

# Thailand Market Strategy

## Good start in 1Q23 for Thai economy

- NESDC reported 1Q23 GDP at +1.9% q-q, +2.7% y-y, above expectations.
- Private sector and tourism industry are key engines to drive the Thai economy and more than offset lower government spending and goods exports.
- We expect GDP to accelerate in 2Q23 thanks to election campaigns. Maintain our 2023 SET target and domestic/reopening play call.

### Thailand's 1Q23 GDP was above expectations

The Office of the National Economic and Social Development Council (NESDC) reported that Thai GDP grew by 1.9% q-q and 2.7% y-y in 1Q23, beating the market's expectation of +1.7% q-q and +2.3% y-y. Growth numbers clearly accelerated from -1.1% q-q and +1.4% y-y in 4Q22.

### Consumption and tourism remained key drivers

Key drivers in 1Q23 remained private consumption, investment, and service exports, which rose by 5.4% y-y, 3.1% y-y, and 87.8% y-y, respectively. Spending continued to increase for non-durable items, especially foods, healthcare services, transportation, and restaurants and hotels. All of the spending increases were in line with consumer confidence, which rose to a level of 53.8 in 1Q23 from 49.7 in 4Q22. Moreover, international tourist arrivals to Thailand jumped to 6.4 million in 1Q, equal to 58% of the pre-Covid level.

### Weak public spending and goods exports

Just as in 4Q22, government consumption continued to drop (-6.2% y-y in 1Q23) from the absence of Covid-19 treatment expenditures and the end of the stimulus programs over the past three years. Moreover, the rising level of public debt to GDP of over 60% could diminish the government's spending ability in the short to medium term. In addition, exports of goods continued to drop by 6.4% y-y in 1Q23, and decreased across every key region such as the US, Europe, and East Asia. Markets that expanded in 1Q23 were India, the Middle East and Africa. Goods exports were impacted by the global economic slowdown from the very high inflation situation.

### Maintain domestic and reopening play call

We think the Thai economy will continue to grow in 2Q23, supported by massive election campaigns during April to May 2023, which should boost private consumption nationwide. We anticipate internal factors to remain more positive than external factors, especially economic trends. We expect that the US and EU economies should slow down in the coming quarters, thereby pressuring Thai exports in 2023. Meanwhile, the private sector and tourism industry should continue to take key roles in driving the economy in 2023. The NESDC maintains its 2023 GDP growth forecast at 2.7-3.7%, while the Bank of Thailand (BoT) currently expects 3.6%. We maintain our 2023 SET target of 1,700 and reaffirm our call to maintain focus on domestic and reopening sectors. We like AOT, BA, BDMS, CPALL, CPN, ICHI and TOA.

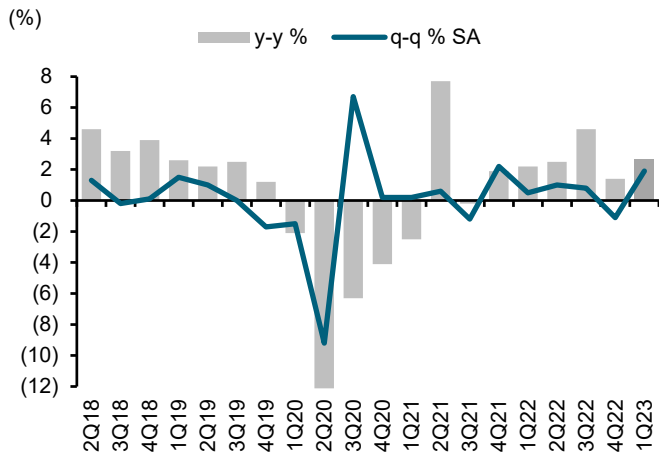


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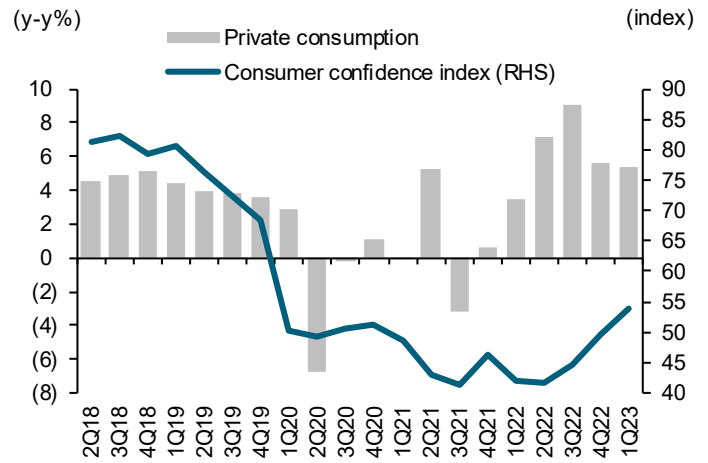
The Chairman of The Audit Committee and Independent Director of Finansia Syrus Securities PCL is also BA's Director.

