

Friday, June 7, 2019

Investment Strategy

SET Index would have duller positive momentum and fundamental factors would have more impact. 2019 GDP growth forecast is lowered to 2.7%. Market EPS has downside as oil price and GRM drop below assumption. Top picks are BBL(FV@B227), laggard big-cap stock, and FPT(FV@B20.30) that are enjoying many positive factors.

SET Index swings around 10 pts

SET Index swung around 10 pts as a result of duller MSCI effect and concern about stability of the new government and thus closed at 1,653.41 pts yesterday, up 4.95 pts (+0.30%) with trading value of B49.8bn. The market was mainly supported by 1) property plays, e.g. AMATA (+3.10%), CPN (+0.67%), and LH (+0.91%), 2) transportation plays, e.g. AOT (+0.39%), BTS (+0.86%), and BEM (+1.74%), and 3) contractor plays, e.g. CK (+5.50%), ITD (+6.14%), and STEC (+3.96%), as well as big-cap KTC (+3.59%), CPN (+0.67%), and CPF (+0.90%).

SET Index stood above 1,650 pts as expected, but it is less likely to rise further amid negative factors. GDP growth would be depressed by international trade war. We slash our export (X) growth projection from +0.5% to -3%. Disbursement of government budget is delayed, so we cut government expenditure (G) growth assumption from 2.4% to 2%. Overall, we revise down 2019 GDP growth forecast from 3.4% to 2.7%. Market earnings would have downside due to lower commodity prices; particularly, oil price and GRM are below our assumption. 2019 market EPS may be revised down from B106.58 to B103-105. Fund inflow continues but probably weakens. Thus, SET Index would go up more slowly, with occasional profit-taking selling pressure. Today we sell STEC (10% of portfolio) to take profit and switch to FPT and EASTW to ensure lower fluctuation in the future.

ECB to hold interest rate until 2H20. India cuts interest rate third time in 2019

Interest rate downtrend cycle has become more visible. Earlier this week, Fed chairman Jerome Powell signaled that U.S. benchmark interest rate would be lowered from 2.5% if necessary. Similarly, the European Central Bank (ECB) stated that easing monetary would be used if the economy shows signs of deceleration. The ECB held the benchmark interest rate at 0% and stated that the rate would be kept low at least until 2H20.

Meanwhile, many emerging countries already lowered their interest rates once this year, e.g. Australia, New Zealand, Malaysia, and the Philippines. Yesterday, India lowered its key interest rate from 6.0% to 5.75%, already cutting its rate three times this year by 0.25% each or 0.75% in total (first cut in February, second cut in April). India's economic growth has slowed down from its target. 1Q19 GDP growth was 5.8%yoy, decelerating for the fourth consecutive quarter and making a five-year low. April inflation rate was 2.92%, lower than the Reserve Bank of India's (RBI) target of 4%. These interest rate cuts confirm that the world is entering an interest rate downtrend. Investors are switching from risky assets to safer assets, especially bonds. Notably, bond yields worldwide are making this year's new lows.

SET Index	1,653.41
Change (pts)	4.95
Market Cap (Million B)	49,879

Net Buy and Sell by Investor Type (Million B)	
Foreign	1,048.25
Proprietary	-274.50
Institutional	1,801.62
Retail	-2,575.37

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Financial ministers meeting on June 8-9. Positive sentiment likely

Worldwide stock markets rebounded yesterday as US-Mexico trade talk took a positive turn. According to Bloomberg, the US may delay import tariff on Mexican goods (5% import tariff hike every month, starting from June 10 2019, to 25% in October) as Mexico is making an effort to tackle illegal immigration. Investors have to watch this issue closely.

Markets are keeping an eye on the finance ministers and central bank governors' meeting on June 8-9, which is a part of the G20 summit in Japan. This will be the first meeting between U.S. Treasury Secretary Steven Mnuchin and the People's Bank of China's (PBOC) governor Yi Gang. This may lead to US-China trade negotiation or probably trade ceasefire.

