

# Thailand Market Strategy

## Stocks with limited downside are key

- Higher major central bank terminal rates from sticky inflation and slow global economic growth continue to pressure risk assets in 2H23.
- Thai economy looks stronger on domestic demand and tourism. Key support could come from the successful formation of a new government.
- Maintain SET target of 1,620 and selective strategy. Top picks for 2H23 are BA, BDMS, CENTEL, CPAXT, CPN, NSL, ORI and TOA.

### Higher terminal rates and slower global growth continue to pressure risk assets

Major central banks including the US Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of England (BoE) have signalled further rate hikes are on the way in 2H23 as inflation remains far above their target of c2%. With this unanticipated hawkish shift in the background, the global economy – especially the US – is likely to show significantly slower GDP growth in 3Q23. With little upside for risk assets, we think the bond market is the most interesting investment as investors seek to lock in yields at the peak.

### All eyes on whether new coalition will succeed in forming government

In its latest statement, the Bank of Thailand (BoT) maintained its GDP growth forecasts at +3.6% and +3.8% in 2023-24 and emphasised that private consumption and tourism would continue to play the key roles in driving the Thai economy as other engines face slower growth due to political uncertainty and the global economic slowdown. We think the key factor that would give the market a clear direction is whether a new coalition can be formed. The successful formation of a new government would boost consumer and investor confidence in the short term, in our view, while failure would have the opposite effect.

### Banks to start reporting 2Q23 earnings

Preliminary data shows the market expects the seven major Thai banks (BBL, KBANK, KKP, KTB, SCB, TISCO, and TTB) to have an aggregate 2Q23 net profit of THB52b (+3.5% q-q, +19.2% y-y). BBL, KTB, SCB, and TTB are likely to report strong y-y growth thanks to strong interest income and lower provisions, while KKP and TISCO should be relatively flat both q-q and y-y. The other sectors we expect to report positive y-y growth are mainly in the domestic and reopening side such as banking, tourism and related, commerce, media, and construction materials, while agribusiness, food, oil & petrochemicals, electronics, and shipping are likely to show negative y-y growth in line with slower economic activity.

### Maintain SET target of 1,620 – be selective

We maintain our 2023 SET index target of 1,620, based on a target PER of 17x and EPS of THB95. In our view, a drop in the SET index below 1,500 is an opportunity for long-term investment. Our strategy is to focus on stocks we expect to face limited impacts from global economic uncertainty and new government policies. We prefer domestic and reopening plays. Our 2H23 top picks remain BA, BDMS, CENTEL, CPAXT, CPN, NSL, ORI and TOA.



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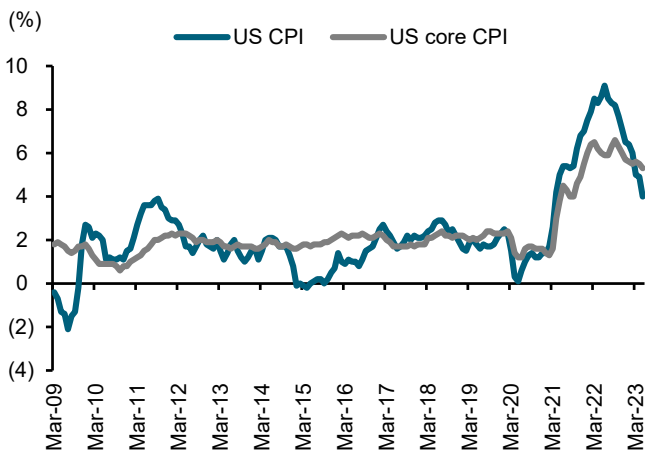
The Chairman of The Audit Committee and Independent Director of Finansia Syrus Securities PCL is also BA's Director.

### Higher-for-longer FED funds rate continues to pressure risk assets

At the Federal Open Market Committee (FOMC)'s latest meeting in June 2023, the Fed maintained its policy rate at 5-5.25%, in line with market expectations. However, its latest dot plot revealed a surprisingly hawkish mood, showing that most committee members see interest rates rising in 2H23 by 0.5% to 5.5-5.75% by the end of 2023. This could imply that US inflation remains sticky and may take more time to come down to the Fed's long-term target of 2%. In particular, the Fed now expects US core PCE at +3.9%/+2.6%/+2.2% in 2023-25, higher than the March 2023 forecast.

