

Friday, May 17, 2019

Investment Strategy

Share prices have considerably absorbed negative sentiment from US-China trade war already. With current SET Index, end-2019 P/E ratio is only 15.15x, which is inexpensive. Investors have to watch closely how trade war and Thailand's political situation would turn out. Gradually accumulate domestic plays with solid fundamentals and consistently high dividends. Top picks are INTUCH(FV@B69.70) and EASTW(FV@B13.50).

SET Index swings all day long

SET Index went down in the morning but swung up in the afternoon and closed at 1,614.75 pts yesterday, down 6.52 pts (-0.40%) with trading value of B60.3bn. The market was mainly weakened by 1) energy plays, led by EA (-0.49%), GULF (-4.63%), and PTT (-0.53%), 2) ICT plays, especially INTUCH (-1.72%), DTAC (-2.87%), and JAS (-1.75%), and 3) banking plays, e.g. SCB (-1.21%), KBANK (-0.53%), and TISCO (-0.29%), as well as big-cap BEM (-2.65%) and TU (-5.41%).

SET Index fell almost 34 pts in this week. Trade war tension re-emerged as US-China trade talk turned out not as expected. Thus, SET Index has not benefited as much as expected from an increase in weight of Thai stocks in MSCI lists. Yet, share prices have considerably absorbed trade war impact already. 1Q19 market earnings totaled B266bn, in line with our forecast, so 2019 earnings market target is still achievable. With current SET Index, end-2019 P/E ratio is 15.15x, which is not expensive and thus has limited upside. We recommend gradually accumulating domestic stocks with solid fundamentals and consistently high dividend. Top picks are still INTUCH and EASTW.

Oil price rises further due to unrests in Middle East

Global crude oil price continued to rise yesterday as a result of tension in the Middle East, especially the conflict between Saudi Arabia (9.79 million bpd, 30% of OPEC production) and Iran, after one of Saudi Arabia's pipelines was struck by a terrorist attack earlier this week.

Meanwhile, oil producers are still proceeding with production curb as planned. OPEC reported April oil production of 30.3 million bpd in, still in line with the supply curb agreement between OPEC and non-OPEC oil producers (December 2018 agreement to curb oil production by 1.2 million bpd); the supply curb cartel is expected to be extended from mid-2019 originally planned to end-2019.

Oil supply is decreasing in line with oil demand that has declined as US-China trade war has re-emerged. Dubai crude oil price is US\$69.45 at present and marks the YTD average of US\$65, in line with our assumption of US\$65 in 2019 and US\$70 from 2020 on. Rising oil price is good for energy plays PTTEP(FV@B178) and PTT(FV@B56).

SET Index	1,614.75
Change (pts)	-6.52
Market Cap (Million B)	60,378

Net Buy and Sell by Investor Type (Million B)	
Foreign	-1,969.73
Proprietary	766.04
Institutional	-913.83
Retail	2,117.52

Porranee Thongyen

Fundamental Investment Analyst on Capital
Market, Technical Investment Analyst
License No: 004146

Therdsak Thaveeteeratham

Fundamental Investment Analyst on Capital
Market, Technical Investment Analyst
License No: 004132

Paradorn Tiaranapramote

Fundamental Investment Analyst on Securities
License No: 075365

Takit Chardcherdsak

Fundamental Investment Analyst on Securities
License No: 087636

Yothin Pukongnin

Quantitative Analyst Assistant

Jerdjaras Kaewkua

Analyst Assistant

Wanapruk Komonwitayatorn

Economist Assistant

Pawat Pattrapong

Quantitative Analyst Assistant



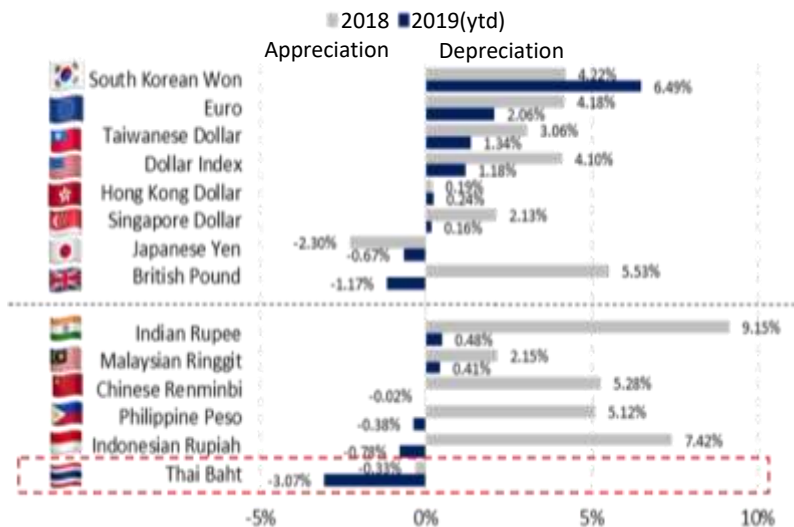
Unlikely added in U.S. currency manipulator watchlist. Limited impact expected

