

30 SEPTEMBER 2021

THAILAND / CONSUMER STAPLES

# SIAM MAKRO      MAKRO TB

## HOLD

FROM BUY

|                 |          |
|-----------------|----------|
| TARGET PRICE    | THB52.00 |
| CLOSE           | THB50.25 |
| UP/DOWNSIDE     | +3.5%    |
| PRIOR TP        | THB48.00 |
| CHANGE IN TP    | +8.3%    |
| TP vs CONSENSUS | +10.0%   |

## Waiting for synergy

### Incorporating Lotus into MAKRO's valuation

Following the restructuring deal announced in early Sep-21, we expect the transfer of Lotus (not listed) to MAKRO to be completed by end-Oct-21 and the public offering (PO) process to be completed by end-Dec-21 or early Jan-22, depending on the SEC's approval, which normally takes 2-3 months. Hence, we incorporate Lotus into our MAKRO model by assuming 1) a PO price of THB45, with MAKRO receiving cash proceeds of THB61.3b; and 2) 1/3 of the total cash proceeds being utilised to repay debt. We have not yet incorporated the potential synergy benefit that we estimate at THB2.7b into our valuation.

### Lotus' operations should turn around in 2022

We estimate that Lotus will post a core loss of THB398m in 2021 due to 1) the lockdown measures which have impacted non-food sales (c44% of total sales) due to the closure of non-food areas; 2) the 30-40% discount rate provided to tenants which has affected rental revenue (6.7% of total revenue but with a higher GPM of 64% in 2019 vs a GPM of 19% from retail sales); 3) interest expenses incurred of THB6.6b from the bridging loan; and 4) high SG&A expenses. We expect Lotus' operations to turn profitable in 2022-23 at THB5.5b/THB8.5b, driven by the recovery of Thailand and Malaysia's retail sales and rental revenue. Moreover, we expect Lotus to add 9.5%/8.5% new store growth in 2022-23.

### Expect 3Q21 net profit to slightly grow y-y

MAKRO's operations were resilient amid the surging Covid cases in 3Q21, in our view. We expect SSSG of +2% y-y in 3Q21 on higher demand from end-consumers. 3Q21 O2O sales should remain flat q-q at 36% of total sales, partly offset by weak offline sales. With no significant change in product mix, 3Q21 GPM should be flat y-y at 10.7%. We expect 3Q21 earnings to grow y-y to THB1.6b (+4% y-y, +27% q-q).

### Downgrade to HOLD from Buy due to limited upside

We revise up our 2022-23E net profit by 64-94% and our TP to THB52 (from THB48) after incorporating Lotus. MAKRO's short-term EPS could dilute by 24%/13% in 2022-23 due to the increase in capital for Lotus' share swap and PO. We expect MAKRO's EPS to have no dilution after Lotus' earnings recover to exceed the THB9.7b threshold expected in 2024-25. However, we see an upside risk from the potential THB2.7b synergy benefit and its opportunity to expand in overseas markets.

## KEY STOCK DATA

| YE Dec (THB m)       | 2020    | 2021E   | 2022E   | 2023E   |
|----------------------|---------|---------|---------|---------|
| Revenue              | 218,760 | 227,478 | 498,262 | 543,246 |
| Net profit           | 6,563   | 6,533   | 12,977  | 16,862  |
| EPS (THB)            | 1.37    | 1.36    | 1.16    | 1.51    |
| vs Consensus (%)     | -       | 1.6     | (20.2)  | (11.8)  |
| EBITDA               | 12,534  | 10,885  | 32,446  | 37,629  |
| Core net profit      | 6,563   | 6,533   | 12,977  | 16,862  |
| Core EPS (THB)       | 1.37    | 1.36    | 1.16    | 1.51    |
| Chg. In EPS est. (%) | -       | -       | (23.6)  | (12.9)  |
| EPS growth (%)       | 5.1     | (0.5)   | (14.7)  | 29.9    |
| Core P/E (x)         | 36.8    | 36.9    | 43.3    | 33.3    |
| Dividend yield (%)   | 1.9     | 1.9     | 1.6     | 2.1     |
| EV/EBITDA (x)        | 19.1    | 22.0    | 19.7    | 17.5    |
| Price/book (x)       | 10.8    | 10.0    | 2.1     | 2.0     |
| Net debt/Equity (%)  | (8.7)   | (9.1)   | 28.0    | 35.1    |
| ROE (%)              | 30.9    | 28.1    | 8.8     | 6.2     |



| Share price performance        | 1 Month | 3 Month | 12 Month     |
|--------------------------------|---------|---------|--------------|
| Absolute (%)                   | 25.6    | 34.9    | 15.5         |
| Relative to country (%)        | 27.3    | 32.5    | (11.6)       |
| Mkt cap (USD m)                |         |         | 7,121        |
| 3m avg. daily turnover (USD m) |         |         | 12.8         |
| Free float (%)                 |         |         | 7            |
| Major shareholder              |         |         | CP ALL (93%) |
| 12m high/low (THB)             |         |         | 57.25/35.00  |
| Issued shares (m)              |         |         | 11,172.00    |

Sources: Bloomberg consensus; FSSIA estimates



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## Investment thesis

MAKRO is the only modern trade player in the wholesale market. The main competitors are fresh markets, such as 'Talaad Thai,' the largest wholesale market for the trade of agricultural goods. We think MAKRO has the ability to gain a greater share of this market.

We believe MAKRO's strategy of focusing on a smaller-sized food service format while developing its online platform is sound. MAKRO received a good response from its secret ingredients campaign during the Covid-19 lockdown from end-customers.

MAKRO's free float at 7% (CPALL has a 93% stake) is a constraint and drives its valuation down to a more discounted level than that of its peers. After the PO process is completed, MAKRO's free float would increase to 24% and would be included in the SET50 after exceeding the SET's 20% requirement.

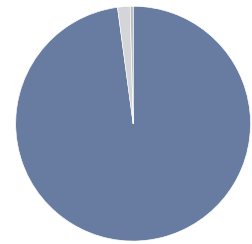
## Company profile

MAKRO is the largest cash-and-carry operator in Thailand. CPALL has a 93% stake in MAKRO that will reduce to 52% after the PO process is completed. We think an increase in free float would be positive for MAKRO's share price.

[www.siammakro.co.th](http://www.siammakro.co.th)

## Principal activities (revenue, 2020)

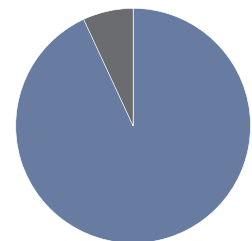
- Sales - 97.9 %
- Service income - 1.7 %
- Other Income - 0.4 %



Source: Siam Makro

## Major shareholders

- CP ALL - 93.1 %
- Others - 6.9 %



Source: Siam Makro

## Catalysts

Potential catalysts include the faster-than-expected turnaround of Lotus and overseas operations and a better-than-expected macro outlook in Thailand.

## Risks to our call

The key downside risks to our DCF-based TP include: 1) lower-than-expected SSSG; 2) lower-than-expected GPM improvement; and 3) operational losses from its overseas business. The key upside risks include: 1) the faster-than-expected recovery of Lotus' performance; and 2) a more aggressive expansion plan.

## Event calendar

| Date          | Event                     |
|---------------|---------------------------|
| November 2021 | 3Q21 results announcement |

## Key assumptions

|                  | 2021E | 2022E | 2023E |
|------------------|-------|-------|-------|
|                  | (%)   | (%)   | (%)   |
| SSSG             | 0.0   | 5.0   | 4.0   |
| New store growth | 1.4   | 3.9   | 3.2   |
| GPM              | 10.4  | 17.0  | 17.6  |
| SG&A to sales    | 8.6   | 14.5  | 14.5  |

Source: FSSIA estimates

## Earnings sensitivity

- For every 1% increase in SSSG, we estimate 2021 EPS to rise by 1%, and vice versa, all else being equal.
- For every 0.1% increase in GPM, we estimate 2021 EPS to rise by 2.6%, and vice versa, all else being equal.
- For every 0.1% increase in SG&A to sales, we estimate 2021 EPS to fall by 2.6%, and vice versa, all else being equal.

