

Tuesday, September 17, 2019

## Investment Strategy

Oil prices would keep rising as long as supply from Saudi Arabia does not recover back to normal and US-Iran tension has not subsided yet. These issues would have positive sentiment on energy plays; PTT and PTTEP make up 20% of our portfolio. Investors have to watch this Fed meeting as Fed fund rate cut is likely. Top picks are CK(FV@B34) and PTTEP(FV@B166).

### SET Index swings all day

There is no new positive factor yet, while markets are expecting Fed fund rate to be lowered by 0.25% at this meeting. SET Index swung and closed at 1,662.93 pts, up 0.97 pts (+0.06%) with trading value of B61.4bn. The market was supported by energy plays that enjoyed positive sentiment from rising oil price, especially PTT (+3.30%), PTTEP (+2.04%), GULF (+5.03%), TOP (+0.35%), and transportation plays, led by AOT (+2.08%), BTS (+0.75%), PSL (+2.21%). Yet, the market was weakened by banking plays, particularly BBL (-2.26%), KBANK (-1.51%), SCB (-2.80%), as well as big-cap IVL (-7.43%), SCC (-2.74%), and CPALL (-0.91%).

Oil prices are likely to rally further as long as Saudi Arabia's oil supply does not recover back to normal and US-Iran tension continues. Rising oil prices would have positive sentiment on energy plays, especially PTT and PTTEP. Notably, these two stocks are significantly underperforming SET Index and they are among the stocks with the biggest short selling positions. Considering rising oil prices, inexpensive valuation, and dividend yields of over 4%p.a, they are expected to rally further. Notably, PTT and PTTEP makes up 20% of our portfolio. Investors also have to keep an eye on the Fed meeting today and tomorrow; Fed fund rate is anticipated to be lowered by 0.25%. Notably, U.S. bond yield has dropped again after rebounding for the short term. We initially expected the interest rate not to be lowered at the MPC meeting on September 25, 2019. However, since the government's economic stimulus measures have not boosted the economy significantly, the inflation rate was still low, and THB strengthened to B30.50/US\$ now, Thailand's interest rate is more likely to be lowered. An interest rate cut would boost SET Index while adversely affect banking plays, but downside would not widen much though. There is nothing new for our portfolio. Top picks are still PTTEP and CK.

### First day of Fed meeting. MPC to cut policy rate in late September?

This is the first day of Fed meeting on September 17-18, 2019. Markets have 100% anticipated Fed fund rate to be lowered by 0.25% from the current rate of 2.25%. If Fed implements easing monetary measures just as expected (not more than expected), global markets are expected to stay flat or fall (sold on fact) as they have absorbed these factors already. Otherwise, if there is any surprise measures (for example, if Fed lowers the interest rate by 0.5%), stock markets would enjoy additional positive sentiment.

SET Index	1,662.93
Change (pts)	0.97
Market Cap (Million B)	61,475

### Net Buy and Sell by Investor Type (Million B)

Foreign	1,069.29
Proprietary	-232.67
Institutional	-1,710.44
Retail	873.82

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Central banks worldwide are using easing monetary policies, namely interest rate cuts. Amid worldwide interest rate downtrend, Thailand's key interest rate is more likely to be lowered at the Monetary Policy Meeting (MPC) on September 25, 2019 mainly because:

- **THB has strengthened against USD as a result of the interest rate downtrend.** THB appreciated 6.14%ytd to B30.55/US\$ at present, the strongest in five years and 11 months. As long as THB keeps strengthening, the Bank of Thailand (BOT) may consider additional THB manipulation measures. The interest rate may be cut in order to slow down THB appreciation.
- **Thailand's economy has decelerated.** Speaking of the government's economic stimulus measures implemented in August with total budget of B316bn (2% of GDP), 64% of which were implemented through loans from state banks, not through direct money injection into the economy system. Only B1,000 allowance for low-income welfare card holder (effective only in August-September 2019) and B1,000 cash handout for domestic tourism directly inject money into the economy system.

