

Central Pattana (CPN TB)

Leading retail-led developer with healthy profit growth

Initiate with BUY and DCF-based TP of THB75

We initiate coverage on CPN with a BUY rating due to healthy profit growth and cheap valuation (P/E at discounts to long-term mean and peer multiples). Post-Covid recovery in retail and hotels should boost net profit growth to 29% in FY23E. Then, we forecast FY23-27E net profit CAGR of 8% with potential upside from mixed-used developments. We have a DCF-based TP of THB75 (6.9% WACC, 2.9% terminal growth).

Strong post-Covid recovery in FY23E

We forecast net profit growth of 29% in FY23E on the back of 25% revenue growth and margin expansion. Revenue growth drivers are post-Covid recovery of retail and hotel businesses and 91% increase in residential transfers. FY23E retail revenue (81% of revenue) should grow by 19% thanks to the decrease in rental discount to 3% in FY23E from 12% in FY22.

New malls and hotels to drive long-term growth

We forecast FY23-27E net profit CAGR of 8% on i) retail rental hikes of 3% pa, ii) new malls, and iii) hotel expansion (CPN aims for 5,900 rooms in FY27E, up from 860 rooms in FY22). We believe CPN can leverage its shopping malls as magnets for the surrounding areas; hence, the company can utilise idle land plots around its malls to develop residential projects and hotels. We believe CPN's Centre of Life concept (mall, condo, hotel and MICE activities in one location) and migration from low-end to premium products in malls help differentiate it from other mall operators.

Cheap valuation with upside risks to our forecasts

CPN's FY23E P/E of 21x is lower than Thai retail peers' average of 28x while its core EPS FY22-25E CAGR of 16% is higher than the peers' average of 15%. CPN is also cheaper than its sister company, CRC. CPN's FY23E P/E of 21x and 3-year core EPS CAGR of 16% imply a PEG ratio of 1.3x, lower than CRC's 1.5x (based on BB consensus). Upside risks to our earnings forecasts are four mixed-used projects (Wireless Road, Phahoyothin 24, Siam Square and Rama 9) in Thailand and greenfield projects in Vietnam.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	24,840	35,575	44,485	47,521	52,182
EBITDA	14,188	20,988	25,277	27,884	29,236
Core net profit	4,712	10,594	13,911	15,340	16,533
Core EPS (THB)	1.05	2.36	3.10	3.42	3.68
Core EPS growth (%)	(35.0)	124.8	31.3	10.3	7.8
Net DPS (THB)	0.60	1.15	1.39	1.54	1.66
Core P/E (x)	53.8	30.1	20.7	18.8	17.4
P/BV (x)	3.5	3.9	3.1	2.8	2.6
Net dividend yield (%)	1.1	1.6	2.2	2.4	2.6
ROAE (%)	10.1	13.9	16.0	15.9	15.6
ROAA (%)	1.9	4.0	4.9	5.2	5.5
EV/EBITDA (x)	23.8	19.1	14.8	13.4	12.5
Net gearing (%) (incl perps)	91.0	82.2	77.0	69.5	57.4
Consensus net profit	-	-	12,698	14,198	15,200
MIBG vs. Consensus (%)	-	-	9.5	8.0	8.8

Wasu Mattanapotchanart
wasu.m@maybank.com
(66) 2658 5000 ext 1392

BUY

Share Price THB 64.25
12m Price Target THB 75.00 (+17%)

Company Description

Thailand's largest commercial developer for rent - large-scale shopping complexes, office buildings, hotels & residentials.

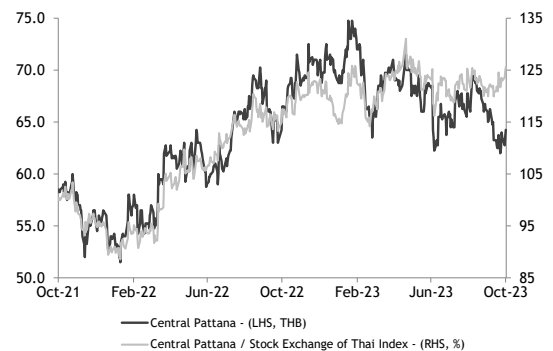
Statistics

52w high/low (THB)	74.75/62.00
3m avg turnover (USDm)	11.3
Free float (%)	62.8
Issued shares (m)	4,488
Market capitalisation	THB288.4B USD7.9B

Major shareholders:

CENTRAL HOLDING CO., LTD.	26.2%
THAI NVDR CO., LTD.	7.9%
STATE STREET EUROPE LTD	2.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(2)	(3)
Relative to index (%)	3	5	7

Source: FactSet

Other companies mentioned in this note

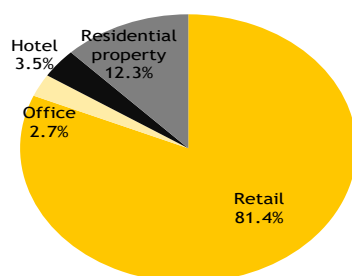
CRC - Central Retail Corporation (CRC TB, CP THB39.25, not rated)

Value Proposition

- CPN is the leading retail developer in Thailand with 22% retail market share based on gross leasable area.
- In 2Q23, Thailand had 4.7 shopping malls per 1m urban population, lower than developed Asian countries' average of 6.1 malls
- The company is becoming a retail-led mixed used developer, by building office, residential projects and hotels around its shopping malls.
- Shopping malls then act as traffic magnets for other assets.
- CPN is a play on consumption recovery in Thailand.

Revenue breakdown in FY23E

Revenue breakdown in FY23E



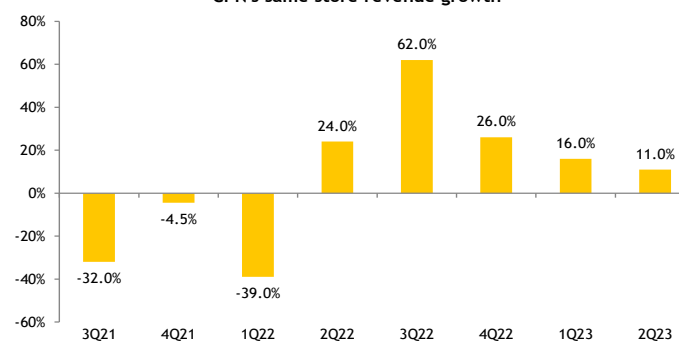
Source: Company, MST

Financial Metrics

- Thanks to post-Covid recovery, CPN's same store revenue growth has been in double-digit territory since 2Q22. 2Q23 same store revenue growth was 11%.
- In 2022, its office business had the highest gross margin of 73%, followed by hotel's 70%, retail's 49% and residential property's 33%.
- CPN had 2Q23 net gearing of 0.85x, below the internal policy of 1.0x ceiling and the debt covenant of 1.5x.
- Long-term earnings growth will be driven by i) retail rental hike, ii) new malls, and iii) hotel expansion.

Same store revenue growth

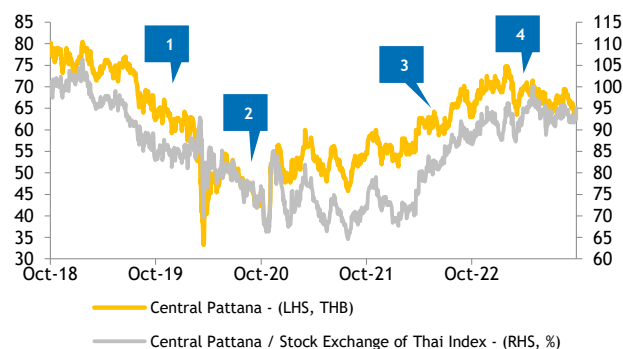
CPN's same store revenue growth



Source: Company

Price Drivers

Historical share price trend



Source: Company, MST

- GDP growth slowdown and weak consumption hurt the stock market.
- Lockdown and social-distancing measures hurt CPN's performance during waves of Covid-19 outbreak.
- Thanks to post-Covid recovery, CPN's same store revenue growth turned positive in 2Q22.
- Retail rental discount has already reached a normalised level of 3-4% in 1H23. Also, tourism recovery has been slower than the street had expected.

Swing Factors

Upside

- Four mixed-use projects in Thailand (Wireless Road, Phahonyothin 24, Siam Square and Rama 9).
- Greenfield projects in Vietnam.

Downside

- Rising office supply in Bangkok, which might lead to weaker-than-expected office revenue.
- Recession.
- Political instability.

Risk Rating & Score ¹	16.1
Score Momentum ²	-0.2
Last Updated	29 Nov 2022
Controversy Score ³ (Updated: 29 Nov 2022)	No Evidence of Controversies

Business Model & Industry Issues

- CPN reports detailed results of ESG measurements. It has also announced clear long-term goals of GHG emission reduction and elimination of corruption problems.
- In 2022, its Scope 1 and 2 GHG emission intensity was 34% lower than its 2019 level. The challenge is further reduction of emission intensity from FY23E onwards when Covid-19 is no longer a threat to opening hours.
- CPN found 20 code of conduct breaches in 2022 as a result of a more thorough auditing. It aims to reduce corruption to zero cases.

Material E issues

- CPN targets to reduce Scope 1 and 2 GHG emission intensity by 30% from the 2019 level and become a net-zero emission organisation by 2050.
- CPN complies with international standards of environmental management (ISO 14001), greenhouse gas management (ISO 14064-1), energy management (ISO 50001), and Leadership in Energy and Environmental Design (LEED).
- In 2022, CPN released Scope 1 and 2 GHG emissions of 241,336 tCO₂e, 24% lower than the 2019 level. Its GHG emission intensity was 61 kgCO₂e per sqm, 34% lower than 2019 level.
- CPN targets to increase the use of recycled water to 20% of total water consumption, up from 6% in 2021-22.

Material S issues

- CPN provides fair and proper treatment of employees in compensation, job assignments, job transfers and competency development. In 2022, CPN provided 390 training courses, up from 339 in 2021 and 310 in 2020.
- It also ensures workplace safety. Number of fatalities as a result of work-related injury has been 0 in 2020-22.
- In 2022, CPN conducted two employee engagement surveys with a 76% engagement score. It also carried out the Employer of Choice plan, including its Build & Buy program, which helped fill 30% of vacant positions through internal recruitment.
- In 2022, employees contributed 26,426 hours of volunteer service, lower than 28,000 hours in 2021 due to closure of some Provincial Vaccination Centers.

Key G metrics and issues

- In 2022, there were 22 people in the top management team; 15 were male, and seven female.
- There were 12 board members, of whom one was an executive director and four were independent directors. Four directors were females. Seven board members were from the Chirathivat family. The average board meeting attendance was 99% in 2022.
- CPN paid THB78m in salaries and provident fund contributions to the top seven executives, which accounted for 0.7% of FY22 net profit. KPMG has been CPN's auditor.
- CPN has communicated its Code of Business Conduct to stakeholders, including employees, contractors/suppliers, subsidiaries and joint ventures.
- The company had no pending legal action related to anti-competitive behaviour. It also had no disputes, litigation or complaints in environmental, social and corporate governance issues.
- In 2022, CPN become stricter about Human Rights Due Diligence. An internal auditing found 20 code of conduct breaches. The company is determined to reduce corruption within the organisation to zero cases.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 53)						
	Particulars	Unit	2020	2021	2022	CPALL TB (2022)
E	Scope 1 GHG emissions	tCO2e	6,959	2,662	2,068	435,377
	Scope 2 GHG emissions	tCO2e	248,747	188,937	239,267	1,501,380
	Total	tCO2e	255,706	191,599	241,336	1,936,757
	Scope 3 GHG emissions	tCO2e	417,719	288,585	365,140	13,191,695
	Total	tCO2e	673,425	480,184	606,476	15,128,452
	Scope 1 & 2 CO2 intensity	tCO2e/sqm	71.6	50.7	61.3	0.37
	Energy intensity	kWh/sqm	111.2	104.8	127.2	706
	Renewable energy consumption as % of total energy consumption	%	3.1%	4.5%	4.4%	3.3%
	Water withdrawal intensity	cu.m/sqm	1.0	0.7	0.8	3.57
	Recycled water as % of total water withdrawal	%	5.0%	6.0%	5.9%	2.1%
S	Waste diverted from landfill	%	5%	10%	28%	73.8%
	Recycled water as % of total water withdrawal	%	5.0%	6.0%	5.9%	2.1%
	Waste diverted from landfill	%	5%	10%	28%	73.8%
	% of women in workforce	%	51.3%	49.2%	50.0%	64.5%
	% of women in management roles	%	31.6%	33.3%	31.8%	36.8%
G	Lost time injury frequency rate (LTIFR)	case/1m hours	0.24	0.06	0.09	1.65
	Employee training hours	hours/person	11.00	25.0	10.0	30.20
	Voluntary turnover	%	8.8%	10.0%	15.7%	52.0%
	Compensations to the top management as % of net profit	%	NA	0.8%	0.7%	1.3%
G	CG score by the National CG Committee	%	>90%	>90%	>90%	>90%
	Independent directors on board	%	33%	33%	33%	38%
	Women directors on board	%	16.7%	16.7%	33%	6%

Qualitative Parameters (Score: 83)	
a) Is there an ESG policy in place? Is there a standalone ESG Committee or is it part of the Risk committee?	<i>Yes, there is an ESG policy in place, and there is a Corporate and Sustainability Committee which reports to the Audit and Corporate Governance Board Committee.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No.</i>
c) Does the company follow the TCFD framework for ESG reporting?	<i>Yes.</i>
d) Does the company have a mechanism to capture Scope 3 emissions? Which parameters are captured?	<i>Yes - purchased goods and services, wastes generated in operations, business travel, waste transportation, electricity sold to tenants, and LPG sold to tenants</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>1) increase the share of renewable energy to 20% of total energy consumption by 2030 (vs 4.9% in 2022), and ; 2) reduce the amount of waste sent to landfill in half (28% of the total waste diverted from landfill).</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes, the company as part of its 2050 net zero target has committed to reforestation and biodiversity by joining the 1m trees movement across Thailand by 2030.</i>

Target (Score: 100)		
Particulars	Target	Achieved in 2022
Reduce Scope 1 & 2 emissions by 30% by 2030, base year 2019	-30%	23%
Increase the share of renewable energy as % of total energy consumption in 2030, base year 2019	20%	5%
Reduce energy consumption by 30% by 2030	-30%	9%
Waste diverted away from landfill by 50% by 2025	50%	28%
Increase share of water reuse to 30% by 2030	30%	6%
Certified green buildings at 20% of total assets	20%	2%
Net Zero GHG emission by 2050	Yr 2050	N/A
Impact		
NA		
Overall Score: 72		
As per our ESG matrix, Central Pattana (CPN TB) has overall score of 72.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	53	26
Qualitative	25%	83	21
Target	25%	100	25
Total			72

As per our ESG assessment, CPN has an established framework, transparent reporting, and tangible mid to long-term targets. The company's overall ESG score is 72, which is the second-highest score among the retailers under MST's coverage (behind HMPRO) and above Maybank universe's average ESG score of 50).

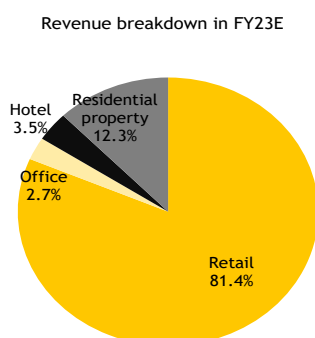
1. Investment thesis

1.1 Healthy profit growth in FY23-27E

Post-Covid recovery to boost FY23E profit growth to 29%

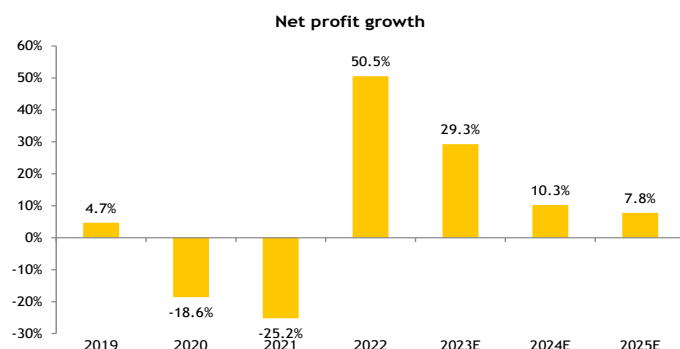
We forecast core profit growth of 29% in FY23E on the back of 25% revenue growth and margin expansion. The strong revenue growth should stem from i) post-Covid recovery of retail and hotel businesses and ii) increase in residential transfer. We forecast FY23E revenue in retail/hotel/residential businesses to grow by 19%/72%/91%.

