

# Thailand Market Strategy

## Convergence of growth and recoveries in 4Q22

- Looking into October 2022, we still expect the SET index to be highly volatile, range-bound between 1,580 and 1,640.
- Expect easing inflation and improving tourism to fuel optimism on the SET after the SET's 3Q22 earnings results decline q-q but grow y-y, based on our estimates.
- In October, our top picks include ASIAN, SUSCO, BBL, DTAC, AWC, BA and SHR.

### Time to buy the dip in October's volatile market

We believe Thailand is poised to see healthier economic growth, higher domestic consumption, and stronger exports and tourism, which should lead to higher GDP, an improving current account balance, and a relatively stable THB. First, the economic outlook should strengthen on improving revenues from tourism, higher farm incomes from rising prices of soft commodities, and stronger exports for the automobile industry, as the key export products of Thailand should boost the country's revenue and cash flow in 2023. Second, the timely 5% increase in the minimum wage effective on 1 October 2022 should further strengthen Thailand's purchasing power and eventually lead to stronger domestic consumption in 2023. Third, the stronger projected earnings outlook for banks and Thai corporates in 2023, mostly tourism related, as well as for exports, transportation, and commerce, should ensure a more stable THB and a solid economic growth outlook.

### Solid PCE foundation to be further underscored by rising tourism revenue

We think the most critical factors for Thailand's economic growth, currency stability, and strong corporate earnings growth to support the equity market, are the pace of the tourism recovery and domestic personal consumption expenditure (PCE), which have been the true key growth engines for Thailand's GDP since 2000. Based on the Bank of Thailand (BoT)'s data, Thailand's key PCE indicators have all recovered meaningfully in 2021-1H22, led by the strong growth in retail sales, non-durable goods spending, and department store sales. Rising tourism revenue in the winter high season, particularly for the European snowbirds, could be surprising drivers for Thailand's PCE and GDP, in our view.

### Tourism: an anti-recession growth driver after the Covid-19 pandemic

In 2022-23, we think Thailand will benefit from a global tourism recovery, even with the economic recessions in the US and EU. We estimate Thailand's tourist arrivals to reach 10m by end-2022 and recover to 34m in 2023 – around 60% of the pre-Covid level for Chinese tourists; 85% for European; 110% for Indian; and 120% for Middle Eastern tourists in 2023. The strong tourism revenue should timely offset the impact of the recessions, given that global tourist arrivals dropped by only 4% in 2009 during the Great Recession.

### Overweight on Thai equity with 2023 SET index target of 1,767

We maintain our OVERWEIGHT view on Thailand's equity market with our 2023 SET index target of 1,767, based on 14.8x 2023E P/E, -0.5SD, on FSSIA's 2023 EPS forecast of THB119.1 per share, 12% y-y growth. Our top sector picks are transportation, tourism, commerce, and banking. Our top stock picks are ASIAN, SUSCO, BBL, DTAC, AWC, BA and SHR.



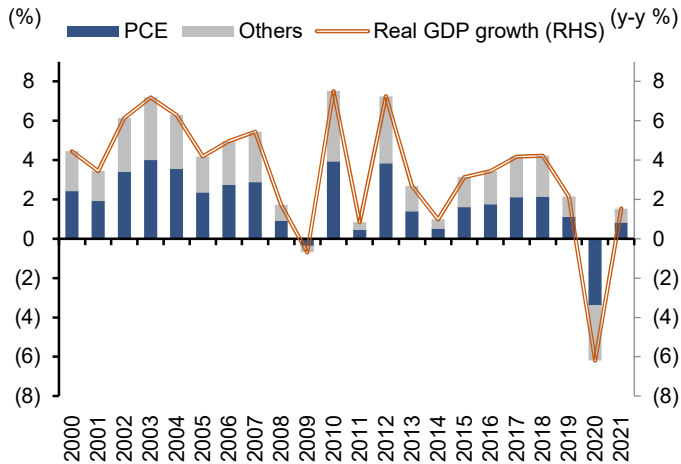
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## Convergence of growth and recoveries in 4Q22

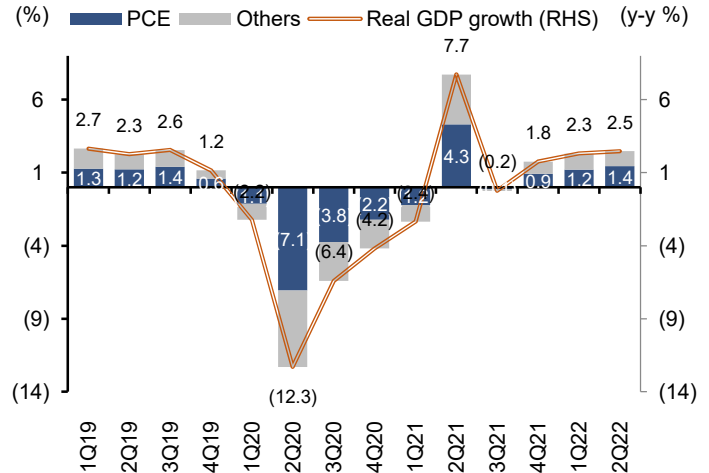
Unlike most other countries, we think Thailand has successfully differentiated itself as a tourism- and export-driven country with increasingly higher contributions from domestic consumer spending, making Thailand a stronger country both in terms of financial (high reserves, healthy banking system, low external debt) and economic factors (resilient GDP, relatively stable currency, and healthy current account balance).

**Exhibit 1: Thailand – contribution to GDP of personal consumption (PCE) annually, 2000-2021**



Sources: Office of the National Economic and Social Development Council (NESDC); FSSIA's compilation

**Exhibit 2: Thailand – contribution to GDP of personal consumption (PCE) quarterly, 1Q19-2Q22**



Sources: NESDC; FSSIA's compilation

**External tourism and internal consumption are key.** We think the most critical factors for Thailand's economic growth, currency stability, and strong corporate earnings growth to support the equity market, are the pace of the tourism recovery and domestic PCE, which have been the true key growth engines for Thailand's GDP since 2000.

PCE accounted for around 50% of Thailand's GDP during 2000-07 before the GDP drops in 2008-09 due to the impact of the subprime crisis in 2008, followed by the weak GDP due to the widespread flooding in 2011 and the political turmoil and military coup in 2013.

Improving political stability, the return of tourists, and strong exports supported Thailand's healthy GDP in 2015-19 before GDP collapsed in 2020 on the impact of the Covid-19 pandemic in 2020-21, which froze the global travel and tourism industries.

In 2022-23, we believe Thailand is one of the few countries in the world that will see an improvement in its GDP, current account balance, exports, and particularly the positive impact of the global tourism recovery, which we expect to continue into 2023 during the post-Covid-19 era, as people are eager to return their lives to normality.

We believe PCE will be the key growth and recovery engine for Thailand, backed by the 5% minimum wage hike from 1 October 2022 onward, manageable core inflation below 3%, rising revenues from services (tourism), and the strong exports of agricultural products, automobiles, and electronics.

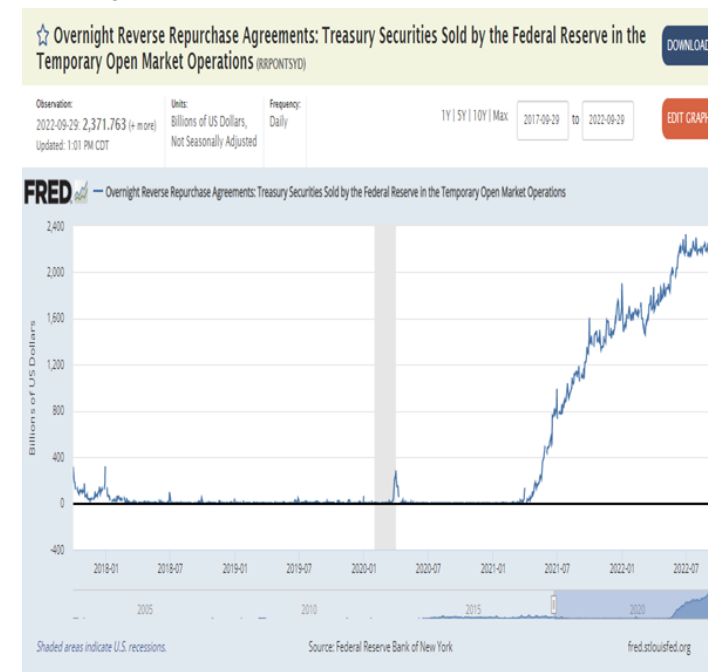
In terms of cash flows, we expect Thailand to witness significant improvements in the current account balance, supported by higher foreign direct investment (FDI), mainly for the electric vehicle (EV) industry in the Eastern Economic Corridor (EEC) area, rising service revenue from tourism, and fund inflows to the capital market.

## USD de-dollarisation: long-term depreciation vs short-term appreciation

The current weakening of currencies against the USD, including the THB, has mainly been triggered by the faster and higher-than-peers' policy interest rate (PIR) hike by the US Federal Reserve (Fed). The Fed recently raised its interest rate by 0.75% to 3.25%, and is likely to hike it further to 4.4% by the end of 2022 and 4.6% in 2023, based on the Federal Open Market Committee (FOMC)'s dot plot forecast as of 30 September 2022.

**De-dollarisation to weaken USD by 2Q23.** While the strengthening USD is driven by the wider policy interest rate gap (PIG) between the Fed's rate and the policy rates of other global central banks, we think the more important trend is the global de-dollarisation. We believe this will lead to the structural depreciation of the USD against other currencies in 2023 once the PIG narrows due to accelerating PIRs by other central banks to retain their currencies' levels against the USD. De-dollarisation means less demand for USD and USD-denominated treasury fixed income assets as reserves for global central banks and the needs for the USD as a global trading currency.

### Exhibit 3: Overnight reverse repurchase agreements: treasury securities sold by the Federal Reserve in the temporary open market operations



Source: [FRED Economic Data](#)

We project the USD to depreciate against other currencies, including the THB, in 2023, with the USD index dropping from over 110 currently down to 90-100 by 2H23. The triggering factors for the USD depreciation would include the y-y weaker US GDP, the continued decline in the USD as a percentage of global reserves, and the higher debt-to-GDP ratio of the US, thanks to the massive domestic economic injection, the impact of the Russia-Ukraine war, and the impacts of higher inflation and the rising interest rate.

### Exhibit 4: Maturity distribution of securities, loans, and selected other assets and liabilities, 28 Sep 2022

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**2. Maturity Distribution of Securities, Loans, and Selected Other Assets and Liabilities, September 28, 2022**

Millions of dollars

Remaining Maturity	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	All
<b>Loans<sup>1</sup></b>	2,559	3,977	0	14,021	0	...	20,558
<b>U.S. Treasury securities<sup>2</sup></b>							
Holdings	92,355	316,644	813,531	1,993,540	1,000,920	1,454,857	5,671,848
Weekly changes	7,353	8,651	561	5	4	...	2,071
<b>Federal agency debt securities<sup>3</sup></b>							
Holdings	0	0	0	0	2,347	0	2,347
Weekly changes	0	0	0	0	0	0	0
<b>Mortgage-backed securities<sup>4</sup></b>							
Holdings	0	1	46	3,251	54,547	2,640,313	2,698,158
Weekly changes	0	1	8	99	835	15,785	16,729
<b>Loan participations held by MS Facilities LLC (Main Street Lending Program)<sup>5</sup></b>	0	0	0	13,034	...	...	13,034
<b>Municipal notes held by Municipal Liquidity Facility LLC<sup>6</sup></b>	0	0	0	2,907	...	...	2,907
<b>Loans held by TALF II LLC<sup>7</sup></b>	0	0	348	710	...	...	1,058
<b>Reverse repurchase agreements<sup>8</sup></b>	1	0	...	...	...	...	1
<b>Central bank liquidity swaps<sup>9</sup></b>	216	0	0	0	0	0	216
<b>Reverse repurchase agreements<sup>8</sup></b>	2,638,289	0	...	...	...	...	2,638,289
<b>Term deposits</b>	0	0	0	...	...	...	0

Note: Components may not sum to totals because of rounding.  
...Not applicable.

1. Loans includes primary, secondary, and seasonal loans and credit extended through the Paycheck Protection Program Liquidity Facility (PPPLF) and other credit extensions. A component of PPPLF loans presented in the Within 15 day category has reached maturity and is recognized as performing loans based upon the underlying guarantee of the collateral by the Small Business Administration. Loans exclude the loans from the Federal Reserve Bank of New York (FRBNY) to Municipal Liquidity Facility LLC and TALF II LLC, and from the Federal Reserve Bank of Boston (FRBB) to MS Facilities LLC, which were eliminated when preparing the FRBNY's and FRBB's statement of condition, respectively, consistent with consolidation under generally accepted accounting principles.

2. Face value. For inflation-indexed securities, includes the original face value and compensation that adjusts for the effect of inflation on the original face value of such securities.

3. Face value.

4. Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The current face value shown is the remaining principal balance of the securities.

5. Book value of the loan participations held by the MS Facilities LLC.

6. Book value of the municipal notes held by the Municipal Liquidity Facility LLC.

7. Book value of the loans held by the TALF II LLC.

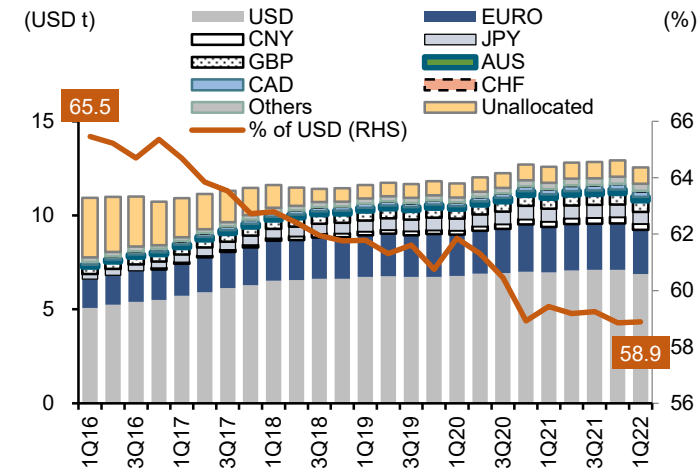
8. Cash value of agreements.

9. Dollar value of foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank. This exchange rate equals the market exchange rate used when the foreign currency was acquired from the foreign central bank.

Source: [Federal Reserve](#)

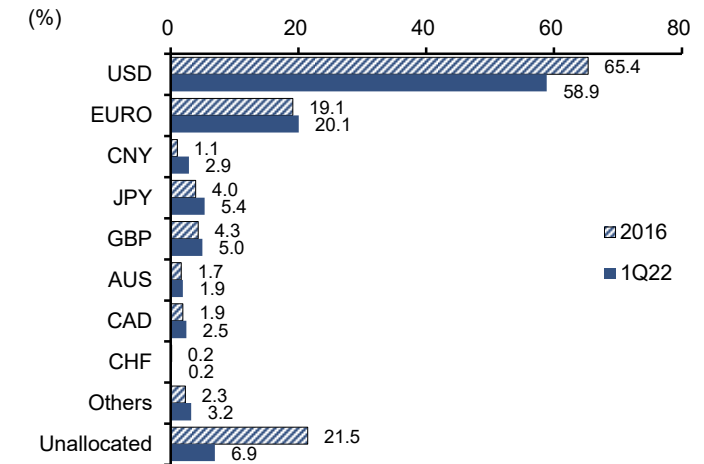
**Structural decline in USD reserves to continue in 2023.** After the sanctions against Russia and the intensifying tensions between the US and China, we think de-dollarisation has been accelerated by reductions in USD reserves globally.

**Exhibit 5: World Currency Composition of Official Foreign Exchange Reserves (COFER)**



Sources: [International Monetary Fund \(IMF\)](#); FSSIA's compilation

**Exhibit 6: Change of share of each currency in world COFER from 2016 to 1Q22**

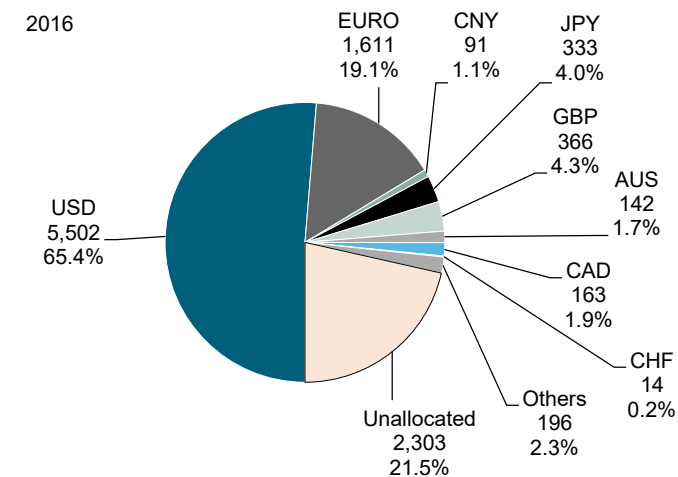


Value of each currency is in USD billion

Sources: [IMF](#); FSSIA's compilation

Since 1Q16, the USD reserves held by global central banks or the Currency Composition of Official Foreign Exchange Reserves (COFER) have plunged from 65.4% to 58.9% in 1Q22, and are likely to decline further to 55% by 2023, based on our estimate. The other major currencies that have replaced the USD for reserves include the CHY (from 1.1% in 1Q16 to 2.9% in 1Q22), JPY (4.0% to 5.4%), GBP (4.3% to 5.0%), and CAD (1.9% to 2.5%).

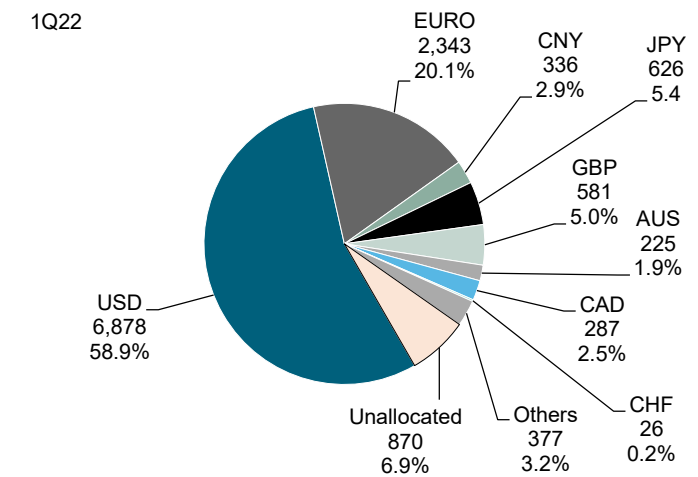
**Exhibit 7: World COFER in 2016**



Value of each currency is in USD billion

Sources: [IMF](#); FSSIA's compilation

**Exhibit 8: World COFER in 1Q22**



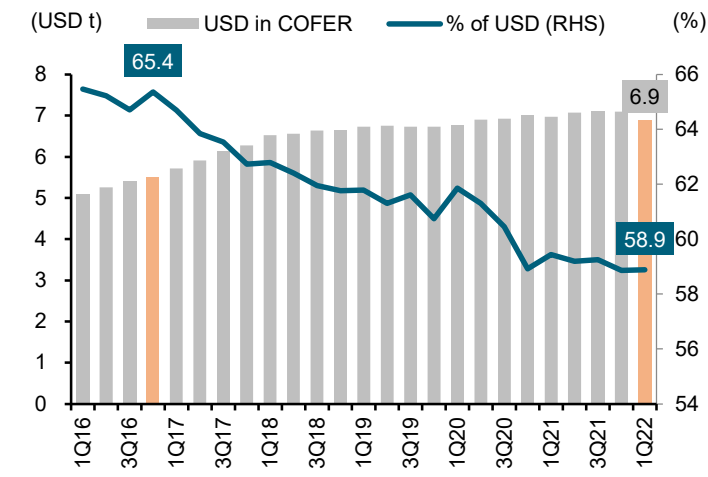
Value of each currency is in USD billion

Sources: [IMF](#); FSSIA's compilation

Note that reserves in unallocated currencies and other non-major currencies have dropped markedly during 1Q16 to 1Q22, indicating that global central banks are now not only increasingly shunning the USD but are also diversifying their reserves in order to improve their currency's stability, in our view.

