

Thursday, April 11, 2019

Investment Strategy

Foreign net buying has become increasingly solid, while overseas factors have gradually eased off. The only uncertain factor now is domestic political situations, as the election result is still waiting to be officially confirmed. We believe SET Index will improve. We recommend big-cap plays with strong fundamental factors. Top picks are STEC (FV@B29.25), which announced an investment to create recurring income today, and KBANK(FV@B247), which has plunged possibly because of short selling and could rebound again.

SET Index rallies further

SET Index surpassed 1,660 pts resistance range and closed at 1,662.13 pts, up 4.39 pts (+0.26%) with trading value of B43.6bn. The market was mainly supported by 1) ICT plays, led by TRUE (+4.00%), ADVANC (+1.87%), DTAC (+0.91%), and INTUCH (+0.43%), 2) energy plays, especially PTT (+0.52%), PTTEP (+0.76%), and EASTW (+1.74%), and 3) banking plays, e.g. TMB (+1.94%), KKP (+1.07%), and BBL (+0.48%), as well as big-cap AOT (+0.37%) and KTC (+3.16%).

Foreigners were net buyers and opened long position in SET50 Futures. External factors have softened (Brexit and trade war), while oil price is standing high. Meanwhile, there is no new domestic issues. Main focus still revolves around the verification of the election results by the Election Commission (EC) and the formation of the new government. Fund inflow is expected to continue, keeping SET Index high. We still recommend big-cap plays with high dividend yields. The final installment of the 900 MHz is extended, benefiting mobile operators. Yet, as share prices are getting close to fair values, we recommend slowing down investment in ICT plays, while it is still advisable to speculate on TV plays (BEC, MCOT, and RS).

Oil inventories rise, but oil price stands above US\$70 thanks to lower supply

According to the U.S. Energy Information Administration (EIA) yesterday, latest crude oil inventories increased for the third consecutive week by 7.02 million barrels (versus 2.3 million barrels gain expected) due to a decline in refineries' demand for oil; refinery utilization rate dropped from 87.4% in the previous week to 87.3%.

Still, crude oil price stayed high thanks to lower supply. Reported yesterday, OPEC oil production in March decreased 534,000 barrels to 30.02 million barrels (a four-year low since February 2015), mainly from Saudi Arabia that lowered its output by 324,000 bpd to 9.8 million bpd. Plus, OPEC and non-OPEC oil producers cartel are anticipated to extend its agreement (made in December 2018) - to curb oil production by 1.2 million barrels/day - from mid-2019 originally planned to end-2019.

SET Index	1,662.13
Change (pts)	4.39
Market Cap (Million B)	43,621.28

Net Buy and Sell by Investor Type (Million B)

Foreign	1,725.38
Proprietary	699.76
Institutional	139.02
Retail	-2,564.15

Porranee Thongyen

License No: 004146

Therdsak Thaveeteeratham

License No: 004132

Paradorn Tiaranapramote

License No: 075365

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Jerdjaras Kaewkua

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Economist Assistant

Pawat Pattrapong

Quantitative Analyst Assistant



Oil supply is decreasing in line with a decline in global oil demand. Dubai crude oil price stands high at US\$69.96 at present and marks the YTD average of US\$63, close to our assumption of US\$65 in 2019 and US\$70 from 2020 on. Every US\$5 increase in crude oil price from our assumption is projected to boost 2019 fair values of PTTEP(FV@B178) and PTT(FV@B56) by B10 and B4, respectively.

1Q19 average crude oil price was US\$66, jumping US\$10 from the 4Q18 average of US\$57, benefiting energy-refinery plays. Particularly, PTTGC, TOP, and IRPC are projected to enjoy stock gain in 1Q19, reversing from stock loss in 4Q18. Overall, 1Q19 net profit of the energy sector is projected to improve from 4Q18. As a major shareholder of these stocks, PTT would also benefit from this.