Fig 1: Revenue breakdown in FY23E



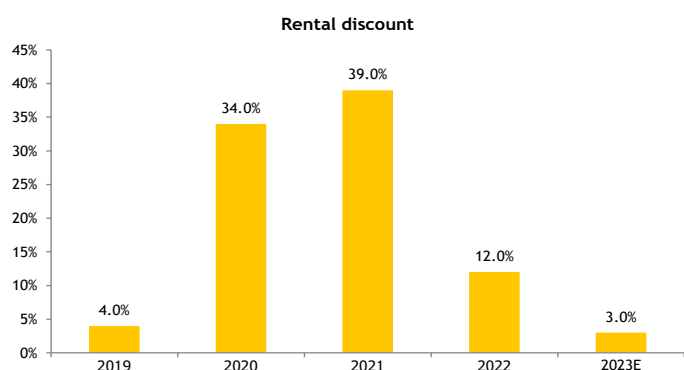
Source: Company, MST

Fig 2: We forecast net profit growth of 29% in FY23E



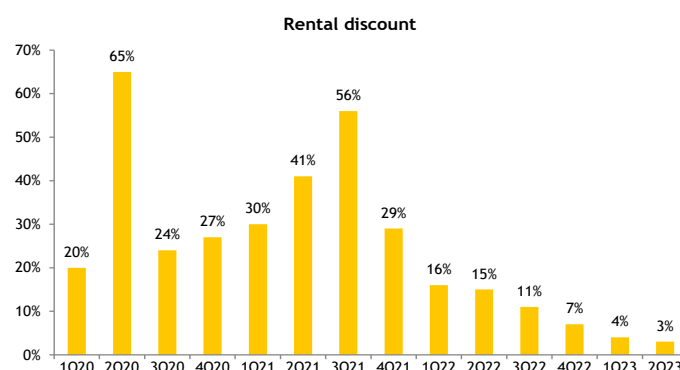
Source: Company, MST

Fig 3: We forecast retail rental discount to normalise at 3% in FY23E



Source: Company, MST

Fig 4: Quarterly retail rental discount



Source: Company, MST

Expect FY23-27E net profit CAGR of 8%

After the 29% net profit growth in FY23E, we forecast FY23-27E net profit CAGR of 8% on the back of 8% revenue CAGR over the same period. The revenue growth should be supported by i) organic growth and asset enhancement, ii) new mall openings, and ii) aggressive expansion in non-retail businesses that complement its shopping malls. By the end of FY23E, CPN will have only 10 hotels; its portfolio of 21 shopping malls outside Bangkok imply ample room for expansion.

Fig 5: Mall openings from 2H23E to FY25E

	Opening date	NLA (sqm)
Central WestVille	29-Nov-23	35,000
Central Nakhon Sawan	1Q24	29,000
Central Nakhon Pathom	2Q24	25,000
Central Krabi	4Q24	22,000
Dusit Central Park - mall	2025	80,000

Source: Company, MST

Fig 6: FY23-27E revenue CAGR by segment

	FY23E revenue	FY27E revenue	4-year CAGR
Retail	36,219	48,808	8%
Office	1,219	1,113	-2%
Hotel	1,577	7,163	46%
Residential property	5,471	5,275	-1%

Source: Company, MST

Upside risk from mixed-use developments

CPN plans to replicate its success of Central Ladprao, its first mixed-use development, in other locations. Four land plots in Bangkok are potential candidates for mixed-use projects, and we have not included these projects in our forecasts yet because the company has not announced the capex budgets and final breakdown of leasable areas. Locations of the four land plots are Wireless Road, Phahonyothin 24, Siam Square and Rama 9.

In addition to the four land plots in Thailand, CPN is exploring greenfield projects in Vietnam.

1.2 Initiate coverage with BUY and THB75 TP

We initiate coverage on CPN with a BUY (TP of THB75) call due to strong profit growth in FY23-25E, potential upside to consensus' earnings forecasts and cheap valuation.

FY24E P/E at 27% discount to the long-term mean

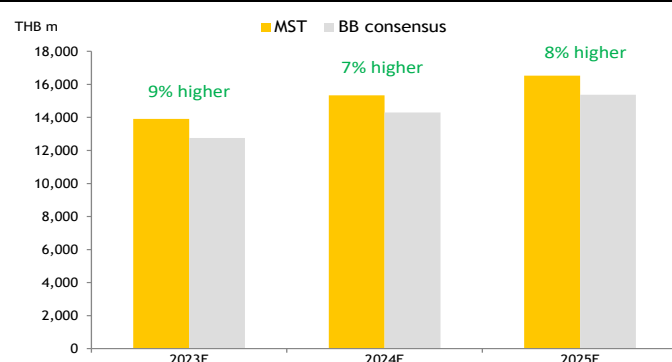
CPN is trading at FY24E P/E of 19x, 27% lower than the 5-year mean of 26x. Our earnings forecasts in FY23/24E are 9%/7% higher than the consensus' estimates.

Fig 7: CPN is trading at FY24E P/E of 19x, 27% lower than the 5-year mean of 26x



Source: SETSMART, Company, MST

Fig 8: Earnings forecasts (MST vs BB consensus)



Source: Bloomberg, Company, MST

Cheaper than global and local peers

CPN is trading at a FY23E P/E of 21x, lower than the global retail peers' average of 28x. Also, the company's core EPS CAGR of 16% is slightly higher than the global retail average of 14%.

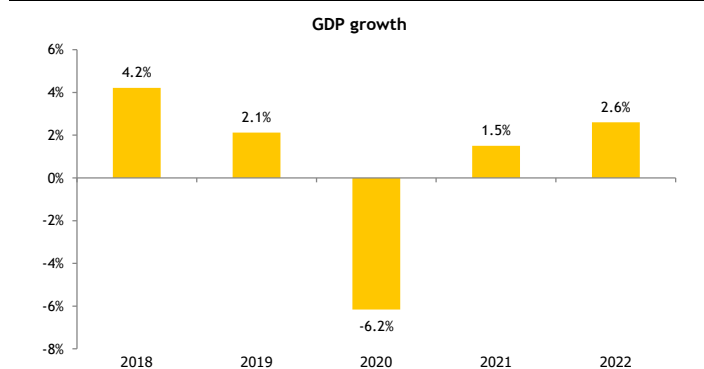
The situation is similar when we compare CPN to Thai peers. CPN's FY23E P/E of 21x is lower than Thai retail peers' average of 25x. CPN's core EPS CAGR of 16% is also higher than Thai retail average of 15%.

1.3 Risk factors are recessions and e-commerce platforms

Recessions

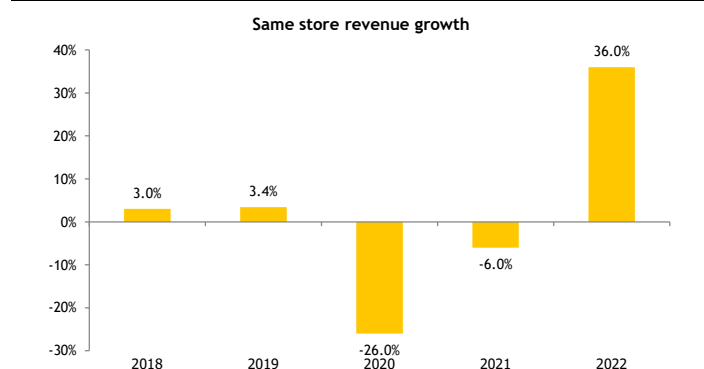
Substantial declines in consumer purchasing power could lead to decreases in occupancy and rental rates in the retail business. Historical data show that CPN's same-store revenue growth has a positive correlation with GDP growth.

Fig 9: Thailand's GDP growth



Source: BoT, MST

Fig 10: CPN's same-store revenue growth



Source: Company, MST

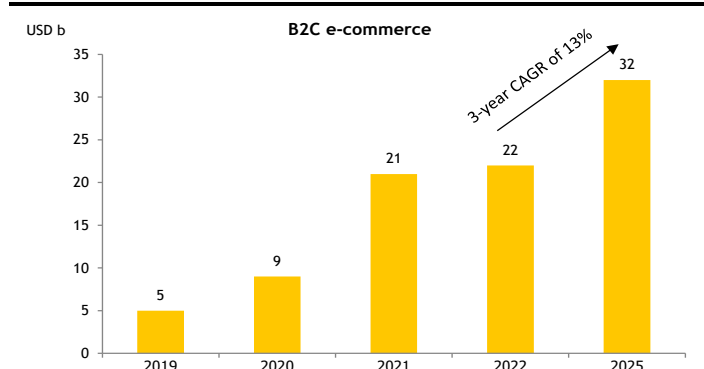
Competition with e-commerce platforms

Following the pandemic, B2C e-commerce sales as a percentage of Thailand's private consumption expenditure has risen from 2% in FY19 to 9% in FY21.

Nevertheless, we saw shoppers return to shopping malls as lockdown and social-distancing measures faded. While CPN's retail market share recovered to 0.31% in FY22 from 0.25% in FY21, e-commerce platforms saw their market share decline to 8% from 9%. We believe Thai consumers view shopping malls as lifestyle experiences (i.e. new food to try, new places to bring pets to) and getaways from hot weather.

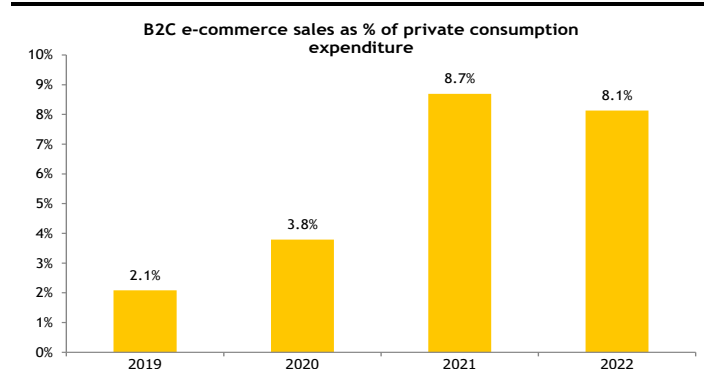
To attract customer traffic to shopping malls, CPN has differentiated its malls by implementing "Centre of Life" concept (office, residential and hotel projects complementing shopping malls) and gearing tenant shops away from low-end toward mid-scale and high-end brands. Premium products could boost foot traffics thanks to i) customers' preference to try out high-end products before purchasing and ii) quality sales services.

Fig 11: Thailand B2C e-commerce sales



Source: e-Conomy SEA 2022, MST

Fig 12: B2C e-commerce sales as % of private consumption expenditure



Source: e-Conomy SEA 2022, NESDC, MST

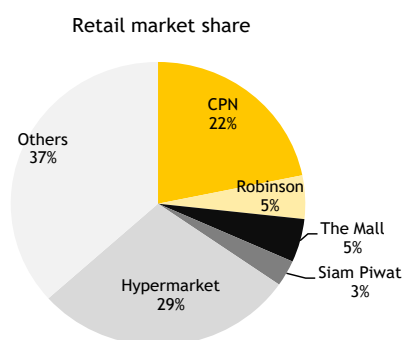
2. Corporate information

2.1 A leading retail-led property developer

Established in 1980, Central Pattana (CPN TB) built its first shopping mall, Central Ladprao in 1982 and became a SET-listed company in 1995. Thailand ended 2022 with gross leasable area of 15.1m sqm in the retail business, and CPN had the largest market share of 22%, followed by Robinson's 5%, The Mall's 5% and Siam Piwat's 3%.

Over the past 8-10 years, the company has gradually transformed into a leading mixed-use project developer by surrounding some of its retail areas (core business) with office, residential and hotel projects. At the end of 2Q23, CPN had 56 retail projects, 10 office buildings, 28 residential projects and six hotels. Of the THB10.3b revenue in FY22, 85% came from the retail business, followed by 8% from residential projects, 4% from offices and 3% from hotels.

Fig 13: Retail market share (based on gross leasable area) as of Dec 2022



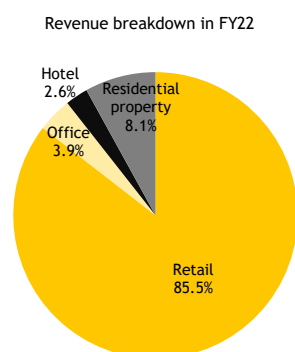
Source: Maybank IBG Research

Fig 14: CPN's property portfolio as of end-2Q23



Source: Maybank IBG Research

Fig 15: Revenue breakdown in FY22



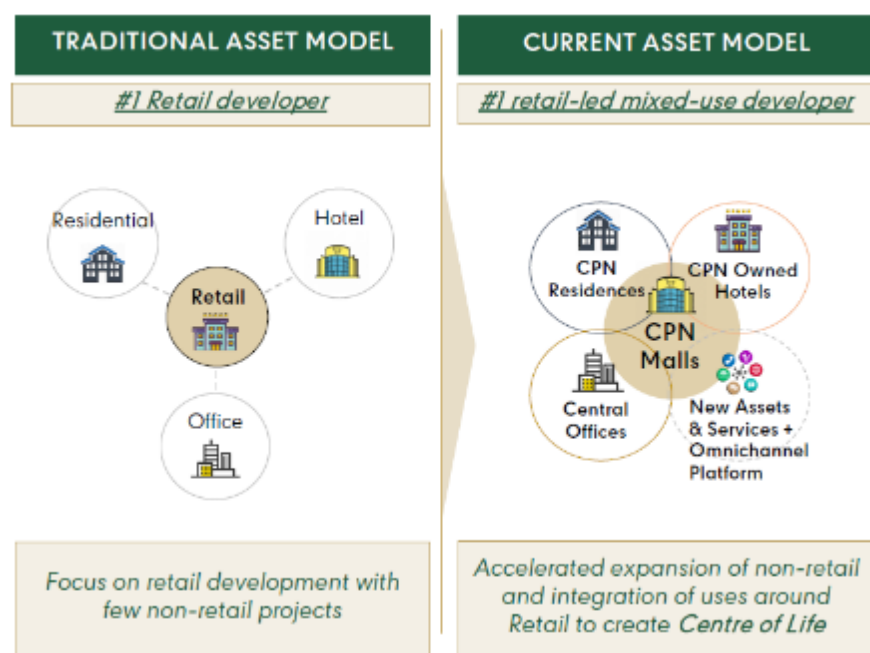
Source: Company, MST

Fig 16: Summary of retail portfolio



Note: retail NLA includes CPNREIT's space and small retail areas in office buildings
Source: Company, MST

Fig 17: Transforming into No. 1 retail-led mixed-use developer



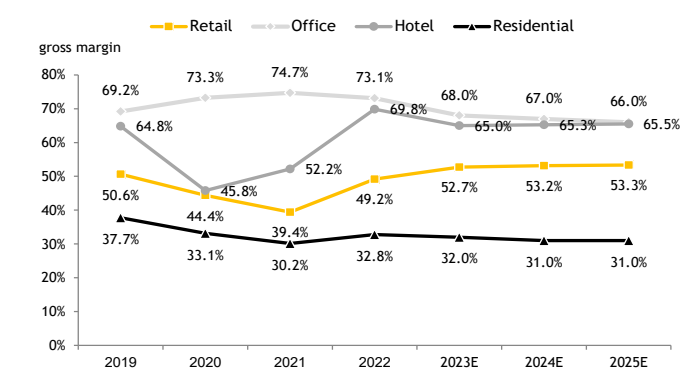
Source: Company, MST

2.2 Four businesses explained

2.2.1 Retail projects contributed 85% of FY22 revenue

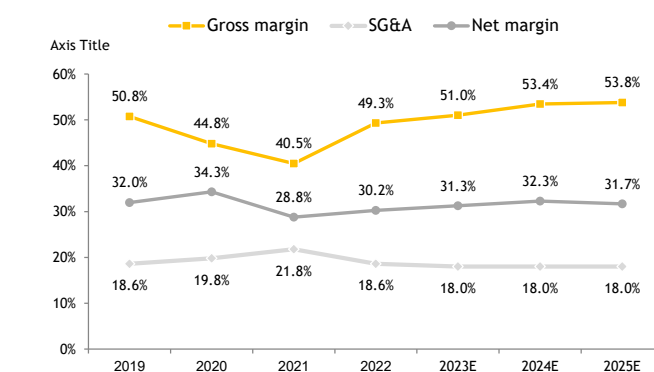
CPN's 56 retail projects, comprising 38 shopping malls, 17 community malls and one super-regional mall, had NLA of 2.3m sqm and 90% average occupancy rate at the end of 1Q23. Of the total 2.3m sqm, 1.9m sqm belonged to CPN while the remainder came from wholly-owned Siam Futures Development (0.21m sqm) and Mega Bangna (0.17m sqm). A majority of its anchor tenants are business units of Central Retail Corporation (CRC TB, CP THB39.25, Non Rated), including Central Department Store, Zen, Tops Supermarket, Power Buy, B2S, Super Sports, and Office Depot. In addition, CPN's tenants include global fashion brands (i.e. H&M, Uniqlo, Muji, and Zara), entertainment and leisure venues (i.e. Major Cineplex, SF World Cineplex, and TK Park) and food shops (i.e. McDonald's, KFC, and Auntie Anne's for food and services).

Fig 18: Gross margin by business unit



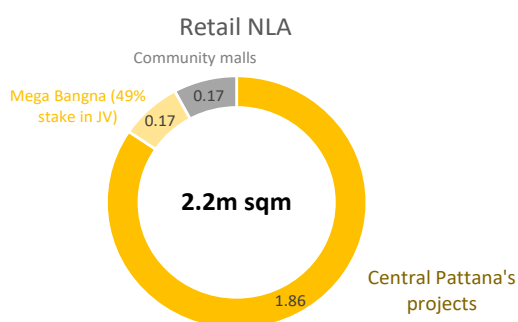
Source: Company, MST

Fig 19: Profitability ratios



Source: Company, Statista, MST

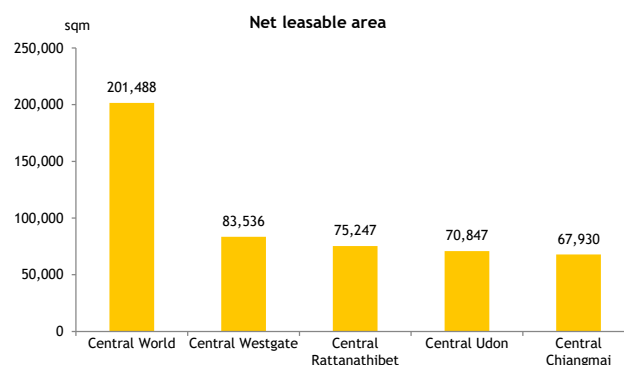
Fig 20: Breakdown of retail NLA as of end-2Q23



Note: retail NLA includes CPNREIT's space

Source: Company, MST

Fig 21: Top five Central shopping malls in terms of NLA



Source: Company, MST

As of end-FY22, the company's retail NLA (the 1.9m sqm portion that belongs to the parent company CPN) can be categorised as short-term revenue sharing (47% of total area), short-term fixed rent (41% of total area), and long-term fixed rent and lease (12% of total area).