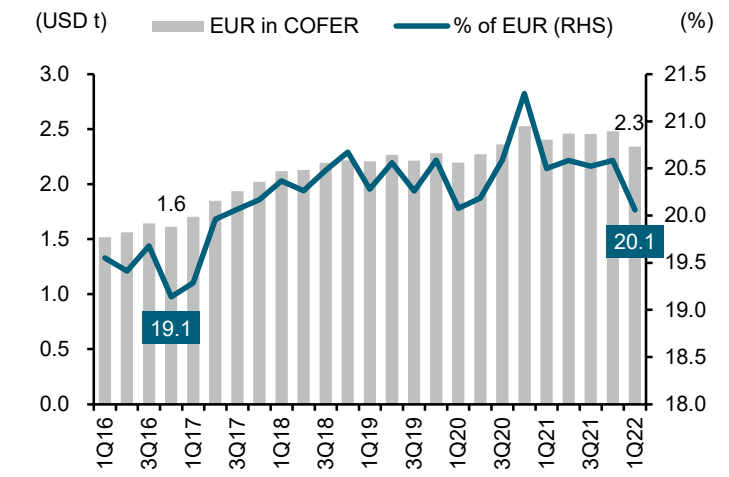
Thanks to the impact of the inflation spikes caused by higher energy prices as a result of the sanctions against Russia, the proportion of EUR as COFER has dropped from its 21.4% peak in 4Q20 down to 20.1% in 1Q22, and is likely to head further south, as the EUR has significantly weakened against the USD and other currencies.

**Exhibit 9: USD in world COFER and share**



Sources: IMF; FSSIA's compilation

**Exhibit 10: EUR in world COFER and share**

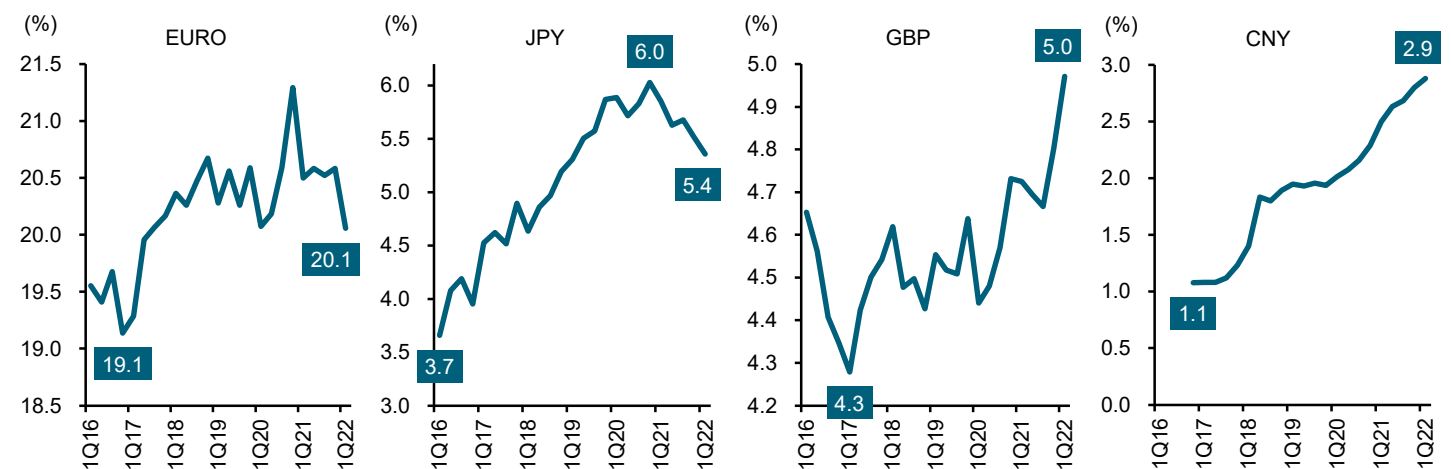


Sources: IMF; FSSIA's compilation

Similarly, the JPY's global COFER share has dipped from its 6% peak in 4Q20 to 5.4% in 1Q22, and is likely to decrease further as Japan's economic growth is in jeopardy due to rising inflation, low domestic consumption spending, and high debt.

The CHY and GBP are two major currencies that have taken higher shares of COFER thanks to China's stronger economic outlook than the US and other European countries, even during its lockdowns under the zero-Covid-19 policy period in 2021-22. However, we think the GBP as a share of COFER is likely to drop as we move into 2023 thanks to the UK government's worsening economic situation and the rising debt level to fund its large-scale subsidy program and rising energy costs.

**Exhibit 11: Share of other major currencies in world COFER**

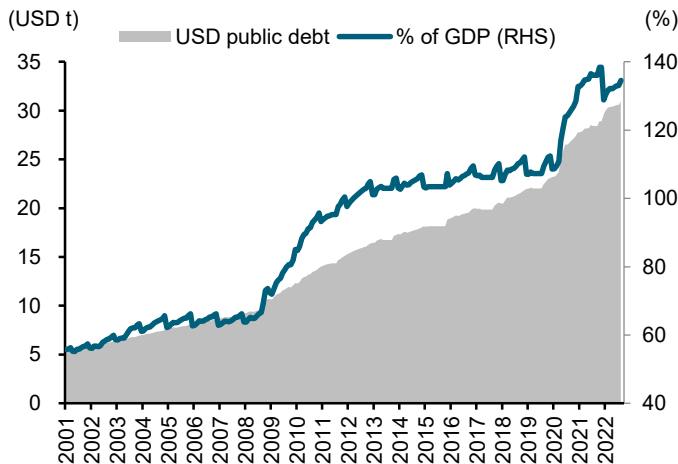


Sources: IMF; FSSIA's compilation

**Surging US public debt.** Since the end of the US subprime crisis, US public debt has jumped considerably from USD63t in 2008 to USD137t in 1H22, according to Bloomberg. The surges in US public debt came in two waves. The first debt surge wave rose by around USD35t within four years from 2008-11 due to the Quantitative Easing (QE) program. The second surge of USD110t to USD137t occurred only within two and a half years during 2020-1H22 due to another round of QE to rescue the US economy in light of the impact of the Covid-19 pandemic.

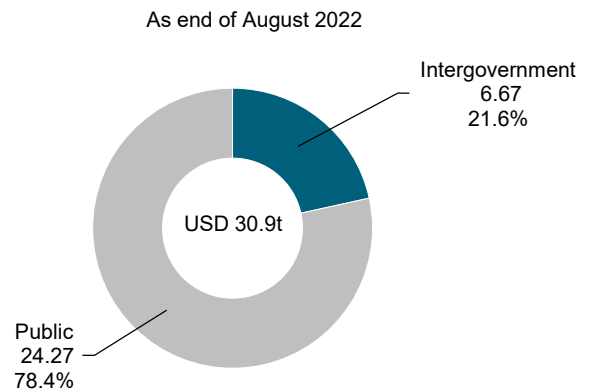
At the end of August 2022, the US public debt comprised USD24.3t (78.4% of total public debt), mostly in the form of treasury debts, and the remaining public debt was from a number of inter-governmental agencies.

**Exhibit 12: US public debt as % of GDP**



Sources: Bloomberg; FSSIA's compilation

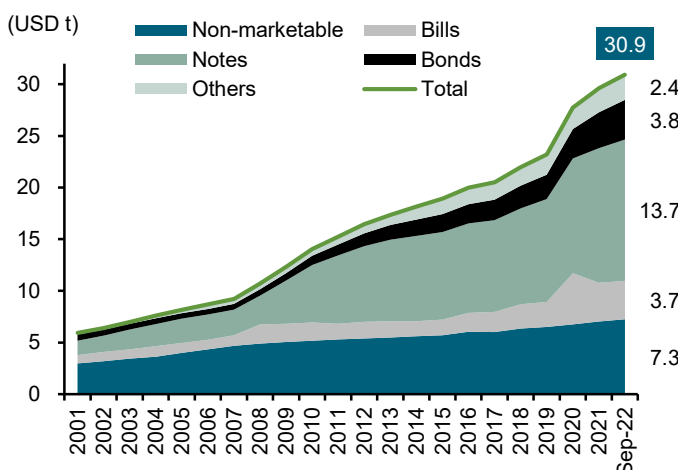
**Exhibit 13: Breakdown of US debt holders by public and intergovernmental agencies**



Sources: Bloomberg; FSSIA's compilation

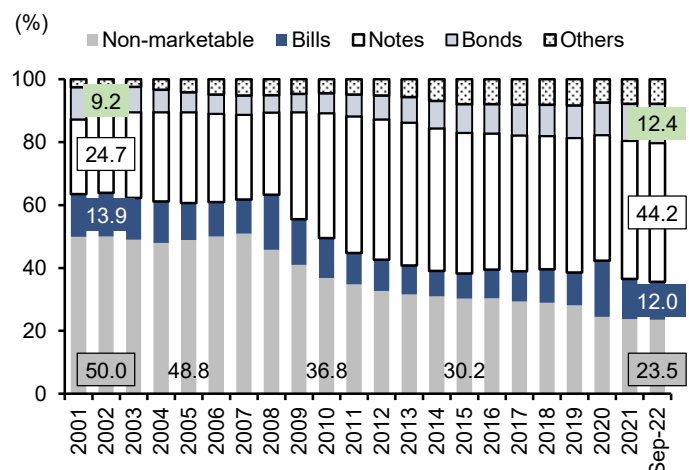
**Dissecting US public debt.** Out of the total USD30.9t of public debt as of September 2022, around 56.2% or USD17.4t is short-term debt. Another 12.4% or USD3.8t is for long-term bonds. This clearly indicates that the US has an excessive debt level that far surpasses its repayment capability, and has no option but to roll over its debt to refinance the expired debts and higher interest expense burden as a result of the Fed's rising policy rate and the lower demand for US treasury debts.

**Exhibit 14: US public debt by security type**



Sources: Bloomberg; FSSIA's compilation

**Exhibit 15: US public debt by share of security type**



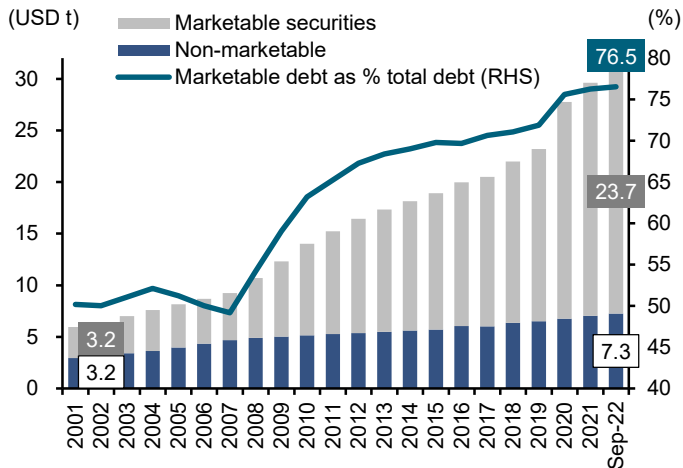
Sources: Bloomberg; FSSIA's compilation



Increasingly, the US has raised its marketable debts, mostly treasury fixed incomes, to record high levels. While US public debts are mostly marketable, we believe the demand for US treasury bills, notes, and bonds will decline over time, as China, Russia, and a number of other countries like the Middle East, have begun their de-dollarisation process.

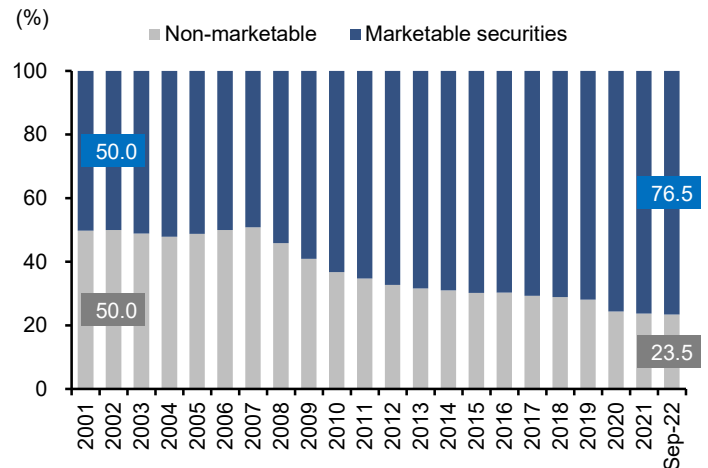
In response to concerns over the risk of asset confiscations by the US and EU governments, similar to the case of USD300b in Russian reserves confiscated under the sanctions against Russia's invasion of Ukraine, many countries have sold their USD-denominated assets in exchange for CNY, EUR, or JPY assets.

**Exhibit 16: US marketable public debt to % of total debt**



Source: [Treasury Direct](#)

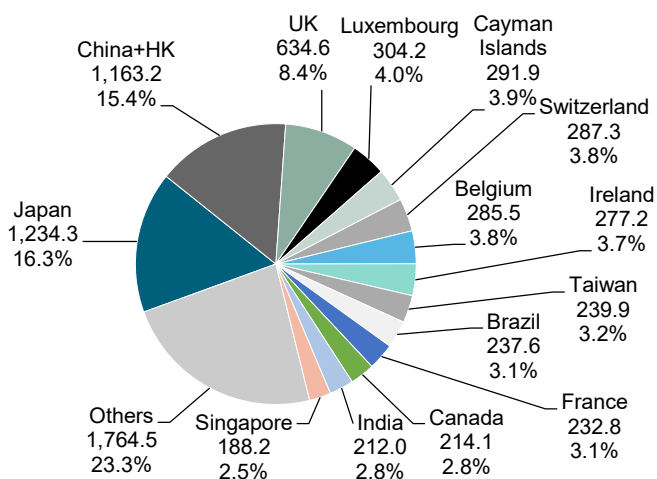
**Exhibit 17: US marketable public debt, share of total debt**



Source: [Treasury Direct](#)

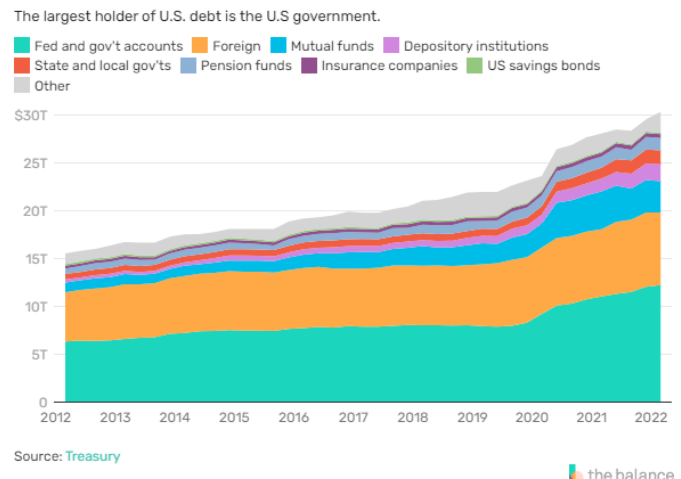
According to US Department of the Treasury, as of 2Q22, China + HK is now not the largest holder of US public debt. It has been surpassed by Japan, which holds 16.3% of total US public debt, followed by China (15.4%), and the UK (8.4%), while many EU countries hold around 3-4% of the US public debt. Undoubtedly, the largest issuer of the US public debt is the Fed per se, which has injected a huge amount of money into the US system since 2008 via its QE programs.

**Exhibit 18: Major foreign holders of US public debt**



Sources: [U.S. Department of the Treasury](#); FSSIA's compilation

**Exhibit 19: US treasury securities by holder**

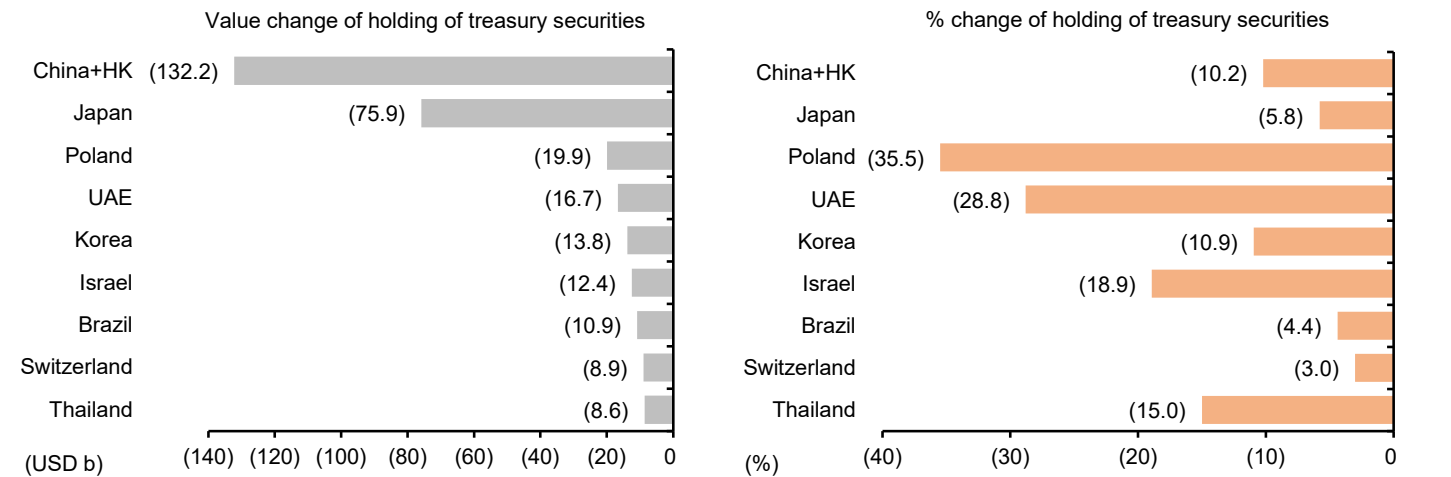


Source: [the balance](#)

China has already unloaded over USD132.2b of its USD assets YTD, followed by Japan (-USD75.9b) and a number of EU and Middle Eastern countries. Thailand has decreased its USD asset holdings by USD8.6b, and even Israel and South Korea, the US strong allies, have cut their USD assets by USD12.4b and USD13.8b, respectively.

It is interesting to note that Poland is the country that cut its USD assets the most, in percentage terms, by 35.5% YTD, followed by the UAE (-28.8%), Israel (-18.9%), Thailand (-15%), South Korea (-10.9%), and China (-10.2%).

#### Exhibit 20: Top 10 foreign holders of US public debt whose holdings have been reduced the most

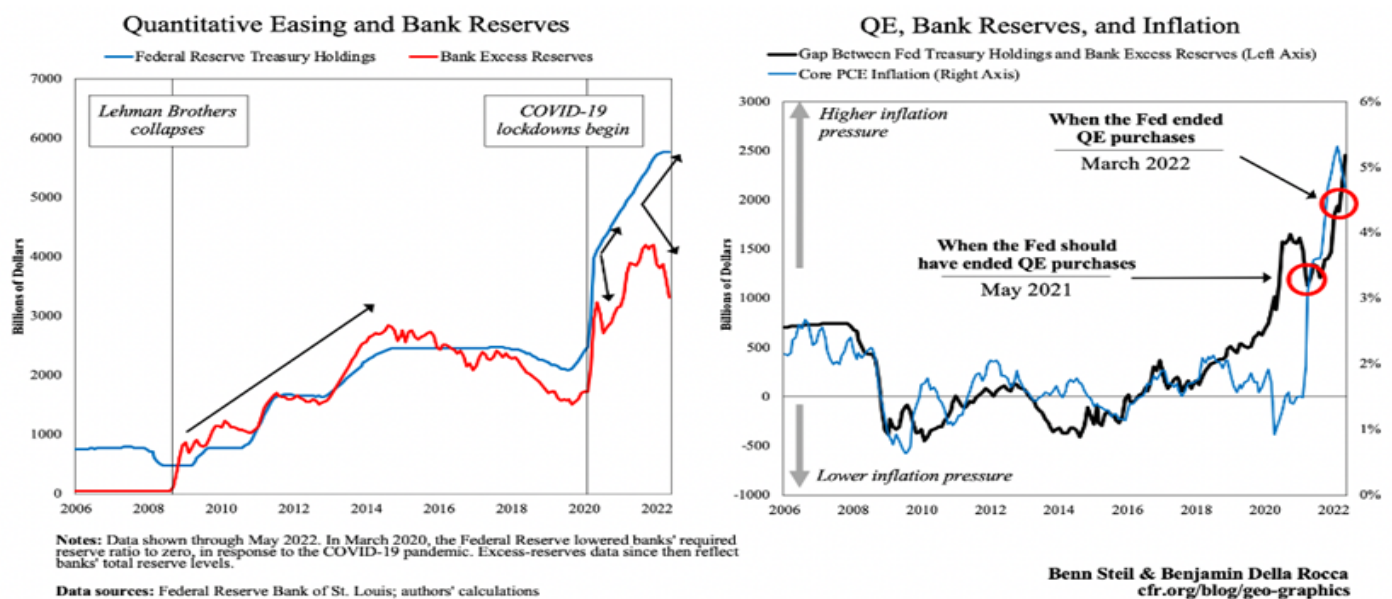


Sources: [U.S. Department of the Treasury](#); FSSIA's compilation

**QT to tighten vs refinancing to loosen USD liquidity?** The Fed has injected a humongous amount of USD into the global system via its economic measures to stimulate US economic growth during the past two crises: the subprime crisis in 2008 and the Covid-19 pandemic in 2020-21.

