

# Thai Market Compass

## Optimism despite the doldrums

### Market correction contrasts with improved outlook

The recent pull-back in the SET Index and the continued fund outflows post the government formation were negative surprises to us. Still, we think the outlook for Thailand has improved in 4Q23E given rising farm income, high season for tourism and potential uplift from government stimulus. Based on our roadshow in Singapore, we also think investors are marginally more positive on Thailand now compared to our June visit. In the meantime, we identified three groups of stocks we think could offer near-term outperformance: policy plays, turnaround plays, and value plays.

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### Rising farm income

We expect farm income to improve going forward. Seasonally, several major crops (such as rice and sugar) will see peaked production in 4Q. Given higher agri prices, we see potential for pricing impact to outweigh volume decline (due to El Nino), leading to farm income growth in 4Q23E and potentially 1Q24E. Price improvement is significant for rice (up to 50% higher YoY) whereas crops that saw weakness earlier in the year are also beginning to see price recovery (rubber, sugar). So while full-year crop value may decline by 4%, most of that weakness is largely behind us and we could see uptick in farm income from September onwards.

### Tourism entering high season

Tourist arrival number has been disappointing, and we expect it to remain low in September-October. However, even with no above-trend growth rate, we would still expect 4Q23E tourist arrivals to see 4% QoQ and 32% YoY growth. An increased mix of high-spenders (such as tourists from the Middle East, Europe and Oceania) could also help partially offset volume weakness. We remain hopeful that visa waiver for Chinese tourists (25 Sep 2023 - 29 Feb 2024) will lead to faster recovery. Our tourist arrival forecasts are 27m in 2023E and 35m in 2024E.

### 3 plays to outperform

We identified three plays to outperform the SET Index: policy plays, turnaround plays and value plays. First, we think CPALL and COM7 will benefit the most from cash handouts and lower electricity costs. Specifically, CPALL is the only player with enough reach nationwide to benefit whereas COM7 is the discretionary name with the greatest coverage. CPALL is also one of the largest buyer of electricity in Thailand and will benefit from lower power prices. Secondly, we see opportunities for turnaround plays in CPF (rising swine prices, lower feed costs) and TRUE (easing competition driving higher ARPU, cost synergy, lower electricity bills). Lastly, banks and energy remain the core value plays in the SET Index. Our bank top picks are BBL and KTB while BCP and PTTEP remain our energy top picks.

# 1. Market correction contrasts with improved outlook

The recent pull-back in the SET Index and the continued fund outflows post the government formation were negative surprises to us. We think foreign investors remain cautious about the new government's stability as well as policy implementation. However, based on our recent marketing trip, we sense there is more interest in Thailand now than 3 months ago.

## 1.1 Colours from our marketing trip to Singapore

We recently went on a 2-day marketing trip to Singapore where we met with 12 institutional investors. While we feel that investors are more interested in Thailand overall (especially when compared to our prior trip in June), we believe they remain reluctant to commit large capital to the Thai market.

### **Why aren't more foreigners buying?**

This is the question we got most often on this roadshow. We also struggled to answer it as most investors we met also expected to see greater inflows. Our explanation is that, while the overall outlook has improved, investors are still waiting for greater clarity on policy execution. We note that the group of investors we met may be subjected to self-selection bias in a sense that they met with us because they were keen to explore Thailand whereas those that were not keen on Thailand would not be interested in the meeting.

### **From universal UW to neutral/slightly UW**

Compared to our last visit in June, we sense that investors have added more position in Thailand. Whereas the SET Index was a universal UW previously, some investors now say they are neutral Thailand or only just slightly UW. We think this shift in positioning may be biased towards regional investors, suggesting that the recent outflow we see may come from further afield.

### **Politics and policies**

While we believe some investors remain wary of the political stability, most share our view that at least in the near term, the new government will be able to carry out its policies. The focus then is on policy implementations and specific details. We received the most question about the THB10,000 cash handouts. Most investors are also unaware that the scale of debt moratorium for farmers could potentially be quite large (up to THB255,000 over 3 years based on our estimate). Given the lack of specificity (for example, when will the disbursement happen, how will the government finance it), investors remain reluctant to join the stimulus bandwagon. Some investors also point out that once the initial impacts of the stimulus wears off, Thailand will once again be struggling for growth. As such, they are waiting for greater clarity on medium- to long-term policies that will help lift Thailand's competitive advantage.

### **Surprisingly strong pushback on CPALL**

Most investors were receptive of our bullish views on banks and energy and agree that valuations for these sectors are attractive. We also received good interest on other names that we pitched, such as COM7. However, we were surprised to see strong push back on CPALL as a top retail play. Many investors believe Lotus will continue to weigh on the company's overall performance. Others think the share price remains too expensive for what they view as a mature convenience store market. Still others worry the

company might make more costly acquisitions. Overall, we think more than half the investors we met have given up on CPALL.

### Good reception to turnaround plays

We highlighted our recent upgrades of CPF and TRUE as we see these stocks as attractive turnaround plays. Most investors were very receptive of the ideas and many admit they have not revisited these stocks in some time. We believe our TRUE upgrade was of particular interest for investors as most are already quite familiar with the sector and may already own ADVANC as telecom exposure in Thailand.