Short-term revenue sharing (47% of retail NLA)

Short-term revenue sharing contracts (maximum duration of three years) are mainly adopted by international brands (i.e. fast fashion, café and restaurant), cinemas and food court. CPN is obligated to receive revenue shares or minimum guaranteed income, whichever is higher, from tenants.

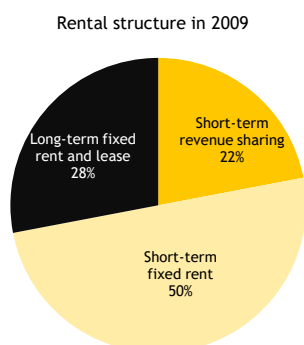
Short-term fixed rent (41% of retail NLA)

Short-term fixed rent contracts are adopted by local retailers, small-sized retailers, financial service providers, technology service providers and most specialty shops. These 3-year contracts have rental escalations of 5% pa.

Long-term fixed rent and lease (12% of retail NLA)

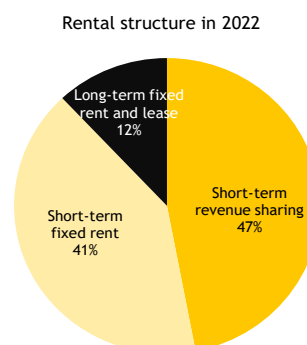
Under this category, there is long-term fixed rent (a contract of over three years with annual payment) and long-term lease (one large upfront payment for over 10 years of lease). In the distant past, CPN used upfront lease income to partially finance greenfield malls. However, the business model has changed as the company no longer offers long-term lease contracts to clients. As a result, the long-term lease proportion has dropped from 28% in FY09 to 12% in FY22.

Fig 22: Breakdown of retail rental structure at the end of 2009 (% of Central Pattana's retail NLA)



Source: Company, MST

Fig 23: Breakdown of retail rental structure at the end of 2022 (% of Central Pattana's retail NLA)



Source: Company, MST

2.2.2 Residential projects contributed 8% of FY22 revenue

CPN became active in developing residential projects in FY16 to complement the core business of shopping malls. By the end of 2Q23, the company had developed 29 residential projects, comprising 20 condominium projects and nine low-rise projects. Most condominium projects are adjacent to CPN's shopping malls while most landed properties are nearby CPN's malls (usually within a 10km radius for low-rise properties and a 5km radius for condos).

Fig 24: Residential brands

CLASS SEGMENT	Economy	Main	Upper	High	Luxury	Super Luxury
CONDO <i>Price/sqm</i>	50-70k	70-100k	100-150k	150-200k	200-300k	>300k
TOWNHOME / HOME OFFICE <i>Price/unit</i>	<2MB	2-4MB	4-7MB	7-15MB	15-30MB	>30MB
SINGLE DETACHED HOUSE <i>Price/unit</i>	<3MB	3-5MB	5-10MB	10-20MB	20-40MB	>40MB

Source: Company, MST

2.2.3 Offices contributed 4% of FY22 revenue

Office buildings, complementary to CPN's shopping malls, generated revenue from space rent (office and retail), and utilities. Out of 10 office buildings being managed by CPN, five buildings belong to CPN, four are under CPNREIT, and one is under CPNCG. Most tenants at mid-scale offices (Central Ladprao, Central Pinklao, Central Bangna, Central Chaengwattana, and Central Rama 9) also have stores in CPN's shopping centres; the list of tenants include tutorial schools (academics and music), beauty parlours, and securities firms. On the other hand, grade-A offices in business districts (Central World Offices, The Ninth Towers, Unilever House and G Tower) have leading Thai and multinational companies as tenants.

Fig 25: Office buildings as of end-2Q23


				2Q23	
	Operational since	Ownership	Year of leasehold expiry	NLA	Occupancy
CPN's offices					
Ladprao	Dec-82	Leasehold	2028	16,097	91%
Bangna	Dec-01	Freehold		10,007	73%
Chaengwattana	Mar-09	Freehold		19,784	83%
Grand Rama 9	Dec-11	Leasehold	2040	7,378	80%
G Tower	Sep-18	Leasehold	2050	67,604	81%
Total CPN's offices				120,870	82%
CPNREIT's offices					
Pinklao A	Mar-95	Leasehold	2027	22,762	87%
Pinklao B	Mar-06	Leasehold	2027	11,334	80%
The Ninth Towers	Sep-18	Freehold		58,914	86%
Unilever House	Sep-18	Freehold		18,527	83%
Total CPNREIT's offices				111,537	85%
CPNCG - Central World Offices	Nov-04	Leasehold	2040	82,030	99%
Total office buildings				314,437	89%

Source: Company, MST

2.2.4 Hotels contributed 3% of FY22 revenue


Prior to FY22, CPN had owned two hotels (Hilton Pattaya and Central Udon) for over a decade. In FY22, CPN introduced the concept of "Centre of Life" where visitors can shop, eat, work, play, stay and live, leading the company to become more active in hotel development. At the end of 1Q23, CPN had five hotels near its and CRC's shopping malls. It has three hotel brands, including an upscale brand Centara (located near Central Plaza shopping malls), mid-scale brand Centara One (equipped with fewer common facilities than Centara and located near Robinson shopping malls) and a premium-budget brand Go!

Fig 26: Hotel brands




- Full facilities hotels in big cities
- Upscale target**
- New locations: Korat, Ayutthaya, Ubon Ratchathani

Number of hotels	Number of keys/location	Average daily room rate	Capex/key
4	160-220	Bt 2,000-2,500	Bt 3.0-3.2 mn



- Lifestyle **midscale** hotels in 2nd tier cities
- Work-from-anywhere and Business Leisure target
- New locations: Rayong, Chiangrai

Number of hotels	Number of keys/location	Average daily room rate	Capex/key
8	150-200	Bt 1,500-2,000	Bt 2.0-2.5 mn



- Premium budget** hotels with value for money
- Mass market target
- New locations: Rayong, Sriracha, Chonburi

Number of hotels	Number of keys/location	Average daily room rate	Capex/key
25	80-120	Bt 700-1,000	Bt 1.0-1.3 mn

Source: Company, MST

Fig 27: Hotels as of end-2Q23

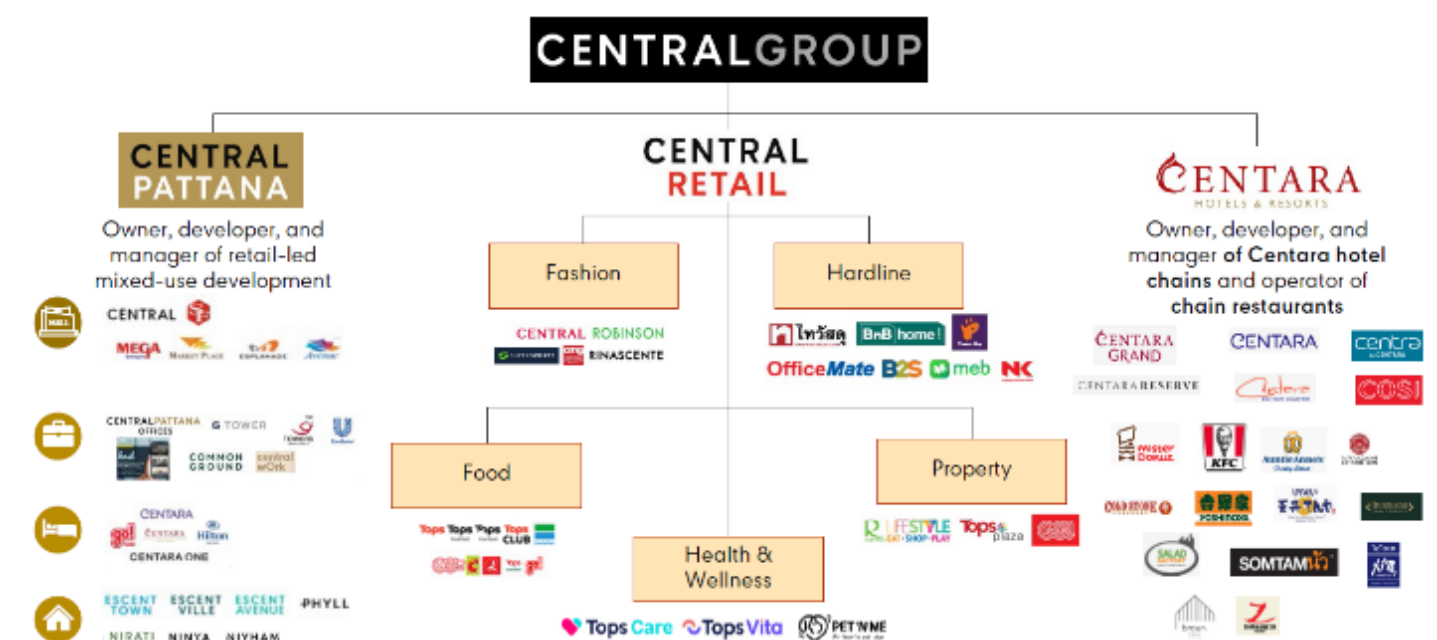
	Launch date	No. of rooms	Occupancy				
			4Q20	4Q21	4Q22	1Q23	2Q23
Centara Udon	Apr-09	259	60%	35%	47%	59%	53%
Hilton Pattaya	Nov-10	304	12%	60%	85%	88%	87%
Centara Korat	Sep-22	218			46%	52%	57%
GO! Hotel Bowin	Dec-22	79			10%	43%	67%
Centara Ubon	Mar-23	160				38%	46%
GO! Hotel Bangchang	Jun-23	79					11%
Total hotels		1,099	34%	49%	60%	65%	61%

Source: Company, MST

2.3 Synergetic relationship with Central Group

As of 9 Mar 2023, Central Group has a 26% stake in CPN. Central Group is also a major shareholder of CRC, so CPN and CRC are sister companies. CRC operates department stores (Central, Robinson and Zen), specialty stores (i.e. Power Buy, Super Sports and B2S) and fast-food chains. A strong line-up of brands under Central Group's and CRC's portfolios will serve as traffic magnets for CPN's retail properties.

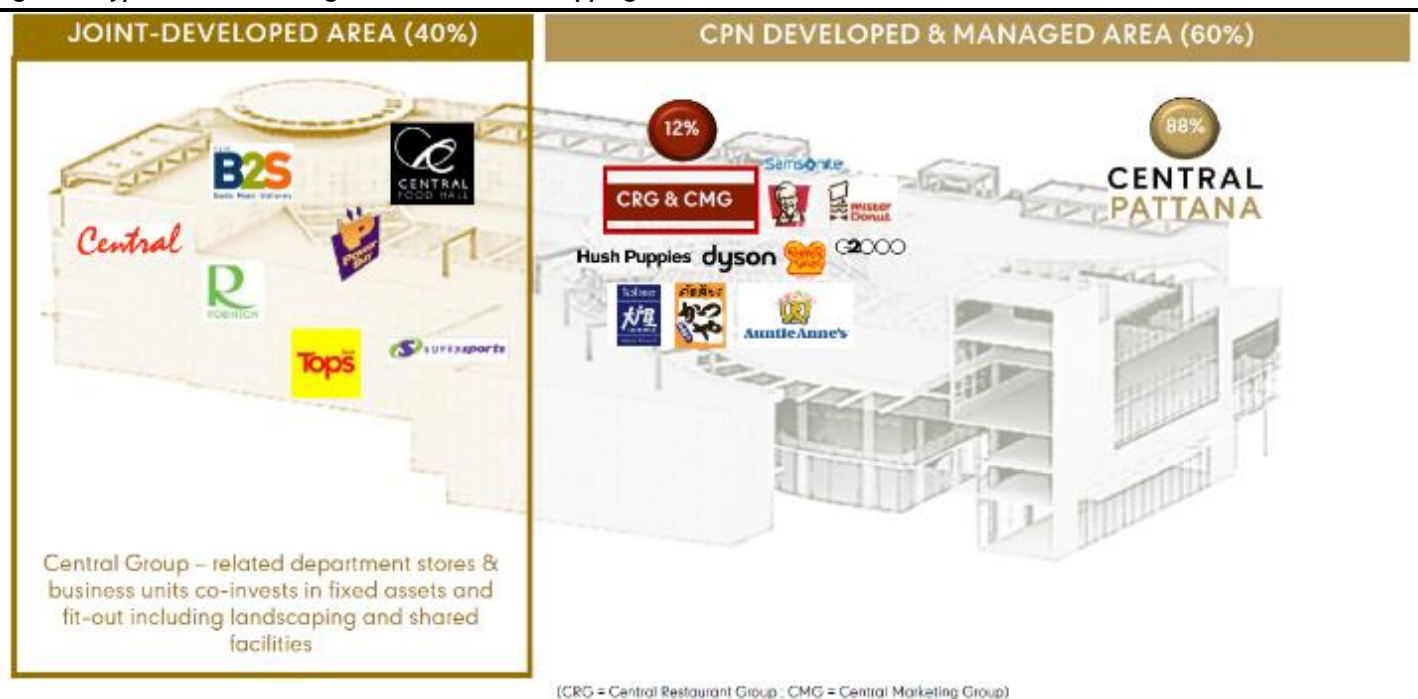
Fig 28: Central Group structure



Source: Company, MSTs

A typical shopping mall by CPN is divided into two main sections namely i) a jointly-developed area (40% of total mall area) and ii) an area developed and managed by CPN (60% of total area). In the jointly-developed area, CRC invests in physical assets and generates revenue from its network of stores; CPN mainly collects common area management (CAM) fees from this section. In the area developed and managed by CPN, CPN collects rent from its tenants; some of the tenants (c.12% of net leasable area) are from Central Group and CRC. When CPN reported retail net leasable area (NLA) of 2.2m sqm at the end of 2Q23, the NLA included areas developed and managed by CPN and leasable areas at community malls and Mega Bangna; it excluded the jointly-developed areas.

Fig 29: A typical format for a greenfield Central shopping mall



Source: Company, MST

2.4 M&A deals and joint ventures

Given intense land biddings and substantial increases in land prices over the past decade in Bangkok, it has become increasingly difficult for CPN to find prime-location land plots that are feasible for mixed-use projects. To sustain long-term revenue growth, CPN has entered into business collaborations (i.e. business acquisitions and JVs).

Joint investments in Dusit Central Park project

Dusit Central Park (THB46b investment) is a joint investment between CPN and Dusit Thani (DUSIT TB, CP THB8.65, Non Rated) that started in FY18. The project consists of an ultra-luxurious shopping mall called Central Park (80k sqm area, ready in 2025), Central Park Offices (90k sqm area, ready in 2025), a five-star hotel Dusit Thani Bangkok (c.250 rooms, ready in mid-2024) and residential projects (scheduled to be completed in 2025). The Crown Property Bureau, the land owner, has granted the leasehold right to the 23.5-rai land plot, which includes a 7-year grace period for construction ending in Jul 2024 and 30 years of lease ending in 30 Jun 2054, extendable for another 30 years until 30 Jun 2084.

Of the total THB46b investment, c.TH19bn will have been invested by CPN by the time of project completion. The company holds a 30% stake in Vimarn Suriya (not listed), which owns the residential and hotel portions of Dusit Central Park. CPN also owns a 100% stake in Central Park Offices and 85% stake in Central Park.

Fig 30: Dusit Central Park



Source: Company, MST

Acquired SF for community malls and land bank

In 3Q21, CPN acquired 56.2% of Siam Future (SF TB, de-listed) shares from Major Cineplex Group (MAJOR TB, CP THB14.10, Non Rated) at THB13.4b (THB12/sh). The company obtained an additional 43.4% stake via a mandatory tender offer (THB10.8n) in Sep-Oct 2021, resulting in an eventual stake of 99.7%. As of end-1Q23, SF had 17 community malls (0.21m sqm) and one super-regional mall (0.17m sqm) in a 49%-owned joint venture. In other words, SF's retail NLA accounted for 17% of total retail NLA at CPN. SF also holds landbank in Bangkok's suburban areas of Bangna, Rangsit, Klongluang and Bangyai – all prime candidates for future mall developments.

Fig 31: SF's retail properties

Community Malls (Bangkok)	Type	Opened	Land (Expire)	NLA (sqm)
1. Market Place Bangbon	Neighborhood Centers	1995	LH (2024)	7,169
2. Market Place Sukaphiban 3	Neighborhood Centers	1996	LH (2037)	7,135
3. Market Place Pracha Utit	Neighborhood Centers	1996	LH (2024)	6,124
4. Market Place Thonglo (Mache Thonglor)	Neighborhood Centers	2002	LH (2049)	3,363
5. J Avenue (Thonglor 15)	Lifestyle Center	2004	LH (2024)	7,766
6. Market Place Nawamin	Lifestyle Center	2004	LH (2021)	3,975
7. Petchkasem Power Center	Power Center	2005	LH (2035)	46,260
8. Ekkamai Power Center	Power Center	2005	LH (2035)	14,957
9. LaVilla (Ari)	Lifestyle Center	2006	LH (2036)	5,661
10. The Avenue Ratchayothin	Lifestyle Center	2007	LH (2040)	3,178
11. Pattaya Avenue	Lifestyle Center	2007	LH (2035)	23,983
12. Market Place Nawamin	Neighborhood Centers	2008	LH (2037)	8,732
13. Nawamin City Avenue	Lifestyle Center	2009	LH (2038)	7,864
14. Meng Jai (B-Quik)	Stand-Alone Retail Store	2014	LH (2040)	466
15. Market Place Nanglinchee	Neighborhood Centers	2017	LH (2047)	11,442
16. Market Place Dusit	Neighborhood Centers	2019	LH (2049)	6,034
17. Market Place Krungthep Kreeta	Neighborhood Centers	2021	LH (2041)	5,038
Community Malls	Type	Opened	Land (Expire)	NLA (sqm)
1. Mega Bangna (JV 49%)	Super Regional Mall	2012	FH	168,597

Note: LH = leasehold, and FH = freehold

Source: Company, MST

Acquired GLAND for office buildings and four land plots

CPN bought Grand Canal Land (GLAND TB, CP THB2.0, Non Rated) and now holds a 67.5% stake. CPN obtained three office buildings, four land plots and one condo project (Belle Grand Rama 9) via the acquisition.

