

20 OCTOBER 2021

Thailand Market Strategy

Inflation: a friend to the SET but foe to Thai economy

Cyclical sectors should perform the best on rising inflation

We think that the ongoing commodity price uptrends for coal, gas, and oil – reflecting the impact of the potentially strong demand ahead of the global reopening and the tight supply – should increase the energy costs for consumers and corporates. The higher inflation trend could drive up the interest rate curve of government bond yields and has already resulted in higher volatility for equity and bond markets globally in the past few weeks.

Demand growth and supply constraints likely to sustain high inflation into 2022

We think Thailand is likely to witness the beginning of a more persistent but still manageable inflation cycle in 2022, thanks to the stronger demand post reopening in Oct-21 onward and the supply constraints. We project Thailand's inflation to rise steeply in the next 6 months, driven by demand growth and supply constraints to elevate inflation, along with the US Fed's gradual policy rate hike with its average inflation goal in the range of 2%.

Higher inflation is a boon for SET Index but a bane to Thai economy

We believe Thailand's SET Index is more inflation-protected than other indices, both domestically and globally, thanks to the large proportion of commodity-related companies listed on the stock market which account for 44% of the SET's total market cap. We expect inflation-driven sectors, i.e. energy, petrochemical, refinery and utilities, which account for 39.3% of the SET's total 2021E net profit, to see strong earnings growth in 3Q-4Q21, driven by higher commodity prices and rising margins due to the ongoing supply bottlenecks and rising demand amid the global economic reopening. While we believe that the higher inflation environment could hurt the Thai economy in the short term due to the erosion of purchasing power and a likely policy rate hike by the BoT, we think it could benefit Thai economic growth in the long term from rising revenue from tourism, a mild inflation level due to government subsidies, and stronger industrial production for exports and investments.

Commodity-driven sectors and stocks should be the winners

We remain positive on the Thai stock market with our 1,700 target for the SET Index by the end of this year. While inflation should continue to pressure global stock markets, as central banks are likely to raise policy rates as early as mid-2022, we think that inflation, rather than deflation, will be a boon for the SET Index, given that over 40% of Thai listed companies would greatly benefit from the commodity price uptrend. Our winning sectors are energy, refinery and utilities, while our losing sectors are transportation and airlines (as consumers of commodities) plus commerce and food (on lower consumer purchasing power). Our top stock picks are PTTEP, TOP, SPRC, BANPU and IVL, while we see the losing stocks as ASIAN, AAV, OSP, CBG, AH, SAT, APURE and CPF.



Songklod Wongchai
songklod.won@fssia.com
+66 2611 3553

Suwat Sinsadok
suwat.sin@fssia.com
+66 2611 3558

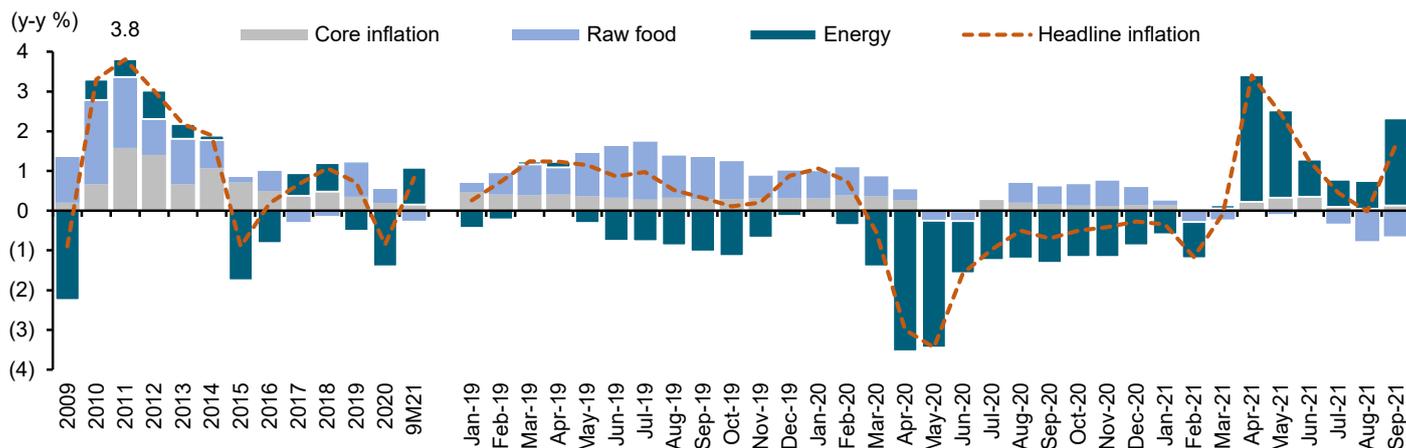
Is higher inflation a friend or foe to Thailand?

We think that the ongoing commodity price uptrends for coal, gas, and oil – reflecting the impact of the potentially strong demand ahead of the global reopening and the tight supply – should increase the energy costs for consumers and corporates.

The ensuing impacts could be highly damaging, from energy supply shortages to price spikes, potentially disrupting industrial production and supply chains worldwide and eventually leading to higher inflation globally.

The higher inflation trend could drive up the interest rate curve of government bond yields and has already resulted in higher volatility for equity and bond markets globally in the past few weeks.

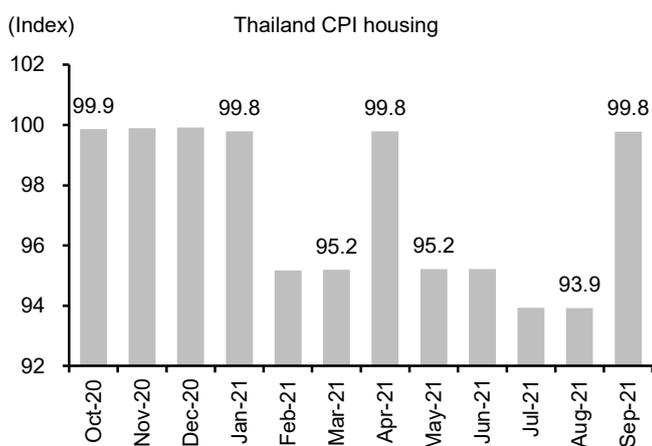
Exhibit 1: Contribution to Thailand Consumer Price Index by sector, y-y



Sources: Office of the National Economic and Social Development Council (NESDC), Ministry of Commerce

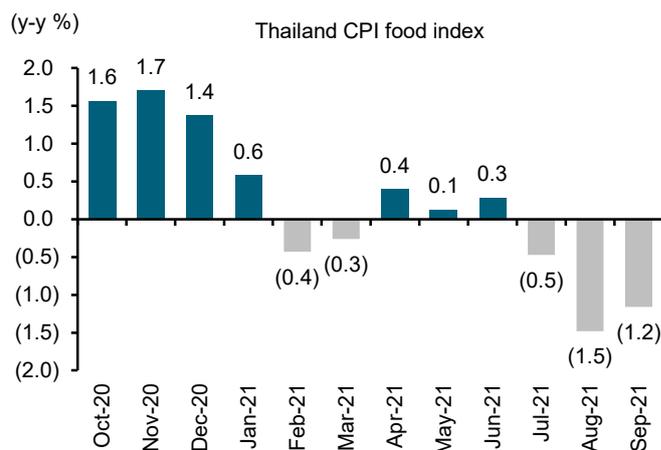
Is Thailand facing high inflation in 2022? We do not believe so. Thailand has ample food production volumes for export and should see a limited impact from the higher commodity prices. The headline Consumer Price Index (CPI) inflation level was still below 2% y-y in Sep-21 and the core inflation level, excluding energy inflation, was even lower at only 0.2% y-y.

Exhibit 2: Thailand's CPI housing



Source: Ministry of Commerce

Exhibit 3: Thailand's food inflation

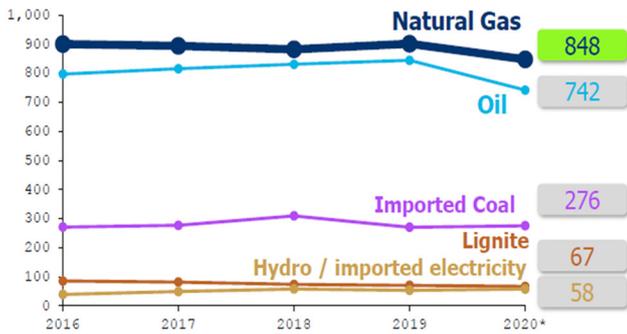


Source: Ministry of Commerce

First, Thailand has seen food prices deflate, not inflate, thanks to the country's large-scale and well-developed industries and food supply chains for the export products of poultry, seafood, rice, rubber, sugar, and palm. As a result, Thailand's food inflation was at -1.2% y-y in Sep-21, slightly up from -1.5% y-y in Aug-21.