Cut 2019 GDP growth forecast to 2.7%, down from 4.1% in 2018

We expect Thailand's economy in 2Q19-4Q19 to decelerate due to a decline in export and a delay in government budget disbursement (caused by delayed formation of the new government). The end of 2020 fiscal year is changed from September 30 to December 31, probably speeding up budget disbursement in 4Q19 (October-December 2019). According to the University of the Thai Chamber of Commerce (UTCC), Thailand's consumer confidence index (CCI) decreased for the third month and made a 19-month low of 77.7 in May as a result of political fear, concerns about intensifying US-China trade war, and low prices of agricultural goods. This would have negative sentiment on Thailand's household consumption.

To reflect these negative factors, we slash our projections on export (X) growth from +0.5% to -3%, import (M) growth from +3% to +0.5%, and government expenditure (G) from 2.4% to 2%, but revise up private investment growth assumption from 3.5% to 3.8%, while maintain forecasts on household consumption (C) growth at 3.9% and government investment growth at 3.8%. Overall, we revise down 2019 GDP growth forecast from 3.4% to 2.7%.

Considering 5M19 average inflation rate of 0.92%, we revise down projections on end-2019 inflation rate to 1.44% (from 1.74%) and 2019 average inflation rate to 1.08% (from 1.26%). We lower Dubai crude oil price assumption from US\$65 to US\$60 in 2019 and from US\$70 to US\$65 from 2020 on while maintain THB exchange rate at B32/US\$. As the economy is expected to slow down, the MPC is expected to either keep the key interest rate flat or lower the rate later this year.

Cut forecast on energy-petrochemical sector, lowering fair values

Prolonged and intensifying US-China trade war has not only depressed worldwide economic growth but also pressured commodity prices. Petrochemical spreads have declined. Average Singapore GRM plummeted to US\$2-3/barrel from US\$5-6/barrels in 2018. Latest BJI coal price fell 21.2% from the peak of US\$100.8/ton in mid-January 2019 to US\$79.4/ton at present. Dubai crude oil price plunged more than 20% from the peak of US\$72.06 on April 24 to US\$57.11 now.

Conservatively, we lower our assumptions related to the energy-petrochemical sectors: 1) spreads of every petrochemical product (down US\$50/ton), 2) GRM (down from US\$6/ton to US\$4.5/ton), 3) coal selling price (down from US\$80/ton to US\$75/ton), and 4) Dubai crude oil price (down US\$5 to US\$60).



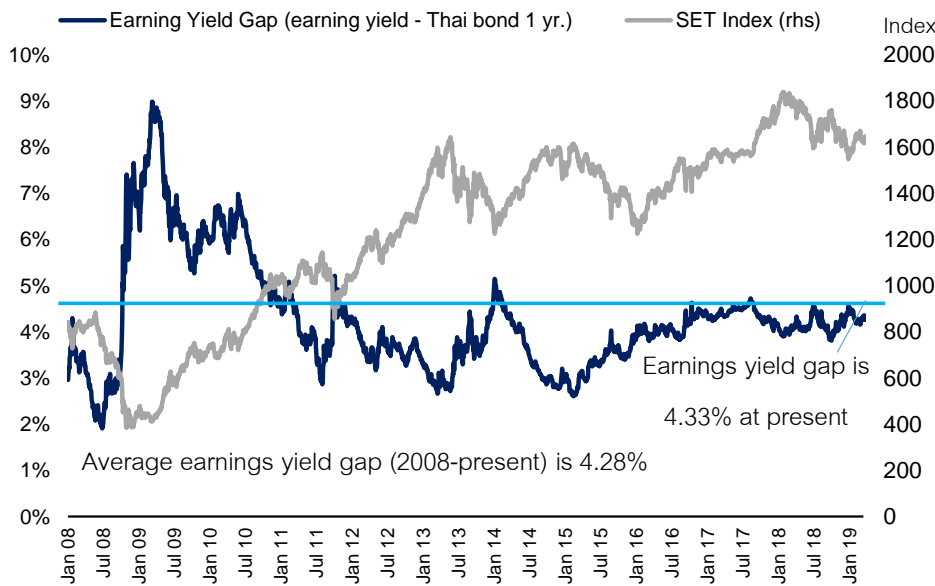
Under these new assumptions, 2019 market EPS would drop from B106.58 to B103-105. New 2019 fair values of energy plays are shown: refinery plays PTTGC(BUY:FV@B72), IRPC(BUY:FV@B5.7), TOP(Switch:FV@B71), and BCP(BUY:FV@B33), petroleum plays PTTEP(BUY:FV@B166) and PTT(BUY:FV@B53), and coal play BANPU(BUY:FV@B16).