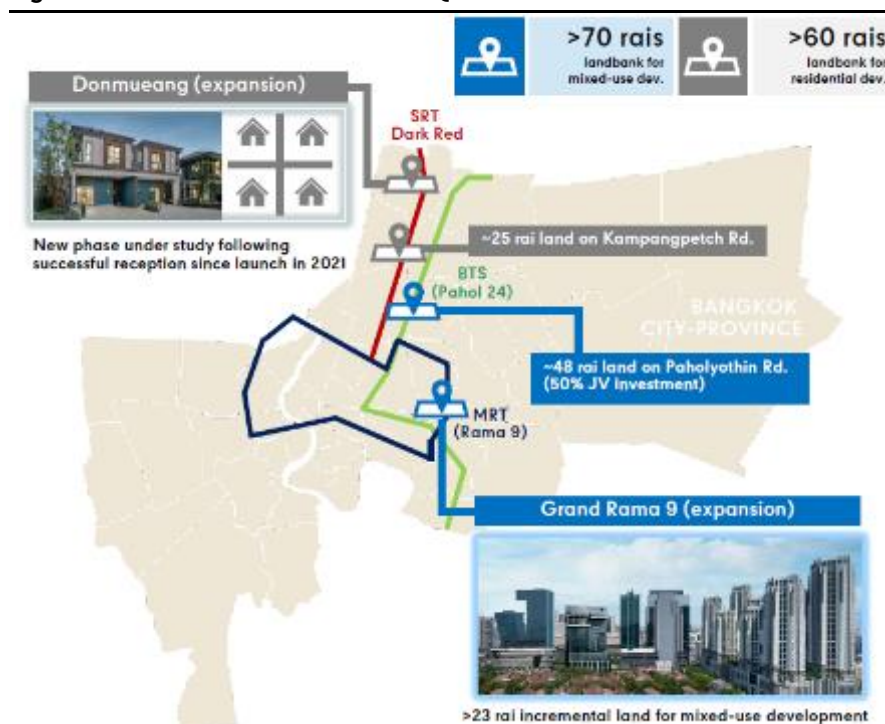
The three office buildings (The Ninth Towers, Unilever House and G Tower) are all located next to Central Rama 9 shopping mall. The four land plots (>70 rai for mixed-use development and >60 rai for residential development) are in Rama 9, Phaholyothin, Kampaengpetch and Don Mueang.

Fig 32: GLAND's office and residential projects

	NLA (sqm)	Status
The Ninth Tower (Rama 9)	58,914	Transferred to CPNREIT
Unilever House (Rama 9)	18,527	Transferred to CPNREIT
G Tower (Rama 9)	67,604	still at CPN
Belle Grand (Rama 9) - retail	5,190	still at CPN
Belle Grand (Rama 9) - condo	1,991 units	sold out
Nirati Donmueang - low rise	262 units	active

Source: Company, MST

Fig 33: GLAND's landbank as of end-2Q23



Source: Company, MST

Acquired a land plot on Wireless Road for a mixed-use development

CPN, Harng Central Department Store (HCDS) and Hongkong Land (HKL) invested THB13.9b in a joint venture called Central and Hongkong Land (CHKL) in 2Q19. CPN/HCDS/HKL hold 25%/26%/49% stakes in CHKL, which bought the land plot (23 rai, freehold) at the junction of Wireless Road and Soi Somkid from the British Embassy at the price of THB18.6b. The JV is planning a mixed-used development (scheduled to be operational in FY26E or later) for the super-prime land plot. As of Jun 2023, the design for the project has not been completed yet.

Fig 34: Joint investment in a world-class mixed-used project on Wireless Road



Source: Company, MST

Fig 35: Details of Wireless Road project

Wireless Road project (details were announced on 17 May 2021)

Central Pattana's stake	25.0%
Land area and type	23 rai (freehold)
Expected opening year	2026 or later

Office		Retail	
Number of buildings and storeys	2 buildings / 36 storeys	Number of buildings and storeys	1 building / 8 storeys
NLA	140,000	NLA	70,000

Source: Company, MST

2.5 Investments in CPNREIT and CPNCG

CPN holds a 30% stake in CPN Retail Growth Leasehold (CPNREIT TB, CP THB9.9, BUY, TP THB11.8) and a 25.0% stake in CPN Commercial Growth Leasehold Property Fund (CPNCG TB, CP THB6.5, Non Rated). Establishing CPNREIT has allowed CPN to recycle its capital (developing malls and injecting them into the REIT), maintain a healthy capital structure, and expand its business more rapidly. For example, CPN sold two shopping malls, Central Marina Pattaya and Central Lampang, to CPNREIT in 2021, resulting in a before-tax extra gain of THB2.7b. CPNCG, and the owner of Central World Offices, is a property fund, and the SEC rules no longer support asset injection into property funds.

Fig 36: CPNREIT's and CPNCG's assets as of end-2Q23

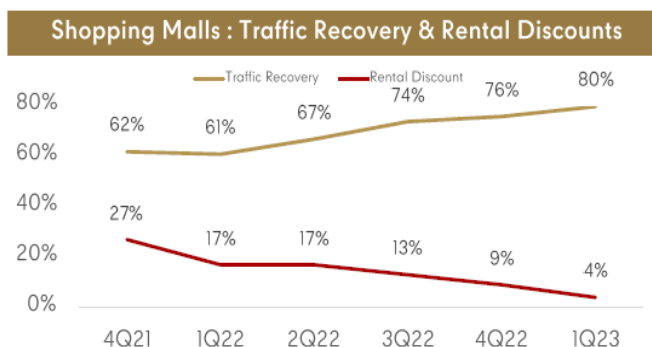
CPNREIT - Project	Lease end	Leasable Area (sq.m.)	Occupancy Rate ¹ (%)		
			2Q22	1Q23	2Q23
Central Rama 3	Aug 2095	36,037	93.6%	95.8%	96.3%
Central Rama 2	Aug 2055	88,606	92.5%	95.3%	96.2%
Central Pinklao	Dec 2024	27,711	98.0%	97.9%	99.5%
Central Chiangmai Airport	Apr 2044	36,472	96.3%	95.7%	97.1%
Central Pattaya	Aug 2037	29,201	90.6%	91.6%	93.0%
Central Marina	Apr 2035	15,439	89.6%	88.9%	93.1%
Central Lampang	Dec 2041	16,363	93.5%	94.2%	94.9%
Pinklao Office Tower A	Dec 2024	22,762	78.3%	84.6%	86.7%
Pinklao Office Tower B	Dec 2024	11,334	77.8%	79.7%	79.6%
The Ninth Towers ²	Apr 2047	58,914	84.2%	86.8%	85.8%
Unilever House ²	Nov 2034	18,527	100.0%	88.8%	83.2%
Total/Average		361,366	90.9%	92.1%	92.6%
Hilton Pattaya ³	Aug 2037	304 rooms	53.6%	87.6%	87.1%

CPNCG - Project	Lease end	Leasable Area (sq.m.)	Occupancy Rate (%)		
			2Q22	1Q23	2Q23
centralwOrld Offices	Dec 2032	82,030	98%	99%	99%

¹ quarterly average occupancy rate includes rental agreements < 1 year such as kiosk, carts, ATMs and coin machines² including assets acquired from GLANDRT on 31 Mar 2020³ Hilton Pattaya has fully resumed its operation in 1Q21

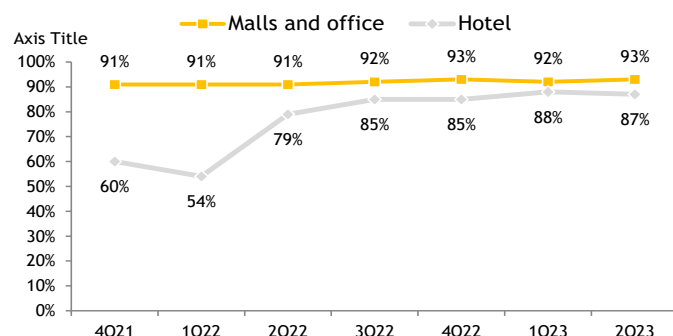
Source: Company, MST

Fig 37: Shopping malls under CPNREIT have seen customer traffic recover to 80% of the pre-Covid level in 1Q23



Source: Maybank IBG Research

Fig 38: Average occupancy rates for CPNREIT's assets



Source: Maybank IBG Research

2.6 Investments in DTC, Bayswater and Grab Thailand

CPN has a 17.09% stake in Dusit Thani (DUSIT TB, CP THB8.65, Non rated). The company acquired a 50% stake in Bayswater Co. Ltd. from BTS for THB7.7b in 2019; Bayswater owns a land plot on Phaholyothin Road.

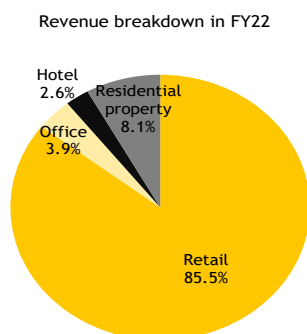
It also invested USD65.8m for a 33% stake in Porto Worldwide, a JV with the Central Retail Group (CRC TB, CP THB39.25, Non rated). Porto Worldwide holds a 40% stake in Grab Thailand, which has the largest market share in the food delivery segment in Thailand. The Grab investment was part of the Central Group's ambition to become a "market leader in digi-lifestyle platform", which was announced by Central Group's Chairman Tos Chirathivat in FY18. Examples of cross promotions between Grab and CPN are: i) price discounts for Grab rides to and from CPN's shopping malls, and; ii) GrabRewards points for special price discounts at CPN's shopping malls.

3. Investment Focus

3.1 Post-Covid recovery to support 29% profit growth in FY23E

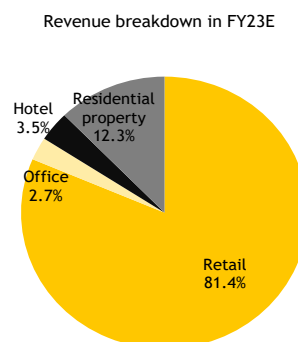
We forecast core profit growth of 29% in FY23E on the back of 25% revenue growth and margin expansion. The strong revenue growth should stem from i) post-Covid recovery of retail and hotel businesses and ii) increase in residential transfers.

Fig 39: Revenue breakdown in FY22



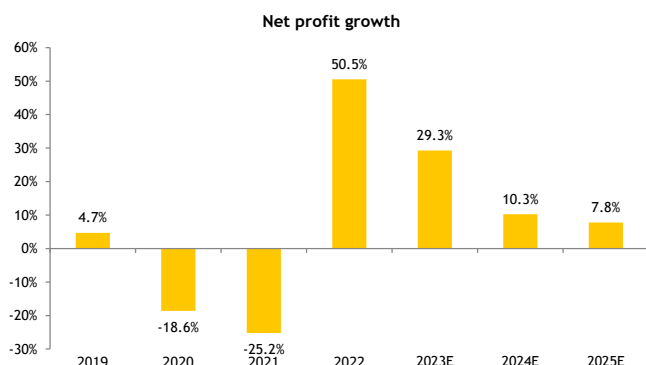
Source: Company, MST

Fig 40: Revenue breakdown in FY23E



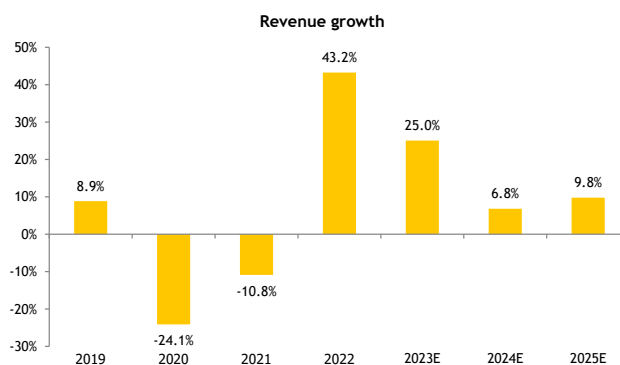
Source: Maybank IBG Research

Fig 41: We forecast FY23E net profit to grow by 29% YoY



Source: Company, MST

Fig 42: We forecast FY23E revenue to grow by 25% YoY

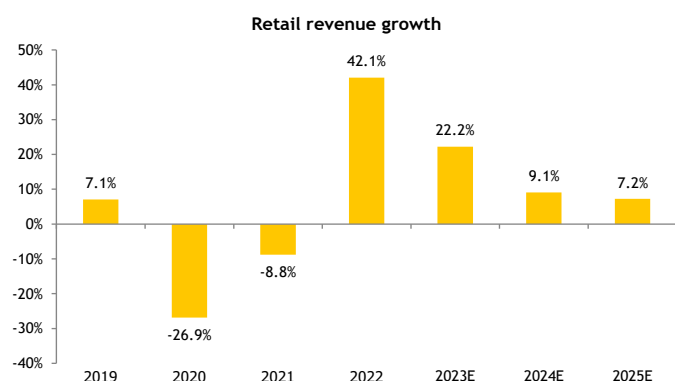


Source: Company, MST

FY23E retail revenue to see 19% growth

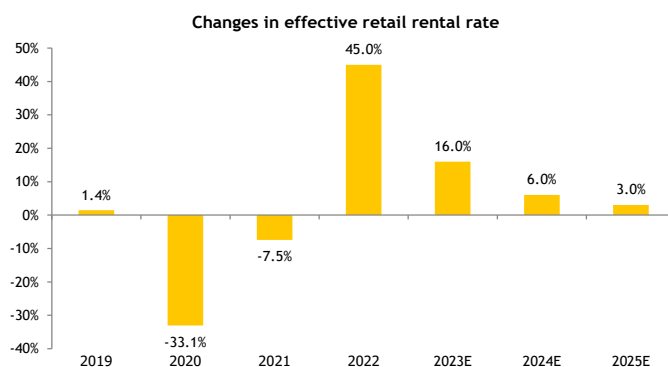
We forecast FY23E retail revenue growth of 19% YoY due to 16% increase in effective retail rental (ERR) rate, 1% increase in retail space and stable occupancy rate of 89%. The strong increase in ERR stems from a combination of i) a decline in rental discount from 12% in FY22 to 3% in FY23E, ii) 2% increase in contractual rental rates, and iii) higher revenue sharing from some tenants. Forty seven percent of CPN's retail NLA were revenue-sharing contracts as of end-FY22.

Fig 43: Retail revenue growth (excluding pre-TFRS16 impact)



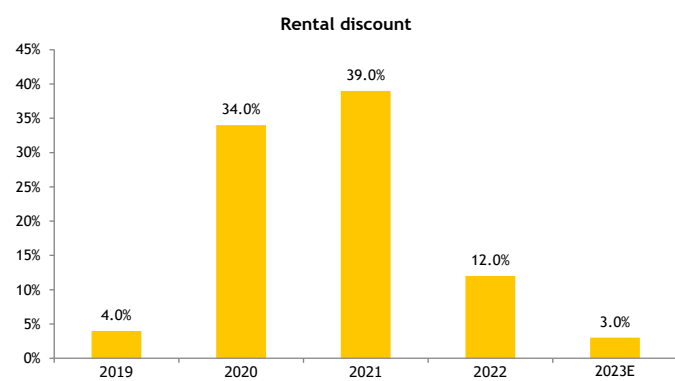
Source: Company, MST

Fig 44: Changes in effective retail rental rate



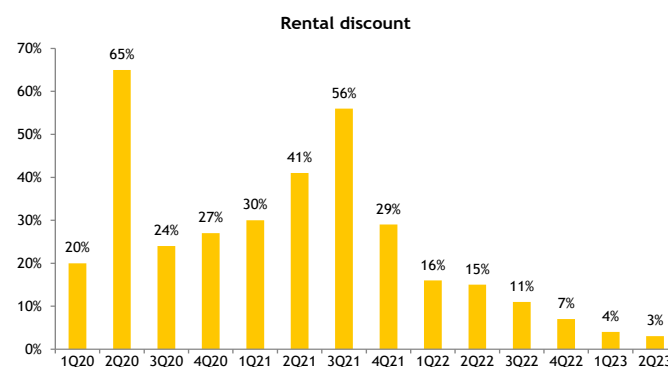
Source: Company, MST

Fig 45: We forecast retail rental discount to normalise at 3% in FY23E



Source: Company, MST

Fig 46: Quarterly retail rental discount



Source: Company, MST

FY23E hotel revenue to see 72% growth

FY23E hotel revenue growth of 72% should be supported by both post-Covid demand recovery and increase in room supply by CPN. Six new hotels will result in a total of 1,657 rooms by the end of FY23E, up 93% YoY.