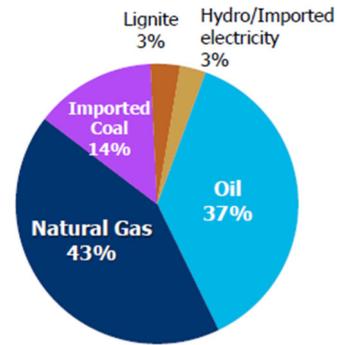
Second, while the higher energy prices, particularly for crude oil and coal, are driving up the overall inflation and increasing the country's production costs, the negative impact from the coal and crude oil prices should be offset by the limited consumption of coal for the country's power generating capacity, which accounted for less than 1/5 of Thailand's total power generating capacity of 50GW as of 2Q21.

Exhibit 4: Thailand's energy demand



Source: PTT

Exhibit 5: Thailand's energy demand breakdown, 2020

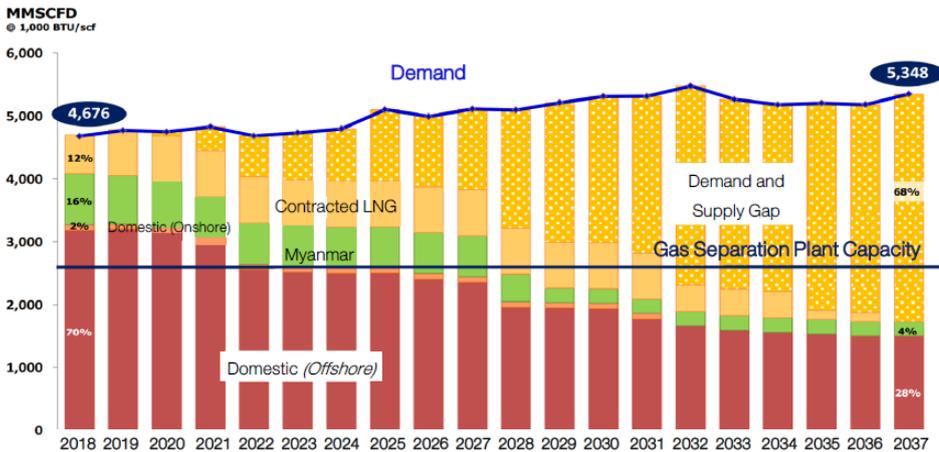


Source: PTT

Meanwhile, the high oil price should mainly impact land transportation, which primarily consumes diesel as a major fuel for transportation. However, the impact should be somewhat offset as Thailand exports 10-15% of its refined oil products to neighbouring countries, mainly via land transportation to Laos, Myanmar, and Cambodia.

The sharp rise in the global LNG price has had a very limited impact on Thailand's production cost and inflation, thanks to the country's large domestic gas production, which accounted for over 70% of total gas consumption in 2020. Over 15% of the gas supply is imported from Myanmar via pipelines, and the gas pricing formula is linked to only around 1/3 to the high sulphur fuel oil price.

Exhibit 6: Thailand's gas supply and demand forecast in Gas Plan 2018



Source: Gas Plan 2018, Energy Policy and Planning Office, October 2018

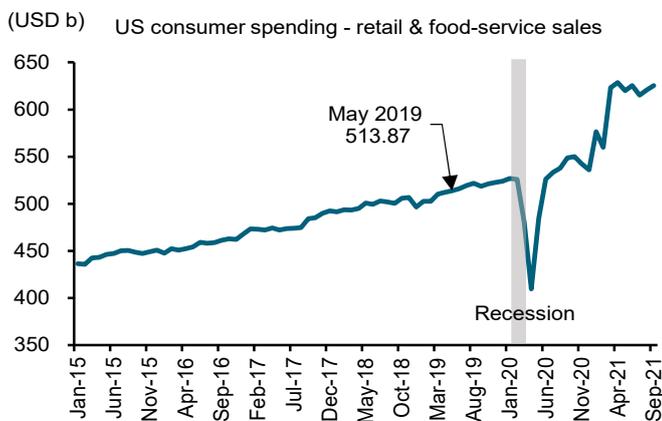
Sources: Ministry of Energy, Energy Policy and Planning Office

High inflation is transitory, not structural for Thailand

We think Thailand is likely to witness the beginning of a more persistent but still manageable inflation cycle in 2022, thanks to the stronger demand post reopening in Oct-21 onward and the supply constraints. Historically, investments made during inflationary periods provide decent returns, but in order to succeed, there are two questions to be addressed – how long will the inflation last and how high will the inflation rate rise? **We project Thailand’s inflation to rise steeply in the next 6 months**, driven by:

Both demand and supply should elevate inflation. We believe the current global inflation originates not just from the supply side but from the demand side as well. The pandemic has brought about changes in what consumers want to spend their money on and where people want to live and work, which are trends that are likely to persist in the post-pandemic period. Meanwhile, the rise in product sales reflects the persistently strong demand and higher consumer prices, buoyed by improving US retail sales and the high CPI; a 0.4% change from a month ago in September 2021.

Exhibit 7: US consumer spending



Source: Bloomberg

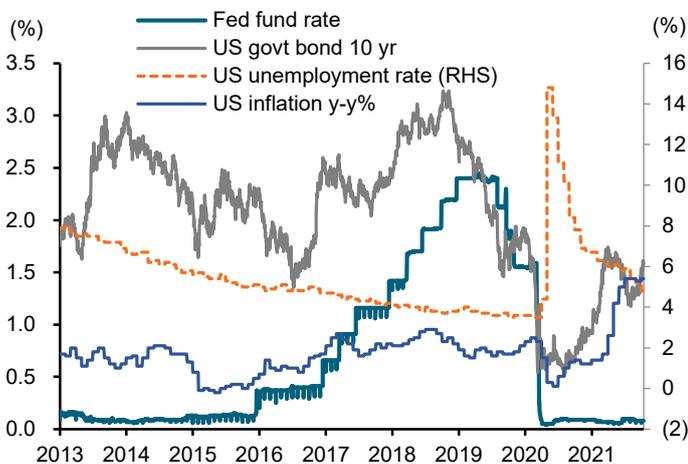
Exhibit 8: US CPI, % change m-m



Source: Bloomberg

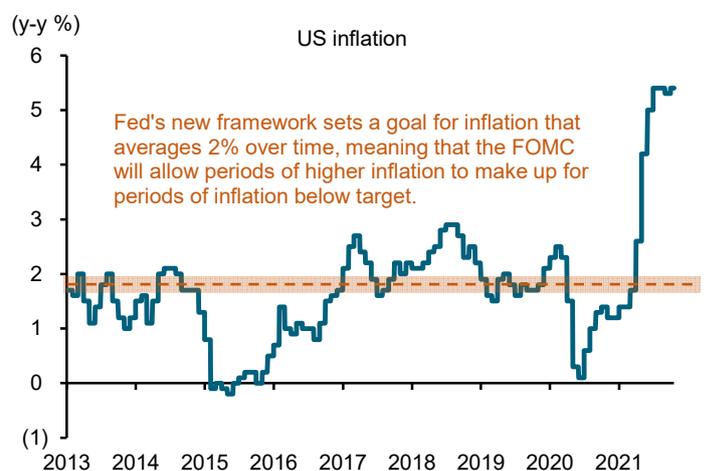
Fed’s wider range of acceptable inflation. The US Federal Reserve is in the process of building credibility for its policy rate outlook under the new framework with the goal of an average inflation rate in the range of 2%. This means that the Federal Open Market Committee (FOMC) will now allow periods of higher inflation to make up for periods of inflation below target, and hence the Fed has set a high bar to change its policy rate easing stance.