900 MHz payment extended, benefiting digital TV plays more than ICT plays

The government is anticipated to announce the use of Section 44 to extend the fourth installment (the final and the biggest installment) of the 900 MHz license for mobile operators (ADVANC, TRUE, and DTAC), splitting it into 6-10 smaller installment. We have three ideas about this issue:

- All these problems are caused by excessively high spectrum prices. Biddings of 3G and 4G bands ended up with the total price of B463bn, making it harder for bid winners to manage their financial positions and liquidity. In terms of valuation, such installment extension would not boost fair values (DCF) significantly. If share prices get closer to fair values, e.g. ADVANC (B210), DTAC (B57), and TRUE (B5.86), investors should slow down investment.

Cost of 3G and 4G network biddings

	Spectrum	License Period	3G	4G
ADVANC	2100 MHz (15MHz*2)	2012-2027	14,625	
	1800 MHz (15 MHz*2)	2015-2033		40,986
	900 MHz (10 MHz*2)	2016-2031		75,654
	** 2100 MHz (15 MHz*2)	2016-2025		35,100
	1800 MHz (5 MHz*2)	2018-2033		12,511
DTAC	2100 MHz (15 MHz*2)	2012-2027	13,500	
	** 2300 MHz (60 MHz*1)	2018-2025		36,080
	1800 MHz (5 MHz*2)	2018-2033		12,511
	900 MHz (5 MHz*2)	2018-2033		38,064
TRUE	** 850 MHz (15 MHz*2)	2011-2025	54,000	
	2100 MHz (15 MHz*2)	2012-2027	13,500	
	1800 MHz (15 MHz*2)	2015-2033		39,792
	900 MHz (10 MHz*2)	2016-2031		76,298
Total Value (Million B)			95,625	366,996
** Note: Yearly rental for ADVANC and DTAC (from TOT) and TRUE (from CAT)				

Source: ASPS Research

- The government sets its goal on 5G network development, which would consume massive investment budget; yet, business size is still small. 5G bidding and investment would depress earnings and valuation of all three mobile operators.
- Bidding of 5G network on 700 MHz band would rather benefit digital TV operators. The NBTC plans to use money from the 5G bidding to provide remedies for digital TV plays, which have to bear massive cost of digital TV license and suffer from changes in the TV industry. This issue would encourage speculation on media plays. BEC would benefit the



most since it has licenses for three digital TV channels, followed by MCOT (two channels). RS(FV@B22.10) is a digital TV stock under our coverage that still has upside.

Turnaround play TTCL

The Board of Directors of TTCL approved the disposal of its investment in shares of TTCL Gas Power (TTGP) to two partners, which are listed companies in Japan at 30% each, totaling US\$85m in value. TTGP is the owner of a 120 MW combined cycle gas turbine power plant at Ahlone, Yangon, Myanmar (TTCL holds TTGP shares via a subsidiary TTPHD (held 100% by TTCL)). After the share disposal, TTCL's investment in TTGP will decrease to 40%. Although such a deal will cause TTCL's shared profit from Ahlone to decrease from B1bn/year in income at present, with a gross margin of almost 60%, selling shares to the Japanese partners will generate enough money for TTCL to invest in the second phase of Ahlone power project, which is 388 MW in capacity and US\$600m in value (debt 70%: equity 30%), which needs equity of as much as US\$180m. This means TTCL will have to invest US\$72m in the project pro rata to its shareholding of 40% in TTGP. Moreover, TTCL may also get to work for all the construction of the US\$600m Ahlone second phase, with a construction period of around two years and a half, which will help compensate for decreasing profit after selling Ahlone first phase. Furthermore, the Japanese partners are big listed companies with strong financial statement and high experience in all types of power projects, so such a deal will be good for TTCL that it could seek low-cost funding from financial institutions in Japan and it will also benefit from their expertise in power project management. We recommend buying TTCL. Fair value is B8.90. TTCL is one of turnaround stocks which could rebound significantly this year after facing massive loss from Rocksalt project bad debt provision in 2018.

