)	7.8	10.1	11.5	11.7	13.7	13.3	13.4	18.2
Net D/E	(x)	-0.09	-0.15	-0.23	-0.33	-0.38	-0.34	-0.32	-0.33
Interest coverage	(x)	9.2	13.7	18.4	22.7	31.5	35.6	36.0	53.6
Payout Ratio	(%)	4.0	44.8	37.4	47.7	49.1	47.3	48.8	48.8

Main Assumptions

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Aircraft growth		9.0	16.0	9.8	6.0	6.2	2.8	6.7	6.7
Passenger growth		2.0	22.2	12.5	7.9	8.2	1.6	6.8	6.8
International PSC Charge		700	700	700	700	700	700	700	700
Domestic PSC Charge		100	100	100	100	100	100	100	100

THE ERAWAN GROUP
(ERW TB/ ERW.BK)

BUY
Target price Bt7.20 (26.3%)   Price Bt5.70

The Little King

We expect ERW to deliver 20% p.a. earnings growth (CAGR) in 2020-21F, driven by an expanding hotel room portfolio, rebound in RevPar led by recovering tourist arrivals and asset-enhancement strategy, and higher profitability with improving economies of scale in both Thailand and the Philippines. We rate ERW a BUY with a TP of Bt7.2. The stock is currently trading at 12.8x fwd EV/EBITDA, slightly below its 5-year average historical multiple and our target of 13.7x FY20F fwd EV/EBITDA.

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Going big in budget hotels

The Hop Inn budget hotel chain was launched in 2014. Currently, ERW operates 41 Hop Inn hotels (36 in Thailand and 5 in Philippines). We see ERW expanding the chain to cover most of Thailand and turning it into a value proposition for corporate clients. They expect to open another 7 Hop Inn hotels in 2H19, including 2 in Bangkok. We expect the chain to expand to 56 hotels by 2021F (47 in Thailand and 9 in Philippines). We anticipate rising revenues from Hop Inn to outpace revenue from other hotel formats in ERW's portfolio. We penciled in 14% revenue contribution from Hop Inn in 2021F vs 9% in 2018.

Philippines unit ready for next growth phase

The Philippines unit broke even in 2Q19. Supported by higher per capita tourist spending by domestic travelers and rising foreign tourist arrivals, ERW will continue to expand the Philippines unit to capture a larger piece of the country's growing tourism industry. ERW plans to add 4 more Hop Inn hotels in the next 2 years and introduce a mid-scale hotel by 2021.

We expect 21% p.a. earnings growth (CAGR) in 2020-2021F

We forecast revenue to grow at only 8.8% p.a. CAGR. However, improving economies of scale with an increasing number of rooms (+7.2% p.a. CAGR in 2020-21F) and rebound in RevPar will boost margins, and in turn, net profit.

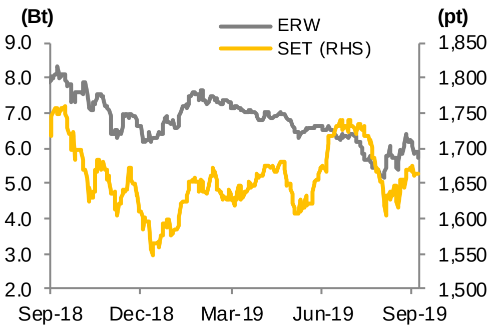
Initiate coverage with BUY rating and 2020F TP of Bt7.2 (DCF valuation)

Our TP assumes 8.5% WACC (see Fig. 1). This implies 13.2x FY20F EV/EBITDA (+0.5SD of 5-year historical average) and 33x PE. Downside risks include operations being disrupted by political unrests, fewer inbound tourists, and persistent oversupply of hotel rooms.

Key data

	Unit	
12M high/ low	(Bt)	8.5/ 5.0
Market cap	(Btm/ USDm)	14,336/ 469
3M avg. daily turnover	(Btm/ USDm)	75.8/ 2.4
Free float	(%)	54.7
Issued shares	(m shares)	2,515
Major shareholders:		**%**
1) Wattanavekin Sukakar		13.4
2) City Holding Co Ltd		9.2
3) Wannamethee Vansamor		6.0

Stock price performance



	Unit	ytd	1M	3M	12M
Total return	(%)	0.5	20.2	-5.3	-17.9
Total return vs SET	(%)	-6.8	18.6	-6.8	-16.8

Financial Summary

Year to 31 Dec	Unit	2017	2018	2019F	2020F	2021F
Revenue	(Btm)	6,050	6,304	6,459	6,966	7,627
Revenue growth	(%)	7.8	4.2	2.5	7.8	9.5
EBITDA	(Btm)	1,844	1,896	1,900	2,063	2,284
EBITDA growth	(%)	16.3	2.8	0.2	8.6	10.7
Profit, core	(Btm)	506	535	491	549	682
Profit growth, core	(%)	46.2	5.8	-8.1	11.8	24.2
Profit, reported	(Btm)	506	536	474	549	682
Profit growth, reported	(%)	37.8	6.1	-11.6	15.9	24.2
EPS, core	(Bt)	0.20	0.21	0.20	0.22	0.27
EPS growth, core	(%)	46.0	5.5	-8.1	11.8	24.2
DPS	(Bt)	0.06	0.09	0.08	0.09	0.12
P/E, core	(x)	43.0	29.5	29.1	26.0	21.0
P/BV, core	(x)	4.2	2.9	2.5	2.3	2.2
ROE	(%)	9.7	9.6	8.4	8.8	10.3
Dividend yield	(%)	0.7	1.5	1.4	1.7	2.1
FCF yield	(%)	4.0	5.0	-3.1	0.7	4.2

Krungsri vs Bloomberg consensus

	Unit	(+)	(=)	(-)
Bloomberg consensus	(Cnt.)	18	3	1
	Unit	**KSS**	**BB**	**%diff**
Target price	(Bt)	7.2	7.3	-1.1
2019F net profit	(Btm)	474	501	-5.4
2020F net profit	(Btm)	549	576	-4.6

Earnings revision

Bloomberg	Unit	2019F	2020F
1M	(%)	-7.05	-8.35
3M	(%)	-18.27	-19.89
ytd	(%)	-22.74	-21.37
Krungsri			
From last report	(%)	0.00	0.00

Source: Bloomberg, Krungsri Securities

Financial statement

Profit and Loss Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total revenue	(Btm)	4,315	5,301	5,611	6,050	6,304	6,459	6,966	7,627
Cost of goods sold	(Btm)	2,210	2,513	2,544	2,636	2,813	2,923	3,141	3,423
Gross profit	(Btm)	2,105	2,788	3,067	3,415	3,491	3,536	3,825	4,205
SG&A	(Btm)	1,205	1,374	1,482	1,571	1,595	1,636	1,762	1,921
Other income	(Btm)	70	46	40	55	48	64	52	57
Interest expense	(Btm)	360	387	362	344	360	392	429	435
Pre-tax profit	(Btm)	-132	310	494	762	759	663	742	926
Corporate tax	(Btm)	19	99	122	172	164	133	149	186
Equity a/c profits	(Btm)	21	19	15	-24	-4	13	13	13
Minority interests	(Btm)	-1	-35	-41	-59	-57	-51	-57	-71
Core profit	(Btm)	-131	195	346	506	535	491	549	682
Extra-ordinary items	(Btm)	19	0	21	0	1	-18	0	0
Net Profit	(Btm)	-112	195	367	506	536	474	549	682
EBITDA	(Btm)	900	1,414	1,586	1,844	1,896	1,900	2,063	2,284
Core EPS	(Bt)	-0.05	0.08	0.14	0.20	0.21	0.20	0.22	0.27
Net EPS	(Bt)	-0.05	0.08	0.15	0.20	0.21	0.19	0.22	0.27
DPS	(Bt)	0.17	0.05	0.05	0.06	0.09	0.08	0.09	0.12

Balance Sheet

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total current assets	(Btm)	1,047	1,409	1,278	1,573	1,560	1,724	2,063	1,668
Total long-term assets	(Btm)	13,470	13,411	13,633	14,475	15,389	16,731	17,660	18,266
Total assets	(Btm)	14,517	14,820	14,911	16,048	16,949	18,456	19,723	19,933
Total current liabilities	(Btm)	2,748	3,593	3,606	3,218	3,540	3,587	3,860	3,998
Total long-term liabilities	(Btm)	7,066	6,345	6,232	7,427	7,700	8,840	9,466	9,080
Total liabilities	(Btm)	9,815	9,938	9,839	10,645	11,240	12,427	13,326	13,078
Paid-up capital	(Btm)	2,479	2,498	2,498	2,501	2,508	2,508	2,508	2,508
Total equity	(Btm)	4,702	4,882	5,073	5,403	5,708	6,028	6,397	6,855
Minority interest	(Btm)	177	212	155	167	165	216	273	343
BVPS	(Bt)	1.83	1.87	1.97	2.09	2.21	2.32	2.44	2.60

Cash Flow Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Core Profit	(Btm)	-112	195	367	506	536	474	549	682
Depreciation and amortization	(Btm)	672	717	730	738	776	845	892	922
Operating cash flow	(Btm)	505	859	1,053	1,312	1,330	1,381	1,514	1,697
Investing cash flow	(Btm)	-523	-980	47	-184	-759	-885	-2,200	-1,800
Financing cash flow	(Btm)	-410	-122	-129	-150	-232	-205	-237	-295
Net change in cash	(Btm)	510	980	505	1,057	748	145	296	-449

Key Financial Ratios

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Gross margin	(%)	47.9	52.2	54.3	56.0	55.0	54.3	54.6	54.8
EBITDA margin	(%)	21.2	26.9	28.5	30.8	30.3	29.7	29.8	30.2
EBIT margin	(%)	5.4	13.3	15.4	18.4	17.9	16.5	16.9	18.0
Net profit margin	(%)	-2.6	3.7	6.6	8.4	8.6	7.4	7.9	9.0
ROE	(%)	-2.6	4.1	6.9	9.7	9.6	8.4	8.8	10.3
ROA	(%)	-0.9	1.3	2.3	3.3	3.2	2.8	2.9	3.4
Net D/E	(x)	1.65	1.55	1.50	1.48	1.50	1.58	1.56	1.46
Interest coverage	(x)	0.63	1.80	2.36	3.22	3.11	2.69	2.73	3.13
Payout Ratio	(%)	-312.7	62.5	37.3	29.7	43.3	41.6	43.2	43.2

Main Assumptions

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Hotel Rooms		6,177	6,490	7,185	7,221	8,374	9,539	9,996	10,954
Revpar		-20.7	11.8	-2.7	-7.8	1.4	4.0	3.3	2.8
Revpar (exclude HOP INN)		-12.4	35.2	6.0	5.2	0.4	-6.3	3.6	2.5
Occupancy		64.6	73.4	68.1	80.5	78.4	76.7	77.6	78.7
Average Room Rate		2,466	2,282	1,951	1,846	1,843	1,737	1,741	1,785

MINOR INTERNATIONAL

(MINT TB/ MINT.BK)

BUY

Target price Bt47.00 (23.7%)   Price Bt38.00

Minor not so minor

MINT has a geographically-diversified hospitality portfolio with assets in APAC, Europe, Africa, and Latin America. MINT will capture rising demand from the rapidly-expanding middle-class population for tourism and downstream consumption (F&B sector). Rising contribution from NH Hotel, strong momentum in Overseas Hotels, and recovery of TH UPC hotels and TH Food-Hub should support 13% p.a. earnings growth (CAGR) over FY19-21F. We have a BUY rating for MINT with a TP of Bt47, based on DCF valuation (6.9% WACC).

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Competing on the world stage

MINT has hospitality assets in APAC, Europe, Africa, and Latin America. It is a professionally-run company with an excellent execution track record and is in one of the world's fastest-growing industries (Hospitality and Restaurants). MINT will be able to capture rising demand from the rapidly-expanding middle-class population for both tourism and downstream consumption (F&B) globally.

Favorable industry outlook to support NHH performance

Expecting at least 70% contribution to Minor Hotel's revenue in 2019 (from 42% in 2018), NH Hotel Group (NHH) will be a key growth driver from this year. The key supporting indicator is tourism demand outstripping hotel room supply; the number of registered hotel rooms is forecast to grow by 0.1% to 1.4% p.a. CAGR while tourist arrivals is expected to grow by 1.7% to 3.2% p.a. at key locations.

Expanding margins, solid core earnings growth (13% p.a. 3-year CAGR)

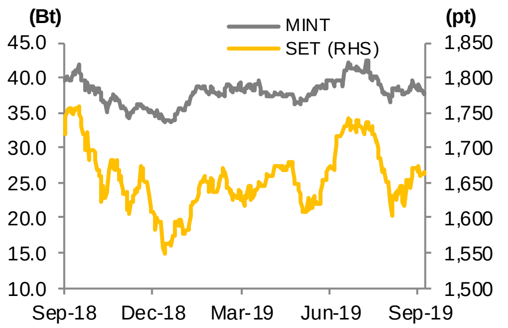
We expect MINT to deliver 13% p.a. earnings growth (CAGR) over FY19-21F, led by a growth-driven strategy. Key drivers would be synergies with NHH, asset–enhancement program, and recovering Thai operations (Food & UPC hotels).

Initiate coverage with a BUY rating and Bt47 TP; key risks

Our 2020F DCF-based TP assumes 6.9% WACC (details on Pg. 3). It implies 14x 2020F EV/EBITDA (at -0.5SD of its 5-year historical average multiple) and 28.5x PE. Downside risks include disruption triggered by political instability, weaker inbound tourism, oversupply in hotel market, and decline in consumption.

Key data	Unit	
12M high/ low	(Bt)	42.8/ 32.8
Market cap	(Btm/ USDm)	175,521/ 5,743
3M avg. daily turnover	(Btm/ USDm)	566.1/ 18.4
Free float	(%)	67.9
Issued shares	(m shares)	4,619
Major shareholders:		**%**
1) Minor Holding Thai C		15.8
2) Stock Exchange Of Th		10.7
3) Ubs Ag/Singapore		9.3

Stock price performance



	Unit	ytd	1M	3M	12M
Total return	(%)	13.0	-1.3	-1.9	-2.8
Total return vs SET	(%)	6.2	-3.5	-2.2	0.4

Financial Summary

Year to 31 Dec	Unit	2017	2018	2019F	2020F	2021F
Revenue	(Btm)	58,644	78,499	123,151	128,586	134,836
Revenue growth	(%)	7.1	33.9	56.9	4.4	4.9
EBITDA	(Btm)	11,220	15,756	22,712	23,813	25,168
EBITDA growth	(%)	6.6	40.4	44.1	4.8	5.7
Profit, core	(Btm)	5,415	6,005	6,870	7,643	8,681
Profit growth, core	(%)	23.2	10.9	14.4	11.2	13.6
Profit, reported	(Btm)	5,415	5,445	8,148	7,643	8,681
Profit growth, reported	(%)	-17.8	0.5	49.7	-6.2	13.6
EPS, core	(Bt)	1.17	1.30	1.49	1.65	1.88
EPS growth, core	(%)	17.6	10.9	14.4	11.2	13.6
DPS	(Bt)	0.40	0.40	0.53	0.50	0.56
P/E, core	(x)	31.9	29.8	25.5	23.0	20.2
P/BV, core	(x)	3.5	2.1	2.0	1.9	1.8
ROE	(%)	11.9	8.2	9.6	8.5	9.0
Dividend yield	(%)	1.07	1.03	1.39	1.31	1.48
FCF yield	(%)	0.6	0.8	4.1	5.0	6.0

Krungsri vs Bloomberg consensus

	Unit	(+)	(=)	(-)
Bloomberg consensus	(Cnt.)	22	3	0
	Unit	**KSS**	**BB**	**%diff**
Target price	(Bt)	47.0	45.3	3.7
2019F net profit	(Btm)	8,148	6,914	17.9
2020F net profit	(Btm)	7,643	7,877	-3.0

Earnings revision

Bloomberg	Unit	2019F	2020F
1M	(%)	-7.62	-2.18
3M	(%)	0.15	-0.83
ytd	(%)	-4.07	2.10
Krungsri			
From last report	(%)	0.00	0.00

Source: Bloomberg, Krungsri Securities

Financial statement

Profit and Loss Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total revenue	(Btm)	39,698	45,678	54,780	58,644	78,499	123,151	128,586	134,836
Cost of goods sold	(Btm)	15,321	17,781	21,761	22,646	32,767	63,716	66,010	68,667
Gross profit	(Btm)	21,907	24,564	29,390	32,355	42,171	55,671	58,523	61,881
SG&A	(Btm)	18,422	21,386	25,765	27,833	35,556	45,346	47,459	49,753
Other income	(Btm)	1,633	2,068	3,028	2,530	2,617	3,203	3,453	3,660
Interest expense	(Btm)	1,145	1,301	1,606	1,757	2,869	3,833	3,846	3,688
Pre-tax profit	(Btm)	4,810	5,209	5,648	6,407	7,651	10,256	11,271	12,729
Corporate tax	(Btm)	397	411	1,032	787	1,374	2,735	2,921	3,252
Equity a/c profits	(Btm)	823	1,254	592	1,074	488	561	600	628
Minority interests	(Btm)	-100	-94	-219	-205	-272	-650	-708	-795
Core profit	(Btm)	4,313	4,704	4,397	5,415	6,005	6,870	7,643	8,681
Extra-ordinary items	(Btm)	370	89	2,336	2,193	0	-560	1,278	0
Net Profit	(Btm)	4,402	7,040	6,590	5,415	5,445	8,148	7,643	8,681
EBITDA	(Btm)	7,992	8,351	10,523	11,220	15,756	22,712	23,813	25,168
Core EPS	(Bt)	1.08	1.07	1.00	1.17	1.30	1.49	1.65	1.88
Net EPS	(Bt)	0.00	0.00	1.49	1.17	1.18	1.76	1.65	1.88
DPS	(Bt)	0.00	0.00	0.35	0.40	0.40	0.53	0.50	0.56

