

SUPALAI SPALI TB

THAILAND / PROPERTY DEVELOPMENT

BUY

UNCHANGED

Narrower gross margin hurt 1Q23 profit

- SPALI's 1Q23 net profit dropped by 50% q-q and 8% y-y due to a lower gross margin and a lack of new condo transfers.
- We anticipate 2Q23 earnings to recover q-q but drop y-y.
- Maintain BUY and our TP of THB27 on inexpensive valuation, as it trades at 5.7x 2023E PE with a dividend yield at 6.9%.

TARGET PRICE	THB27.00
CLOSE	THB20.90
UP/DOWNSIDE	+29.2%
TP vs CONSENSUS	-1.4%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	34,486	32,565	33,865	32,357
Net profit	8,173	7,177	7,404	6,963
EPS (THB)	4.18	3.67	3.79	3.56
vs Consensus (%)	-	(6.2)	(2.7)	(11.5)
EBITDA	9,514	8,772	9,113	8,555
Core net profit	8,173	7,177	7,404	6,963
Core EPS (THB)	4.18	3.67	3.79	3.56
EPS growth (%)	27.0	(12.2)	3.2	(6.0)
Core P/E (x)	5.0	5.7	5.5	5.9
Dividend yield (%)	6.9	6.9	7.0	7.0
EV/EBITDA (x)	6.8	7.2	7.0	7.7
Price/book (x)	0.9	0.8	0.7	0.7
Net debt/Equity (%)	48.9	40.1	37.4	38.1
ROE (%)	18.5	14.7	13.9	12.1

1Q23 profit down q-q and y-y due to no new condos

SPALI reported a 1Q23 net profit of THB1.08b (-50% q-q, -8% y-y), the lowest in seven quarters, in line with the BBG consensus but slightly above our estimate by 7% owing to higher-than-expected other income. Transfers came in at THB5.6b, dropping 42% q-q from the high base in 4Q22 but increasing 5% y-y. Of the total, 69% was from low-rise and 31% was from condo transfers. The y-y transfer growth was due to low-rise transfers at THB3.9b (-33% q-q, +29% y-y) from the realisation of its backlog from the previous quarter. However, 1Q23 condo transfers decreased by 55% q-q and 26% y-y to THB1.7b, as there were no new condo projects to transfer from (vs three newly built condos in 1Q22). Profit sharing from its JV in Australia amounted to THB66m, down 60% q-q from seasonality but up 14% y-y, as it postponed transfers to this year.

The lowest gross margin in 10 quarters

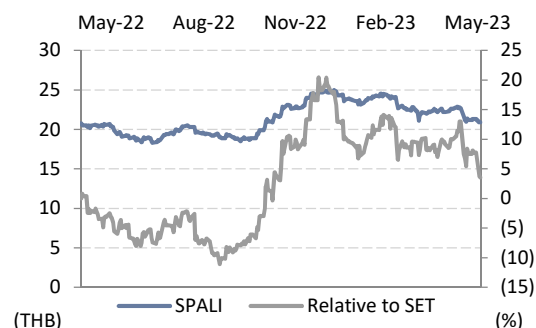
Overall, 1Q23 performance was pressured by a lower property gross margin at 36.4% (vs 37.6% in 4Q22 and 39.3% in 1Q22). This resulted from a higher proportion of low-rise transfers at 69% (vs 60% in 4Q22 and 56% in 1Q22), which have a lower margin than condos. It also reflects the realisation of Phuket low-rise projects which used pricing promotions during Covid. However, we expect a gradual increase in its gross margin from 1Q23 following two newly built condos in 2Q-3Q23.

Expect 2Q23 earnings to recover q-q but drop y-y

SPALI's 1Q23 performance accounts for 15% of our 2023E net profit. Preliminarily, we expect 1Q23 earnings to be the bottom of this year, and 2Q23 profit should rise q-q, driven by the start of transfers for Supalai Loft Sathorn-Ratchapruak (THB1.5b, sold out) and more new low-rise projects worth THB4.5b. However, 2Q23 performance will likely drop y-y, compared to three new condos worth THB9.5b in 2Q22.