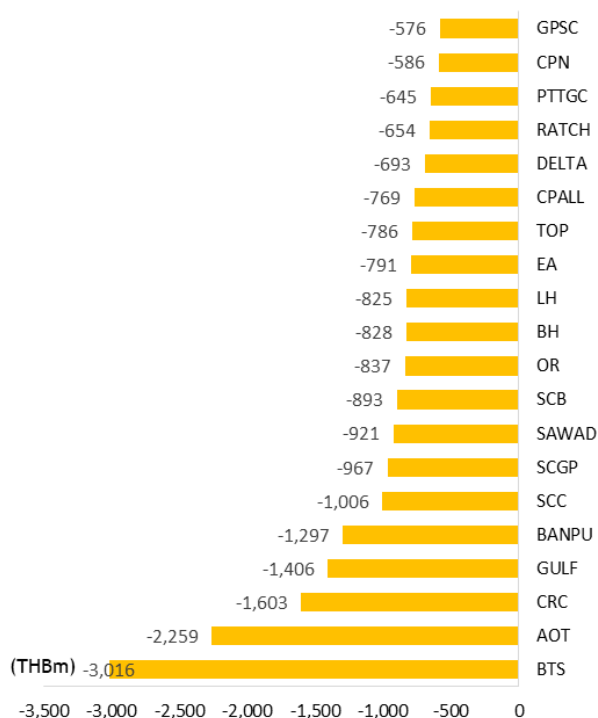
### Stronger interest in mid-cap names

We sense that investors are keener to explore mid-cap names in Thailand that may have been overlooked or oversold. We highlighted SNNP as our favourite name in the food space. We also pitched auto names such as AH and SAT as potential beneficiaries of incoming EV investments in Thailand. Other than constraints on market cap or liquidity, we think these names were of interest to investors.

## 1.2 Recent foreign fund flows

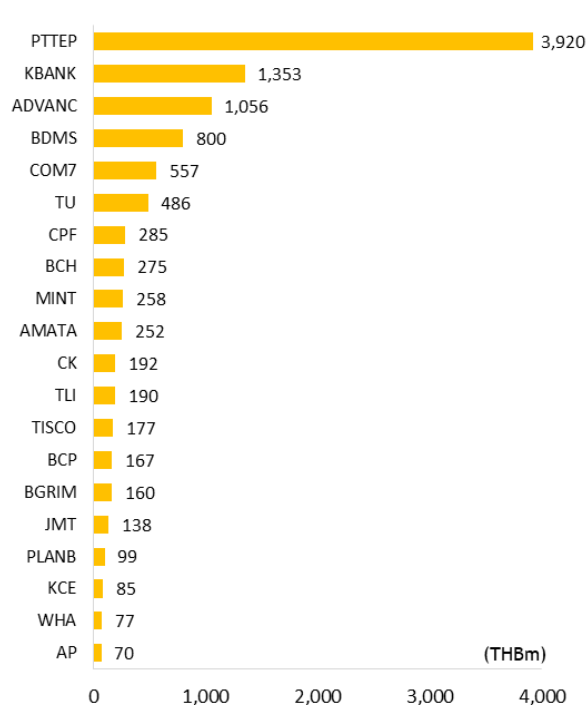
We have seen continued selling over the past month by foreign investors. Most of the sales were in big-cap transportation stocks with additional selling pressure in energy/utilities as well as materials. ESSO Thailand (ESSO TB, Not Rated) was the key exception as it was a sale by its major shareholder in an M&A transaction. At the opposite end, we have seen strong inflows into PTTEP, KBANK, ADVANC, BDMS and COM7.