Balance Sheet

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total current assets	(Btm)	13,006	19,823	16,016	21,530	38,106	29,614	30,502	31,534
Total long-term assets	(Btm)	61,273	78,558	92,437	96,914	229,594	232,249	236,450	240,132
Total assets	(Btm)	74,279	98,382	108,453	118,444	267,700	261,863	266,952	271,666
Total current liabilities	(Btm)	13,573	13,580	18,009	16,603	43,429	41,178	41,543	42,636
Total long-term liabilities	(Btm)	30,682	48,091	49,647	51,820	141,197	133,223	132,521	129,813
Total liabilities	(Btm)	44,255	61,670	67,656	68,423	184,626	174,401	174,064	172,449
Paid-up capital	(Btm)	4,002	4,402	4,410	4,619	4,619	4,619	4,619	4,619
Total equity	(Btm)	30,024	36,711	40,797	50,021	83,074	87,462	92,888	99,217
Minority interest	(Btm)	1,968	3,909	3,395	2,692	11,150	11,801	12,508	13,304
BVPS	(Bt)	3.91	3.68	4.05	3.45	2.11	2.03	1.91	1.79

Cash Flow Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Core Profit	(Btm)	4,313	4,704	4,397	5,415	6,005	6,870	7,643	8,681
Depreciation and amortization	(Btm)	2,860	3,095	3,860	4,130	5,725	9,184	9,296	9,379
Operating cash flow	(Btm)	4,785	2,499	6,494	6,480	7,360	19,217	18,354	19,784
Investing cash flow	(Btm)	-12,771	-13,272	-9,145	-11,584	-83,145	-12,858	-13,085	-12,580
Financing cash flow	(Btm)	10,027	9,294	3,003	6,156	82,971	-10,702	-5,312	-7,130
Net change in cash	(Btm)	2,040	-1,479	353	1,052	7,186	-4,343	-44	75

Key Financial Ratios

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Gross margin	(%)	55.2	53.8	53.7	55.2	53.7	45.2	45.5	45.9
EBITDA margin	(%)	20.1	18.3	19.2	19.1	20.1	18.4	18.5	18.7
EBIT margin	(%)	12.9	11.5	12.2	12.1	12.8	11.0	11.3	11.7
Net profit margin	(%)	11.1	15.4	12.0	9.2	6.9	6.6	5.9	6.4
ROE	(%)	15.5	21.1	17.0	11.9	8.2	9.6	8.5	9.0
ROA	(%)	6.6	8.2	6.4	4.8	2.8	3.1	2.9	3.2
Net D/E	(x)	0.96	1.13	1.11	0.90	1.37	1.27	1.17	1.05
Interest coverage	(x)	4.48	4.04	4.15	4.04	3.50	3.53	3.77	4.28
Payout Ratio	(%)	0.0	0.0	35.1	34.1	30.8	35.6	30.0	30.0

Main Assumptions

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Hotel Rooms		14,711	17,714	19,776	20,209	75,241	91,375	96,398	100,878
Hotel revenue growth		6.7	23.5	31.2	9.4	80.2	98.8	3.3	4.1
Food Outlets		1,708	1,851	1,996	2,064	2,270	2,303	2,419	2,535
Food Same-store-sales Growth		0.4	-0.2	1.3	-0.8	-3.3	-3.2	1.2	1.2
Exchange rate	Bt/USD	32.5	34.2	35.3	33.9	32.3	31.5	31.5	31.5
	Bt/Euro	43.1	38.0	39.0	38.3	38.1	34.6	33.5	33.5

PTT EXPLORATION AND PRODUCTION

(PTTEP TB/ PTTEP.BK)

BUY

Target price Bt160.0 (23.1%) Price Bt130.0

Volume growth to cushion against oil price volatility

Healthy sales volume should support 3Q19 earnings. Near-term upside from higher crude oil, which should reduce concerns on gas price to fall due to its linkage to high sulfur fuel oil (HSFO) prices. HSFO is facing declining demand upon the IMO regulation to tighten global cap on the maximum sulfur content for marine fuel oil on 1 Jan 2020. Maintain BUY, TP Bt160/sh, pegged to 13.7 FY19F PE

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Healthy sales volume should support 3Q19 earnings

PTTEP should report healthy 3Q19 earnings based on sales volume at 356k boed vs 335k boed in 2Q19, driven by consolidating output from Murphy assets completed since 7 July. ASP should drop to US$46.5/boe from US$48.3 in previous quarter as Dubai crude oil prices softened qoq to US$61/bbl, while gas price edged down to US$6.8/mmbtu from US$7.0/mmbtu in 2Q19 due to lower selling prices at Murphy. There is no significant change in unit cost, which should be flat qoq at US$32/bbl. The unknown factors are non-recurring, FX gain/loss, and write-off expenses, which are yet final. 3Q19 write-off expenses could be higher than 2Q19 as PTTEP does more drilling activities. We expect sales volume to reach record 370k boed in 4Q19 due to seasonality. Gas demand in Thailand is normally soft in 3Q and there will be shutdown at Sinphuhorm and low nomination at Bongkot during 3Q19.

Higher crude oil should reduce concerns on gas price to fall due to its linkage to HSFO prices

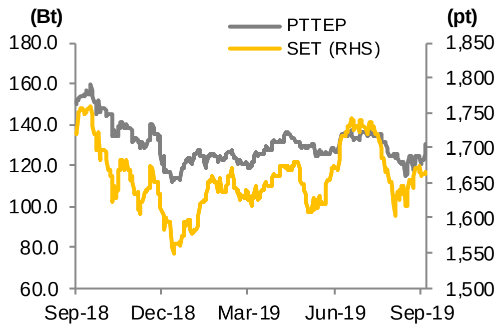
PTTEP's gas prices are linked to HSFO prices, exchange rate, CPI, and oil & machinery index. Market is concerned that prices of HSFO will fall next year when the IMO regulation to tighten the global cap on the maximum sulfur content for marine fuel oil is effective on 1 Jan 2020. This concern should be relieved as crude oil prices rebound this week following drone strike at Aramco oil processing facilities. This also leads to the loss of HSFO in the market, causing HSFO prices to rise along with crude oil prices. HSFO demand should normalize after 12-18 months once shippers install scrubber to use HSFO.

Maintain BUY, TP Bt160/sh. Volume growth to cushion against oil price volatility

PTTEP's earnings visibility is strong while its 1P reserves based on our estimates will increase to 10 years from 5 years. We maintain BUY and TP at Bt160/sh, pegged to 13.7x FY19F PE, in line with 12-year historical mean. Near-term share prices would be supported by strong operations in 2H19.

Key data	Unit	
12M high/ low	(Bt)	160.0/ 110.5
Market cap	(Btm/ USDm)	496,248/ 16,263
3M avg. daily turnover	(Btm/ USDm)	1,635.0/ 52.4
Free float	(%)	33.0
Issued shares	(m shares)	3,970
Major shareholders:		**%**
1) Ptt Pcl		65.3
2) Stock Exchange Of Th		7.0
3) State Street Corp		2.2

Stock price performance



	Unit	ytd	1M	3M	12M
Total return	(%)	19.7	3.6	4.2	-10.6
Total return vs SET	(%)	13.0	1.3	4.0	-7.4

Financial Summary

Year to 31 Dec	Unit	2017	2018	2019F	2020F	2021F
Revenue	(Btm)	147,725	171,809	192,149	203,422	208,055
Revenue growth	(%)	-1.7	16.3	11.8	5.9	2.3
EBITDA	(Btm)	104,740	125,163	141,277	147,150	149,233
EBITDA growth	(%)	-0.1	19.5	12.9	4.2	1.4
Profit, core	(Btm)	37,438	36,831	45,991	46,334	43,600
Profit growth, core	(%)	156.9	-1.6	24.9	0.7	-5.9
Profit, reported	(Btm)	20,579	36,206	45,991	46,334	43,600
Profit growth, reported	(%)	60.0	75.9	27.0	0.7	-5.9
EPS, core	(Bt)	9.43	9.28	11.58	11.67	10.98
EPS growth, core	(%)	156.9	-1.6	24.9	0.7	-5.9
DPS	(Bt)	4.3	5.0	5.8	5.8	5.5
P/E, core	(x)	13.8	14.0	11.2	11.1	11.8
P/BV, core	(x)	1.4	1.3	1.2	1.2	1.1
ROE	(%)	9.5	9.6	11.5	10.9	9.7
Dividend yield	(%)	3.3	3.8	4.4	4.5	4.2
FCF yield	(%)	9.7	1.5	2.9	6.8	5.0

Krungsri vs Bloomberg consensus

	Unit	(+)	(=)	(-)
Bloomberg consensus	(Cnt.)	22	8	1
	Unit	**KSS**	**BB**	**%diff**
Target price	(Bt)	160.0	150.9	6.1
2019F net profit	(Btm)	45,991	43,982	4.6
2020F net profit	(Btm)	46,334	43,050	7.6

Earnings revision

Bloomberg	Unit	2019F	2020F
1M	(%)	1.63	-5.76
3M	(%)	7.72	1.62
ytd	(%)	6.11	4.20
Krungsri			
From last report	(%)	0.00	0.00

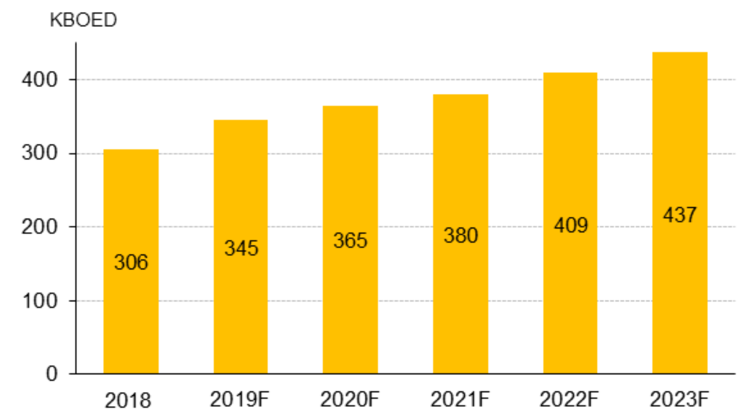
Source: Bloomberg, Krungsri Securities

PTTEP: 2Q19 results review

Quarterly P&L (Btm)	2Q18	3Q18	4Q18	1Q19	2Q19	Chg qoq	Chg yoy
Sales	42,115	45,088	47,263	42,860	47,495	11%	13%
COGS (inc dep'n)	(24,082)	(26,469)	(26,119)	(22,923)	(25,280)	10%	5%
Gross Profit	**18,033**	**18,619**	**21,144**	**19,937**	**22,215**	**11%**	**23%**
SG&A	(1,862)	(2,297)	(3,431)	(2,049)	(2,930)	43%	57%
Operating Profit	**16,171**	**16,322**	**17,712**	**17,888**	**19,285**	**8%**	**19%**
Net other income/expense	25	(858)	1,641	(2,202)	111	na	348%
Net interest	(1,158)	(1,240)	(1,448)	(947)	(728)	-23%	-37%
Pretax profit	**15,038**	**14,224**	**17,905**	**14,739**	**18,668**	**27%**	**24%**
Income Tax	(10,534)	(3,483)	(9,636)	(3,377)	(5,889)	74%	-44%
Associates	60	75	56	0	79	na	na
Minority interest	0	0	0	0	0	na	na
Profit after tax (pre-ex)	**4,564**	**10,816**	**8,325**	**11,361**	**12,857**	**13%**	**182%**
Extraordinaries, GW & FX	(974)	(415)	510	1,118	827	-26%	-185%
Reported net profit	**3,590**	**10,401**	**8,834**	**12,479**	**13,685**	**10%**	**281%**
Shares out (end Q, m)	3,970	3,970	3,970	3,970	3,970		
Adjusted shares (m)	3,970	3,970	3,970	3,970	3,970		
Pre-ex EPS	1.15	2.72	2.10	2.86	3.24	13%	182%
EPS	0.83	2.50	2.23	3.03	3.34	10%	302%

Note: Our core profit (profit pre-ex) is based on reported financial statement. PTTEP provided breakdown of non-recurring items after result release. Our explanation of core profit on front page stripped out non-recurring items provided by PTTEP

PTTEP: Guidance for sales volume



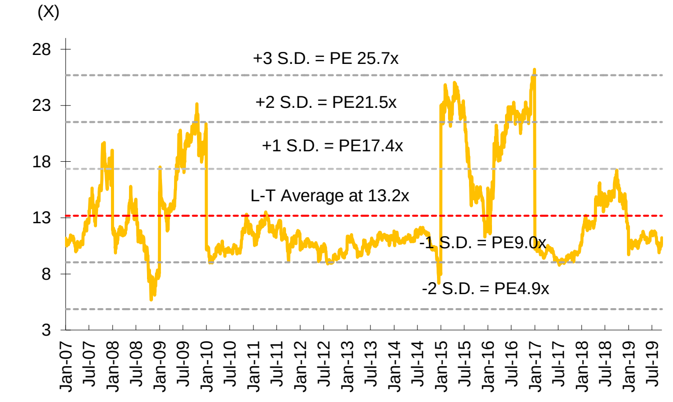
Source: Company data, Krungsri Securities

PTTEP: Our estimated 1P reserves

	Unit: m boe	Note
Reserves end 2018	**677**	
Mozambique LNG	145	
Bongkot	430	
Erawan	100	60% stake, assuming 1/3 of committed sales volume given PTTEP is not an operator now
Southwest Vietnam, Algeria Hassi Bir Rekaiz	50	
5 assets acquired in Malaysia	137	based on 50% of 2P reserves (274m boe)
Total	**1,539**	

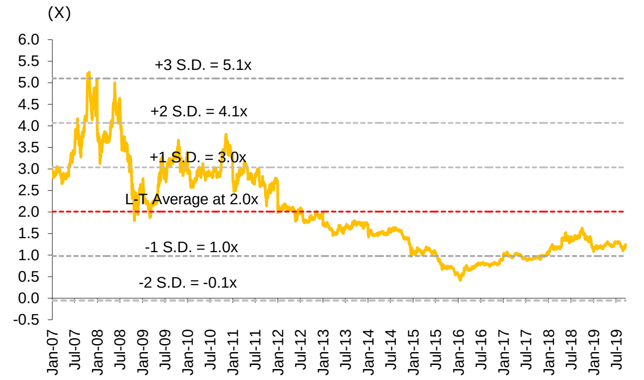
Source: Company data, Krungsri Securities

P/E Band



Source: Bloomberg, Krungsri Securities

P/BV Band



Source: Bloomberg, Krungsri Securities

Peer Comparison

BB Ticker	Name	Market Cap USD	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	EV/EBITDA (x) 19F	EV/EBITDA (x) 20F	Div Yield (%) 19F	ROE (%) 19F	Share Price Performance 1M	3M	6M	ytd
PTTEP TB	**PTT EXPLOR & PROD PUBLIC**	**16,884**	**11.2**	**11.1**	**1.2**	**1.2**	**2.2**	**2.0**	**4.4**	**11.5**	**3.6**	**2.4**	**9.2**	**14.5**
883 HK	CNOOC LTD	73,386	9.3	9.0	1.3	1.2	3.6	3.5	5.2	12.8	13.0	2.7	(9.2)	6.3
ONGC IN	OIL & NATURAL GAS CORP LTD	22,613	5.4	5.1	0.7	0.6	3.6	3.4	6.2	13.2	1.1	(21.4)	(17.1)	(13.8)
WPL AU	WOODSIDE PETROLEUM LTD	21,346	16.4	13.2	1.8	1.8	6.7	5.6	4.6	7.2	6.9	(4.6)	(5.5)	6.5
STO AU	SANTOS LTD	11,162	13.2	12.3	2.1	1.9	5.9	5.6	2.2	10.8	19.0	13.6	11.2	43.1
OSH AU	OIL SEARCH LTD	8,087	19.9	16.1	2.2	2.1	9.1	8.3	2.3	7.8	23.0	11.5	(2.9)	8.4
	Average (simple)		**12.6**	**11.1**	**1.6**	**1.5**	**5.2**	**4.7**	**4.1**	**10.6**				

Source: Bloomberg, Krungsri Securities

Financial statement

Profit and Loss Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total revenue	(Btm)	242,071	184,411	150,217	147,725	171,809	192,149	203,422	208,055
Cost of goods sold	(Btm)	-58,404	-44,122	-35,596	-35,391	-37,541	-40,634	-45,447	-47,779
Gross profit	(Btm)	100,491	47,893	41,253	56,351	74,459	85,983	87,168	83,062
SG&A	(Btm)	-12,247	-9,584	-7,895	-8,459	-9,405	-10,568	-11,188	-11,443
Other income	(Btm)	10,153	5,294	-1,833	866	300	330	363	400
Interest expense	(Btm)	-8,430	-8,582	-8,274	-7,676	-7,707	-6,314	-6,314	-6,314
Pre-tax profit	(Btm)	90,712	36,106	24,312	43,097	60,339	70,756	71,284	67,077
Corporate tax	(Btm)	-35,535	-17,085	-10,040	-5,987	-23,764	-24,764	-24,949	-23,477
Equity a/c profits	(Btm)	719	311	301	329	256	0	0	0
Minority interests	(Btm)	0	0	0	0	0	0	0	0
Core profit	(Btm)	55,896	19,331	14,574	37,438	36,831	45,991	46,334	43,600
Extra-ordinary items	(Btm)	-32,796	-48,611	-1,689	-18,505	0	0	0	0
Net Profit	(Btm)	21,490	-31,590	12,859	20,579	36,206	45,991	46,334	43,600
EBITDA	(Btm)	181,573	136,000	104,893	104,740	125,163	141,277	147,150	149,233
Core EPS	(Bt)	14.1	4.9	3.7	9.4	9.3	11.6	11.7	11.0
Net EPS	(Bt)	14.1	4.9	3.7	9.4	9.3	11.6	11.7	11.0
DPS	(Bt)	4.5	3.0	3.3	4.3	5.0	5.8	5.8	5.5

Balance Sheet

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total current assets	(Btm)	183,944	169,642	185,973	188,400	186,783	186,374	203,920	212,115
Total long-term assets	(Btm)	583,663	539,222	490,916	439,721	445,473	477,905	488,165	502,886
Total assets	(Btm)	767,607	708,864	676,889	628,121	632,256	664,279	692,086	715,001
Total current liabilities	(Btm)	94,826	50,804	39,443	52,330	80,663	88,529	93,163	95,100
Total long-term liabilities	(Btm)	259,161	249,248	229,463	199,416	162,020	162,020	162,020	162,020
Total liabilities	(Btm)	353,988	300,053	268,906	251,747	242,683	250,549	255,184	257,120
Paid-up capital	(Btm)	3,970	3,970	3,970	3,970	3,970	3,970	3,970	3,970
Total equity	(Btm)	413,620	408,811	407,984	376,375	389,573	413,729	436,902	457,881
Minority interest	(Btm)	0	0	0	0	0	0	0	0
BVPS	(Bt)	104	103	103	95	98	104	110	115