Maintain target price and recommendation

Our forecast sees a 2023 net profit of THB7.2b, dropping 12% y-y. At end-1Q23, SPALI had a backlog of THB20b, which will be realised until 2025. Of that, it will book THB15.3b for the rest of this year, which is enough to secure 65% of our 2023 transfer estimate. We reaffirm our TP of THB27. Though there is no apparent share price catalyst in the short term, it trades at 5.7x 2023E PE, lower than the historical average of 7x.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(5.9)	(13.6)	0.5
Relative to country (%)	(4.1)	(8.1)	4.2
Mkt cap (USD m)	1,212		
3m avg. daily turnover (USD m)	4.4		
Free float (%)	60		
Major shareholder	Tangmatitham Family (30%)		
12m high/low (THB)	25.25/18.10		
Issued shares (m)	1,953.05		

Sources: Bloomberg consensus; FSSIA estimates



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Exhibit 1: 1Q23 results summary

	1Q22	2Q22	3Q22	4Q22	1Q23	----- Change -----	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Total revenue	5,433	8,198	11,133	9,723	5,734	(41)	6
Cost of sales	3,303	4,967	6,728	6,071	3,638	(40)	10
Gross profit	2,129	3,231	4,404	3,652	2,096	(43)	(2)
SG&A	717	940	1,124	1,248	815	(35)	14
Operating profit	2,846	4,171	5,528	4,900	2,911	(41)	2
Other income	105	357	229	323	168	(48)	60
Interest expense	59	61	75	81	96	18	62
Profit before tax	1,458	2,587	3,435	2,646	1,353	(49)	(7)
Tax	322	564	729	596	318	(47)	(1)
Associates	58	83	85	165	66	(60)	14
Reported net profit	1,178	2,075	2,749	2,171	1,080	(50)	(8)
Normalised profit	1,178	2,075	2,749	2,171	1,080	(50)	(8)
Key ratios (%)	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)
Property gross margin	39.3	39.5	39.6	37.6	36.4	(1.1)	(2.8)
Gross margin	39.2	39.4	39.6	37.6	36.6	(1.0)	(2.6)
Operating margin	52.4	50.9	49.7	50.4	50.8	0.4	(1.6)
Net profit margin	21.7	25.3	24.7	22.3	18.8	(3.5)	(2.8)
Normalised profit margin	21.7	25.3	24.7	22.3	18.8	(3.5)	(2.8)
Operating statistics	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Property transfers	5,372	8,136	11,068	9,646	5,641	(42)	5
-- Low-rise	3,008	4,475	5,202	5,795	3,893	(33)	29
-- High-rise	2,364	3,661	5,866	3,851	1,749	(55)	(26)
Presales	8,852	9,364	6,809	7,408	9,029	22	2
-- Low-rise	6,285	6,102	4,880	4,787	6,411	34	2
-- High-rise	2,567	3,262	1,929	2,621	2,618	(0)	2