Source: FSSIA estimates

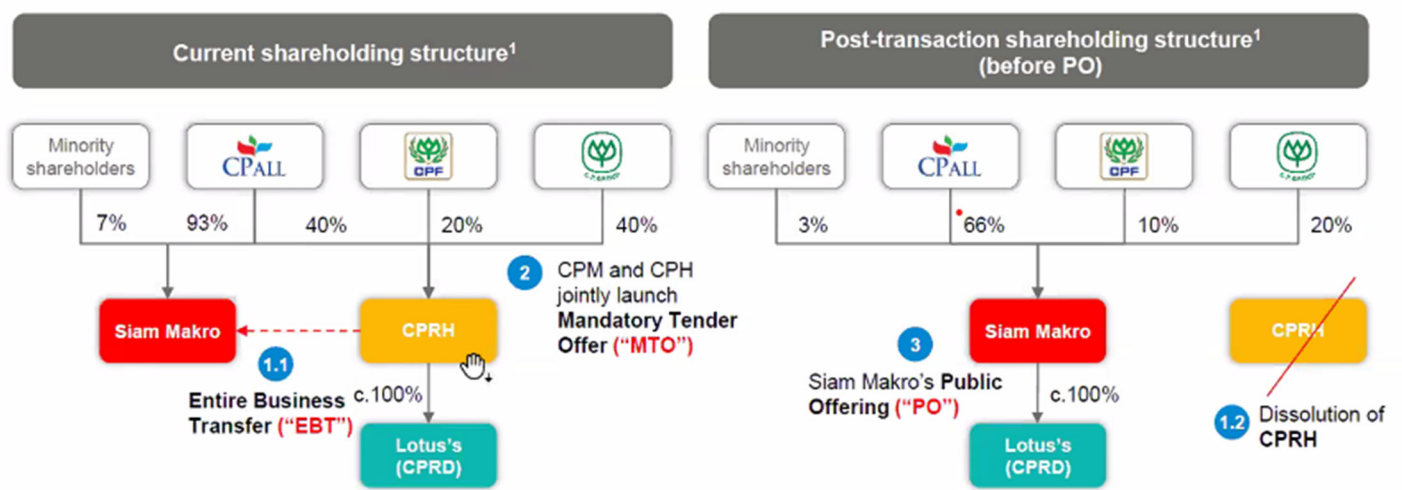
## Recap of Lotus' transfer to MAKRO

MAKRO issued 5,010m new shares at an offering price of THB43.5/shr, implying a transaction size worth THB217.9b to CP Retail Holding (CPRH, not listed). CPRH will be dissolved after transferring Lotus to MAKRO and distributing MAKRO's shares to its shareholders proportionately (Exhibit 1). This transaction is expected to be completed by end-Oct-21 after receiving approval at the EGM for MAKRO and CPALL, which will be held on 12 Oct.

After the transfer process is complete, Charoen Pokphand Foods (CPF TB, BUY, TP THB34) and CP Group (CPG, not listed) will jointly launch a mandatory tender offer (MTO) at THB43.5/shr for the minority shareholders holding 3%. CP All (CPALL TB, BUY, TP THB76) is not required to make an MTO (tender period is 25 business days).

There are concerns whether or not the offering price of THB43.5/shr or the equity value of THB217.9b is justified for CPALL's shareholders. We see this transaction's value as relatively similar to the acquisition price of THB340b (combined equity funding of THB220b and debt funding of THB120b) paid by CPALL, CPG, and CPF.

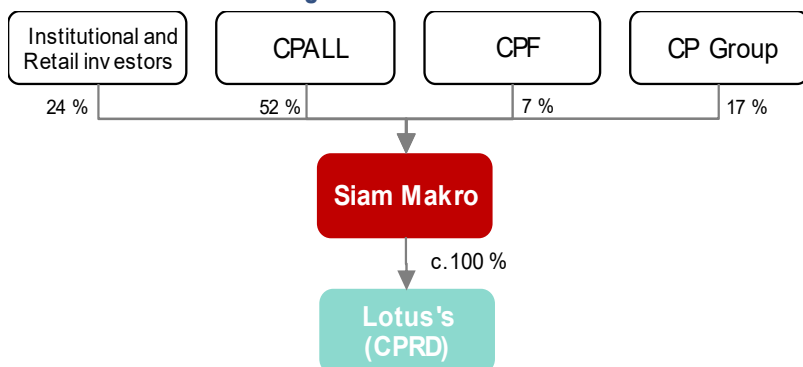
### Exhibit 1: Shareholding structure before and after transferring Lotus to MAKRO



Source: MAKRO

MAKRO will then make a PO by issuing 1,362m new shares, with 363m/182m shares offered from CPALL and CPF, respectively. Moreover, CPALL will allot 340.5m shares for a greenshoe option. Overall, after the PO and the option are executed, MAKRO's shareholding structure would be 52% held by CPALL, 7% held by CPF, 17% held by CP Group, and 24% held by institutional and retail investors.

### Exhibit 2: MAKRO's shareholding structure after PO

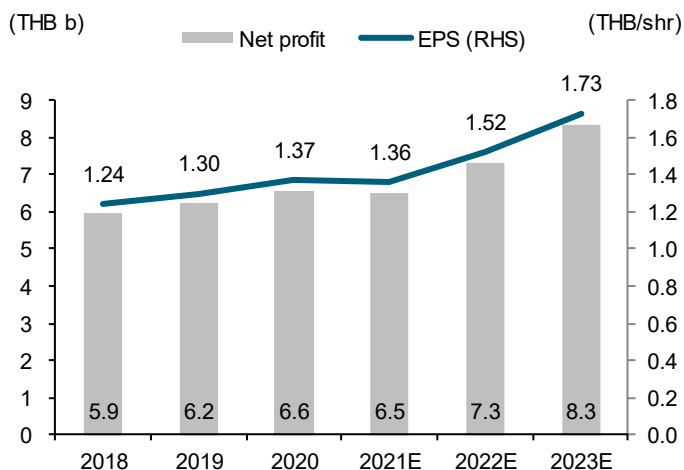


Sources: MAKRO; FSSIA's compilation

## Incorporating Lotus into MAKRO

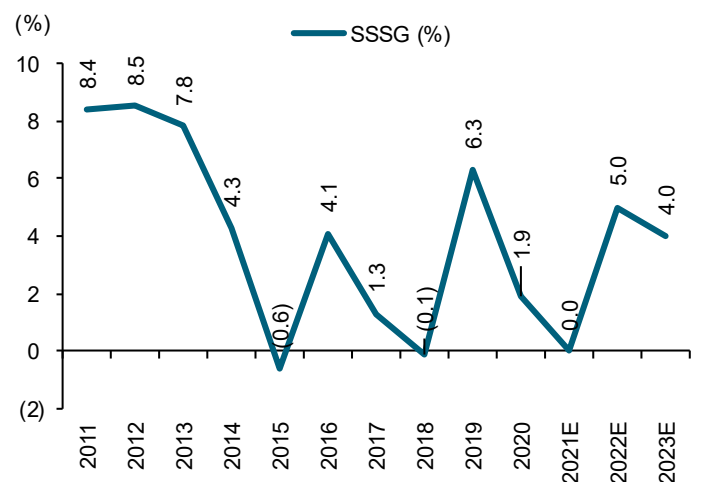
We think MAKRO's earnings have been resilient in 2021 and estimate flat y-y net profit at THB6.5b, supported by the indirect benefits from the new government stimulus packages, i.e. extensions to 'We Win', 'Rao Rak Gun', and Co-pay phase 3. We estimate MAKRO's earnings to amount to THB6.5b/THB7.3b/THB8.3b, before incorporating Lotus, for 2021-23. MAKRO currently has outstanding shares of 4,800m. Hence, MAKRO's EPS would be at THB1.36/1.52/1.73 per share for 2021-23, pre-incorporation.

**Exhibit 3: MAKRO's net profit and EPS before incorporating Lotus**



Sources: MAKRO; FSSIA estimates

**Exhibit 4: MAKRO's SSSG trend**



Sources: MAKRO; FSSIA estimates

## Lotus' operating performance

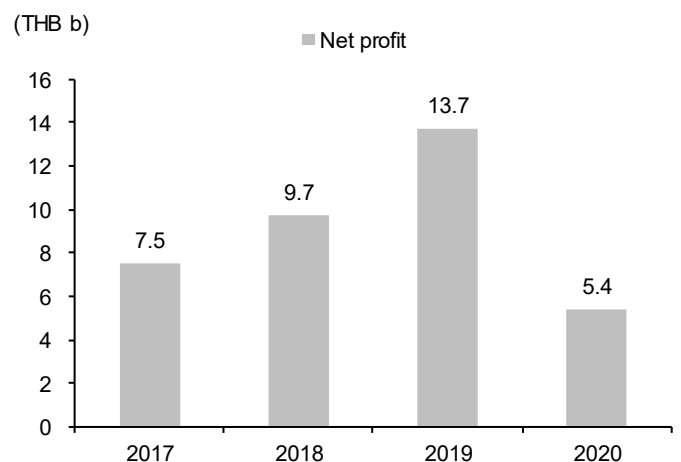
According to MAKRO's IFA report, announced via the Stock Exchange of Thailand on 21 Sep, Lotus' earnings were hard hit by the Covid outbreak and dropped to THB1.8b in 2020 from THB8.3b in 2019. The pro forma financial statement includes interest expenses of THB6.7b/6.8b in 2019/20 due to the bridging loan of THB120b, implying a 5.6% cost of funds. Hence, Lotus' core profit would have been THB13.7b in 2019 and THB5.4b in 2020.