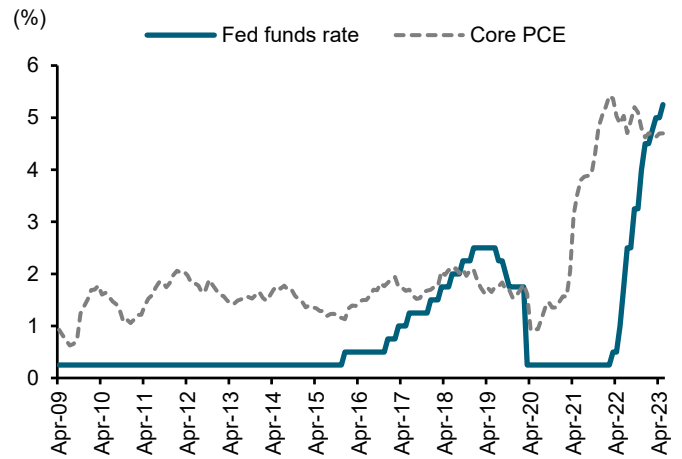
In terms of economic growth, we continue to expect the global economy to show significantly slower GDP growth in 2H23 due to the higher-for-longer interest rate environment. The Bloomberg consensus maintained its forecast that the US economy would grow by only 0.5% q-q in 2Q23 before pulling back to 0.4-0.5% q-q in 3Q23-4Q23 with a 65% probability of a recession. Eurozone growth, meanwhile, is likely to be flat at 0.1-0.2% q-q as the ECB signalled more hikes are coming in July 2023. Moreover, China's GDP growth is likely to be slower than the market anticipates despite the People's Bank of China (PBOC)'s move to cut its policy rate by 0.1% last month, and more fiscal stimulus is likely. As a result, we think lower economic growth and higher interest rates should continue to limit the upside for risk assets in 2H23.

Exhibit 1: US CPI



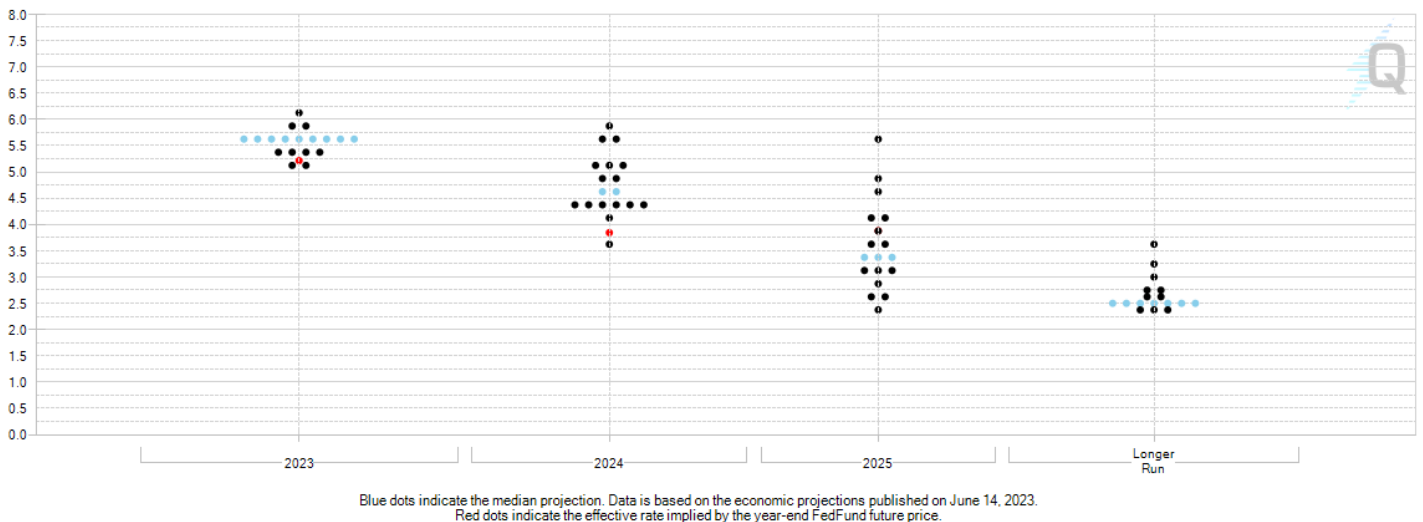
Source: Bloomberg

Exhibit 2: US core PCE and Fed funds rate



Source: Bloomberg

Exhibit 3: The Fed's June 2023 dot plot



Blue dots indicate the median projection. Data is based on the economic projections published on June 14, 2023. Red dots indicate the effective rate implied by the year-end FedFund future price.