Exhibit 9: Fed rate, inflation, bond yield and unemployment



Source: Bloomberg

Exhibit 10: Fed’s new framework for inflation target



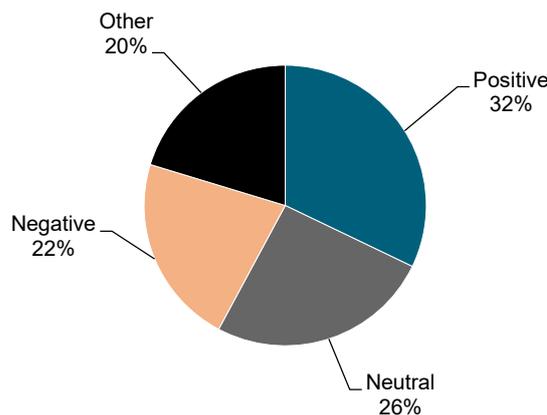
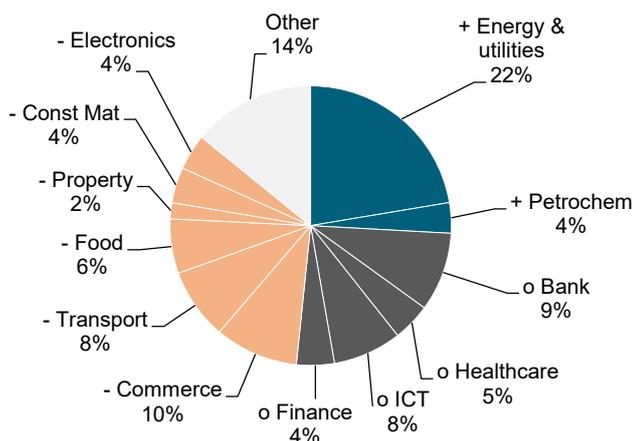
Sources: Bloomberg; richmondfed.org

Higher inflation is a boon for the SET Index

We believe Thailand's SET Index is more inflation-protected than other indices, both domestically and globally, thanks to the large proportion of commodity-related companies listed on the stock market which account for 44% of the SET's total market cap. The SET Index has risen 7.42% from its recent bottom in Aug-21, bolstered by a large reduction in new confirmed Covid-19 cases, the faster vaccine rollout and the lockdown easing that has overshadowed the impacts of global inflation. The higher energy and commodities prices are the key drivers that should boost the share prices of energy and commodities-related companies higher, in our view.

Exhibit 11: Inflation-linked sectors by market capitalisation

Exhibit 12: Inflation-linked sectors by earning



As of 19 Oct 2021
Sources: Bloomberg; FSSIA's compilation

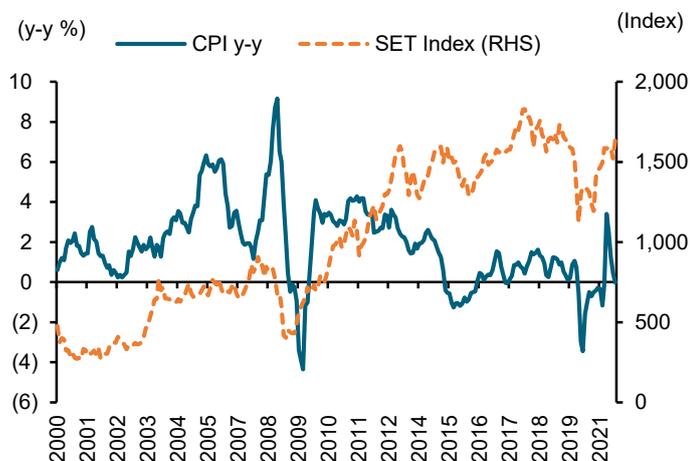
As of 19 Oct 2021; 12-month trailing net profit
Sources: Bloomberg; FSSIA's compilation

Energy and commodity-linked stocks have the most positive correlation with the rising inflation. We think that rising inflation normally comes as a result of increasing economic growth and improving corporate earnings growth, especially for commodity production companies, as the inflationary environment tends to increase commodities' pricing power.

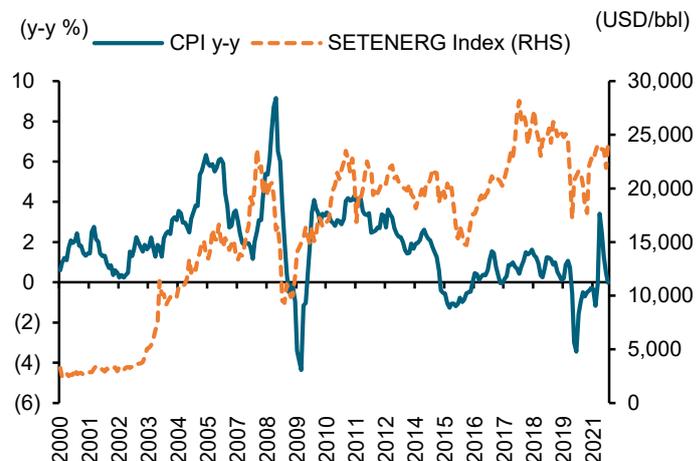
We expect inflation-driven sectors, i.e. energy, petrochemical, refinery and utilities, which account for 39.3% of the SET's total 2021E net profit, to see strong earnings growth in 3Q-4Q21, driven by higher commodity prices and rising margins due to the ongoing supply bottlenecks and rising demand amid the global economic reopening.