Even with the Fed's Quantitative Tightening (QT) program since March 2022, the USD money supply has remained significantly high, resulting in the structural depreciation of the USD and high inflation for the US, even before the impact of the high energy and food prices due to the Russia-Ukraine war in February 2022.

#### Exhibit 21: US – QE, bank reserves, and inflation

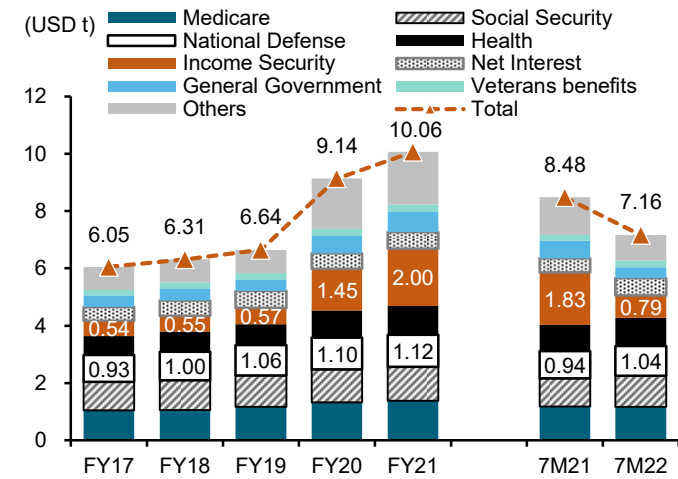


Source: [Council on Foreign Relations](#)



We believe that in 2023, the US will still face the grave dilemma of curbing the structural depreciation of the USD and the excessive USD liquidity. These are the key reasons for the US' structurally higher core inflation above 6%, mainly via the high shelter inflation, food inflation, and wage increases due to the low unemployment rate and rising inflation. Why?

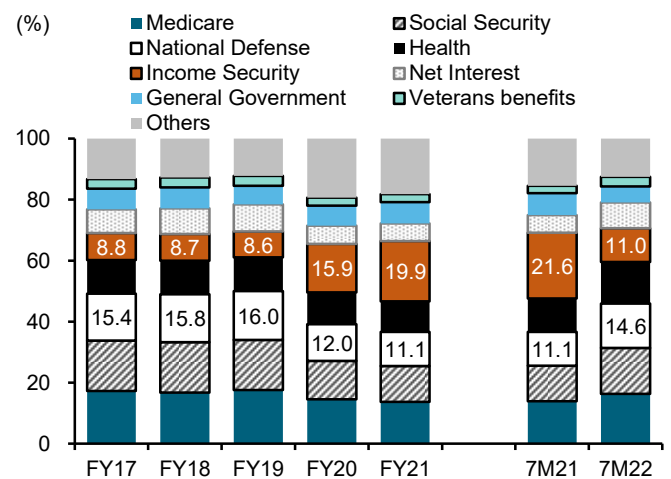
**Exhibit 22: US fiscal budget ending 30 Sep, breakdown by spending function**



Income securities and National Defense have data in bars

Sources: [usaspending.gov](https://usaspending.gov)

**Exhibit 23: Share of US fiscal budget by functional spending**

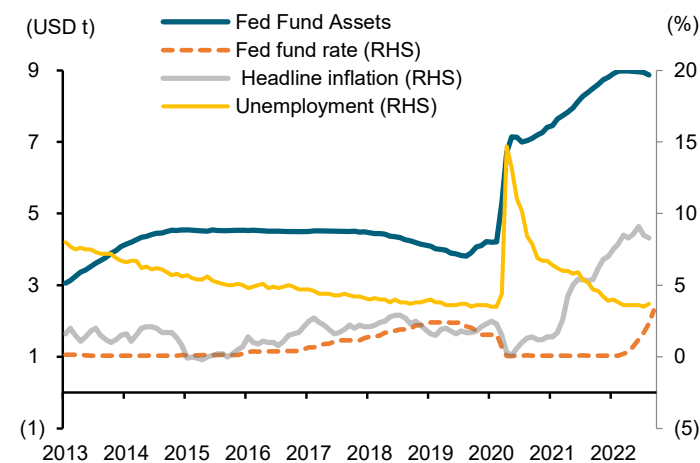


Income securities and National Defense have data in bars

Sources: [usaspending.gov](https://usaspending.gov)

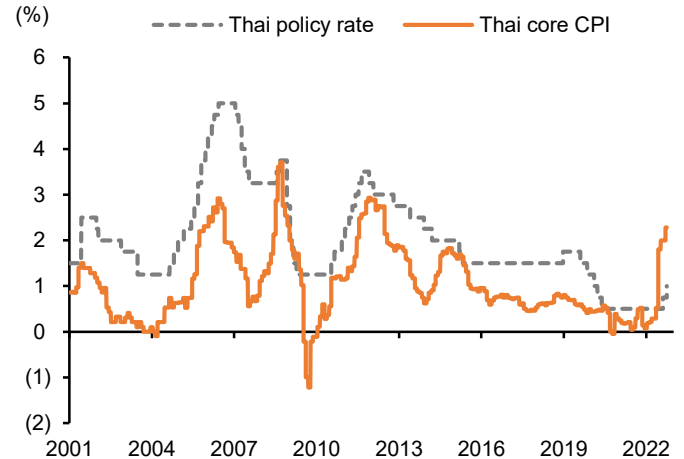
On one hand, the US would like to reduce its USD liquidity via QT to help curb inflation. However, the refinancing of the US public debts are inevitable, in our view, and with the much higher interest expenses for treasury fixed incomes, it is noticeable that the US would have to inject a higher amount of money into the system.

**Exhibit 24: US – fed fund assets, fed rate, inflation and unemployment**



Sources: Bloomberg; FSSIA's compilation

**Exhibit 25: Thai policy rate and core inflation**



Sources: Bloomberg; FSSIA's compilation

### How high could the policy interest rate differential be for Thailand vs the Fed?

We believe Thailand is now able to tolerate a much higher interest rate differential (IRD; Fed's policy rate minus BoT's policy rate) at over 3% thanks to the lower debt, strong reserves, and solid GDP outlook.

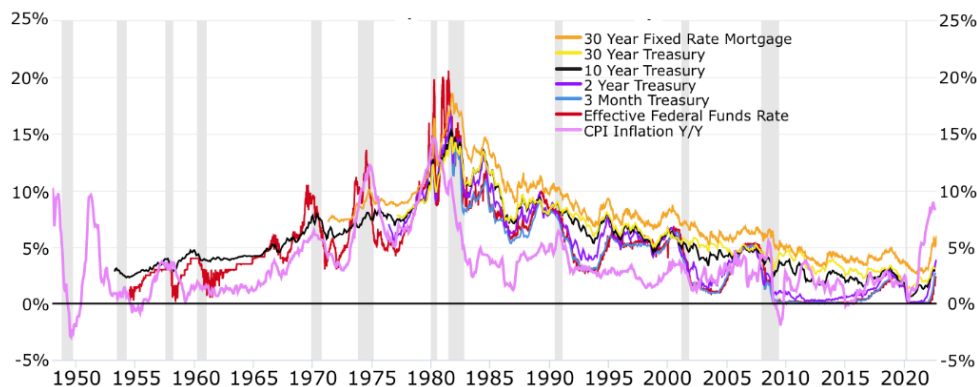
**Inverted yield curve may not necessarily signal a deep recession.** The widely held concept is that a higher positive US inverted yield curve (30-year treasury bond yield minus 2-year treasury note yield) leads to a higher the risk of the US (and global) economy heading into a deep recession. Our opinion differs, however.

As the demand for US treasury assets has been structurally declining due to the ongoing and even accelerating de-dollarisation process by global central banks, the interest rate yields of US treasury assets, both short term and long term, rise in order to incentivise investors to buy and hold the treasury assets.

The US inverted yield curve due to the higher short-term yield over the long-term yield could come from the demand factor of structurally lower demand for US treasury assets as a key safe haven for global central banks, rather than from investors rushing into long-term treasury bonds as a safe haven asset amid the rising risk of the interest rate uptrend and economic recession.

We believe the US is still entering into a recession in 2022, which will likely extend into 2023, as the negative impact of the high inflation and interest rate could eventually erode demand and hurt supply in the US economy.

### Exhibit 26: Historical comparison of US federal funds rate compared to treasury bonds and inflation



Source: [Wikipedia](https://www.wikipedia.org)

## Thailand has a better economic and financial outlook in 2023 than the US

We believe Thailand is poised to see healthier economic growth, higher domestic consumption, and stronger exports and tourism, which should lead to higher GDP, an improving current account balance, and a relatively stable THB.

Compared to the US, EU, and China, Thailand now has the lowest policy interest rate at only 1.0%, even after the recent hike by the BoT. Despite the high headline inflation of almost 8% and rising IRD of 3%, the BoT still lifted its policy rate by only 0.25%. Why?

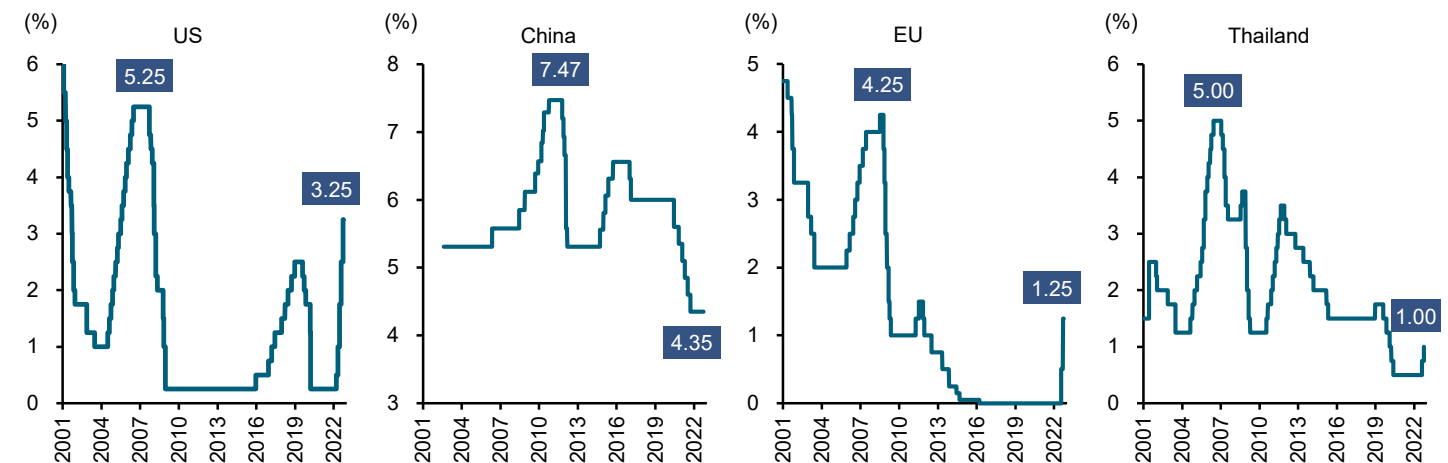
The main reasons for our positive outlook on Thailand's economic growth in 2023 embrace several factors.

First, the economic outlook should strengthen on improving revenues from tourism, higher farm incomes from rising prices of soft commodities and stronger exports for the automobile industry, as the key export products of Thailand should boost the country's revenue and cash flow in 2023.

Second, the timely 5% increase in the minimum wage effective on 1 October 2022, should further strengthen Thailand's purchasing power and eventually lead to stronger domestic consumption in 2023.

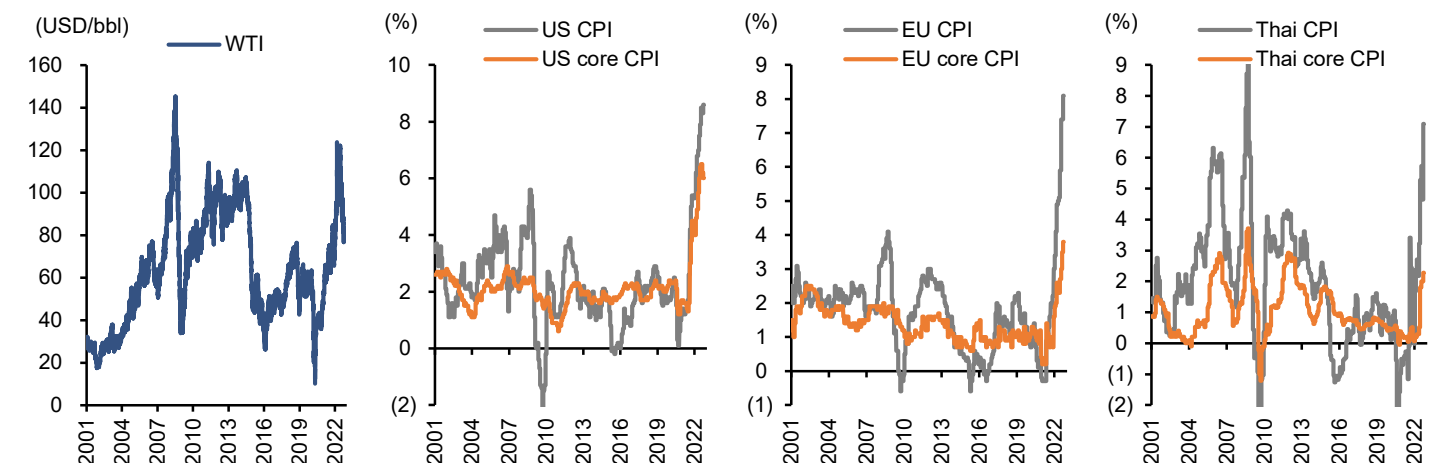
Third, the stronger projected earnings outlook for banks and Thai corporates in 2023, mostly tourism related, as well as for exports, transportation, and commerce, should ensure a more stable THB and a solid economic growth outlook.

### Exhibit 27: Effective policy rate of US, China, EU, and Thailand



Sources: Bloomberg; FSSIA's compilation

### Exhibit 28: WTI – inflation in US, EU, and Thailand



Sources: Bloomberg; FSSIA's compilation

**Maintain our 4.0%/4.5% Fed target rates and 1.0%/1.5% BoT target rates in 2022-**

**23.** Although Thailand's headline inflation is high due to the country's large imports of energy, core inflation remains low at below 3% in 2022, thanks to the country's abundant food supply, property oversupply, and manageable wage level. This has led to low food inflation, housing inflation, and low wage pressure on core inflation, based on our estimates.

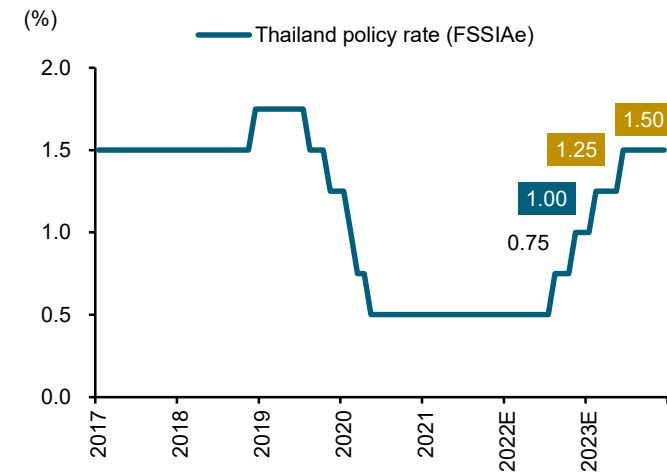
**Exhibit 29: Key economic forecasts**

	----- FSSIA -----			Bloomberg consensus		
	2022E	2023E	2024E	2022E	2023E	2024E
	(%)	(%)	(%)	(%)	(%)	(%)
Fed funds rate	4.0	4.5	3.5	4.15	3.95	3.30
Dubai crude price (USD/bbl)	120.0	110.0				
Real GDP growth	3.0	4.3	3.8	3.4	3.9	3.5
Headline inflation	6.5	2.6	1.7	6.2	2.5	1.6
Core inflation	2.2	2.0				
Policy rate	1.00	1.50		1.25	1.80	1.35
Tourist arrivals (m)	10.2	34.0				

As of 29 September 2022  
Source: Bloomberg consensus

Under the circumstance of a divergent outlook for economic growth and wider gaps in core inflation and IRD, we maintain our assumptions of the BoT's policy rate at 1.0% and 1.5% at the end of 2022 and mid-2023, respectively. In comparison, we estimate a 4.0% and 4.5% policy rate for the Fed during the same periods.

While the FOMC's most recent dot plot forecast is for 4.4% and 4.6% in 2022 and mid-2023, we think our 4.0%/4.5% estimates remain achievable thanks to lower headline inflation on lower prices of oil and gas after the intervention of EU governments in the prices of gas and electricity.

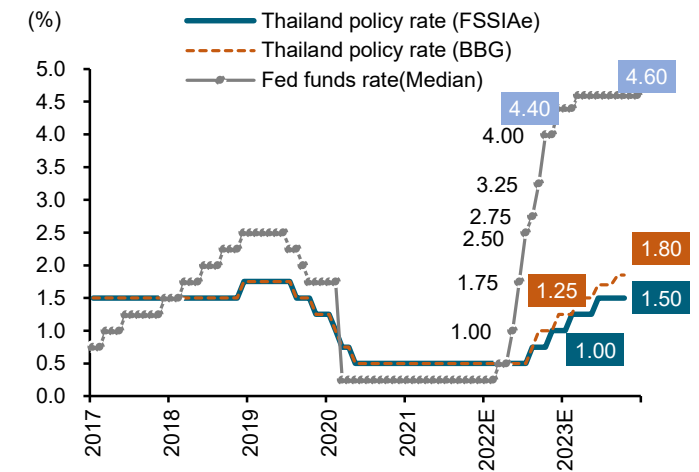
**Exhibit 31: Thailand policy rate, FSSIA estimates**

Source: FSSIA estimates

**Exhibit 30: FOMC's target fed funds rate and central tendencies as of Sep 2022**

	2022E	2023E	2024E
	(%)	(%)	(%)
Fed funds rate	4.4	4.6	3.9
GDP	0.2	1.2	1.7
PCE	5.4	2.8	2.3
Core PCE	4.5	3.1	2.3
Unemployment	3.8	4.4	4.4

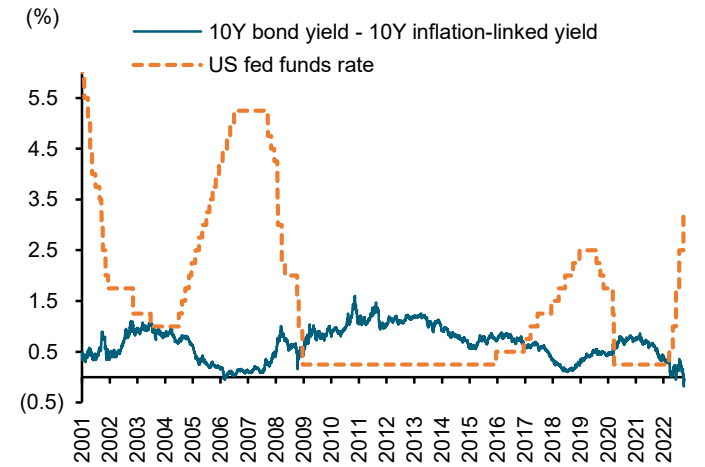
Source: FOMC

**Exhibit 32: Fed funds rate vs Thai policy rate**

Sources: FOMC; Bloomberg consensus; FSSIA estimates

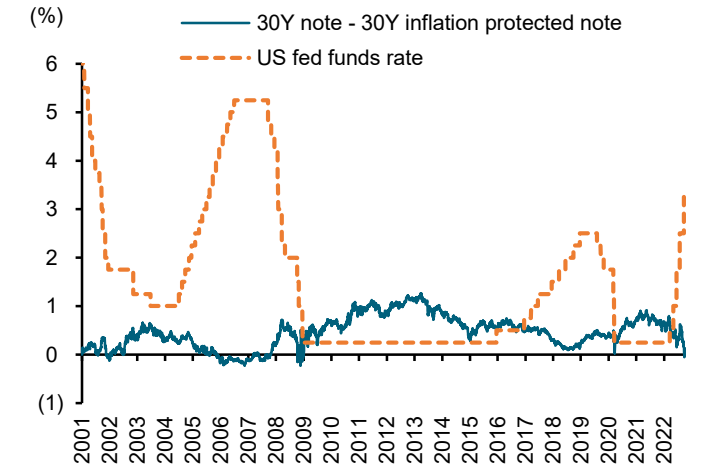
It is interesting to note that the current gap between the US 10-year treasury bond yield is very close to the US inflation-linked note yield, which even recently turned negative, indicating that the market and investors may be too aggressive in pricing the impact of the Fed's rate hikes in 4Q22-2023. This substantiates our lower-than-consensus assumptions for the BoT's and Fed's policy rates in 2022-23.