Over 90% of CPN's hotel guests (excluding Hilton Pattaya) are Thais.

Fig 47: Hotels as of end-2Q23

	No. of room	Occ rate	ARR (THB)
Centara Udonthani	259	53%	1,708
Hilton Pattaya	304	87%	8,437
Centara Korat	218	57%	1,859
Go! Bowin	79	67%	1,007
Centara Ubon	160	46%	1,696
Go! Ban Chang	79	11%	731

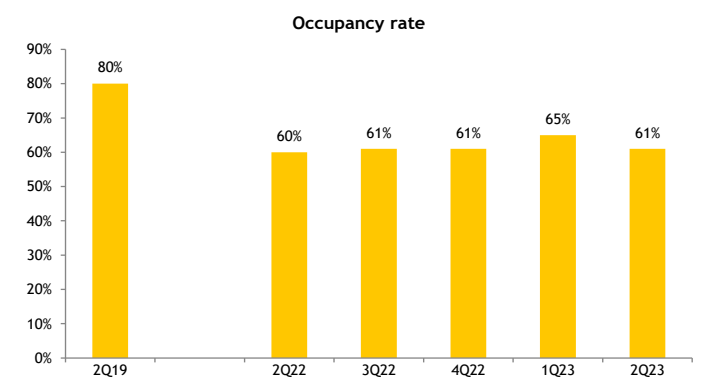
Source: Company, MST

Fig 48: Hotel launches in 2H23E

	Launch date	Estimated number of rooms
Go! Hotel Si Racha	Aug-23	79
Go! Chonburi	Aug-23	79
Centara Ayutthaya	Oct-23	200
Centara One Rayong	Dec-23	200

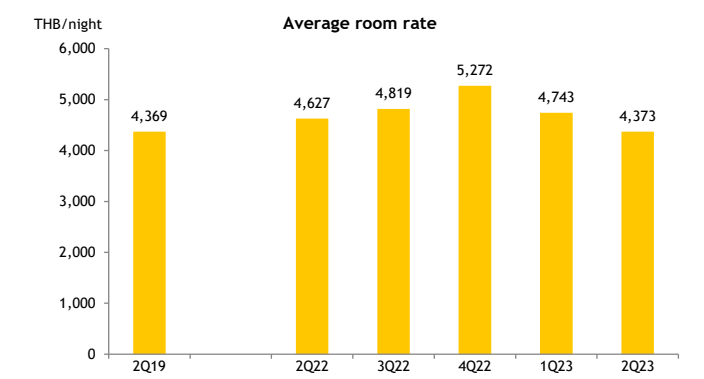
Source: Company, MST

Fig 49: Hotel occupancy rate



Source: Company, MST

Fig 50: Average room rate



Source: Company, MST

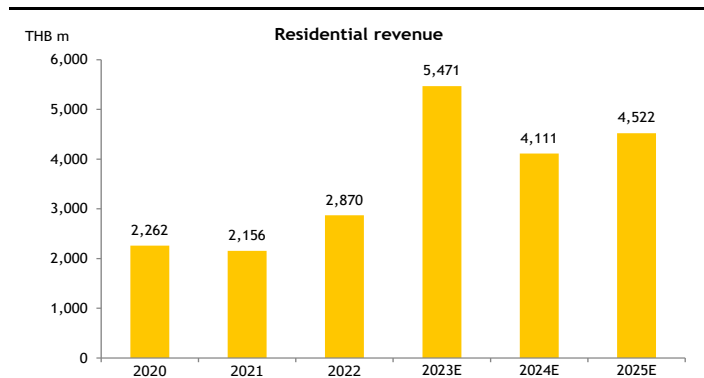
Four condo completion to boost FY23E transfer growth to 91%

CPN has 11 active condominium projects (worth a combined THB11.8b), four of which (THB4.9b) are scheduled to be completed in FY23E. This leads us to expect 91% increase in FY23E residential revenue. We forecast FY23E residential revenue of THB5.5b, of which THB3.5b is from condo projects and THB2.0b is from low-rise properties.

We forecast the transfer to jump from THB1.7b in 1H23 to THB3.8b in 2H23E, which is 56% secured by the backlog as of end-2Q23.

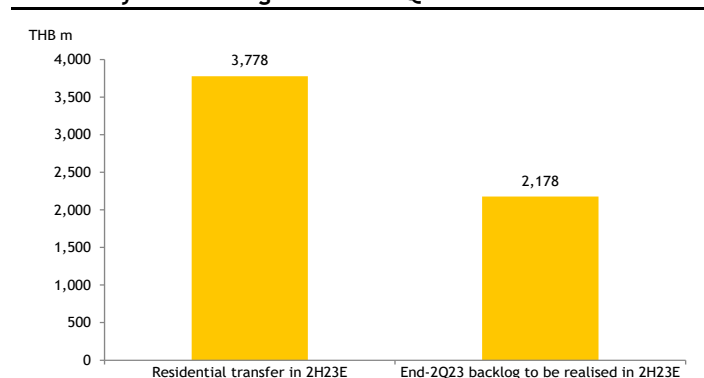
CPN has become interested in developing condominium projects next to its shopping malls since Escent Korat (THB1.0b project value) and Escent Hatyai (THB1.5b) were sold out within a few months after their launches in Dec 2020.

Fig 51: We forecast residential revenue to jump 91% in FY23E



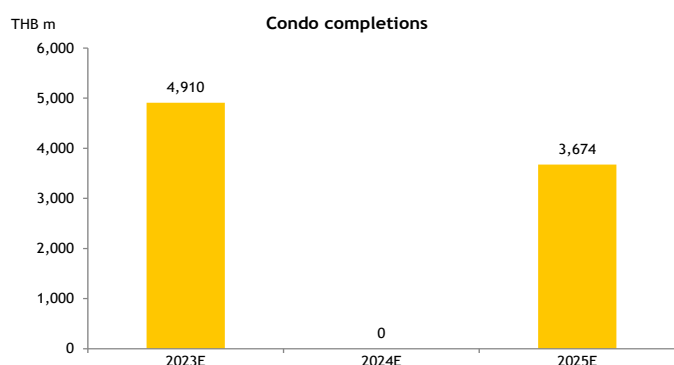
Source: Company, MST

Fig 52: We forecast 2H23E residential transfer of THB3.8b, 56% secured by the backlog as of end-2Q23



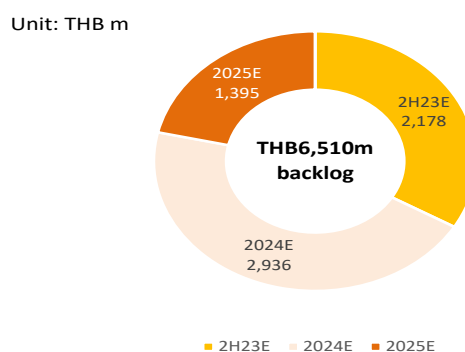
Source: Company, MST

Fig 53: Project value of condo completion in FY23-25E



Source: Company, MST

Fig 54: Residential backlog by period of transfer as of end-2Q23



Source: Company, MST

Fig 55: CPN's residential brands

CLASS SEGMENT	Economy	Main	Upper	High	Luxury	Super Luxury
CONDO <i>Price/sqm</i>	50-70k	70-100k	100-150k	150-200k	200-300k	>300k
TOWNHOME / HOME OFFICE <i>Price/unit</i>	<2MB	2-4MB	4-7MB	7-15MB	15-30MB	>30MB
SINGLE DETACHED HOUSE <i>Price/unit</i>	<3MB	3-5MB	5-10MB	10-20MB	20-40MB	>40MB

Source: Company, MST

3.2 Expect FY23-27E net profit CAGR of 8%

After the 29% net profit growth in FY23E, we forecast FY23-27E net profit CAGR of 8% on the back of 8% revenue CAGR over the same period. The revenue growth should be supported by i) organic growth and asset enhancement, ii) new mall openings, and ii) aggressive expansion in non-retail businesses that complement its shopping malls. Out of the company's 22 upcountry malls in Thailand, 12 do not have any adjacent office, hotel or residential developments by CPN.

Fig 56: Mall openings from 2H23E to FY25E

	Opening date	NLA (sqm)
Central WestVille	29-Nov-23	35,000
Central Nakhon Sawan	1Q24	29,000
Central Nakhon Pathom	2Q24	25,000
Central Krabi	4Q24	22,000
Dusit Central Park - mall	2025	80,000

Source: Company, MST

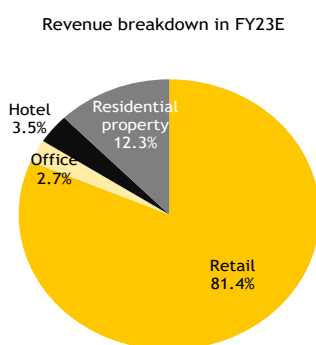
Fig 57: FY23-27E revenue CAGR by segment

	FY23E revenue	FY27E revenue	4-year CAGR
Retail	36,219	47,790	7%
Office	1,219	1,113	-2%
Hotel	1,577	7,163	46%
Residential property	5,471	5,275	-1%

Source: Company, MST

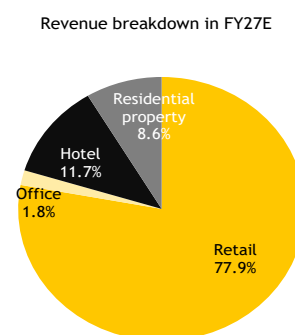
We forecast non-retail revenue contribution to rise from 19% of revenue in FY23E to 22% of revenue in FY27E mainly due to FY23-27E revenue CAGR of 46% for the hotel business.

Fig 58: Revenue breakdown in FY23E



Source: Maybank IBG Research

Fig 59: Revenue breakdown in FY27E



Source: Maybank IBG Research

Aggressive hotel expansion

In Jun 2022, CPN announced its aggressive hotel expansion plan: THB10b investment for 37 hotels by 2026 to complement its shopping malls. The management believes that shopping malls can spur economic activities (business and tourism) and hotels' occupancy rates in the surrounding areas; hence, CPN can utilise idle lands that are adjacent to its shopping malls by developing residential projects and hotels. In many instances, CPN already owns the empty land plots next to its shopping malls.

Since the announcement of the expansion plan in Jun 2022, four hotels have been launched. The first hotel, out of the 37 hotels under the expansion plan, was Centara Korat. The hotel, located next to Central Korat shopping mall, saw its occupancy rate rose from 32% in 3Q22 to 57% in 2Q23. The second hotel under the plan, Go! Hotel Bowin, saw its occupancy rate rose from 10% in 4Q22 to 67% in 2Q23.

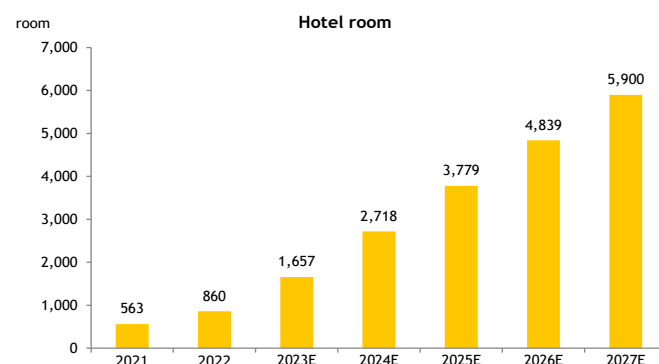
We expect hotel revenue to account for 12% of revenue in FY27E, up from 4% in FY23E.

Fig 60: Hotel launches in 2H23E

	Launch date	Estimated number of rooms
Go! Hotel Si Racha	Aug-23	79
Go! Chonburi	Aug-23	79
Centara Ayutthaya	Oct-23	200
Centara One Rayong	Dec-23	200

Source: Company, MST

Fig 61: Forecasts of hotel rooms at yearend



Source: Company, MST

Three hotel brands

CPN will develop hotels under three brands, Centara (upscale), Centara One (mid-scale), and Go! Hotel (premium budget). Centara and Centara One will be operated by Central Plaza Hotel (CENTEL TB, CP THB45.0, Non rated), which will collect management fees from CPN. On the other hand, CPN will operate hotels under the Go! brand and pay brand usage fee to CRC.

CPN and CENTEL, sister companies under Central Group, will focus on different market segments of the hotel industry. CPN will focus on hotel developments within walking distances to its shopping malls; most of CPN's

hotels will be in second-tier and third-tier cities, so majority of the guests will be Thais. On the other hand, CENTEL will focus on hotel developments in first-tier cities and towns such as Bangkok, Phuket, Chiang Mai and Samui. Outside first-tier cities, CENTEL will offer hotel management services to other hotel owners, including CPN.

Fig 62: CPN's hotel brands



- Full facilities hotels in big cities
- **Upscale target**
- New locations: Korat, Ayutthaya, Ubon Ratchathani

Number of hotels	Number of keys/location	Average daily room rate	Capex/key
4	160-220	Bt 2,000-2,500	Bt 3.0-3.2 mn



- Lifestyle **midscale** hotels in 2nd tier cities
- Work-from-anywhere and Business Leisure target
- New locations: Rayong, Chiangrai

Number of hotels	Number of keys/location	Average daily room rate	Capex/key
8	150-200	Bt 1,500-2,000	Bt 2.0-2.5 mn



- **Premium budget** hotels with value for money
- Mass market target
- New locations: Rayong, Sriracha, Chonburi

Number of hotels	Number of keys/location	Average daily room rate	Capex/key
25	80-120	Bt 700-1,000	Bt 1.0-1.3 mn

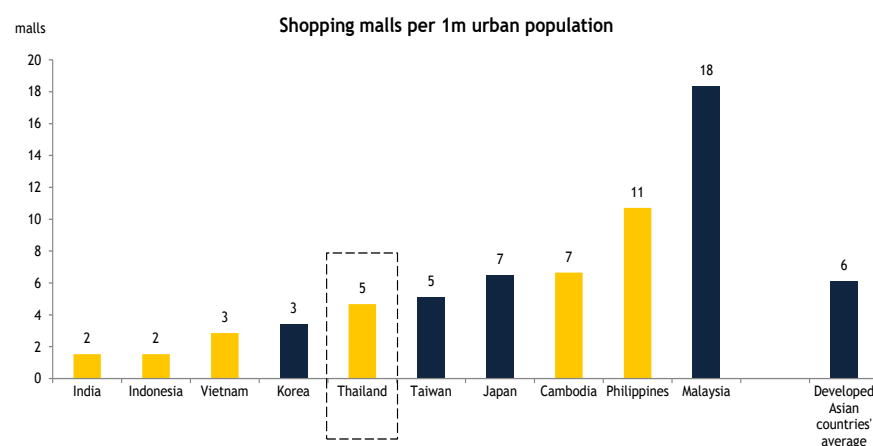
Source: Company, MST

3.3 Mall expansion opportunity in Thailand

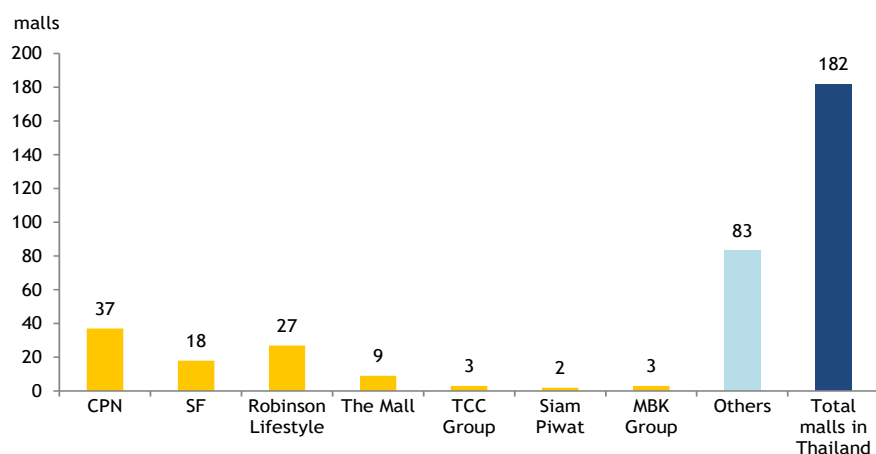
In 2Q23, Thailand had 4.7 shopping malls per 1m urban population, lower than developed Asian countries' average of 6.1 malls. To reach the developed Asian countries' average, Thailand will need 1.5 more malls per 1m urban population or 57 additional shopping malls, based on urban population of 39m.

Of the 182 shopping malls and community malls in Thailand in 2Q23, 55 are owned by CPN and its subsidiary Siam Future Developments (de-listed) and 44 of them belong to other companies that own more than one shopping mall.

Fig 63: Number of shopping malls per 1m urban population



Source: Geodatindustry, World Bank, Company, MST

Fig 64: Breakdown of shopping malls and community malls by owner types


Source: Geodatindustry, World Bank, Company, MST

3.4 Upside risks from future mixed-use developments

CPN plans to replicate its success of Central Ladprao, its first mixed-use development, in other locations. Four land plots in Bangkok are potential candidates for mixed-use projects, and we have not included these projects in our forecasts yet.

British Embassy land plot

This project, comprising two office buildings (140,000-sqm NLA) and retail space (70,000-sqm NLA) will be under a JV by Hong Kong Land (49% stake), Central Group (26% stake) and CPN (25% stake). The freehold 23-rai land plot, bought from the British Embassy, is at the junction of Wireless Road and Soi Somkid.