Exhibit 13: Thailand inflation vs SET Index

Exhibit 14: Thailand inflation vs SET Energy Index



Source: Bloomberg



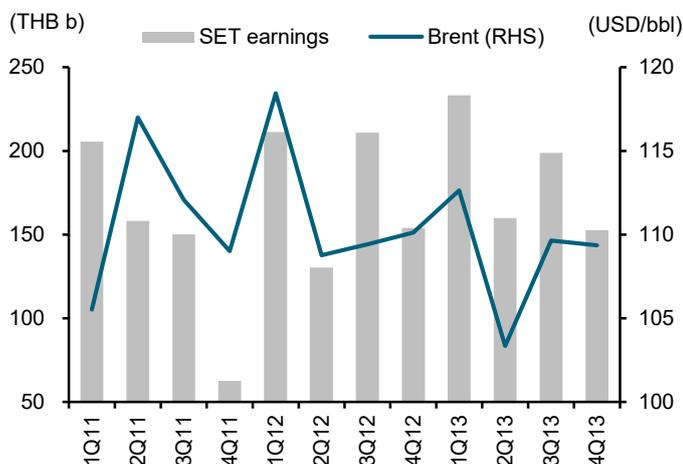
Source: Bloomberg

Exhibit 15: Inflation breakdown as of 30 Sep 2021

Code	Group and subgroup	Weight base-year 2019	Index			Change		
			Sep-21	Aug-21	Aug-21	Sep-21 (y-y %)	Sep-21 (m-m %)	9M21 (y-y %)
0	All commodities	100.00	101.21	99.63	99.54	1.59	1.68	0.83
1000	Food and non-alcoholic beverages	40.35	100.86	100.61	102.04	0.25	(1.16)	(0.27)
1110	Rice, flour and cereal products	4.09	95.04	96.06	103.21	(1.06)	(7.92)	(6.32)
1120	Meats, poultry and fish	8.93	102.11	102.06	103.62	0.05	(1.46)	0.93
1121	Meats	3.54	106.52	107.37	109.15	(0.79)	(2.41)	2.85
1122	Ducks, chicken and frogs	1.57	97.94	95.29	99.91	2.78	(1.97)	(0.79)
1123	Fish and aquatic animals	3.83	99.90	100.07	100.26	(0.17)	(0.36)	(0.22)
1130	Eggs and dairy products	2.05	105.15	105.29	101.34	(0.13)	3.76	0.69
1140	Vegetables and fruits	5.47	98.88	96.60	103.92	2.36	(4.85)	(1.81)
1150	Seasonings and condiments	2.17	107.55	107.02	102.61	0.50	4.81	3.77
1160	Non-alcoholic beverages	2.21	101.28	101.22	101.53	0.06	(0.25)	(0.27)
1200	Prepared food	15.42	101.07	101.04	100.77	0.03	0.30	0.45
1210	Prepared food at home	8.70	101.05	101.06	100.73	(0.01)	0.32	0.38
1220	Food away from home	6.72	101.07	101.00	100.79	0.07	0.28	0.53
2000	Apparel and footwear	2.23	99.74	99.74	99.98	0.00	(0.24)	(0.26)
3000	Housing and furnishing	23.17	99.78	93.92	99.88	6.24	(0.10)	(2.25)
3100	Shelter	15.49	100.16	100.16	100.20	0.00	(0.04)	0.00
3110	House rent	14.62	100.13	100.13	100.20	0.00	(0.07)	(0.02)
3200	Electricity, fuel and water supply	5.49	98.38	73.77	98.97	33.36	(0.60)	(9.70)
3300	Textile - house furnishing	0.15	99.06	98.91	99.26	0.15	(0.20)	(0.61)
3600	Cleaning supplies	1.64	100.69	100.28	99.71	0.41	0.98	0.27
4000	Medical and personal care	5.68	100.65	100.49	100.35	0.16	0.30	0.19
4100	Medical care	1.22	101.21	101.08	100.52	0.13	0.69	0.57
4200	Personal care expenditures	4.21	100.60	100.42	100.37	0.18	0.23	0.12
5000	Transportation and communication	22.67	104.50	103.98	94.93	0.50	10.08	6.76
5100	Public transportation services	1.37	102.57	102.36	101.95	0.21	0.61	0.48
5200	Vehicles and vehicle operation	15.18	106.46	105.71	92.21	0.71	15.45	10.35
5400	Communication and equipment	4.35	99.95	99.95	99.96	0.00	(0.01)	(0.01)
6000	Recreation and education	4.51	99.12	99.17	100.06	(0.05)	(0.94)	(0.28)
7000	Tobacco and alcoholic beverages	1.39	100.05	100.03	100.02	0.02	0.03	0.01
8000	Non-food and beverages	59.65	101.62	99.13	98.09	2.51	3.60	1.55
9000	Raw food and energy	32.94	102.00	97.56	97.28	4.55	4.85	2.46
9100	Raw food	20.55	100.14	99.73	103.40	0.41	(3.15)	(1.22)
9200	Energy	12.39	106.27	95.09	88.80	11.76	19.67	8.95
9300	Core inflation	67.06	100.59	100.43	100.40	0.16	0.19	0.23

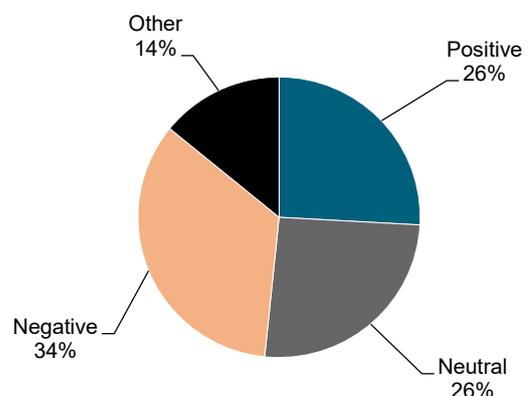
Source: Ministry of Commerce

Exhibit 16: SET's corporate earnings vs Brent crude price during 2011-13



Source: Bloomberg

Exhibit 17: Inflation-linked sectors by market capitalisation, classified by potential impact



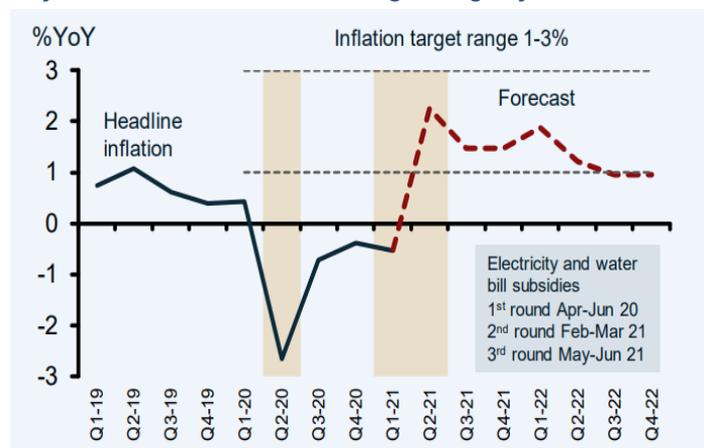
Source: FSSIA's compilation

Higher inflation is a bane to Thailand’s economy in the short term

While we believe that the higher inflation environment could hurt the Thai economy in the short term due to the erosion of purchasing power and a likely policy rate hike by the Bank of Thailand (BoT), we think it could benefit Thai economic growth in the long term from rising revenue from tourism, a mild inflation level due to government subsidies, and stronger industrial production for exports and investments.

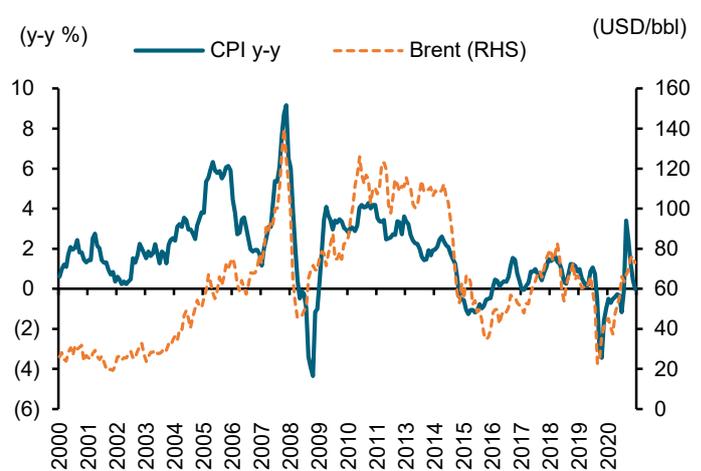
Short-term negative factor #1: Eroding purchasing power for Thai consumers due to inflation could reduce investments and consumer spending. The THB that consumers have in their wallets would lose its purchasing power under high inflation circumstances. As a result, consumers might decide to reduce their spending, especially when their incomes remain stagnant without any wage increases to counter the higher product prices. This could stifle demand and threaten business profitability and employment.

Exhibit 18: BoT forecasts inflation to gradually decline and stay in the lower bound of the target range by mid-2022



Source: [Bank of Thailand](#)

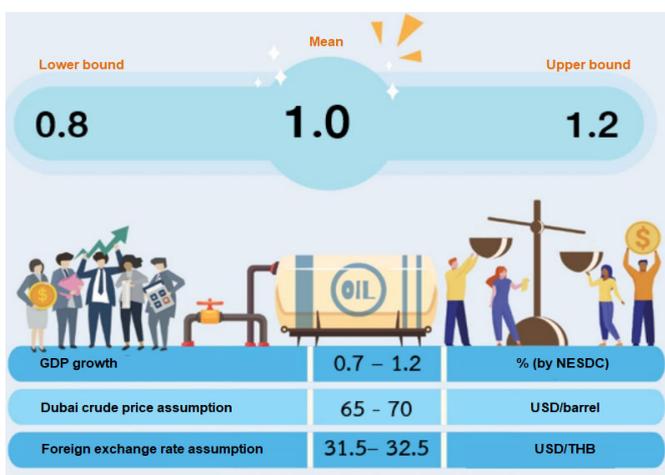
Exhibit 19: Thailand’s CPI vs Brent crude price



Source: Bloomberg

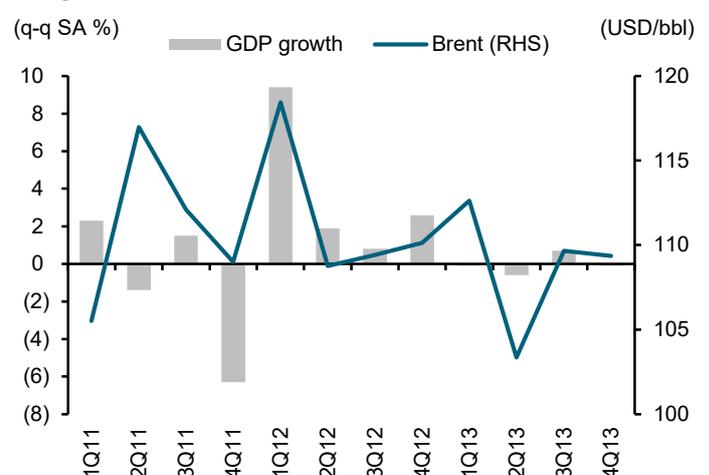
Short-term negative factor #2: BoT’s policy rate hike could further jeopardize economic growth. Higher borrowing costs make it more expensive to finance investments in new ventures, business expansions, and home buying – three vital growth engines for the Thai economy.