Source: Federal Reserve System (FED)

**Exhibit 4: Bloomberg's quarterly GDP growth projections by country (q-q)**

	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	Probability of recession
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
US*	(0.6)	3.2	2.6	1.3	0.6	(0.5)	(0.4)	0.8	1.6	1.9	2.0	65.0
Eurozone	0.9	0.4	(0.1)	(0.1)	0.1	0.2	0.2	0.2	0.3	0.4	0.4	42.5
UK	0.1	(0.1)	0.1	0.1	0	0.1	0.1	0.2	0.3	0.3	0.4	52.5
China	(2.3)	3.9	0.6	2.2	1.1	1.2	1.2	1.2	1.2	1.2	1.2	10.0
Japan*	4.7	(1.5)	0.4	2.7	1.1	0.9	0.9	0.9	1.2	1.2	1.1	30.0
South Korea	0.7	0.2	(0.3)	0.3	0.6	0.6	0.7	0.5	0.5	0.4	0.6	25.0
Thailand	0.9	0.8	(1.1)	1.9	1.4	1.2	0.9	1.0	0.9	0.8	0.9	10.0
Indonesia	3.7	1.8	0.4	(0.9)	3.7	1.8	0.4	(0.9)	3.8	1.8	0.3	2.0

Note; \* = q-q SAAR

Sources: Bloomberg; FSSIA's compilation

### Domestic demand remains strong; all eyes on coalition formation

We see the Thai economy remaining stronger and more resilient than the global economy. In its latest announcement, the BoT maintained its GDP growth forecasts of 3.6% and 3.8% in 2023-24 and raised its private consumption growth estimate from +4% y-y to +4.4% y-y for 2023. Furthermore, its forecast for international tourist arrivals was raised from 28m to 29m at its May 2023 meeting, implying stronger domestic demand and a faster tourism industry recovery, with both continuing to play key roles in driving the economy. On the other hand, the BoT lowered its forecast for government consumption and private and public investment due to political uncertainty that has delayed the 2024 fiscal budget amid the formation of a new governing coalition.

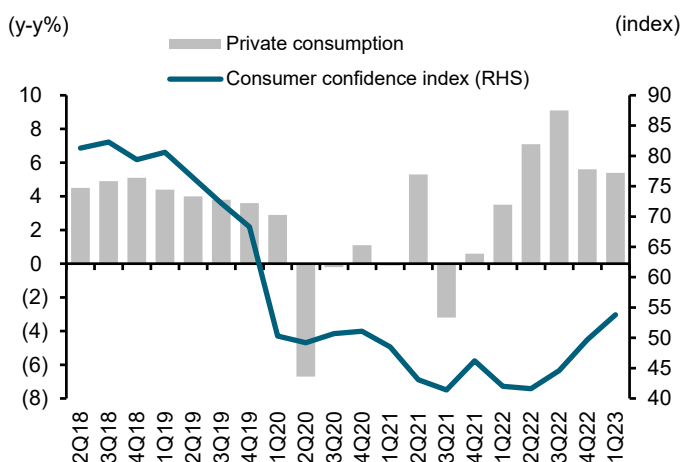
The Election Commission (EC) has reportedly certified 500 elected MPs, which will allow the first session of parliament to proceed as scheduled on 3 July 2023. This will be followed by the election of the speaker of the house on 4 July 2023, who will call on both the lower and upper houses of parliament to choose the next prime minister. We think the successful formation of a new government would be a key support factor. If a new coalition can be formed and start working within July-August 2023, this should ease investor concerns and serve as a key catalyst for Thailand’s capital market in the short term. Markets could then expect an economic stimulus package to arrive in late 2023, while long-term reform policies such as energy and taxation would be medium-term factors. On the other hand, any delay in the new coalition’s formation could create an overhang and stoke negative sentiment for consumers and investors.

