

Thailand Commerce

Illegal pork

- We view that commerce stocks plunged due to 1) CPAXT's association with illegal importation of frozen pork, 2) electricity price hikes, and 3) BoT's cut of its GDP estimate.
- We believe the ESG issue has factored into their share price.
- We prefer CPALL on its less demanding valuation than CPAXT.

CPALL and CPAXT dropped due to three factors

We believe that CPALL and CPAXT tumbled by over 5.9% and 9.7% WTD (27-29 Nov 2024) due to three factors. First, there was news about CPAXT's association with illegal importation of frozen pork. Second, ERC hiked the electricity price for January – April 2024 to THB4.68/unit, up 17% m-m but down 12% y-y. Note that every 1% increase in the electricity price will affect the 2024 normalized earnings of CPALL and CPAXT by 0.7% and 1.2%, respectively. Third, BoT trimmed its GDP forecast to +2.4% (from +2.8%) for 2023 and +3.2% (from +4.4%) if excluding digital wallet and to +3.8% if including digital wallet for 2024.

CPAXT and CPALL have factored in ESG issues

When the insider trading of Siam Makro was disclosed in 2016, CPAXT and CPALL traded on a 2016 average forward P/E of 30.3x and 25.5x, respectively. However, they are trading at a 2024 forward P/E of 26.9x and 23.2x, already lower than in 2016 when they had a CG issue, while we expect CPALL to post 2023 normalized earnings of THB16.8b, higher than the THB16.6b in 2016.

Continued growth outlook in 4Q23 and 2024

CPAXT would report continued q-q and y-y normalized earnings growth, while CPALL should post y-y strength, supported by the positive SSSG outlook of its three units. In 4QTD, CVS, wholesale, and retail recorded SSSG of +3-4%, +4-5%, and +5-6%, respectively. Besides, the 4Q23 expenses should decrease due to the FT of THB3.99/unit and lower interest expenses of CPAXT. For 2024, we anticipate continued growth. Specifically, we expect the normalized earnings of CPALL and CPAXT to grow by 19% and 22%, respectively, due to consumption and tourism recoveries and the government's stimulus package.

We still prefer CPALL and maintain it as our top buy

CPAXT and CPALL currently trade on a 2024 forward P/E of 26.9x (5Y average forward P/E - 1.1SD) and 23.2x (5Y average forward P/E - 2.3SD), respectively. Hence, we prefer CPALL (BUY; 2024 TP of THB77) to CPAXT (BUY; 2024 TP of THB35) on its less demanding valuation.



Jitra Amorntum

Fundamental Investment Analyst on Securities; License no. 014530
jitra.a@fssia.com, +66 2646 9966

Thada Jiracharoenyng

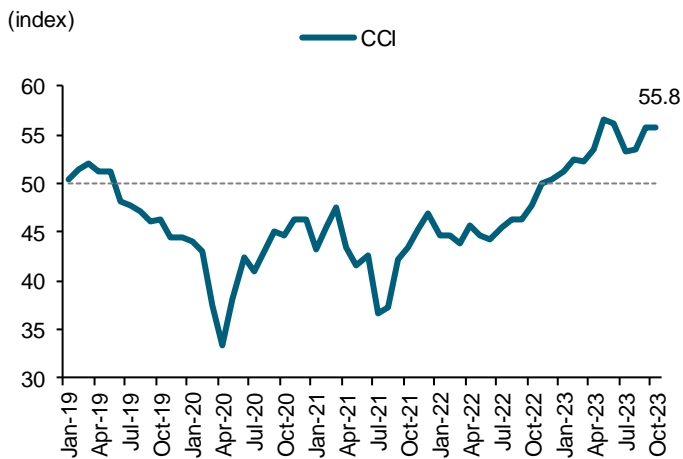
Research Assistant
thada.j@fssia.com, +66 2646 9964

Exhibit 1: GDP would drive by private consumption

| Annual percentage change | 2022* | 2023 | 2024 | |
|-------------------------------|------------|------------|------------------------|------------------------|
| | | | Exclude Digital Wallet | Include Digital Wallet |
| GDP growth | 2.6 | 2.4 | 3.2 | 3.8 |
| Domestic demand | 4.1 | 3.7 | 2.9 | 3.7 |
| Private consumption | 6.3 | 7.1 | 3.2 | 4.5 |
| Private investment | 5.1 | 2.4 | 3.6 | 3.9 |
| Government consumption | 0.2 | (4.0) | 1.1 | 1.1 |
| Public investment | (4.9) | 0.5 | 2.7 | 2.7 |
| Exports of goods and services | 6.8 | 2.4 | 5.6 | 5.6 |
| Imports of goods and services | 4.1 | (2) | 5.9 | 5.2 |