Exhibit 20: Higher inflation, increasing GDP growth



Source: Trading Policy and Strategy Office, [Ministry of Commerce](#)

Exhibit 21: Thailand’s GDP growth vs Brent crude price during 2011-13



Source: Bloomberg

Long-term positive factor #1: Return of domestic and international tourism revenues. Thailand's borders will soon be open to international travellers with proof of Covid vaccination. The Thai government announced a new date for the easing of the Covid-19 travel rules, planning to lift travel restrictions for international travellers to Thailand starting from 1 Nov-21 onward.

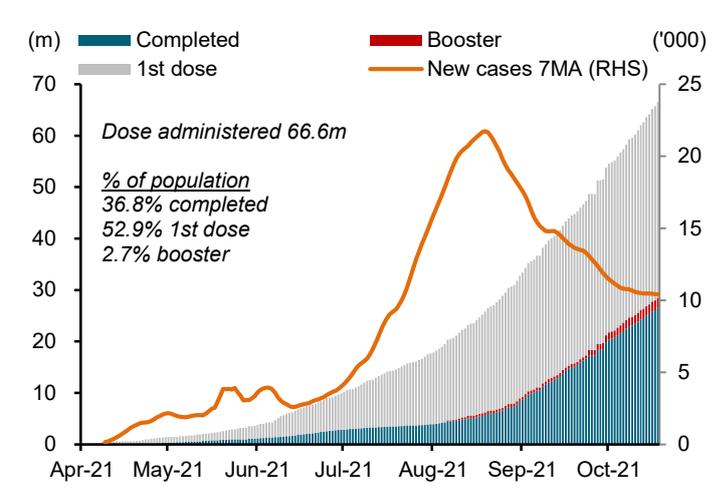
Exhibit 22: Thailand's reopening scheme from 1 Nov 2021

The first phase of the reopening scheme, 1-30 Nov-21 Provinces (tourist locations)	
Bangkok	Chon Buri (Pattaya, Bang Lamung district, Na Jom Tian, Bang Sarea, Koh Sichang, Si Racha)
Samut Prakarn (Suvarnabhumi Airport)	Ranong (Koh Phayam)
Krabi	Rayong Koh Samet)
Phangnga	Trat (Koh Chang)
Prachuap Khiri Khan (Hua-Hin and Nong Kae)	Loei (Chiang Khan)
Phetchaburi (Cha-am)	Buri Ram (Muang)
Chiang Mai (Muang, Maerim, Mae Taeng, Doi Tao)	Nong Khai (Muang, Sri Chiang Mai, Tha Bo, Sangkhom)
	Udon Thani (Muang, Na Yoong, Nong Han, Prachak Silpakhom, Kumphawapi, Ban Dung)

For the second phase in December, sixteen more provinces are expected to be added: *Chiang Rai, Mae Hong Son, Lamphum, Phrae, Sukhothai, Phetchabun, Pathum Thani, Ayuttaya, Khon Kaen, Nakhon Ratchasima, Nakhon Si Thammarat, Trang, Phatthalung, Songkhla, Yala, and Narathiwat*

Sources: The Centre for Covid-19 Situation Administration (CCSA)

Exhibit 23: Thailand vaccine rollout to 19 Oct 2021

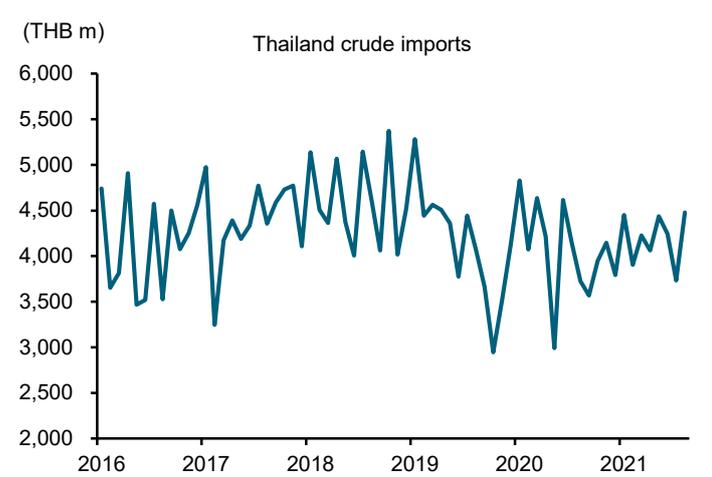


Based on approximate 72m population
Source: Ministry of Higher Education, Science, Research and Innovation (MHESI)

Long-term positive factor #2: Government subsidies could offset the impact of higher crude oil imports. Despite being a crude oil importing country, Thailand has historically seen a limited impact from oil-driven inflation on its GDP, thanks to the country's export of oil and its derivative products in the refinery and petrochemical sectors to offset the cost inflation.

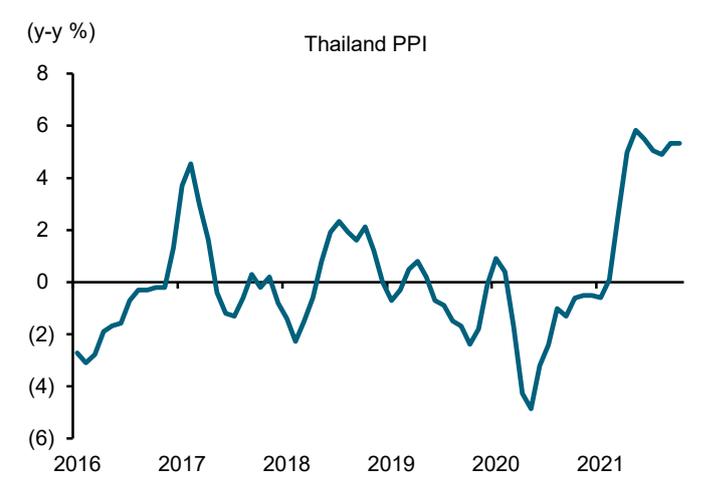
Hence, we think the economic and tourism reopening and strong export volumes should fill up the country's revenue and offset the cost inflation. In addition, a number of relief measures implemented by the government to alleviate the cost of living should help cap inflation, including the cap on domestic diesel prices in Oct-21 and the freeze on cooking gas prices from Oct-21 to Jan-22.

Exhibit 24: Thailand's crude oil import value



Source: Bloomberg

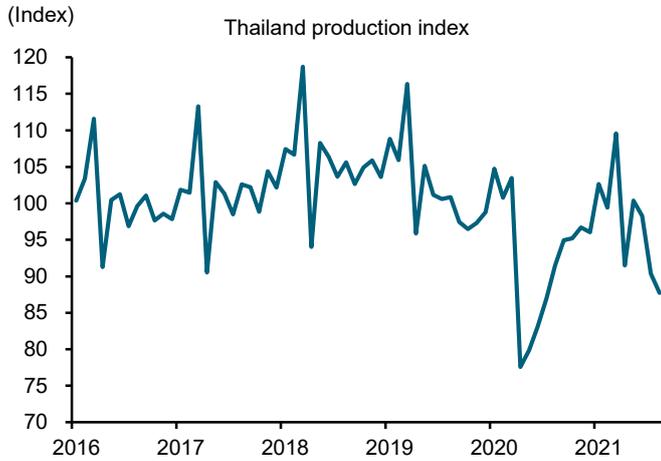
Exhibit 25: High Production Price Index (PPI)



Source: Bloomberg

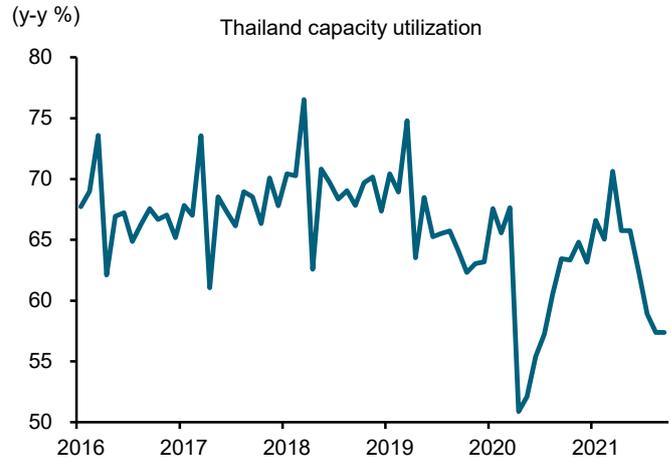
Long-term positive factor #3: Stronger industrial production. We think Thailand is poised to see stronger industrial production starting in 4Q21 after bottoming in 3Q21 due to the lockdown. We project the country's industrial utilisation rate to improve from 57% in 3Q21 to 60-65% by 1Q22, driven by the high export volumes of automobiles, refined oil and petrochemical products, and electronics and electrical shipments.