Slow down investment in CPN due to fire damage

Yesterday (April 10, 2019) at 17:40, a fire broke out on the eighth floor of the building adjacent to CentralWorld, killing two and injuring 15. This issue has negative sentiment on CPN. Notably, CentralWorld is CPN's biggest shopping complex, with 200,000 sqm or 13.5% of CPN's total leasable spaces of 1.485 million sqm at end-2018 (not including shopping malls under CPNREIT's management) and average occupancy rate of 91% at end-4Q18; it is CPN's main source of income, generating B4bn or 12% of CPN's total operating income in 2018.

The cause of the fire and the value of the damage are under investigation and assessment, especially on the structure of the building where the fire started. Damaged areas would have to be shut down, while areas that are confirmed undamaged may still be opened; investors have to wait for clarity from CPN. While CentralWorld is shut down, CPN's rental income would be adversely affected, but the shutdown is expected not to take very long though.

The damage from the recent fire incident is insignificant compared with the incident in 2010. During the 2010 fire incident, CentralWorld was heavily damaged, especially Zen (totally damaged) as well as some parts of CentralWorld; it was closed for six months. Also, investors have to see CPN's provision for damaged property. In 2010, CPN recognized impairment loss of B775m from the fire damage.

However, CPN has insurance policies to cover the damages, including property damage liability insurance and business interruption insurance; this issues have to be considered by

the insurance company. CPN is projected to recognize insurance claims for property damage and business interruption insurance policies. In 2010, CentralWorld and Zen booked insurance claims of B13bn for all risk insurance, B6.15bn business interruption insurance, and B3.5bn terrorism insurance.

The fire incident would have negative sentiment on CPN's share price. We recommend slowing down investment in CPN.

Fund flow driven by big-cap plays with high liquidity. Favor KBANK, STEC

Thailand was with foreign net buying of B1.7bn yesterday (the biggest net buying in the region), the two-day total of over B4.9bn, thus boosting SET Index by 15.95 pts or 0.97%. Statistically (during fund inflow in 2004-2007 and 2009-2013), every B10bn of foreign net buying boosted SET Index by 2.07%. Notably, the following ten stocks were with the biggest NVDR trading on April 9-10, 2019.

Ten stocks with biggest NVDR trading on April 9-10, 2019

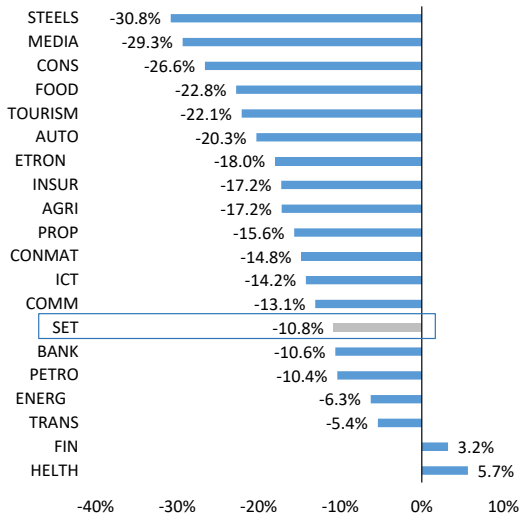
Company	Rec.	FairValue	Upside	Div. Yield19F	PE19F	Mkt. cap. (Billion B)	NVDR Trading on April 9-10, 2019 (Million B)	Short Selling (through NVDR) on April 9-10, 2019 (Million B)
SCC	Switch	500.00	7.3%	3.86	12.29	559.20	813.91	80.33
KBANK	BUY	247.00	28.0%	2.20	11.36	461.90	530.91	1.93
BDMS	BUY	30.00	20.5%	1.39	23.91	390.16	530.24	1.00
INTUCH	BUY	70.00	19.1%	4.53	15.22	188.38	476.47	-
ADVANC	BUY	210.04	10.0%	3.84	18.24	567.86	401.32	66.44
EGCO	BUY	275.00	-4.5%	2.52	14.58	151.62	380.28	23.28
PITTEP	BUY	178.00	34.3%	3.77	14.10	526.02	361.72	30.97
SCB	Switch	139.00	5.7%	4.37	10.76	446.99	344.79	18.24
CPN	BUY	92.00	23.5%	1.55	29.04	334.36	286.02	6.98
TRUE	BUY	5.86	12.7%	0.00	145.37	3.54	256.26	17.68