Markets have been concerned about U.S. expanded watchlist of currency manipulators - countries that use currency intervention or devaluation policies to weaken their currencies against USD in order to gain trade advantage over the US - that will be reported in late May. The new currency manipulator list probably targets China, Europe, Japan, Vietnam, and Thailand; under the following three criteria, Thailand meets two of them:

- **Trade surplus with the US of over US\$20bn** - Thailand's trade surplus with the US amounted US\$19.3bn in 2018, down from US\$20.3bn in 2017, still close to the criteria. Notably, China showed the biggest trade surplus with the US of US\$419bn, followed by Mexico (US\$81.5bn), Germany (US\$68.3bn), and Japan (US\$67.6bn).
- **Current account surplus of over 3% of GDP** - Thailand's 2018 current account surplus was higher than 6.6% of GDP.
- **Net purchase of foreign currency (intervention) of at least 2% of GDP** - Thailand's 2018 foreign exchange reserve was US\$211bn, making an increase of 1.9% of GDP.

Still, we believe Thailand is unlikely to be added in this watchlist. Notably, THB has appreciated the most in the region by 3%ytd, following 0.33% appreciation in 2018, while other Asian currencies weakened.

Change in worldwide currencies



Source: Bloomberg

For the worst-case scenario that Thailand is added in U.S. manipulator watchlist, Thailand's economy and fund flow would be adversely affected.

- **Economic impact** - The US may terminate trade privilege given to Thailand. Currently, Thailand has only Generalized System of Preference (GSP) privilege, tariff exemption for 3,400 Thai export products worth US\$4.15bn, 1.5% of Thailand's 2018 export of US\$272bn, effective from 1976 to December 31, 2020. This would have limited impact on Thailand's economy though.
- **Fund flow impact** - Under the watchlist, it would be harder for policymakers to use currency intervention policies. THB/USD exchange rate would be more volatile. Fx risk would be more likely, compared with return from investment in Thai stocks and bonds, thus discouraging foreign fund inflow.

Seventh day of net sell in Asia amid external negative factors

US-China trade war concern continues to haunt Asian markets. Foreign funds still possessed a net selling position in the region at US\$937m (seventh day). All five markets still faced net selling: South Korea at US\$530m (seventh day), Taiwan at US\$261m (seventh day), Indonesia at US\$47m (seventh day), the Philippines at US\$35m (ninth day), and Thailand at US\$62m or B1.96bn (tenth day, totaling B14.5bn). Foreigners also opened 7,200 net contracts of short position in SET50 Futures (sixth day, totaling 59,700 net contracts).

Notably, foreign funds possessed month-to-date (MTD) cumulative net selling of US\$3,458m in Asia, marking May the month with the largest net selling this year. Notably, all five Asian markets faced net selling.

Amid uncertainty, fund flow has switched to safer assets like bonds. Foreigners were with net buying in Thai bond market for seven consecutive days at the combined value of B14.9bn, B3.9bn from short-term bonds (T<1) and B11bn from long-term bond (T>1).

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)	4,095	684	5,822	4,578	-759	14,419
January 2019	964	356	3,658	1,818	214	7,010
February 2019	-237	178	615	2,599	-106	3,050
March 2019	118	88	262	24	-516	-24
April 2019	3,740	194	2,252	1,676	107	7,968
May 2019 (MTD)	-490	-133	-965	-1,411	-459	-3,458

Unit: Million US\$

Heated politics at final bend of govt formation

The royal decree on the first parliamentary session was issued. The prime ministerial election is expected to take place in the last week of May. The formation of the new government has become more concrete. Main focus revolves around two medium-sized parties, Democrat (52 MP seats) and Bhumjaithai (51 MP seats); if they join force with a political group, it would have a better chance to form a government. Considering the current political situation, the new government is very likely to be formed with a small margin (only 250-260 MP seats).

Gov 1		Deciding		Gov 2	
Party	MP Seats	Party	MP Seats	Party	MP Seats
Palang Pracharat	115	Democrats	52	Pheu Thai	136
Action Coalition for Thailand	5	Bhumjaithai	51	Future Forward	80
Thai Nation Power	1	Chart Thai Pattana	10	Thai Liberal	10
Prachaniyom	1	Chart Pattana	3	Prachachat	7
People Progressive	1	Thai Local Power	3	New Economics	6
Palang Thai Rak Thai	1	Thai Forest Conservation	2	Pheu Chart	5
Thai Civilized	1	Thai People Power	1		
Thai Teachers for People	1	Thai Reform	1		
Thai People Justice	1				
Polamuang Thai	1				
New Democracy	1				
New Palangdharma	1				
Tairaktham	1				
Total	131	Total	123	Total	244

The Election Commission (EC) has requested the Constitutional Court to rule whether Thanathorn Juangroongruangkit violates the election law by holding shares in a newspaper or media company. In accordance with Section 82(4), if Thanathorn is found guilty, he would be disqualified as an MP, bringing an end to his MP status. This legal procedure would take a long time. Investors should watch this issue closely since it may cause political tension to escalate in the future. Thailand is getting closer to obtaining its new, elected government, thus having positive sentiment on SET Index.