Exhibit 26: Thailand industrial production bottoming out



Source: Bloomberg

Exhibit 27: Capacity utilisation in Thailand is preparing to rise



Source: Bloomberg

Sectors and stocks – winners amid rising inflation

Exhibit 28: High inflation: winning sectors

Sector	Recommendation	Rationale
Oil & gas	Overweight	<ul style="list-style-type: none"> Higher oil prices should drive PTTEP and PTT's margins as two key upstream producers. PTTEP's production volume growth from its M&A in 2019-20 and the price recovery of gas, which lags 6 months behind the oil price, should be two key catalysts for PTTEP to have strong earnings growth in 4Q21-2022. Meanwhile, PTT should benefit from the higher earnings from its core gas business, including its gas separation plants (higher margin on rising petrochemical prices), gas sales volume (from a demand recovery post reopening), and the improving earnings from its downstream oil stations under OR.
Coal mining	Overweight	<ul style="list-style-type: none"> The historically high coal price which is projected to persist into 2022 at over USD150/t for the Newcastle coal price index, should sustain and drive up BANPU's net profit growth in 2H21-2022.
Refinery	Overweight	<ul style="list-style-type: none"> The visible recovery of the market gross refining margin driven by the higher demand for diesel, jet, and gasoline, and the higher utilisation rates by up to 10 ppts due to the demand recovery in the domestic market should boost Thai refiners' earnings significantly from 4Q21 onward.
Renewable energy	Overweight	<ul style="list-style-type: none"> We prefer EV plays like EA and NEX for their stronger earnings growth momentum that we project in 2H21-2022 thanks to the highly favourable government policies and the rising demand post economic reopening. Other preferred renewable plays are GUNKUL for its business transformation into hemp and cannabis ventures and ACE as Thailand's largest biomass player with strong earnings growth from its M&A and the recently won project bids for biogas power plants.
Power plants	Overweight	<ul style="list-style-type: none"> GULF is our top pick for conventional utilities given its strong earnings growth from greenfield projects and M&A, the acquisition of INTUCH, and its business expansion into information-based, platform-driven ventures. BGRIM stands out as a top pick for a small power producer (SPP) play thanks to the upcoming start-ups of five SPPs under SPP replacement projects, the demand recovery for industrial users, and the upside from the gas cost savings from its LNG imports starting in 1Q22.

Source: FSSIA estimates

Exhibit 29: The winners on rising inflation

Stock	Rec, TP	Rationale
PTTEP	BUY, TP THB158.00	<ul style="list-style-type: none"> A key beneficiary of the rising oil and gas prices with strong volume growth from its M&A and the upcoming new production volumes from G1.
TOP	BUY, TP THB67.00	<ul style="list-style-type: none"> TOP is the best play on the GRM recovery theme, in our view, as it is Thailand's largest refiner and has a well-diversified business portfolio. TOP's market GRM rebound should be one of the most significant among Thai refiners due to its low base, fast production recovery, and a sharp drop in the crude premium cost.
BANPU	BUY, TP THB14.60	<ul style="list-style-type: none"> BANPU should benefit from the sharp rise in the prices of coal and gas, although it could see a large hedging loss from coal and gas price hedging as well as depressed earnings from the coal-fired power plants in China.
SPRC	BUY, TP THB 13.50	<ul style="list-style-type: none"> As a pure refinery play in Thailand, SPRC should see strong earnings growth in 4Q21 onward, riding the sharp rise in market GRM on the back of the global demand growth for jet, diesel, gasoline, and high sulphur fuel oil as key alternative fuels for gas and coal.
IVL	BUY, TP THB 62.00	<ul style="list-style-type: none"> IVL's winning catalysts include 1) its large earnings exposure to the US market at over 40% of its total earnings in 2020; 2) capacity growth from M&A in Latin America; and 3) the strong product margins for PET and PTA in North American and European markets thanks to the strong demand and high freight costs.

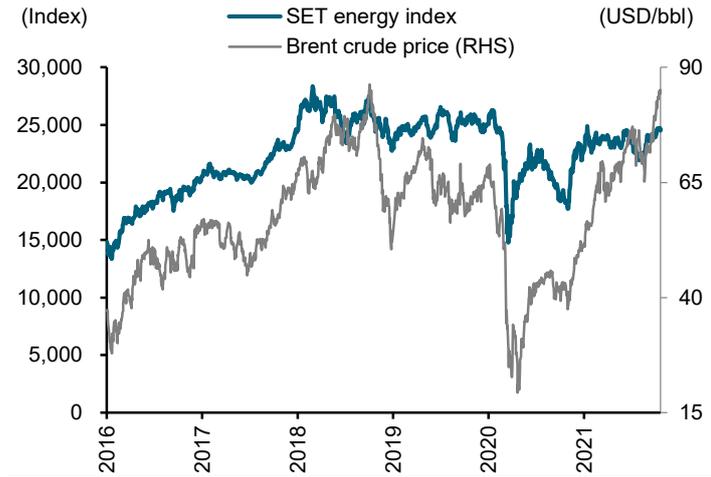
Source: FSSIA estimates

Exhibit 30: Summary of key valuations of FSSIA's top picks on inflation theme as of 19 Oct 2021

Company	BBG code	---Share price---		Up side (%)	-----Recur Profit-----			Rec profit grth		----- P/E -----		DivYld (%)	ROE (%)	P/B (x)
		Current (THB)	Target (THB)		20 (THB m)	21E (THB m)	22E (THB m)	21E (%)	22E (%)	21E (x)	22E (x)			
PTT Explor & Prod	PTTEP TB	123.00	158.00	28	23,685	44,667	46,059	89	3	10.9	10.6	5.5	12.3	1.3
Thai Oil	TOP TB	57.00	67.00	18	(3,301)	12,698	11,766	(485)	(7)	9.2	9.9	4.9	10.6	0.9
Banpu	BANPU TB	12.70	14.60	15	(3,288)	8,905	8,002	(371)	(10)	7.8	11.4	6.1	12.7	0.9
Star Petroleum Refining	SPRC TB	10.70	13.50	26	2,068	5,743	5,878	178	2	8.1	7.9	7.5	20.4	1.5
Indorama Ventures	IVL TB	44.75	62.00	39	6,430	22,909	26,019	256	14	11.1	9.7	4.6	16.5	1.7