Cash Flow Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Core Profit	(Btm)	55,896	19,331	14,574	37,438	36,831	45,991	46,334	43,600
Depreciation and amortization	(Btm)	-83,177	-92,396	-73,368	-55,983	-59,809	-65,532	-70,807	-77,215
Operating cash flow	(Btm)	96,076	37,428	60,493	83,291	52,300	18,147	38,256	29,097
Investing cash flow	(Btm)	-46,811	-62,379	-30,878	-20,972	-63,055	-97,964	-81,068	-91,935
Financing cash flow	(Btm)	6,382	25,265	-11,795	-47,981	-21,282	-21,835	-23,162	-22,620
Net change in cash	(Btm)	44,832	19,011	33,461	8,362	18,303	-6,981	11,741	3,223

Key Financial Ratios

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Gross margin	(%)	41.5	26.0	27.5	38.1	43.3	44.7	42.9	39.9
EBITDA margin	(%)	75.0	73.7	69.8	70.9	72.9	73.5	72.3	71.7
EBIT margin	(%)	40.6	23.6	21.0	33.0	38.0	39.4	37.5	34.6
Net profit margin	(%)	8.9	-17.1	8.6	13.9	21.1	23.9	22.8	21.0
ROE	(%)	14.0	4.7	3.6	9.5	9.6	11.5	10.9	9.7
ROA	(%)	7.6	2.6	2.1	5.7	5.8	7.1	6.8	6.2
Net D/E	(x)	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Interest coverage	(x)	7.2	2.8	2.3	5.3	5.1	7.8	7.9	7.4
Payout Ratio	(%)	83.1	-37.7	100.3	82.0	54.8	49.6	50.0	50.0

Main Assumptions

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
FX	(Bt/USD)				33.8	32.3	31.5	31.5	31.5
Sales volume	(BOED)				299,206	305,522	345,000	365,000	380,000
Sales volume - gas	(%)				70	72	70	70	70
Sales volume - liquid	(%)				30	28	30	30	30
Dubai crude price	(USD/bbl)				53.2	69.6	65.0	65.0	62.0
Gas price	(USD/MM				5.6	6.4	6.7	6.7	6.7

THAI OIL
(TOP TB/ TOP.BK)

BUY
Target price Bt80.00 (11.1%)   Price Bt72.00

IMO 2020 story is intact

3Q19F earnings should not be as strong as market expects due to 15-day planned turnaround of CDU3, causing flat qoq utilization rate for refinery and lower qoq for aromatics plant. Crude premium also increases US$0.5/bbl qoq. TOP should book stock loss of Bt1.2bn in 3Q19. Despite expected weak 3Q19F earnings, market GRM hits US$6/bbl in September. Buy, 80/sh TP is pegged to 1.3x FY19F P/BV; most beneficiary on IMO regulation

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Shutdown, higher crude premium, and stock loss to pressure 3Q19F earnings

Refinery run rate should be flat qoq at 103%, due to the planned turnaround of CDU3 for 15 days in July. Market GRM should rebound to US$5.0/bbl from US$2.6 in previous quarter, driven by higher crack spreads of jet fuel, diesel, and gasoline. Murban crude premium increased to US$3.2/bbl, from US$2.7 in 2Q19 as premium for Murban, Arab light, Arab extra light crude oil, representing 70% of TOP's crude intake, increases during the quarter. TOP should book Bt650m expenses (Bt350m in 2Q19) related to the CDU3 turnaround. TOP also shut down Aromatics plant in July, which led utilization of Aromatics to 62% vs 64% in previous quarter. PX spread dropped qoq by US$71 to US$202/ton while BZ spread increased qoq by US$77 to US$66/ton. Lube base spread increased US$7 to US$294/ton. We expect TOP to book stock loss of Bt1.2bn in 3Q19. Hence, 3Q19F earnings should come out around Bt500m, down from Bt567m in 2Q19.

Market GRM hits US$6/bbl in September, although aromatics spreads remain weak

All crack spreads continue to rise in September from jet fuel (US$16.6/bbl), diesel (US$16.0/bbl), gasoline (US$11.7/bbl), and HSFO (-US$1.1/bbl), suggesting market GRM should improve to US$6/bbl level. TOP will not have any maintenance shutdown in 4Q19 and we expect utilization rate around 110%. Aromatics should remain weak due to additional supply coming online in 3Q19 from Hainan (800k tons), Hengyi (1.5m tons), and Hongrun (800k tons) and in 4Q19 from Zhejiang (2.0m tons). The absence of shutdown at refinery should support utilization at the Aromatics plant at 70-80% in 4Q19.

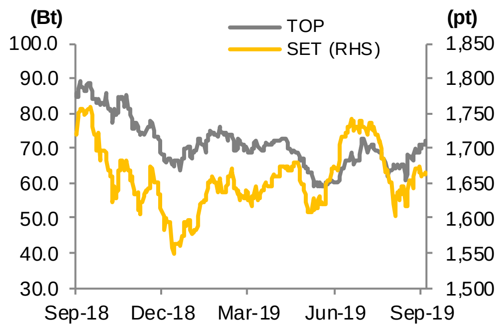
BUY, TP Bt80/sh; most beneficiary on IMO regulation, effective 1 January 2020

We remain optimistic on refiners as we expect market GRM to increase in 4Q19 and 2020. Demand for diesel will increase as it will be used to blend with HSFO to produce LSFO upon the implementation of IMO in January 2020. Forward curve for diesel crack spread is in the uptrend at US$18/bbl in 4Q19. We maintain BUY and TP at Bt80/sh, pegged to 1.3x FY19F PBV (ROE 10%), implying 12.9x PE.

Key data

Key data	Unit	
12M high/ low	(Bt)	90.0/ 58.5
Market cap	(Btm/ USDm)	144,842/ 4,747
3M avg. daily turnover	(Btm/ USDm)	909.4/ 29.5
Free float	(%)	50.3
Issued shares	(m shares)	2,040
Major shareholders:		**%**
1) Ptt Pcl		48.0
2) Stock Exchange Of Th		9.2
3) State Street Corp		4.0

Stock price performance



	Unit	ytd	1M	3M	12M
Total return	(%)	12.0	13.2	21.7	-12.5
Total return vs SET	(%)	5.2	11.0	21.5	-9.3

Financial Summary

Year to 31 Dec	Unit	2017	2018	2019F	2020F	2021F
Revenue	(Btm)	337,388	389,344	342,536	365,356	357,799
Revenue growth	(%)	22.8	15.4	-12.0	6.7	-2.1
EBITDA	(Btm)	37,531	22,574	23,638	29,674	30,904
EBITDA growth	(%)	10.5	-39.9	4.7	25.5	4.1
Profit, core	(Btm)	21,808	10,343	10,890	16,001	16,387
Profit growth, core	(%)	3.8	-52.6	5.3	46.9	2.4
Profit, reported	(Btm)	24,856	10,149	10,890	16,001	16,387
Profit growth, reported	(%)	17.1	-59.2	7.3	46.9	2.4
EPS, core	(Bt)	10.7	5.1	5.3	7.8	8.0
EPS growth, core	(%)	3.8	-52.6	5.3	46.9	2.4
DPS	(Bt)	5.3	3.0	2.4	3.5	3.6
P/E, core	(x)	6.7	14.2	13.5	9.2	9.0
P/BV, core	(x)	1.3	1.3	1.2	1.1	1.0
ROE	(%)	19.0	8.5	8.7	12.1	11.5
Dividend yield	(%)	7.3	4.2	3.3	4.9	5.0
FCF yield	(%)	6.6	24.2	-16.9	-21.6	0.4

Krungsri vs Bloomberg consensus

	Unit	(+)	(=)	(-)
Bloomberg consensus	(Cnt.)	23	3	3
	Unit	**KSS**	**BB**	**%diff**
Target price	(Bt)	80.0	74.6	7.2
2019F net profit	(Btm)	10,890	9,950	9.4
2020F net profit	(Btm)	16,001	13,440	19.1

Earnings revision

Bloomberg	Unit	2019F	2020F
1M	(%)	-6.94	-1.17
3M	(%)	-19.18	-8.80
ytd	(%)	-38.75	-22.92
Krungsri			
From last report	(%)	0.00	0.00

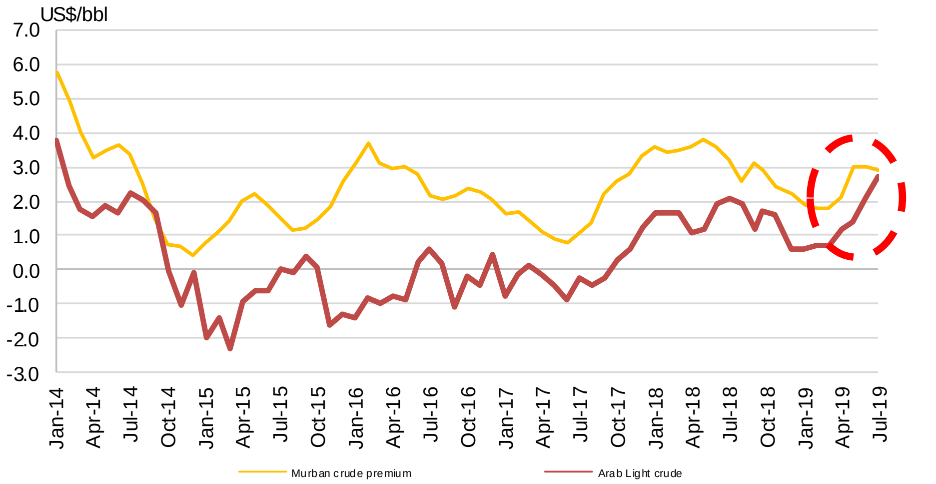
Source: Bloomberg, Krungsri Securities

TOP: Quarterly results

Quarterly P&L (Btm)	2Q18	3Q18	4Q18	1Q19	2Q19	Chg qoq	Chg yoy
Sales	96,637	101,261	99,217	91,789	91,962	0%	-5%
COGS (incl. dep'n)	(89,270)	(95,278)	(102,341)	(86,073)	(91,700)	7%	3%
Gross Profit	**7,366**	**5,983**	**(3,124)**	**5,717**	**262**	**-95%**	**-96%**
SG&A	(695)	(643)	(855)	(546)	(801)	47%	15%
Operating Profit	**6,671**	**5,340**	**(3,979)**	**5,170**	**(539)**	**na**	**na**
Net other income/expense	1,048	424	24	679	1,427	110%	36%
Net interest	(1,077)	(844)	(1,271)	(1,215)	(1,196)	-2%	11%
Pretax profit	**6,642**	**4,921**	**(5,226)**	**4,635**	**(307)**	**na**	**na**
Income Tax	(1,081)	(1,008)	1,315	(1,000)	(116)	-88%	-89%
Associates	339	320	201	351	351	0%	4%
Minority interest	(16)	(82)	(17)	(63)	(45)	-29%	174%
Profit after tax (pre-ex)	**5,884**	**4,150**	**(3,727)**	**3,923**	**(117)**	**na**	**na**
Extraordinaries, GW & FX	(1,089)	408	(1,085)	486	684	41%	na
Reported net profit	**4,795**	**4,558**	**(4,812)**	**4,408**	**567**	**-87%**	**-88%**
Shares out (end Q, m)	2,040	2,040	2,040	2,040	2,040		
Adjusted shares (m)	2,040	2,040	2,040	2,040	2,040		
Pre-ex EPS	2.88	2.03	(1.83)	1.92	(0.06)	na	na
EPS	2.35	2.23	(2.36)	2.16	0.28	-87%	-88%

Source: Company, Krungsri Securities

Crude premium (TOP uses 40% Murban crude for intake)



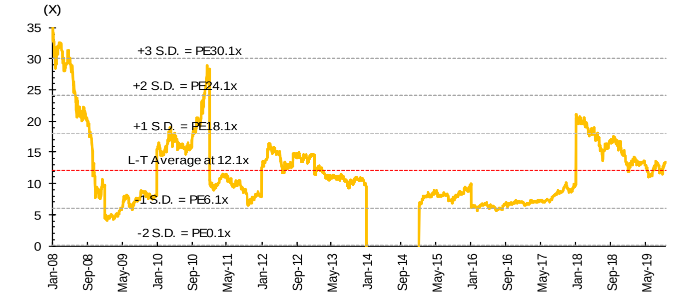
Source: Company data, Krungsri Securities

Crack spreads over Dubai Crude and TOP's GRM

	Dubai	Jet	Gas Oil	Fuel Oil	Gasoline	TOP's market GRM
1Q14	104.46	17.01	17.78	(8.51)	14.56	5.10
2Q14	106.13	14.29	16.04	(10.65)	16.06	4.40
3Q14	101.45	14.50	14.43	(8.44)	13.18	4.60
4Q14	74.40	17.71	15.99	(5.62)	13.44	8.20
1Q15	51.89	17.08	16.29	(1.86)	15.35	8.80
2Q15	61.30	13.47	13.74	(3.56)	19.78	7.40
3Q15	49.74	10.88	10.81	(8.11)	19.32	6.60
4Q15	40.71	14.09	13.77	(6.55)	18.68	8.50
1Q16	30.42	11.68	9.62	(5.18)	18.82	6.10
2Q16	43.18	11.15	10.51	(8.76)	14.45	4.40
3Q16	43.17	11.15	10.96	(4.27)	11.57	4.30
4Q16	48.32	12.26	12.03	(1.68)	14.58	6.00
1Q17	53.12	11.32	11.83	(3.14)	14.78	6.50
2Q17	49.77	10.81	11.38	(1.85)	14.21	6.10
3Q17	50.49	13.15	13.86	(1.37)	16.09	8.10
4Q17	59.20	13.28	13.04	(3.05)	14.40	6.00
1Q18	63.73	16.11	14.76	(4.96)	13.73	5.70
2Q18	72.09	15.25	14.61	(4.46)	12.12	4.00
3Q18	74.28	14.48	14.39	(2.58)	11.55	5.00
4Q18	67.42	15.64	14.78	1.35	4.70	3.90
1Q19	63.53	12.97	12.79	0.52	3.70	3.00
2Q19	67.36	12.21	12.37	(2.33)	7.51	2.60
3Q19 to date	60.35	15.85	15.43	0.22	11.10	5.00

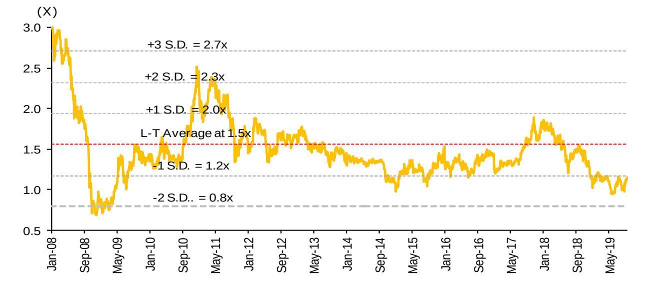
Source: Company data, Krungsri Securities

P/E Band



Source: Bloomberg, Krungsri Securities

P/BV Band



Source: Bloomberg, Krungsri Securities

Peer Comparison

BB Ticker	Name	Market Cap USD	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	EPS G% 19F	EPS G% 20F	Div Yield (%) 19F	ROE (%) 19F	Share Price Performance 1M	Share Price Performance 3M	Share Price Performance 6M	Share Price Performance ytd
TOP TB	**THAI OIL PCL**	**4,805**	**13.5**	**9.2**	**1.2**	**1.1**	**5.3**	**46.9**	**3.3**	**8.7**	**11.6**	**20.0**	**4.3**	**8.7**
IRPC TB	IRPC PCL	2,727	18.2	10.0	0.9	0.9	(40.8)	81.9	1.9	5.2	4.1	(13.9)	(28.4)	(29.0)
BCP TB	BANGCHAK CORP PCL	1,295	12.3	7.2	0.9	0.8	16.1	71.3	4.1	7.4	9.5	(2.5)	(9.4)	(9.4)
ESSO TB	ESSO THAILAND PCL	1,047	15.2	6.5	1.2	1.0	(14.4)	133.3	4.1	10.4	6.3	(7.5)	(12.7)	(9.3)
BPCL IN	BHARAT PETROLEUM CORP LTD	11,130	9.6	8.2	1.7	1.6	(6.0)	18.0	4.1	19.1	5.0	(2.5)	(7.0)	1.7
IOCL IN	INDIAN OIL CORP LTD	16,400	7.5	6.4	1.0	0.9	(19.7)	18.1	5.9	13.4	(0.8)	(19.4)	(20.4)	(8.6)
HPCL IN	HINDUSTAN PETROLEUM CORP	5,214	6.6	5.8	1.1	1.0	(15.2)	14.7	5.3	18.2	0.2	(16.5)	(11.2)	(2.9)
RIL IN	RELIANCE INDUSTRIES LTD	105,618	15.8	13.0	1.7	1.6	(4.4)	21.1	0.7	11.4	(6.3)	(6.6)	(9.4)	6.8
034730 KS	SK HOLDINGS CO LTD	12,434	10.2	7.9	0.8	0.7	(9.3)	29.6	2.6	8.4	9.1	(9.7)	(22.9)	(19.0)
010950 KS	S-OIL CORP	9,546	26.4	10.2	1.7	1.6	20.7	N/A	1.8	6.7	14.4	23.6	4.8	3.4
078930 KS	GS HOLDINGS	3,931	6.3	5.5	0.5	0.5	(1.6)	15.3	3.7	8.4	9.0	(0.4)	(7.9)	(2.3)
5002 JP	SHOWA SHELL SEKIYU KK	N/A	N/A	15.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CTX AU	CALTEX AUSTRALIA LTD	4,305	19.4	12.8	2.0	1.9	1.9	51.1	3.0	10.2	(1.4)	(4.6)	(9.2)	(1.0)
	Average (simple)		**13.5**	**8.4**	**1.2**	**1.1**	**(6.8)**	**48.3**	**3.4**	**10.9**				