Sources: SPALI; FSSIA's compilation

Exhibit 2: Condo values to be transferred in 2023



Source: SPALI

Financial Statements

Supalai

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	29,160	34,486	32,565	33,865	32,357
Cost of goods sold	(17,395)	(20,942)	(20,076)	(20,936)	(20,167)
Gross profit	11,765	13,544	12,489	12,928	12,190
Other operating income	0	0	0	0	0
Operating costs	(3,321)	(4,029)	(3,717)	(3,815)	(3,634)
Operating EBITDA	8,444	9,514	8,772	9,113	8,555
Depreciation	(123)	(127)	(130)	(135)	(140)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	8,321	9,387	8,642	8,979	8,415
Net financing costs	(259)	(277)	(279)	(323)	(364)
Associates	533	390	350	350	350
Recurring non-operating income	1,020	1,405	936	943	972
Non-recurring items	0	0	0	0	0
Profit before tax	9,083	10,515	9,299	9,598	9,024
Tax	(1,943)	(2,212)	(1,942)	(2,007)	(1,882)
Profit after tax	7,139	8,303	7,357	7,591	7,141
Minority interests	(69)	(130)	(180)	(187)	(179)
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	7,070	8,173	7,177	7,404	6,963
Non-recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	7,070	8,173	7,177	7,404	6,963
Per share (THB)					
Recurring EPS *	3.30	4.18	3.67	3.79	3.56
Reported EPS	3.30	4.18	3.67	3.79	3.56
DPS	1.25	1.45	1.45	1.46	1.45
Diluted shares (used to calculate per share data)	2,146	1,953	1,953	1,953	1,953
Growth					
Revenue (%)	41.6	18.3	(5.6)	4.0	(4.5)
Operating EBITDA (%)	57.4	12.7	(7.8)	3.9	(6.1)
Operating EBIT (%)	58.6	12.8	(7.9)	3.9	(6.3)
Recurring EPS (%)	66.3	27.0	(12.2)	3.2	(6.0)
Reported EPS (%)	66.3	27.0	(12.2)	3.2	(6.0)
Operating performance					
Gross margin inc. depreciation (%)	39.9	38.9	38.0	37.8	37.2
Gross margin of key business (%)	40.0	39.0	38.0	37.8	37.3
Operating EBITDA margin (%)	29.0	27.6	26.9	26.9	26.4
Operating EBIT margin (%)	28.5	27.2	26.5	26.5	26.0
Net margin (%)	24.2	23.7	22.0	21.9	21.5
Effective tax rate (%)	22.7	21.7	21.7	21.7	21.7
Dividend payout on recurring profit (%)	37.9	34.6	39.5	38.4	40.8
Interest cover (X)	36.1	39.0	34.3	30.7	25.8
Inventory days	1,280.5	1,113.5	1,231.4	1,262.3	1,411.9
Debtor days	0.6	0.5	0.6	0.7	0.7
Creditor days	51.4	47.1	52.4	50.4	52.4
Operating ROIC (%)	11.6	12.3	10.7	10.5	9.1
ROIC (%)	12.0	12.7	10.3	10.2	9.0
ROE (%)	18.0	18.5	14.7	13.9	12.1
ROA (%)	10.5	11.3	9.3	9.1	8.1
* Pre exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Real estate	28,938	34,222	32,297	33,583	32,061
Rentals & Services	222	264	268	282	296

Sources: Supalai; FSSIA estimates

Financial Statements

Supalai

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	7,070	8,173	7,177	7,404	6,963
Depreciation	123	127	130	135	140
Associates & minorities	-	-	-	-	-
Other non-cash items	-	-	-	-	-
Change in working capital	(2,648)	(5,013)	(2,143)	(5,112)	(6,248)
Cash flow from operations	4,545	3,288	5,164	2,426	855
Capex - maintenance	-	-	-	-	-
Capex - new investment	(1,272)	(4,608)	(147)	(135)	(214)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	-	-	-	-	-
Cash flow from investing	(1,272)	(4,608)	(147)	(135)	(214)
Dividends paid	(1,864)	(5,111)	(2,835)	(2,843)	(2,841)
Equity finance	324	1,474	180	187	179
Debt finance	(1,442)	4,646	(2,719)	721	1,879
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,982)	1,010	(5,374)	(1,935)	(783)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	291	(311)	(358)	356	(142)
Free cash flow to firm (FCFF)	3,532.04	(1,043.62)	5,295.57	2,614.59	1,004.62
Free cash flow to equity (FCFE)	1,830.99	3,325.97	2,297.36	3,012.21	2,519.98

Per share (THB)