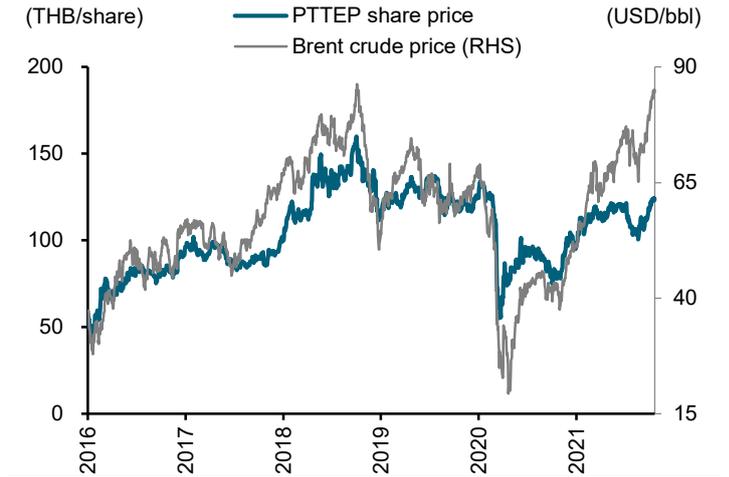
Source: FSSIA estimates

Exhibit 31: SET Energy Index vs Brent crude price



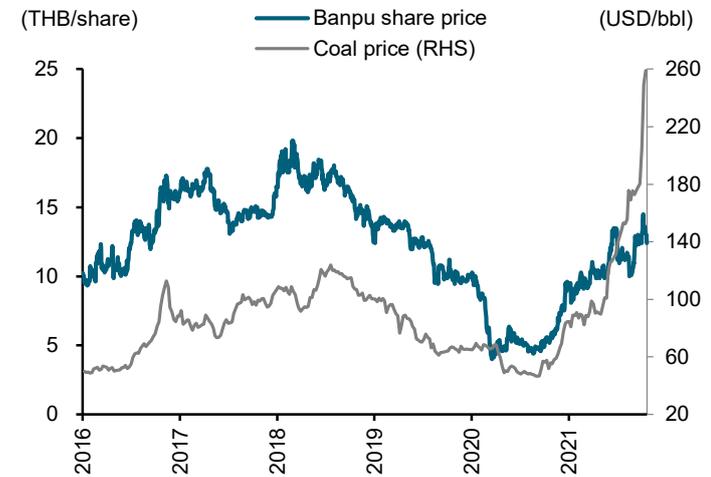
Source: Bloomberg

Exhibit 32: PTTEP's share price vs Brent crude price



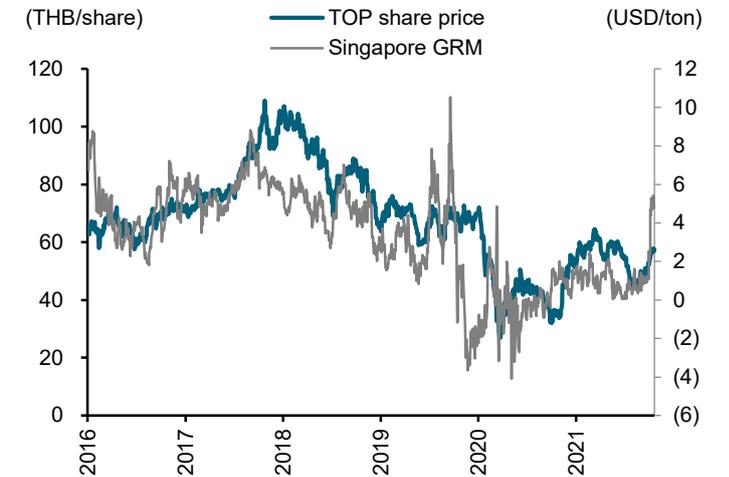
Source: Bloomberg

Exhibit 33: BANPU's share price vs coal price



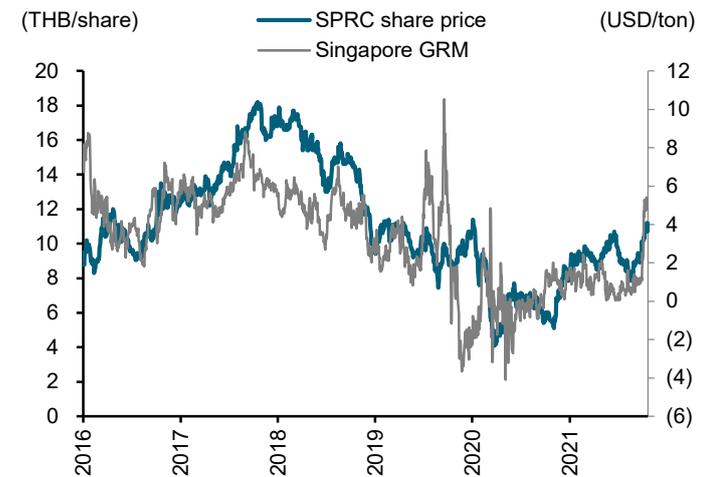
Source: Bloomberg

Exhibit 34: TOP's share price vs Singapore GRM



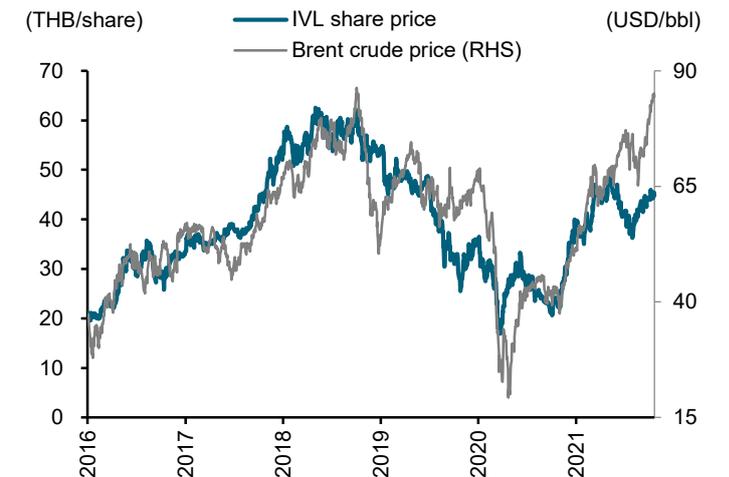
Source: Bloomberg

Exhibit 35: SPRC's share price vs Singapore GRM



Source: Bloomberg

Exhibit 36: IVL's share price vs Brent crude price



Source: Bloomberg

Sectors and stocks – losers amid rising inflation

Exhibit 37: High inflation: losing sectors

Sector	Rationale
Transportation	<ul style="list-style-type: none"> There should be a mild impact from inflation on the in-land transportation sector. The higher utilities prices, such as electricity, contribute about 10% of its operating cost, but an indirect impact from higher inflation could come from a lower number of riders as a result of their weaker purchasing power.
Airline	<ul style="list-style-type: none"> The airline sector should be impacted by the higher fuel prices, given that it accounts for c30% of the total cost. We expect that airlines could partially pass through the higher costs to customers by raising ticket fares.
Property and construction material	<ul style="list-style-type: none"> We see a limited impact on property developers due to the easing trend in the steel price. For low-rise projects, the steel cost accounts for c8-10% of total COGS, but accounts for 15-20% of total COGS for high-rise projects. The impact on high-rise GPM should be lower due to the low number of new launches in 2020-21. The next high-rise projects which will be transferred in 2022 to early 2023 would have already completed their structures and would therefore not be impacted the high steel cost. Overall, we estimate the impact on property developer's GPM to be 1-2%, which could be passed through to customers in the medium to long term but not in the short term, in our view.
Food & beverage	<ul style="list-style-type: none"> The currently high commodity prices such as for aluminium, steel, and sugar, will likely impact the manufacturing GPM of CBG, OSP, and APURE, as those commodities are the main raw materials for the companies and are used in their product packaging. The high soft commodity prices for goods like corn and soybean meal could impact livestock operators such as CPF.
Automotive	<ul style="list-style-type: none"> The increase in the steel price could have a short-term negative impact on auto parts manufacturing companies. The companies will have to absorb the higher steel costs for at least 3 months before they can pass the costs through to their customers. Note that raw materials, especially steel, contribute about 50-60% of the companies' COGS.

Source: FSSIA estimates

Exhibit 38: High inflation: losing stocks

Stocks	Rationale
CBG	CBG should be the hardest hit by the currently high aluminium price at above USD3,000/tonne, as the company has yet to hedge for the aluminium price. We estimate that, ceteris paribus, for every USD100/tonne increase (c8-10% of total COGS) its export GPM would drop by 30 bps (export sales normally account for c50% of total sales).
OSP	OSP's GPM should have a smaller impact from the aluminium price, as c70-80% of the aluminium price has already been locked in for 2021. Although the hedging price in 2022 would be higher, its GPM should only be slightly pressured, as less than 20% is derived from export sales and less than 50% of export products are in aluminium cans (the remaining products are in glass bottles).
ASIAN	ASIAN should see a limited impact from the currently high packaging cost. Only the pet food (38.7% of total sales) and tuna (12.2%) units would be affected, as the materials used for those units' packaging accounts for 30% and 10% of total COGS, respectively. ASIAN adjusts its OEM contracts every 6-12 months to be in line with the current costs.
APURE	APURE's can raw material price in 2022 could be 20% higher compared to 2021. However, the high volume growth and utilisation rate of its plant could mitigate this impact.
CPF	The higher raw material costs will likely impact CPF's farm business which accounted for c55% of CPF's total sales in 1H21. CPF's earnings in 2H21 would likely be hardest hit by low demand and rising production costs. The currently high corn and soybean meal price has raised the chicken production cost in Thailand to THB30/kg, which would translate to an operating loss as the average chicken price is currently at THB29-30/kg.
SAT	Almost 60% of SAT's COGS comes from raw material costs, especially steel. The company stated that it was significantly impacted by the higher steel price in 3Q21, before being able to pass its costs through to automakers in 4Q21. Therefore, we believe the company should have slower earnings growth in 3Q21.
AH	We believe AH should have a smaller impact compared to SAT. The company has other raw material components, not only steel. However, its Portugal factory should be impacted by the semi-conductor shortage in 3Q21.
AAV	Fuel prices account for 30% of AAV's total cost. Thus, AAV should be directly impacted the rising inflation. In addition, AAV has not hedged against the fuel prices over the past year due to the uncertainty over fuel consumption in 2022. On a positive note, we believe AAV could partially pass its higher costs through to customers by raising ticket fares.