Fig 1: Top 20 net outflows MTD



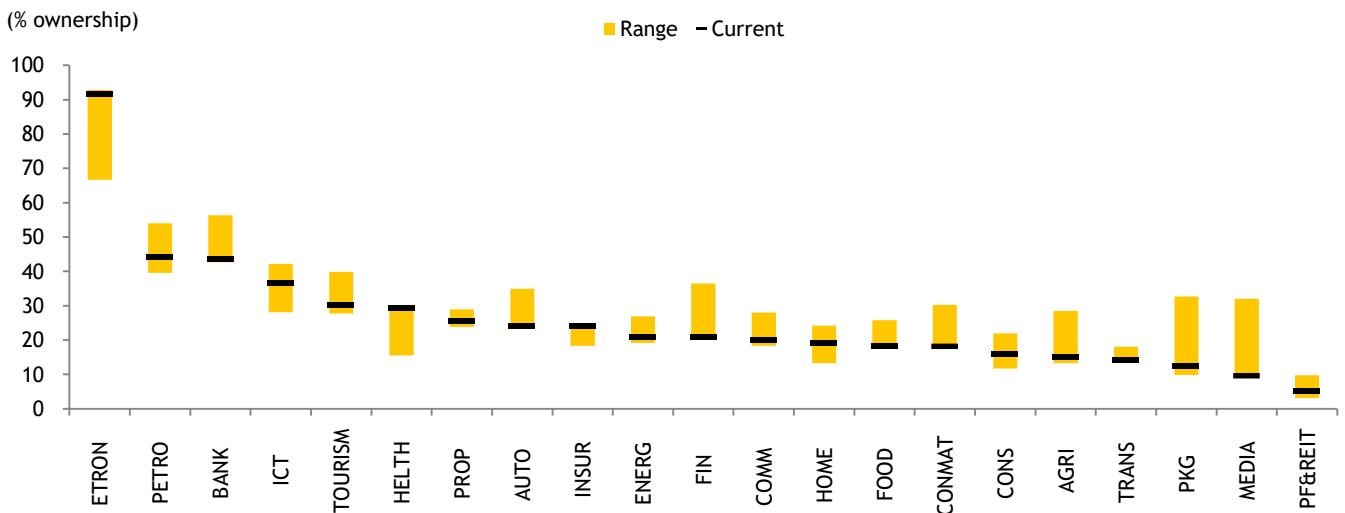
Source: SET, MST

Fig 2: TOP 20 net inflows MTD



Source: SET, MST

Fig 3: Foreign ownership by sector



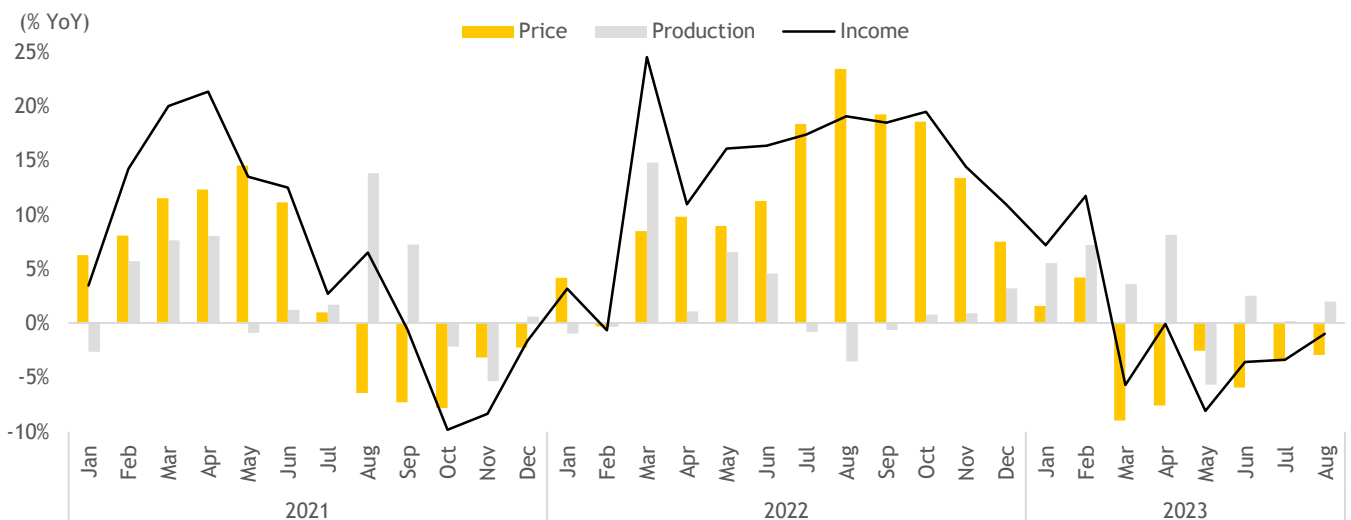
Source: SET, MST

## 2. Improved farm income

### 2.1 Farm income has been a drag for much of 2023 to date

Thailand’s farm income has been under pressure for much of 2023 to date, and for the full year, we believe farm income could fall by around 4%, based on the harvest value of the seven major crops. The weakness was particularly pronounced in March through July when farm income fell by up to 8% YoY. This was driven mainly by pricing impact due to a relatively high base in 2022.

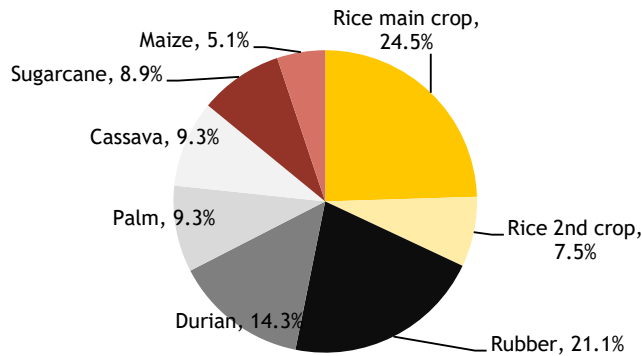
Fig 4: Thailand farm price, production and income indices



Source: OAE, MST

If we dig deeper, we find that the price weakness came from two of the seven main crops: rubber and palm oil. We attribute this to the knock-on impact from oil prices. For rubber, lower oil price makes synthetic rubber (a substitute for natural rubber) more competitive, thereby bringing down natural rubber price. For palm oil, lower oil price makes refined distillate more competitive vs biodiesel (B100), which is produced from crude palm oil. As such, it could lead to lower blending requirement for biodiesel, thereby pushing down the price of palm oil.

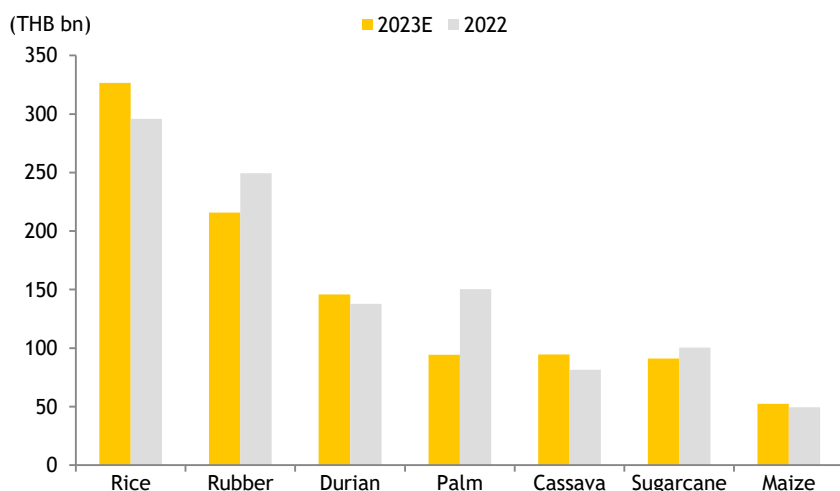
**Fig 5: Breakdown of harvest value for 7 major crops (2023E)**



Source: OAE, MST

Together, palm and rubber make up over 30% of estimated harvest value for the seven major crops in 2023E. As such, they have significant impact on total farm income in Thailand. For 2023E, we estimate the harvest value for palm will decrease by about 37%, driven mainly by a 34% decrease in selling price. For rubber, we estimate the value of harvest will decline by 13% YoY due to the 15% decline in rubber price.