Fig 65: Mixed-used project on Wireless Road

Wireless Road project (details were announced on 17 May 2021)

Central Pattana's stake	25.0%
Land area and type	23 rai (freehold)
Expected opening year	2026 or later

Office		Retail	
Number of buildings and storeys	2 buildings / 36 storeys	Number of buildings and storeys	1 building / 8 storeys
NLA	140,000	NLA	70,000

Source: Company, MST

Phahonyothin 24

CPN acquired a 50% stake in Bayswater Co. Ltd. from BTS for THB7.7b in 2019; the remaining 50% stake is owned by GLAND. Bayswater owns a 48-rai land plot on Phahonyothin Road near Central Ladprao. The development, preliminarily scheduled to be completed in 2028, should come in two phases: i) 7-storey shopping mall; and ii) hotel, office buildings and residential property. In 2015, Bayswater bought the land plot at a price of THB7.4b.

Siam Square

In Jul 2021, CPN obtained a 30-year leasehold right on 7-rai land plot in Siam Square, a shopping district in the heart of Bangkok's CBD area. The company plans to develop a hotel, office and retail spaces on the land plot. The land plot used to be utilised by Scala Cinema.

Rama 9

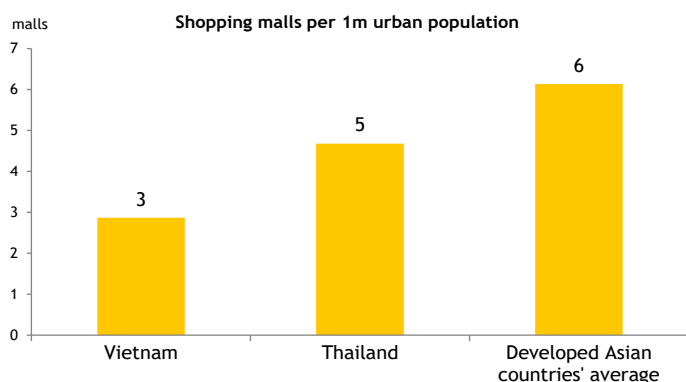
GLAND, 67.5% held by CPN, has 23-rai land plot next to Central Rama 9 that will be used for mixed-use development.

3.5 Upside risk from retail projects in Vietnam

CPN is considering land plots for greenfield retail projects in Vietnam. We believe there is more room for retail expansion in Vietnam than Thailand due to Vietnam's i) lower shopping mall density and ii) faster growth of urban population.

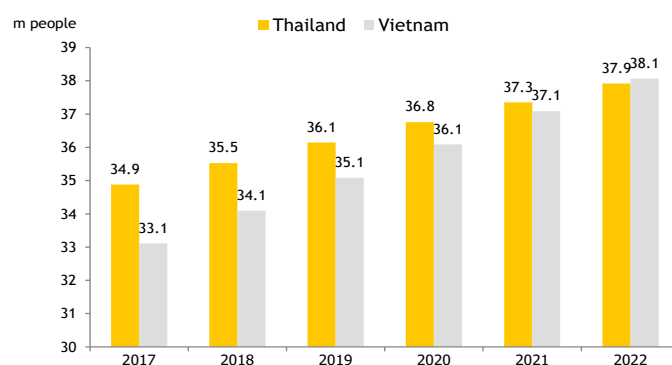
Vietnam's number of shopping malls per 1m urban population in 2Q23 was three, lower than Thailand's five and Asia's average of nine. Also, strong GDP growth has led to fast-growing urban population in Vietnam. 5-year urban population growth (FY17-22 CAGR) was 4% in Vietnam, higher than 2% in Thailand. As a result, Vietnam's urban population (38.1m) surpassed Thailand's (37.9m) in 2022.

Fig 66: Number of shopping malls per 1m urban population



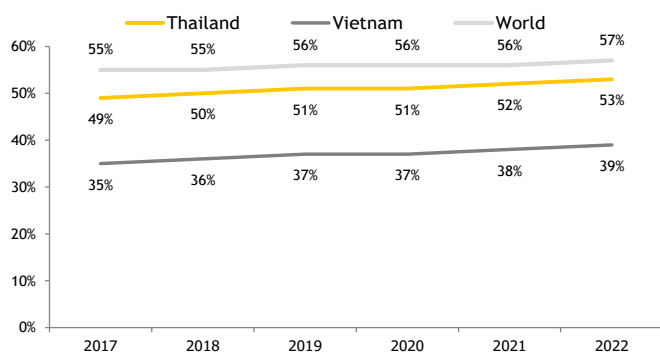
Source: Geodatindustry, World Bank, Company, MST

Fig 67: Urban population (Vietnam vs Thailand)



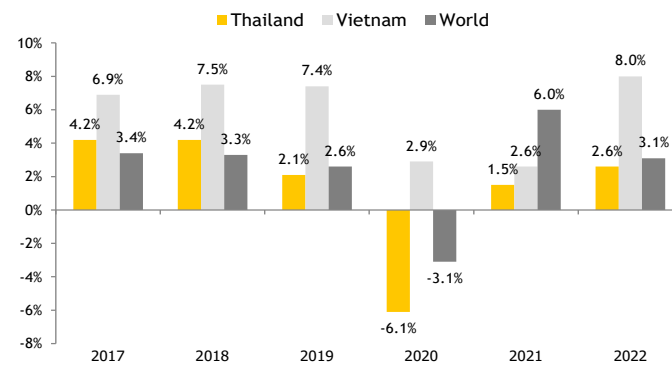
Source: World Bank, MST

Fig 68: Urbanisation rate (Vietnam vs Thailand vs world)



Source: World Bank, MST

Fig 69: GDP growth (Vietnam vs Thailand vs world)



Source: World Bank, MST

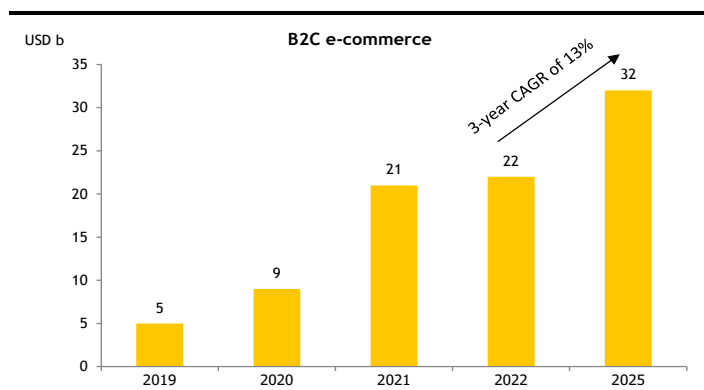
4. Competition against e-commerce platforms

4.1 The rise of e-commerce platforms

One of the most frequently asked questions by investors is e-commerce's impact on CPN's business. According to the e-Conomy SEA 2022 report, E-commerce sales (B2C only) had 2019-21 CAGR of 99% thanks to waves of Covid-19 outbreak. The online sales growth then eased to 8% in FY22 following reopening of physical retail spaces. Nevertheless, the report forecasts 2022-25 CAGR of 13%.

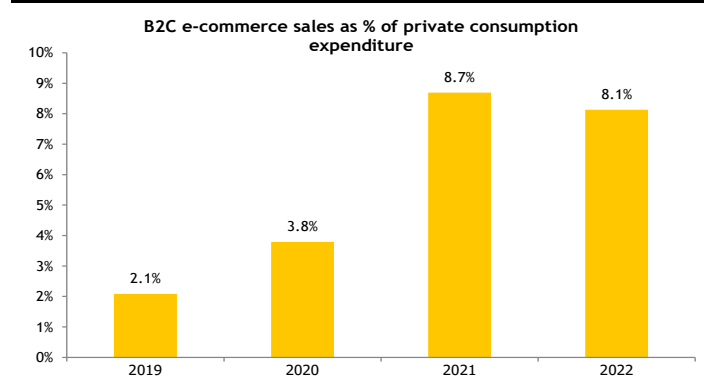
In 2022, Shopee commanded 44% B2C e-commerce market share, followed by Lazada's 25%, Apple's 6%, JD's 5% and others' 20%.

Fig 70: Thailand B2C e-commerce sales



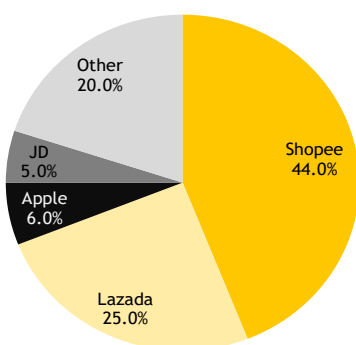
Source: Maybank IBG Research

Fig 71: B2C e-commerce sales as % of private consumption expenditure



Source: Maybank IBG Research

Fig 72: E-commerce market shares in 2022



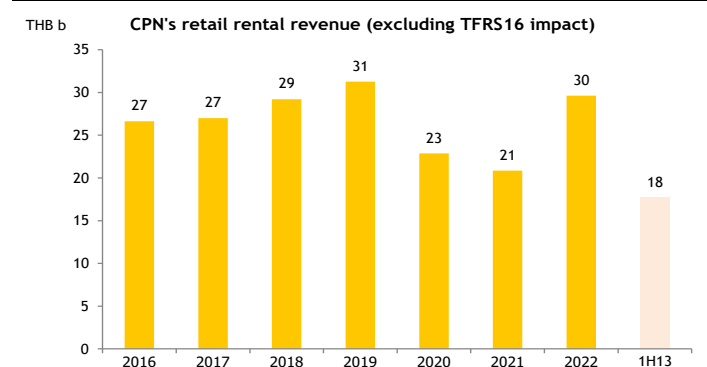
Source: Statista, MST

4.2 Shoppers return to mall after the pandemic

For Thai consumers, malls are not just for shopping, but also for lifestyle experiences (i.e. new food to try, new places to bring pets to) and getaways from hot weather. As lockdown and social-distancing measures faded, shopping mall traffics (as % of pre-Covid traffics) have risen to 90% in 1H23 from 83% in FY22 and 60% in FY21. CPN's retail revenue as % of Thailand's private consumption spending has also recovered to 0.35% in 1H23 from 0.31% in FY22 and 0.25% in FY21.

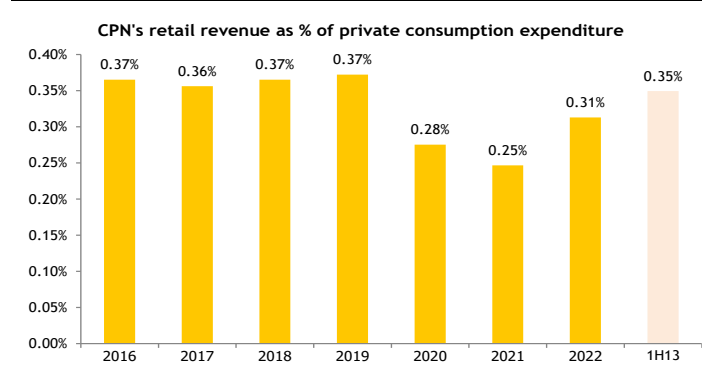
While CPN's retail market share recovered to from 0.25% in FY21 to 0.31% in FY22 (approaching pre-pandemic level of 0.37% in 2018-19), e-commerce platforms saw their market share declined from 8.7% to 8.1%.

Fig 73: CPN's retail rental revenue (excluding TFRS16 impact)



Source: Company, MST

Fig 74: CPN's retail rental revenue as % of private consumption expenditure



Source: e-Economy SEA 2022, Statista, MST

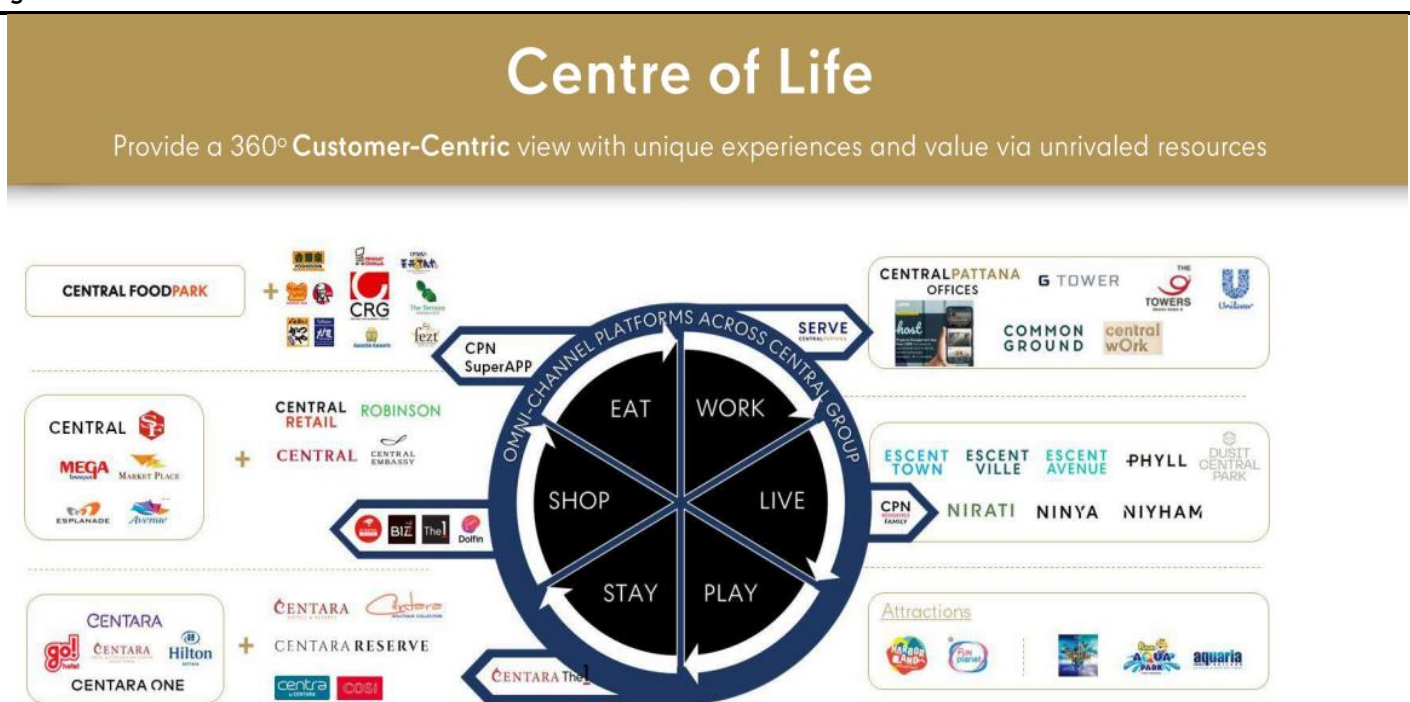
4.3 Differentiation strategy by CPN

To attract customer traffics to shopping malls, CPN has differentiated its malls by implementing “Centre of Life” concept and gearing tenant shops away from low-end toward mid-scale and high-end brands.

Retail-led “Centre of Life” concept

CPN has adjusted its strategy as it now aims to become “Centre of Life” where people shop, eat, work, play and stay around the clock. While tenant mix has remained relatively unchanged compared to pre-Covid (F&B, Fashion and Beauty, and others accounting for one third of NLA each), CPN has brought in new restaurant brands (i.e. Canton Paradise, Mak's Noodle, Shake Shack and The Cheesecake Factory), aiming to use more food variety as a traffic magnet. Also, we believe that the company's retail-led mixed-used developments (customers at residential, hotel and office buildings can offer baseline traffics for shopping malls) and collaboration with Central Group would support its revenue CAGR of 8% in FY23-27E.

Fig 75: CPN's “Centre of Life” business model



Source: Company, MST

Migrating away from low-end brands toward premium brands

CPN has brought in more premium-brand tenants when old rental contracts expired. High-end tenants have led to higher spending per trip, which could lead to more revenue sharing for CPN. Also, premium products could boost foot traffics thanks to i) customers' preference to try out high-end products before purchasing and ii) quality sales services. In 2023, old and new brands have opened flagship stores at CPN's malls. Examples in 2023 from the existing brands include flagship stores by Nike (>1,000 sqm of NLA, largest in Thailand) and Adidas (>2,400 sqm of NLA, largest in Asia Pacific). Flagship stores by new brands in 2023 include Lululemon (premium sports apparel) and Nitori (furniture and home accessories).

5. 2Q23 earnings review and 2H23E outlook

5.1 2Q23 profit jumped 34% YoY on recovery in all units

CPN reported 2Q23 net profit of THB3.7b (+34% YoY, +13% QoQ) on the back of THB10.9b revenue (+27% YoY, +9% QoQ). The 27% YoY revenue growth comes from 22%/57%/81%/54% increases in revenue from rental/food/hotel/residential businesses. On the QoQ basis, the key growth drivers were 5% growth of rental revenue and 53% increase in residential transfer.