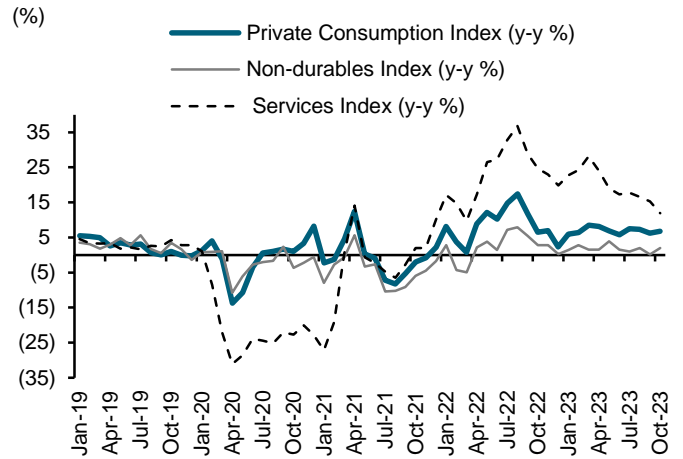
*outturns
Sources: Bank of Thailand (BoT)

Exhibit 2: Consumer confidence index continue improve



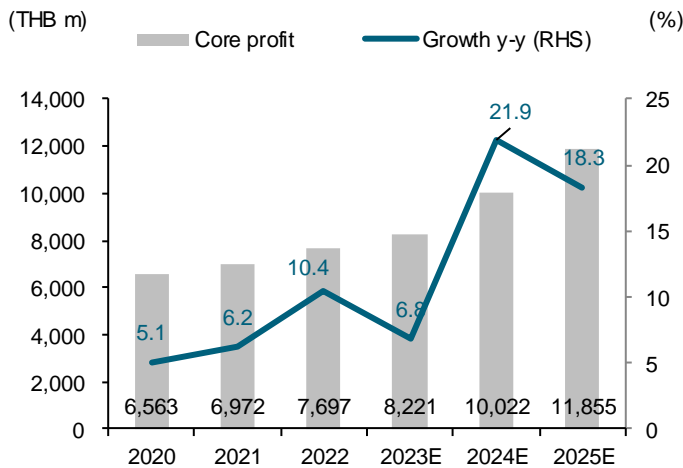
Sources: Ministry of Commerce

Exhibit 3: Service sector is a key drive in PCI



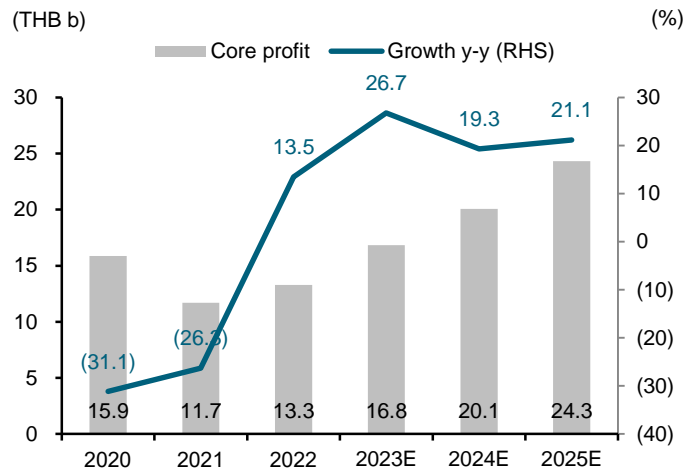
Source: Bank of Thailand

Exhibit 4: CPAXT - Core profit would continue to grow



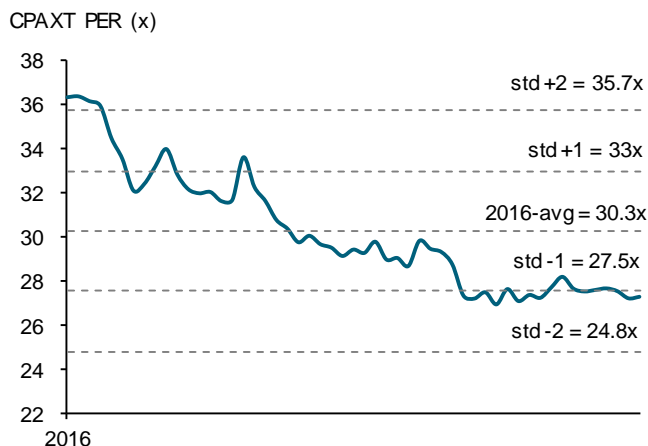
Sources: CPAXT; FSSIA estimates

Exhibit 5: CPALL - Core profit would continue to grow



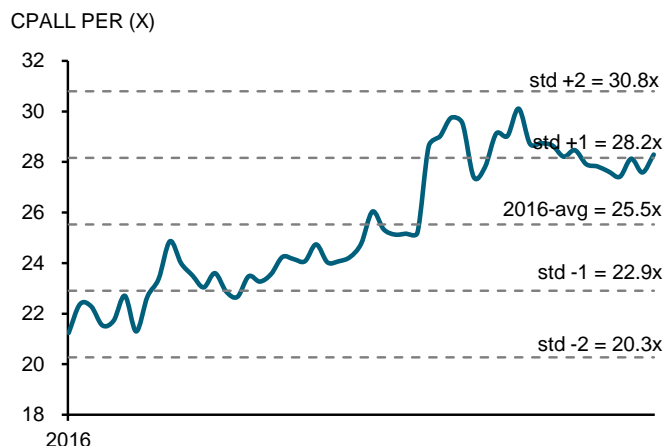
Sources: CPALL; FSSIA estimates

Exhibit 6: CPAXT; 2016-Rolling one-year forward P/E band



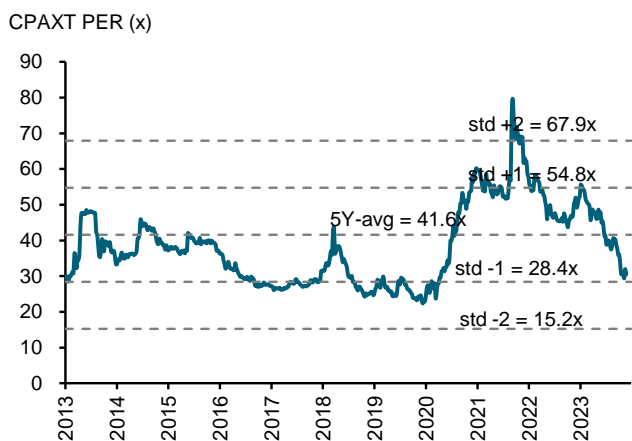
Sources: Bloomberg; FSSIA's compilation

Exhibit 7: CPALL; 2016-Rolling one-year forward P/E band



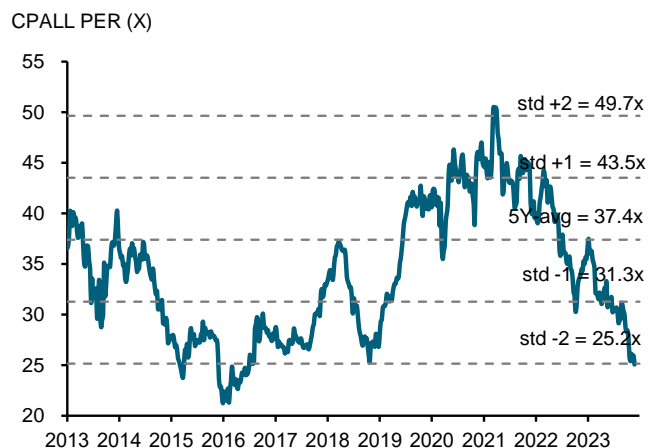
Sources: Bloomberg; FSSIA's compilation

Exhibit 8: CPAXT - Rolling one-year forward P/E band



Sources: Bloomberg; FSSIA estimates

Exhibit 9: CPALL - Rolling one-year forward P/E band



Sources: Bloomberg; FSSIA estimates

Exhibit 10: Commerce peers as of 29 November 2023

| Company | BBG | Rec | Share price | | | Market Cap (USD m) | PE | | ROE | | PBV | | EV/EBITDA | |
|------------------------------------|-----------|-----|---------------|--------------|------------|--------------------|-------------|-------------|-------------|-------------|------------|------------|-------------|-------------|
| | | | Current (LCY) | Target (LCY) | Upside (%) | | 23E (x) | 24E (x) | 23E (%) | 24E (%) | 23E (x) | 24E (x) | 23E (x) | 24E (x) |