Source: FSSIA estimates

Exhibit 39: Summary of key valuations of potential losers as of 19 Oct 2021

Company	BBG code	--- Share price ---		Up side (%)	----- Recur Profit -----			Rec profit grth		----- P/E ----		DivYld (%)	ROE (%)	P/B (x)
		Current	Target		20	21E	22E	21E	22E	21E	22E			
		(THB)	(THB)		(THB m)	(THB m)	(THB m)	(%)	(%)	(x)	(x)			
Carabao Group	CBG TB	119.00	164.00	38	3,525	3,239	3,940	(8)	22	36.7	30.2	1.2	30.6	10.6
Osotspa PCL	OSP TB	33.75	42.00	24	3,349	3,641	4,014	9	10	27.8	25.3	3.4	18.8	5.2
Asian Sea Corp	ASIAN TB	16.10	24.10	50	715	1,004	1,089	40	8	13.0	12.0	3.8	25.9	3.1
Agripure Holdings	APURE TB	8.15	12.00	47	305	376	558	23	48	20.1	13.6	2.1	19.7	3.8
Charoen Pokphand F	CPF TB	25.75	28.00	9	24,537	15,071	16,160	(39)	7	14.7	13.7	3.5	7.7	1.2
Somboon Adv Tech	SAT TB	19.70	29.00	47	385	964	1,117	150	16	8.7	7.5	8.1	13.0	1.1
AAPICO Hitech	AH TB	20.70	30.80	49	146	994	1,337	581	34	7.4	5.5	4.7	12.7	0.9
Asia Aviation	AAV TB	3.00	3.20	7	(4,997)	(4,503)	(471)	(10)	(90)	(3.2)	(30.9)	0.0	(39.2)	1.7

Source: 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	PAP	PCSGH	PDJ	PG	PHOL	PLANB
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	SCC	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:

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* 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)

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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

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Songklod Wongchai FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
PTT Explor & Prod	PTTEP TB	THB 123.00	BUY	Risks our TP, which is based on EV/EBITDA, are a sharp decline in oil price and a potential earnings downside from government intervention.
Thai Oil	TOP TB	THB 57.00	BUY	Downside risks to our EV/EBITDA-based TP are a sharp rise in oil price and weak demand for refined oil products.
Banpu	BANPU TB	THB 12.70	BUY	We see downside risks to our SoTP-based TP from lower coal prices, higher diesel costs and any unplanned shutdowns of its power plants.
Star Petroleum Refining	SPRC TB	THB 10.70	BUY	TP is based on EV/EBITDA. Downside risks are a sharp rise in oil price and weak demand for refined oil products.
Indorama Ventures	IVL TB	THB 44.75	BUY	The key downside risks to our EV/EBITDA-based TP are weaker-than-expected margins for PX-PTA and PET-PTA, lower demand for polyester, and delays in IVL's projects.
IRPC PCL	IRPC TB	THB 4.56	BUY	Key risks to our positive view and EV/EBITDA-based target price are weaker-than-expected oil product demand growth and lower-than-expected PP-naphtha and SM-benzene margins.
PTT PCL	PTT TB	THB 39.50	BUY	Risks to our SoTP-based valuation are the oil price and potential earnings downside from government intervention.
Bangchak Corp	BCP TB	THB 28.75	BUY	The downside risks to our SoTP-based TP include: 1) lower-than-expected demand for petroleum products; 2) higher crude premiums; and 3) unplanned shutdowns of the company's refinery plants.
Asian Sea Corporation	ASIAN TB	THB 16.10	BUY	Downside risks to our P/E based TP would be 1) a stronger-than-expected THB against USD; and 2) the high volatility of raw material prices, such as tuna and squid prices, which could hurt the company's GPM.
Asia Aviation	AAV TB	THB 3.00	BUY	Downside risks to our P/BV multiple target price include 1) extraordinary events such as political turmoil and natural disasters; 2) higher-than-expected fuel expenses following an increase in oil prices; and 3) the slower-than-expected recovery of international tourist numbers.
Osotspa PCL	OSP TB	THB 33.75	BUY	The key downside risks to our DCF-based TP are 1) a decline in energy drink market share in Myanmar due to strong competition; 2) a slow recovery in the economy; and 3) lower-than-expected SG&A savings from the Fit Fast Firm program.
Carabao Group	CBG TB	THB 119.00	BUY	The key downside risks to our DCF-based TP are 1) slower-than-expected sales growth in Myanmar, Cambodia, and the vitamin C drink market; 2) a decrease in domestic energy drink market share; and 3) higher-than-expected SG&A expenses from overseas operations, such as in China and the UK.
AAPICO Hitech	AH TB	THB 20.70	BUY	Key downside risks to our P/E-derived TP include lower-than-expected car production volumes and lower car sales in both Thailand and Malaysia. Additional downside risks include a faster-than-expected EV adoption rate in Thailand, and exchange rate risk.
Somboon Advance Technology	SAT TB	THB 19.70	BUY	The key downside risks to our P/E-based TP are the domestic car manufacturing industry recovering more slowly than expected, a slower-than-expected adoption rate for electric vehicles in Thailand, and worse global demand for pickup trucks.
PTT Oil and Retail Business	OR TB	THB 27.75	BUY	The downside risks to our SOTP-based TP include: 1) lower-than-expected demand for petroleum products; 2) a lower marketing margin; and 3) weaker-than-expected jet demand.
Energy Absolute	EA TB	THB 64.50	BUY	Downside risks to our SoTP-based TP include: 1) lower-than-expected demand for electricity in Thailand; 2) lower crude prices; and 3) lower-than-expected demand for batteries.
Nex Point	NEX TB	THB 8.75	BUY	Downside risks to our SOTP-based TP include: 1) a lower-than-expected bus sales volume; 2) delays in bus deliveries; and 3) risk from regulatory changes.
Gunkul Engineering	GUNKUL TB	THB 5.45	BUY	The downside risks to our SoTP-based TP on GUNKUL include 1) lower-than-expected demand for electricity in Thailand, 2) declining EPC backlogs, and 3) lower-than-expected utilisation rates for solar and wind farms.
Absolute Clean Energy	ACE TB	THB 3.66	BUY	The downside risks to our SoTP-based TP include 1) lower-than-expected demand for electricity in Thailand, 2) a lower crude price, and 3) higher costs of biomass feedstock.

Gulf Energy Development	GULF TB	THB 42.50	BUY	The downside risks to our SoTP-based TP on GULF include 1) lower-than-expected demand for electricity in Thailand; 2) a lower crude price; and 3) delays in project commercial operation dates.
Intouch Holdings	INTUCH TB	THB 71.25	HOLD	The key downside risks to our NAV-discounted TP are if the sluggish performance from the satellite business continues and if there is a slower-than-expected 5G adoption rate. The key upside risk is if INTUCH synergizes with GULF faster than expected.
B.Grimm Power	BGRIM TB	THB 41.00	BUY	The downside risks to our SoTP-based TP include 1) lower-than-expected demand for electricity in Thailand, 2) a lower crude price, and 3) unplanned shutdowns of its SPPs.
Agripure Holdings	APURE TB	THB 8.15	BUY	Downside risks to our P/E based TP would be 1) order cancellations from big customers like Walmart; 2) a stronger-than-expected THB against USD; and 3) the high volatility of raw material prices, such as the corn price, which could hurt the company's GPM.
Charoen Pokphand Foods	CPF TB	THB 25.75	HOLD	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. Key upside risk is faster-than-expected recovery of livestock price in region and lower feed stock cost.

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 Finansia 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 Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 19-Oct-2021 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / 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.