**Exhibit 33: Difference between 10-year and inflation-linked notes**



Sources: Bloomberg; FSSIA's compilation

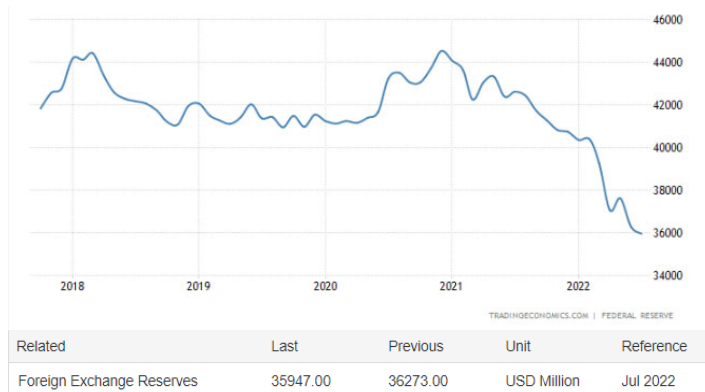
**Exhibit 34: Difference between 10-year and inflation-linked notes**



Sources: Bloomberg; FSSIA's compilation

**Foreign exchange reserves.** US foreign exchange reserves plunged the most while the UK and EU saw higher reserves since 2018. Amid the turbulent global currency rates due to the Fed's aggressive rate hikes, we found that US foreign exchange reserves have significantly dwindled in the past five years, particularly since 2021, which saw its reserves fall by USD8b compared to the EU's rising reserves by almost USD20b during the same period to reach USD85b in August 2022.

**Exhibit 35: US foreign exchange reserves**



Source: [tradingeconomics.com](https://tradingeconomics.com)

**Exhibit 36: Euro area foreign exchange reserves**



Source: [tradingeconomics.com](https://tradingeconomics.com)

China has seen its reserves down since its peak in 2014 at USD4t to USD3.1t in August 2022, according to Trading Economics. The UK, with its recent large-scale government spending to support and subsidise the high electricity and gas prices, should be able to sufficiently fund the needed spending thanks to its high reserves of USD18b as of August 2022.

Japan has seen its reserves plunge significantly in the past few months due to the government and the Bank of Japan (BoJ)'s use of funds to stabilise the JPY and stimulate economic growth. This, in our view, could lead to a further weakening of the JPY in 2023 as the country still faces the grave dilemma of maintaining economic growth and stabilising the currency.

**Exhibit 37: China foreign exchange reserves**



Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2022-08-07	02:40 AM	Jul	\$3.104T	\$3.071T	\$3.05T	\$3.1T

Source: [tradingeconomics.com](https://tradingeconomics.com)

**Exhibit 38: UK foreign exchange reserves**



Related	Last	Previous	Unit	Reference
Foreign Exchange Reserves	180781.63	184043.27	USD Million	Aug 2022

Source: [tradingeconomics.com](https://tradingeconomics.com)

Thailand has seen its reserves drop from their peak of USD26b in 2021 to USD220b in July 2022, as the BoT has now accelerated its de-dollarisation by selling USD assets. The consecutive months of negative current account balance are due to the high imports of energy and the still weak service revenue from tourism, which are the main culprits for the lower reserves as well. However, we think Thailand still has healthy reserves, with the reserve to external debt ratio at around 100%, indicating that the country is far from the risk of distress unless the BoT decides to use the reserves to maintain the THB at the expense of depleting reserves, similar to what happened in the 1997 financial crisis.

**Exhibit 39: Japan foreign exchange reserves**



Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2022-08-04	11:50 PM	Jul	\$1323B	\$1311.3B		

Source: [tradingeconomics.com](https://tradingeconomics.com)

**Exhibit 40: Thailand foreign exchange reserves**



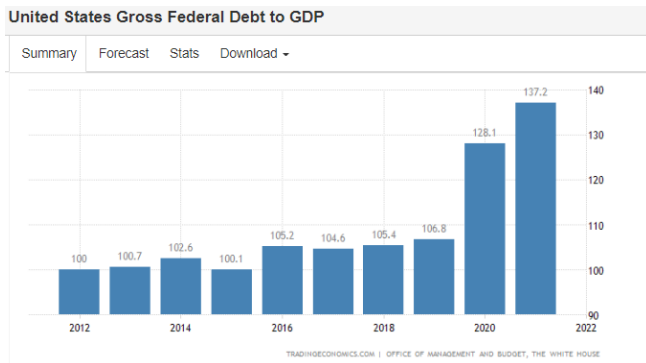
Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2022-08-11	07:30 AM	Jul	\$220B	\$222B		\$230B

Source: [tradingeconomics.com](https://tradingeconomics.com)



**Gross debt to GDP.** Compared to other major economies, Thailand still has a relatively low gross debt to GDP ratio at 60% vs 137% for the US, 96% for the EU, 67% for China, 96% for the UK, and 266% for Japan. We believe Thailand's low gross debt to GDP ratio at 60% is one of the reasons why Thailand's THB is weaker against the USD but not most other currencies, which remains manageable at THB38/USD, in our view.

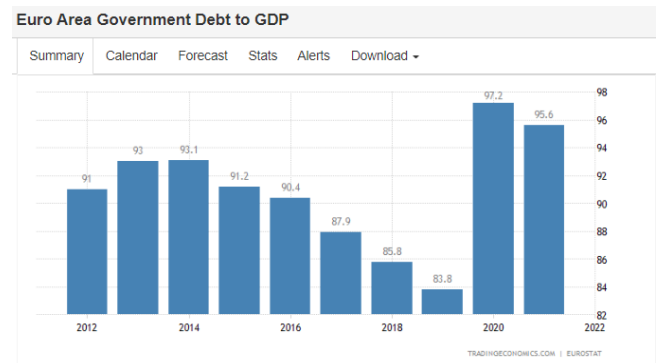
#### Exhibit 41: United States gross federal debt to GDP



Related	Last	Previous	Unit	Reference
Government Debt to GDP	137.20	128.10	percent of GDP	Dec 2021

Source: [tradingeconomics.com](https://tradingeconomics.com)

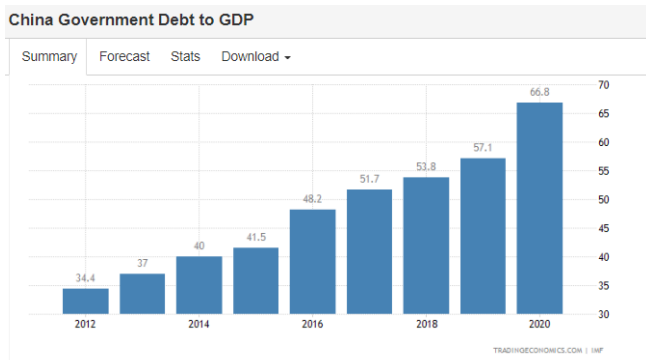
#### Exhibit 42: Euro area government debt to GDP



Calendar	GMT	Reference	Actual	Previous	Consensus	TEForecast
2021-04-22	09:00 AM	2020	98%	83.9%		115%

Source: [tradingeconomics.com](https://tradingeconomics.com)

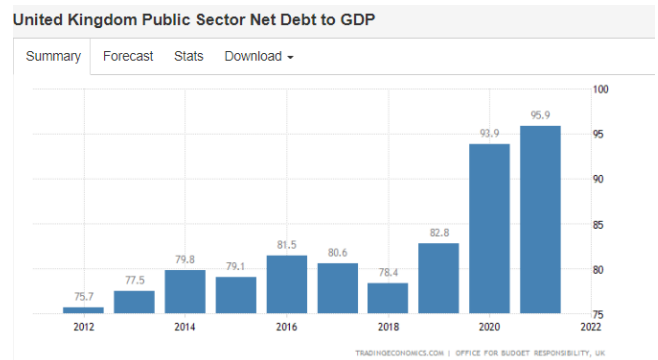
#### Exhibit 43: China government debt to GDP



Related	Last	Previous	Unit	Reference
Government Debt to GDP	66.80	57.10	percent of GDP	Dec 2020

Source: [tradingeconomics.com](https://tradingeconomics.com)

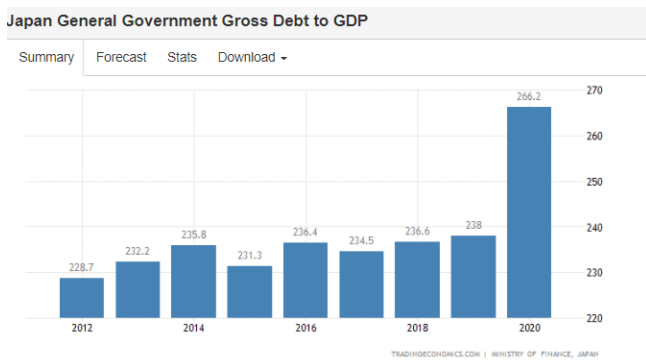
#### Exhibit 44: UK public sector net debt to GDP



Related	Last	Previous	Unit	Reference
Government Debt to GDP	95.90	93.90	percent of GDP	Dec 2021

Source: [tradingeconomics.com](https://tradingeconomics.com)

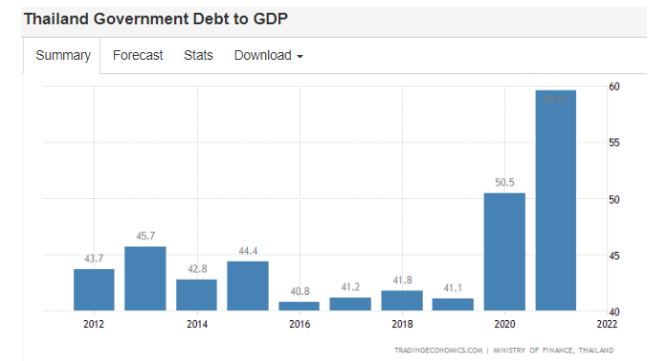
#### Exhibit 45: Japan government gross debt to GDP



Related	Last	Previous	Unit	Reference
Government Debt to GDP	266.20	238.00	percent of GDP	Dec 2020

Source: [tradingeconomics.com](https://tradingeconomics.com)

#### Exhibit 46: Thailand government debt to GDP

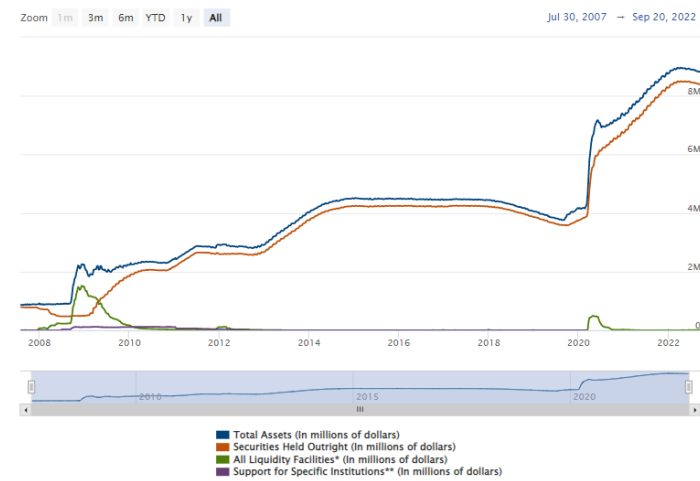


Related	Last	Previous	Unit	Reference
Government Debt to GDP	59.61	50.50	percent of GDP	Dec 2021

Source: [tradingeconomics.com](https://tradingeconomics.com)

**Fed's balance sheet: from worse to worst?** We believe the Fed's ongoing QT may not be a panacea for the USD depreciation and high core inflation, as QT's lower liquidity would be partly, if not mostly offset by the Fed's required money injection via the refinancing of its ballooning debts, both in terms of principal and interest payments.

#### Exhibit 47: FED – total assets of the Federal Reserve



Source: [federalreserve.gov](https://federalreserve.gov)

Technically, the US Fed is now a “bankrupted financial institute” with its outstanding debt exceeding its assets. However, its long-dominant position as a global currency for reserves, trading, and petrodollars, have continued to make it possible for the Fed to retain its “financially bankrupted” position and still be able to issue additional debts to fund its QE programs.

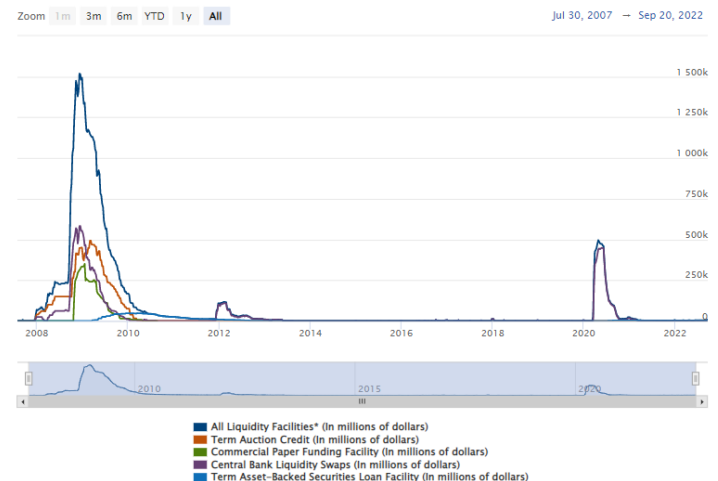
#### Exhibit 49: FED – selected liabilities of the Federal Reserve



Source: [federalreserve.gov](https://federalreserve.gov)

But the key question is how long the Fed will be able to continue this practice, as the USD depreciation-driven core inflation and the impact of its own sanctions against major oil producers, including Russia, Iran, and Venezuela, will necessitate the Fed to aggressively raise its policy rate to curb core inflation at the expense of weaker economic growth in 2023-24, in our view.

#### Exhibit 48: FED – credit extended through Federal Reserve liquidity facilities



Source: [federalreserve.gov](https://federalreserve.gov)

#### Exhibit 50: FED – plans for reducing the size of the Federal Reserve's balance sheet

“.... The Committee intends to reduce the Federal Reserve's securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the System Open Market Account (SOMA).”

Beginning on June 1, principal payments from securities held in the SOMA will be reinvested to the extent that they exceed monthly caps.

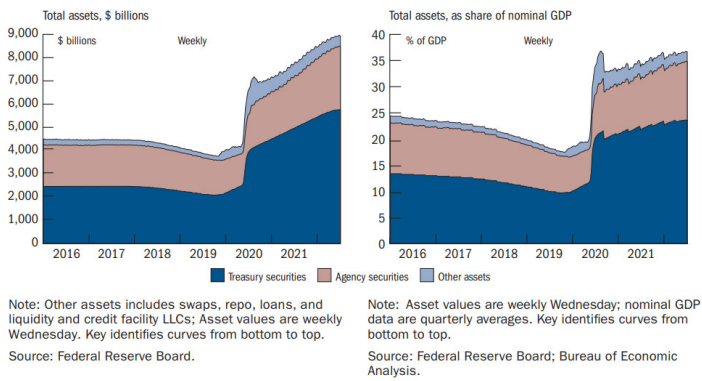
For Treasury securities, the cap will initially be set at \$30 billion per month and after three months will increase to \$60 billion per month. The decline in holdings of Treasury securities under this monthly cap will include Treasury coupon securities and, to the extent that coupon maturities are less than the monthly cap, Treasury bills.

For agency debt and agency mortgage-backed securities, the cap will initially be set at \$17.5 billion per month and after three months will increase to \$35 billion per month.

The Committee is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments.”

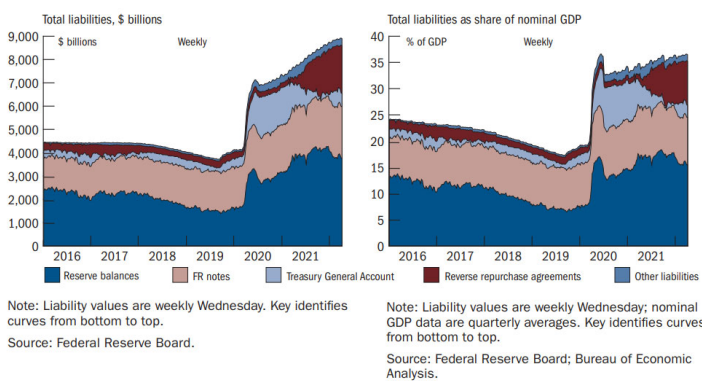
Source: [federalreserve.gov](https://federalreserve.gov); selected relevant information by FSSIA

Exhibit 51: FED – balance sheet assets, 2016–2022



Source: [federalreserve.gov](https://www.federalreserve.gov)

Exhibit 52: FED – balance sheet liabilities, 2016–2022

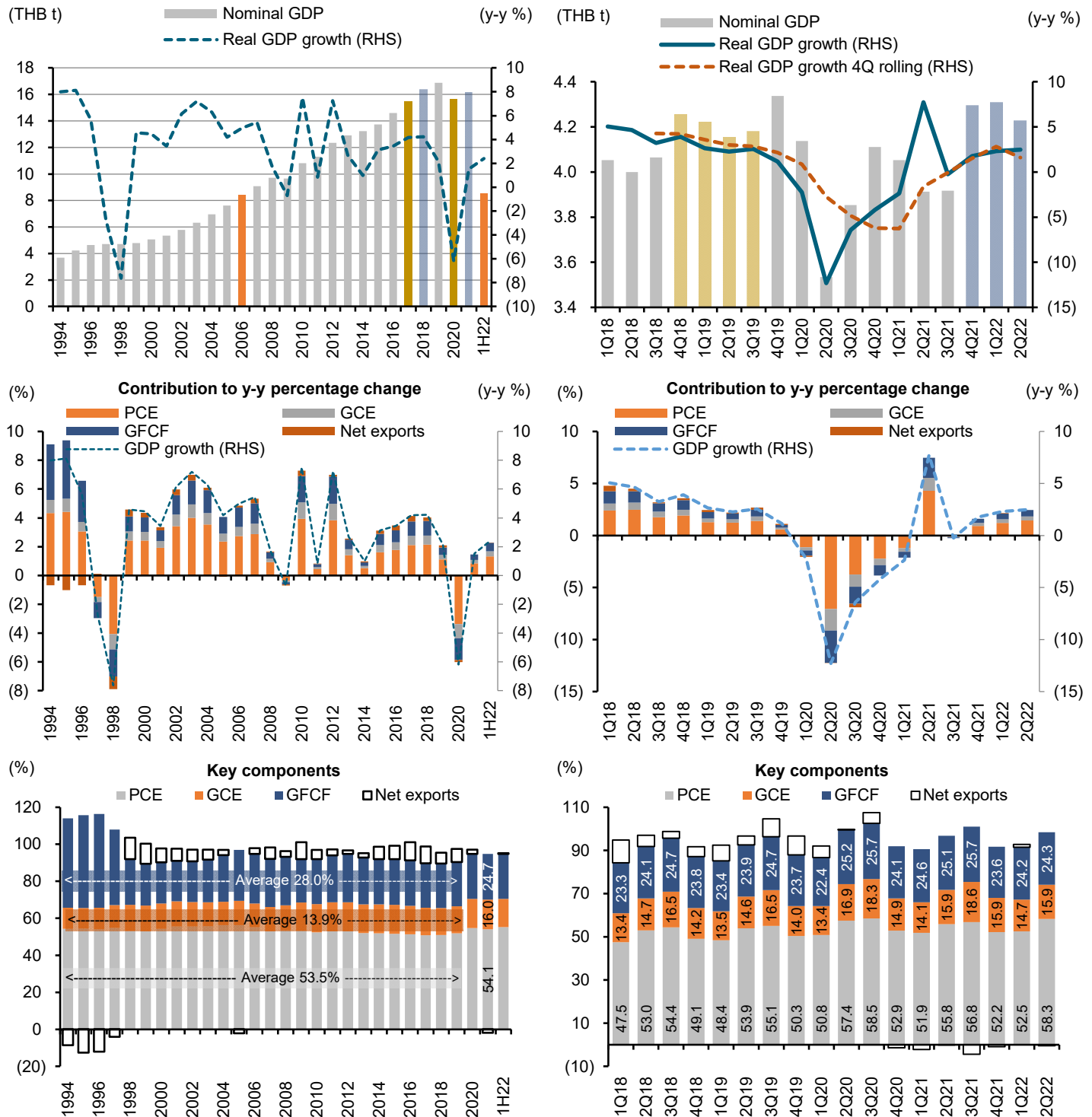


Source: [federalreserve.gov](https://www.federalreserve.gov)

## Rosier outlook for Thailand's economy despite a potential US recession

Even with the THB weakening to THB38/USD as of 30 September 2022 due to the wider interest rate gap compared to the Fed's policy rate, we think Thailand's GDP will grow to 4.3% in 2023, up from 3.0% in 2022. Key catalysts for Thailand's strong GDP are strong PCE, solid exports, and a tourism rebound. PCE is now heading north. PCE has long been a backbone of Thailand's GDP in the aftermath of its own financial disaster that occurred in 1997. Most private sectors have been highly cautious and proactive in managing their liquidity risks and cost overruns in an attempt to avoid any possibility of financial distress.