Source: Bloomberg, Krungsri Securitie

Financial statement

Profit and Loss Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total revenue	(Btm)	390,090	293,569	274,739	337,388	389,344	342,536	365,356	357,799
Cost of goods sold	(Btm)	-387,638	-267,054	-239,499	-297,744	-365,864	-310,621	-327,965	-319,569
Gross profit	(Btm)	-4,081	19,750	27,478	32,002	16,216	19,055	23,721	23,847
SG&A	(Btm)	-2,641	-3,207	-2,633	-3,461	-2,782	-4,453	-3,288	-3,220
Other income	(Btm)	2,085	1,546	1,366	1,348	1,876	1,313	1,051	1,261
Interest expense	(Btm)	-3,966	-3,435	-3,461	-3,285	-3,942	-4,599	-4,020	-3,787
Pre-tax profit	(Btm)	-8,603	14,654	22,750	26,604	11,368	11,851	17,800	18,188
Corporate tax	(Btm)	920	-1,597	-2,295	-5,529	-1,983	-1,778	-2,670	-2,728
Equity a/c profits	(Btm)	630	712	930	1,197	1,193	954	1,002	1,052
Minority interests	(Btm)	-301	-323	-365	-463	-235	-137	-131	-124
Core profit	(Btm)	-7,354	13,446	21,019	21,808	10,343	10,890	16,001	16,387
Extra-ordinary items	(Btm)	2,218	1,489	-243	-133	-821	0	0	0
Net profit	(Btm)	-4,140	12,181	21,222	24,856	10,149	10,890	16,001	16,387
EBITDA	(Btm)	1,896	24,855	33,972	37,531	22,574	23,638	29,674	30,904
Core EPS	(Bt)	-3.6	6.6	10.3	10.7	5.1	5.3	7.8	8.0
Net EPS	(Bt)	-3.6	6.6	10.3	10.7	5.1	5.3	7.8	8.0
DPS	(Bt)	1.2	2.7	4.5	5.3	3.0	2.4	3.5	3.6

Balance Sheet

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Total current assets	(Btm)	95,464	90,490	115,731	126,211	164,743	121,914	75,516	70,146
Total long-term assets	(Btm)	98,143	101,676	102,001	101,897	103,869	143,079	194,204	213,128
Total assets	(Btm)	193,607	192,166	217,731	228,108	268,613	264,994	269,720	283,274
Total current liabilities	(Btm)	35,635	18,192	34,146	33,348	38,020	33,611	43,248	47,567
Total long-term liabilities	(Btm)	70,128	76,965	71,988	67,612	104,121	99,121	84,001	84,001
Total liabilities	(Btm)	105,763	95,157	106,134	100,960	142,141	132,732	127,249	131,568
Paid-up capital	(Btm)	20,400	20,400	20,400	20,400	20,400	20,400	20,400	20,400
Total equity	(Btm)	83,396	92,371	106,857	122,223	121,712	127,364	137,442	146,552
Minority interest	(Btm)	4,448	4,637	4,741	4,925	4,760	4,898	5,029	5,153
BVPS	(Bt)	38.7	43.0	50.1	57.5	57.3	62.4	67.4	71.8

Cash Flow Statement

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Core profit	(Btm)	-7,354	13,446	21,019	21,808	10,343	10,890	16,001	16,387
Depreciation and amortization	(Btm)	-6,533	-6,766	-7,762	-7,642	-7,264	-7,723	-8,190	-9,016
Operating cash flow	(Btm)	3,072	17,463	16,584	28,598	11,834	-27,243	-34,526	-1,596
Investing cash flow	(Btm)	-20,737	-10,191	-6,577	-4,223	-8,846	-46,511	-58,408	-26,852
Financing cash flow	(Btm)	-2,785	-5,874	-6,553	-6,264	-10,420	-5,238	-5,923	-7,278
Net change in cash	(Btm)	-2,570	11,151	6,851	17,000	-1,572	-34,714	-42,881	-11,487

Key Financial Ratios

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
Gross margin	(%)	-1.0	6.7	10.0	9.5	4.2	5.6	6.5	6.7
EBITDA margin	(%)	0.5	8.5	12.4	11.1	5.8	6.9	8.1	8.6
EBIT margin	(%)	-1.2	6.2	9.5	8.9	3.9	4.6	5.9	6.1
Net profit margin	(%)	-1.1	4.1	7.7	7.4	2.6	3.2	4.4	4.6
ROE	(%)	-8.4	15.3	21.1	19.0	8.5	8.7	12.1	11.5
ROA	(%)	-3.7	7.0	10.3	9.8	4.2	4.1	6.0	5.9
Net D/E	(x)	0.4	0.2	0.1	n/a	0.0	0.3	0.6	0.6
Interest coverage	(x)	-1.2	4.5	6.6	7.1	3.1	2.8	4.4	4.8
Payout ratio	(%)	-57.2	45.2	43.3	43.1	60.3	45.0	45.0	45.0

Main Assumptions

FY December 31	Unit	2014	2015	2016	2017	2018	2019F	2020F	2021F
FX	(Bt/USD)				34.1	32..5	31.5	31.5	31.5
Refinery:									
Utilization	(%)				112%	113%	103%	110%	110%
Refined output	(KBD)				308	313	283	303	303
GRM	(USD/bbl)				6.7	4.7	4.5	6.0	6.0
Thai Paraxylene:									
Utilization	(%)				83	89	89	89	89
PX spread	(USD/ton)				276	388	300	250	250
Bz spread	(USD/ton)				245	141	150	150	150

FOOD SECTOR

Short-term pain, long-term gain

The Department of Livestock Development is monitoring high-risk areas to prevent the spread of ASF, especially in Chiang Rai and Chiang Mai. If there is an outbreak in Thailand (the worst case scenario), we expect swine prices to drop by 20-30%, but supply shortage would drive up prices sharply again after about 3-4 months. This will benefit CPF. For this quarter, we select GFPT as top pick because earnings will continue to grow through to 2020 driven by higher demand for broiler (1) because chicken meat is a popular substitute for pork in China, and (2) to meet demand during the 2020 Olympics. In addition, there is no concern about ASF.

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Thailand stepping up measures to prevent ASF outbreak in Thailand

African Swine Fever (ASF) has spread through the surrounding region in Cambodia, Laos and Myanmar. This has prompted Thailand's Department of Livestock Development to monitor high-risk areas in Chiang Rai and Chiang Mai to prevent the it from spread to Thailand. There is also news the department plans to cull 150,000 pigs in Chiang Rai. This has prompted some farmers to quickly sell their livestock, which has caused domestic pork prices to drop.

In the worst case, swine prices could drop by 20-30% but would rise sharply again after 3-4 months due to supply shortage

If there is an ASF outbreak in Thailand, we expect swine prices to drop by 20-30% as farmers in (not affected) areas might want to quickly sell their livestock to prevent them from potentially being infected and culled. But after about 3-4 months, swine prices should rise sharply because of shortage supply, coupled with higher demand from Cambodia which has reported ASF cases recently. This will benefit CPF in the next period.

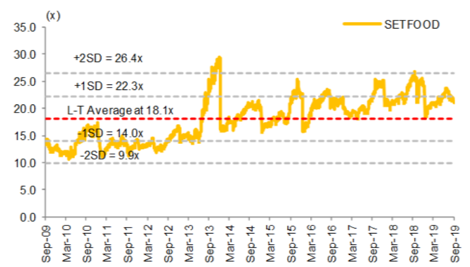
Impact of stronger THB on broiler exports priced-in

The strong THB has made Thai broiler exports less competitive than Brazilian broilers. In the EU, broiler imports (by volume) from Thailand grew only 6% yoy in 1H19 compared to 12% growth total EU broiler imports. Meanwhile, Brazilian broiler imports to the EU jumped 23% yoy in 1H19. Hence, the impact of the strong THB has been priced-in.

Top picks: GFPT (BUY, TP Bt21.00)

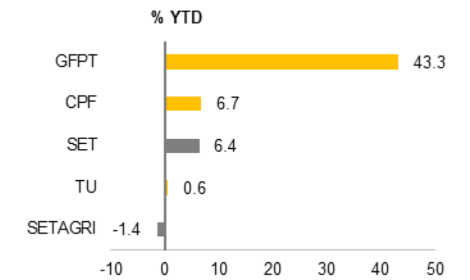
We prefer GFPT because their broiler exports have continued to grow despite the strong THB. In addition, we expect higher demand for broiler export due to chicken meat is a popular substitute for pork in China, and (2) to meet demand during the 2020 Olympics.

Sector – 12M Forward PE



Source: Bloomberg, Krungsri Securities

Share Price Performance - YTD



Source: Bloomberg, Krungsri Securities

Food sector – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
CPF	7,339	26.3	33.5	27.6	BUY	545.7	19.5	8.1	8.5	15.0	12.5	1.3	1.2	3.2	3.5
GFPT	700	17.2	21.0	22.1	BUY	38.7	14.1	10.8	11.4	15.0	13.2	1.6	1.5	2.0	2.3
TU	2,525	16.3	21.8	33.7	BUY	42.0	4.2	9.1	12.4	13.1	12.6	1.7	1.6	3.3	4.8

Source: Bloomberg, Krungsri Securities

Thailand employs strict measures to prevent ASF from spreading to Thailand

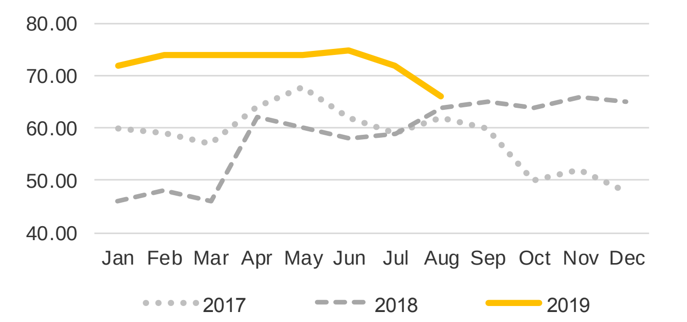
There have been cases of ASF outbreaks in Cambodia, Laos and Myanmar. This has prompted Thailand's Department of Livestock Development to monitor the spread of ASF in high-risk areas in Chiang Rai province, expanding the monitoring from 3 districts to 5 districts including Mae Chan-Doi Luang, to create a buffer zone. Chiang Mai is also being monitored. The government has said it would invoke the animal movement laws and animal epidemic laws from September 6. (prachachat.net)

There is also news the department plans to cull 150,000 pigs in Chiang Rai province. This has prompted farmers to quickly sell their livestock to prevent them from being potentially infected and culled, which caused domestic pork prices to drop.

Figure 1: ASF situation in Asia (August 2018 to date)

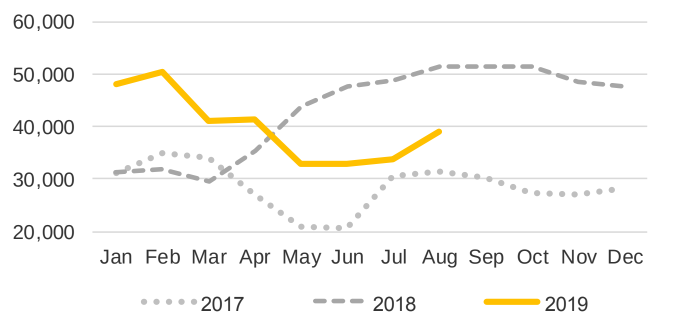
Source: International Disease Monitoring, Krungsri Securities

Figure 2: Domestic swine price (Bt/kg)



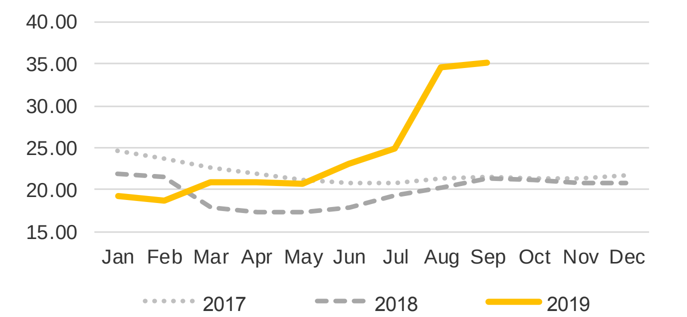
Source: CPF, Krungsri Securities

Figure 3: Vietnam swine price VND/kg)



Source: CPF, Vietnamnews, Krungsri Securities

Figure 4: China pork wholesale spot price (CNY/kg)



Source: Bloomberg, Krungsri Securities

As ASF continues to spread in China, swine prices have started to rise as supply tightened. Since early September, China pork wholesale spot price has increased to CNY35.11 per kg, 69% higher than at end 2018.

Since Vietnam's Ministry of Agriculture and Rural Development (MARD) confirmed its first ASF outbreak on February 19, the country could face a shortfall of 500,000 tons of swine, or nearly 20% of demand from now until the Lunar New Year in early 2020, Swine prices had risen by VND5,000 - VND10,000 per kg in early August. In northern Vietnam, prices have reached VND41,000-44,000 per kg, and in the south they have risen from VND30,000-31,000 to VND35,000-36,000.

If there is an ASF outbreak in Thailand, we expect swine prices to drop by 20-30% as farmers in (not affected) areas might their livestock to prevent them from potentially being infected and culled. But after about 3-4 months, we expect swine prices to rise sharply again because of shortage supply , coupled with higher demand from Cambodia which has reported ASF cases recently.

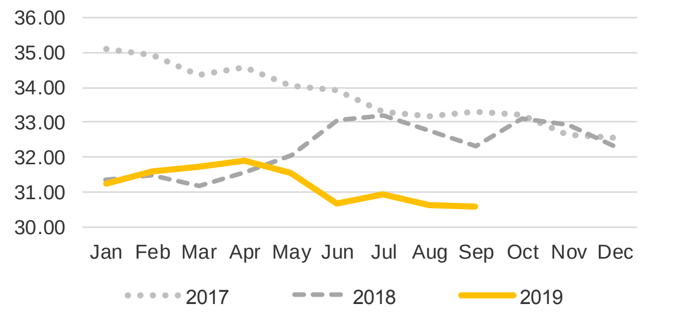
Impact of stronger THB on broiler exports priced-in

Since end-2018, the THB has appreciated 5.4% against the USD while the BRL has depreciated by 5.1%. That has made Thai broiler exports to less competitive than Brazil broiler exports. In the EU, broiler imports from Thailand grew only 6% yoy in 1H19 compared to 12% growth in total broiler imports by the EU. Meanwhile, broiler imports from Brazil jumped 23% yoy in 1H19.

This situation is the same with broiler imports into Japan. Import volume from Thailand fell 3% yoy in 1H19 while Japan total broiler imports stayed the same. Meanwhile, broiler imports from Brazil fell only 1% yoy.

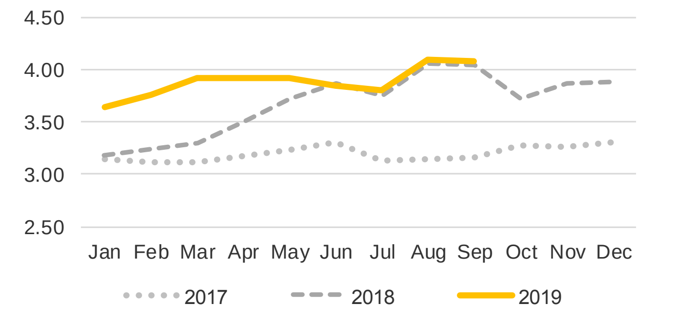
Hence, the impact of the stronger THB has been priced-in, especially in the EU.

Figure 5: USDTHB



Source: Bloomberg, Krungsri Securities

Figure 6: USDBRL



Source: Bloomberg, Krungsri Securities

Figure 7: EU Total Chicken Imports

	Jan-Jun 18	Jan-Jun 19	% Change
World	398,063	446,209	12%
Brazil	141,122	173,198	23%
Thailand	151,621	161,152	6%
Ukraine	62,371	68,184	9%
Others	42,949	43,675	2%

Source: ec.europa.eu, Krungsri Securities

Figure 8: Japan Total Chicken Imports

	Jan-Jun 18	Jan-Jun 19	% Change
World	518,988	505,439	-3%
Brazil	203,044	200,283	-1%
Thailand	209,348	202,582	-3%
China	96,312	91,894	-5%
US	8,085	7,266	-10%
Others	2,199	3,414	55%

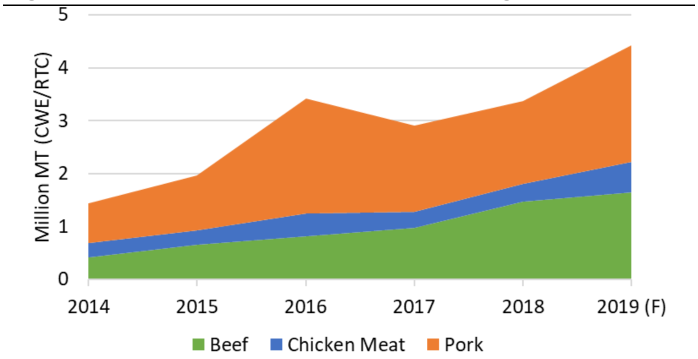
Source: USDA, Rabobank, Krungsri Securities

Rising demand for chicken meat following ASF outbreak

Global production of chicken meat is estimated to grow by 3% in 2019 to a record 98.4 million tons. The strongest growth in 5 years would be supported by gains in major producing countries, especially China. Demand will be robust in China as the ASF outbreak would spur consumers to turn to the most popular protein substitute, chicken. This has elevated chicken meat prices. Record production in Brazil, the US, and the EU will be fostered by relatively low feed prices, rising domestic consumption, and modest global demand. Chicken meat is commanding an increasing share of total EU meat consumption because of price advantage and convenience.

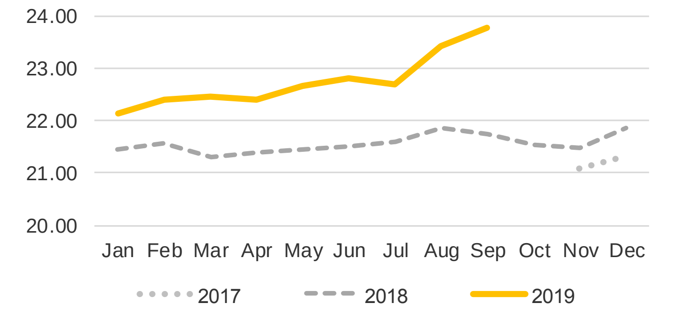
Global exports of chicken meat is estimated to rise by 3% in 2019 to a record 11.6 million tons. This would be led by Brazil and Thailand as HPAI restrictions would prevent other suppliers from capturing the substantial gains in China imports. As China demand outpaces increasing domestic production, imports are forecast to surge 70% in 2019 and account for nearly two-thirds of the growth in world trade.