### Exhibit 5: NESDC and BoT economic projections

	2018	2019	2020	2021	2022	NESDC 2023E	Bank of Thailand 2023E	2024E
	(y-y%)	(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	3.8
Private consumption	4.6	4.0	(0.8)	0.6	6.3	3.7	4.4	3.2
Private investment	4.1	2.7	(8.1)	3.0	5.1	1.9	1.7	4.9
Public consumption	2.6	1.7	1.4	3.7	(0.0)	(2.6)	(2.8)	1.1
Public investment	2.8	0.1	5.1	3.4	(4.9)	2.7	2.5	6.8
Export value growth (USD b)	7.5	(3.3)	(6.5)	19.2	5.5	(1.6)	(0.1)	3.6
Headline inflation	1.1	0.7	(0.8)	1.2	6.1	2.5-3.5	2.5	2.4
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	29	35.5

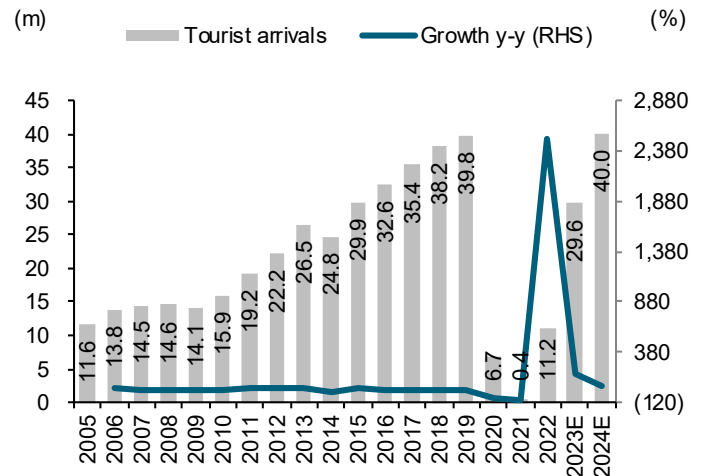
Sources: National Economic and Social Development Council (NESDC) and Bank of Thailand (BoT)

### Exhibit 6: Private consumption remains strong



Sources: NESDC and University of the Thai Chamber of Commerce

### Exhibit 7: Thailand’s International tourist arrivals



Source: Ministry of Tourism and Sports and FSSIA estimates

**Exhibit 8: Official MP seats and expected new cabinet positions for each party**

	MP	Minister	Ratio
<b>Coalition parties</b>	<b>312</b>	<b>39</b>	<b>8.0</b>
Move Forward	151	18	8.4
Pheu Thai	141	16	8.8
Prachachart	9	2	4.5
Thai Sang Thai	6	1	6.0
Pheua Thai Ruam Palung	2	1	2.0
Thai Liberal	1	1	1.1
Fair Party	1	-	-
Palung Sungkom Mai	1	-	-

Source: FSSIA's compilation

**Exhibit 9: Updated timeline of new government formation**

Expected new government formation timeline	
19-June-23	Official election result announcement
3-Jul-23	His Majesty the King opens parliament
4-Jul-23	New parliamentary president is appointed
Jul-23	New prime minister is elected by parliament
Jul to Aug-23	Royal assent is granted, installing the new prime minister
Jul to Aug-23	New cabinet is chosen
Jul to Aug-23	New cabinet is sworn in

Source: Deputy Prime Minister Wissanu Krea-ngam

**Banks' 2Q23 earnings in focus**

Based on preliminary Bloomberg consensus numbers, the market expects the seven major Thai banks (Bangkok Bank (BBL TB, NR), Kasikornbank (KBANK TB, NR), Kiatnakin Phatra Bank (KKP TB, NR), Krung Thai Bank (KTB TB, NR), SCB X (SCB TB, NR), Tisco Financial (TISCO TB, NR), and TMBThanachart Bank (TTB TB, NR)) to have an aggregate 2Q23 net profit of THB52b (+3.5% q-q, +19.2% y-y). BBL, KTB, SCB, and TTB are likely to report strong y-y growth thanks to higher interest rates in line with the BoT's policy rate increase, which reflects strong interest income.

However, non-interest income might slow due to lower trading volumes and negative movement in capital markets. The consensus expects KKP and TISCO to report relatively flat results both q-q and y-y thanks to the higher proportion of capital market and hire-purchase businesses in their portfolios.

The sectors we expect to report positive y-y growth are still mainly in the domestic and reopening side such as banking, tourism and related, commerce, media, and construction materials. Meanwhile, agribusiness, food, oil & petrochemicals, electronics, and shipping are likely to show negative y-y growth, in line with the slower economy.