**Fig 6: Estimated harvest value for 2022 and 2023E**



Source: OAE, MST

## 2.2 Potential improvement from higher farm prices

Looking ahead, however, we see room for farm income to improve significantly. Of the seven major crops, we expect growth in output value for rice (pricing), durian (volume), cassava (volume) and maize (pricing). Even for rubber, we expect output value to grow YoY starting in September as rubber price is now higher from the same period last year.

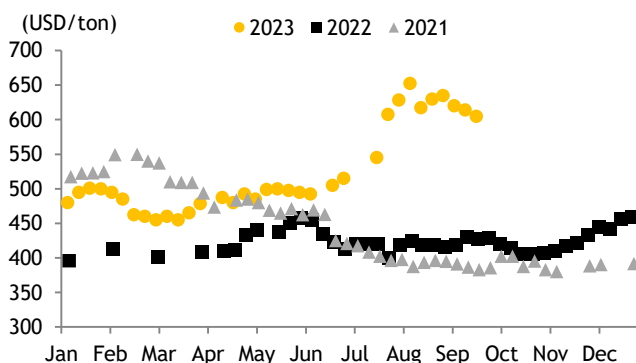
**Fig 7: Thailand farm output by season (% of annual output)**

(% of annual output)	2023												2024									
Crop	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Rice - main crop								0	8	8	8	64	8	1	1	0	0	0				
Rice - 2nd crop		11	32	30	16	8	3	1	0	0												
Rubber	11	7	3	2	5	8	9	10	10	11	11	13										
Durian	1	1	6	21	16	20	16	8	5	2	2	2										
Palm	10	10	10	9	9	8	8	8	8	7	7	7										
Cassava											4	6	10	18	20	22	7	4	2	2	2	3
Sugarcane												19	34	28	18	1						
Maize						0	1	2	11	21	35	17	2	1	5	5	1					

Source: OAE, MST

The peak harvest season for rice is 4Q when 80% of the main rice crop is harvested. While the Office of Agricultural Economics estimates that the main rice output will decline by 3.3% YoY to 25.76m tonnes, we believe the lower volume will be more than offset by higher rice price. With lower output globally due to El Nino impact and following India’s rice export ban, we have seen the price of Thai White Rice 5% rise to USD600-650/tonne compared to just USD400-450/tonne at the same time last year. Even if prices were to decline, we believe the value of rice harvest will increase by at least 10% YoY and possibly much more.

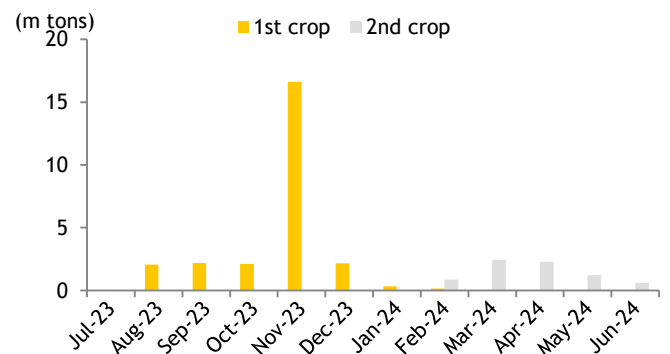
**Fig 8: Rice price has been increasing**



Source: Refinitiv, MST

Note: based on Thai white rice 5%

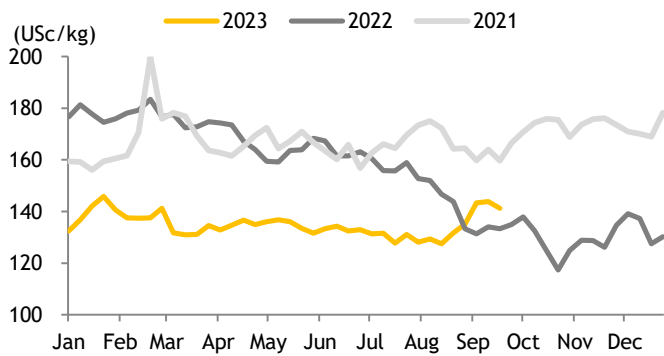
**Fig 9: Thai rice output (2023-24E)**



Source: OAE, MST

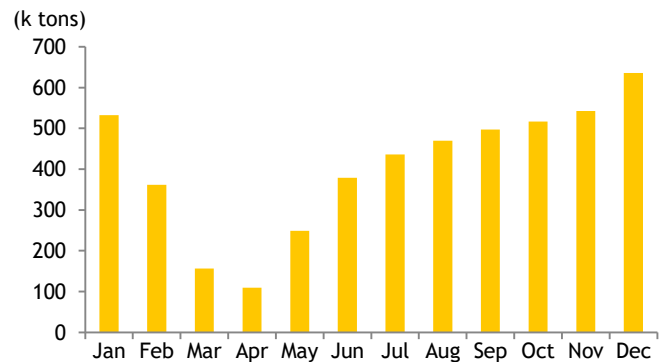
Likewise, we expect the harvest value for rubber to increase significantly YoY starting from September due to pricing. Based on SICOM TSR20 contract, rubber price has already increased by about 7% over the past month. It is now also 6% higher than during the same period last year. Additionally, the OAE expects rubber output to increase slightly (1.2% YoY) as more rubber plants mature.