Considering these factors, at the meeting on September 25, 2019, MPC is anticipated to lower the interest rate further to soften impact of THB appreciation as well as stimulate the economy in addition to the government's economic stimulus measures.

## Crude oil price still high. Supply from Saudi Arabia not resuming yet

Global crude oil prices are still standing high above US\$60. Saudi Arabia (No.1 OPEC oil producer, 33% of OPEC oil production) has lost 50% of its oil production of 9.8 million bpd after its two biggest oil facilities, 1) Abqaiq (No.1 oil facility) and Hijra Khurais (No.2 oil facility), were struck by drone attacks led by Houthi militia rebel group (supported by Iran). According to Bloomberg, Saudi Arabia's government stated that its biggest oil facility Abqaiq is still damaged and would be restored in a few weeks, while there was no word about Hijra Khurais.

US-Iran tension may re-ignite and the US may proceed with Iran sanctions. Prior to the drone attack on the oil facilities, the US had softened his stance on Iran, considering U.S. President Donald Trump's statement before the attack. The US has imposed sanctions against Iran, prohibiting all countries from importing of Iranian oil since mid-2018. This has caused Iran's oil export to plummet from 2018-1Q19 from 1.6-2 million bpd to 0.2 million bpd at present.

Meanwhile, demand is still depressed by US-China trade war in the long run. Notably, the US and China are the world's two biggest oil consumers making up 50% of worldwide oil demand.

Oil supply would still have more weight than oil demand, so Dubai crude oil price probably stands above US\$60. Dubai price closed at US\$64.67 yesterday and marked the YTD average of US\$62.9 (in line with our assumption of US\$60 in 2019 and US\$65 from 2020 on. How long Dubai crude oil price will stand high depends on how soon Saudi Arabia can resume oil production. Meanwhile US-Iran tension may re-ignite, after the US had softened its stance. All these factors would benefit energy plays but have negative sentiment on aviation and construction material plays (see Market Talk yesterday).

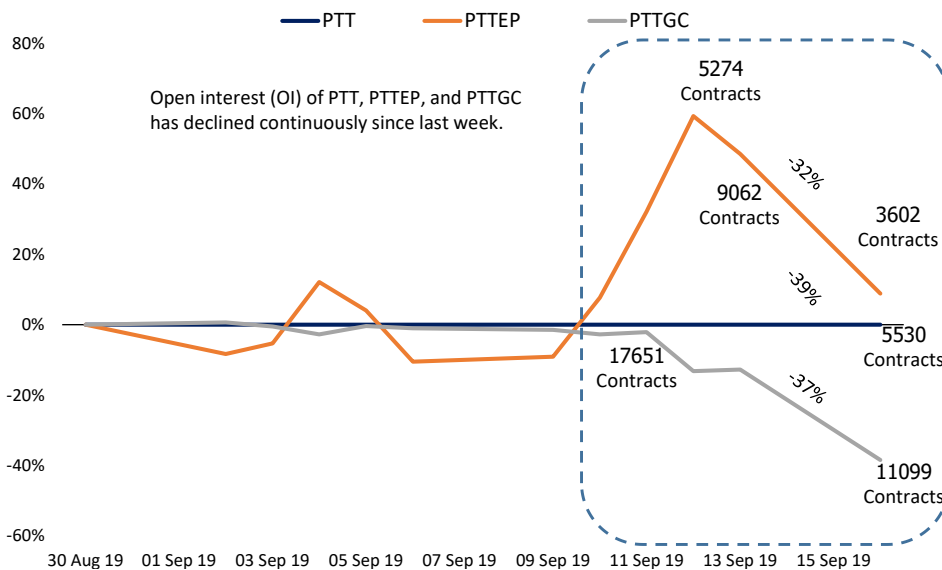
Crude oil prices rallied more than 22%ytd. This would have positive sentiment on SET Index mainly because the energy-petrochemical industries make up 25% of Thailand's market capitalization as well as 36% of total net profit of all SET-listed companies. As crude oil prices rise robustly, SET Index is probably rising and outperforming worldwide stock markets,

especially driven big-cap oil stocks PTT, PTTEP, and PTTGC. In SET50 Futures, these are among the stocks with the biggest short selling positions in September, but they were supported by short-covering buy rally recently.