Preliminary SET Index target around 1,694-1,727 pts. Favor BBL, FPT

We lower assumptions and earnings forecasts, especially for the refinery-oil sector. This would lower 2019 market EPS from B106.58 to B103-105.

The US and many other countries are projected to use easing monetary policies for the rest of this year, depressing bond yields. In August 2019, Thailand will start collecting withholding tax on interest income bond funds, which would lower bond yield further. However, this would widen earnings yield gap further from 4.48% at present (higher than the average of 4.28%), encouraging fund flow to switch from bonds to stocks. Provided that earnings yield gap stays around the ten-year average of 4.28% and one-year bond yield is 1.8%, acceptable P/E ratio level would be 16.45x*.

Thailand's earnings yield gap

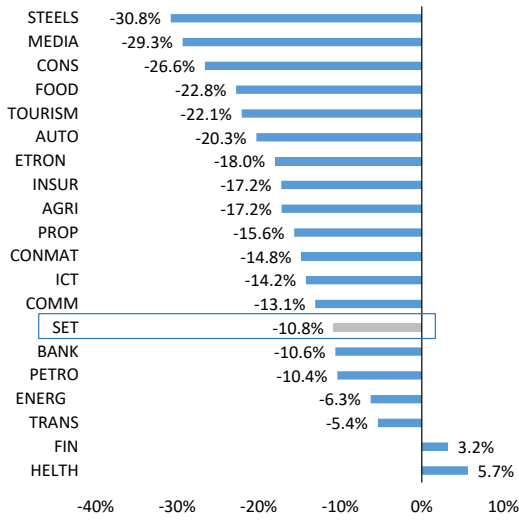


$$* P/E \text{ ratio from earning yield gap} = \frac{1}{\text{Avg. earning yield gap} + \text{One-year bond yield}}$$

Preliminarily, new late-2019 SET Index is 1,694-1,727 pts. We recommend big-cap stocks with solid fundamental that are enjoying fund inflow, especially BBL(FV@B227), and industrial estate stocks benefiting from trade war, especially FPT(FV@B20.3).

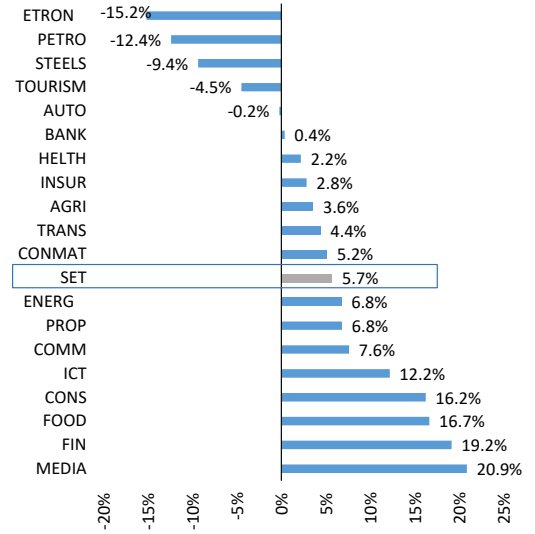
** New late-2019 target = P/E ratio from earning yield gap x 2019F EPS (B103-105)