**Fig 10: Rubber price recovering from low level**



Source: Refinitiv, MST  
 Note: based on SICOM TSR20 price

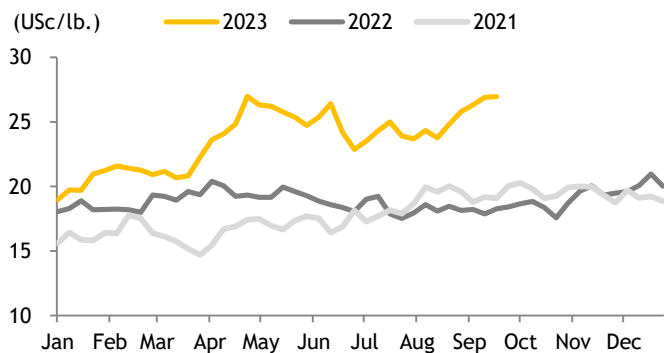
**Fig 11: Expected rubber output 2023E**



Source: OAE, MST

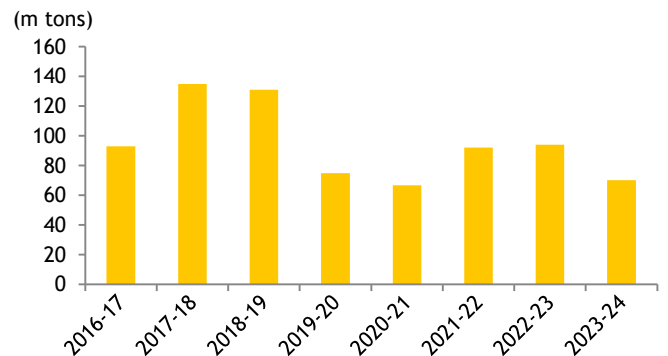
The only crop that could be a drag on 4Q23E farm income is sugarcane. This is driven mainly by sharply lower production volume due to El Nino and drought. Thailand’s Office of the Cane and Sugar Board forecasts that the upcoming crop (December-March) could be as low as 70m tonnes compared to over 90m tonnes during the last harvest. Price-wise, sugar farmers are expecting about THB1,300/tonne of sugar cane, up from THB1,080/tonne for the last crop. Despite this price increase, total farm income from sugar cane is likely to decline by 9% from last year.

**Fig 12: Sugar price on the rise, to support sugarcane price**



Source: Refinitiv, MST  
 Note: based on ICE Sugar No. 11 contract

**Fig 13: Sugarcane output**



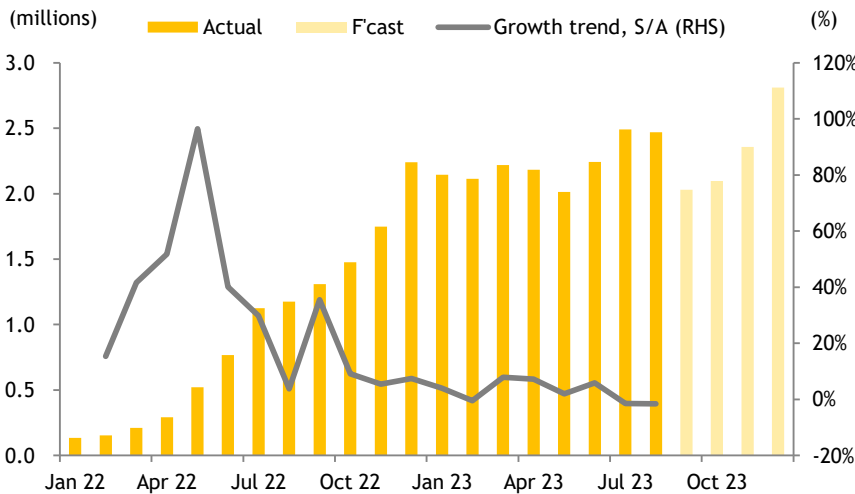
Source: OCSB, MST

### 3. Entering high season for tourism

#### 3.1 QoQ growth in arrivals in 4Q23

We expect improved tourist arrival numbers in 4Q23E. Even assuming normal seasonality with no low-base effect (that, is no above-trend growth), we forecast tourist arrivals to reach 7.26m in 4Q23E, up 4% QoQ from 6.99m in 3Q23E. This would also represent a growth rate of 33% from the same period last year.

**Fig 14: Thailand tourist arrivals**



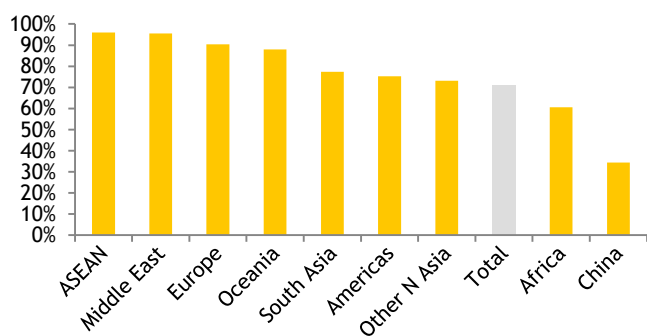
Source: MOTS, MST

#### 3.2 Higher spenders to partially offset slower volume growth

Additionally, we see potential for tourism receipt to grow faster than tourist arrivals number. This is because we are seeing faster recovery / growth rate for tourists from higher-spending regions, including the Middle East, Europe, and Oceania. For example, tourists from the Middle East spent an average of THB80k per trip vs THB47k total average (based on 2019 data), and the number of tourist from the Middle East has already reached 96% of pre-COVID level. Similarly, tourists from Europe and Oceania spent well above average at THB 66k and 70k, respectively. Tourists from these regions have already recovered to 90% and 88%, respectively, of pre-COVID levels. As such, while the total arrival number may not see accelerating growth and the relatively low number of Chinese tourists remains a concern, we think the tourism receipt (and therefore income for workers in the industry) will still recover strongly.