**Exhibit 5: Key pro forma consolidated P&L for CP Retail Development (CPRD, not listed – the holding company that is to have a 100% stake in Lotus) in 2019-20**

|   | 2019<br>(THB b) | 2020<br>(THB b) |
|---|-----------------|-----------------|
| Revenue from sale of goods                        | 205.2           | 197.5           |
| Rental income and revenue from rendering services | 14.8            | 11.2            |
| Cost of sales                                     | (166)           | (161)           |
| Cost of rental and cost of rendering of services  | (5.4)           | (5.5)           |
| Gross profit from sales                           | 39.0            | 36.8            |
| Gross profit from rental                          | 9.4             | 5.7             |
| Total gross profit                                | 48.4            | 42.5            |
| GPM from sales (%)                                | 19.0            | 18.6            |
| GPM from rental (%)                               | 63.8            | 50.6            |
| Others income                                     | 3.1             | 2.4             |
| SG&A expenses                                     | (34.2)          | (35.2)          |
| Distribution costs                                | (28.6)          | (28.7)          |
| Administrative expenses                           | (5.6)           | (6.4)           |
| Operating profit                                  | 17.4            | 9.8             |
| Interest expenses                                 | (6.7)           | (6.8)           |
| Income tax expenses                               | (3.1)           | (2.0)           |
| <b>Net profit</b>                                 | <b>8.3</b>      | <b>1.8</b>      |

Source: MAKRO

**Exhibit 6: Lotus' net profit in 2017-20**



Sources: MAKRO; FSSIA estimates

Note that we currently have limited information about Lotus' financial statements and extra items. But from the pro forma P&L, we can see the probability that Lotus' earnings could recover and exceed MAKRO's earnings threshold of THB6.5b by 2023.

We estimate Lotus to post a core loss of THB398m in 2021 due to 1) the lockdown measures which have impacted non-food sales (c44% of total sales) due to the closure of non-food areas; 2) the 30-40% discount rate provided to tenants which has affected rental revenue (6.7% of total revenue but with a higher GPM of 64% in 2019 vs a GPM of 19% from retail sales); 3) interest expenses incurred of THB6.6b from the bridging loan; and 4) high SG&A expenses (+14 y-y in 2020) due to the extra expenses for business continuity management led by the resurgence of Covid-19.

We expect Lotus' operations to turn profitable in 2022-23 at THB5.5b/THB8.5b, driven by the recovery of Thailand and Malaysia's retail sales and rental revenue. Moreover, we expect Lotus to add 9.5%/8.5% new store growth in 2022-23.

Note that we have not yet included the potential synergy benefit from the deal at an estimated THB2.7b resulting from 1) operating efficiency enhancement from sourcing and production; 2) cost savings from sharing facilities such as distribution centres and logistics operations; and 3) integrating MAKRO's B2B and Lotus' B2C platforms to more efficiently serve customer's needs and share IT development costs.

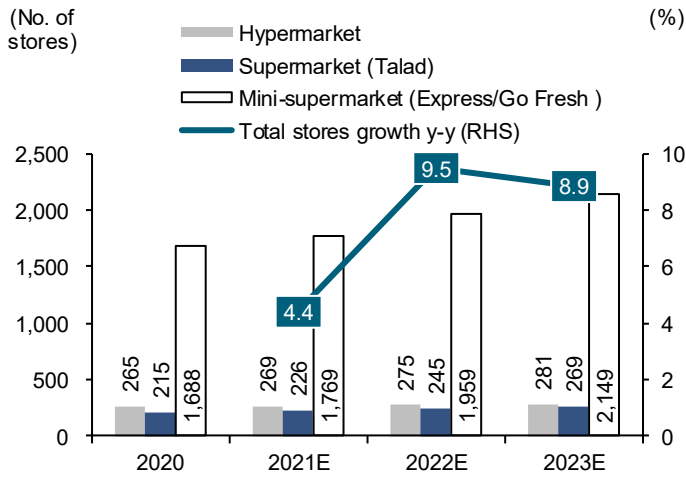
### Exhibit 7: Expect Lotus to turn a profit in 2022

| Lotus P&L               | 2020<br>(THB b) | 2021E<br>(THB b) | 2022E<br>(THB b) | 2023E<br>(THB b) |
|-------------------------|-----------------|------------------|------------------|------------------|
| Retail sales Thailand   |                 | 166.0            | 195.3            | 211.6            |
| Rental revenue Thailand |                 | 9.1              | 11.8             | 13.0             |
| Retail sales Malaysia   |                 | 34.5             | 39.4             | 44.7             |
| Rental revenue Malaysia |                 | 1.5              | 2.0              | 2.5              |
| Total revenue           | 211.3           | 211.1            | 248.5            | 271.8            |
| COGS retail sales       |                 | 155.4            | 181.2            | 196.6            |
| COGS rental             |                 | 5.2              | 5.4              | 4.7              |
| Gross profit            | 54.2            | 50.4             | 61.9             | 70.6             |
| SG&A                    | 45.0            | 43.5             | 50.9             | 55.5             |
| EBIT                    | 9.2             | 6.9              | 11.0             | 15.1             |
| Interest expenses       | 6.6             | 6.6              | 4.8              | 4.6              |
| Tax                     | 0.8             | 0.7              | 1.4              | 2.1              |
| Minorities              | 0.0             | 0.0              | 0.0              | 0.0              |
| Net profit              | 1.8             | (0.4)            | 5.5              | 8.5              |

| Assumption                   | 2020 | 2021E | 2022E       | 2023E       |
|------------------------------|------|-------|-------------|-------------|
| <b>Sales growth (%)</b>      |      |       | (%)         | (%)         |
| Retail sales Thailand        |      |       | 17.7        | 8.3         |
| Rental revenue Thailand      |      |       | 29.0        | 11.0        |
| Retail sales Malaysia        |      |       | 14.2        | 13.5        |
| Rental revenue Malaysia      |      |       | 31.0        | 26.0        |
| <b>GPM (%)</b>               |      |       | (%)         | (%)         |
| GPM retail sales             |      |       | 23.1        | 23.3        |
| GPM rental                   |      |       | 61.0        | 70.0        |
| <b>SG&amp;A to sales (%)</b> |      |       | <b>20.5</b> | <b>20.4</b> |