Source: SET / ASPS Research

Fund flow mainly came from big-cap stocks with high liquidity. We recommend big-cap stocks with solid fundamentals and high liquidity. Top picks are KBANK(FV@B246) and STEC(FV@B29.25), which are SET100 stocks and usually rally amid fund inflow, showing correlation with foreign net buying of 0.98 and 0.93, respectively.

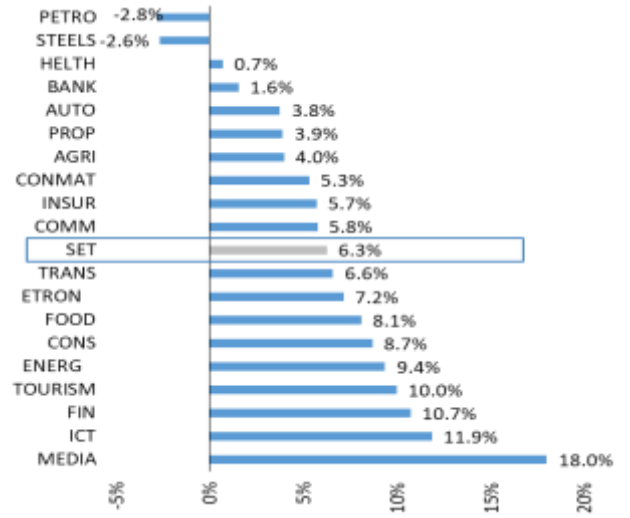


SET vs Sector Return 2018



Source: ASPS Research

SET vs Sector Return 2019 YTD



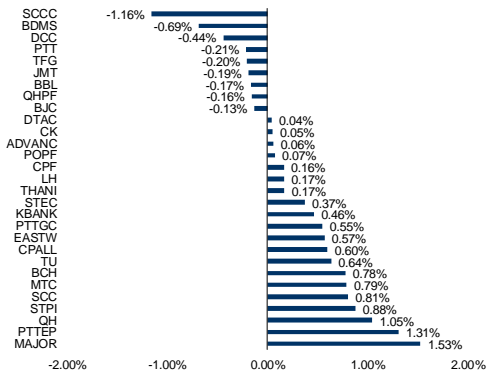
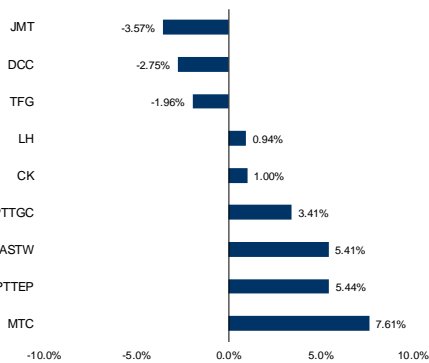
Source: ASPS Research