**Exhibit 53: Thailand GDP – key components and contribution to percentage change y-y**



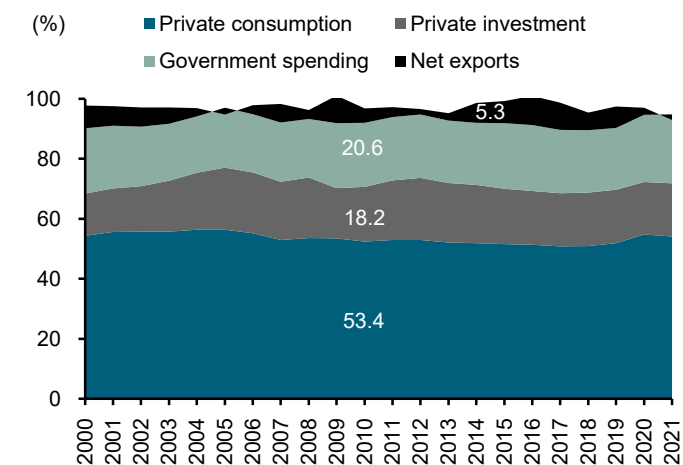
PCE = Private consumption expenditure; GCE = Government consumption expenditure; GFCF = Gross fixed capital formation; Net exports = Exports - Imports  
Sources: NESDC; FSSIA estimates

The cases in point are the property and banking sectors, the ground zero of Thailand's 1997 financial crisis, arising from the bubbles of the "moral hazard" of the financial institutions and property developers via lenient financial lending and aggressive expansions in property projects.

Since 1998, both property and banking sectors have not only survived but also thrived after the US subprime crisis (2008), widespread flooding (2011), political unrest that led to the military coup (2013), and the Covid-19 pandemic (2020-21). Their earnings growth and profitability have been healthy in the crisis periods while growing after the economic recoveries post the crises.

We believe that after the pandemic, Thailand is poised to see strong GDP growth, a healthier current account balance, and stronger PCE, which accounted for 53.4% of GDP on average during 2000-21.

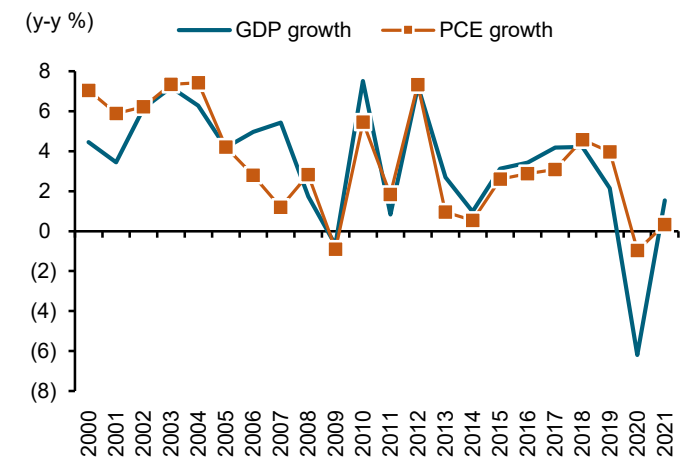
**Exhibit 54: Components of GDP annually, 2000-2021**



Data in each area indicate 10-year average during 2000-2019  
Sources: NESDC; FSSIA's compilation

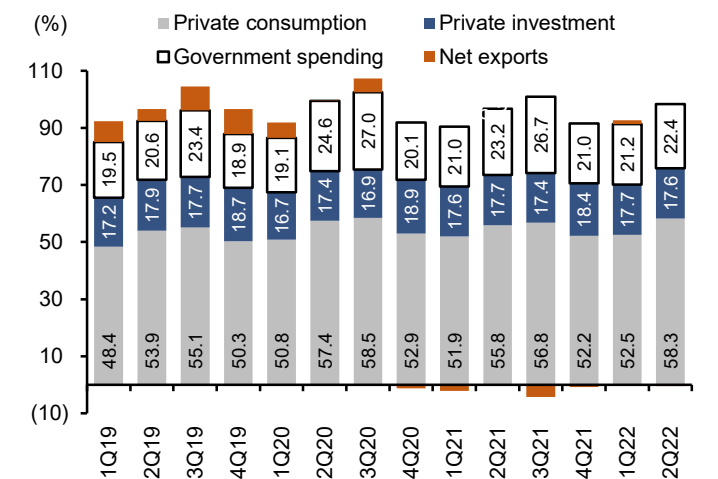
It is doubtless that Thailand's PCE and GDP have a high correlation with each other, but PCE has a much higher resilience to economic crises than GDP per se, thanks to the government's timely and adequate stimulus measures and highly efficient healthcare system during the past Covid-19 crisis.

**Exhibit 56: Growth of GDP and PCE annually from 2000-2021**



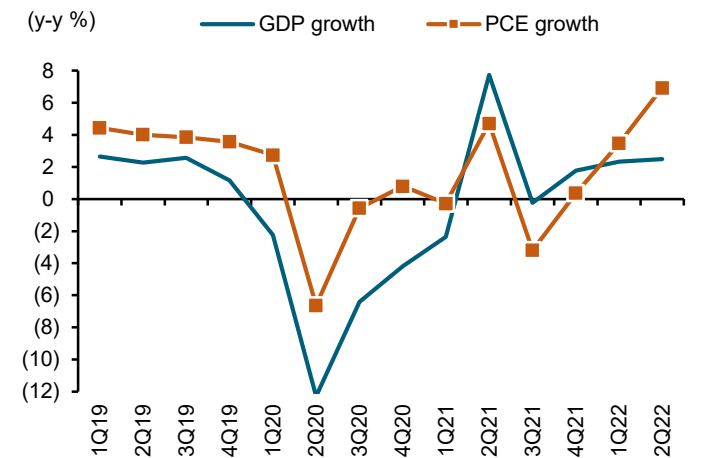
Sources: NESDC; FSSIA's compilation

**Exhibit 55: Components of GDP quarterly, 1Q19-2Q22**



Sources: NESDC; FSSIA's compilation

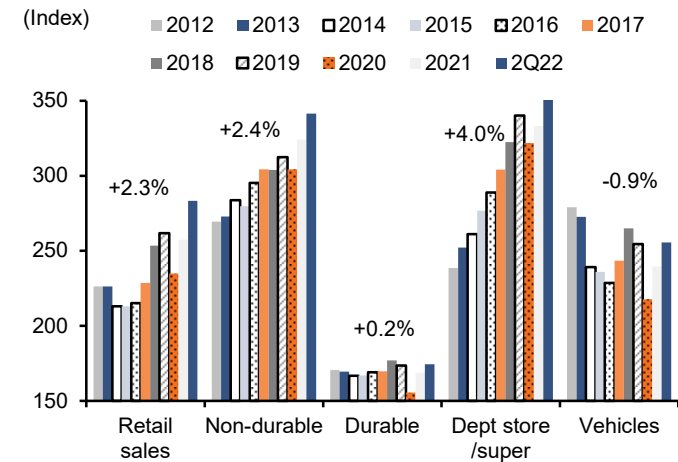
**Exhibit 57: Growth of GDP and PCE quarterly, 1Q19-2Q22**



Sources: NESDC; FSSIA's compilation

**PCE drivers for Thailand.** Based on the BoT's data, Thailand's key PCE indicators have all recovered meaningfully in 2021-1H22, led by the strong growth in retail sales, non-durable goods spending, and department store sales. PCE growth has recovered to over 6% in 2Q22, the highest level since 1Q19.

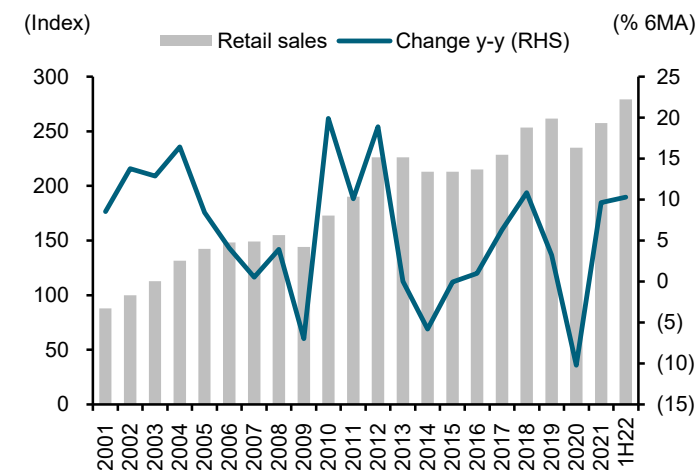
**Exhibit 58: Thailand retail sales index and key components with 10Y CAGR**



Data above bars indicate average growth in 10 years since 2012 to Jun-22  
Sources: Bank of Thailand; FSSIA's compilation

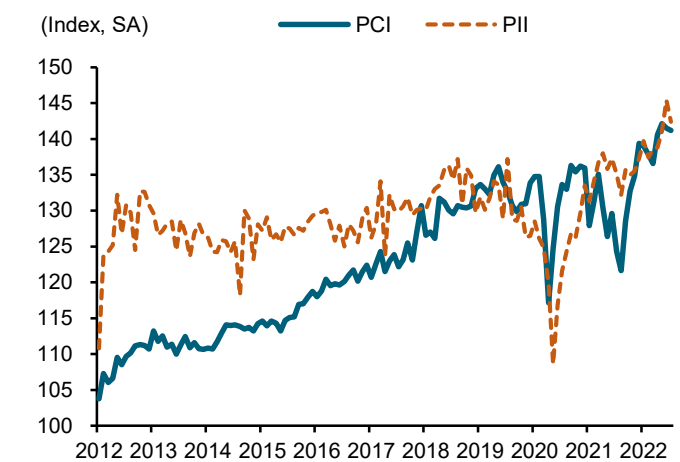
Retail sales growth in particular has been very strong since it reached the bottom in August 2020, growing by over 10% monthly in 8M22. We expect the strong retail sales growth to continue in 4Q22-2023, backed by higher purchasing power from the 5% minimum wage hike in October 2022 onward, the sustainably high farm income due to globally high prices of agricultural products and food, and higher revenues from tourism.

**Exhibit 60: Retail sales index from 2001 to June 2022**



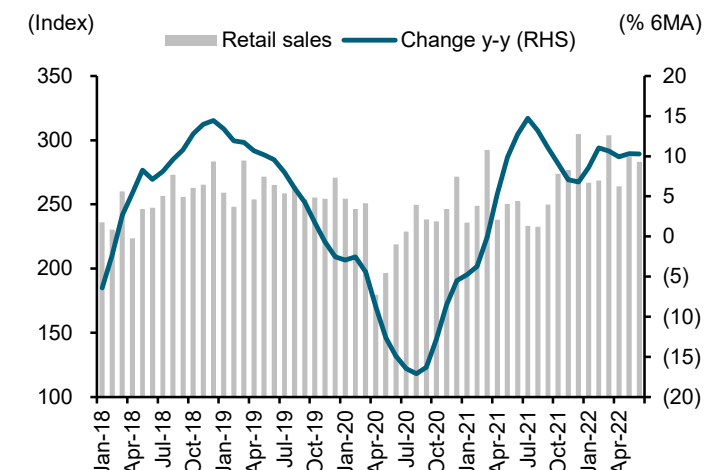
Sources: Bank of Thailand; FSSIA's compilation

**Exhibit 59: Thailand private consumption index (PCI) and investment index (PII), seasonally adjusted**



Sources: Bank of Thailand; FSSIA's compilation

**Exhibit 61: Retail sales index from 2018 to June 2022**



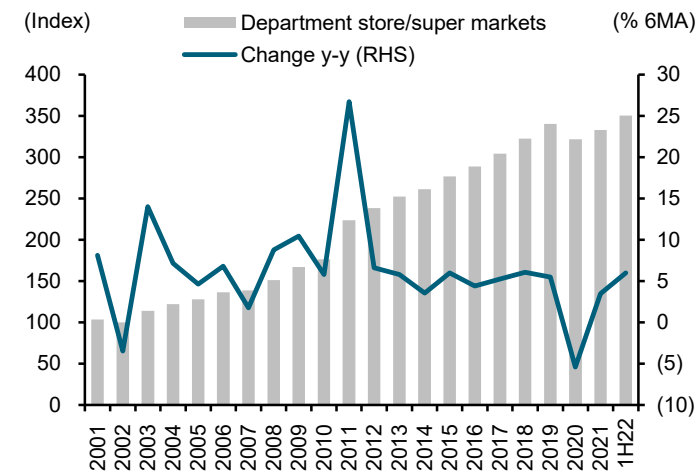
Sources: Bank of Thailand; FSSIA's compilation



**Department store and supermarket sales look promising in 2023.** Within retail sales growth, department store sales growth is the most critical contributor as Thai people rushed into shopping malls once the government fully reopened economic activities outside the home. Thai people perceive mall walking as a preferred lifestyle for meeting friends, eating outside the house, engaging in banking services and other activities. We expect the traffic in malls to remain high at over 90%, and mall outlet expansions should continue in 4Q22-2024, based on companies' expansion plan announcements.

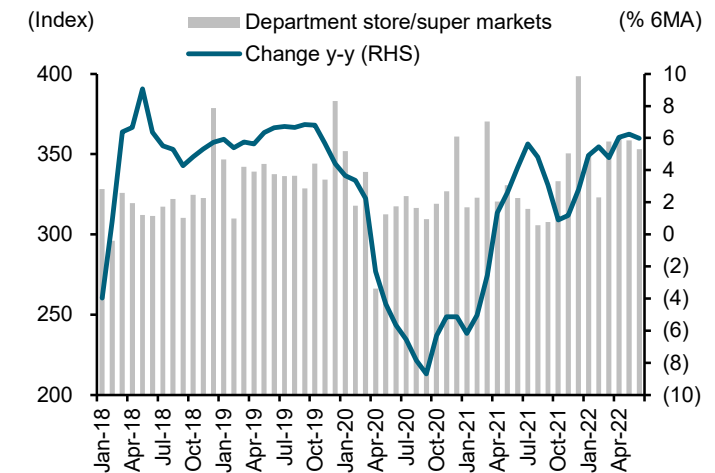
Supermarket sales growth is also another key piece of evidence for strong PCE, recovering from its bottom in September 2020 to 6% y-y in August 2022. We project the same-store-sales-growth (SSSG) of supermarkets and modern trade outlets to stay high at above 5% y-y in 4Q22-2023, as higher purchasing power from the wage hike and a rising number of tourist arrivals should enhance consumers' spending, in our view.

**Exhibit 62: Department store and supermarkets index from 2001 to June 2022**



Sources: Bank of Thailand; FSSIA's compilation

**Exhibit 63: Department store and supermarkets index from 2018 to June 2022**

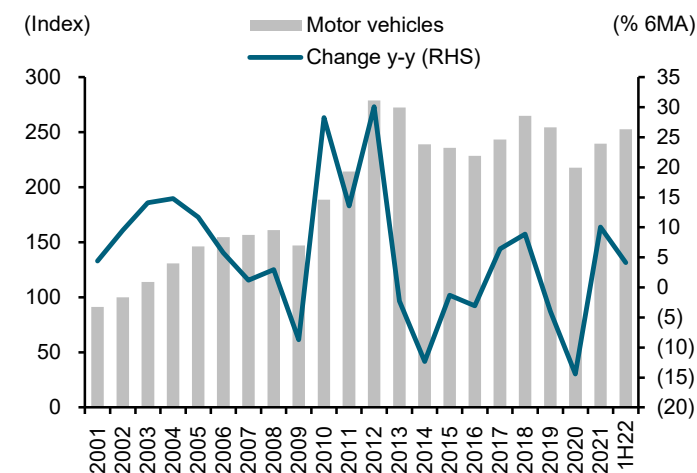


Sources: Bank of Thailand; FSSIA's compilation

**EV campaign and diesel price subsidy to help boost demand for auto sales.**

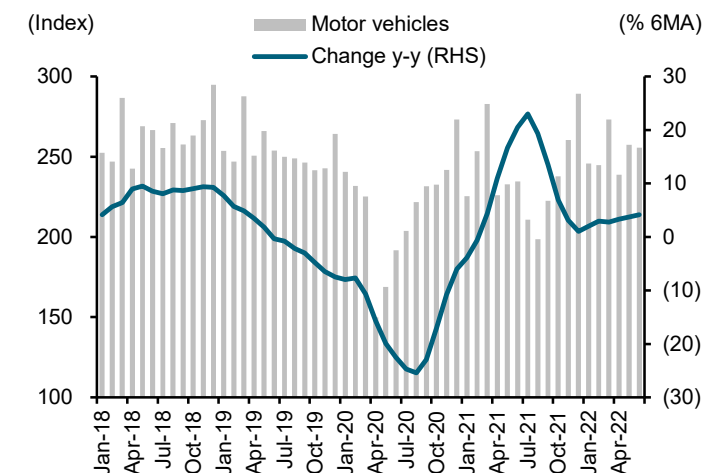
Automobile sales growth has recovered from zero in 4Q21 to 4% y-y in August 2022, driven by the government's campaign to promote the country's EV industry and EEC investment scheme. Subsidies and tax cuts have been offered for the import of battery EVs (BEVs) in exchange for the domestic manufacturing of EVs by 2024.

**Exhibit 64: Motor vehicle index from 2001 to June 2022**



Sources: Bank of Thailand; FSSIA's compilation

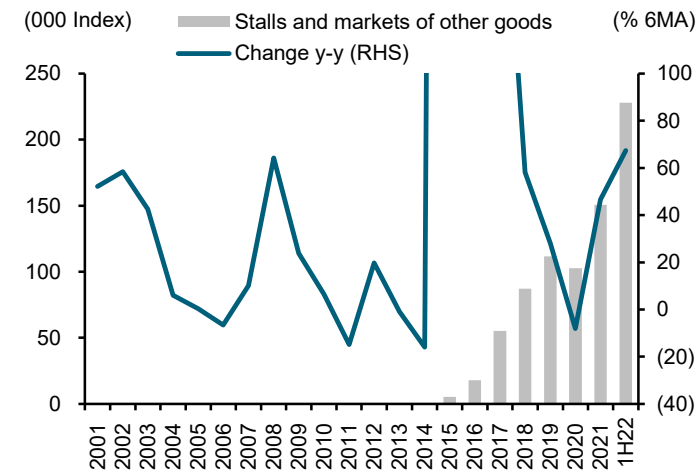
**Exhibit 65: Motor vehicle index from 2018 to June 2022**



Sources: Bank of Thailand; FSSIA's compilation

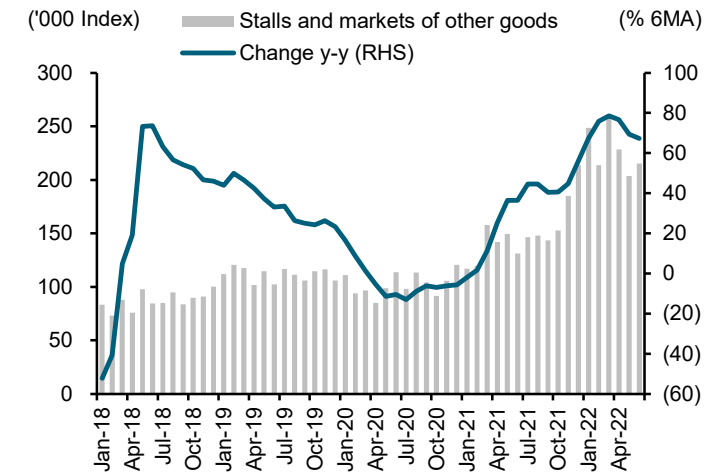
For conventional internal combustion engine (ICE) vehicles, sales have been boosted by the government's price cap policy for diesel and the subsidies for natural gas for vehicles (NGV), and the reduction in the formula of biodiesel from B7 (7% blending of palm-based B100) and B10 to B3 and B5.