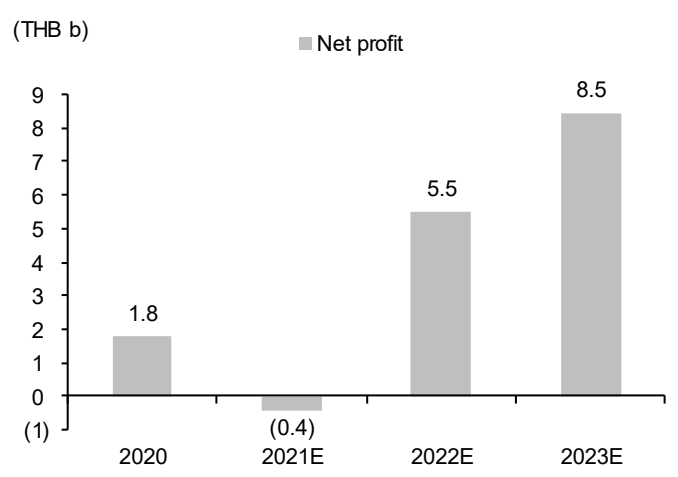
Sources: MAKRO; FSSIA estimates

**Exhibit 8: Lotus' expansion plan**



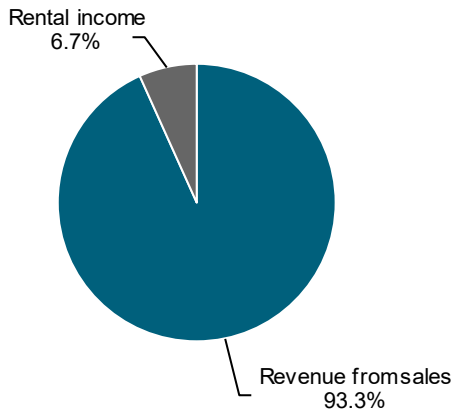
Sources: MAKRO; FSSIA estimates

**Exhibit 9: Lotus' net profit**



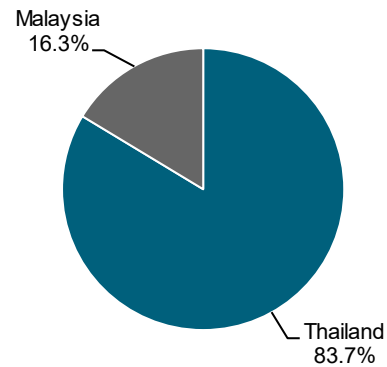
Sources: MAKRO; FSSIA estimates

**Exhibit 10: Total revenue breakdown by business in 2020**



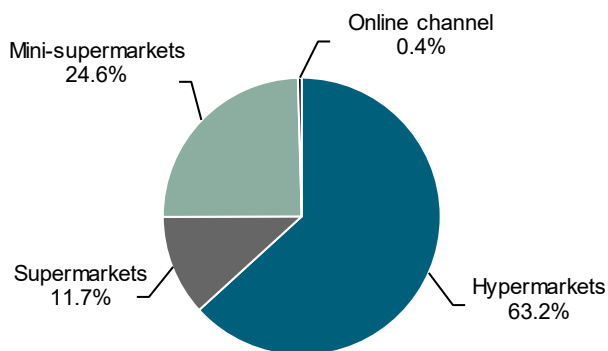
Sources: MAKRO; FSSIA's compilation

**Exhibit 11: Total revenue breakdown by country**



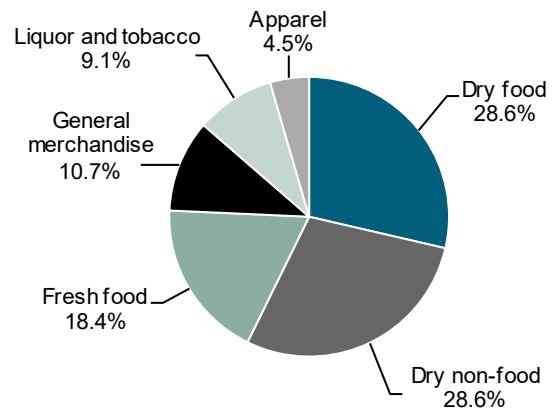
Sources: MAKRO; FSSIA's compilation

**Exhibit 12: Retail sales in Thailand, breakdown by format**



Sources: MAKRO; FSSIA's compilation

**Exhibit 13: Retail sales in Thailand, breakdown by product segment**

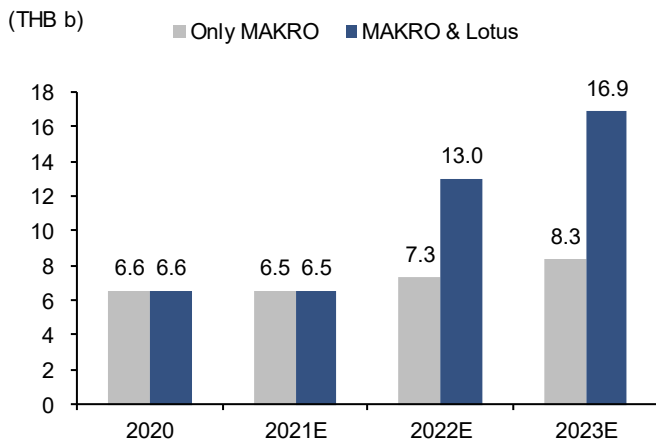


Sources: MAKRO; FSSIA's compilation

## MAKRO's EPS could dilute by 24%/13% in 2022/23

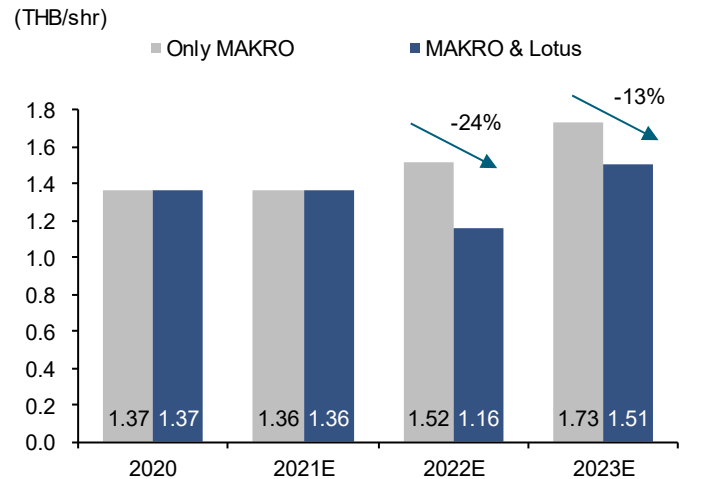
We incorporate Lotus into MAKRO's valuation based on following assumptions 1) a PO price of THB45, with MAKRO receiving cash proceeds of THB61.3b; 2) 1/3 of the total cash proceeds being utilised to repay debt; and 3) the total number of new outstanding shares at 11,172m. We have not yet incorporated the potential synergy benefit that we estimate at THB2.7b into our valuation. We have run a sensitivity analysis for the PO price between THB45-50/shr by assuming 1) that MAKRO would utilise all cash proceeds to repay Lotus' debt; and 2) the cost of funds for the remaining debt would be at 3.2%. Ceteris paribus, MAKRO's 2022E EPS dilution would reduce to 9.5-10.5% from our current estimate of 24%.

### Exhibit 14: MAKRO's net profit before and after incorporating Lotus



Sources: MAKRO; FSSIA estimates

### Exhibit 15: MAKRO's EPS before and after incorporating Lotus



Sources: MAKRO; FSSIA estimates

### Exhibit 16: MAKRO's 2022E EPS would dilute to 9.5-10.5% from the PO price range between THB45-50, assuming all cash proceeds are utilised to repay its debt

| PO price (THB)                                 | 45<br>(THB b) | 46<br>(THB b) | 47<br>(THB b) | 48<br>(THB b) | 49<br>(THB b) | 50<br>(THB b) |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Net profit 2022E                               | 13.0          | 13.0          | 13.0          | 13.0          | 13.0          | 13.0          |
| Interest cost                                  | 4.7           | 4.7           | 4.7           | 4.7           | 4.7           | 4.7           |
| Interest savings (net of tax)                  | 2.2           | 2.3           | 2.3           | 2.3           | 2.4           | 2.4           |
| New net profit 2022E                           | 15.2          | 15.2          | 15.3          | 15.3          | 15.3          | 15.4          |
| EPS MAKRO before incorporating Lotus (THB/shr) | 1.52          | 1.52          | 1.52          | 1.52          | 1.52          | 1.52          |
| EPS MAKRO after incorporating Lotus (THB/shr)  | 1.36          | 1.36          | 1.37          | 1.37          | 1.37          | 1.38          |
| Dilution effect (%)                            | (10.5)        | (10.3)        | (10.1)        | (9.9)         | (9.7)         | (9.5)         |

Sources: MAKRO; FSSIA estimates

## Expect 3Q21 earnings to slightly grow y-y amid the outbreak

MAKRO's operations were resilient amid the surging Covid cases in 3Q21, in our view. We expect SSSG of +2% y-y in 3Q21, supported by higher demand from end-consumers due to the lockdown measures. Online to offline (O2O) sales should remain flat q-q at 36% of total sales, partly offset by weak offline sales. With no significant change in product mix, 3Q21 GPM should be flat y-y at 10.7%. SG&A to sales should be flat y-y at 8.7%. Overall, we expect 3Q21 earnings to slightly grow y-y to THB1.6b (+4% y-y, +27% q-q).