Fig 76: 2Q23 net profit was THB3.7b (+34% YoY, +13% QoQ)

Unit: (THBm)	2Q22	1Q23	2Q23	YoY	QoQ	6M23	Chg%	FY23E	YoY	6M23 as % of FY23E
Rental income	7,552	8,751	9,229	22%	5%	17,981	23%	36,552	17%	49%
Service income & real estate	1,024	1,230	1,636	60%	33%	2,866	68%	7,933	79%	36%
Total revenue	8,576	9,981	10,865	27%	9%	20,846	27%	44,485	25%	47%
Cost of services	(4,407)	(4,755)	(5,274)	20%	11%	-10,030	19%	(21,791)	21%	46%
Gross profit	4,168	5,226	5,591	34%	7%	10,817	37%	22,694	29%	48%
SG&A	(1,424)	(1,756)	(1,716)	21%	-2%	-3,471	25%	(8,007)	21%	43%
Operating profit	2,745	3,470	3,875	41%	12%	7,345	44%	14,687	34%	50%
Other income	612	721	739	21%	3%	1,460	13%	3,527	21%	41%
Equity income	384	477	532	38%	12%	1,008	39%	1,713	10%	59%
EBIT	3,741	4,668	5,146	38%	10%	9,814	38%	19,927	29%	49%
Interest expense	(523)	(596)	(663)	27%	11%	-1,260	20%	(2,804)	27%	45%
EBITDA	5,888	6,710	7,307	24%	9%	14,017	23%	24,182	13%	58%
EBT	3,218	4,071	4,483	39%	10%	8,554	41%	17,123	30%	50%
Income tax	(713)	(798)	(769)	8%	-4%	-1,567	31%	(3,082)	24%	51%
Minority interests	(26)	(27)	(36)	37%	34%	-63	-4%	(130)	14%	48%
Core profit	2,478	3,246	3,678	48%	13%	6,924	44%	13,911	31%	50%
Extra items	275	0	0	-100%	N/A	0	na	0	-100%	N/A
Net income	2,753	3,246	3,678	34%	13%	6,924	36%	13,911	29%	50%
EPS (THB)	0.61	0.72	0.82	34%	13%	2	30%	3.10	29%	50%

Ratio analysis

Gross profit margin (%)	48.6	52.4	51.5			51.9	3.6	51.0
EBITDA margin (%)	57.0	55.2	55.6			55.4	(1.7)	42.6
SGA/Total revenue (%)	16.6	17.6	15.8			16.7	-0.4	18.0
Operating profit margin (%)	32.0	34.8	35.7			35.2	4.0	33.0
Net profit margin (%)	32.1	32.5	33.9			33.2	2.1	31.3
Core profit margin (%)	28.9	32.5	33.9			33.2	3.8	31.3

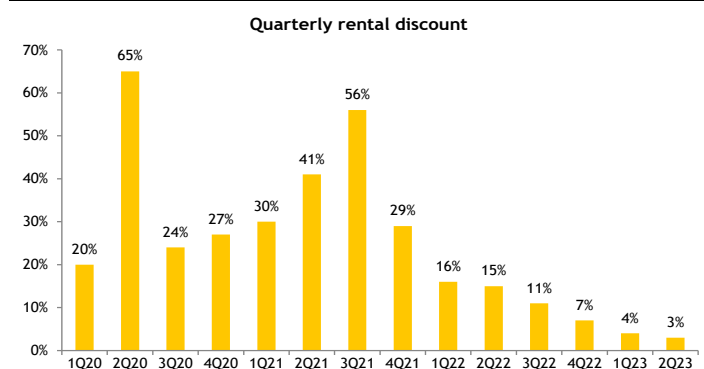
Source: Company, MST

5.2 Retail revenue still growing strongly

2Q23 rental and service revenue (retail and office) was THB9.2b (+22% YoY, +5% QoQ). The strong growth was supported by i) declining rental discount, ii) an increase in CAM charges in Feb 2023, and iii) higher casual leasing.

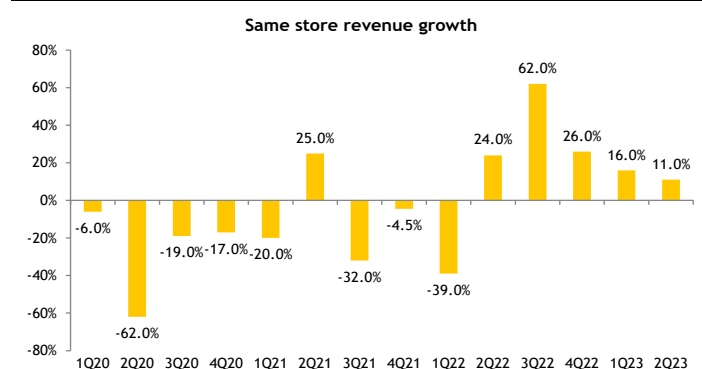
Rental discount dropped to 3% in 2Q23, from 15% in 2Q22 and 4% in 1Q23, thanks to improved customers' traffic (c.90% of pre-Covid level) and strong tenants' sales (already above pre-Covid level). After c.10 years of stable CAM charges, CPN raised the rates by 30% in Feb 2023 to pass on higher costs of electricity and labours (security staff and maids) to malls' tenants. CPN intends to maintain the CAM charges despite the reduction of electricity tariffs in May 2023. Casual leasing (temporary space leases for public events and small kiosks in the common areas) also increased in 1-2Q23 thanks to strong customers' traffics.

Fig 77: Retail discount dropped to 3% in 2Q23, from 15% in 2Q22 and 4% in 1Q23



Source: Statista, MST

Fig 78: Same store revenue growth was 11% in 2Q23

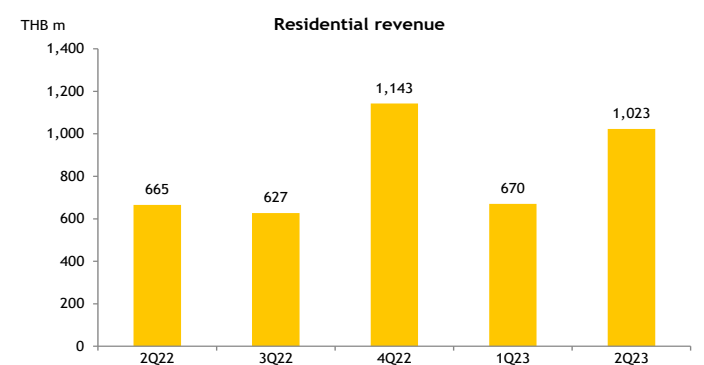


Source: e-Conomy SEA 2022, Statista, MST

5.3 2Q23 residential revenue spiked on two condo completions

2Q23 residential revenue jumped 54% YoY and 53% QoQ thanks to completion of two condominium projects, namely Escent Korat (THB1.0b) in May 2023 and Escent Ville Ayutthaya (THB895m) in Jun 2023. Half of 2Q23 residential revenue came from condo while the remainder came from landed properties.

Fig 79: 2Q23 residential revenue was THB1.0b (+54% YoY, +53% QoQ)



Source: Statista, MST

Fig 80: Four condominium projects worth a combined THB7.9b are scheduled to be completed in THB4.9b

Project	Launch date	Completion date	Project value (THB m)
Escent Korat	Dec-20	May-23	1,014
Escent Hatyai	Dec-20	3Q23	1,518
Escent Ville Ayutthaya	Nov-21	Jun-23	895
Phyll Phuket	Dec-21	3Q23	1,483
Total value			4,910

Source: e-Conomy SEA 2022, Statista, MST

5.4 Gross margin widened YoY thanks to retail business

Gross margin rose to 51.5% in 2Q23 from 48.6% in 2Q22 thanks to higher margin at the retail business (84% of 2Q23 revenue). Shopping malls' gross margin rose to 52.3% in 2Q23 from 48.5% in 2Q22 on the back of lower rental discount and higher common area charges.

5.5 2H23E profit to be on par with 1H23 profit

We expect 2H23E revenue to rise 13% HoH due to increases in residential transfers and high season of consumer spending in 4Q23E. Despite the expected revenue growth, we expect net profit to be flat HoH due to a 22% increase in finance costs (i.e. floating interest rates) and an increase in SG&A-to-revenue ratio to 19% in 2H23E from 17% in 1H23.

The surge in selling and marketing expenses should stem from i) launches of new residential projects and shopping malls and ii) festive season in 4Q.

6. Financial analysis

6.1 Rental hikes to drive retail revenue growth

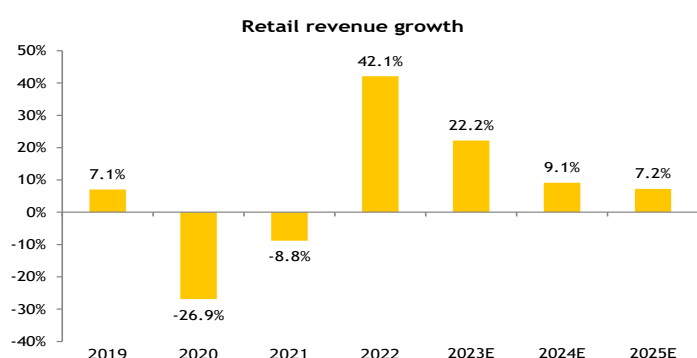
Retail business accounted for 85% of FY22 revenue. We forecast FY22-25E CAGR of 12% for retail revenue on the back of increases in rental rates, shopping mall expansion and stable occupancy rate of 87%.

Strong increases in retail rental rate

In FY23E we forecast 16% increase in effective retail rental (ERR) rate on the back of i) a decline in rental discount from 12% in FY22 to 3% in FY23E, ii) 2% increase in contractual rental rates, and iii) higher revenue sharing from some tenants (47% of CPN's retail NLA were revenue-sharing contracts as of end-FY22).

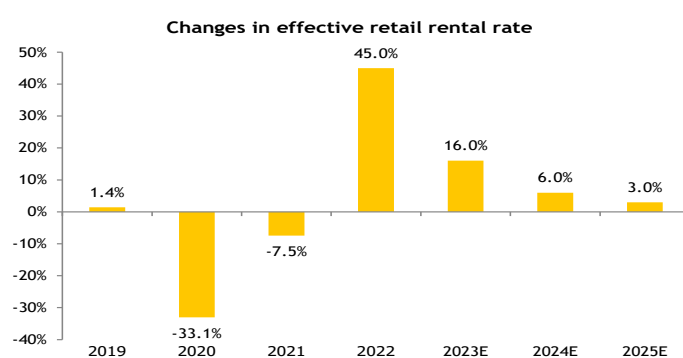
Given that rental discount should remain stable at 3% from FY23E onwards, we expect increases in ERR rate to ease to 6% in FY24E and 3% from FY25E onwards. Prior to the Covid-19 outbreak in 2020, CPN has shown strong pricing power by generating 10-year rental rate CAGR of 3.0%, higher than the 1.3% CAGR for Thailand's CPI over the same period.

Fig 81: Retail revenue growth (excluding pre-TFRS16 impact)



Source: Company, MST

Fig 82: Changes in effective retail rental rate

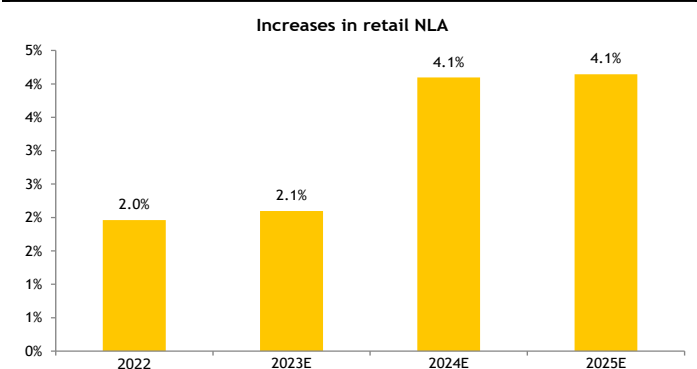


Source: Company, MST

Shopping mall expansion plan

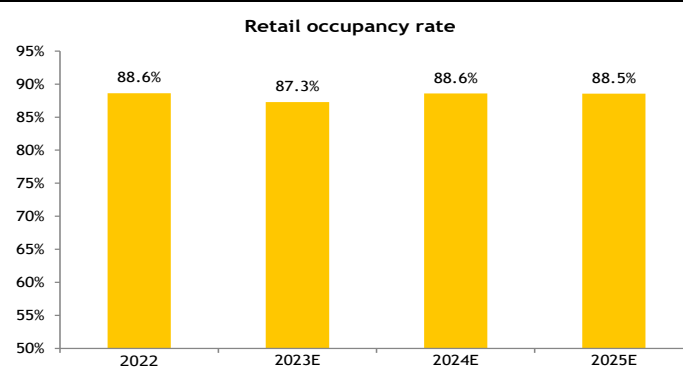
We forecast FY22-25E NLA CAGR of 3% for the retail business on the back of increases in number of shopping malls and asset enhancements. Upcoming malls in our model include Central Westville (Nov 2023), Nakhon Swan (1Q24), Nakhon Pathom (2Q24), Krabi (4Q24) and Dusit Central Park (2025).

Fig 83: Changes in retail space



Source: Company, MST

Fig 84: Retail occupancy rate

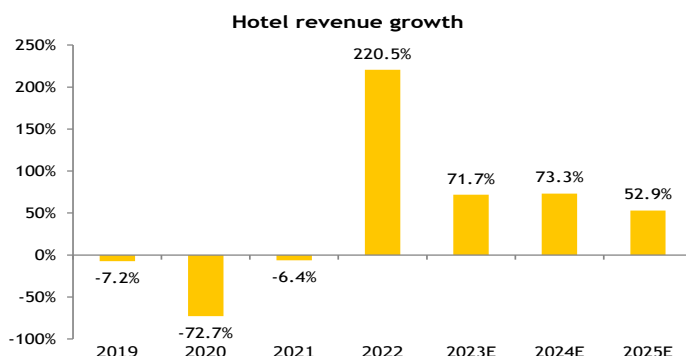


Source: Company, MST

6.2 Expect hotel business to show the strongest growth

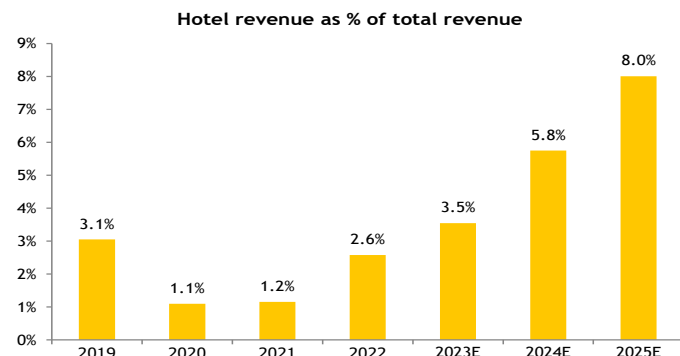
We forecast non-retail businesses to contribute 17-19% of revenue in FY23-25E. However, the revenue contribution from the hotel business should rise from 4% in FY23E to 8% in FY25E on the back of aggressive expansion plans. We forecast FY23-25E revenue CAGR of 66% for the hotel business.

Fig 85: Hotel revenue growth



Source: Company, MST

Fig 86: Hotel revenue as % of total revenue



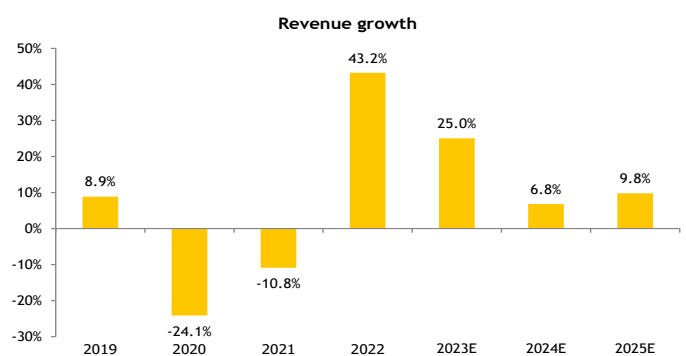
Source: Company, MST

From 860 rooms in FY22 to 3,779 rooms in FY25E

In Jun 2022, CPN announced its aggressive hotel expansion plan: THB10b investment for 37 hotels by 2026 to complement its shopping malls. Since the announcement, four hotels have been launched and four more are scheduled to open in 2H23E. By the end of FY23E, CPN will have only 10 hotels; its portfolio of 21 shopping malls outside Bangkok implies ample room for tag-along hotel expansion.

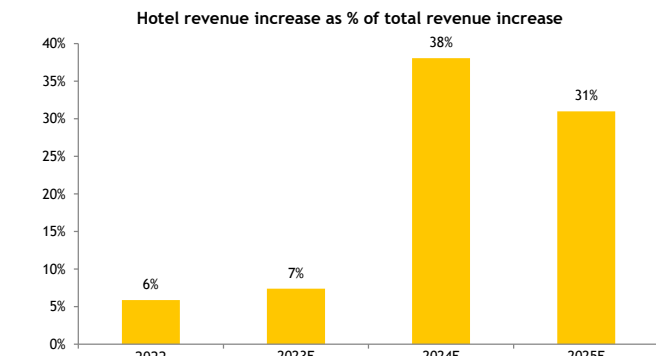
We forecast CPN's hotel rooms to rise from 860 as of end-FY22 to 1,657 in FY23E and 3,799 in FY25E, implying FY22-25E CAGR of 64%.