| Consumer Staple | | | | | | | | | | | | | | |
| CP All | CPALL TB | BUY | 51.75 | 77.00 | 49 | 13,344 | 27.6 | 23.2 | 16.0 | 17.5 | 4.7 | 4.2 | 20.2 | 17.5 |
| CP Aextra | CPAXT TB | BUY | 25.50 | 35.00 | 37 | 7,745 | 33.4 | 26.9 | 2.8 | 3.4 | 0.9 | 0.9 | 9.9 | 9.3 |
| Berli Jucker* | BJC TB | n/a | 25.50 | n/a | n/a | 2,925 | 20.0 | 17.2 | 4.3 | 4.8 | 0.8 | 0.8 | 12.8 | 12.2 |
| Consumer Staple average | | | | | | 24,014 | 27.0 | 22.4 | 7.7 | 8.6 | 2.1 | 2.0 | 14.3 | 13.0 |
| Consumer Discretionary | | | | | | | | | | | | | | |
| Com7 | COM7 TB | BUY | 22.80 | 30.00 | 32 | 1,561 | 17.4 | 15.6 | 41.6 | 41.7 | 6.9 | 6.2 | 12.3 | 11.2 |
| Central Retail Corp* | CRC TB | n/a | 38.75 | n/a | n/a | 6,646 | 28.6 | 23.6 | 12.5 | 13.7 | 3.5 | 3.1 | 11.5 | 10.5 |
| Home Improvement | | | | | | | | | | | | | | |
| Index Living Mall | ILM TB | BUY | 23.50 | 26.70 | 14 | 341 | 17.1 | 15.4 | 12.0 | 12.7 | 2.0 | 1.9 | 8.1 | 7.3 |
| Home Product Center | HMPRO TB | BUY | 11.90 | 16.00 | 34 | 4,492 | 23.8 | 21.5 | 26.4 | 27.7 | 6.1 | 5.8 | 14.0 | 12.9 |
| Siam Global House | GLOBAL TB | BUY | 17.10 | 18.00 | 5 | 2,455 | 31.1 | 28.3 | 12.1 | 12.2 | 3.6 | 3.3 | 23.1 | 21.1 |
| Dohome | DOHOME TB | BUY | 12.30 | 13.00 | 6 | 1,091 | 63.9 | 34.2 | 4.9 | 8.5 | 3.1 | 2.8 | 27.0 | 19.8 |
| Home Improvement avg. | | | | | | 8,379 | 34.0 | 24.8 | 13.8 | 15.3 | 3.7 | 3.5 | 18.0 | 15.3 |
| Consumer Discretionary avg. | | | | | | 16,586 | 30.3 | 23.1 | 18.2 | 19.4 | 4.2 | 3.9 | 16.0 | 13.8 |
| Total average | | | | | | 40,600 | 29.2 | 22.9 | 14.7 | 15.8 | 3.5 | 3.2 | 15.4 | 13.5 |