### Exhibit 17: 3Q21E results preview

| Year to Dec 31              | 3Q20          | 4Q20          | 1Q21          | 2Q21          | 3Q21E         | ----- Change ----- |          |           | 2021E          | Change      |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|--------------------|----------|-----------|----------------|-------------|
|                             | (THB m)       | (THB m)       | (THB m)       | (THB m)       | (THB m)       | (q-q%)             | (y-y%)   | %21E      | (THB m)        | (y-y %)     |
| <b>Total revenue</b>        | <b>54,075</b> | <b>57,147</b> | <b>56,097</b> | <b>54,955</b> | <b>56,037</b> | <b>2</b>           | <b>4</b> | <b>25</b> | <b>227,478</b> | <b>4</b>    |
| Retail sales                | 52,925        | 55,765        | 54,868        | 53,813        | 54,889        | 2                  | 4        | 25        | 222,864        | 4           |
| Service income              | 946           | 1,034         | 1,010         | 910           | 920           | 1                  | (3)      | 24        | 3,767          | 0           |
| Other income                | 204           | 348           | 219           | 233           | 228           | (2)                | 12       | 27        | 847            | (2)         |
| <b>Gross profit</b>         | <b>6,793</b>  | <b>7,476</b>  | <b>6,764</b>  | <b>6,311</b>  | <b>7,021</b>  | <b>11</b>          | <b>3</b> | <b>25</b> | <b>27,791</b>  | <b>4</b>    |
| Operating costs             | (4,617)       | (4,607)       | (4,442)       | (4,560)       | (4,775)       | 5                  | 3        | 24        | (19,563)       | 10          |
| Operating profit            | 2,177         | 2,869         | 2,321         | 1,751         | 2,246         | 28                 | 3        | 27        | 8,228          | (8)         |
| <b>Operating EBITDA</b>     | <b>2,858</b>  | <b>4,481</b>  | <b>2,972</b>  | <b>2,406</b>  | <b>2,907</b>  | <b>21</b>          | <b>2</b> | <b>27</b> | <b>10,885</b>  | <b>(13)</b> |
| Interest expense            | (154)         | (146)         | (129)         | (142)         | (148)         | 4                  | (4)      | 131       | (113)          | (82)        |
| <b>Profit before tax</b>    | <b>2,023</b>  | <b>2,722</b>  | <b>2,192</b>  | <b>1,608</b>  | <b>2,098</b>  | <b>30</b>          | <b>4</b> | <b>26</b> | <b>8,116</b>   | <b>(3)</b>  |
| Tax                         | (462)         | (591)         | (461)         | (331)         | (474)         | 43                 | 3        | 29        | (1,623)        | (10)        |
| Minority interests          | 11            | (2)           | 3             | 10            | 8             | (20)               | (27)     | 20        | 40             | 5           |
| <b>Reported net profit</b>  | <b>1,572</b>  | <b>2,130</b>  | <b>1,734</b>  | <b>1,287</b>  | <b>1,632</b>  | <b>27</b>          | <b>4</b> | <b>50</b> | <b>6,533</b>   | <b>(0)</b>  |
| <b>Recurring net profit</b> | <b>1,572</b>  | <b>2,130</b>  | <b>1,734</b>  | <b>1,287</b>  | <b>1,632</b>  | <b>27</b>          | <b>4</b> | <b>25</b> | <b>6,533</b>   | <b>(0)</b>  |
| EPS (THB)                   | 0.33          | 0.44          | 0.36          | 0.27          | 0.34          | 27                 | 4        | 25        | 1.36           | (0)         |
| Recurring EPS (THB)         | 0.33          | 0.44          | 0.36          | 0.27          | 0.34          | 27                 | 4        | 25        | 1.36           | (0)         |
| <b>Key Ratios (%)</b>       |               |               |               |               |               |                    |          |           |                |             |
| Retail sales margin         | 10.7          | 10.9          | 10.1          | 9.6           | 10.7          |                    |          |           | 10.4           |             |
| Operating margin            | 4.0           | 5.0           | 4.1           | 3.2           | 4.0           |                    |          |           | 3.6            |             |
| Recurring net margin        | 2.9           | 3.7           | 3.1           | 2.3           | 2.9           |                    |          |           | 2.9            |             |
| SG&A / Sales                | 8.7           | 8.3           | 8.1           | 8.5           | 8.7           |                    |          |           | 8.8            |             |
| Effective tax rate          | 22.8          | 21.7          | 21.0          | 20.6          | 22.6          |                    |          |           | 20.0           |             |
| <b>Operating statistics</b> |               |               |               |               |               |                    |          |           |                |             |
| SSSG (%)                    | 3.9           | 0.6           | (1.2)         | 6.1           | 2.0           |                    |          |           |                |             |
| Number of stores            | 144           | 144           | 146           | 146           | 146           | -                  |          |           |                |             |

Sources: MAKRO; FSSIA estimates



## Net profit and target price revisions

We revise up our 2022-23E net profit by 64-94% and our target price to THB52 (from THB48) after incorporating Lotus. We lower our WACC to 7.6% from 7.8% to reflect the more optimised capital structure from debt funding. MAKRO's share price surged by 22% after the deal announcement on 1 Sep. Due to the limited upside to our target price, we downgrade our call on MAKRO to HOLD from Buy. MAKRO's short-term EPS could dilute by 24%/13% in 2022-23 due to the increase in capital for Lotus' share swap and PO. We expect MAKRO's EPS to have no dilution after Lotus' earnings recover to exceed the THB9.7b threshold expected in 2024-25. However, we see an upside risk from the potential THB2.7b synergy benefit that we estimate, which we have yet to include in our valuation, and its opportunity to expand in overseas markets.

### Exhibit 18: Revised assumptions

|                                    | Current |         |         | Previous |         |         | Change |       |       |
|------------------------------------|---------|---------|---------|----------|---------|---------|--------|-------|-------|
|                                    | 2021E   | 2022E   | 2023E   | 2021E    | 2022E   | 2023E   | 2021E  | 2022E | 2023E |
| Retail sales (THB m)               | 222,864 | 479,878 | 522,701 | 222,864  | 252,474 | 271,762 | 0.0    | 90.1  | 92.3  |
| SSSG (%)                           | 0.0     | 5.0     | 4.0     | 0.0      | 5.0     | 3.0     | 0.0    | 0.0   | 1.0   |
| New stores growth (%)              | 1.4     | 3.9     | 3.2     | 1        | 4       | 3       | 0      | 0     | 0     |
| Gross margin (%)                   | 10.4    | 17.0    | 17.6    | 10.4     | 10.7    | 10.8    | 0.0    | 6.3   | 6.8   |
| SG&A expenses to total revenue (%) | 8.6     | 14.5    | 14.5    | 8.6      | 8.5     | 8.5     | 0.0    | 6.0   | 6.0   |
| Net profit (THB m)                 | 6,533   | 12,977  | 16,862  | 6,533    | 7,923   | 8,709   | 0.0    | 63.8  | 93.6  |

Note: Change of items in percentage terms are represented in ppt change

Source: FSSIA estimates

### Exhibit 19: DCF valuation

| DCF-derived TP                              | (%) | (THB b)     |
|---|-----|-------------|
| Discount rate (WACC)                        | 7.6 |             |
| Terminal growth                             | 2.0 |             |
| NPV   |     | 222         |
| Add: terminal value                         |     | 434         |
| Sum of PV                                   |     | 656         |
| Add: investment                             |     | 0           |
| Less: debt                                  |     | 76          |
| Less: minorities                            |     | 0.4         |
| Residual ordinary equity                    |     | 579         |
| No. of shares (m)                           |     | 11,172      |
| <b>Residual ordinary equity (THB/share)</b> |     | <b>52.0</b> |