**Exhibit 10: 2Q23 earnings preview for Thailand's seven major banks**

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	Change	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q %)	(y-y %)
BBL	7,118	6,961	7,657	7,570	10,129	10,719	5.8	54.0
KBANK	11,211	10,794	10,574	3,191	10,741	11,226	4.5	4.0
KKP	2,055	2,033	2,083	1,430	2,085	2,034	-2.5	0.0
KTB	8,780	8,358	8,450	8,109	10,067	10,298	2.3	23.2
SCB	10,193	10,051	10,309	7,143	10,995	11,464	4.3	14.1
TISCO	1,795	1,848	1,771	1,804	1,793	1,789	-0.2	-3.2
TTB	3,195	3,438	3,715	3,847	4,295	4,312	0.4	25.4
<b>Total</b>	<b>44,348</b>	<b>43,484</b>	<b>44,559</b>	<b>33,094</b>	<b>50,104</b>	<b>51,841</b>	<b>3.5</b>	<b>19.2</b>

Sources: Bloomberg and company data; FSSIA's compilation

## Exhibit 11: 2Q23E earnings outlook by sector

	q-q growth	y-y growth	2Q23E outlook	FY23 upside/downside	Factor to upside/downside
Agribusiness	+	-	We expect q-q growth due to a slightly demand recovery. However, we are still concerned about risks to the recovery in 2H23 and the effect of El Nino.	-	Lower-than-expected sales volumes and gross margins.
Food & Beverage	+	-	We expect q-q growth, due to seasonality, with a y-y drop from customer destocking, higher raw material costs, and declining meat prices.	-	Lower-than-expected consumption recovery and market share.
Banking	+	+	We expect strong y-y net profit growth thanks to higher interest incomes and lower ECL which should offset lower non-interest income.	0	
Finance & Securities	0	0	We expect strong interest income in line with loan growth but offset by higher provisions as NPLs persist.	0	
Automotive	-	+	2Q is usually the lowest quarter mainly due to fewer working days compared to other quarters. The y-y growth should come from the improved supply situation for auto parts, semiconductors, and raw materials. We think 2H23 may be challenging amid slow global economic growth.	-	
Petrochemical & Chemicals	-	-	We expect 2Q23 net profit to drop q-q for those companies with a high refinery exposure despite some small recovery in petrochemical product spreads. GRM should bottom in 2Q23. For downstream petrochemical companies, we expect a positive improvement q-q from the PET high season and a demand recovery for other products.	-	Lower demand and petrochemical spreads.
Packaging	+	+	We estimate 2Q23 core profit to rise both q-q and y-y largely due to lower oil prices and overall improved economic conditions.	+	Lower-than-expected crude oil price.
Construction Materials	-	+	We project 2Q23 net profit to drop q-q due to seasonality. However, earnings should recover y-y from the gradual decline in material prices and the domestic demand recovery.	0	
Construction Services	0	+	We expect main contractors' (CK) earnings to rise q-q and y-y in 2Q23, led by dividend income from their subsidiaries and higher profit sharing from CK's associates. However, foundation contractors' (SEAFCO, PYLON) operations might drop q-q due to fewer workdays.	0	
Property Fund & REIT	+	-	We expect 2Q23 net profit to improve q-q from seasonality and more new low-rise launches. However, overall 2Q23 performance might slightly drop due to the high base in 2Q22 from the country's reopening as well as softer presales amid political and economic uncertainty.	0	
Property Development	-	-	We expect 2Q23 net profit to improve q-q from seasonality and more new low-rise launches. However, overall 2Q23 performance might slightly drop due to the high base in 2Q22 from the reopening of the country as well as softer presales from political and economic uncertainty.	0	
Energy	+	+	For utilities, we expect 2Q23 to improve from 1Q23 mainly due to the lower gas cost. Although the Ft has been reduced, this is less significant than the decrease in the gas cost.	-	Lower-than-expected Ft from the new government's policy which aims to reduce household expenditures.
Commerce	-	+	We anticipate 2Q23 net profit should slightly drop q-q due to the seasonal effect. However, y-y results could show strong growth from the low base seen during the pandemic last year. Moreover, private consumption and the tourism recovery could drive same-store sales growth amid ongoing expansion plans.	0	
Health Care Services	0	-	Covid-related revenue should slightly increase q-q, but international patient revenue should drop q-q mainly due to Ramadan. A y-y drop is likely due to the high base from Covid revenue in 2Q22.	0	
Media & Entertainment	+	+	Based on Nielsen's report that 2Q23 ADEX recovered after the poor result in 1Q23, we expect media sector earnings to be higher both q-q and y-y due to political events during 2Q23 and new product launches by some companies.	+	A higher-than-expected ADEX.
Tourism & Leisure	-	+	Overall performance should drop q-q due to the low season, while strong growth y-y is likely due to the low base in 2Q22.	0	
Transportation	+	-	2Q23 core profit should slightly recover from the low season in 1Q23, but drastically fall y-y in line with the BSI index which rose 10% q-q but plunged 61% y-y. The demand for container ships is weaker with the average SCFI index, rising 2% q-q, but falling by 77% y-y.	-	
Electronic Components	0	-	We expect a slowdown in purchase orders for consumer electronics from US and EU customers. However, EV parts have seen solid growth due to higher demand. Meanwhile, we have a conservative outlook for 2H23, mainly due to the risk of a global recession.	0	
Information & Communications	+	0	We expect mobile operators to report q-q growth thanks to their higher ARPUs amid lower competition. Results y-y may be flat, dragged down by TRUE. However, we expect strong growth from ADVANC.	0	