### Short-selling position of big-cap energy plays in September 2019 (mtd)

Stocks with Largest Short Selling (mtd)	Stock	Short Sing (Billion B)	%mtd	%ytd
1	PTTEP	2.41	0.4	10.13
3	PTT	2.07	6.21	2.17
9	PTTGC	0.98	7.04	20

**Energy plays are very likely to be with short-covering buy rally because open interest (OI) has decreased significantly after facing massive short selling.**



SET-listed energy plays are still significantly laggard compared with global crude oil price. As long as oil supply does not recover back to normal and there is short-covering buy rally (following a sharp drop in OI), oil plays PTT and PTTEP are likely to outperform the SET. Our top picks today are PTT and PTTEP.

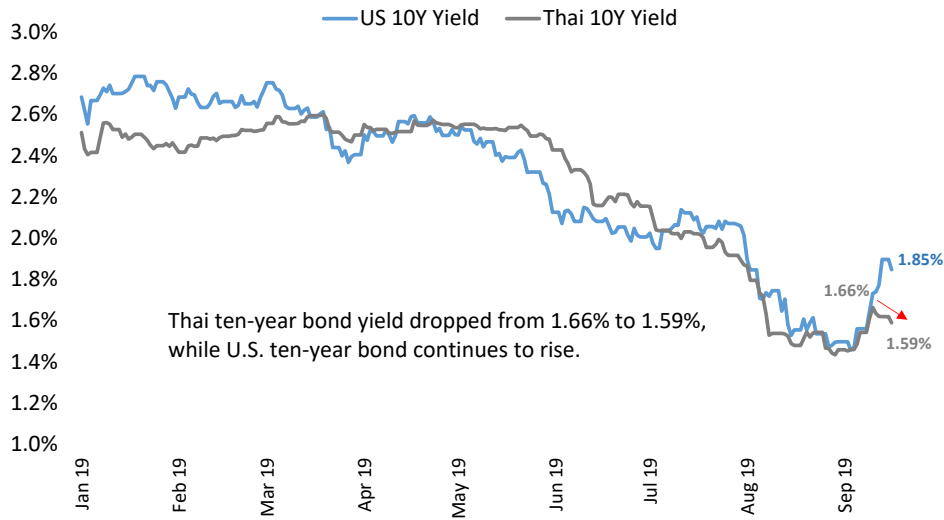
### THB to strengthen further

US-China trade war tension has subsided, having positive sentiment and boosting bond yields by lowering bond prices. U.S. ten-year bond yield rebounded from the lowest point of 1.45% to 1.85% at present. Thailand's ten-year bond yield also rebounded and made a new high of 1.66% on September 10, 2019. However, due to 12,000 foreign net buying contracts last Friday, Thailand's ten-year bond yield fell to 1.59%.

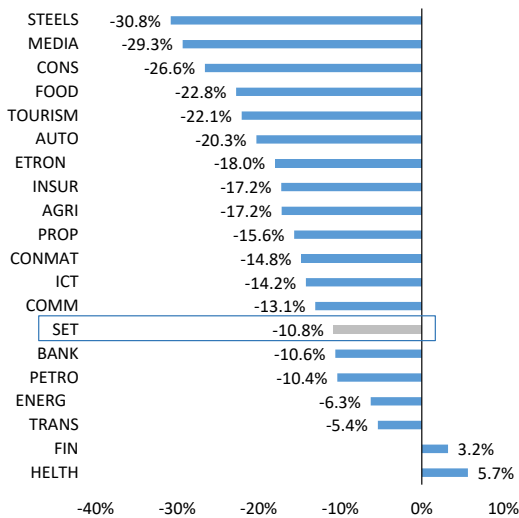
Worldwide interest rate downtrend is becoming clearer. At the latest European Central Bank (ECB) meeting, the ECB cut the deposit facility interest rate and announced a new round of QE. At the Fed meeting starting today, Fed is anticipated to lower U.S. key interest rate by 0.25%. Fund flow is likely for safe assets like Thai stocks. Investors are likely to lock long-term return. THB is likely to strengthen further.