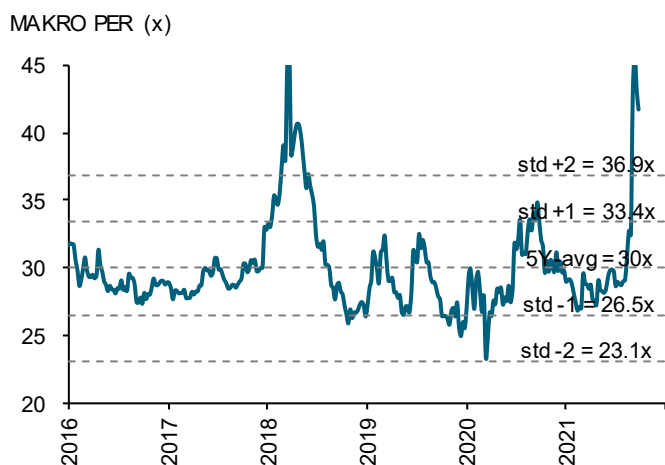
Source: FSSIA estimates

## Exhibit 20: Peers valuation as of 29 Sep 2021

| Company                 | BBG       | Share price   |              | Up side (%) | Market Cap (USD m) | 3Y EPS CAGR (%) | PE            |             | ROE         |             | PBV        |            | EVEBITDA    |             |
|-------------------------|-----------|---------------|--------------|-------------|--------------------|-----------------|---------------|-------------|-------------|-------------|------------|------------|-------------|-------------|
|                         |           | Current (LCY) | Target (LCY) |             |                    |                 | 21E (x)       | 22E (x)     | 21E (%)     | 22E (%)     | 21E (x)    | 22E (x)    | 21E (x)     | 22E (x)     |
| Berli Jucker            | BJC TB    | 33.25         | 39           | 17.3        | 3,934              | 21.3            | 24.0          | 20.2        | 4.9         | 5.8         | 1.2        | 1.2        | 14.5        | 13.5        |
| Cp All                  | CPALL TB  | 62.75         | 76           | 21.1        | 16,643             | 10.3            | 54.2          | 33.1        | 10.4        | 15.7        | 6.8        | 6.0        | 23.1        | 19.3        |
| Siam Global House       | GLOBAL TB | 21.00         | 27           | 28.6        | 2,853              | 22.6            | 32.0          | 28.8        | 16.2        | 16.4        | 5.0        | 4.5        | 21.0        | 19.1        |
| Home Product Center     | HMPRO TB  | 13.60         | 18.5         | 36.0        | 5,281              | 13.4            | 30.5          | 26.5        | 26.3        | 28.4        | 7.8        | 7.3        | 17.8        | 15.8        |
| Siam Makro              | MAKRO TB  | 50.25         | 52           | 3.5         | 7,121              | 3.4             | 36.9          | 43.3        | 28.1        | 8.8         | 10.0       | 2.1        | 22.0        | 19.7        |
| Central Retail Corp     | CRC TB    | 34.00         | 40           | 17.6        | 6,054              | 417.4           | nm            | 54.5        | (1.1)       | 7.0         | 3.9        | 3.7        | 21.8        | 15.1        |
| Srinanaporn Marketing   | SNNP TB   | 10.90         | 15           | 37.6        | 309                | 67.9            | 35.8          | 20.8        | 20.7        | 18.6        | 4.0        | 3.7        | 15.0        | 12.4        |
| <b>Coverage</b>         |           |               |              |             | <b>42,195</b>      | <b>19.6</b>     | <b>(19.1)</b> | <b>32.5</b> | <b>15.1</b> | <b>14.4</b> | <b>5.5</b> | <b>4.1</b> | <b>19.3</b> | <b>16.4</b> |
| Dohome                  | DOHOME TB | 24.00         | n/a          | n/a         | 1,726              | 51.8            | 28.6          | 25.0        | 22.1        | 20.1        | 5.8        | 4.9        | 21.7        | 19.5        |
| Lawson                  | 2651 JP   | 5,530.00      | n/a          | n/a         | 4,919              | (17.3)          | 61.3          | 30.9        | 3.4         | 6.4         | 2.1        | 2.0        | 4.2         | 3.7         |
| Dairy Farm Intl Holding | DFI SP    | 3.39          | n/a          | n/a         | 4,573              | 50.3            | 26.6          | 17.0        | 13.8        | 19.7        | 3.6        | 3.3        | 12.3        | 13.9        |
| Better Life Commercial  | 002251 CH | 6.76          | n/a          | n/a         | 905                | 24.0            | 30.4          | 27.3        | 2.2         | 2.5         | 0.9        | 0.9        | 13.8        | 12.4        |
| <b>Regional</b>         |           |               |              |             | <b>12,122</b>      | <b>(13.8)</b>   | <b>36.7</b>   | <b>25.0</b> | <b>10.4</b> | <b>12.2</b> | <b>3.1</b> | <b>2.8</b> | <b>13.0</b> | <b>12.4</b> |
| <b>Average</b>          |           |               |              |             | <b>54,318</b>      | <b>7.9</b>      | <b>1.2</b>    | <b>29.8</b> | <b>13.4</b> | <b>13.6</b> | <b>4.6</b> | <b>3.6</b> | <b>17.0</b> | <b>15.0</b> |

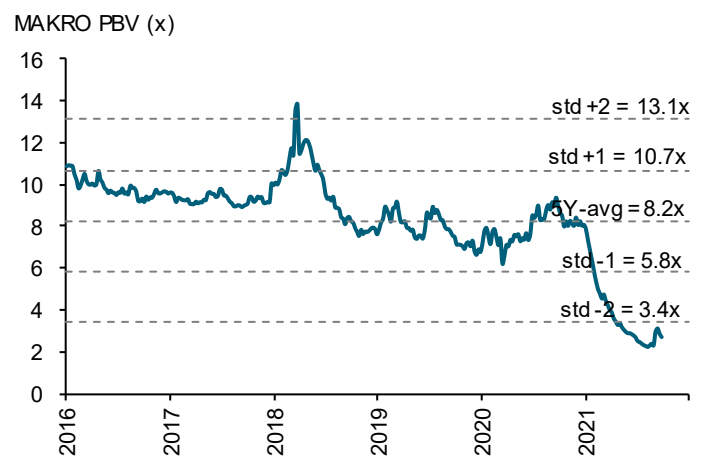
Sources: Bloomberg; FSSIA estimates

## Exhibit 21: Rolling one-year forward P/E band



Sources: Bloomberg; FSSIA estimates

## Exhibit 22: Rolling one-year forward P/BV band



Sources: Bloomberg; FSSIA estimates

## Financial Statements

Siam Makro

| Profit and Loss (THB m) Year Ending Dec           | 2019          | 2020          | 2021E         | 2022E          | 2023E          |
|---|---------------|---------------|---------------|----------------|----------------|
| Revenue   | 210,627       | 218,760       | 227,478       | 498,262        | 543,246        |
| Cost of goods sold                                | (182,289)     | (188,439)     | (197,029)     | (393,645)      | (427,093)      |
| <b>Gross profit</b>                               | <b>28,338</b> | <b>30,322</b> | <b>30,448</b> | <b>104,617</b> | <b>116,153</b> |
| Other operating income                            | 0             | 0             | 0             | 0              | 0              |
| Operating costs                                   | (17,410)      | (17,788)      | (19,563)      | (72,171)       | (78,524)       |
| <b>Operating EBITDA</b>                           | <b>10,928</b> | <b>12,534</b> | <b>10,885</b> | <b>32,446</b>  | <b>37,629</b>  |
| Depreciation                                      | (2,723)       | (3,577)       | (2,657)       | (11,621)       | (12,047)       |
| Goodwill amortisation                             | 0             | 0             | 0             | 0              | 0              |
| <b>Operating EBIT</b>                             | <b>8,204</b>  | <b>8,957</b>  | <b>8,228</b>  | <b>20,825</b>  | <b>25,582</b>  |
| Net financing costs                               | (310)         | (619)         | (113)         | (4,652)        | (4,528)        |
| Associates  | 0             | 0             | 0             | 0              | 0              |
| Recurring non-operating income                    | 0             | 0             | 0             | 0              | 0              |
| Non-recurring items                               | 0             | 0             | 0             | 0              | 0              |
| <b>Profit before tax</b>                          | <b>7,895</b>  | <b>8,337</b>  | <b>8,116</b>  | <b>16,173</b>  | <b>21,054</b>  |
| Tax   | (1,710)       | (1,813)       | (1,623)       | (3,235)        | (4,211)        |
| <b>Profit after tax</b>                           | <b>6,185</b>  | <b>6,524</b>  | <b>6,493</b>  | <b>12,938</b>  | <b>16,843</b>  |
| Minority interests                                | 60            | 39            | 40            | 38             | 19             |
| Preferred dividends                               | 0             | 0             | 0             | 0              | 0              |
| Other items                                       | 0             | 0             | 0             | 0              | 0              |
| <b>Reported net profit</b>                        | <b>6,245</b>  | <b>6,563</b>  | <b>6,533</b>  | <b>12,977</b>  | <b>16,862</b>  |
| <b>Non-recurring items &amp; goodwill (net)</b>   | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>       | <b>0</b>       |
| <b>Recurring net profit</b>                       | <b>6,245</b>  | <b>6,563</b>  | <b>6,533</b>  | <b>12,977</b>  | <b>16,862</b>  |
| <b>Per share (THB)</b>                            |               |               |               |                |                |
| Recurring EPS *                                   | 1.30          | 1.37          | 1.36          | 1.16           | 1.51           |
| Reported EPS                                      | 1.30          | 1.37          | 1.36          | 1.16           | 1.51           |
| DPS   | 0.96          | 0.96          | 0.95          | 0.81           | 1.06           |
| Diluted shares (used to calculate per share data) | 4,800         | 4,800         | 4,800         | 11,172         | 11,172         |
| <b>Growth</b>                                     |               |               |               |                |                |
| Revenue (%)                                       | 9.2           | 3.9           | 4.0           | 119.0          | 9.0            |
| Operating EBITDA (%)                              | 5.5           | 14.7          | (13.2)        | 198.1          | 16.0           |
| Operating EBIT (%)                                | 5.1           | 9.2           | (8.1)         | 153.1          | 22.8           |
| Recurring EPS (%)                                 | 5.1           | 5.1           | (0.5)         | (14.7)         | 29.9           |
| Reported EPS (%)                                  | 5.1           | 5.1           | (0.5)         | (14.7)         | 29.9           |
| <b>Operating performance</b>                      |               |               |               |                |                |
| Gross margin inc. depreciation (%)                | 12.2          | 12.2          | 12.2          | 18.7           | 19.2           |
| Gross margin of key business (%)                  | 10.3          | 10.3          | 10.4          | 17.0           | 17.6           |
| Operating EBITDA margin (%)                       | 5.2           | 5.7           | 4.8           | 6.5            | 6.9            |
| Operating EBIT margin (%)                         | 3.9           | 4.1           | 3.6           | 4.2            | 4.7            |
| Net margin (%)                                    | 3.0           | 3.0           | 2.9           | 2.6            | 3.1            |
| Effective tax rate (%)                            | 21.7          | 21.7          | 20.0          | 20.0           | 20.0           |
| Dividend payout on recurring profit (%)           | 73.8          | 70.2          | 70.0          | 70.0           | 70.0           |
| Interest cover (X)                                | 26.5          | 14.5          | 73.1          | 4.5            | 5.6            |
| Inventory days                                    | 29.2          | 28.3          | 27.6          | 21.5           | 27.7           |
| Debtor days                                       | 1.8           | 1.7           | 1.3           | 5.2            | 9.6            |
| Creditor days                                     | 51.7          | 52.7          | 52.7          | 46.9           | 64.3           |
| Operating ROIC (%)                                | 34.5          | 43.1          | 44.0          | 38.5           | 28.7           |
| ROIC (%)  | 24.5          | 25.3          | 21.6          | 8.3            | 5.4            |
| ROE (%)   | 32.0          | 30.9          | 28.1          | 8.8            | 6.2            |
| ROA (%)   | 10.3          | 10.3          | 8.8           | 5.9            | 4.0            |
| * Pre-exceptional, pre-goodwill and fully diluted |               |               |               |                |                |
| <b>Revenue by Division (THB m)</b>                |               |               |               |                |                |
| Sales   | 206,180       | 214,140       | 222,864       | 479,878        | 522,701        |
| Service income                                    | 3,592         | 3,757         | 3,767         | 17,501         | 19,639         |
| Other Income                                      | 855           | 863           | 847           | 882            | 906            |