Sources: *Bloomberg; FSSIA estimates

Disclaimer for ESG scoring

| ESG score | Methodology | Rating | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|---|----------------|---|-----------|-------------|------|-------|----------|-------------|-----|--|------------|-------------|-----------------|---|-----------|-------------|--|--|----------|-------------|--|--|------------|-------------|-----------------|---|--|
| The Dow Jones Sustainability Indices (DJSI) By S&P Global | The DJSI World applies a transparent, rules-based component selection process based on the companies' Total Sustainability Scores resulting from the annual S&P Global Corporate Sustainability Assessment (CSA). Only the top-ranked companies within each industry are selected for inclusion. | Be a member and invited to the annual S&P Global Corporate Sustainability Assessment (CSA) for DJSI. Companies with an S&P Global ESG Score of less than 45% of the S&P Global ESG Score of the highest scoring company are disqualified. The constituents of the DJSI indices are selected from the Eligible Universe. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sustainability Investment List (THSI) by The Stock Exchange of Thailand (SET) | THSI quantifies responsibility in Environmental and Social issues by managing business with transparency in Governance, updated annually. Candidates must pass the preemptive criteria, with two crucial conditions: 1) no irregular trading of the board members and executives; and 2) free float of >150 shareholders, and combined holding must be >15% of paid-up capital. Some key disqualifying criteria include: 1) CG score of below 70%; 2) independent directors and free float violation; 3) executives' wrongdoing related to CG, social & environmental impacts; 4) equity in negative territory; and 5) earnings in red for > 3 years in the last 5 years. | To be eligible for THSI inclusion , verified data must be scored at a minimum of 50% for each indicator, unless the company is a part of DJSI during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality. SETTHSI Index is extended from the THSI companies whose 1) market capitalization > 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. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CG Score by Thai Institute of Directors Association (Thai IOD) | An indicator of CG strength in sustainable development, measured annually by the Thai IOD, with support from the Stock Exchange of Thailand (SET). The results are from the perspective of a third party, not an evaluation of operations. | Scores are rated in six categories: 5 for Excellent (90-100), 4 for Very Good (80-89), 3 for Good (70-79), 2 for Fair (60-69), 1 for Pass (60-69), and not rated for scores below 50. Weightings include: 1) the rights; 2) and equitable treatment of shareholders (weight 25% combined); 3) the role of stakeholders (25%); 4) disclosure & transparency (15%); and 5) board responsibilities (35%). | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AGM level By Thai Investors Association (TIA) with support from the SEC | It quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and information is transparent and sufficiently disclosed. All form important elements of two out of five the CG components to be evaluated annually. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). <i>(The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating 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.)</i> | The scores are classified into four categories: 5 for Excellent (100), 4 for Very Good (90-99), 3 for Fair (80-89), and not rated for scores below 79. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Thai CAC By Thai Private Sector Collective Action Against Corruption (CAC) | The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. The Certification is good for three years. <i>(Companies deciding to become a CAC certified member start by submitting a Declaration of Intent to kick off an 18-month deadline to submit the CAC Checklist for Certification, including risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.)</i> | The document will be reviewed by a committee of nine professionals. A passed Checklist will move for granting certification by the CAC Council approvals whose members are twelve highly respected individuals in professionalism and ethical achievements. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Morningstar Sustainalytics | The Sustainalytics' ESG risk rating provides an overall company score based on an assessment of how much of a company's exposure to ESG risk is unmanaged. <i>Sources to be reviewed include corporate publications and regulatory filings, news and other media, NGO reports/websites, multi-sector information, company feedback, ESG controversies, issuer feedback on draft ESG reports, and quality & peer reviews.</i> | A company's ESG risk rating score is the sum of unmanaged risk. The more risk is unmanaged, the higher ESG risk is scored. <table border="1" data-bbox="880 1155 1445 1227"> <thead> <tr> <th>NEGL</th> <th>Low</th> <th>Medium</th> <th>High</th> <th>Severe</th> </tr> </thead> <tbody> <tr> <td>0-10</td> <td>10-20</td> <td>20-30</td> <td>30-40</td> <td>40+</td> </tr> </tbody> </table> | NEGL | Low | Medium | High | Severe | 0-10 | 10-20 | 20-30 | 30-40 | 40+ | | | | | | | | | | | | | | | | | | |