## Ten-year bond yield of Thailand vs US

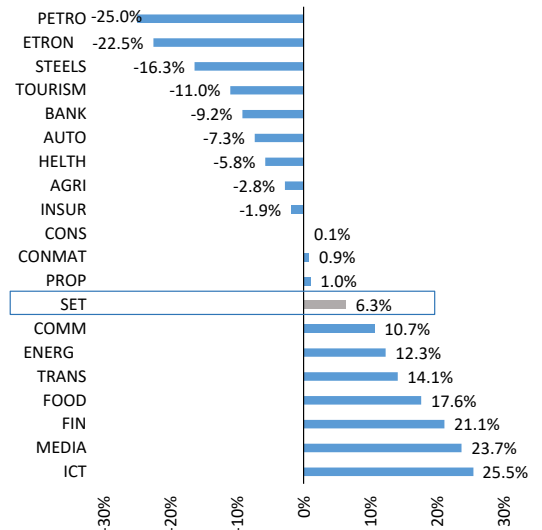


## SET vs Sector Return 2018



Source: ASPS Research

## SET vs Sector Return 2019 YTD



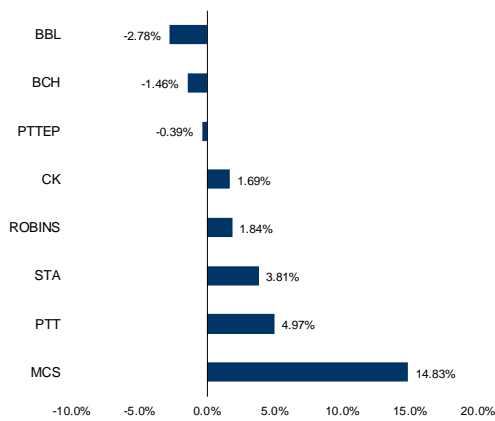
Source: ASPS Research

## Market Talk Top Picks

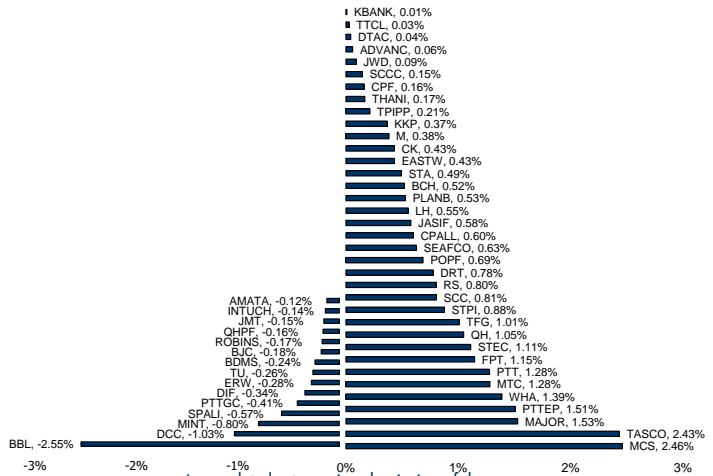
Stocks	Start Date	Fair Value	Weight	Price Avg. Cost	Price Last	Accumulated Return	PER 2019F	PBV 2019F	Dividend Yield	Strategist Comment	-5 Day Chart
<b>BCH</b>	20-Aug-19	21.00	15%	15.93	15.70	-1.46%	32.60	5.40	1.69	World Medical Hospital (WMC) would make robust profit again. Social security service budget may be raised in 2020.	
<b>ROBINS</b>	01-Aug-19	70.00	15%	63.33	64.50	1.84%	22.55	3.50	2.00	Limited downside risk. ROBINS shareholder will have better chance to own CRC shares with discount, at the tender offer price of B66.5. Share swap is expected in early-2020.	
<b>CK</b>	12-Sep-19	34.00	15%	23.70	24.10	1.69%	18.97	1.53	2.07	Average dividend yield is above 5%p.a. Backlog is B43.4bn (excluding JV), the highest among property plays, generating revenue for the next 4-5 years.	
<b>PTTEP</b>	16-Sep-19	166.00	10%	127.00	126.50	-0.39%	12.33	1.17	4.00	PTTEP is expected to rally robustly. Oil supply would plummet as Saudi Arabia's two biggest oil facilities were under severe attacks. The price would be supported by cover-short buying.	
<b>MCS</b>	02-Aug-19	11.30	10%	7.93	9.10	14.83%	10.33	1.37	5.91	MCS will recognize profit from delivery of big export projects in 2H19. Its backlog makes a historical high that will generate revenue until 2022.	
<b>STA</b>	22-Aug-19	13.00	10%	10.50	10.90	3.81%	58.00	0.68	1.38	Rubber business will shine again. Domestic peers have temporarily cut or halt production, so STA's 2H19 sales volume is expected to grow 38% from 1H19.	
<b>PTT</b>	10-Sep-19	53.00	10%	45.25	47.50	4.97%	12.63	1.46	4.26	PTT is still significantly compared with global crude oil prices and SET Index. It still has over 15% upside. Interim dividend is likely.	
<b>BBL</b>	12-Sep-19	205.30	15%	180.00	175.00	-2.78%	9.20	0.76	4.34	BBL is still significantly compared with MSCI World Bank and SET Index. It would benefit from private investment projects in the future.	