Sources: Siam Makro; FSSIA estimates

## Financial Statements

Siam Makro

| Cash Flow (THB m) Year Ending Dec | 2019           | 2020           | 2021E          | 2022E            | 2023E           |
|-----------------------------------|----------------|----------------|----------------|------------------|-----------------|
| Recurring net profit              | 6,245          | 6,563          | 6,533          | 12,977           | 16,862          |
| Depreciation                      | 2,723          | 3,577          | 2,657          | 11,621           | 12,047          |
| Associates & minorities           | 24             | 19             | 0              | 0                | 0               |
| Other non-cash items              | 26             | 44             | (29)           | 1,107            | 153             |
| Change in working capital         | 795            | 1,979          | 434            | 14,445           | 2,053           |
| <b>Cash flow from operations</b>  | <b>9,813</b>   | <b>12,181</b>  | <b>9,594</b>   | <b>40,150</b>    | <b>31,116</b>   |
| Capex - maintenance               | -              | -              | -              | -                | -               |
| Capex - new investment            | (2,342)        | (1,254)        | (4,319)        | (85,861)         | (15,628)        |
| Net acquisitions & disposals      | (179)          | (2,186)        | (328)          | (270,219)        | (25,066)        |
| Other investments (net)           | (44)           | 874            | (81)           | 3,443            | 441             |
| <b>Cash flow from investing</b>   | <b>(2,565)</b> | <b>(2,566)</b> | <b>(4,728)</b> | <b>(352,637)</b> | <b>(40,253)</b> |
| Dividends paid                    | (4,608)        | (4,608)        | (4,573)        | (9,084)          | (11,804)        |
| Equity finance                    | (123)          | 41             | (13)           | 243,173          | (13)            |
| Debt finance                      | (2,771)        | 627            | (1,329)        | 109,084          | 18,948          |
| Other financing cash flows        | 0              | 0              | 0              | 0                | 0               |
| <b>Cash flow from financing</b>   | <b>(7,501)</b> | <b>(3,940)</b> | <b>(5,915)</b> | <b>343,173</b>   | <b>7,131</b>    |
| Non-recurring cash flows          | -              | -              | -              | -                | -               |
| Other adjustments                 | 0              | 0              | 0              | 0                | 0               |
| <b>Net other adjustments</b>      | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>0</b>         | <b>0</b>        |
| <b>Movement in cash</b>           | <b>(253)</b>   | <b>5,675</b>   | <b>(1,048)</b> | <b>30,686</b>    | <b>(2,006)</b>  |
| Free cash flow to firm (FCFF)     | 7,558.70       | 10,234.86      | 4,979.29       | (307,835.29)     | (4,609.28)      |
| Free cash flow to equity (FCFE)   | 4,477.87       | 10,241.99      | 3,537.87       | (203,403.69)     | 9,810.68        |

### Per share (THB)

|                               |      |      |      |         |        |
|-------------------------------|------|------|------|---------|--------|
| FCFF per share                | 0.68 | 0.92 | 0.45 | (27.55) | (0.41) |
| FCFE per share                | 0.40 | 0.92 | 0.32 | (18.21) | 0.88   |
| Recurring cash flow per share | 1.88 | 2.13 | 1.91 | 2.30    | 2.60   |

| Balance Sheet (THB m) Year Ending Dec             | 2019          | 2020          | 2021E         | 2022E          | 2023E          |
|---|---------------|---------------|---------------|----------------|----------------|
| Tangible fixed assets (gross)                     | 51,649        | 51,712        | 56,031        | 141,892        | 157,520        |
| Less: Accumulated depreciation                    | (20,070)      | (21,148)      | (23,733)      | (35,284)       | (47,260)       |
| <b>Tangible fixed assets (net)</b>                | <b>31,579</b> | <b>30,564</b> | <b>32,297</b> | <b>106,608</b> | <b>110,260</b> |
| <b>Intangible fixed assets (net)</b>              | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>       | <b>0</b>       |
| Long-term financial assets                        | 0             | 0             | 0             | 0              | 0              |
| Invest. in associates & subsidiaries              | 0             | 0             | 0             | 0              | 0              |
| Cash & equivalents                                | 4,843         | 10,518        | 9,470         | 40,156         | 38,150         |
| A/C receivable                                    | 1,078         | 945           | 623           | 13,651         | 15,032         |
| Inventories                                       | 14,774        | 14,478        | 15,318        | 31,089         | 33,687         |
| Other current assets                              | 2,638         | 2,310         | 2,402         | 5,262          | 5,737          |
| <b>Current assets</b>                             | <b>23,333</b> | <b>28,251</b> | <b>27,814</b> | <b>90,158</b>  | <b>92,607</b>  |
| Other assets                                      | 7,729         | 15,219        | 15,825        | 296,825        | 323,623        |
| <b>Total assets</b>                               | <b>62,641</b> | <b>74,034</b> | <b>75,936</b> | <b>493,591</b> | <b>526,489</b> |
| Common equity                                     | 20,243        | 22,239        | 24,186        | 271,252        | 276,297        |
| Minorities etc.                                   | 491           | 471           | 431           | 393            | 373            |
| <b>Total shareholders' equity</b>                 | <b>20,734</b> | <b>22,711</b> | <b>24,617</b> | <b>271,644</b> | <b>276,671</b> |
| Long term debt                                    | 7,003         | 2,002         | 1,690         | 27,232         | 31,669         |
| Other long-term liabilities                       | 2,155         | 8,767         | 9,117         | 19,969         | 21,772         |
| <b>Long-term liabilities</b>                      | <b>9,158</b>  | <b>10,769</b> | <b>10,807</b> | <b>47,201</b>  | <b>53,440</b>  |
| A/C payable                                       | 26,425        | 27,974        | 28,927        | 72,171         | 78,203         |
| Short term debt                                   | 919           | 6,547         | 5,529         | 89,071         | 103,583        |
| Other current liabilities                         | 5,405         | 6,034         | 6,056         | 13,504         | 14,592         |
| <b>Current liabilities</b>                        | <b>32,749</b> | <b>40,555</b> | <b>40,512</b> | <b>174,746</b> | <b>196,378</b> |
| <b>Total liabilities and shareholders' equity</b> | <b>62,641</b> | <b>74,034</b> | <b>75,936</b> | <b>493,591</b> | <b>526,489</b> |
| Net working capital                               | (13,340)      | (16,275)      | (16,639)      | (35,672)       | (38,338)       |
| Invested capital                                  | 25,968        | 29,508        | 31,483        | 367,761        | 395,544        |

\* Includes convertibles and preferred stock which is being treated as debt

### Per share (THB)

|                               |      |      |      |       |       |
|-------------------------------|------|------|------|-------|-------|
| Book value per share          | 4.22 | 4.63 | 5.04 | 24.28 | 24.73 |
| Tangible book value per share | 4.22 | 4.63 | 5.04 | 24.28 | 24.73 |

### Financial strength

|                           |      |       |       |        |      |
|---------------------------|------|-------|-------|--------|------|
| Net debt/equity (%)       | 14.8 | (8.7) | (9.1) | 28.0   | 35.1 |
| Net debt/total assets (%) | 4.9  | (2.7) | (3.0) | 15.4   | 18.4 |
| Current ratio (x)         | 0.7  | 0.7   | 0.7   | 0.5    | 0.5  |
| CF interest cover (x)     | 23.0 | 19.6  | 70.8  | (24.3) | 6.6  |

| Valuation                                 | 2019        | 2020        | 2021E       | 2022E       | 2023E       |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Recurring P/E (x) *</b>                | <b>38.6</b> | <b>36.8</b> | <b>36.9</b> | <b>43.3</b> | <b>33.3</b> |
| <b>Recurring P/E @ target price (x) *</b> | <b>40.0</b> | <b>38.0</b> | <b>38.2</b> | <b>44.8</b> | <b>34.5</b> |
| Reported P/E (x)                          | 38.6        | 36.8        | 36.9        | 43.3        | 33.3        |
| Dividend yield (%)                        | 1.9         | 1.9         | 1.9         | 1.6         | 2.1         |
| Price/book (x)                            | 11.9        | 10.8        | 10.0        | 2.1         | 2.0         |
| Price/tangible book (x)                   | 11.9        | 10.8        | 10.0        | 2.1         | 2.0         |
| EV/EBITDA (x) **                          | 22.4        | 19.1        | 22.0        | 19.7        | 17.5        |
| EV/EBITDA @ target price (x) **           | 23.2        | 19.8        | 22.8        | 20.3        | 18.0        |
| EV/invested capital (x)                   | 9.4         | 8.1         | 7.6         | 1.7         | 1.7         |