**Exhibit 1: Quarterly TH GDP growth**



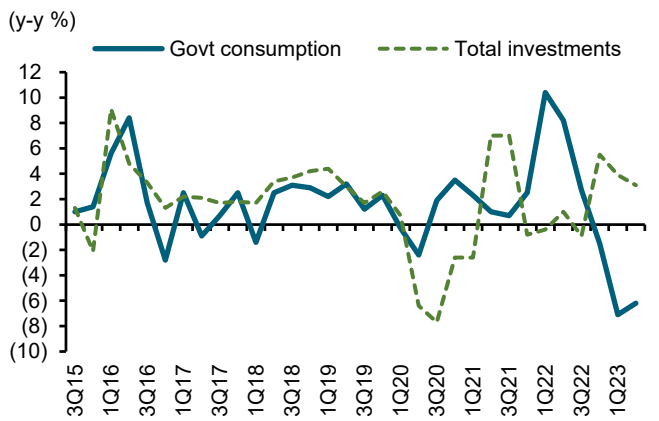
Source: NESDC

**Exhibit 2: Private consumption continues to rise**



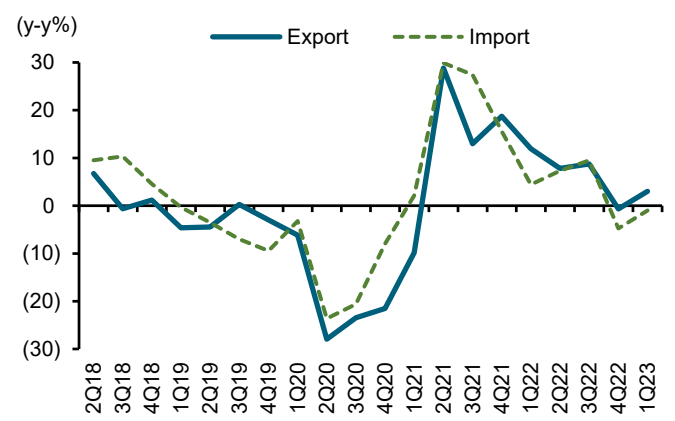
Source: NESDC

**Exhibit 3: Government consumption remains negative**



Source: NESDC

**Exhibit 4: Service exports can offset weak goods exports**



Source: NESDC

**Exhibit 5: NESDC and BoT economic projections**

	2018	2019	2020	2021	2022	NESDC 2023E	Bank of Thailand 2023E
	(y-y%)	(y-y%)	(y-y%)	(y-y%)	(y-y%)	(y-y%)	(y-y%)
Real GDP growth	4.2	2.3	(6.4)	1.5	2.6	2.7-3.7	3.6
Private consumption	4.6	4.0	(0.8)	0.6	6.3	3.7	4.0
Private investment	4.1	2.7	(8.1)	3.0	5.1	1.9	2.1
Public consumption	2.6	1.7	1.4	3.7	(0.0)	(2.6)	(2.2)
Public investment	2.8	0.1	5.1	3.4	(4.9)	2.7	3.7
Export value growth (USD b)	7.5	(3.3)	(6.5)	19.2	5.5	(1.6)	(0.7)
Headline inflation	1.1	0.7	(0.8)	1.2	6.1	2.5-3.5	2.9
Current account to GDP (%)	5.6	7.0	4.2	(2.1)	(3.4)	1.4	-
Number of tourist arrivals (m)	38.2	39.9	0.0	0.4	11.1	28	28

Sources: NESDC and BoT

## 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) <sup>1</sup>

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) <sup>2</sup>

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) <sup>3</sup>

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) <sup>4</sup> by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment ([THSI](#)) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. 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: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (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 Indices<sup>5</sup> (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:

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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

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

## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

#### Veeravat Virochpoka 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
Airports of Thailand	AOT TB	THB 73.25	BUY	Downside risks to our DCF-based target price include 1) a slowdown in the recovery of international passengers; 2) delays in the Suvarnabhumi Airport expansions (satellite terminal and northern expansion); and 3) the termination of the duty-free concession contracts from King Power.
Bangkok Airways	BA TB	THB 14.40	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.
Bangkok Dusit Medical Services	BDMS TB	THB 29.75	BUY	Downside risks to our DCF-based target price include 1) a slowdown in international patients due to economic concerns, political protests or floods; 2) regulatory risks from drug prices and medical bill controls; and 3) higher-than-expected capex and opex for CoE projects.
CP All	CPALL TB	THB 66.50	BUY	The key downside risks to our DCF-derived TP are: 1) a lower-than-expected impact from SSSG at its convenience store business; 2) lower-than-expected performance from MAKRO; and 3) a slower recovery in tourist arrival numbers and private consumption.
Central Pattana	CPN TB	THB 70.00	BUY	Key downside risks to our DCF-derived TP are deviations to our estimates on rental rate, occupancy rate, returns on its new investments, capex and interest rate.
Ichitan Group	ICHI TB	THB 12.50	BUY	Downside risks to our P/E-based TP would be 1) a slower-than-expected recovery in consumption; 2) high volatility in packaging costs; and 3) increased competition and government policy changes such as excise taxes for sugary drinks.
TOA Paint (Thailand)	TOA TB	THB 29.25	BUY	Downside risks to our P/E-based TP include 1) a slower-than-expected economic recovery and weak purchasing power; 2) an increase in raw material costs, especially in relation to oil price movement and TiO <sub>2</sub> ; 3) currency exchange fluctuation, as c13% of its raw materials are imported; and 4) the challenging situation in Vietnam.

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 12-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.