Yesterday we sold JWD to take profit and switched to PTTEP.

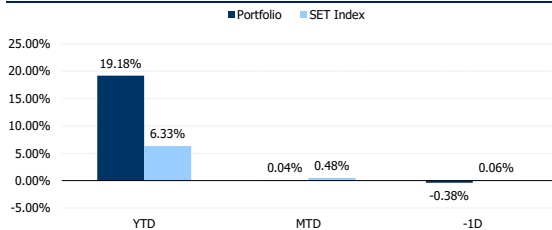
Accumulated returns since our recommendation



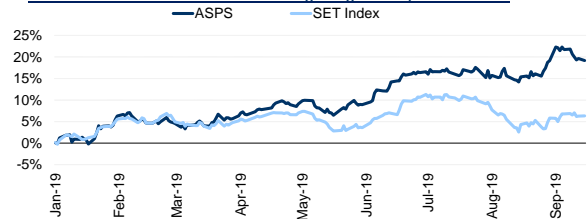
Accumulated contribution returns since beginning of the year



Accumulated returns



Accumulated returns since beginning of the year



Source: ASPS Research

September 2019

Monday	Tuesday	Wednesday	Thursday	Friday
<p>16</p> <p>Par decrease BOFFICE B9.4654 par (from B9.4757)</p> <p>XD ABPIF @B0.1562 MONTRI @B0.125 TNPF @B0.115</p> <p>XN ABPIF @B1.1508 TNPF @B0.06</p>	<p>17</p> <p>XD MBK @B0.38</p> <p>XE IHL-W1 1.013:1w @B3.454 (final, "SP")</p> <p>XW SMART 5 existing :1w @free</p> <p><a href="#">MPC meeting</a></p>	<p>18</p> <p>XR TSI 1:2n @0.50</p>	<p>19</p> <p>XE TSE-T1 1:1T @B2.50 (final, "SP")</p>	<p>20</p>
<p>23</p> <p>XD GGC @B0.15</p> <p>XE MONO-W1 1.015:1w @B2.646 (final, "SP")</p>	<p>24</p> <p>XD JMART @B0.0260824 JMART 4.26 existing :1STD NOBLE @B5.20</p>	<p>25</p> <p>XT TMB 1.39:1TMB-T1 @free</p> <p>Conversion GSTEEL-W1 0.20:1w @B2.75 (final) GSTEEL-W2 0.20:1w @B2.75 (final)</p>	<p>26</p> <p>XB S 100:1SHR@tba</p> <p>XR DIMET 1:1n @B0.50 +1DIMET-W3 @free</p>	<p>27</p>
<p>30</p> <p>Conversion AJA-W1 1.30972:1w @B1.527 BROOK-W5 1:1w @B0.25 BTS-W4 1.011:1w @B10.384 CKP-W1 1.0007:1w @B6.00 CSC-P 1:1 IHL-W1 1.013:1w @B3.454 J-W1 1:1w @B2.00 <a href="#">JAS-W3 1.192:1w @B3.605</a> <a href="#">JCK-W5 1:1w @B3.50</a> JMT-W2 1.02031:1w @B18.62187 MILL-W4 1.099:1w @B2.003 MILL-W5 1.03:1w @B1.748 MONO-W1 1.015:1w @B2.464 NOK-W1 1.56950:1w @B3.18574 NPPG-W4 1:1w @B0.50 ORI-W1 