

Friday, April 12, 2019

Investment Strategy

Today we project to see thin trading volume before long holidays. Surrounding factors are positive and there could be speculation in TV digital plays, which will benefit from the government aid measure, while mobile stocks will have a limited upside. About politics, the Election Commission (EC) requested that the Constitutional Court interpret the formula for calculating the party-list MP seats, which is good in the long run. SET Index would be moving around 1,660 pts (+/-10 pts). Top picks are STEC(FV@B29.25) and KBANK(FV@B247).

SET Index volatile all day

SET Index fluctuated wildly around 20 pts for the entire day and closed at 1,659.09 pts, down 3.04 pts (-0.18%) with trading value of B40.7bn. The market was mainly weakened by 1) construction material plays, especially SCC (-2.58%), SCCC (-0.46%), and TPIPL (-0.99%), 2) energy plays, led by IRPC (-2.54%), PTTEP (-1.13%), and RATCH (-2.44%), and 3) banking plays e.g. BBL (-0.48%), CIMBT (-1.33%), and KBANK (-1.30%), buy still supported by some big-cap stocks, e.g. BJC (+1.47%), GPSC (+3.36%), TASCO (+4.40%), and CBG (+2.35%).

SET Index today is expected to swing around 1,650-1,670 pts. Most fundamental factors are taking a positive turn. The EC is asking the Constitutional to rule on calculation of party-list MP seats, probably improving political sentiment in the long run and reducing risk of conflict regarding election result. The NCPO is invoking Section 44 to provide financial aid to digital TV operators by 1) lowering license fee, 2) subsidizing other expenses, and 3) allowing them to return license. This would encourage speculation on digital TV plays (BEC, MCOT, RS, and WORK); still, investors have to consider their business plans. ICT stocks have limited upside, so speculation is not likely in the short term.

US imposes more protectionism policies on EU. Limited impact on Thailand

While US-China trade war tension has softened as they agreed to compromise with each other, the US is proceeding with protectionism policies on other countries, namely the European Union (EU). After the US imposed safeguard import tariff hike on steel and aluminum from worldwide exporters (including the EU) in mid-2018, the EU retaliated with import tariff hikes (at the rate of 10-50%) against U.S. goods worth US\$3.2bn.

The US plans to hike import tariff on European goods worth US\$11bn, mainly aircraft-part and some consumer goods (e.g. dairy products, cheese, wine, and motorcycle). The US accused the EU of providing subsidies to Airbus (France-based aircraft manufacturer) that has adversely affected the US as well as Boeing (US-based aircraft manufacturer). Such import tariff hikes would pressure international trade and the economy worldwide, including the EU's supply chain exporters, but impact would not be very severe.

SET Index	1,659.09
Change (pts)	-3.04
Market Cap (Million B)	40,713.07

Net Buy and Sell by Investor Type (Million B)

Foreign	76.97
Proprietary	786.48
Institutional	-810.19
Retail	-53.25

Porranee Thongyen

License No: 004146

Therdsak Thaveeteeratham

License No: 004132

Paradorn Tiaranapramote

License No: 075365

Takit Chardcherdtrak

License No: 087636

Yothin Pukongnin

Quantitative Analyst Assistant

Jerdjaras Kaewkua

Analyst Assistant

Wanapruk Komonwitayatorn

Economist Assistant

Pawat Pattrapong

Quantitative Analyst Assistant



Thailand would be limitedly affected by this issue. While the EU accounts 9.5% of Thailand's total international trade, export of aircraft-part to the EU makes up only 0.92% of Thailand's total export; Thailand's major export goods to the EU are computer (12.6%) and auto (7.2%).

EC asking Charter Court to rule on party-list seat formula, reducing risk in long run

The Election Commission (EC) will ask the Constitutional Court to rule on the method of calculating and allocating how the party-list MP seats should be distributed in accordance with Section 91 of the Constitution and Section 128 of the organic law governing the election of MPs. The EC's decision follows different opinions and interpretation of the election laws that has resulted in confusion and conflicts of interest in calculation of party-list MP seats. Investors have to watch closely whether the Charter Court will accept this petition and, in case that the court accept this case, how long the court's ruling would take. If the Constitutional Court fails to make the final ruling within May 9, 2018, the EC would not be able to announce the official result of the general election (95% of the result) as scheduled, thus posing political risks.