Exhibit 66: Stalls and market index from 2001 to June 2022



Sources: Bank of Thailand; FSSIA's compilation

Exhibit 67: Stalls and market index from 2018 to June 2022

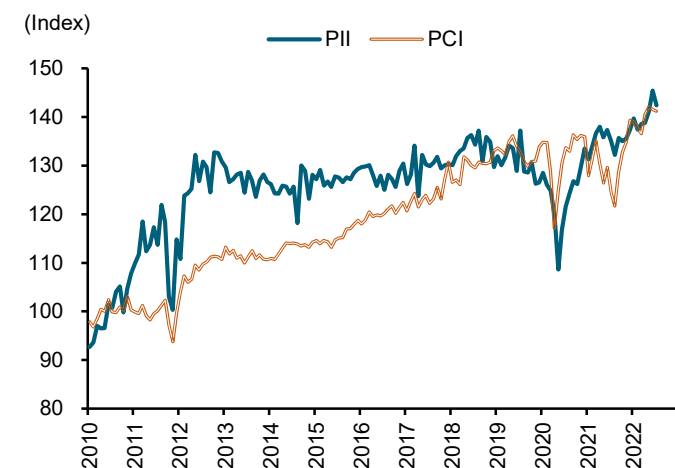


Sources: Bank of Thailand; FSSIA's compilation

**Investments are on a recovery trajectory.** Though accounting for 17-18% of GDP, private investments should further strengthen Thailand's economic growth outlook in 2023. The main engines for private investment growth in 2023-24 will likely come from EV investments, which includes China's BYD investment of THB17.9b (USD492m) to build a 150,000 EV capacity manufacturing plant in the EEC area. Another major investment in the EEC and EV industry is the THB38b (USD1b) investment to construct a 50,000-EV capacity manufacturing plant by the JV of PTT (PTT TB, BUY) and Foxconn.

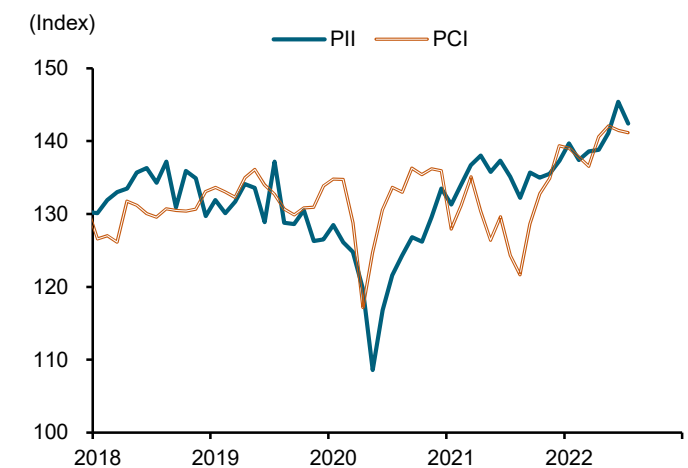
Given that both BYD's and PTT-Foxconn's plants are scheduled to commence their commercial operation dates in 1H24, we think most investments will have to be spent in 2023.

Exhibit 68: Private investment vs private consumption indexes, 2010 to July 2022



Sources: Bank of Thailand; FSSIA's compilation

Exhibit 69: Private investment vs private consumption indexes, 2018 to July 2022



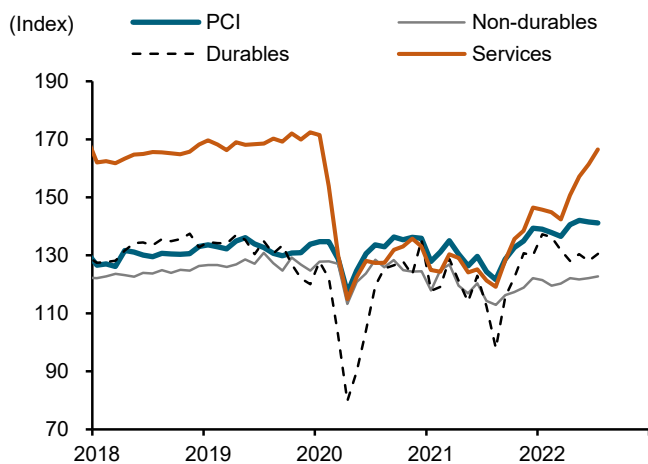
Sources: Bank of Thailand; FSSIA's compilation

**Tourism: an anti-recession growth driver after the Covid-19 pandemic.** In 2022-23, we think Thailand is likely to benefit from a global tourism recovery even with the looming economic recessions in the US and the EU. As a response to the Covid pandemic, people had recently been locked down in their homes for the past two years and had not traveled due to global lockdowns and the bans on the international flights.

While we expect Thailand's exports to the US, EU, Japan, and South Korea to slow down due to expected economic recessions or stagflation, we think the impact of the recessions would have little or no impact on the tourist arrival numbers to Thailand, as tourists worldwide are desperate to travel, regardless of how high the air ticket prices are.

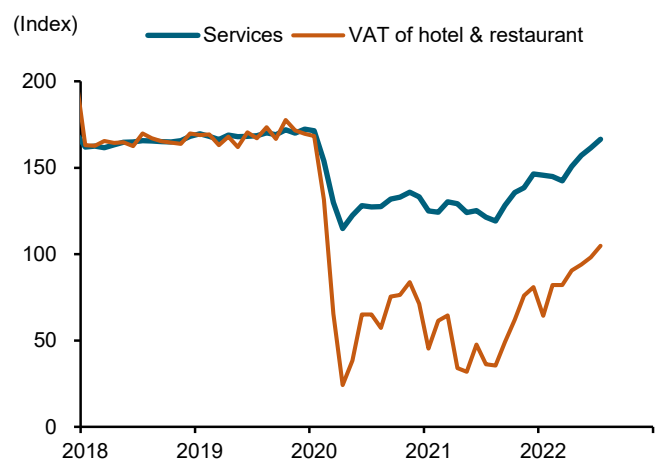
The pent-up demand for tourism would fit into Thailand's service revenue growth in 2023, as Thailand is one of the most attractive destinations to travel based on a 2022 survey by Travel + Leisure for its world best award. Service revenue from tourism used to contribute 12% of GDP in the pre-Covid period in 2019, and we think that tourism-driven service revenue could rise to account for 6-7% of GDP in 2023, up from c3% in 2022, based on our projected 34m tourist arrivals in 2023, up from 10.2m in 2022.

**Exhibit 70: Private consumption index (PCI) and key components**



Sources: Bank of Thailand; FSSIA's compilation

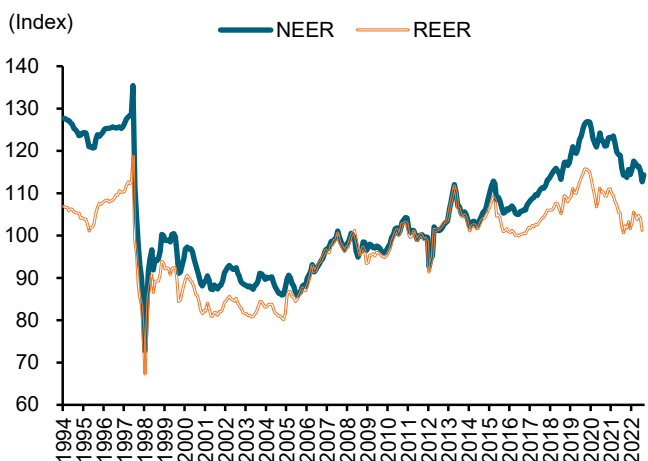
**Exhibit 71: Service index vs VAT of hotel & restaurant index**



Sources: Bank of Thailand; FSSIA's compilation

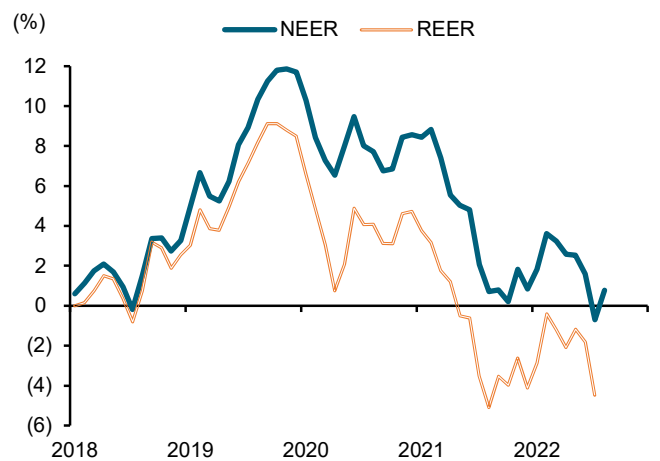
**Weaker THB will help, not hurt, Thai GDP.** We think the currently weaker THB against the USD is a boon, not bane, to the country's GDP growth and PCE, as a weak THB will make travel to Thailand even cheaper. In addition, the weaker THB in the range of THB35-38/USD should further boost Thailand's exports of agricultural products, automobiles, and electronics and electrical products.

**Exhibit 72: THB currency, NEER & REER**



Sources: Bank of Thailand; FSSIA's compilation

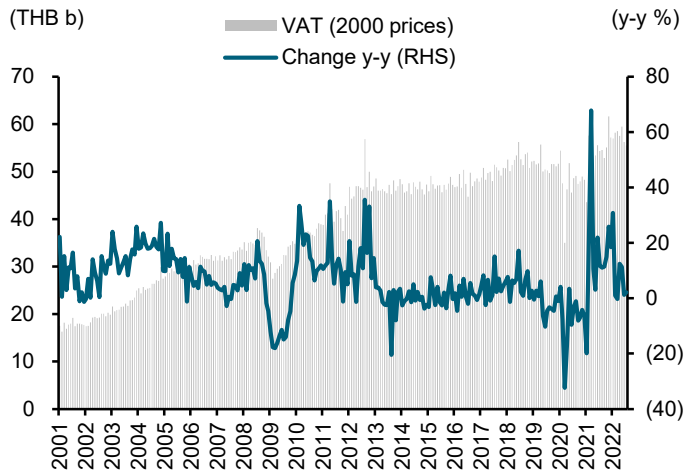
**Exhibit 73: THB currency, performance since end-2017**



Sources: Bank of Thailand; FSSIA's compilation

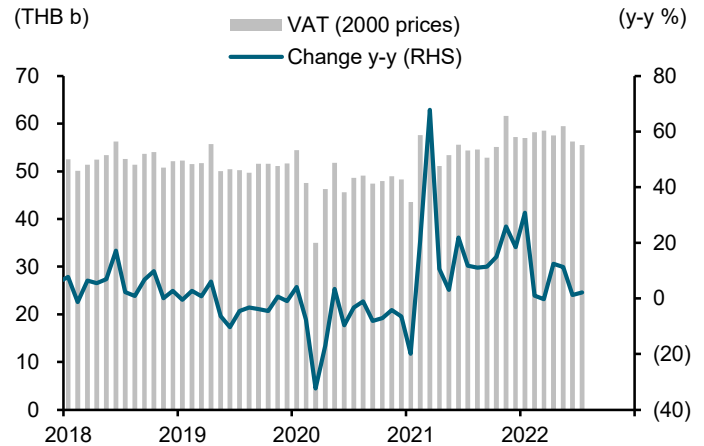
Another piece of evidence of rising PCE in Thailand is the uptrend of the value-added tax (VAT) collected by the government, which has risen to almost THB60b in 3Q22, according to the BoT's data.

**Exhibit 74: VAT at 2000 prices since 2001 to July 2022**



Sources: Bank of Thailand; FSSIA's compilation

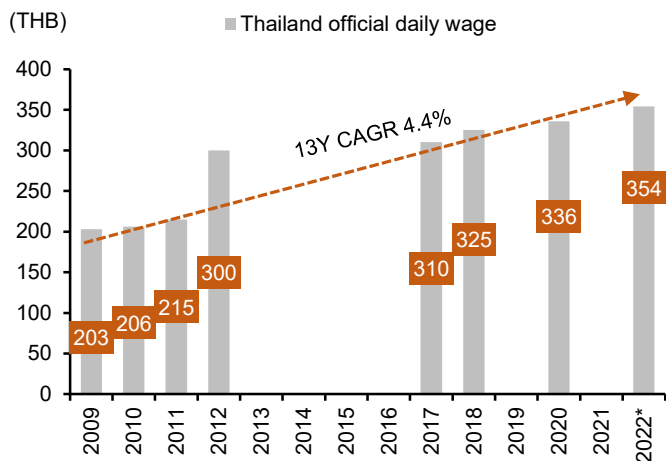
**Exhibit 75: VAT at 2000 prices since 2018 to July 2022**



Sources: Bank of Thailand; FSSIA's compilation

**Wage hike is key to Thailand's PCE.** Using 13-year data from 2009-22, we found that Thailand has seen wages increase by an average of 4.4% y-y – lower than the 10-year (2010-19) 5.7% CAGR nominal GDP increase but higher than the 3.6% real GDP increase. However, the 4.4% wage increase average is higher than the 10-year average rise in labour cost by 2.7% and the consumer price index (CPI) by 1.6%, indicating that Thailand has raised its minimum wage at an optimum level to stimulate economic growth but not too excessively to put the burden on the private sector and erode the country's competitiveness.

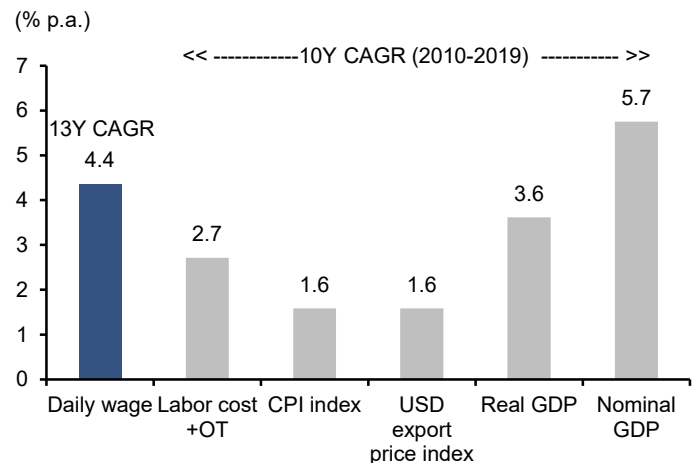
**Exhibit 76: Thailand official wage and average growth rate**



\*Effective 1 October 2022

Sources: Bloomberg; FSSIA's compilation

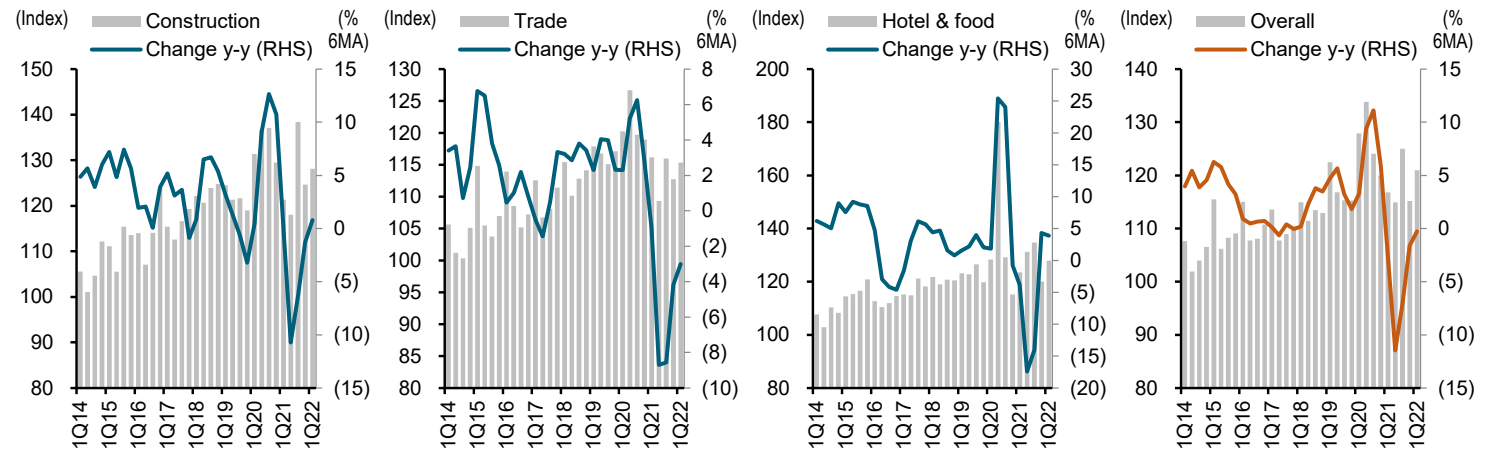
**Exhibit 77: 10Y CAGR of key related indicators**



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

The overall labour cost index, the indicator of the cost burden and Thailand's competitiveness, has remained lower than the pre-Covid-19 level, due to the slow recovery of the labour indexes in the construction and trade sectors. However, the labour index for the hotel and food sectors has already reached the pre-Covid level, indicating that the pace of the demand recovery for tourism and PCE is much faster than for other sectors in Thailand.

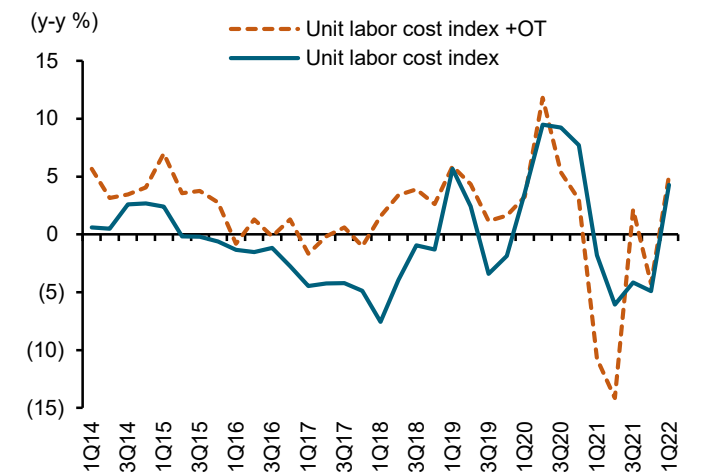
**Exhibit 78: Thailand labour cost index**



Sources: Bank of Thailand; FSSIA's compilation

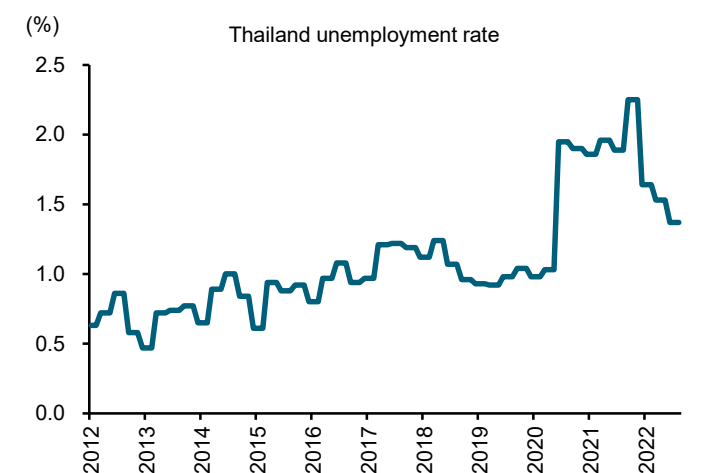
The unemployment rate dropped below 1.5% in August 2022 as a new round of recruitment started in preparation for the rising demand from tourism and domestic PCE.

**Exhibit 79: Thailand unit labour cost**



Source: Bank of Thailand

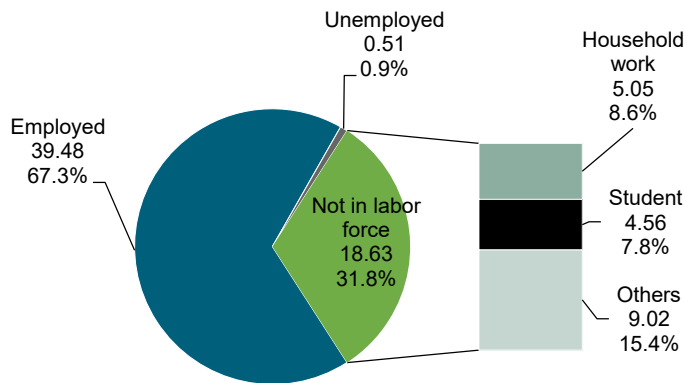
**Exhibit 80: Thailand unemployment rate**



Source: Bank of Thailand

In July 2022, out of Thailand's 77m population, 39.48m people were employed while only 0.51m were unemployed, based on data from the National Statistical Office, Ministry of Digital Economy and Society. We believe Thailand will have limited issues in terms of unemployment rate in 4Q22 and 2023, given the improving outlook for the service sectors, including tourism, trading, and commerce.