1:1w @B13.3333 PERM-W1 1:1w @B1.80 PROUD-W2 1.174:1w @B1.533 SCB-P 1:1 SINGER-W1 1:1w @B7.00 SINGER-W2 1:1w @B14.00 SMT-W2 1:1w @B2.10 TCC-W3 1.23886:1w @B0.807 TCC-W4 1.10801:1w @B0.903 TCJ-W2 1.02:1w @B9.804 TGPRO-W3 1:1w @B0.50 TNITY-W1 1:1w @B5.00 U-W1 0.01:1w @B6.00 U-W4 0.01:1w @B6.00 UAC-W2 1:1w @B5.55 VGI-W2 1:1w @B10.00 VIBHA-W2 1.00086:1w @B0.999 VIBHA-W3 1.00086:1w @B2.997 WORK-W1 1:1w @B38.10 (final) ZMICO-W4 2:1w @B2.70 <a href="#">BOT : Aug-19 Trade</a></p>				

October 2019

Monday	Tuesday	Wednesday	Thursday	Friday
	<p>1</p>	<p>2</p> <p>XR PF 8:1n @B1.00</p> <p>XW PF 4 existing: 1PF-W4 @free</p>	<p>3</p>	<p>4</p>
<p>7</p> <p><a href="#">MOC : Sep-19 CPI</a></p>	<p>8</p> <p><a href="#">MPR Press Conference</a></p>	<p>9</p>	<p>10</p> <p>Conversion IHL-W1 1.013:1w @B3.454 (final)</p>	<p>11</p>
<p>14</p> <p><b>PUBLIC HOLIDAY</b> (The Passing of H.M. the Late King Bhumibol Adulyadej (Rama IX))</p>	<p>15</p> <p>Conversion TSE-T1 1:1T @B2.50 (final)</p>	<p>16</p> <p>Conversion MONO-W1 1.015:1w @B2.464 (final)</p>	<p>17</p>	<p>18</p>
<p>21</p> <p>XD MC @B0.30</p> <p>XR TPAC 3.4898:1n @B11.00</p>	<p>22</p>	<p>23</p> <p><b>PUBLIC HOLIDAY</b> (Chulalongkorn Day)</p>	<p>24</p>	<p>25</p>
<p>28</p>	<p>29</p> <p><a href="#">BOT : Sep-19 Trade</a></p>	<p>30</p> <p>XR VI 1:3n @B0.05</p> <p><a href="#">MOC : Oct-19 CPI</a></p>	<p>31</p>	

November 2019

Monday	Tuesday	Wednesday	Thursday	Friday
				<p>1</p>
<p>4</p> <p>XE CHEWA-W1 1:1w @B1.75 (final, "SP")</p>	<p>5</p> <p><a href="#">MPC meeting</a></p>	<p>6</p>	<p>7</p> <p><a href="#">MOC : Oct-19 CPI</a></p>	<p>8</p>