In our opinion, the EC's decision to request the consideration of the Constitutional Court is a way to reduce political risk after the official election result is announced. About the calculation of party-list MP seats, if based on the initial vote results of each political parties as announced by the EC, a projection that each political polar would get similar seats could change. However, the possible seats of the government-to-be would be 250 to 260, in case that there is no relocation of MPs or voting against the party's resolution. Overall, we see this decision as positive for investments in the SET.

NCPO invokes Section 44 to extend 900 MHz payment

Yesterday, the National Council for Peace and Order (NCPO) invoked Section 44 to extend 900 MHz payment for ten years, given that telecom companies taking part in this program would be entitled to participate the 700 MHz bidding. Meanwhile, digital TV operators will enjoy the following remedy measures:

1. Digital TV operators that have not yet paid the last two installment will be exempted from paying if are exiting the business.
2. Rental fee for broadcasting network (MUX) will be subsidized for the remaining time of the digital TV licenses.
3. They can return their licenses and receive compensation.

The NCPO's invocation of Section 44 would benefit digital TV operators. Particularly, digital TV operators with low ratings and accumulated loss would be able to return their licenses, while their revenue would not be affected since they already recognized a considerable amount of advertisement revenue before returning the licenses.

Digital TV operators that are resuming operation would enjoy better earnings and cash flow as other relief programs would help ease license fee burden, lower amortization cost, and subsidize network rental fee (MUX) from the current rates of B10.8m/month for HD channels and B3.5-3.6m/month for SD channels.

This would benefit BEC the most since it has three licenses (including an HD license); plus, it will be able to return licenses SD channel and Family channel. We still like RS(FV@B22.10)

because 1) 1Q19 profit is expected to be strong and 2) it would benefit from the aforementioned relief programs.

Unit: Million B	License Fee	Paid	Unpaid	Unpaid (%)	Amortization Cost (old) (B/year)	Amortization Cost (new) (B/year)	Amortization Cost Reduction	MUX Reduction	Total Cost Reduction	Cost Reduction to Total Cost
BEC	6,471	4,148	2,323	36%	385	164	220	216	436	5.0%
WORK	2,355	1,565	790	34%	138	64	75	42	117	5.2%
MONO	2,250	1,296	954	42%	129	37	92	43	135	7.1%
RS	2,265	1,303	962	42%	135	43	92	43	135	6.1%

Source: ASPS Research

2019 market EPS growth expected at 9%, close to neighbors

2019 total net profit of all SET-listed companies is estimated at B1.06tr, equal to market EPS of B106.58 or EPS growth of 9%yoy. We lower market earnings forecast by 5% from our previous projection to reflect the following issues:

- **The new labor protection law – an increase of compensation pay from 300 days to 400 days' pay in case of retirement and dismissal of employees with over 20 years of employment – has already been published in the Royal Gazette and will take effect on May 5.** SET-listed companies would recognize B24bn additional expected from this issues; some companies already made provisions of B4.9bn in total for this.

Additional personnel expense in 2018-2019 under new labor protection law

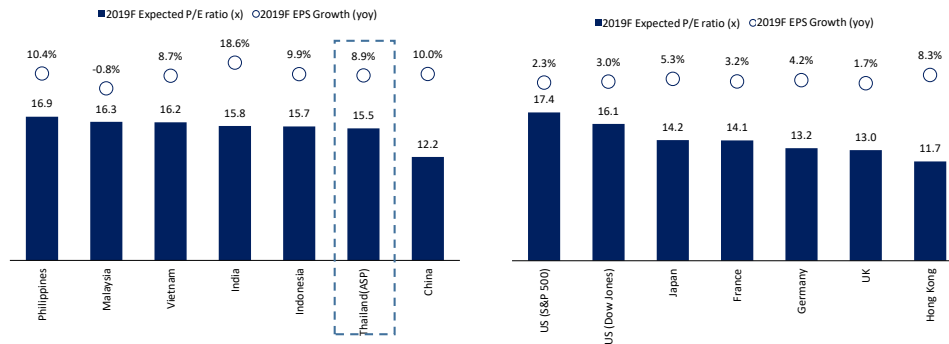
SECTOR	Market cap (Million B)	Additional Compensation Pay Under New Labor Protection Law		Mainly Affected Companies
		Booked in 2018	Booked in 2019F	
Banking	2,210,289	4,222	7,100	Ten banks under coverage
Energy-Petrochemical	2,048,308	7	5,914	PTT, PTTEP, PTTGC, TOP,RATCH, BCP TTW BGRIM IRPC TOP
Construction Material	706,346	-	3,094	SCC , SCCC , COTTO ,TASCO,TPIPL DCC DRT CMAN
Food-Hotel	571,573	111	2,070	CPF, TU, GFPT
Transportation	1,250,012	132	1,019	AOT, BTS,BEM
Commerce	1,013,080	100	1,016	CPALL,MAKRO,ROBINS,HMPRO
Healthcare	568,634	-	922	BH, CHG ,BDMS,BCH
ICT	889,452	-	735	ADVANC, INTUCH , JAS
Contractor	141,409	118	514	ITD, PREB,CK,UNIQ,NWR,PYLON,
Property	697,377	127	300	CPN, PSH,QH ,SPALI,AMATA,WHA
Media	112,653	-	30	VGI, MAJOR
Others	75,840	-	98	OSP
Non Coverage	1,724,414	85	1239	Stocks with market capitalization of over B1bn.
Total	11,854,159	4,901	24,051	