Sources: Bloomberg and FSSIA analysis

### Maintain 2023 SET target of 1,620 and 2H23 top picks

We maintain our 2023 SET target of 1,620, based on 2023E EPS of THB95 (+14% y-y) and a target PER of 17x, the 10-year historical average. Key domestic sectors such as tourism, transportation, commerce, banking & financial services, and property development remain the key earnings growth drivers. Considering all the factors mentioned above, we think a drop in the SET index to below 1,500 should be seen as an opportunity to accumulate for long-term investment. Currently, the SET index is trading at -0.5SD below its 10-year average. If we exclude Delta Electronics (Thailand) (DELTA TB, REDUCE), the SET index would be trading at c14.5x, closer to -1SD below its 10-year average.

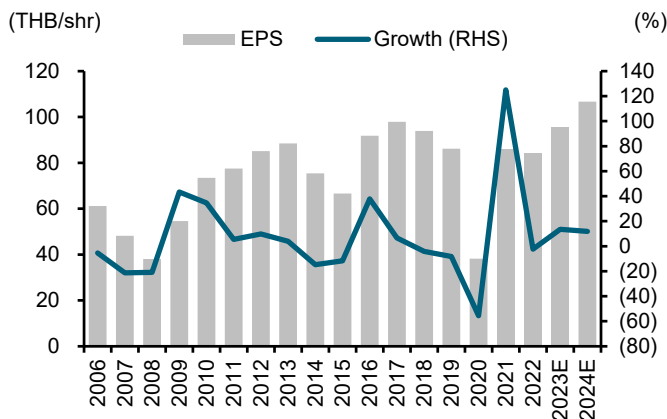
Based on the past 10 years of monthly historical forward PER analysis, we found that the sectors with strong earnings momentum that are now trading at a low Z-Score of -0.5SD or below such as banking, property, property funds & REITs, construction material, and health care services, are quite attractive. Meanwhile, electronics and construction services are expensive (see Exhibit 16).

We stick to our 2023 view and prefer domestic sectors rather than global plays. The key criteria for our top picks are:

- 1) Strong earnings growth with high visibility in 2H23;
- 2) Limited risk and impact from new government policies;
- 3) Rising domestic consumption and the recovery in tourism;
- 4) Benefits from lower energy and commodities prices.

Based on our investment themes, our top picks for 2H23 are **BA, BDMS, CENTEL, CPAXT, CPN, NSL, ORI and TOA.**

Exhibit 12: SET EPS



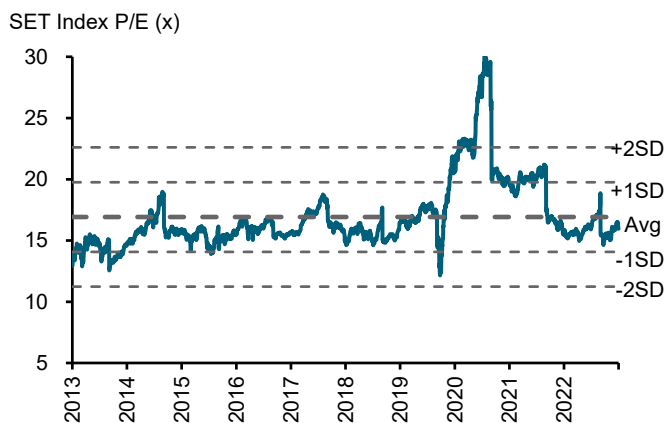
Source: FSSIA estimates

Exhibit 13: SET target sensitivity

----- Earnings per share -----			
		2023E	2024E
EPS		95	107
- Target index based on FSSIA estimates -			
	P/E (x)	2023E	2024E
SD+1.0	19.8	1,883	2,107
SD+0.5	18.3	1,752	1,960
SD+0.25	17.6	1,687	1,887
<b>10-year average</b>	<b>17.0</b>	<b>1,620</b>	<b>1,814</b>
SD-0.25	16.2	1,556	1,740
SD-0.5	15.4	1,490	1,667
SD-1.0	14.1	1,339	1,498