SET vs Sector Return 2018



Source: ASPS Research

SET vs Sector Return 2019 YTD



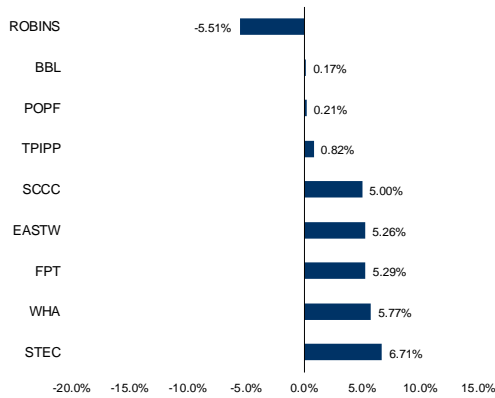
Source: ASPS Research

Market Talk Top Picks

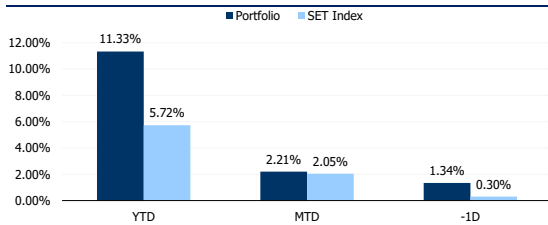
Stocks	Start Date	Fair Value	Weight	Price Avg. Cost	Price Last	Accumulated Return	PER 2019F	PBV 2019F	Dividend Yield	Strategist Comment	-5 Day Chart
POPF	15-May-19	n.a.	20%	13.17	13.20	0.21%	n.a.	n.a.	n.a.	With low fluctuation (beta below 1x) and dividend yield as high as 7%, POPF is a great safe haven.	
FPT	22-May-19	20.30	10%	17.00	17.90	5.29%	34.94	2.54	1.43	GOLD acquisition expands FPT's integrated property development business. Profit base would grow further owing to joint ventures with foreign partners.	
BBL	24-May-19	227.00	15%	199.67	200.00	0.17%	10.31	0.87	4.00	Profit is expected to grow 4.9%yoy in 2019 and 7.6%yoy in 2020. Top bank pick for dividend yield of 4%p.a (the highest among big-cap banks) and low beta.	
STEC	11-Apr-19	29.25	10%	24.60	26.25	6.71%	22.83	3.35	1.52	Contractor play with solid fundamentals, especially backlog, profit margin, and financial position. STEC has bright business future ahead as recurring income ensures more stable revenue.	
SCCC	31-May-19	269.00	10%	220.00	231.00	5.00%	18.03	1.91	3.90	2Q19 profit would grow further as domestic cement demand and selling price rebound and trade war would lower production cost.	
ROBINS	22-Apr-19	70.00	10%	59.00	55.75	-5.51%	19.49	3.03	2.31	2019 profit is estimated to grow 8.2%yoy, driven by solid rental income. 2019 P/E ratio is only 20.2x (versus the sector's average of 28.9x), already absorbing weak growth earlier.	
EASTW	14-May-19	13.50	5%	11.40	12.00	5.26%	17.15	1.77	3.85	Utility play with dividend yield over 4%p.a. Short-term benefit from El Nino. Long-term benefit from EEC as EASTW signs more water sale contracts in industrial estates.	
TPIPP	09-May-19	6.80	10%	6.10	6.15	0.82%	11.83	1.99	6.68	2019 profit would make a new high. New waste-to-energy power plants would make income in the future. 2019 P/E ratio is only 12x (versus the sector's average of 30x).	
WHA	13-May-19	4.89	10%	4.16	4.40	5.77%	17.58	2.13	3.41	2Q19 profit will be driven by a land sale to a Chinese investor. Plus, Gheco-1 would resume power sales, providing higher shared profit from associates.	