Source: ASPS Research (230 SET-listed companies accounting for 90% of market capitalization)

- **2019 THB/USD exchange rate is revised from B33/US\$ to B32/US\$.**

Although market earnings forecasts is revised down, Thailand's EPS growth is still estimated at 9%yoy, close to neighbors like the Philippines, Indonesia, and China, except India (+28.3%yoy); developed markets (e.g. the US, Eurozone, and Japan) are projected to show weaker 2019 EPS growth than Thailand. Thailand's 2019 expected P/E ratio is 15.5x, not expensive compared with neighbors (especially TIP) while cheaper than developed markets (e.g. the US). This would encourage fund inflow in Thailand.

EPS growth and expected P/E ratio of developing vs developed markets



Source: Bloomberg / ASP Research

Political issues more certain, boosting fund inflow. Favor KBANK, STEC. Speculate on RS

Foreign funds possessed a net buying position in Asian markets at US\$200m yesterday (11th day). Only Taiwan faced net selling of US\$190m (second day), while the rest were with net buying: South Korea at US\$327m (tenth day), Indonesia at US\$39m (seventh day), the Philippines at US\$22m (fourth day), and Thailand at US\$2m or B77m (third day). Local institutions were net sellers at B810m though (third day).

Thailand's political situation is becoming more certain as the EC is asking the Constitutional Court to rule on calculation of party-list MP seats. Thus, Thailand has been with three days of net buying of B5bn in total, benefiting big-cap stocks with 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. RS(FV@B22.1) is also favorable for speculation after the NCPO invokes Section 44 to provide relief measures for digital TV operators.

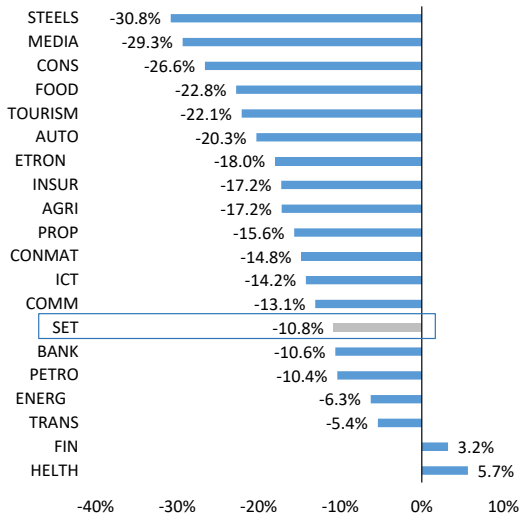
Monthly Foreign Fund Flow in Asia

Date	Indonesia	Philippines	S. Korea	Taiwan	Thailand	Total
2017	-2,960	1,095	8,268	5,758	-796	11,343
2018	-3,656	-1,080	-5,676	-12,182	-8,913	-31,508
2019 (YTD)	1,100	728	6,234	5,533	-244	13,351
January 2019	964	356	3,658	1,946	214	7,138
February 2019	-237	178	615	2,599	-106	3,050
March 2019	118	88	262	24	-516	-24
April 2019 (MTD)	255	105	1,699	965	163	3,187