| NEGL | Low | Medium | High | Severe | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 0-10 | 10-20 | 20-30 | 30-40 | 40+ | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESG Book | The ESG score identifies sustainable companies that are better positioned to outperform over the long term. The methodology considers the principle of financial materiality including information that significantly helps explain future risk-adjusted performance. Materiality is applied by over-weighting features with higher materiality and rebalancing these weights on a rolling quarterly basis. | The total ESG score is calculated as a weighted sum of the features scores using materiality-based weights. The score is scaled between 0 and 100 with higher scores indicating better performance. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| MSCI | MSCI ESG ratings aim to measure a company's management of financially relevant ESG risks and opportunities. It uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. <table border="1" data-bbox="268 1451 1485 1648"> <tbody> <tr> <td>AAA</td> <td>8.571-10.000</td> <td>Leader:</td> <td>leading its industry in managing the most significant ESG risks and opportunities</td> </tr> <tr> <td>AA</td> <td>7.143-8.570</td> <td></td> <td></td> </tr> <tr> <td>A</td> <td>5.714-7.142</td> <td></td> <td></td> </tr> <tr> <td>BBB</td> <td>4.286-5.713</td> <td>Average:</td> <td>a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers</td> </tr> <tr> <td>BB</td> <td>2.857-4.285</td> <td></td> <td></td> </tr> <tr> <td>B</td> <td>1.429-2.856</td> <td></td> <td></td> </tr> <tr> <td>CCC</td> <td>0.000-1.428</td> <td>Laggard:</td> <td>lagging its industry based on its high exposure and failure to manage significant ESG risks</td> </tr> </tbody> </table> | AAA | 8.571-10.000 | Leader: | leading its industry in managing the most significant ESG risks and opportunities | AA | 7.143-8.570 | | | A | 5.714-7.142 | | | BBB | 4.286-5.713 | Average: | a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers | BB | 2.857-4.285 | | | B | 1.429-2.856 | | | CCC | 0.000-1.428 | Laggard: | lagging its industry based on its high exposure and failure to manage significant ESG risks | |
| AAA | 8.571-10.000 | Leader: | leading its industry in managing the most significant ESG risks and opportunities | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AA | 7.143-8.570 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 5.714-7.142 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BBB | 4.286-5.713 | Average: | a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| BB | 2.857-4.285 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 1.429-2.856 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CCC | 0.000-1.428 | Laggard: | lagging its industry based on its high exposure and failure to manage significant ESG risks | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Moody's ESG solutions | Moody's assesses the degree to which companies take into account ESG objectives in the definition and implementation of their strategy policies. It believes that a company integrating ESG factors into its business model and relatively outperforming its peers is better positioned to mitigate risks and create sustainable value for shareholders over the medium to long term. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Refinitiv ESG rating | Designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data. The score ranges from 0 to 100 on relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly. <i>(Score ratings are 0 to 25 = poor; >25 to 50 = satisfactory; >50 to 75 = good; and >75 to 100 = excellent.)</i> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| S&P Global | The S&P Global ESG Score is a relative score measuring a company's performance on and management of ESG risks, opportunities, and impacts compared to its peers within the same industry classification. The score ranges from 0 to 100. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bloomberg | ESG Score | Bloomberg score evaluating the company's aggregated Environmental, Social and Governance (ESG) performance. The score is based on Bloomberg's view of ESG financial materiality. The score is a weighted generalized mean (power mean) of Pillar Scores, where the weights are determined by the pillar priority ranking. Values range from 0 to 10; 10 is the best. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bloomberg | ESG Disclosure Score | Disclosure of a company's ESG used for Bloomberg ESG score. The score ranges from 0 for none to 100 for disclosure of every data point, measuring the amount of ESG data reported publicly, and not the performance on any data point. | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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**"; 2) "**AGM Level**"; 3) "**Thai CAC**"; and 4) **THSI**. The ratings are updated on an annual basis. FSSIA does not confirm nor certify the accuracy of such ratings.