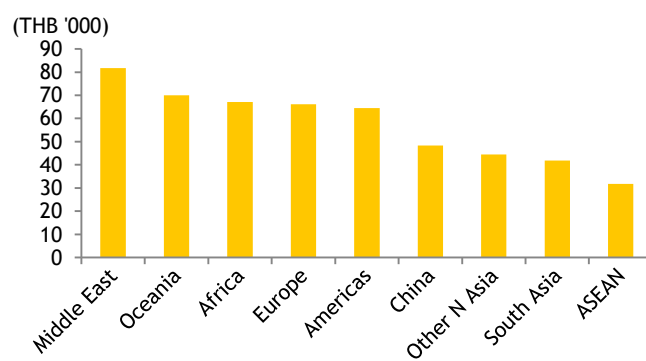


**Fig 15: Tourist arrivals by region, % of 2019 level**



Source: MOTS, MST

**Fig 16: Tourist spending per head (2019 data)**



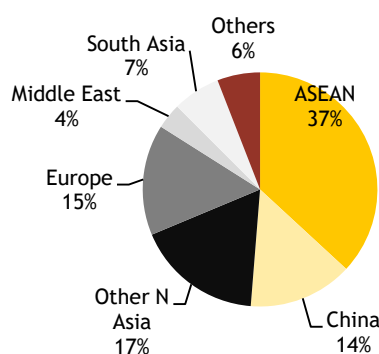
Source: MOTS, MST

### 3.3 We forecast 27m and 35m tourist arrivals in 2023/24E

For full-year 2023E, we maintain our forecast at 27m tourist arrivals. There may be potential upside risks from visa waiver programme for tourists from China and Kazakhstan from 25 September 2023 to 29 February 2024. However, we believe the arrival figure that the government touts (30m) is unlikely to be reached. For one, we believe travelers may have already made plans for trips during the up-coming high season. For another, we think Chinese tourists may still be cautious on Thailand given recent bad publicity.

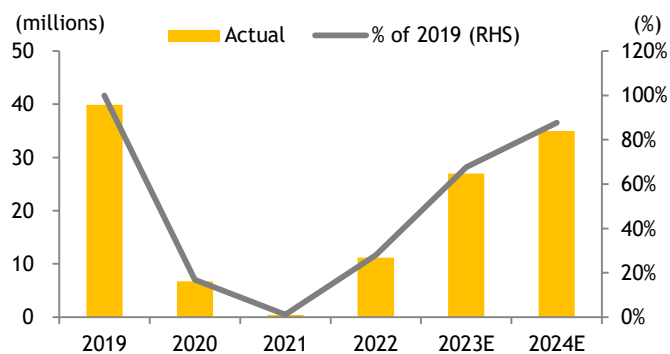
We have previously trimmed our expectation for tourist arrivals in 2024E to 35m from 40m mainly due to slower-than-expected tourist arrivals from China. However, we remain hopeful that the measures above will have positive impacts in 2024E, especially if the government is willing to extend the visa-free period and promote Thailand more actively in China.

**Fig 17: Tourist arrivals breakdown August 2023**



Source: MOTS, MST

**Fig 18: Tourist arrivals forecast**



Source: MOTS, MST

## 4. Policy plays

Besides the income boost from farming and tourism, we expect government disbursement and policy support to start having meaningful impact from October onwards. The government has already announced energy price reduction; we estimate lower electricity and diesel prices will already total THB51b or 0.9% of GDP in September-December 2023E. We expect to see minimum wage hike to THB400/day (from nationwide average of THB340/day now) by November. Additionally, THB10,000 cash handout will be implemented early next year. We think this will help jumpstart the economy and create a momentum that could last through the rest of 2024.

### 4.1 CPALL, COM7 are top BUYs for stimulus measures

We think the biggest beneficiaries of the government stimulus measures are CPALL and COM7. CPALL is likely to benefit the most as it has the widest retail footprint nationwide. Combining 7-Eleven, Makro and Lotus stores, CPALL operates nearly 17,000 retail outlets nationwide. This averages out to about 30 sq.km. coverage for each store. As the government will require the cash handout to be spent within 4km radius of each recipient's registered residence, we estimate that each of this roughly 50 sq.km. area is served by around 1.65 CPALL retail stores, on average. This makes it the only retailer that could potentially reach every corner of the country (essentially 165% coverage). By contrast, the No.2 player (BJC) has only 2,000 stores nationwide, giving it about 20% coverage by area. The next two players are COM7 and CRC with almost 1,300 stores and 900 stores, respectively. This gives them about 13% and 9% area coverage, respectively.

On the other hand, home improvement operators only have around 1% or less of coverage by area, and are unlikely to benefit much from the cash handouts so long as the 4km radius spending limit is enforced. Even if population density in the areas they serve is high, we strongly doubt they can reach a significant portion of the population given the 4km radius limit.

We recognize that our calculation is only a rough estimate as population is not equally distributed nationwide. However, we note that Thailand is still largely a rural country (only about 50% urbanized), and as such the wide geographical footprint will play an important role here more than other, more urbanized countries. For more discussion on potential short-term stimulus measures, see our report [Thai Market Compass - Renewed Hope, 22 August 2023](#) for details.

**Fig 19: Retailer footprint**

Retailer	Store count	Sq.km. per store *	Stores w/in each 4km radius
CPALL	16,867	30	1.65
BJC	2,000	257	0.20
COM7	1,285	399	0.13
CRC	882	582	0.09
HMPRO	116	4,423	0.01
GLOBAL	79	6,495	0.01
DOHOME	21	24,434	0.00

Source: Company data, MST

Note: \*based on Thailand's total land area of 513,120 sq.km.

Besides the potential uplifts from the government stimulus, we note that CPALL is already seeing above-average SSSG. Its 3QTD SSSG at 7-Eleven stores is 1-2% whereas those of Makro are 4-7%. This compares favourably to other retail operators, especially the home-improvement stores that continue to struggle with negative SSSG.