Market Talk Top Picks

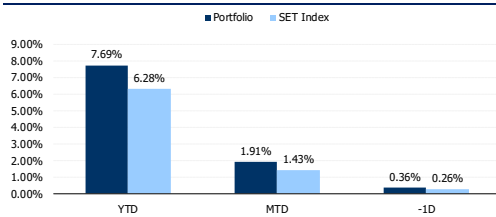
Stocks	Start Date	Fair Value	Weight	Price Avg. Cost	Price Last	Accumulated Return	PER 2019F	PBV 2019F	Dividend Yield	Strategist Comment	-5 Day Chart
PTTEP	18-Feb-19	178.00	15%	125.67	132.50	5.44%	14.10	1.25	3.77	Overseas situations have improved, both US government shutdown and US-China trade talks, so Dubai crude oil price continued rising as we had expected, but the share price is still laggard peers.	
MTC	02-Apr-19	57.00	10%	46.00	49.50	7.61%	21.32	6.30	0.53	BOT's control on car leasing loan will have limited impact on MTC and there is also a benefit from a new MSCI criteria. MTC could continue rising.	
CK	05-Apr-19	34.00	5%	25.00	25.25	1.00%	21.65	1.61	1.98	The cabinet approved the B224bn high-speed railway project linking three airports. CK has also developed land continuously, especially at Makkasan station. This means backlog could reach B100bn.	
EASTW	29-Mar-19	13.50	10%	11.10	11.70	5.41%	16.72	1.72	3.90	Raw and tap water sales would increase following the economic growth and benefits from emerging EEC projects in the long run.	
PTTGC	14-Mar-19	79.00	15%	68.42	70.75	3.41%	9.60	1.01	6.01	1Q19 profit to grow from 4Q18 because there is no stock loss and oil prices rose above US\$65/barrel as we had projected.	
DCC	21-Mar-19	2.80	15%	2.18	2.12	-2.75%	14.14	3.68	5.47	2019 profit to grow 12%yoy from a plan to open additional ceramic kilns and develop outlets to support growing demands.	
LH	26-Feb-19	13.60	15%	10.60	10.70	0.94%	12.87	2.28	7.01	4Q18 net profit grew 11%yoy thanks to increasing income from property sales and rising gross margin. For 2019, income is projected to increase 5%yoy from expansion of both low-rise and high-rise projects.	
JMT	01-Apr-19	17.50	5%	14.00	13.50	-3.57%	18.13	3.29	5.48	Amid economic deceleration, JMT has proceeded to buy more debts for management continuously. The company targets to buy B4.5bn debts in 2019.	
TFG	03-Apr-19	4.50	10%	3.06	3.00	-1.96%	12.60	1.84	2.77	EU is increasing quota of chicken import from Thailand, while domestic chicken and pork consumption increased because of Chinese New Year. 1Q19 profit would be strong.	

Today we delete CK, EASTW, JMT from portfolio temporarily and invest in KBANK and STEC by 10 % each.