Today we sell STEC to take profit and invest 5% more in EASTW and 5% more in FPT

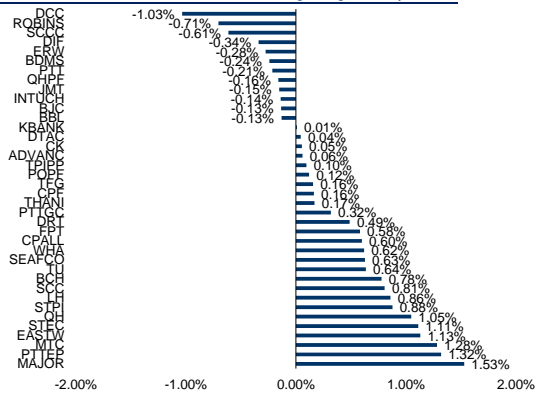
Accumulated returns since our recommendation



Accumulated returns



Accumulated contribution returns since beginning of the year



Source: ASPS Research



Jun 2019

Monday	Tuesday	Wednesday	Thursday	Friday
<p>3</p> <p>New listing: Warrant MINT-W6 230.939m units B1 par</p> <p>New listing - Derivatives Warrant AOT41C1912A 100m units @B1.00 CK41C1911A 30m units @B1.00 CPAL28C1912A 48m units @B1.00 HMPR41C1911A 50m units @B1.00 IRPC41C1911A 40m units @B1.00 KCE41C1911A 30m units @B1.00 PTTG41C1911A 120m units @B1.00 TISC41C1911A 30m units @B1.00 TU41C1911A 40m units @B1.00 WHA41C1911A 30m units @B1.00</p> <p>XD BCPG @B0.16</p> <p>New shares trading ATP30 69.084m shrs (w) TITLE 220m shrs (std)</p> <p>PUBLIC HOLIDAY (H.M. The Queen's Birthday)</p>	<p>4</p> <p>New listing - Derivatives Warrant AAV19C1910A 120m units @B1.00 AOT19P1910A 120m units @B1.00 BANP19P1910A 120m units @B1.00 BPP19C1910A 120m units @B1.00 BJC19C1910A 120m units @B1.00 CPAL19P1910A 120m units @B1.00 EA19P1910A 120m units @B1.00 GPSC19C1910A 120m units @B1.00 IVL19P1910A 120m units @B1.00 KCE19C1910B 120m units @B1.00 PTG19P1910A 120m units @B1.00 PTG19C1910B 120m units @B1.00 WORK13C1911A 120m units @B1.00</p> <p>XD CTARAF @B0.085 KPNPF @B0.11 MJLF @B0.2125</p> <p>XE SMT-W1 1.072:1w @B7.46 (final, "SP")</p> <p>XN CTARAF @B0.043</p> <p>Conversion JMART-W2 1:1w @B15.00 (final)</p> <p>New shares trading TFG 430.944m shrs (w) WIJK 62.489m shrs (std) XO 49.921m shrs (w)</p>	<p>5</p> <p>New listing - Derivatives Warrant TRUE13C1912A 120m units @B1.00 CBG24C1909A 50m units @B1.00 DTAC24C1910A 50m units @B1.00 MBK24C1910A 50m units @B1.00 MTC24C1910A 50m units @B1.00 STA24C1911A 50m units @B1.00</p> <p>XN BTSgif @B0.169</p>	<p>6</p> <p>New listing - MAI > Warrant PORT-W1 46m units B0.50 par</p> <p>New listing - Derivatives Warrant AEON01C1911A 25m units @B1.00 AEON01C1911B 25m units @B1.00 BJC01C1911A 100m units @B1.00 BJC01P1911A 100m units @B1.00 BJC01C1911B 100m units @B1.00 CENT01C1911A 100m units @B1.00 CENT01C1911B 90m units @B1.00 CENT01P1911A 80m units @B1.00 CKP01C1911A 100m units @B1.00 CKP01C1911B 100m units @B1.00 ESS001C1911B 100m units @B1.00 HANA01C1911A 100m units @B1.00 IRPC01C1911A 100m units @B1.00 IRPC01C1911B 100m units @B1.00 IRPC01P1911A 100m units @B1.00 MINT01C1911A 100m units @B1.00 MINT01C1911B 100m units @B1.00 MINT01P1911A 100m units @B1.00 MINT01P1911B 40m units @B1.00 SCB01P1911B 100m units @B1.00 SPAL01C1911A 100m units @B1.00 SPAL01C1911B 100m units @B1.00 SCB01C1911A 100m units @B1.00 SCB01C1911B 100m units @B1.00 SCB01P1911A 100m units @B1.00 SCB01P1911B 100m units @B1.00 SPAL01C1911A 50m units @B1.00 SPAL01C1911B 40m units @B1.00 SPRC01C1911A 80m units @B1.00 SPRC01C1911B 100m units @B1.00 STEC01C1911A 100m units @B1.00 STEC01C1911B 100m units @B1.00 STEC01P1911A 100m units @B1.00 TKN01C1911A 50m units @B1.00 PSL06C1911A 60m units @B1.00 PTTG06C1911A 60m units @B1.00 S5006C1909B 60m units @B1.00 S5006P1909B 60m units @B1.00 TOP06C1911A 60m units @B1.00 CPAL13P1911A 120m units @B1.00 GULF13P1910A 120m units @B1.00 PTT13C1911A 120m units @B1.00 S5013C1909B 220m units @B1.00 S5013P1909B 220m units @B1.00 SAWA13C1911A 120m units @B1.00</p> <p>XD BCT @B1.10 IMPACT @B0.19 WHABT @B0.147</p> <p>XE RICHY-W1 1.22449:1w @B1.47 (final, "SP")</p> <p>XN WHABT @B0.0095</p> <p>XW 7UP 5 existing : 17UP-W4 @0.05</p> <p>Conversion STHAI-W2 1:1w @B1.00 (final) TNPC-W1 1.02:1w @B2.21 (final)</p> <p>New shares trading ACAP 4,175 shrs (w) ADVANC 83.302 shrs (w) MEGA 289,200 shrs (w) MOC : May-19 CPI</p>	<p>7</p>
<p>10</p> <p>XD TR @B0.70</p>	<p>11</p> <p>Co's name change Thai British Security Printing (TBSP) > TBSP Plc (TBSP)</p>	<p>12</p> <p>XR PPPM 2:1n @B2.00 PPPM 2:1n @B2.00</p>	<p>13</p> <p>XD ABFTH @B11.00 QHFP @B0.144</p> <p>Conversion JKN-W1 1:1w @B15.00 TIC-P 1:1</p>	<p>14</p>
<p>17</p> <p>XD LHSC @B0.149</p> <p>Conversion AYUD-W1 1:1w @B39.00</p>	<p>18</p> <p>XD LHK @B0.18</p> <p>MPC meeting</p>	<p>19</p> <p>XE S-W1 1:1w @B15.00 (final, "SP")</p> <p>XW CHO 2 existing: 1CHO-W2@free</p> <p>Conversion META-W3 1:1w @B2.00 (final)</p>	<p>20</p> <p>Conversion EFIRL-W3 1:1w @B0.60 EFIRL-W4 1:1w @B0.50</p>	<p>21</p>
<p>24</p> <p>Conversion AS-W1 1:1w @B2.00 WHA-W1 10.2396:1w @B3.4181</p>	<p>25</p> <p>XE DIMET-W2 1:1w @B1.15 (final, "SP")</p>	<p>26</p>	<p>27</p> <p>XR TRC 9:5n @B0.125</p> <p>Conversion EIC-W2 2.32054:1w @B1.00 EIC-W3 2.32054:1w @B1.00 FVC-W2 1.04545:1w @B0.957 JMT-W2 1.02031:1w @B18.62187 ORI-W1 1:1w @B13.3333 SCB-P 1:1 SINGER-W2 1:1w @B14.00 SMT-W1 1.072:1w @B7.46 (final) TVD-W2 1.002:1w @B0.998 BOT : May-19 Trade</p>	<p>28</p>