Source: FSSIA's compilation

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Jitra Amornthum 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.

This report has been prepared by FSS International Investment Advisory Securities Company Limited (FSSIA). The information herein has been obtained from sources believed to be reliable and accurate; however FSSIA makes no representation as to the accuracy and completeness of such information. Information and opinions expressed herein are subject to change without notice. FSSIA has no intention to solicit investors to buy or sell any security in this report. In addition, FSSIA does not guarantee returns nor price of the securities described in the report nor accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Investors should study this report carefully in making investment decisions. All rights are reserved.

This report may not be reproduced, distributed or published by any person in any manner for any purpose without permission of FSSIA. Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

| Company | Ticker | Price | Rating | Valuation & Risks |
|---------------------|-----------|-----------|--------|--|
| CP Axtra | CPAXT TB | THB 25.50 | 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. |
| CP All | CPALL TB | THB 51.75 | BUY | The key downside risks to our DCF-derived TP include 1) lower-than-expected SSSG, 2) lower-than-expected gross margin, and 3) higher-than-expected SG&A to sales ratio. |
| Com7 | COM7 TB | THB 22.80 | BUY | Downside risks to our P/E-based TP include 1) lower consumption and domestic purchasing power, 2) store cannibalization, and 3) product shortages. |
| Index Living Mall | ILM TB | THB 23.50 | BUY | Downside risks to our DCF-based TP include 1) lower-than-expected SSSG; 2) a lower-than-expected GPM; and 3) higher-than-expected SG&A. |
| Home Product Center | HMPRO TB | THB 11.90 | BUY | The key downside risks to our DCF-based TP include: 1) lower-than-expected SSSG; 2) the slow recovery of tourist numbers; and 3) operating losses from its overseas business. |
| Siam Global House | GLOBAL TB | THB 17.10 | BUY | The key downside risks to our DCF-based TP are volatile farm incomes and farm prices which could negatively impact purchasing power, especially in the provinces and a larger-than-expected impact on farm income from the El Nino effect. |
| Dohome PCL | DOHOME TB | THB 12.30 | BUY | Downside risks to our DCF-based TP include 1) lower-than-expected SSSG; 2) a lower-than-expected GPM; 3) higher-than-expected SG&A; and 4) a worse-than-expected effect from El Nino. |

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.

All share prices are as at market close on 29-Nov-2023 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

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

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.