\* Pre-exceptional, pre-goodwill and fully diluted \*\* EBITDA includes associate income and recurring non-operating income

Sources: Siam Makro; FSSIA estimates

## Corporate Governance report of Thai listed companies 2020

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

| VERY GOOD LEVEL |         |        |       |        |       |        |        |        |        |       |
|-----------------|---------|--------|-------|--------|-------|--------|--------|--------|--------|-------|
| 2S              | ABM     | ACE    | ACG   | ADB    | AEC   | AEONTS | AGE    | AH     | AHC    | AIT   |
| ALLA            | AMANAHA | AMARIN | APCO  | APCS   | APURE | AQUA   | ASAP   | ASEFA  | ASIA   | ASIAN |
| ASIMAR          | ASK     | ASN    | ATP30 | AUCT   | AWC   | AYUD   | B      | BA     | BAM    | BBL   |
| BFIT            | BGC     | BJC    | BJCHI | BROOK  | BTW   | CBG    | CEN    | CGH    | CHARAN | CHAYO |
| CHG             | CHOTI   | CHOW   | CI    | CIG    | CMC   | COLOR  | COM7   | CPL    | CRC    | CRD   |
| CSC             | CSP     | CWT    | DCC   | DCON   | DDD   | DOD    | DOHOME | EASON  | EE     | ERW   |
| ESTAR           | FE      | FLOYD  | FN    | FORTH  | FSS   | FTE    | FVC    | GENCO  | GJS    | GL    |
| GLAND           | GLOBAL  | GLOCON | GPI   | GULF   | GYT   | HPT    | HTC    | ICN    | IFS    | ILM   |
| IMH             | INET    | INSURE | IRC   | IRCP   | IT    | ITD    | ITEL   | J      | JAS    | JCK   |
| JCKH            | JMART   | JMT    | KBS   | KCAR   | KGI   | KIAT   | KOOL   | KTIS   | KWC    | KWM   |
| L&E             | LALIN   | LDC    | LHK   | LOXLEY | LPH   | LRH    | LST    | M      | MACO   | MAJOR |
| MBAX            | MEGA    | META   | MFC   | MGT    | MILL  | MITSIB | MK     | MODERN | MTI    | MVP   |
| NETBAY          | NEX     | NINE   | NTV   | NWR    | OCC   | OGC    | OSP    | PATO   | PB     | PDG   |
| PDI             | PICO    | PIMO   | PJW   | PL     | PM    | PPP    | PRIN   | PRINC  | PSTC   | PT    |
| QLT             | RCL     | RICHY  | RML   | RPC    | RWI   | S11    | SALEE  | SAMCO  | SANKO  | SAPPE |
| SAWAD           | SCI     | SCP    | SE    | SEG    | SFP   | SGF    | SHR    | SIAM   | SINGER | SKE   |
| SKR             | SKY     | SMIT   | SMT   | SNP    | SPA   | SPC    | SPCG   | SR     | SRICHA | SSC   |
| SSF             | STANLY  | STI    | STPI  | SUC    | SUN   | SYNEX  | T      | TAE    | TAKUNI | TBSP  |
| TCC             | TCMC    | TEAM   | TEAMG | TFG    | TIGER | TITLE  | TKN    | TKS    | TM     | TMC   |
| TMD             | TMI     | TMT    | TNITY | TNP    | TNR   | TOG    | TPA    | TPAC   | TPCORP | TPOLY |
| TPS             | TRITN   | TRT    | TRU   | TSE    | TVT   | TWP    | UEC    | UMI    | UOBKH  | UP    |
| UPF             | UPOIC   | UT     | UTP   | UWC    | VL    | VNT    | VPO    | WIJK   | WP     | XO    |
| YUASA           | ZEN     | ZIGA   | ZMICO |        |       |        |        |        |        |       |

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

## Description

## Score Range

Excellent

90-100

Very Good

80-89

Good

70-79

## Disclaimer:

The disclosure of the survey results 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 evaluation 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 results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.

\* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive; \*\* delisted

Source: Thai Institute of Directors Association (IOD); FSSIA's compilation

## Anti-corruption Progress Indicator 2020

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

| DECLARED |       |       |        |        |       |        |       |       |       |        |
|----------|-------|-------|--------|--------|-------|--------|-------|-------|-------|--------|
| 7UP      | ABICO | AF    | ALT    | AMARIN | AMATA | AMATAV | ANAN  | APURE | B52   | BKD    |
| BM       | BROCK | BUI   | CHO    | CI     | COTTO | DDD    | EA    | EFORL | EP    | ERW    |
| ESTAR    | ETE   | EVER  | FSMART | GPI    | ILINK | IRC    | J     | JKN   | JMART | JMT    |
| JSP      | JTS   | KWG   | LDC    | MAJOR  | META  | NCL    | NOBLE | NOK   | PK    | PLE    |
| ROJNA    | SAAM  | SAPPE | SCI    | SE     | SHANG | SINGER | SKR   | SPALI | SSP   | STANLY |
| SUPER    | SYNEX | THAI  | TKS    | TOPP   | TRITN | TTA    | UPF   | UV    | WIN   | ZIGA   |

| Level     |   |
|-----------|---|
| Certified | This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties. |
| Declared  | This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)  |

**Disclaimer:**

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, FSS International Investment Advisory Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment results.

Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Source: The Securities and Exchange Commission, Thailand; \* FSSIA's compilation

## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

#### Karun Intrachai FSS International Investment Advisory Securities Co., Ltd

The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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| Company                | Ticker    | Price     | Rating | Valuation & Risks  |
|------------------------|-----------|-----------|--------|--|
| Siam Makro             | MAKRO TB  | THB 50.25 | HOLD   | The key downside risks to our DCF-based TP include: 1) lower-than-expected SSSG; 2) lower-than-expected GPM improvement; and 3) operational losses from its overseas business. The key upside risks include: 1) the faster-than-expected recovery of Lotus' performance; and 2) a more aggressive expansion plan.                                  |
| Berli Jucker           | BJC TB    | THB 33.25 | HOLD   | Key downside risks to our DCF-based TP could come from 1) competition with Tesco Lotus which could impact its sales and gross margin; and 2) a lower-than-expected utilisation rate and profit margin from its packaging unit after losing major customers in Thailand. The key upside risk is from easing competition in the hypermarket segment. |
| CP All                 | CPALL TB  | THB 62.75 | BUY    | The key downside risks to our DCF-derived TP are: 1) the higher-than-expected impact from a loss of service income from the convenience store business; 2) the worse-than-expected overseas performance of Makro; and 3) the slow recovery of tourist numbers.   |
| Siam Global House      | GLOBAL TB | THB 21.00 | BUY    | The key downside risks to our DCF-based TP are volatile farm incomes and farm prices which could negatively impact purchasing power, especially in the provinces.  |
| Home Product Center    | HMPRO TB  | THB 13.60 | BUY    | The key downside risks to our DCF-based TP include: 1) lower-than-expected SSSG; 2) the slow recovery of tourist numbers; and 3) operating losses from its overseas business.  |
| Central Retail Corp    | CRC TB    | THB 34.00 | BUY    | The key downside risks to our DCF-based TP include 1) new waves of Covid-19; and 2) lower-than-expected sales from the high-margin fashion business.   |
| Srinanaporn Marketing  | SNNP TB   | THB 10.90 | BUY    | The key downside risks to our DCF-based TP are 1) slower-than-expected demand growth and market penetration overseas, especially in Cambodia and Vietnam; 2) a lower-than-expected profit margin due to high raw material and transportation costs; and 3) higher-than-expected SG&A expenses from overseas operations.                            |
| Charoen Pokphand Foods | CPF TB    | THB 25.75 | BUY    | The key downside risks to our SoTP-based target price are the volatile pork prices in both Thailand and Vietnam which could hurt revenues and the company's gross margin.  |

Source: FSSIA estimates

#### Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finasia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 29-Sep-2021 unless otherwise stated.

## RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

**BUY (B).** The upside is 10% or more.

**HOLD (H).** The upside or downside is less than 10%.

**REDUCE (R).** The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

**Overweight.** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Neutral.** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Underweight.** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.