Figure 5: China's appetite for meat imports grows



Source: USDA, Krungsri Securities

Figure 6: China chicken wholesale spot price (CNY/kg)



Source: Bloomberg, Krungsri Securities

OIL & GAS SECTOR

Drone strike pushes up oil prices, IMO 2020 pushes up GRM

Production at Saudi Aramco's oil processing facilities should return to normal by end September. Saudi Arabia and the US are ready to tap oil reserves to solve immediate shortage. Maintain Dubai price assumptions in FY19-21F to US$65/65/62. Expect healthy GRM in 2020 driven by low sulfur bunker oil spec by IMO regulations. Top picks are TOP and PTTEP

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Crude oil prices should stay high in near-term after drone strike at Saudi Aramco's oil processing facilities

Saudi Arabia's oil production was cut by half after explosive drone strike at two oil production facilities in Abqaiq, the heart of the Saudi oil industry, on Saturday. About 5.7m bpd of oil output and 2bncf of gas have been suspended. Saudi Aramco has restored a third of production and expects the remaining to return normal production by end September. Saudi will use stored crude oil and additional production from other OPEC producers to solve immediate shortfall. Saudi produced 9.8m bpd of oil in August or 10% of global supply. This is the biggest attack on Saudi Arabia's oil production since Saddam Hussein fired Scud missile into the Kingdom in 1991. We expect crude oil prices to stay at US$65-70/bbl until shortfall is solved. We maintain our Dubai price assumptions in FY19-21F at US$65/65/62 respectively.

Weak sentiment reflected in sharp drop in WTI net long positions

Prior to the drone strike, weakening sentiment on softer demand outlook has led to a sharp drop in WTI net long futures contracts during 1H19. US crude inventory have been in range bound at 440-480m bbl in the same period. The number of drilled but uncompleted wells (DUC) in the US has also declined from over 8,545 in October 2018 to 8,108 wells in July 2019, reflecting cautious view by US oil producers. This level is still considered high given they are viewed as storage facilities that are ready to be turned on if oil prices move higher.

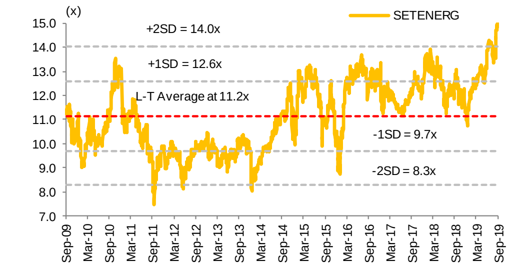
IMO regulation to boost market GRM in 2020

We are optimistic on IMO's reduction of Sulfur content to 0.5% from 3.5% on 1 January 2020. These regulations will tighten the global cap on the maximum sulfur content for marine fuel oil. Bunker demand for low sulfur fuel oil (LSFO) is expected to increase as most shippers will turn to LSFO on 1 January 2020. We expect this to drive up diesel crack spreads to US$18/bbl or higher from US$16/bbl currently as refiners will need to use diesel to blend high sulfur fuel oil (HSFO) to be LSFO. Globally, there are estimated 60k VLCC and only 2,200 ships have installed scrubbers, representing 4% of ships globally.

Top picks are TOP and PTTEP

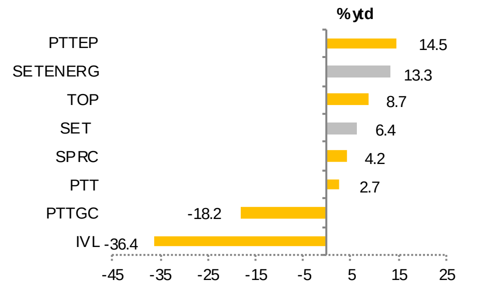
We maintain our positive view on refinery due to the IMO regulation in January 2020. TOP should be the most beneficiary given its highest leverage on middle distillates. We also like PTTEP given healthy sales volume to cushion against near-term oil price volatility. Market is concerned that prices of HSFO will fall next year when the IMO regulation to tighten the global cap on the maximum sulfur content for marine fuel oil is effective on 1 Jan 2020. Drone strike at Aramco oil processing facilities leads to the loss of HSFO in the market, causing HSFO prices to rise along with crude oil prices. HSFO demand should normalize after 12-18 months once shippers install scrubber to use HSFO.

Sector – 12M Forward PE



Source: Bloomberg, Krungsri Securities

Share Price Performance - ytd



Source: Bloomberg, Krungsri Securities

Oil & Gas sector – valuation summary

BB Ticker	M Cap (USD)	Price (Bt) 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
PTT	43,818	47.3	48.0	1.6	HOLD	3.4	2.1	13.6	13.0	10.9	10.7	1.5	1.4	4.1	4.2
PTTEP	16,756	130.0	160.0	23.1	BUY	24.9	0.7	11.5	10.9	11.2	11.1	1.2	1.2	4.4	4.5
PTTGC	8,527	58.3	53.0	-9.0	HOLD	-58.2	31.3	5.9	7.6	15.0	11.4	0.9	0.8	3.3	4.4
TOP	6,289	34.5	57.0	65.2	BUY	-20.5	15.2	13.9	14.6	9.2	8.0	1.2	1.1	3.8	4.4
IRPC	4,769	72.0	80.0	11.1	BUY	5.3	46.9	8.7	12.1	13.5	9.2	1.2	1.1	3.3	4.9
SPRC	1,408	10.0	13.2	32.0	BUY	27.4	158.2	5.3	12.9	21.0	8.1	1.1	1.0	2.9	7.4

Source: Bloomberg, Krungsri Securities

Crude oil prices should stay high in near-term after drone strike at Saudi Aramco's oil processing facilities

Saudi Arabia's oil production was cut by half after explosive drone strike at two oil production facilities in Abqaiq, the heart of the Saudi oil industry, on Saturday. About 5.7m bpd of oil output and 2bncf of gas have been suspended. Saudi Aramco has restored a third of production and expects the remaining to return normal production by end September. Saudi will use stored crude oil and additional production from other OPEC producers to solve immediate shortfall. Saudi produced 9.8m bpd of oil in August or 10% of global supply. This is the biggest attack on Saudi Arabia's oil production since Saddam Hussein fired Scud missile into the Kingdom in 1991. We expect crude oil prices to stay at US$65-70/bbl until shortfall is solved. We maintain our Dubai price assumptions in FY19-21F at US$65/65/62 respectively.

OPEC Crude Output (m bpd)

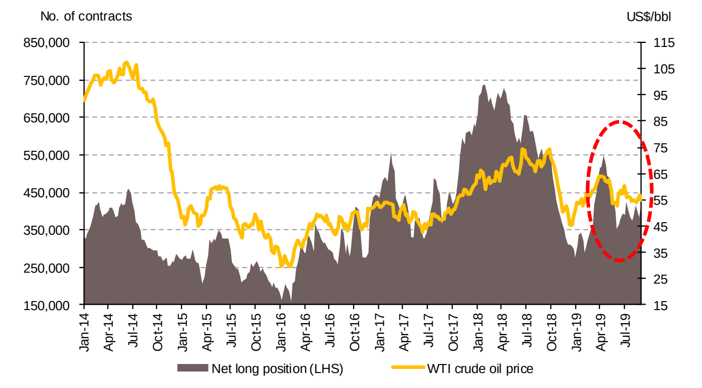
Countries	2018	2019	
	December	July	August
Algeria	1.00	1.02	1.01
Angola	1.57	1.39	1.43
Ecuador	0.52	0.54	0.54
Iran	2.60	2.10	2.10
Iraq	4.80	4.70	4.75
Kuwait	2.80	2.70	2.70
Libya	0.88	1.13	1.08
Nigeria	1.62	1.60	1.67
Qatar	1.94	2.00	2.00
Saudi Arabia	10.50	9.75	9.85
United Arab Emirates	3.18	3.10	3.15
Venezuela	1.25	0.80	0.75
OPEC - Total	31.34	29.48	29.70
US (Domestic Production)	12.04	11.70	12.20
Russia	11.57	11.58	11.59

Source: IEA, OPEC, and Krungsri Securities

Weak sentiment reflected in sharp drop in WTI net long positions

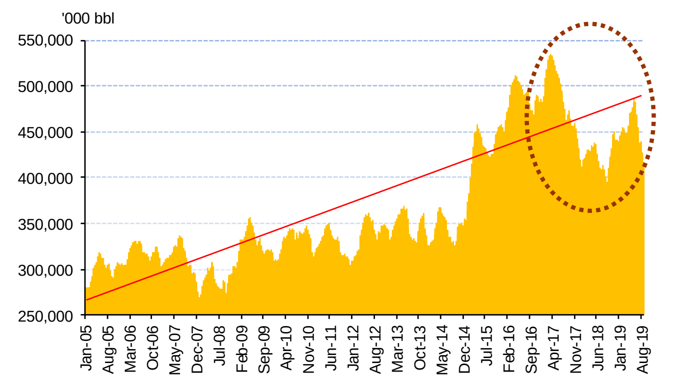
Weakening sentiment on softer demand outlook and concerns over global economic slowdown has led to a sharp drop in WTI net long futures contracts during 1H19 while US crude inventory have been in narrow level at 440-480m bbl in the same period. EIA forecasts global oil consumption will increase 0.9m bpd in 2019, down from 1.3m bpd in 2018. EIA expects global oil demand to grow 1.4m bpd in 2020 due to an increase in global GDP growth.

WTI net long positions



Source: US EIA, Krungsri Securities

US crude inventory



Source: Bloomberg, Krungsri Securities

Declining drilled but uncompleted wells

The number of drilled but uncompleted wells has declined from over 8,545 in October 2018 to 8,108 wells in July 2019, reflecting recent fall in oil prices. This causes oil producers to be cautious to do more drilling. This level is still considered high given they are viewed as storage facilities that are ready to be turned on if oil prices move higher.

Drilled but uncompleted wells (DUC)

Region	Jun-19	Jul-19	change
Anadarko	936	904	-32
Appalachia	438	422	-16
Bakken	693	675	-18
Eagle Ford	1,517	1,504	-13
Haynesville	189	182	-7
Niobrara	445	422	-23
Permian	3,990	3,999	9
Total	8,208	8,108	-100

Source: US EIA,

Note: Appalachia covers Marcellus and Utica

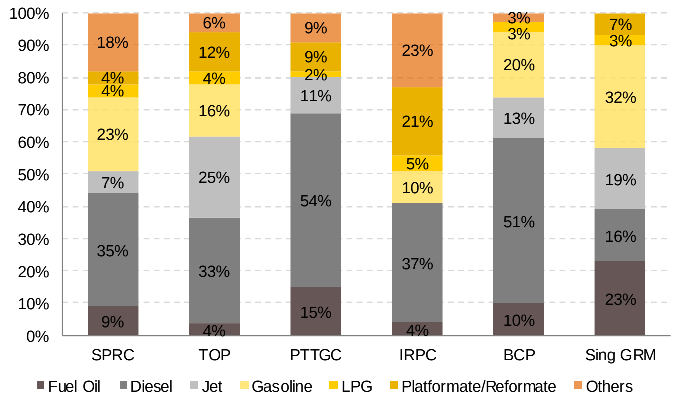
Expect IMO regulation to boost GRM in 2020

The International Marinetime Organization (IMO) is moving forward with a reduction of Sulfur content to 0.5% from 3.5% on 1 January 2020. These regulations will tighten the global cap on the maximum sulfur content for marine fuel oil. Bunker demand for low sulfur fuel oil (LSFO) is expected to increase while demand for high sulfur fuel oil (HSFO) is expected to fall and consequently, price difference between the two will widen. Most shippers will turn to LSFO on 1 January 2020, which we expect this to drive up diesel crack spreads to US$18/bbl or higher from US$16/bbl currently. The price differential is likely to close gap in 2-3 years as scrubber facilities are built. Globally, there are estimated 60k VLCC and 2,200 ships have installed scrubbers, representing 4% of ships globally. The rest will need to use diesel or LSFO.

Global marine fuel consumption represents 6% of total oil demand. As of 2018, 3.7m bpd is from heavy fuel oil (HFO) with 3.5% Sulfur and another 1.9m bpd is from diesel and others with low Sulfur. Global shipping companies such as Maersk and Hapag-Lloyd have indicated that they will meet the new regulations by using diesel or LSFO. So, most shippers will turn to diesel or LSFO on 1 January 2020.

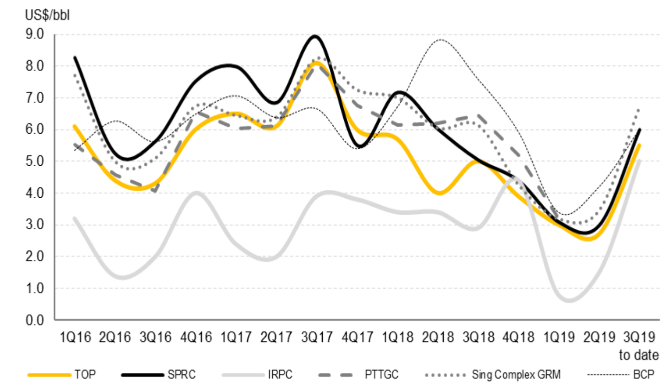
With demand for alternative fuels suddenly increasing, a change in the global fuel mix on such a large scale will be challenging for refineries to accommodate, as they are not configured to produce the extra required volumes of MGO or LSFO. Because of the greater constraints on LSFO output, we expect demand of diesel, which will be used to blend with HSFO to LSFO, to increase dramatically upon January 2020.

Refinery production yield



Source: US EIA and Krungsri Securities

Quarterly market GRM



Source: US EIA and Krungsri Securities

Crack spreads over Dubai Crude

	Dubai	Jet	Gas Oil	Fuel Oil	Gasoline
1Q14	104.46	17.01	17.78	(8.51)	14.56
2Q14	106.13	14.29	16.04	(10.65)	16.06
3Q14	101.45	14.50	14.43	(8.44)	13.18
4Q14	74.40	17.71	15.99	(5.62)	13.44
1Q15	51.89	17.08	16.29	(1.86)	15.35
2Q15	61.30	13.47	13.74	(3.56)	19.78
3Q15	49.74	10.88	10.81	(8.11)	19.32
4Q15	40.71	14.09	13.77	(6.55)	18.68
1Q16	30.42	11.68	9.62	(5.18)	18.82
2Q16	43.18	11.15	10.51	(8.76)	14.45
3Q16	43.17	11.15	10.96	(4.27)	11.57
4Q16	48.32	12.26	12.03	(1.68)	14.58
1Q17	53.12	11.32	11.83	(3.14)	14.78
2Q17	49.77	10.81	11.38	(1.85)	14.21
3Q17	50.49	13.15	13.86	(1.37)	16.09
4Q17	59.20	13.28	13.04	(3.05)	14.40
1Q18	63.73	16.11	14.76	(4.96)	13.73
2Q18	72.09	15.25	14.61	(4.46)	12.12
3Q18	74.28	14.48	14.39	(2.58)	11.55
4Q18	67.42	15.64	14.78	1.35	4.70
1Q19	63.50	12.97	12.79	0.52	3.70
2Q19	67.36	12.21	12.37	(2.33)	7.51
3Q19 to date	60.35	15.85	15.43	0.22	11.10

Source: Company data, Krungsri Securities

Top picks are TOP and PTTEP

TOP will be the most beneficiary of IMO 2020 given its highest leverage on middle distillates, followed by IRPC. We expect crack spreads to reflect rising demand of middle distillates in 4Q19 and this would lead to the re-rating of the refinery stocks. TOP is our preferred refiner with Bt80/sh TP. We also like PTTEP given healthy sales volume to cushion against near-term oil price volatility. Market is concerned that prices of HSFO will fall next year when the IMO regulation to tighten the global cap on the maximum sulfur content for marine fuel oil is effective on 1 Jan 2020. Drone strike at Aramco oil processing facilities leads to the loss of HSFO in the market, causing HSFO prices to rise along with crude oil prices. HSFO demand should normalize after 12-18 months once shippers install scrubber to use HSFO.

ICT SECTOR

Best of both world

Despite the sharp correction in the ICT sector over the last two weeks, we reiterate an Overweight call for the sector because the correction was triggered by weak sentiment because of inverted bond yields rather than changing fundamentals. ICT counters should continue to register earnings growth (hoh and yoy) in 2H19F supported by higher revenue (ARPU). The companies also have the ability to pay high dividends for FY19F (3-4% yield). Our top picks are ADVANC, INTUCH and DTAC because they fit into both our earnings and yield themes. We are neutral on TRUE.

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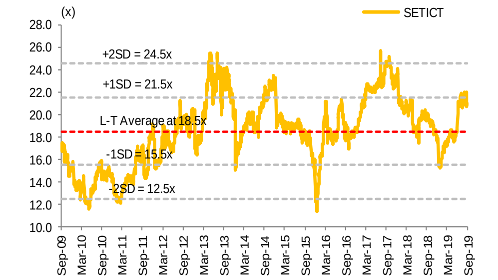
Reiterate our view that earnings to accelerate in 2H19

Unlike most of listed companies, mobile operators announced positive earnings surprises in 2Q19 (+43% yoy, +9% qoq) underpinned by higher revenues, especially mobile segment led by higher ARPU as competition eased and prepaid subscribers continued to migrate to postpaid. Despite all concerns on earnings downgrade, we expect mobile segment earnings to accelerate in 2H19 to Bt20.8b, up 82% yoy and 8% hoh. The strong yoy growth would be driven by a low-base effect and sharp drop in handset subsidies at TRUE. The hoh growth drivers would be rising ARPU amid easing competition. All mobile operators had introduced low-price fixed-speed packages in 3Q18 but halted them in early 2Q19.

Sector – 12M Forward PE

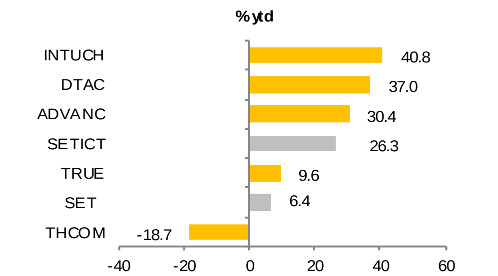


Source: Bloomberg, Krungsri Securities

expect no cash flows burden from 5G

We do not expect mobile operators to face cash flow burden in the short-to-medium term. We reiterate our view that the auction for the multi-band spectra, including 700MHz, 2600MHz and 26GHz, is unlikely to be held this year. The re-farming of 2600MHz spectrum, currently owned by MCOT, is facing obstacles and the NBTC now wants the government to intervene. The NBTC also acknowledged there is no rush to deploy 5G because current services do not require that. Hence, even if the NBTC holds the auction this year, winners might not pay for the licenses immediately. The NBTC indicated payments could start in 2023 (or three years from now), when the operators expect to deploy 5G in Thailand.