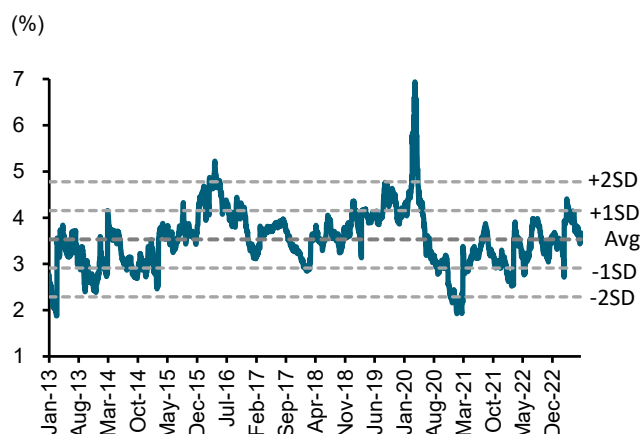
Source: FSSIA estimates

Exhibit 14: Current SET PER is slightly below average



Sources: Bloomberg and FSSIA estimates

Exhibit 15: Current earnings yield gap is slightly above average



Sources: Bloomberg and FSSIA estimates

Exhibit 16: PER Z-Score by sector

	Current PER	10-year average PER	SD	Z-Score	Pre-Covid average PER	Pre-Covid SD	Z-Score
Agribusiness	9.4	12.4	5.1	<b>-0.6</b>	13.5	4.5	<b>-0.9</b>
Food & Beverage	20.6	23.4	5.6	<b>-0.5</b>	19.9	4.3	<b>0.2</b>
Banking	8.1	9.9	1.6	<b>-1.2</b>	11.4	1.7	<b>-1.9</b>
Finance & Securities	16.1	16.9	3.4	<b>-0.2</b>	14.6	3.6	<b>0.4</b>
Automotive	13.2	12.7	3.3	<b>0.1</b>	15.1	13.3	<b>-0.1</b>
Petrochemical & Chemicals	11.3	14.1	13.0	<b>-0.2</b>	11.8	2.7	<b>-0.2</b>
Packaging	17.7	15.7	4.7	<b>0.4</b>	13.4	4.5	<b>0.9</b>
Construction Materials	12.9	13.8	1.5	<b>-0.6</b>	14.2	1.8	<b>-0.7</b>
Construction Services	186.2	37.1	41.8	<b>3.6</b>	23.5	7.1	<b>22.9</b>
Property Fund & REIT	13.4	16.8	2.0	<b>-1.7</b>	17.2	1.9	<b>-2.0</b>
Property Development	14.1	15.4	2.1	<b>-0.6</b>	14.8	1.8	<b>-0.4</b>
Energy	11.8	13.2	4.0	<b>-0.3</b>	11.4	1.5	<b>0.3</b>
Commerce	28.8	30.8	5.3	<b>-0.4</b>	28.0	3.9	<b>0.2</b>
Health Care Services	33.1	37.1	5.4	<b>-0.7</b>	32.4	7.7	<b>0.1</b>
Media & Entertainment	26.9	62.8	84.0	<b>-0.4</b>	31.4	13.2	<b>-0.3</b>
Tourism & Leisure	37.8	37.1	13.7	<b>0.1</b>	37.4	19.9	<b>0.0</b>
Transportation	39.1	84.2	232.7	<b>-0.2</b>	32.7	27.2	<b>0.2</b>
Electronic Components	61.9	25.5	17.8	<b>2.0</b>	13.2	3.1	<b>15.9</b>
Information & Communication	20.6	20.3	2.5	<b>0.1</b>	19.2	2.8	<b>0.5</b>