Unit: Million US\$

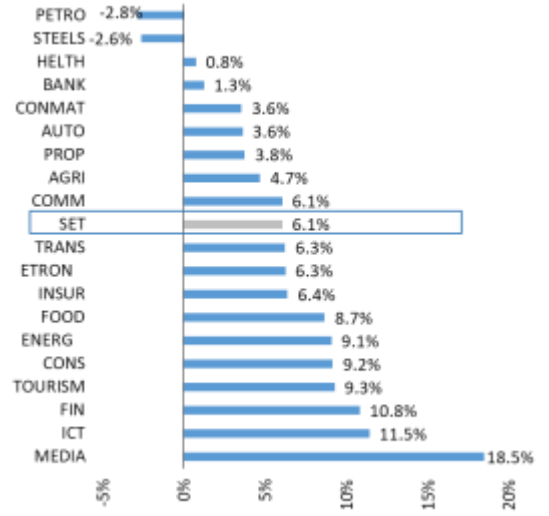


SET vs Sector Return 2018



Source: ASPS Research

SET vs Sector Return 2019 YTD



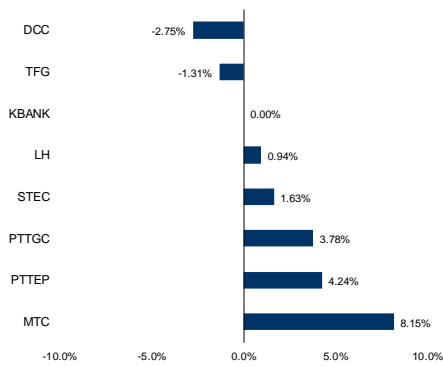
Source: ASPS Research

Market Talk Top Picks

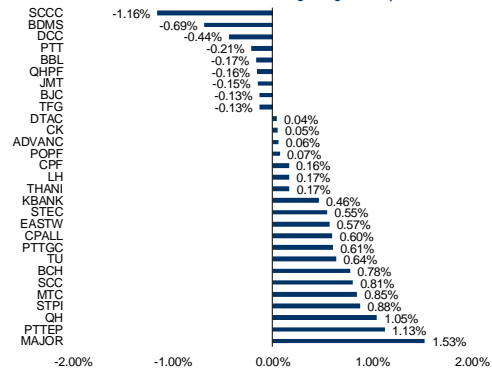
Stocks	Start Date	Fair Value	Weight	Price Avg. Cost	Price Last	Accumulated Return	PER 2019F	PBV 2019F	Dividend Yield	Strategist Comment	-5 Day Chart
PTTEP	18-Feb-19	178.00	15%	125.67	131.00	4.24%	13.94	1.23	3.82	Overseas situations have improved, both US government shutdown and US-China trade talks, 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	49.75	8.15%	21.43	6.33	0.52	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.	
KBANK	11-Apr-19	247.00	10%	190.50	190.50	0.00%	11.21	1.12	2.10	Big-cap stock with strong fundamentals. KBANK also has correlation with foreign buying by 0.98. Loan growth could compensate for decreasing income.	
STEC	11-Apr-19	29.25	10%	24.60	25.00	1.63%	21.75	3.19	2.00	SET100 contractor stock with strong fundamentals. The purchase of Mo Chit Land will also create recurring income for STEC.	
PTTGC	14-Mar-19	79.00	15%	68.42	71.00	3.78%	9.64	1.01	5.99	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	We recommend buying a dividend play LH, waiting for 80.35/share return before it goes XD on May 3, 2019. A plan to sell hotels will boost profit in 2019.	
TFG	03-Apr-19	4.50	10%	3.06	3.02	-1.31%	12.68	1.85	2.75	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.	

Yesterday we deleted CK, EASTW, JMT from portfolio temporarily and invested in KBANK, STEC by 10% each.

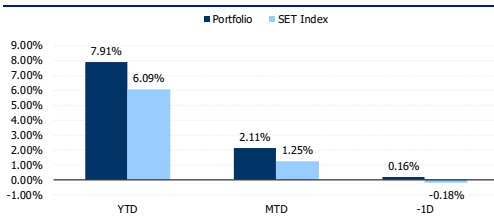
Accumulated returns since our recommendation



Accumulated contribution returns since beginning of the year



Accumulated returns



Source: ASPS Research