Share Price Performance - ytd



Source: Bloomberg, Krungsri Securities

Top picks: ADVANC, INTUCH and DTAC

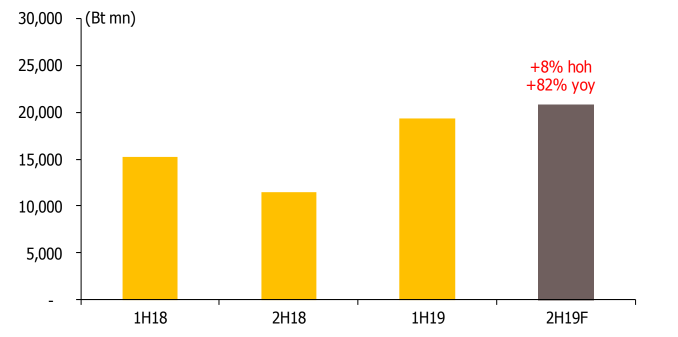
We maintain an Overweight rating for the ICT sector premised on positive earnings momentum, especially in 2H19, driven by easing competition. In addition, sector earnings are more resilient to the economic slowdown at home. This suggests the anticipated 3-4% dividend yields are secure. We expect valuations in the sector to re-rate further. We adjusted up TPs for all ICT counters in our coverage by about 10% after rolling over valuation base to end-2020.

ICT sector – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G%		ROE (%)		PE (x)		P/BV (x)		Div Yld (%)	
						19F	20F	19F	20F	19F	20F	19F	20F	19F	20F
ADVANC	21,720	225.0	260.0	15.6	BUY	9.3	-1.2	63.5	63.0	20.3	20.5	9.8	8.5	3.5	3.6
DTAC	4,555	59.3	68.0	14.8	BUY	381.1	3.7	9.5	8.9	22.0	21.2	6.7	6.1	4.4	4.5
INTUCH	7,001	67.3	82.0	21.9	BUY	38.4	4.2	80.8	81.0	17.5	16.8	5.4	4.9	4.2	4.4
THCOM	175	4.9	6.0	22.0	HOLD	-39.2	-0.9	1.2	3.5	21.1	21.3	0.4	0.4	2.9	2.0
TRUE	6,175	5.7	6.8	19.3	HOLD	NM	197.1	1.2	3.5	118.7	40.0	0.6	0.5	0.4	1.3

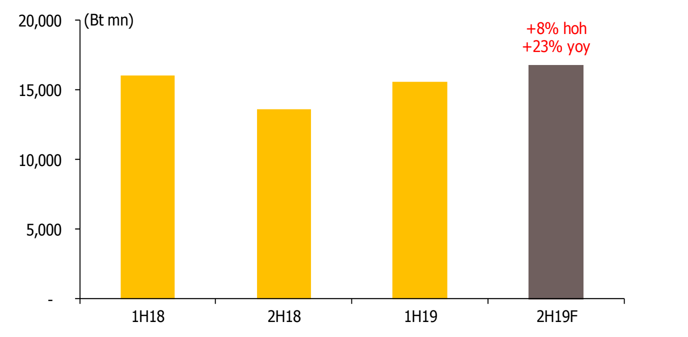
Source: Bloomberg, Krungsri Securities

ICT Sector: 2H19 earnings to grow hoh and yoy



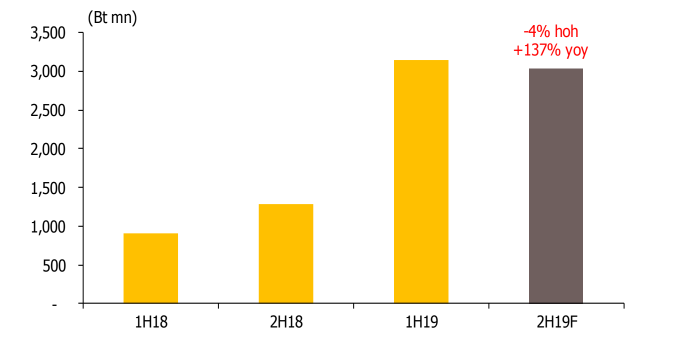
Source: Company, Krungsri Securities

ADVANC: 2H19 earnings to grow both hoh and yoy



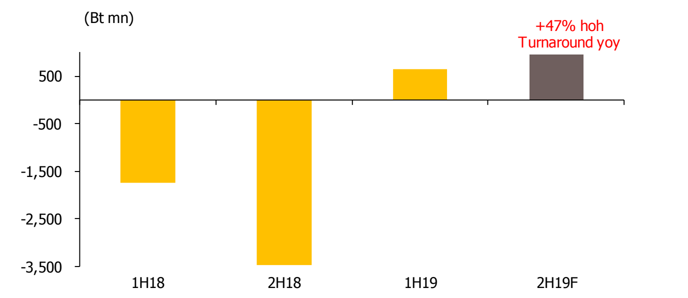
Source: Company, Krungsri Securities

DTAC: 2H19 earnings to grow yoy



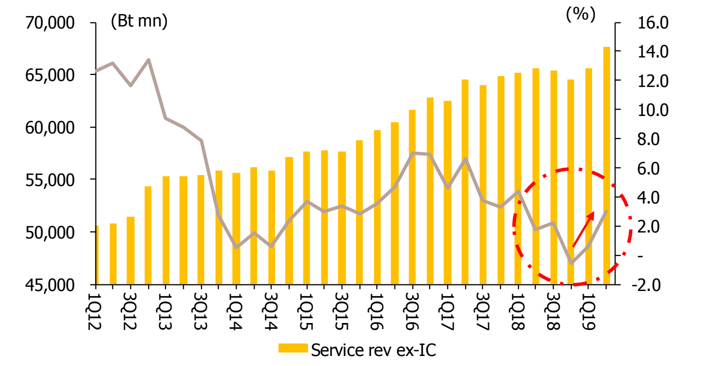
Source: Company, Krungsri Securities

TRUE: 2H19 earnings to improve both hoh and yoy



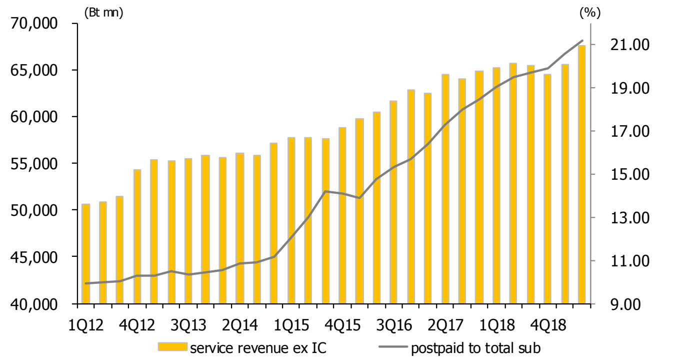
Source: Company, Krungsri Securities

Rising revenue was key driver of 2Q19 earnings growth



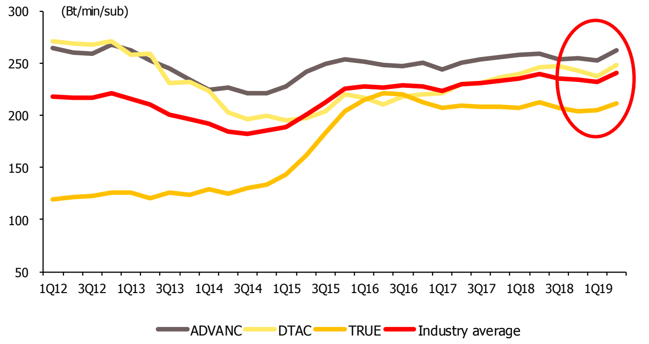
Source: Company data, Krungsri Securities

Rising number of postpaid subs remain a major revenue driver for mobile carriers



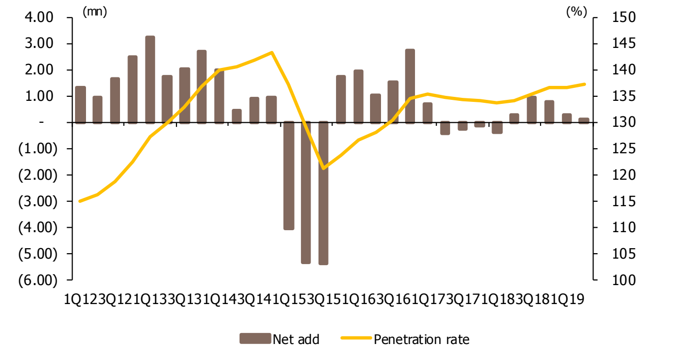
Source: Company, Krungsri Securities

2Q19 revenue growth was mainly driven by higher ARPU



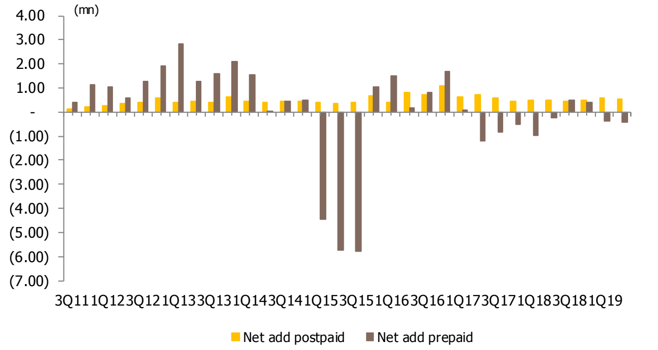
Source: Company, Krungsri Securities

Industry continues to add new subs in 2Q19 but increment was smaller than before



Source: Company, Krungsri Securities

Rising number of postpaid subs continued to drive industry net add while prepaid subs continued to shrink



Source: Company, Krungsri Securities

MEDIA SECTOR

OOH segment continues to shine

Ad spending registered little improvement in August, inching up 1.1% yoy and falling 3.3% mom. The yoy improvement was underpinned by radio, cinema and OOH segments. TV segment registered weaker spending yoy and mom. Our star, the OOH segment, reported higher ad spending mom (+1.8%) and yoy (+7%) in August, outpacing total OOH ad spending in Thailand (+3.3% yoy) and the overall industry (-1.2% yoy). VGI is our top pick for their exposure to the online platform and WORK for strong cash position and earnings recovery.

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Ad spending remains weak in August

Nielsen data show ad spending fell 3.3% mom in August but recovered mildly yoy (+1.1%) to Bt8.8b. The yoy growth was underpinned by radio, cinema and OOH segments. TV ad spending edged down both yoy (-0.6%) and qoq (-1.4%), mostly due to the ongoing shift away from traditional advertising media to online platforms, coupled with a weak economy. These will continue to curb TV ad spending. The sector's star - OOH media - continued to register strong ad spending growth in August, rising 1.8% mom and 7% yoy to Bt1.2b. Ytd, adspend on OOH segment grew 3.3% yoy against -1.2% growth in total industry adspend.

OOH segment will experience multi-year growth

OOH is an advertisers' favorite as they continue to shift away from traditional media. Between 2007 and 2017, total adspend on OOH media had exceeded overall industry adspend (+7.7% for OOH vs +1.4% for the industry), and market share had doubled to 12% from 6% in 2007. There is still room to grow; in Hong Kong and Singapore where people spend less time at home, OOH accounts for 25% of total adspend. Thailand is moving in the same direction and as advertising activity picks up again, OOH adspend will continue to outperform the industry.

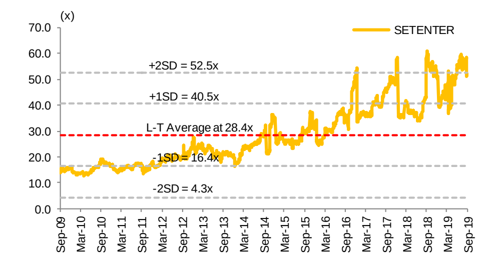
TV adspend remains weak

TV operators are caught between a rock and a hard place. Advertisers are allocating a lot less advertising budget for TV as they are attracting fewer viewers, and there is rising competition among players. Recent conversations with TV operators indicated no signs of a recovery in ad spending in 4Q19 compared with 3Q19. Loading factor for most operators remain low at 40-60%, triggering a price war by offering deeply discounted ad rates to draw in advertiser budgets. Overall, we expect TV operators to register falling revenues over the next few years.

Reiterate BUY rating for VGI (TP Bt11) and WORK (TP Bt35)

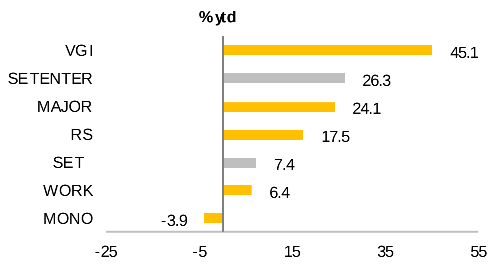
We prefer OOH media operators to TV operators, as OOH media will benefit from structural shift #1. VGI is our top pick because they have a diversified portfolio and exposure to online platforms via Rabbit Group and KETH. Earnings growth profile is also superior to PLANB's (+44% vs 21% for PLANB over the next 3 years). WORK is on our buy list for their strong cash holding and anticipated earnings recovery over the next two years.

Sector – 12M Forward PE



Source: Bloomberg, Krungsri Securities

Share Price Performance - ytd



Source: Bloomberg, Krungsri Securities

Media sector – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
BEC	539	8.3	9.8	18.1	HOLD	NA	NA	(0.2)	(6.9)	(43.1)	228.5	3.1	2.9	-2.1	0.4
MAJOR	703	24.2	30.0	24.0	HOLD	15.0	8.1	17.6	18.5	18.2	16.9	3.2	3.1	5.3	5.8
PLANB	1,116	8.9	9.4	6.2	HOLD	4.2	24.6	15.5	15.9	46.9	37.6	7.7	8.3	1.1	1.3
RS	502	15.9	16.5	3.8	HOLD	24.0	12.8	21.2	21.5	32.3	28.6	7.9	7.2	1.9	2.1
VGI	2,738	9.9	11.0	11.7	BUY	53.7	38.0	9.9	13.3	49.8	36.1	4.9	4.8	1.0	1.4
WORK	321	22.4	35.0	56.3	BUY	44.3	27.7	11.2	14.1	19.8	15.5	2.2	2.2	2.6	3.3

Source: Bloomberg, Krungsri Securities

PROPERTY SECTOR

Slow recovery amid weak economic backdrop

Most developers have trimmed their annual targets after weak performance in 1H19. Although we see positive signs in 3Q19, recovery appears slow. We only expect a mild recovery in the housing market in 4Q19 despite that the high season for the industry. This would be partly due to intense competition as developers launch several projects that were postponed earlier. However, housing demand will remain weak due to the fragile economic backdrop. Until there are signs of firming demand, we have a NEUTRAL rating for the sector.

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Developers trim targets after weak performance in 1H19

Looking at residential developers in our coverage, 1H19 launch value fell 8.3% yoy, dragging down presales by 23% yoy to reach only 38.5% of the annual target. The weaker launch value and presales in the period led transfers to drop 8.4% yoy and 28% hoh in 1H19. The weaker-than-expected performance have prompted most developers to slash targets by 10-15%, except AP and SPALI.

Sign of stabilization, but recovery remains slow

AREA housing market data show a modest recovery in demand as the 3-month trailing take-up data has risen from a low of 4,953 to 6,920 units in August. However, the 3-month trailing absorption rate remains at 23%, still below the long-term average of 30%. Meanwhile, YTD new supply grew 7% yoy while units sold dropped 14.3% yoy, implying persistent mismatch in demand and supply.

Glut of new supply to flood the market in 4Q19

Many developers had avoided launching new projects in 2Q19 following stricter LTV measures and long holidays in the quarter, and had postponed launches to 4Q. Hence, there is risk that housing demand might not be able to absorb all the new supply, especially against the fragile economic backdrop. It could leave the market with a large volume of unsold inventory and fuel supply worries.

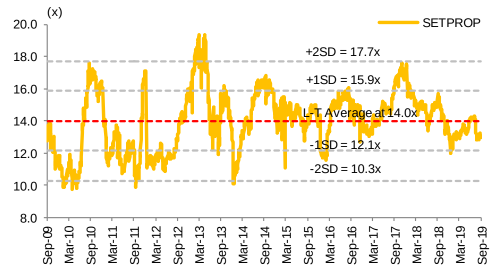
Negative factors priced-in but confidence remains weak

Prospects for the housing market remains clouded by stricter LTV measures and the economic slowdown. However, most of the negatives have been priced-in as the property sector is trading at -0.5SD of its long-term PE multiple and -1SD of its long-term PBV multiple. LPN and PSH are trading below net current asset value.

NEUTRAL rating for sector; needs stimulus to boost property demand

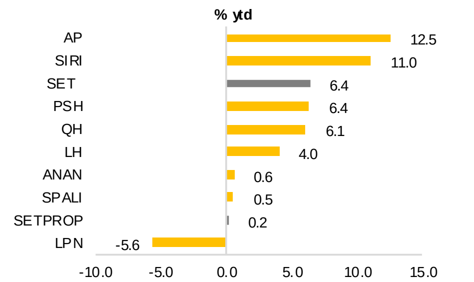
We see ongoing rebalancing of demand and supply in the sector. However, the housing market requires adjustments in the supply side as well as more stimulus to boost property demand to accelerate the recovery. And, although the negatives have been priced-in, confidence in the housing market remains weak. Hence, we have a NEUTRAL rating for the sector. Our top pick is AP for offering superior earnings growth and presales profiles.