Sources: Bloomberg and FSSIA analysis

Exhibit 17: Summary of key valuations for FSSIA's top picks for 2H23

Company	BBG code	--- Share price ---		Up side (%)	----- Recurring profit -----			- EPS growth -		----- P/E -----			DivYld (%)	ROE (%)	PBV (x)
		Current (THB)	Target (THB)		22A (THB m)	23E (THB m)	24E (THB m)	23E (y-y%)	24E (y-y%)	23E (x)	24E (x)	25E (x)			
Bangkok Airways	BA TB	15.60	20.00	28	(1,974)	1,367	1,690	(169.2)	23.6	24.0	19.4	17.6	2.5	7.8	1.8
Bangkok Dusit Medical Servs.	BDMS TB	27.75	34.50	24	12,606	13,469	15,295	6.8	13.6	32.7	28.8	26.2	1.8	14.5	4.6
Central Plaza Hotel	CENTEL TB	47.00	58.00	23	398	2,138	2,624	437.2	22.7	29.7	24.2	22.6	1.3	10.9	3.1
Central Pattana	CPN TB	62.75	82.00	31	10,945	12,898	14,064	17.8	9.0	21.8	20.0	18.9	1.7	15.1	3.1
CP Axtra	CPAXT TB	34.25	46.00	34	7,697	11,187	13,670	45.3	22.2	32.4	26.5	22.6	2.2	3.8	1.2
NSL Foods	NSL TB	23.30	26.00	12	298	343	394	15.3	14.9	20.4	17.7	16.2	4.5	23.8	4.7
Origin Property	ORI TB	10.10	13.90	38	2,613	3,309	3,704	26.6	11.9	7.5	6.7	6.5	7.3	17.5	1.3
TOA Paint (Thailand)	TOA TB	27.00	40.00	48	1,672	2,229	2,419	33.3	8.6	24.6	22.6	22.0	2.0	16.7	3.9

Share prices as of 29 June 2023

Source: 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) <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 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 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
Bangkok Airways	BA TB	THB 15.60	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 27.75	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.
Central Plaza Hotel	CENTEL TB	THB 47.00	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 and higher competition in the F&B business, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Central Pattana	CPN TB	THB 62.75	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.
CP Axtra	CPAXT TB	THB 34.25	BUY	The key downside risks to our DCF-based TP include: 1) lower-than-expected SSSG; 2) a lower-than-expected GPM improvement; and 3) operational losses from its overseas business.
NSL Foods	NSL TB	THB 23.30	BUY	Downside risks to our DCF-based TP include 1) a slower-than-expected consumption recovery; 2) high volatility in raw material prices; 3) the failure of new products; and 4) changing consumer demand and lifestyles.
Origin Property	ORI TB	THB 10.10	BUY	Downside risks to our SoTP-based TP include 1) a slower-than-expected economic recovery; 2) weaker-than-expected presales; 3) a high cancellation rate of presales and rejections from banks; 4) delays in construction and/or a labour shortage; 5) intense competition and an increase in raw material costs; and 6) lower-than-expected performance for its subsidiaries.
TOA Paint (Thailand)	TOA TB	THB 27.00	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.
CH.Karmchang	CK TB	THB 18.70	BUY	Key downside risks to our SoTP-based TP include 1) delays in signing of the Luang Prabang hydropower plant and Orange Line projects; 2) fewer new projects than expected; 3) political uncertainty; 4) delays in construction; 5) labour shortages; 6) higher raw material and labour costs; and 7) intense competition.
Seafco	SEAFKO TB	THB 3.00	BUY	Downside risks to our P/BV-based TP include 1) fewer new projects than expected; 2) fewer projects up for bidding than expected; 3) political uncertainty; 4) delays in construction; 5) labour shortages; 6) higher raw material and labour costs; and 7) intense competition.
Pylon	PYLON TB	THB 3.22	HOLD	Downside risks to our P/E-based TP include 1) fewer new projects than expected; 2) bidding delays for new projects; 3) political uncertainty; 4) delays in construction; 5) labour shortages; 6) higher raw material and labour costs; and 7) intense competition. Upside risks would be 1) a higher-than-expected additional backlog and new auctions; and 2) the sooner-than-expected commencement of the high-speed train project linking three airports.
True Corporation	TRUE TB	THB 6.30	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.
Advanced Info Service	ADVANC TB	THB 211.00	BUY	The key downside risks to our DCF-based TP are stronger-than-expected competition in the mobile market and the slower-than-expected adoption of 5G use cases.
Delta Electronics	DELTA TB	THB 92.00	REDUCE	Upside risks to our P/E-based TP include 1) higher-than-expected global EV car sales; 2) lower-than-expected raw material costs; and 3) a weaker-than-expected THB against USD.

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 29-Jun-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.