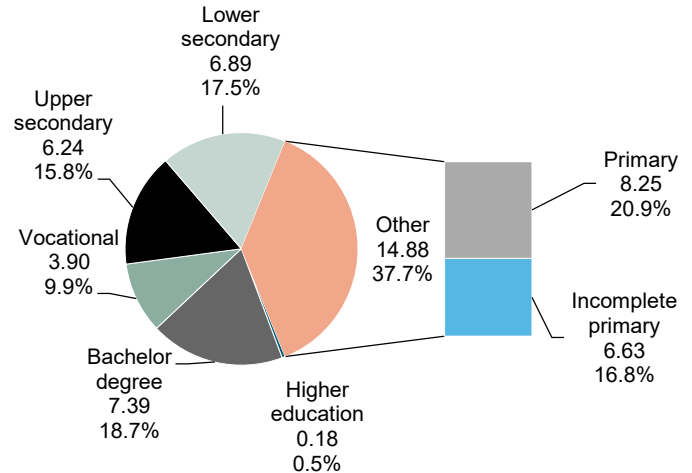
**Exhibit 81: Thailand's employment profile – of the total population aged 15+, 39.48m are employed and 0.51m are unemployed**



Survey as of July 2022

Source: National Statistical Office, Ministry of Digital Economy and Society

**Exhibit 82: Education levels of 39.48m employed population**



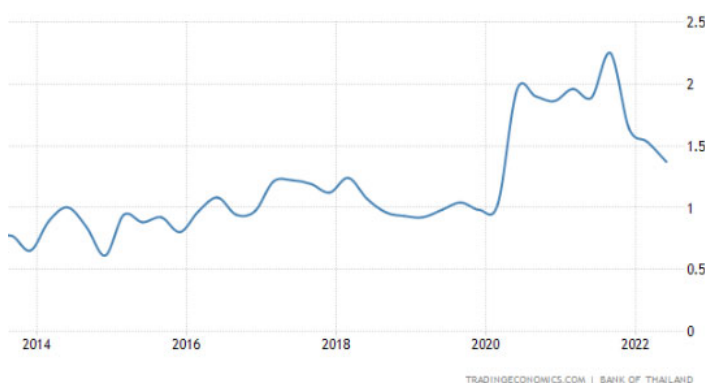
Survey as of July 2022

Source: National Statistical Office, Ministry of Digital Economy and Society

**What are the implications for the low unemployment rates in the US and EU but higher in China?** We would like to emphasize the interpretation of the unemployment rates for the outlook on economic growth and inflation using the data for the US, EU, China, and Thailand as key comparative examples.

**Wage-driven inflation undermines the low unemployment rate.** In essence, low unemployment rates in countries like the US and the EU may not be promising for economic growth as the labour shortage effectively leads to higher wages that in turn can further drive up core inflation. The vicious cycles of higher expected inflation, wages, production costs, and prices for consumers are driven by both supply and demand-side factors. These vicious cycles have been occurring in the US and EU countries with low unemployment rates but persistently higher wages due to labour shortages.

**Exhibit 83: Unemployment rate, Thailand**



Source: [tradingeconomics.com](https://tradingeconomics.com)

**Exhibit 84: Unemployment rate, Eurozone**



Source: [tradingeconomics.com](https://tradingeconomics.com)



Exhibit 85: Unemployment rate, US

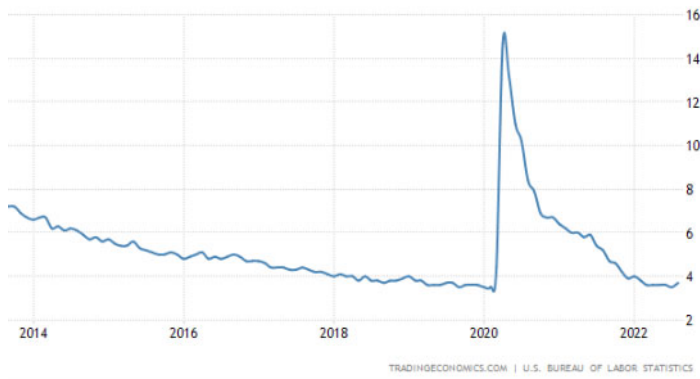
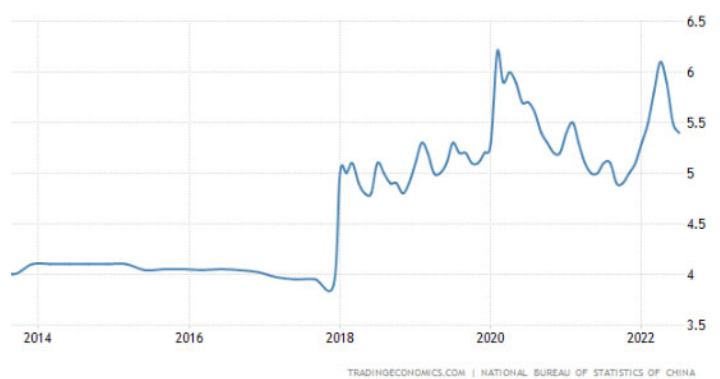
Source: [tradingeconomics.com](https://tradingeconomics.com)

Exhibit 86: Unemployment rate, China

Source: [tradingeconomics.com](https://tradingeconomics.com)

**China's impact on Thailand.** Apart from Chinese tourists (the largest proportion at over 26% of tourist arrivals in Thailand in 2019), China is increasingly becoming a larger market for Thailand's exports (the second largest market for Thailand's exports as of 2Q22), thanks to its rising domestic consumption that accounted for around two-thirds of its GDP in 2021.

We believe that once China reopens, likely in 1Q23, it could trigger a significant jump in Thailand's economic growth on higher service revenue from tourism, rising FDI for EVs, and a growing market for the export of goods such as agricultural products, synthetic rubber, office machine parts, and fruits.

Exhibit 87: Contribution to GDP growth, China

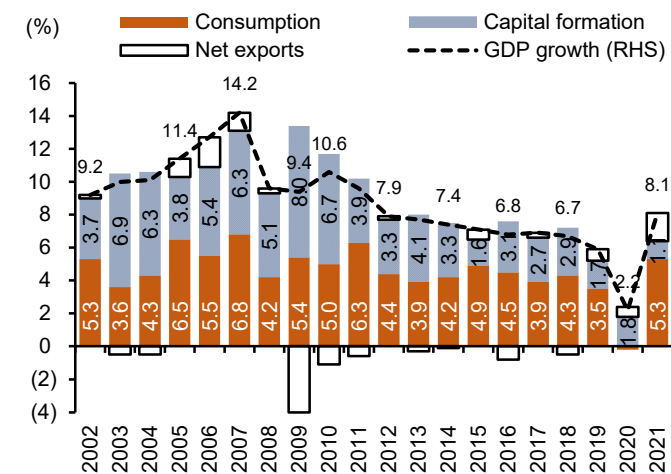
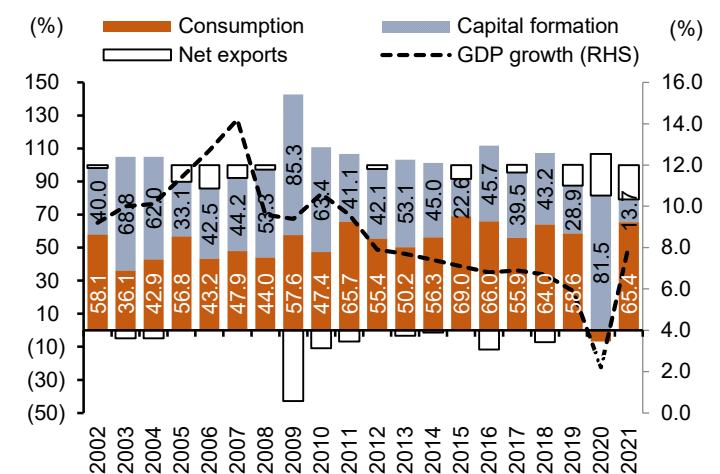
Sources: [National Bureau of Statistics of China \(NBS\)](https://www.stats.gov.cn/)

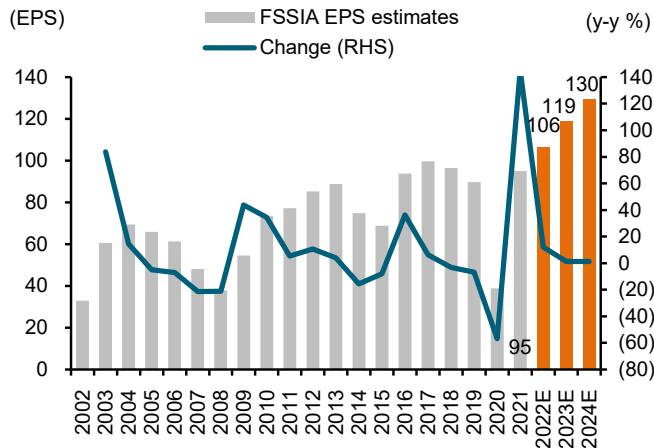
Exhibit 88: Components of GDP, China

Sources: [National Bureau of Statistics of China \(NBS\)](https://www.stats.gov.cn/)

## Retain our 1,767 SET index target by end-2023

In 2023, we forecast the SET's net profit to grow by 12% y-y, fuelled by earnings growth from domestic-driven sectors. We maintain our Overweight view on Thailand's equity market with our 2023 SET index target of 1,767, based on 14.8x 2023E P/E, -0.5SD, on FSSIA's 2023 EPS forecast of THB119.1 per share, while we think the global economy will likely be riskier.

### Exhibit 89: SET index net profit growth projections



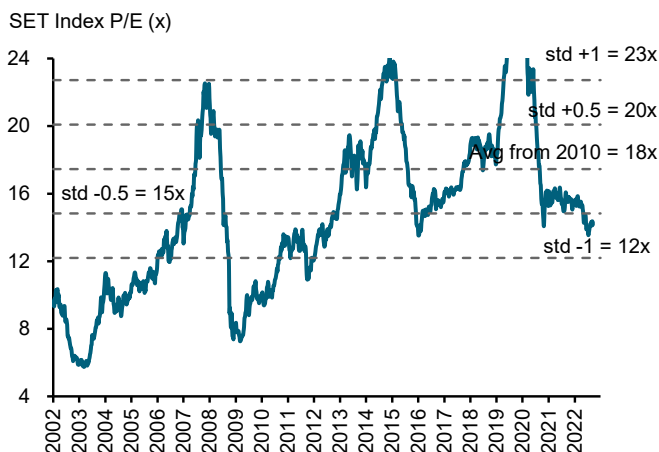
Sources: Bloomberg; FSSIA estimates

### Exhibit 90: FSSIA's SET index target for 2023

----- Earnings per share -----				
		2022E	2023E	2024E
EPS		106.4	119.1	129.5
--- Target index based on FSSIA estimates ---				
	P/E (x)	2022E	2023E	2024E
SD+1.0	22.7	2,419	2,709	2,946
SD+0.5	20.1	2,139	2,395	2,604
SD+0.25	18.8	1,999	2,238	2,434
Avg. from 2010	17.5	1,859	2,081	2,263
SD-0.25	16.2	1,718	1,924	2,092
<b>SD-0.5</b>	<b>14.8</b>	<b>1,578</b>	<b>1,767</b>	<b>1,922</b>
SD-1.0	12.2	1,298	1,454	1,580

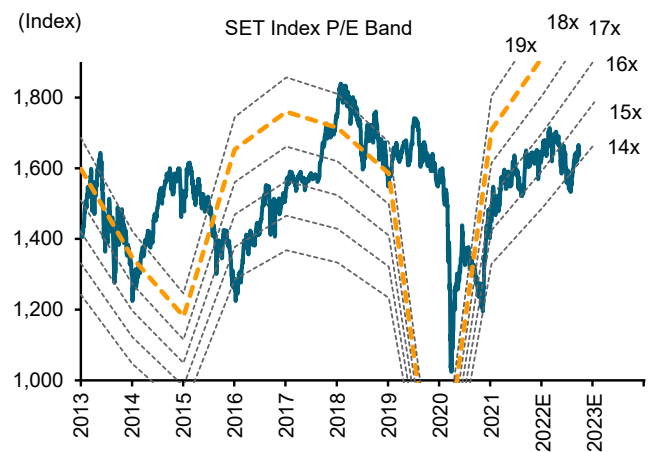
Source: FSSIA estimates

### Exhibit 91: SET rolling one-year forward P/E band



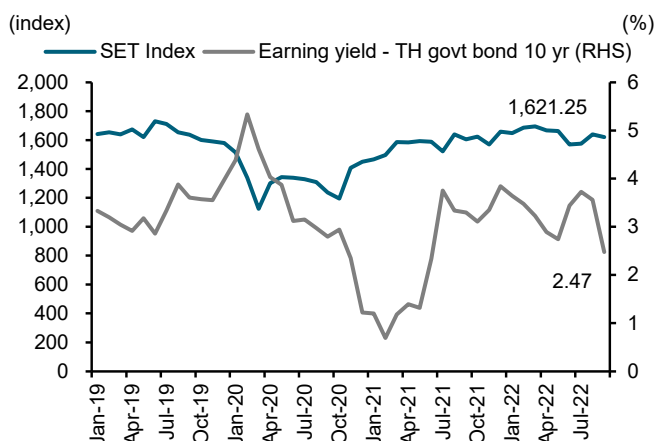
Source: FSSIA estimates

### Exhibit 92: SET rolling one-year forward P/E band



Source: FSSIA estimates

### Exhibit 93: SET's earnings yield gap



Source: FSSIA estimates from 131 companies under coverage

### Exhibit 94: FSSIA's key economic assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Fed rate (mean rate)	4.0	4.5	3.5
Brent crude oil price (USD/bbl)	120	100	
Thailand real GDP growth	3.0	4.3	3.8
Thailand headline inflation	6.5	2.6	1.7
Thailand core inflation	2.2	2.0	
Thailand policy rate	1.0	1.5	
Tourist arrivals (m)	10.2	34.0	

Source: FSSIA estimates

## Our investing themes in October 2022

Looking into October 2022, we still expect the SET index to move sideways down with high volatility in the range of 1,580-1,640. On the negative side, mostly external factors, risks include the impact of a global economic recession that could lead to a global valuation derating for risky equity assets. On positive side, mostly internal factors, we expect Thailand's economic growth to rebound meaningfully, driven by both internal factors like rising private consumption, higher international tourist arrivals, and Thailand's easing headline inflation as oil prices decline.

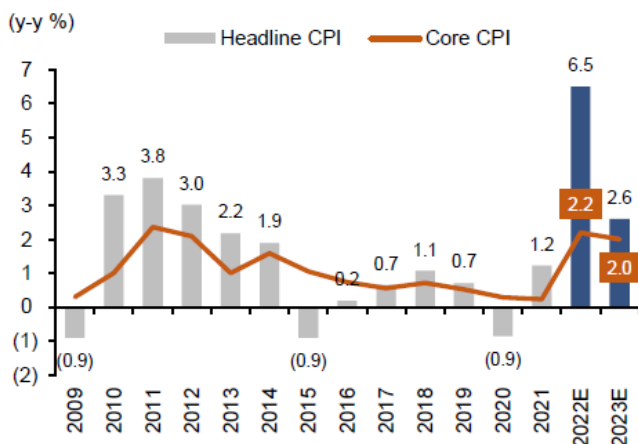
Meanwhile, we expect the SET's 3Q22 earnings results to likely decline q-q but increase y-y, based on the q-q drop in energy prices. We think that the energy, refinery and petrochemical sectors will likely book oil inventory losses against inventory gains in 2Q22, with unrealised FX losses due to the 10% THB currency depreciation. These factors will likely lead to the market to underestimate 3Q22 net profits.

We think three factors could lead to share price outperformance for our sector and stock picks in October 2022. First, the easing inflation pressure due to q-q lower energy and food prices should allow domestic sectors to outperform in October 2022. Second, domestic-driven companies could have potentially stronger-than-expected 3Q22 net profit results and beat the market's estimates. Third, stronger tourism arrivals would drive domestic consumption.

### Three investment themes to play in October 2022

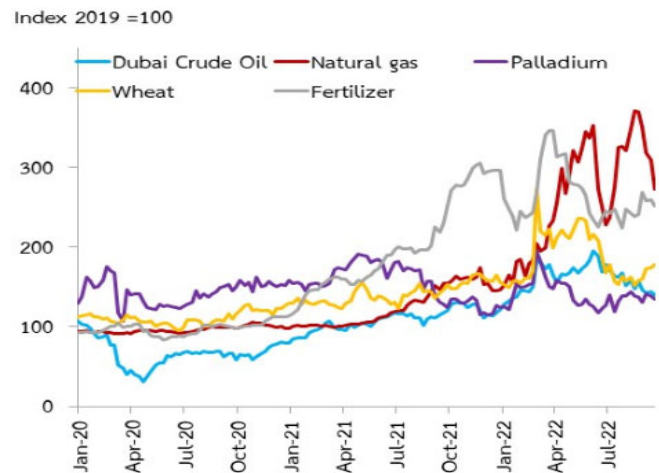
**Theme #1: Easing headline inflation on lower prices of energy and food.** This should improve the real purchasing power in the domestic market and alleviate the cost pressure to producers.

**Exhibit 95: Thailand inflation estimates by FSSIA**



Source: FSSIA estimates

**Exhibit 96: Commodity price index**



Source: Bloomberg as of 26 Sep 2022

Source: [Bank of Thailand](#)

Exhibit 97: Contribution to headline inflation

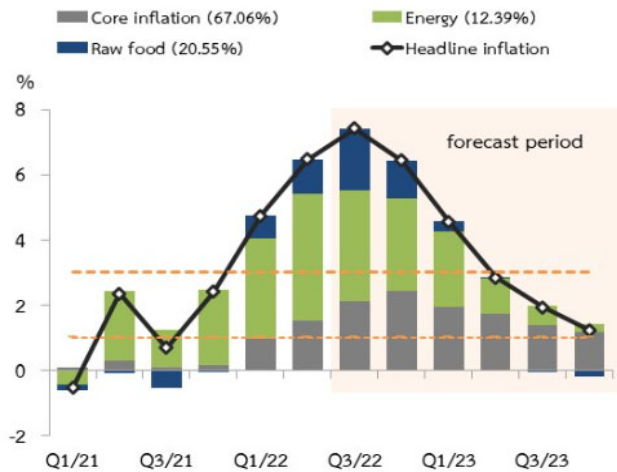
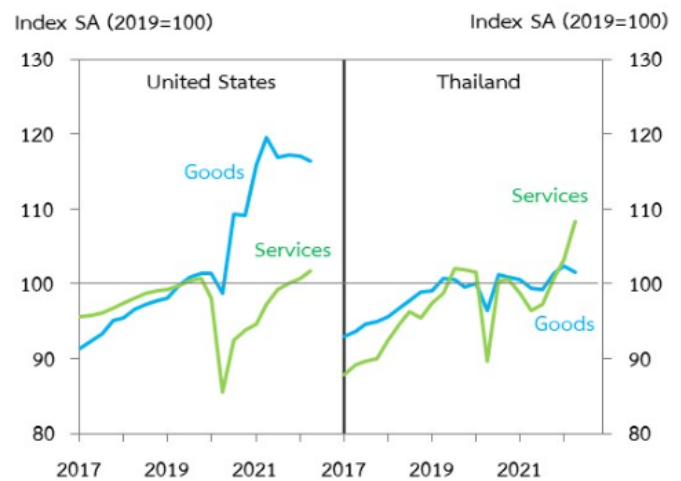
Source: [Bank of Thailand](#)

Exhibit 98: CPI breakdown by goods and services

Source: [Bank of Thailand](#)**Theme #2: Potentially stronger-than-expected 3Q22 earnings results on domestic drivers.**

While we expect the overall 3Q22 earnings of companies on the SET to drop q-q, dragged down mainly by the energy, refinery, and petrochemical sectors due to inventory and FX losses, we think the downsides for share prices of stocks in domestic sectors are limited, while upsides are high thanks to strong consumption.

We also expect banks' 3Q22 earnings results to drop slightly q-q as higher OPEX offsets the benefits from improving NIMs as they raise interest rates. We expect the commerce, export-related, healthcare, and tourism sectors to have strong earnings growth momentum in 3Q-4Q22, making them our preferred sectors in October 2022.

**Theme #3: Stronger tourism recovery after several Asian countries reopen.** We estimate Thailand's tourist arrivals to reach 10m by the end of 2022 and recover to 34m in 2023, reaching around 60% of the pre-Covid level for Chinese tourists; 85% for European; 110% for Indian; and 120% for Middle Eastern tourists in 2023. If a recession occurs next year, we think it would have a smaller impact on the global tourism recovery given that global tourist arrivals dropped by only 4% in 2009 during the Great Recession. Meanwhile, Thai hotels' RevPAR should exceed the pre-Covid level thanks to the recovery of international tourists and a higher average daily rate from pent-up demand.