FCFF per share	1.81	(0.53)	2.71	1.34	0.51
FCFE per share	0.94	1.70	1.18	1.54	1.29
Recurring cash flow per share	3.35	4.25	3.74	3.86	3.64

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	2,850	2,947	3,053	3,169	3,298
Less: Accumulated depreciation	(1,346)	(1,471)	(1,601)	(1,736)	(1,876)
Tangible fixed assets (net)	1,505	1,476	1,451	1,433	1,421
Intangible fixed assets (net)	0	0	0	0	0
Long-term financial assets	0	0	0	0	1
Invest. in associates & subsidiaries	4,404	8,863	8,955	8,974	9,060
Cash & equivalents	1,626	1,315	957	1,314	1,172
A/C receivable	51	38	65	68	65
Inventories	62,104	65,675	69,792	75,015	81,013
Other current assets	1,407	2,065	1,791	1,863	1,780
Current assets	65,188	69,093	72,605	78,259	84,029
Other assets	336	441	488	508	485
Total assets	71,432	79,873	83,501	89,174	94,996
Common equity	42,070	46,514	50,856	55,417	59,540
Minorities etc.	857	949	1,129	1,316	1,495
Total shareholders' equity	42,926	47,463	51,985	56,733	61,035
Long term debt	3,976	3,886	8,338	5,742	5,988
Other long-term liabilities	713	804	808	843	813
Long-term liabilities	4,689	4,690	9,146	6,585	6,801
A/C payable	2,469	2,939	2,829	2,950	2,843
Short term debt	15,913	20,650	13,479	16,796	18,429
Other current liabilities	5,435	4,182	6,062	6,111	5,890
Current liabilities	23,817	27,772	22,370	25,856	27,163
Total liabilities and shareholders' equity	71,432	79,924	83,501	89,174	94,998
Net working capital	55,659	60,657	62,757	67,885	74,124
Invested capital	61,903	71,437	73,653	78,800	85,091

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

Per share (THB)

Book value per share	19.61	23.82	26.04	28.37	30.49
Tangible book value per share	19.61	23.82	26.04	28.37	30.49

Financial strength

Net debt/equity (%)	42.5	48.9	40.1	37.4	38.1
Net debt/total assets (%)	25.6	29.1	25.0	23.8	24.5
Current ratio (x)	2.7	2.5	3.2	3.0	3.1
CF interest cover (x)	13.0	29.7	9.8	10.7	8.5

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	6.3	5.0	5.7	5.5	5.9
Recurring P/E @ target price (x) *	8.2	6.5	7.3	7.1	7.6
Reported P/E (x)	6.3	5.0	5.7	5.5	5.9
Dividend yield (%)	6.0	6.9	6.9	7.0	7.0
Price/book (x)	1.1	0.9	0.8	0.7	0.7
Price/tangible book (x)	1.1	0.9	0.8	0.7	0.7
EV/EBITDA (x) **	7.6	6.8	7.2	7.0	7.7
EV/EBITDA @ target price (x) **	9.1	8.1	8.5	8.3	9.1
EV/invested capital (x)	1.0	0.9	0.9	0.8	0.8

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

Sources: Supalai; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) **Sustainability Investment List (THSI)** by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

AGM Checklist by the Thai Investors Association (TIA)²

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

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History of change in investment rating and/or target price

Supalai (SPALI TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
08-Dec-2020	BUY	21.00	26-Oct-2021	BUY	28.00	-	-	-
01-Feb-2021	BUY	26.00	27-Jan-2023	BUY	27.00			

Thanyatorn Songwutti started covering this stock from 27-Jan-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Supalai	SPALI TB	THB 20.90	BUY	Downside risks to our P/E derived TP are cost overruns; delays or poor receptions for new launches; presale cancellations; inability of homebuyers to obtain mortgage financing; and weak take-up rates and reduced pricing power from rising competition.

Source: FSSIA estimates

Additional Disclosures

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

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

All share prices are as at market close on 09-May-2023 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.