Sector – 12M Forward PE



Source: Bloomberg, Krungsri Securities

Share Price Performance - ytd



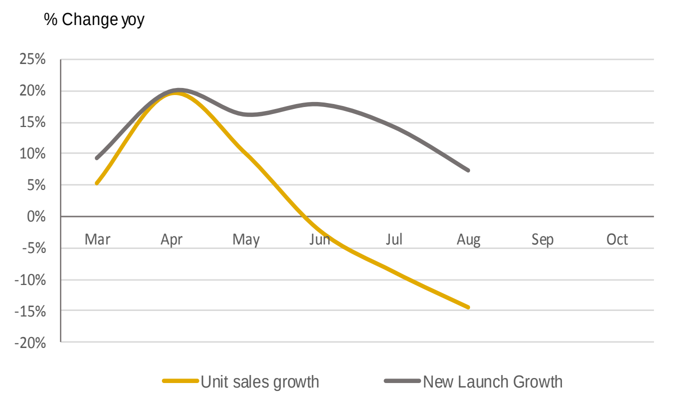
Source: Bloomberg, Krungsri Securities

Property sector – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
ANAN	353	3.3	3.4	4.3	HOLD	-28.8	10.9	9.0	9.4	6.3	5.7	0.6	0.5	5.5	6.1
AP	689	6.8	9.3	37.8	BUY	-5.5	15.1	13.7	14.3	5.8	5.1	0.8	0.7	6.0	6.9
LH	3,996	10.3	11.5	11.7	HOLD	-1.2	13.0	19.9	21.7	11.9	10.5	2.4	2.3	7.3	8.1
LPN	281	6.0	9.3	56.3	BUY	0.8	6.7	10.3	10.6	6.4	6.0	0.7	0.6	10.2	10.9
PSH	1,307	18.4	23.2	26.1	BUY	-6.3	5.0	12.7	12.5	7.1	6.8	0.9	0.9	7.7	8.1
QH	967	2.8	3.2	13.3	HOLD	-11.1	5.7	12.3	12.3	8.8	8.3	1.1	1.0	7.1	7.2
SIRI	602	1.3	1.8	34.4	BUY	16.3	10.8	7.6	8.3	8.2	7.4	0.6	0.6	9.2	10.2
SPALI	1,273	18.3	23.0	25.7	HOLD	6.9	6.9	16.0	15.5	6.4	5.9	1.0	0.9	6.1	6.6

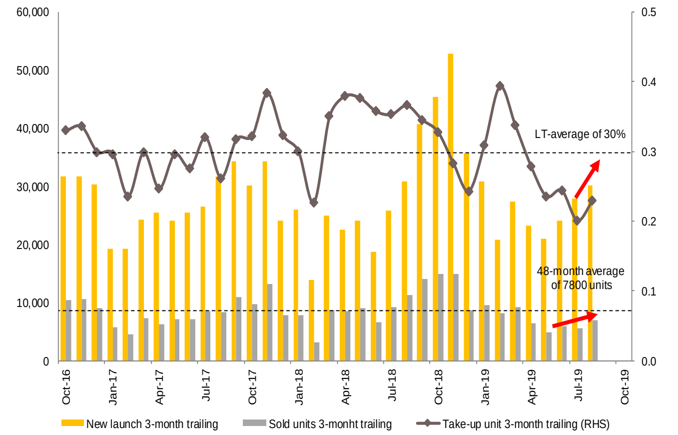
Source: Bloomberg, Krungsri Securities

Figure 1: New launches and take-up rate (changes)



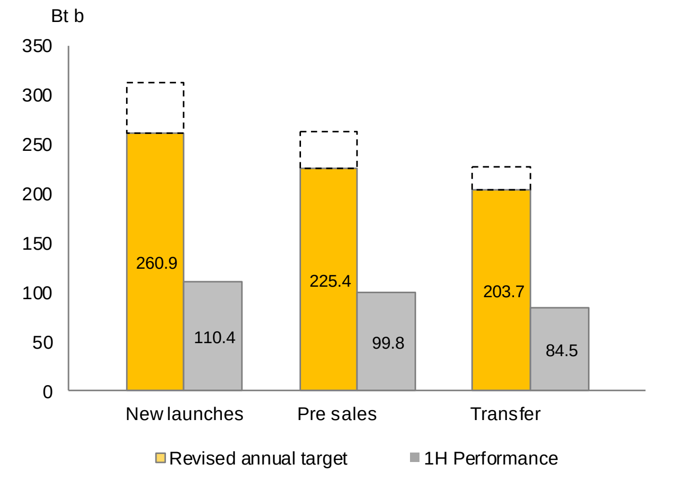
Source: AREA, Krungsri Securities

Figure 2: 3-month trailing D&S and take-up rate



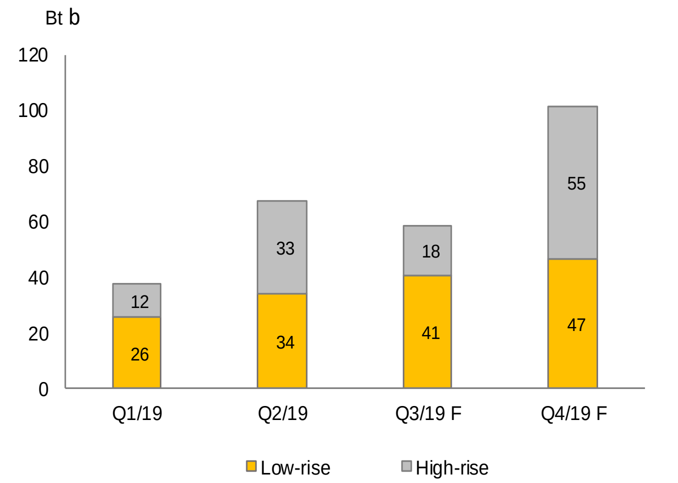
Source: AREA, Krungsri Securities

Figure 3: Aggregate 1H19 performance



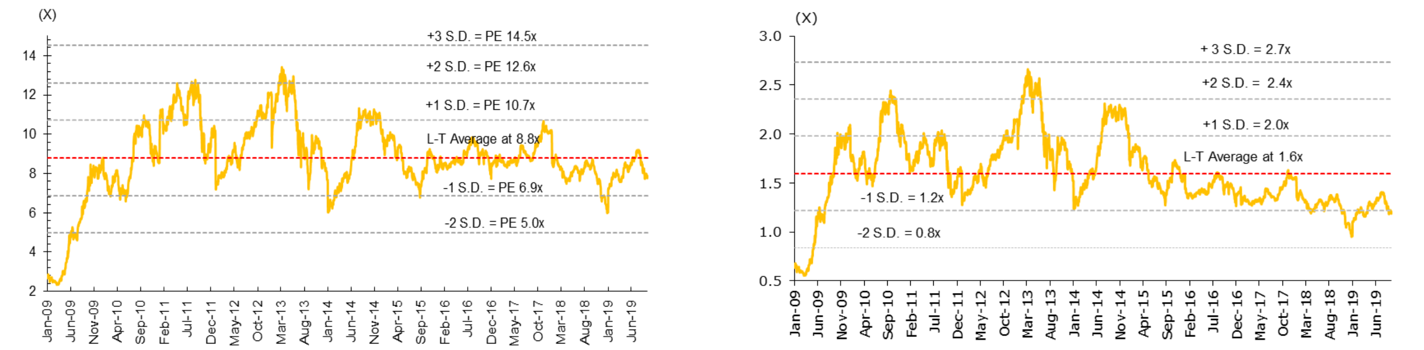
Source: Companies, Krungsri Securities

Figure 4: Aggregate launch plan



Source: Companies, Krungsri Securities

Figure 5: Share prices have priced-in the negatives



Source: Bloomberg, Krungsri Securities

TOURISM SECTOR

Namaste Thailand

The Tourism sector has underperformed the SET Index by 15% YTD, as weak tourist arrivals coupled with larger supply of hotel rooms has prompted earnings downgrades in the sector. However, we believe that the weak performance has been priced-in as the sector valuation is at -1 SD EV/EBITDA. And, we see tourist arrivals accelerating into 4Q19 and 2020 led by returning Chinese tourists and strong growth of Indian tourists. In the Hotel sector, there will be more balanced demand-supply in Thailand in 4Q19 and 2020, which could trigger a recovery in Thai Hotel RevPar. Now is the time to turn positive on the sector. AOT is our top pick for the Thai Tourism sector because it operates major international airports, MINT for their overseas exposure, and ERW for Hop Inn contribution and turnaround in the Philippines business unit.

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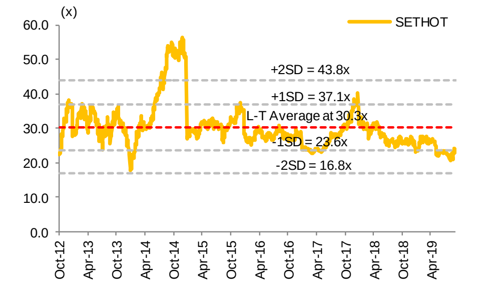
Expect strong recovery in tourist arrivals. The rising number of outbound Indian tourists and recovering arrivals from China will support the sector's recovery in 4Q19-2020. Overseas arrivals at major airports grew 8.3% yoy in August and 7.4% yoy in 1-14 September. Looking at key market driver, arrivals from China grew 15.6% in August and from India, growth remained strong at 26.5%. Geopolitical events (HK protests, China banning personal trip to Taiwan, trade tension between Japan and South Korea) has helped to divert more tourists to Thailand. And, tourist arrivals will continue to accelerate as we enter China's Golden Week holidays in October and the high tourist season in 4Q.

Prefer overseas hotel over Thai hotels in 4Q19. Overseas hotels (in the EU) should continue to deliver strong earnings as weaker EUR would encourage tourism in eurozone, and supported by limited supply in the pipeline and Asian travelers switching from short- to long-haul flights. For Thai hotels, we remain cautious of the RevPar recovery in 3Q19 as the influx of new supply during the year would prompt new hotels to keep ADR low to increase occupancy during low season. However, RevPar could recover in 4Q19 given signs of a strong peak tourist season in 4Q19.

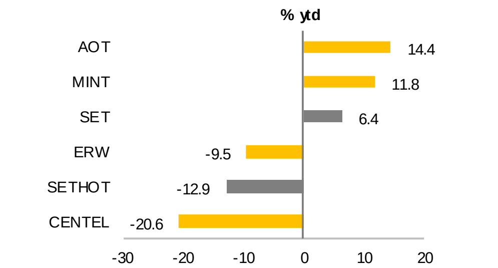
Our top picks are AOT, MINT, and ERW. AOT should remain a prime beneficiary of recovering tourist arrivals as Thailand enters peak tourist season, which means stronger passenger throughput at AOT's airports, and higher aeronautical revenues. In the Hotel sector, we prefer MINT for their overseas hotel exposure and ERW for rising Hop Inn contribution and turnaround at the Philippines business unit.

Sector – 12M Forward PE



Source: Bloomberg, Krungsri Securities

Share Price Performance - ytd



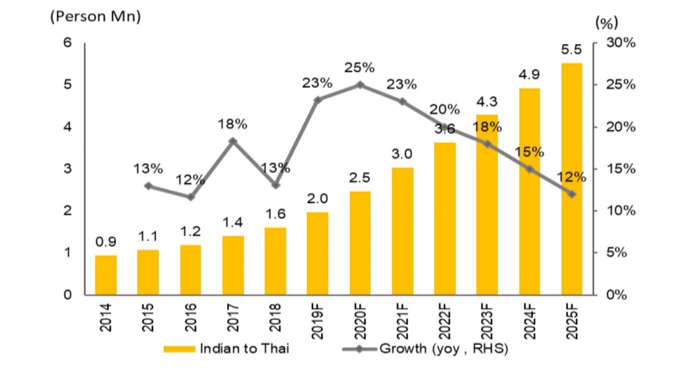
Source: Bloomberg, Krungsri Securities

Tourism sector – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
AOT	34,091	73.5	87.0	18.4	BUY	4.4	8.7	17.3	17.3	40.2	36.9	6.7	6.1	1.2	1.3
CENTEL	1,392	31.8	34.0	7.1	HOLD	-10.0	5.8	14.1	13.4	21.8	20.6	3.0	2.8	1.7	1.8
ERW	465	5.7	7.2	26.3	BUY	-8.1	11.8	8.4	8.8	29.1	26.0	2.5	2.3	1.4	1.7
MINT	5,699	38.0	47.0	23.7	BUY	14.4	11.2	9.6	8.5	25.5	23.0	18.7	19.8	1.4	1.3

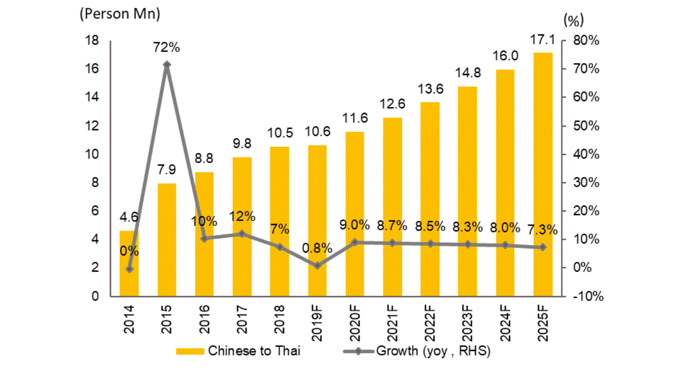
Source: Bloomberg, Krungsri Securities

Figure 1: Expect 5.5m Indian tourists by 2025F



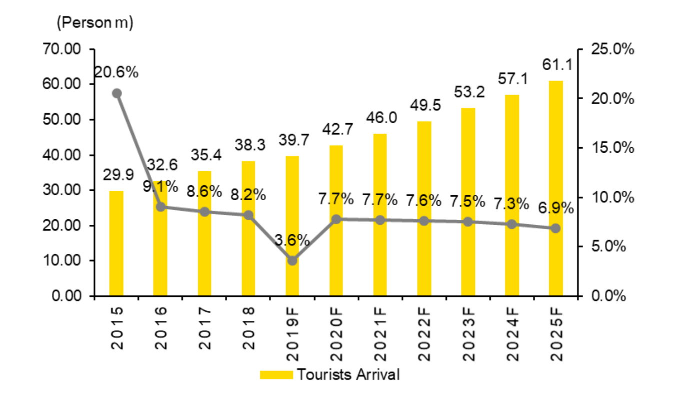
Source: Company data, Krungsri Securities

Figure 2: Expect 17m Chinese tourists by 2025F



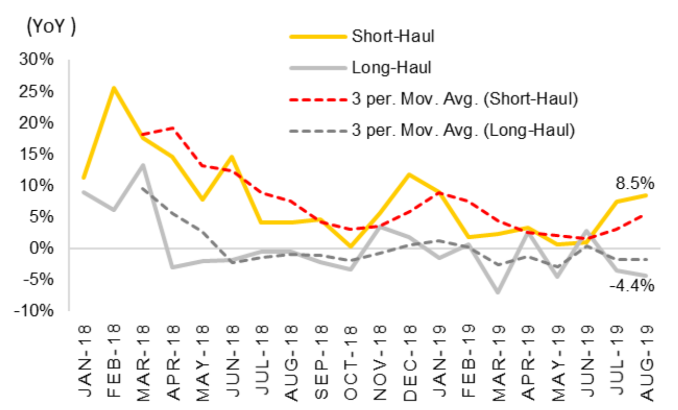
Source: Company Data, Krungsri Securities

Figure 3: Total inbound tourists will rise to 61m by 2025F



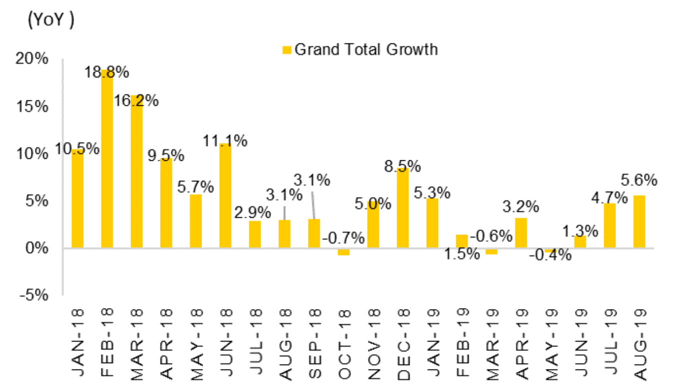
Source: Company data, Krungsri Securities

Figure 4: Room supply growth will remain high



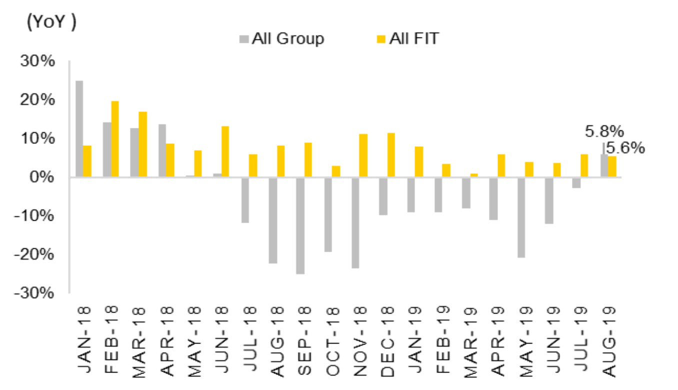
Source: Company Data, Krungsri Securities

Figure 5: Tourist arrivals continued to grow in August …



Source: MOTS, Krungsri Securities

Figure 6: …led by both group tour and FIT tourists



Source: MOTS, ATTA, Krungsri Securities

Sector Update

September 18, 2019

krungsri Securities

A member of MUFG a global financial group

TRANSPORTATION SECTOR

More mass rail transit projects!

Land transportation in Thailand is experiencing a structural shift as the government makes mass rail transit a top priority. The Mass Transit Master Plan (M-Map) is expected to expand track length five-fold to 515.2km by 2029 from 110km now. BTS and BEM are set to benefit in two ways: first, they would win more contracts because they are cost-competitive and there would be synergies with existing lines, and second, there would be more feed-in traffic. While we have Hold rating on BTS but we see it has more upside risk if the green line new contract is concluded in BTS's favor.

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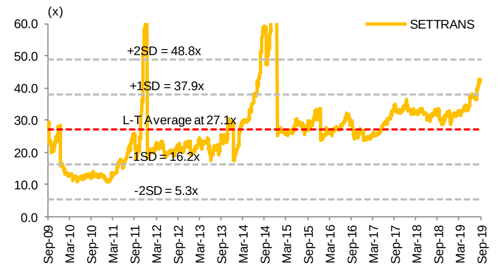
Near-term overhang on existing projects for both BTS and BEM

We remain bullish on the sector in anticipation of a cyclical upturn for the mass rail transit segment. However, there may be near-term hiccups in current projects for both BTS and BEM. BTS is negotiating with Krungthep Thanakrum (KT) to restructure the contract for the entire Green Line (i.e. the core line and extension). Despite the lengthy negotiation process, BTS remains optimistic of the final outcome and expects to make an announcement in 4Q19. Meanwhile, BEM is trying to extend the existing toll projects from EXAT. That has been handed over to the cabinet for final approval. These projects have been the key earnings and cash flow drivers for both companies.