Exhibit 99: Passengers carried

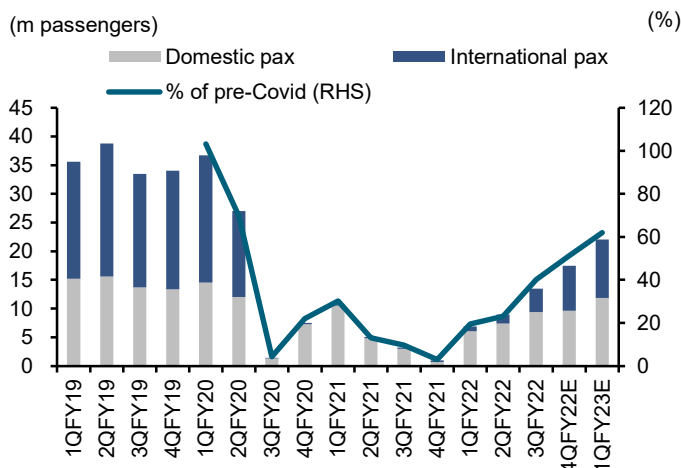
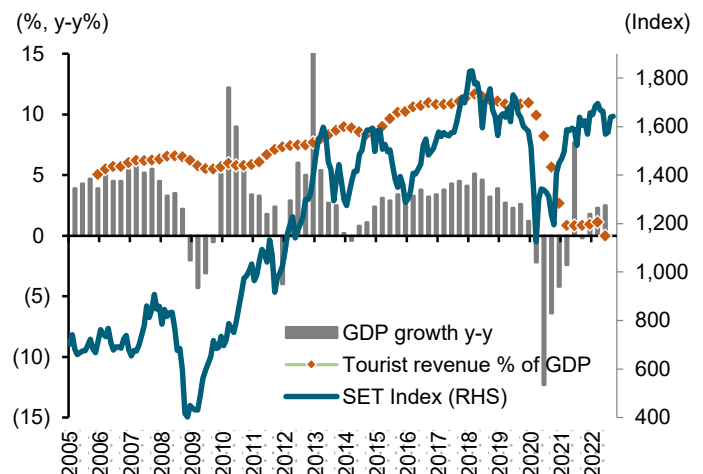
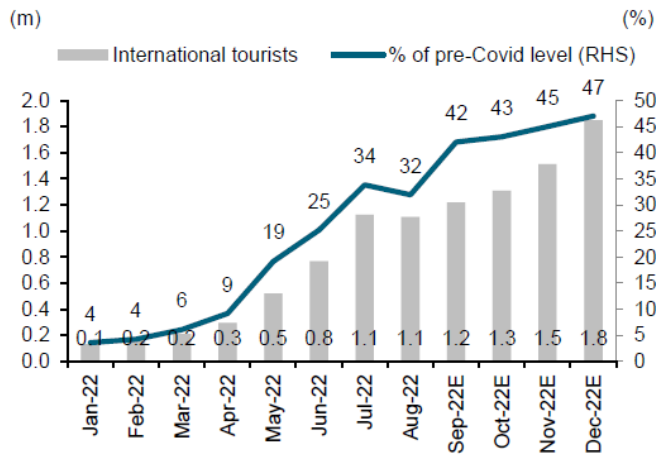


Exhibit 100: Thailand's GDP growth &amp; tourist revenues vs SET index

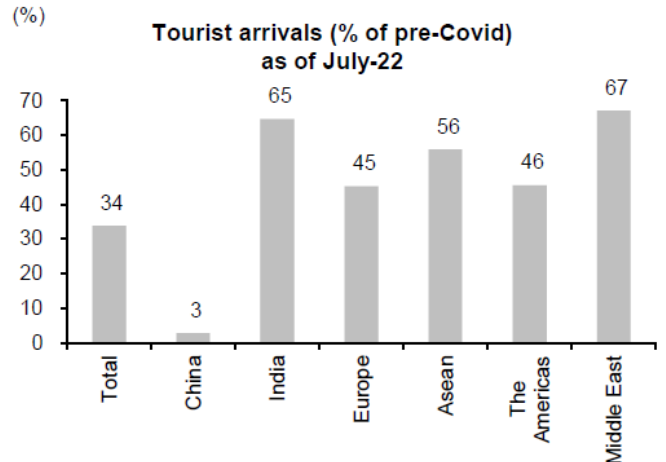


## Exhibit 101: Tourist arrivals



Sources: Ministry of Tourism &amp; Sports; FSSIA estimates

## Exhibit 102: Market segment recovery rate



Source: Ministry of Tourism &amp; Sports

## Exhibit 103: Stock picks for October 2022

Company	BBG code	Key rationale
S Hotels and Resorts	SHR TB, TP THB5.20	SHR is a laggard play in the hotel sector. The impact of rising utilities costs could be offset by higher ADR. Its share price should rebound if political tensions ease. We expect the hotel sector's core profit to improve q-q in 3Q22 and 4Q22, led by Thai hotel operations – RevPAR should recover to almost the pre-Covid level and ADR has the potential to exceed the pre-Covid level.
Susco	SUSCO TB, TP THB6.70	We believe SUSCO is poised to see a stronger net profit growth momentum starting in 2022 onward. Rising sales volumes should back the higher growth via oil stations, jet fuel sales and exports, along with higher marketing margins from oil stations – mainly from the improved non-oil business model – and oil station expansions via both the SUSCO and Esso (Thailand) (ESSO TB, BUY) brands.
Asian Sea Corporation	ASIAN TB, TP THB24.70	We believe the rising revenues from the high-margin products of pet food and frozen pre-fried foods should allow ASIAN to sustain its net margin at above 8% in 2022-23. We see upsides from its strong 2022-23E net profit growth and the listing of its pet food unit.
Bangkok Bank	BBL TB, TP THB170.00	We believe BBL would benefit the most from the interest rate uptrend, given its ability to command higher loan yields from domestic and international clients. As for potentially higher inflation, the risk for BBL would be limited because of its strong asset quality from the low concentration-risk portfolio and sufficient provision cushion.
Bangkok Airways	BA TB, TP THB15.00	BA is our wildcard pick as BA trades at a cheap 15x 2024E P/E. Pent-up demand for Samui should support and provide an upside to its airline and airport business. The airline business was pressured by rising jet fuel prices to USD142/bbl in 2Q22. The situation should improve as jet fuel prices have reduced to USD132/bbl in QTD 3Q22. We also expect airlines to partially pass through the rising fuel costs by raising ticket fares in 2H22 onward when demand starts to recover. Note that the ticket fares of BA recovered to 93-95% of the pre-Covid level and have a high potential to exceed the pre-Covid level in 2H22.
Total Access Communication	DTAC TB, TP THB55.50	We prefer DTAC over True Corporation (TRUE TB, BUY), if the amalgamation is successful as 1) DTAC has the potential to pay an interim dividend this year before the merger; 2) the conversion ratio of DTAC to Mergerco is slightly better than TRUE; and 3) there is a smaller downside risk if the merger is not successful.
Asset World Corp	AWC TB, TP THB6.50	AWC should capture the strong recovery of international tourists, and its core profit should turn around in 3Q22. The hotel business should benefit from higher ADR, while the retail business, especially Asiatique, should recover following recovery of tourists.

Source: FSSIA estimates

## Exhibit 104: Summary of key valuations of FSSIA's top picks for October 2022

Company	BBG code	--- Share price ---		Up side	----- Recurring profit -----			----- Growth -----		----- P/E -----		DivYld	ROE	PBV
		Current	Target		21A	22E	23E	22E	23E	22E	23E			
		(THB)	(THB)	(%)	(THB m)	(THB m)	(THB m)	(y-y%)	(y-y%)	(x)	(x)	(%)	(%)	(x)
S Hotels and Resorts	SHR TB	3.20	5.20	63	(1,229)	117	512	(109.5)	339.1	98.7	22.5	1.8	3.2	0.7
Susco	SUSCO TB	4.34	6.70	54	234	364	456	56.0	25.1	13.1	10.5	2.3	10.7	1.1
Asian Sea Corporation	ASIAN TB	18.10	24.70	36	1,039	1,150	1,234	10.7	7.3	12.8	11.9	4.2	25.0	2.8
Bangkok Bank	BBL TB	132.50	170.00	28	26,506	30,538	34,035	15.2	11.5	8.3	7.4	4.9	6.4	0.5
Bangkok Airways	BA TB	11.80	15.00	27	(3,899)	(2,414)	869	(38.1)	(136.0)	(10.3)	28.5	2.1	7.9	2.2
Total Access Comm	DTAC TB	45.00	55.50	23	3,422	3,551	3,253	3.8	(8.4)	30.0	32.8	3.1	17.3	5.7
Asset World Corp	AWC TB	5.60	6.50	16	(2,248)	(295)	2,086	(86.9)	(807.9)	(608.1)	85.9	0.5	2.5	2.1

Share prices as of 3 October 2022

Source: FSSIA estimates

## Corporate Governance report of Thai listed companies 2021

EXCELLENT LEVEL – Score range 90-100										
AAV	BCPG	CPALL	GCAP	K	MSC	PLANET	SAMART	SPI	THRE	TVD
ADVANC	BDMS	CPF	GFPT	KBANK	MST	PLAT	SAMTEL	SPRC	THREL	TVI
AF	BEM	CPI	GGC	KCE	MTC	PORT	SAT	SPVI	TIPCO	TVO
AH	BGC	CPN	GLAND	KKP	MVP	PPS	SC	SSSC	TISCO	TWPC
AIRA	BGRIM	CRC	GLOBAL	KSL	NCL	PR9	SCB	SST	TK	U
AKP	BIZ	CSS	GPI	KTB	NEP	PREB	SCC	STA	TKT	UAC
AKR	BKI	DDD	GPSC	KTC	NER	PRG	SCCC	STEC	TMT	UBIS
ALT	BOL	DELTA	GRAMMY	LALIN	NKI	PRM	SCG	STI	TNDT	UV
AMA	BPP	DEMCO	GULF	LANNA	NOBLE	PROUD	SCGP	SUN	TNITY	VGI
AMATA	BRR	DRT	GUNKUL	LH	NSI	PSH	SCM	SUSCO	TOA	VIH
AMATAV	BTS	DTAC	HANA	LHFG	NVD	PSL	SDC	SUTHA	TOP	WACOAL
ANAN	BTW	DUSIT	HARN	LIT	NWR	PTG	SEAFECO	SVI	TPBI	WAVE
AOT	BWG	EA	HMPRO	LPN	NYT	PTT	SEOIL	SYMC	TQM	WHA
AP	CENEL	EASTW	ICC	MACO	OISHI	PTTEP	SE-ED	SYNTEC	TRC	WHAUP
ARIP	CFRESH	ECF	ICHI	MAJOR	OR	PTTGC	SELIC	TACC	TRU	WICE
ARROW	CHEWA	ECL	III	MAKRO	ORI	PYLON	SENA	TASCO	TRUE	WINNER
ASP	CHO	EE	ILINK	MALEE	OSP	Q-CON	SHR	TCAP	TSC	ZEN
AUCT	CIMBT	EGCO	ILM	MBK	OTO	QH	SIRI	TEAMG	TSR	
AWC	CK	EPG	INTUCH	MC	PAP	QTC	SIS	TFMAMA	TSTE	
AYUD	CKP	ETC	IP	MCOT	PCSGH	RATCH	SITHAI	TGH	TSTH	
BAFS	CM	FPI	IRPC	METCO	PDG	RS	SMK	THANA	TTA	
BANPU	CNT	FPT	ITEL	MFEC	PDJ	S	SMPC	THANI	TTB	
BAY	COM7	FSMART	IVL	MINT	PG	S & J	SNC	THCOM	TTCL	
BBL	COMAN	GBX	JSP	MONO	PHOL	SAAM	SONIC	THG	TTW	
BCP	COTTO	GC	JWD	MOONG	PLANB	SABINA	SPALI	THIP	TU	
VERY GOOD LEVEL – Score range 80-89										
2S	ASIMAR	CHOW	FLOYD	IT	LOXLEY	OCC	RPC	SKY	TCC	TVT
7UP	ASK	CI	FN	ITD	LRH	OGC	RT	SLP	TCMC	TWP
ABICO	ASN	CIG	FNS	J	LST	PATO	RWI	SMIT	TEAM	UEC
ABM	ATP30	CMC	FORTH	JAS	M	PB	S11	SMT	TFG	UMI
ACE	B	COLOR	FSS	JCK	MATCH	PICO	SA	SNP	TFI	UOBKH
ACG	BA	CPL	FTE	JCKH	MBAX	PIMO	SAK	SO	TIGER	UP
ADB	BAM	CPW	FVC	JMART	MEGA	PJW	SALEE	SORKON	TITLE	UPF
AEONTS	BC	CRD	GEL	JMT	META	PL	SAMCO	SPA	TKN	UPOIC
AGE	BCH	CSC	GENCO	KBS	MFC	PM	SANKO	SPC	TKS	UTP
AHC	BEC	CSP	GJS	KCAR	MGT	PMTA	SAPPE	SPCG	TM	VCOM
AIT	BEYOND	CWT	GYT	KEX	MICRO	PPP	SAWAD	SR	TMC	VL
ALL	BFIT	DCC	HEMP	KGI	MILL	PPPM	SCI	SRICHA	TMD	VPO
ALLA	BJC	DCON	HPT	KIAT	MTSIB	PRIME	SCN	SSC	TMI	VRANDA
ALUCON	BJCHI	DHOUSE	HTC	KISS	MK	PRIN	SCP	SSF	TMILL	WGE
AMANAH	BLA	DOD	HYDRO	KOOL	MODERN	PRINC	SE	STANLY	TNL	WIJK
AMARIN	BR	DOHOME	ICN	KTIS	MTI	PSG	SFLEX	STGT	TNP	WP
APCO	BROOK	DV8	IFS	KUMWEL	NBC	PSTC	SFP	STOWER	TOG	XO
APCS	CBG	EASON	IMH	KUN	NCAP	PT	SFT	STPI	TPA	XPG
APURE	CEN	EFORL	IND	KWC	NCH	QLT	SGF	SUC	TPAC	YUASA
AQUA	CGH	ERW	INET	KWM	NETBAY	RBF	SIAM	SWC	TPCS	
ASAP	CHARAN	ESSO	INSET	L&E	CHAX	RCL	SINGER	SYNEX	TPS	
ASEFA	CHAYO	ESTAR	INSURE	LDC	NINE	RICHY	SKE	TAE	TRITN	
ASIA	CHG	ETE	IRC	LEO	NRF	RML	SKN	TAKUNI	TRT	
ASIAN	CHOTI	FE	IRCP	LHK	NTV	ROJNA	SKR	TBSP	TSE	
GOOD LEVEL – Score range 70-79										
A	BGT	CITY	GIFT	JTS	MDX	PK	SGP	SUPER	TQR	YGG
AI	BH	CMAN	GLOCON	JUBILE	MJD	PLE	SICT	SVOA	TTI	ZIGA
AIE	BIG	CMO	GREEN	KASET	MORE	PPM	SIMAT	TC	TYCN	
AJ	BLAND	CMR	GSC	KCM	MUD	PRAKIT	SISB	TCCC	UKEM	
ALPHAX	BM	CPT	GTB	KK	NC	PRAPAT	SK	THMUI	UMS	
AMC	BROCK	CRANE	HTECH	KKC	NDR	PRECHA	SMART	TNH	UNIQ	
APP	BSBM	CSR	HUMAN	KWI	NFC	PTL	SOLAR	TNR	UPA	
AQ	BSM	D	IHL	KYE	NNCL	RJH	SPACK	TOPP	UREKA	
ARIN	BTNC	EKH	IIG	LEE	NOVA	RP	SPG	TPCH	VIBHA	
AS	BYD	EMC	INGRS	LPH	NPK	RPH	SQ	TPIPL	W	
AU	CAZ	EP	INOX	MATI	NUSA	RSP	SSP	TIPIPP	WIN	
B52	CCP	F&D	JAK	M-CHAI	PAF	SABUY	STARK	TPLAS	WORK	
BEAUTY	CGD	FMT	JR	MCS	PF	SF	STC	TPOLY	WPH	

**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

Sources: Thai Institute of Directors Association (IOD); FSSIA's compilation; data as of 26 October 2021



## Anti-corruption Progress Indicator

CERTIFIED										
2S	BCH	CPALL	GC	K	MFC	PE	QLT	SNP	THCOM	TU
7UP	BCP	CPF	GCAP	KASET	MFEC	PG	QTC	SORKON	THIP	TVD
ADVANC	BCPG	CPI	GEL	KBANK	MILL	PHOL	RATCH	SPACK	THRE	TVI
AF	BE8	CPN	GFPT	KBS	MINT	PK	RML	SPALI	THREL	TVO
AI	BEYOND	CSC	GGC	KCAR	MONO	PL	RWI	SPC	TIDLOR	TWPC
AIE	BGC	DCC	GJS	KCE	MOONG	PLANB	S & J	SPI	TIPCO	U
AIRA	BGRIM	DELTA	GPI	KGI	MSC	PLANET	SAAM	SPRC	TISCO	UBE
AKP	BJCHI	DEMCO	GPSC	KKP	MST	PLAT	SABINA	SRICHA	TKS	UBIS
ALPHAX	BKI	DIMET	GSTEEL	KSL	MTC	PM	SAPPE	SSF	TKT	UEC
AMA	BLA	DRT	GUNKUL	KTB	MTI	PPP	SAT	SSP	TMD	UKEM
AMANAHA	BPP	DTAC	HANA	KTC	NBC	PPPM	SC	SSSC	TMILL	UOBKH
AMATA	BROOK	DUSIT	HARN	KWC	NEP	PPS	SCB	SST	TMT	UPF
AMATAV	BRR	EA	HEMP	KWI	NINE	PR9	SCC	STA	TNITY	UV
AP	BSBM	EASTW	HENG	L&E	NKI	PREB	SCCC	STOWER	TNL	VGI
APCS	BTS	ECL	HMPRO	LANNA	NMG	PRG	SCG	SUSCO	TNP	VIH
AQUA	BWG	EGCO	HTC	LH	NNCL	PRINC	SCN	SVI	TNR	WACOAL
ARROW	CEN	EP	ICC	LHFG	NOBLE	PRM	SEAOL	SYMC	TOG	WHA
AS	CENTEL	EPG	ICHI	LHK	NOK	PROS	SE-ED	SYNTEC	TOP	WHAUP
ASIAN	CFRESH	ERW	IFEC	LPN	NSI	PSH	SELIC	TAE	TOPP	WICE
ASK	CGH	ESTAR	IFS	LRH	NWR	PSL	SENA	TAKUNI	TPA	WIJK
ASP	CHEWA	ETE	ILINK	M	OCC	PSTC	SGP	TASCO	TPP	XO
AWC	CHOTI	FE	INET	MAKRO	OGC	PT	SINGER	TBSP	TRU	ZEN
AYUD	CHOW	FNS	INSURE	MALEE	ORI	PTG	SIRI	TCAP	TRUE	
B	CIG	FPI	INTUCH	MATCH	PAP	PTT	SITHAI	TCMC	TSC	
BAFS	CIMBT	FPT	IRC	MBAX	PATO	PTTEP	SKR	TFG	TSTE	
BAM	CM	FSMART	IRPC	MBK	PB	PTTGC	SMIT	TFI	TSTH	
BANPU	CMC	FSS	ITEL	MC	PCSGH	PYLON	SMK	TFMAMA	TTA	
BAY	COM7	FTE	IVL	MCOT	PDG	Q-CON	SMPC	TGH	TTB	
BBL	COTTO	GBX	JKN	META	PDJ	QH	SNC	THANI	TTCL	
DECLARED										
AJ	CHG	DDD	ETC	JR	MAJOR	NUSA	RS	SSS	TQM	YUASA
ALT	CPL	DHOUSE	FLOYD	JTS	NCAP	NYT	SAK	STECH	TSI	ZIGA
APCO	CPR	DOHOME	GULF	KEX	NCL	OR	SCGP	STGT	VARO	
B52	CPW	ECF	III	KUMWEL	NOVA	PIMO	SCM	TKN	VCOM	
BEC	CRC	EKH	INOX	LDC	NRF	PLE	SIS	TMI	VIBHA	

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 26 October 2021) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

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



## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

Suwat Sinsadok, CFA, FRM, ERP 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
S Hotels and Resorts	SHR TB	THB 3.20	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Susco	SUSCO TB	THB 4.34	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 fuel demand.
Asian Sea Corporation	ASIAN TB	THB 18.10	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 its GPM.
Bangkok Bank	BBL TB	THB 132.50	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.
Bangkok Airways	BA TB	THB 11.80	BUY	Downside risks to our SoTP-based TP 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.
Total Access Communication	DTAC TB	THB 45.00	BUY	The key downside risks to our DCF-based TP are if the amalgamation between DTAC and TRUE is unable to proceed, if there is stronger-than-expected competition in the mobile market, and if there is a faster or slower-than-expected adoption of 5G use cases
Asset World Corp	AWC TB	THB 5.60	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
PTT PCL	PTT TB	THB 34.00	BUY	Risks to our SoTP-based valuation are the oil price and potential earnings downsides from government intervention.
Esso Thailand	ESSO TB	THB 12.70	BUY	The downside risks to our SoTP-based TP on ESSO include 1) lower-than-expected demand for petroleum products; 2) a higher crude premium; and 3) unplanned shutdowns of its refinery and petrochemical plants.
True Corporation	TRUE TB	THB 5.05	BUY	The key downside risks to our DCF-based TP are if the 5G subscription gains and ARPU are worse than our expectation, if the company can reduce its costs worse than we expect, and if there is a slower-than-expected adoption of 5G use cases.

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 3-Oct-2022 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.