Surrounded by negative factors. Pick DDM plays: INTUCH, EASTW

SET-listed companies reported combined 1Q19 net profit of B266bn (close to our forecast of B260bn), an increase of 73.2%qoq but a decrease of 6.5%yoy from a high base. 1Q19 earnings of the following sectors rebounded remarkably: ICT (TRUE and DTAC made a turnaround), healthcare (BDMS's extraordinary profit), and energy (stock gain from the petrochemical and the refinery businesses).

2Q19 profit is expected to weaken from 1Q19. Commodity stocks (especially petroleum and refinery) are not likely to recognize massive stock gain/loss, while additional personnel expense (under the new labor protection law) of B24.1bn in total would be recognized (already included in our forecast).

We still estimate 2019 market earnings at B1.06tr, equal to EPS of B106.58 or EPS growth of 8.9%yoy. Based on P/E ratio of 16x, 2019 SET Index is targeted at 1,705 pts.

The SET is still surrounded by uncertainty, especially from US-China trade war and potential risk that Thailand may be added in U.S. expanded currency manipulator watchlist. Thus, fund outflow may continue. Foreigners were net sellers in Thai stock markets every day in May with MTD cumulative net selling of B14.5bn. SET Index fell for eight consecutive days by more than 64 pts or 3.98%. SET Index today is expected to swing around 1,600-1,626 pts.

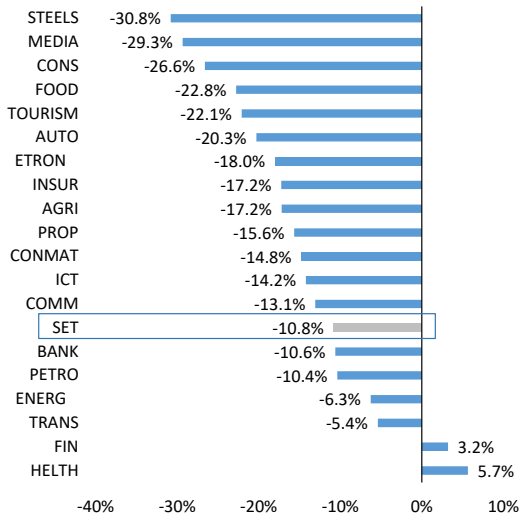
As the SET is surrounded by external negative factors, we recommend domestic plays with high dividend yields, as follows:

Company	Last Price (16/05/2019)	Fair Value	Upside	PER 19F	Div Yield 19F (%)	Beta	Note
PSH	19.1	22.50	17.8%	6.79	8.25	0.80	Added in MSCI Global Small Cap
LH	10.40	13.60	30.8%	12.51	7.20	0.27	-
DRT	5.75	6.58	14.4%	11.33	6.96	0.45	-
KKP	66.00	75.60	14.5%	8.83	6.82	0.97	-
INTUCH	57	69.70	22.3%	15.04	4.59	0.50	Added in MSCI Global Small Cap
EASTW	11.50	13.50	17.4%	16.43	4.02	0.53	Added in MSCI Global Small Cap
JMT	14.7	17.50	19.0%	19.74	3.80	1.68	-

We recommend DDM plays, domestic plays with high dividend that are added to the upcoming MSCI lists. Top picks are 1) INTUCH(FV@B69.7) that is added to MSCI Global Standard and 2) EASTW(FV@B13.5) that are added to MSCI Global Small Cap; these stocks are expected to provide dividend yield of over 4%p.a.

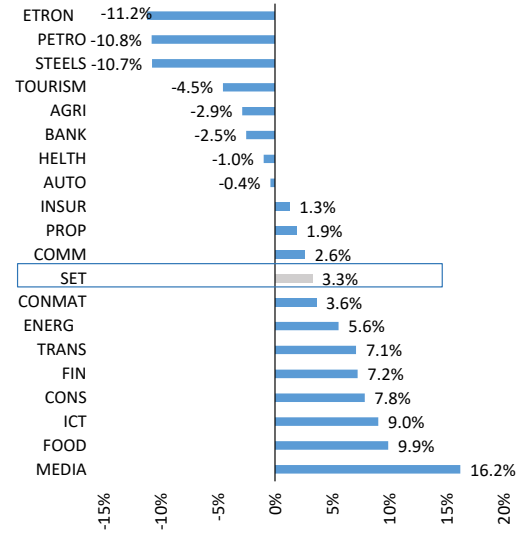


SET vs Sector Return 2018



Source: ASPS Research

SET vs Sector Return 2019 YTD



Source: ASPS Research