Sector – 12M Forward PE

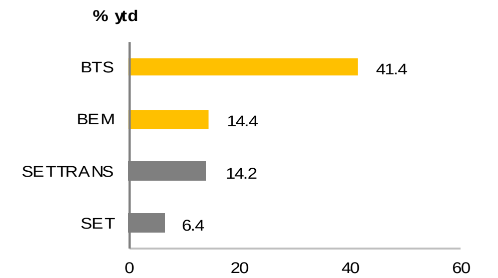


Source: Bloomberg, Krungsri Securities

Mass transit plans in Bangkok and vicinity on schedule

Over the next five years, mass rail transit will become the key mode of public transportation in urban areas, supplemented by buses and ferries. Track length, the key demand driver, is expanding rapidly. Under the recent M-Map, mass transit track length will leap 500% to 515km by 2029 from 110km currently. The number of commuters with access to mass transit will increase accordingly, to 11.7m by 2029 from 2.4m in 2016. The number of trips is expected to soar from 1m per day now to 4.3m in 2019 and 7.8m by 2029. This implies ridership growth for the entire system would reach 18% p.a. CAGR during 2017-29, from 12% p.a. CAGR over 1999-2016. The government has not called for tenders for new lines so far this year, but the timeline indicates the Orange Line would be open for tender late this year.

Share Price Performance - ytd



Source: Bloomberg, Krungsri Securities

Top pick: BTS

While we have Hold rating for BTS with a SOTP-based TP of Bt12. But we prefer BTS to BEM in two angles. (1) it is poised to benefit from the surge in commuter traffic over the next 10 years because total track length operated by the company would double; (2) it has more upside risk to its earnings and TP if the pending contract on the green line is finalized in BTS's favor.

Transportation sector – valuation summary

BB Ticker	M Cap (USDm)	Price 17-Sep	TP (Bt)	U/D (%)	Rec	EPS G% 19F	EPS G% 20F	ROE (%) 19F	ROE (%) 20F	PE (x) 19F	PE (x) 20F	P/BV (x) 19F	P/BV (x) 20F	Div Yld (%) 19F	Div Yld (%) 20F
BEM	5,509	11.1	12.0	8.1	HOLD	40.0	25.8	12.9	15.2	36.4	28.9	4.7	4.4	1.6	2.1
BTS	5,504	13.5	12.0	-11.1	HOLD	57.3	27.2	6.1	7.3	56.5	44.4	4.1	4.2	2.8	2.7

Source: Bloomberg, Krungsri Securities

CG Rating 2018 Companies with CG Rating

ADVANC	AKP	AMATA	AMATAV	ANAN	AOT	AP	BAFS	BANPU	BAY	BCP	BCPG	BRR	BTS
BWG	CFRESH	CHO	CK	CKP	CM	CNT	COL	CPF	CPI	CPN	CSS	DELTA	DEMCO
DRT	DTAC	DTC	EA	EASTW	EGCO	GC	GEL	GFPT	GGC	GOLD	GPSC	GRAMMY	GUNKUL
HANA	HMPRO	ICC	ICHI	INTUCH	IRPC	IVL	JSP	KBANK	KCE	KKP	KSL	KTB	KTC
LHFG	LIT	LPN	MAKRO	MBK	MCOT	MINT	MONO	MTC	NCL	NKI	NVD	NYT	OISHI
OTO	PCSGH	PDJ	PG	PHOL	PLANB	PLANET	PPS	PRG	PSH	PSL	PTG	PTT	PTTEP
PTTGC	PYLON	Q-CON	QH	QTC	RATCH	ROBINS	S & J	SABINA	SAMART	SAMTEL	SAT	SC	SCB
SCC	SCCC	SDC	SE-ED	SIS	SITHAI	SNC	SPALI	SPRC	SSSC	STEC	SVI	SYNTEC	TASCO
TCAP	THAI	THANA	THANI	THCOM	THIP	THREL	TIP	TISCO	TKT	TMB	TNDT	TOP	TRC
TRU	TRUE	TSC	TSTH	TTCL	TU	TVD	UAC	UV	VGI	VIH	WACOAL	WAVE	WHA
WINNER													

2S	AAV	ACAP	AGE	AH	AHC	AIRA	AIT	AKR	ALLA	ALT	AMA	AMANAH	APCO
AQUA	ARIP	ARROW	ASIA	ASIMAR	ASK	ASN	ASP	ATP30	AU	AUCT	AYUD	BA	BBL
BDMS	BEC	BEM	BFIT	BGRIM	BIZ	BJC	BJCHI	BLA	BOL	BPP	BROOK	BTW	CBG
CEN	CENTEL	CGH	CHEWA	CHG	CHOW	CI	CIMBT	CNS	COM7	COMAN	CPALL	CSC	CSP
DCC	DCORP	DDD	EASON	ECF	ECL	EE	EPG	ERW	ETE	FN	FNS	FORTH	FPI
FSMART	FVC	GBX	GCAP	GLOBAL	GLOW	GULF	HARN	HPT	HTC	HYDRO	ICN	ILINK	INET
IRC	ITD	JAS	JCKH	JKN	JWD	K	KBS	KCAR	KGI	KKC	KOOL	KTIS	L&E
LANNA	LDC	LH	LHK	LOXLEY	LRH	LST	M	MACO	MAJOR	MALEE	MBKET	MC	MEGA
METCO	MFC	MFEC	MK	MOONG	MSC	MTI	NCH	NEP	NINE	NOBLE	NOK	NSI	NTV
NWR	OCC	OGC	ORI	PAP	PATO	PB	PDI	PJW	PLAT	PM	PORT	PPP	PREB
PRECHA	PRINC	PRM	PT	QLT	RICHY	RML	RS	RWI	S	S11	SALEE	SANKO	SAWAD
SCG	SCI	SCN	SE	SEAFCO	SEAOIL	SELIC	SENA	SFP	SIAM	SINGER	SIRI	SKE	SMK
SMPC	SMT	SNP	SORKON	SPC	SPI	SPPT	SPVI	SR	SSF	SST	STA	SUC	SUSCO
SUTHA	SWC	SYMC	SYNEX	TACC	TAE	TAKUNI	TBSP	TCC	TEAM	TFG	TFMAMA	THRE	TICON
TIPCO	TK	TKN	TKS	TM	TMC	TMI	TMILL	TMT	TNITY	TNL	TNP	TNR	TOA
TOG	TPA	TPAC	TPBI	TPCORP	TRITN	TRT	TSE	TSR	TSTE	TTA	TTW	TVI	TVO
TWP	TWPC	U	UMI	UOBKH	UP	UPF	UPOIC	UT	UWC	VNT	WHAUP	WICE	WIIK
XO	YUASA	ZMICO											

7UP	ABICO	ABM	AEC	AEONTS	AF	AJ	ALUCON	AMARIN	AMC	AS	ASAP	ASEFA	ASIAN
BCH	BEAUTY	BGT	BH	BIG	BLAND	BM	BR	BROCK	BSBM	BTNC	CCET	CCP	CGD
CHARAN	CHAYO	CITY	CMO	CMR	COLOR	CPL	CPT	CRD	CSR	CTW	CWT	D	DCON
DIGI	DIMET	EKH	EMC	EPCO	ESSO	ESTAR	FE	FLOYD	FOCUS	FSS	FTE	GENCO	GIFT
GJS	GLAND	GPI	GREEN	GTB	GYT	HTECH	IFS	IHL	III	INOX	INSURE	IRCP	IT
ITEL	J	JCK	JMART	JMT	JTS	JUBILE	KASET	KCM	KIAT	KWC	KWG	KYE	LALIN
LEE	LPH	MATCH	MATI	MBAX	M-CHAI	MDX	META	MILL	MJD	MM	MODERN	MPG	NC
NDR	NETBAY	NNCL	NPK	OCEAN	PAF	PDG	PF	PICO	PIMO	PK	PL	PLE	PMTA
PPPM	PRIN	PSTC	PTL	RCI	RCL	RJH	ROJNA	RPC	RPH	SAMCO	SAPPE	SCP	SF
SGF	SGP	SKN	SKR	SKY	SLP	SMIT	SOLAR	SPA	SPCG	SPG	SQ	SRICHA	SSC
SSP	STANLY	STPI	SUN	SUPER	SVOA	T	TCCC	TCMC	THE	THG	THMUI	TIC	TITLE
TIW	TMD	TOPP	TPCH	TPIPP	TPOLY	TTI	TVT	TYCN	UEC	UMS	UNIQ	VCOM	VIBHA
VPO	WIN	WORK	WP	WPH	ZIGA								

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The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an assessment of operation and is not based on inside information. 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 or when there is any change to the relevant information. Nevertheless, Krungsri Securities Public Company Limited does not confirm, verify, or certify the accuracy and completeness of such survey result.

Anti-corruption Progress Indicator 2018

Companies that have declared their intention to join CAC

A	ABICO	AIE	AJ	AMATA	AMATAV	ANAN	AOT	APCO	ARROW	ASIAN	B	BJC	BLAND
BLISS	BM	BPP	BR	BUI	CEN	CGH	CHG	CHO	CHOTI	CI	CIMBT	CITY	COL
CPR	DDD	EFORL	EKH	ESTAR	ETE	FLOYD	FN	FPI	FTE	GPI	GYT	ICHI	ILINK
INSURE	IRC	ITEL	JAS	JTS	KWG	LDC	LEE	LIT	LRH	MATCH	MATI	META	MFEC
MILL	MTC	NCL	NEP	NWR	ORI	PAP	PK	PLANB	POST	PRM	PRO	PSL	PYLON
QTC	ROJNA	RWI	SAPPE	SCI	SHANG	SPALI	SST	STANLY	SUPER	SWC	SYMC	SYNEX	TAKUNI
THE	THIP	TKN	TMC	TNR	TOPP	TPP	TRITN	TTI	TVO	UEC	UKEM	UPA	UREKA
UV	UWC	VIH	XO	YUASA									

Companies certified by CAC

ADVANC	AKP	AMANAH	AP	APCS	ASK	ASP	AYUD	BAFS	BANPU	BAY	BBL	BCH	BCP
BCPG	BGRIM	BJCHI	BKI	BLA	BROOK	BRR	BSBM	BTS	BWG	CENTEL	CFRESH	CHEWA	CIG
CM	CNS	COM7	CPALL	CPF	CPI	CPN	CSC	DCC	DEMCO	DIMET	DRT	DTAC	DTC
EASTW	ECL	EGCO	EPCO	FE	FNS	FPT	FSS	GBX	GC	GCAP	GEL	GFPT	GGC
GJS	GLOW	GOLD	GPSC	GSTEL	GUNKUL	HANA	HARN	HMPRO	HTC	ICC	IFEC	IFS	INET
INTUCH	IRPC	IVL	K	KASET	KBANK	KBS	KCAR	KCE	KGI	KKP	KSL	KTB	KTC
KWC	L&E	LANNA	LHFG	LHK	LPN	M	MAKRO	MALEE	MBAX	MBK	MBKET	MC	MCOT
MFC	MINT	MONO	MOONG	MSC	MTI	NBC	NINE	NKI	NMG	NNCL	NSI	OCC	OCEAN
OGC	PATO	PB	PCSGH	PDG	PDI	PDJ	PE	PG	PHOL	PL	PLANET	PLAT	PM
PPP	PPPM	PPS	PREB	PRG	PRINC	PSH	PSTC	PT	PTG	PTT	PTTEP	PTTGC	Q-CON
QH	QLT	RATCH	RML	ROBINS	S & J	SABINA	SAT	SC	SCB	SCC	SCCC	SCG	SCN
SE-ED	SELIC	SENA	SGP	SINGER	SIRI	SIS	SITHAI	SMIT	SMK	SMPC	SNC	SNP	SORKON
SPACK	SPC	SPI	SPRC	SRICHA	SSF	SSI	SSSC	STA	SUSCO	SVI	SYNTEC	TAE	TASCO
TCAP	TCMC	TFG	TFI	TFMAMA	THANI	THCOM	THRE	THREL	TIP	TIPCO	TISCO	TKT	TMB
TMD	TMILL	TMT	TNITY	TNL	TNP	TOG	TOP	TPA	TPCORP	TRU	TRUE	TSC	TSTH
TTCL	TU	TVD	TVI	TWPC	U	UBIS	UOBKH	VGI	VNT	WACOAL	WHA	WICE	WIIK

N/A

2S	7UP	A5	AAV	ABM	ACAP	ACC	ACG	ADB	AEC	AEONTS	AF	AFC	AGE
AH	AHC	AI	AIRA	AIT	AJA	AKR	ALL	ALLA	ALT	ALUCON	AMA	AMARIN	AMC
APEX	APURE	AQ	AQUA	ARIP	AS	ASAP	ASEFA	ASIA	ASIMAR	ASN	ATP30	AU	AUCT
B52	BA	BAT-3K	BCT	BDMS	BEAUTY	BEC	BEM	BFIT	BGC	BGT	BH	BIG	BIZ
BKD	BOL	BROCK	BSM	BTNC	BTW	CAZ	CBG	CCET	CCP	CGD	CHARAN	CHAYO	CHOW
CHUO	CK	CKP	CMAN	CMC	CMO	CMR	CNT	COLOR	COMAN	COTTO	CPH	CPL	CPT
CRANE	CRD	CSP	CSR	CSS	CTW	CWT	D	DCON	DCORP	DELTA	DOD	DTCI	EA
EARTH	EASON	ECF	EE	EIC	EMC	EPG	ERW	ESSO	EVER	F&D	FANCY	FC	FMT
FORTH	FSMART	FVC	GENCO	GIFT	GL	GLAND	GLOBAL	GRAMMY	GRAND	GREEN	GSC	GTB	GULF
HFT	HPT	HTECH	HUMAN	HYDRO	ICN	IHL	III	INGRS	INOX	IRCP	IT	ITD	J
JCK	JCKH	JCT	JKN	JMART	JMT	JSP	JUBILE	JUTHA	JWD	KAMART	KC	KCM	KDH
KIAT	KKC	KOOL	KTECH	KTIS	KWM	KYE	LALIN	LH	LOXLEY	LPH	LST	LTX	MACO
MAJOR	MANRIN	MAX	M-CHAI	MCS	MDX	MEGA	METCO	MGT	MIDA	MITSIB	MJD	MK	ML
MM	MODERN	MORE	MPG	MPIC	MVP	NC	NCH	NDR	NER	NETBAY	NEW	NEWS	NEX
NFC	NOBLE	NOK	NPK	NPPG	NTV	NUSA	NVD	NYT	OHTL	OISHI	OSP	OTO	PACE
PAE	PAF	PERM	PF	PICO	PIMO	PJW	PLE	PMTA	POLAR	POMPUI	PORT	PPM	PR9
PRAKIT	PRECHA	PRIN	PROUD	PTL	RAM	RCI	RCL	RICH	RICHY	RJH	ROCK	ROH	RP
RPC	RPH	RS	RSP	S	S11	SAAM	SAFARI	SALEE	SAM	SAMART	SAMCO	SAMTEL	SANKO
SAUCE	SAWAD	SAWANG	SCP	SDC	SE	SEAFCO	SEAOIL	SF	SFP	SGF	SIAM	SIMAT	SISB
SKE	SKN	SKR	SKY	SLP	SMART	SMM	SMT	SOLAR	SONIC	SPA	SPCG	SPG	SPORT
SPVI	SQ	SR	SSC	SSP	STAR	STEC	STHAI	STI	STPI	SUC	SUN	SUTHA	SVH
SVOA	T	TACC	TAPAC	TBSP	TC	TCC	TCCC	TCJ	TCOAT	TEAM	TEAMG	TGPRO	TH
THAI	THANA	THG	THL	THMUI	TIC	TIGER	TITLE	TIW	TK	TKS	TM	TMI	TMW
TNDT	TNH	TNPC	TOA	TPAC	TPBI	TPCH	TPIPL	TPIPP	TPLAS	TPOLY	TQM	TR	TRC
TRT	TRUBB	TSE	TSF	TSI	TSR	TSTE	TTA	TTTM	TTW	TVT	TWP	TWZ	TYCN
UAC	UMI	UMS	UNIQ	UP	UPF	UPOIC	UT	UTP	UVAN	VARO	VCOM	VI	VIBHA
VL	VNG	VPO	VRANDA	WAVE	WG	WHAUP	WIN	WINNER	WORK	WORLD	WP	WPH	WR
YCI	ZEN	ZIGA	ZMICO										

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Reference

Disclosure: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of July 31, 2017) are categorised into:

- Companies that have declared their intention to join CAC
- Companies certified by CAC.

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06	**Nakhon Pathom** 67/1 Ratchadamnoen Road, Tambol Phra Pathom Jaedee, Amphur Muang, Nakhon Pathom 73000 Tel: +663 427 5500-7 Fax: +663 4218989
07	**Suphanburi** 249/171-172 Moo 5 Tambol Ta Rahad, Amphur Muang Suphanburi, Suphanburi, 72000 Tel: +663 596 7981 Fax: +663 5522449
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09	**Khon Kaen** Bank of Ayudhya Public Company Limited 114 Sri Chan Road, Tambol Nai Muang, Amphur Muang, Khon Kaen 40000 Tel: +664 322 6120 Fax: +664 322 6180
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11	**Chiang Rai** Bank of Ayudhya Public Company Limited 231-232 Thamalai Road, Tambol Wiang, Amphur Muang, Chiang Rai 57000 Tel: +665 371 6489 Fax: +665 371 6490
12	**Phitsanulok** Bank of Ayudhya Public Company Limited 275/1 Phichaisongkram Road, Tambol Nai Muang, Amphur Muang, Phitsanulok 65000 Tel: +665 530 3360 Fax: +665 530 2580
13	**Hat Yai Branch** **Bank of Ayudhya Public Company Limited** 90-92-94 Nipat U Tit Nueng Road,Tambol Hat Yai, Amphur Hat Yai, Songkhla 90110 Tel: +667 422 1229 Fax: +667 422 1411

Definition of Ratings

BUY - Stocks with an expected capital gain above 10% in the next 12 months

HOLD - Stocks with an expected capital gain between -10% and +10% in the next 12 months

SELL - Stocks with an expected capital gain below 10% in the next 12 months