**Fig 20: Retail sector SSSG; consumer staples saw better SSSG than that of home-improvement names**

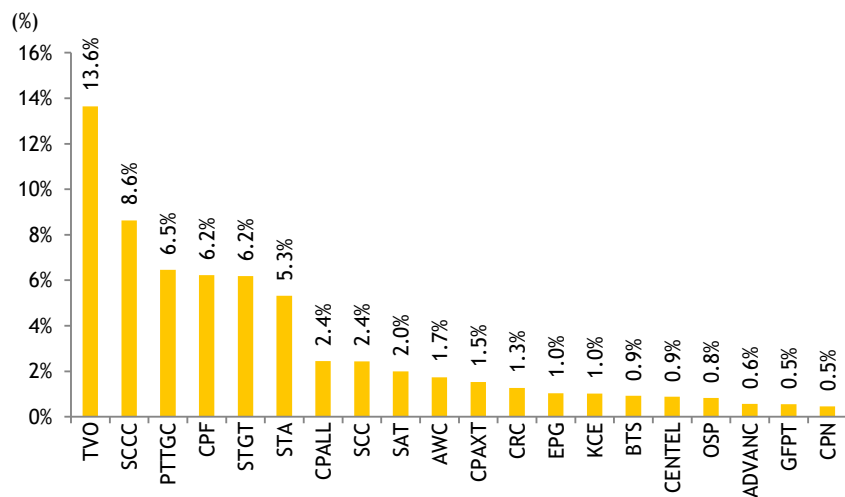
	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3QTD
7-Eleven	2.1%	-9.2%	1.3%	13.0%	14.2%	22.1%	15.0%	8.0%	7.9%	1-2%
Makro	6.1%	1.3%	4.1%	1.0%	7.4%	8.9%	9.6%	10.9%	6.0%	4-7%
Lotus's	n.a.	n.a.	-6.1%	0.5%	-2.1%	0.0%	2.4%	0.8%	-0.9%	1-2%
Big C	-14.3%	-6.6%	-0.1%	2.9%	5.2%	-2.4%	2.3%	1.6%	4.8%	1-2%
HomePro	13.7%	-11.0%	11.0%	3.1%	-1.1%	17.8%	2.9%	5.8%	4.9%	-1-3%
Global	35.0%	12.6%	15.0%	7.4%	1.5%	4.3%	-2.2%	-8.7%	-9.5%	-6-9%
Dohome	23.6%	14.9%	40.6%	25.1%	10.8%	6.6%	-9.8%	-9.0%	-9.8%	-6-9%

Source: Company, MST

## 4.2 Beneficiaries of electricity tariff reduction

We have previously written about companies likely to be negatively impacted by energy price reductions, with PTT, BGRIM, GPSC, and PTG likely to bear the brunt of the burden (see our report *Thailand Energy Sector - Quantifying subsidy risks*, 1 Sep 2023 for details). Here, we take a look at potential beneficiaries. Based on electricity purchase data from Refinitiv and assuming THB0.46/kWh electricity tariff reduction during the September - December 2023 period, we estimate the following for earnings impact in 2023E.

**Fig 21: Electricity cost savings as % of 2023E profit**



Source: Refinitiv, MST

Note: Assume THB 0.46/kWh electricity tariff reduction for Sep-Dec 2023

The companies likely to benefit the most from potential electricity tariff reduction (5% or more potential uplift to 2023E profit) are Thai Vegetable Oil (TVO TB, Not Rated), SCCC, PTT Global Chemical (PTTGC TB, Not Rated), CPF, Sri Trang Glove (STGT TB, Not Rated) and Sri Tran Agro (STA TB, Not Rated). We also estimate CPALL, SCC and SAT will see about 2% positive impact to their bottom line. Note that the list above were compiled from companies that report electricity consumption data to Refinitiv only and are not meant to be exhaustive.

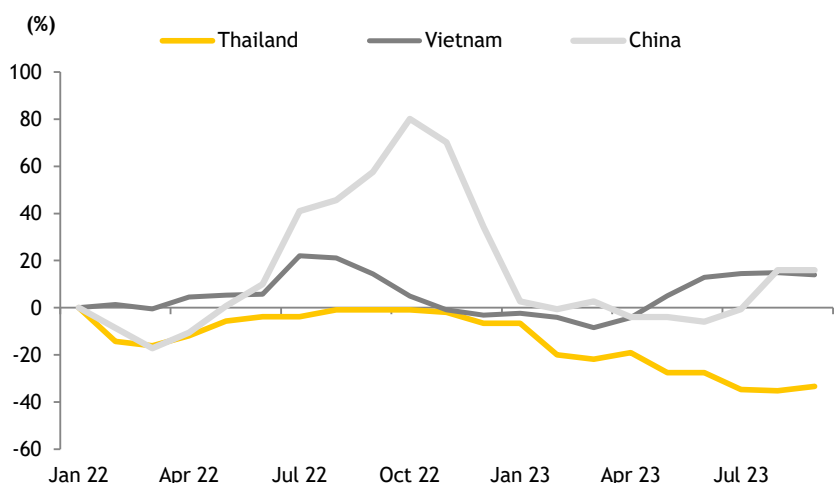
### 4.3 Turnaround plays

Another group of stocks where we see potential to deliver strong outperformance is the turnaround play: CPF and TRUE.

#### CPF to benefit from rising swine prices, lower feed costs

We expect CPF to deliver better results from 3Q23E onwards, driven by swine price increases in China and Vietnam as well as lower feed costs. Prices in China have started to recover since May and is now up about 20% compared to Jan 2022 level. Prices in Vietnam have also begun to recover since August; it is now also about 20% higher than its level in Jan 2022. While price in Thailand remains under pressure, we believe it has already bottomed out as THB70/kg is now below production cost for most small producers. We expect lower illegal import of swine products will lead to gradual improvement in domestic swine price. See our report *CPF - On the recovery path*, 11 Sep 2023 by Suttatip Peerasub for details.