Accumulated returns since our recommendation



Accumulated returns



Source: ASPS Research

April 2019

Monday	Tuesday	Wednesday	Thursday	Friday
<p>8</p> <p>Par decrease MPIC @B0.50 (from B1)</p> <p>XD BANPU @B0.35 CHAYO @B0.04 QHPF @B0.138 TIPCO @B0.25</p> <p>XE ACC-W1 1:1w @B1.25 (final, "SP")</p> <p>New listing - Derivatives Warrant CPF24C1912A 50m units @B1.00 GPSC24C1909A 50m units @B1.00 PTTE24P1909A 20m units @B1.00 TU24C1909A 50m units @B1.00</p> <p>New shares trading JAS 11.92m shrs (w)</p> <p>PUBLIC HOLIDAY (Chakri Memorial Day)</p>	<p>9</p> <p>XD BPP @B0.30 CHEWA @B0.035 FTE @B0.11 LHSC @B0.145</p> <p>New shares trading BTS 48.883m shrs (w)</p> <p>New listing - Derivatives Warrant AOT41C1909A 120m units @B1.00 AOT41P1909A 80m units @B1.00 BDMS41C1911A 120m units @B1.00 BDMS41P1911A 120m units @B1.00 BGR14C1911A 40m units @B1.00 BH41P1911A 20m units @B1.00 CBG41P1910A 20m units @B1.00 EGCO41C1911A 20m units @B1.00 EGCO41P1911A 20m units @B1.00 PTTG41C1909A 120m units @B1.00 RATC41C1911A 20m units @B1.00 SAWA41P1911A 30m units @B1.00 TU41P1911A 20m units @B1.00</p>	<p>10</p> <p>Par decrease AMATAR @B9.72 par (from B9.83) WHART @B9.1151 par (from B9.1676)</p> <p>New listing - Derivatives Warrant PTT13C1909A 120m units @B1.00 PTT13P1909A 120m units @B1.00</p> <p>XD ATP30 @B0.04 KBANK @B3.50 SUTHA @B0.12</p> <p>XE DCON-W1 15.757:1w @B0.317 (final, "SP")</p> <p>New shares trading TNITY 6,700 shrs (w) S5013P1906A 90m units</p>	<p>11</p> <p>Co's name change Thai Metal Trade (TMT) > TMT Steel (TMT)</p> <p>XD KTC @B0.82 SAMCO @B0.07 SCB @B4.00 SCB-P @B4.00 TWP @B0.14</p> <p>Conversion EMC-W6 1:1w @B0.15</p>	<p>12</p>
<p>15</p> <p>PUBLIC HOLIDAY (Substitution for Songkran Day)</p>	<p>16</p> <p>PUBLIC HOLIDAY (Substitution for Songkran Day)</p>	<p>17</p> <p>XD GC @B0.22 INGRS @B0.026 S11 @B0.24 SELIC @B0.0019841 + 28 existing :1STD @free TOG @B0.22</p> <p>XE META-W2 1.28171:1w @B6.242 (final, "SP")</p>	<p>18</p> <p>XD BKD @B0.15 CRD @B0.03 GIFT @B0.20 KGI @B0.385 TEAMG @B0.075 TPLAS @B0.10</p> <p>XE ITD-W1 1.002:1w @B13.971 (final, "SP")</p>	<p>19</p> <p>XD COL @B0.55 HMPRO @B0.20 PCSGH @B0.10</p>
<p>22</p> <p>XD AIT @B0.60 ASIA @B0.03 JMT @B0.54</p> <p>XE PIMO-W1 1:1w @B1.20 (final, "SP")</p>	<p>23</p> <p>XD BBL @B4.50 KTB @B0.718, KTB-P @B0.718 MAJOR @B0.70 MBAX @B0.25 TMB @B0.07</p> <p>XE TFG-W1 1:1w @B2.50 (final, "SP") TSF-W4 1:1w @B0.70 (final, "SP") TSF-W5 1:1w @B0.05 (final, "SP")</p>	<p>24</p> <p>XD APCO @B0.1549 BIZ @B0.16 GUNKUL @B0.01 + 5 existing : 1STD @free UBIS @B0.20</p>	<p>25</p> <p>XD ADB @B0.01 FLOYD @B0.10 LHFYG @B0.045 MINT @B0.40 PRM @B0.14</p> <p>XE IEC-W2 1:1w @B0.045 (final, "SP") XO-W1 1.024:1w @B3.907 (final, "SP")</p> <p>XW MINT 20 existing : 1MINT-W6 @free</p>	<p>26</p>
<p>29</p> <p>XD AQUA @B0.02 ECF @B0.030227 MOONG @B0.26 MTC @B0.26 PORT @B0.10 ROH @B1.3769 RSP @B0.10 SAPPE @B0.66 SCN @B0.10 SKR @B0.07 STI @B0.10 TACC @B0.09 THREL @B0.15 TISCO @B7.00, TISCO-P @B7.00</p> <p>XE ATP30-W1 1:1w @B0.85 (final, "SP")</p> <p>Conversion SANKO-W1 1:1w @B1.00 SPORT-W5 1.778:1w @B1.00 (final, "SP")</p>	<p>30</p> <p>XD BJC @B0.55 BROOK @B0.02 CKP @B0.028 EASTW @B0.27 EKX @B0.165 INET @B0.1325 KKP @B3.00 KWC @B9.00 KWM @B0.06 LPH @B0.10 NNCL @B0.09 OSP @B0.39 PIMO @B0.013 SAUCE @B0.99 SUN @B0.05 TCAP @B1.60, TCAP-P @B1.60 TM @B0.0974 TNL @B0.40 TOPP @B4.67 WIJK @B0.03 + 6 existing : 1STD @free</p> <p>XE BWG-W4 1:1w @B3.00 (final, "SP")</p> <p>XW BROOK 4 existing : 1BROOK-W5 @free</p> <p>Conversion CSC-P 1:1 THE-W2 1:4w @B3.50</p>			

BOT : Mar-19 Trade