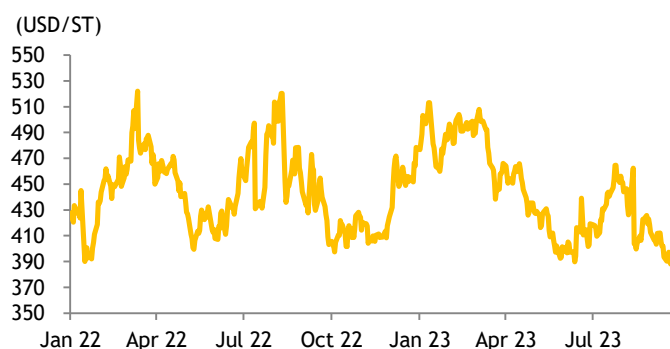
**Fig 22: Change in swine prices (indexed to Jan 2022 level)**



Source: Company, MST

Additionally, we have begun to see raw material costs declining. Soybean meal price has fallen from its recent peak and is now at the lowest level in almost 2 years. Similarly, corn price has fallen to under USD500/bu., well below its recent levels of USD650-700/bu. We believe lower raw material costs will become more evident in 3Q23E and thereafter.

**Fig 23: Soybean meal price**



Source: Refinitiv, MST

**Fig 24: Corn price**

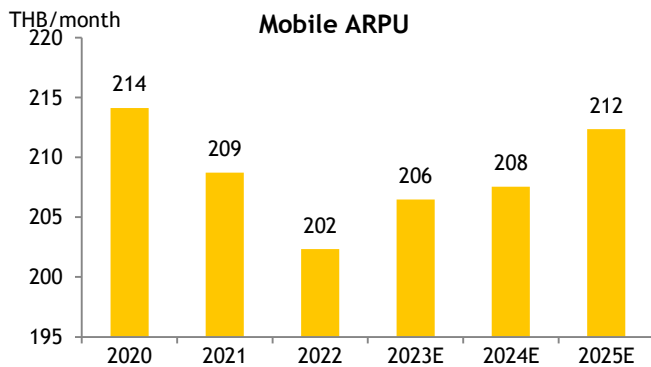


Source: Refinitiv, MST

### TRUE's earnings driven by lower competition, cost synergies

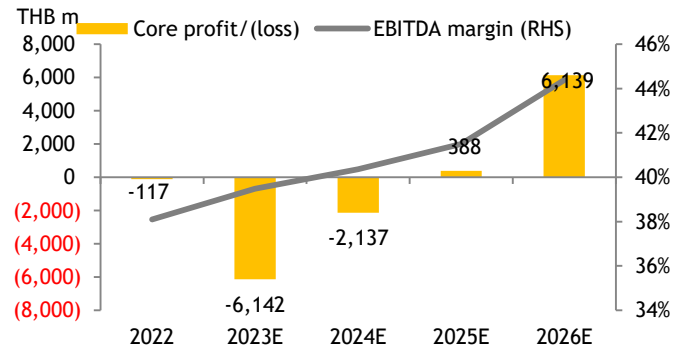
We also believe TRUE will continue to see EBITDA improvement on the back of lower competition (higher ARPU, marketing cost savings) and synergy benefits post-merger with DTAC. We expect ARPU to recover starting this year and improvement is likely to continue over the next two years. This is driven by lower competition where we have already seen price increases by both ADVANC and TRUE. Coupled with cost synergies with DTAC, we expect TRUE's core loss will continue to narrow in the coming quarters. We forecast TRUE to turn profitable by 2025E.

Fig 25: TRUE mobile ARPU



Source: Company, MST

Fig 26: TRUE core net profit



Source: Company, MST

## 4.4 Value plays

Banks and energy remain the core value plays in the SET Index. We continue to expect strong results from banks, driven by NIM expansion. Our top picks in the sector are BBL and KTB. For energy, we think the recent pull-back in oil price and gross refining margin is due to normal seasonality impact and expect winter demand from late October to drive energy prices higher once again. Our top picks remain BCP and PTTEP.

Fig 27: Our top picks

Bloomberg code	Mkt cap (USDm)	Rating	Price (THB)	TP Upside (THB) (%)	EPS grw. (%)		P/E (x)		P/B (x)		ROE (%)		Div yld (%)	
					23E	24E	23E	24E	23E	24E	23E	24E		
BCP TB	1,646	BUY	41.25	49.00 18.8	-66.3	35.6	9.4	6.9	1.0	0.9	11.2	14.2	5.3	7.2
PTTEP TB	18,289	BUY	166.50	194.00 16.5	-14.4	-2.5	8.5	8.7	1.3	1.3	16.1	14.8	6.1	5.9
BBL TB	8,741	BUY	165.50	200.00 20.8	32.9	7.6	8.1	7.5	0.6	0.6	7.5	7.6	3.9	4.2
KTB TB	7,192	BUY	18.60	22.00 18.3	12.8	6.7	6.8	6.4	0.6	0.6	9.7	9.7	4.4	4.7
CPALL TB	15,161	BUY	61.00	79.00 29.5	32.0	22.9	31.2	25.4	4.9	4.4	16.5	18.3	1.6	1.9
CPF TB	4,721	BUY	20.70	25.60 23.7	n.m.	n.m.	n.m.	28.3	0.7	0.7	0.2	2.6	0.0	2.2
COM7 TB	2,095	BUY	31.75	37.00 16.5	13.3	18.2	22.2	18.8	8.6	6.7	42.6	40.1	2.0	2.4
TRUE TB	7,170	BUY	7.50	8.00 6.7	n.m.	65.2	n.m.	n.m.	2.9	3.2	-6.3	-4.3	0.0	0.0

Source: Company data, MST

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