Fig 87: Revenue growth

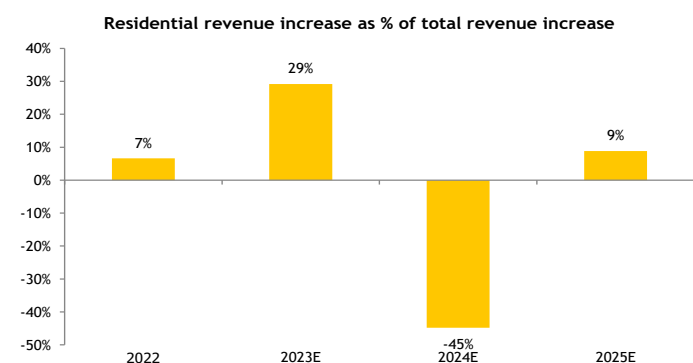


Source: Maybank IBG Research

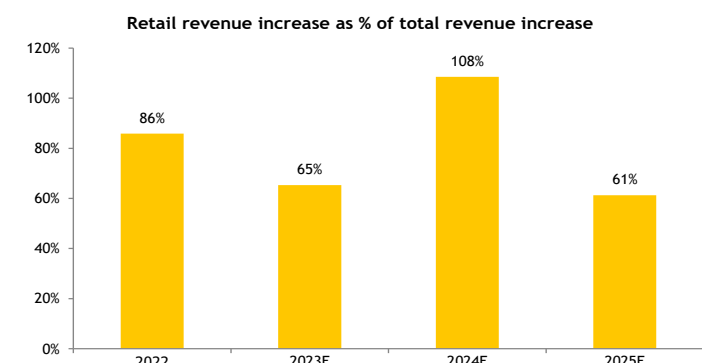
Fig 88: Hotel revenue increase as % of total revenue increase each year



Source: Maybank IBG Research

Fig 89: Residential revenue increase as % of total revenue increase each year

Source: Company, MST

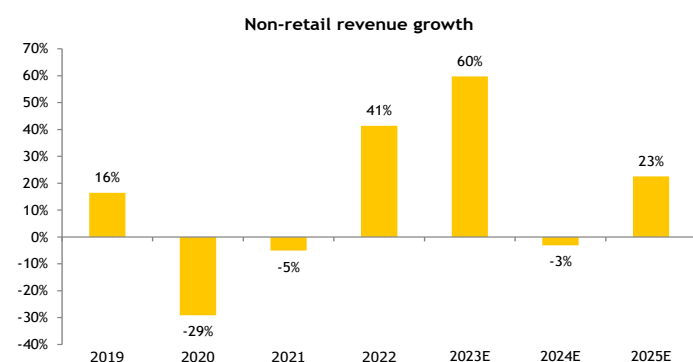
Fig 90: Retail revenue increase as % of total revenue increase each year

Source: Company, MST

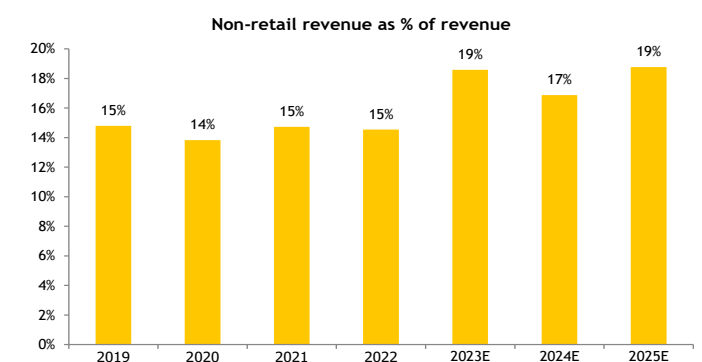
6.3 We have factored in volatile revenue from the residential business

While we forecast retail revenue growth to be quite smooth (19% in FY23E and 7-9% pa in FY24-27E), we expect non-retail revenue to swing from 60% growth in FY23E to a 3% decline in FY24E and 23% increase in FY25E. The volatility comes from changes in residential revenue.

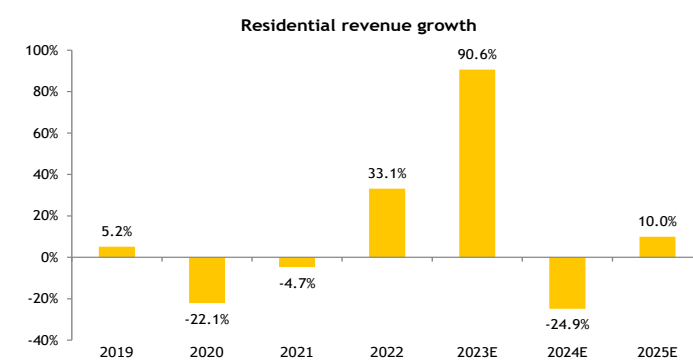
Four condominium projects (THB4.9b) are scheduled to be completed in FY23E. This leads us to expect 91% growth in FY23E residential revenue. In FY24E, there is no condo completion, leading us to 25% contraction in residential transfers. Then, we expect FY25E residential revenue to jump by 10% YoY thanks to the completion of five condominium projects (THB3.7b); this helps boost the revenue growth rate from 7% in FY24E to 10% in FY25E.

Fig 91: Non-retail revenue growth

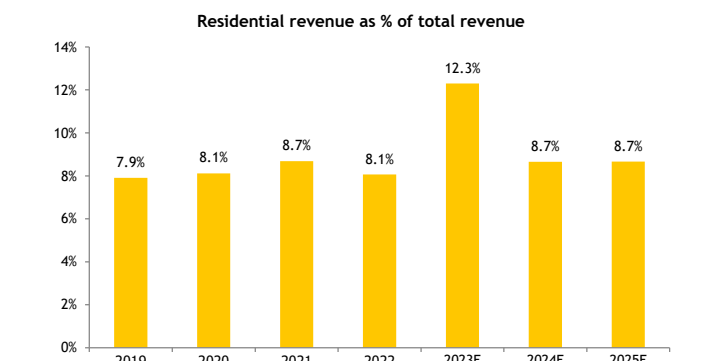
Source: Company, MST

Fig 92: Non-retail revenue as % of total revenue

Source: Company, Statista, MST

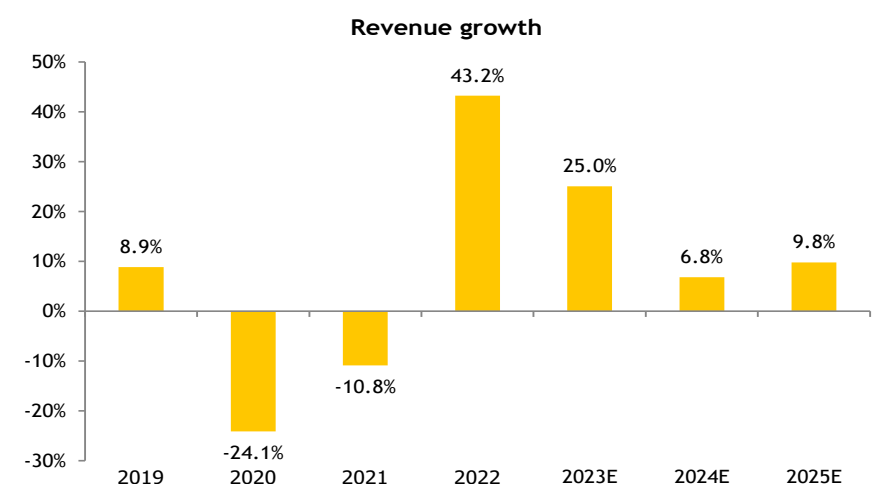
Fig 93: Residential revenue growth

Source: Company, MST

Fig 94: Residential revenue as % of total revenue

Source: Company, MST

Fig 95: Revenue growth



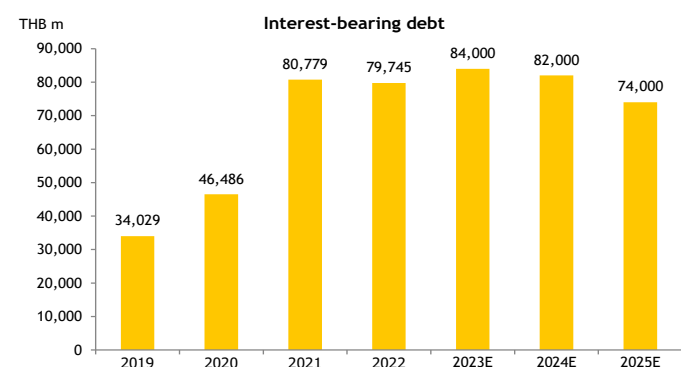
Source: Company, MST

6.4 Net gearing is on a downtrend

We forecast net gearing to decline to 0.77x in FY23E from 0.82x in FY22 as increase in equity base (+12% YoY) should be higher than the increase in interest-bearing debt (+5% YoY). The slight increase in debt should stem from negative free cash flow of THB4.4b in FY23E; we forecast FY23E EBITDA after tax of THB22.2b, which should be outweighed by THB26.7b obligations from capex and lease liabilities.

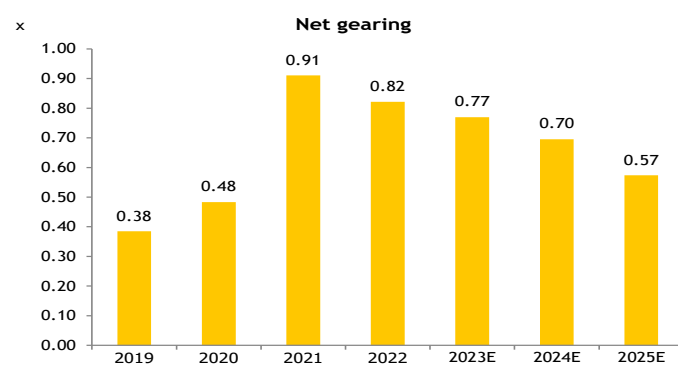
In FY24E, the lease extensions at Central Pinklao (Dec 2024) and Central Rama 2 (Aug 2025) by CPNREIT should lead to net cash proceeds of THB19b for CPN; as a result, we expect CPN to drop to 0.70x in FY24E and 0.57x in FY25E.

Fig 96: Net interest-bearing debt



Source: Company, MST

Fig 97: Net gearing



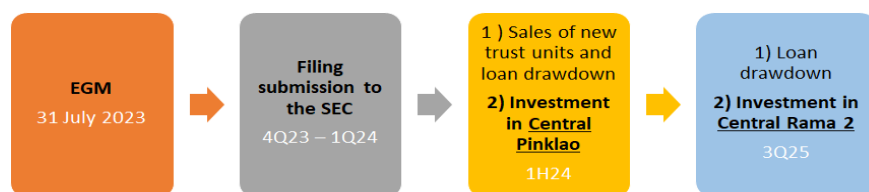
Source: Company, MST

6.5 Lease extensions at Central Pinklao and Central Rama 2

CPNREIT plans to renew its subleases with CPN at Central Pinklao (current lease to expire on 31 Dec 2024) and Central Rama 2 (current lease will expire in 15 Aug 2025) at a combined cost of THB25b. The net proceeds for CPN should be THB19b after deducting THB6b payment for its subscription to new CPNREIT units.

The lease extensions were approved by CPNREIT unitholders at the EGM on 31 Jul; and we expect the cash inflows in 1H24E for Central Pinklao and 3Q25 for Central Rama 2.

Fig 98: Timeline of lease extensions



Source: Company, MST

Fig 99: 15-year lease extension at Central Pinklao

Central Pinklao

*15-year lease extension, which lasts from 1 Jan 2025 to 31 Dec 2039

*THB12.2b payment is due in Dec 2024 (THB12.7b, including transaction costs)

*CPNREIT has the right to extend the lease for 7 years and 5 months

*Source of fund = THB10.5b equity and THB2.3b debt

*The equity portion (maximum of 1,100 new shares) will come from i) existing unitholders (50% or more), ii) private placement and/or public offering (50% or less)

Source: Company, MST

Fig 100: 10-year lease extension at Central Rama 2

Central Rama 2

*10-year lease extension, which lasts from 16 Aug 2025 to 15 Aug 2035

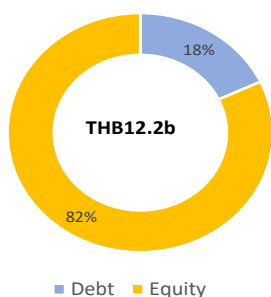
*THB12.9b payment is due in Aug 2025 (THB13.3b, including transaction costs)

*Source of fund = 100% debt

Source: Company, MST

Fig 101: The lease renewal at Central Pinklao will cost c.THB12.2b (equity:debt financing of 80:20)

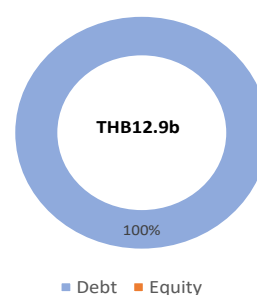
Central Pinklao (Dec 2024)



Source: Company, MST

Fig 102: The lease renewal at Central Rama 2 will cost c.THB12.9b (100% debt financing)

Central Rama 2 (Aug 2025)



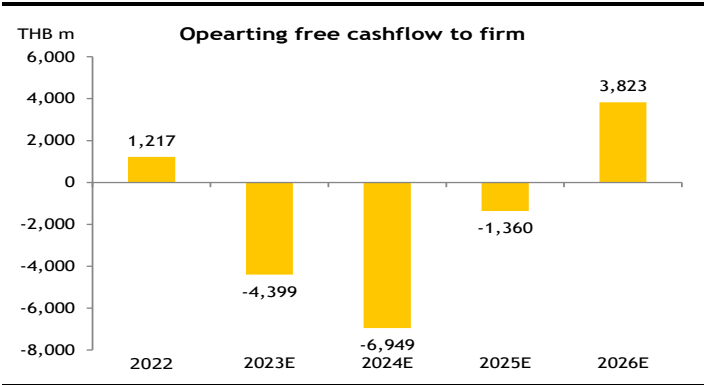
Source: Company, MST

6.6 Operating free cash flow to turn positive in FY25E

After negative operating FCFF (EBITDA after tax, lease payments and capex) in FY23-25E, we expect the cash flow metric to turn positive in FY26E due to FY23-26E EBITDA CAGR of 8% and -3% CAGR for capex and lease obligations.

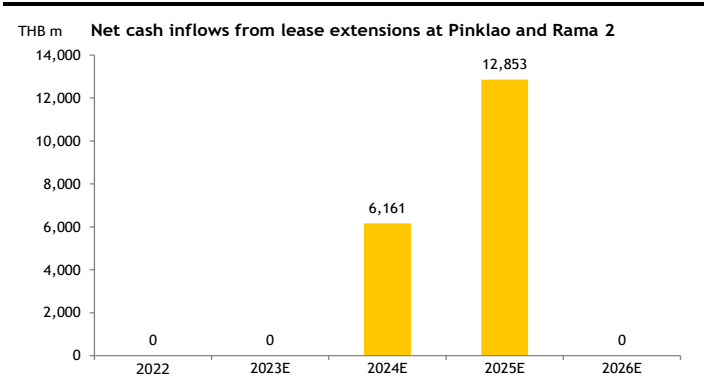
Nevertheless, we have not included capex outlays for i) future mixed-used developments (British Embassy, Phahonyothin 24, Siam Square, and Rama 9) and ii) greenfield projects in Vietnam. In FY23-27E, we forecast CPN to spend THB127b on capex, below the company's budget of THB135b. The heavy capex budget and the company's policy of keeping net gearing below 1.0x are the reasons why we forecast its dividend payout ratio at 45% from FY23E onwards (vs 48% payout in FY22).

Fig 103: Operating free cashflow to firm



Source: Company, MST

Fig 104: Net cash inflows from lease extension at Central Pinklao and Central Rama 2



Source: Company, MST

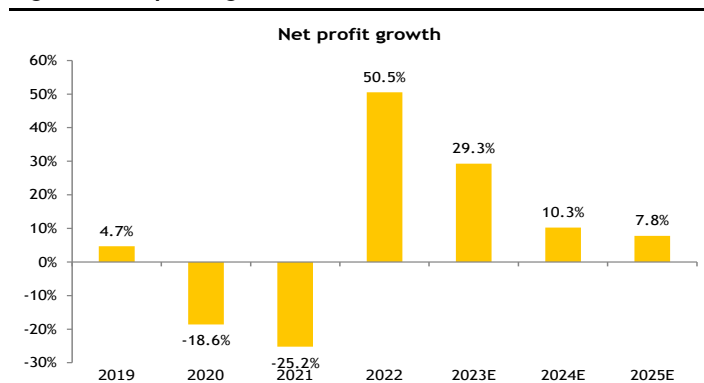
7. Valuation

7.1 BUY on strong earnings growth in FY23-25E

We initiate coverage on CPN with a BUY call due to strong profit growth in FY23-25E, potential upside to consensus' earnings forecasts and cheap valuation. We forecast FY23E net profit growth of 29% on the back of i) post-Covid recovery in retail and hotel businesses, and ii) an increase in completion of condominium projects. Despite the lack of low-base effect, earnings growth should remain healthy at 8-10% pa in FY24-25E thanks to 7-9% increases in retail revenue.

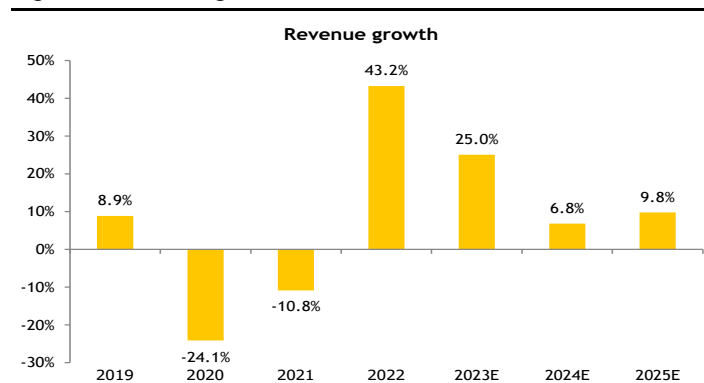
We have a DCF-based TP of THB75.0 (6.9% WACC, 2.9% terminal growth rate), implying FY24E P/E of 22x. We use 2.9% terminal growth rate because CPN's effective retail rental rate showed pre-Covid growth of 3.0% pa (2009-19 CAGR).

Fig 105: Net profit growth



Source: Company, MST

Fig 106: Revenue growth



Source: Company, MST

Fig 107: We have a DCF-based TP of THB75 (6.9% WACC, 2.9% terminal growth) for CPN

Unit: THB m	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	...	2042E
Period for discounting		1	2	3	4	5	6	7	8		
EBITDA after tax	24,429	25,567	28,264	30,536	32,444	33,781	35,589	36,963	38,145		
- lease liabilities	-3,475	-3,753	-4,129	-4,459	-5,319	-5,478	-5,642	-5,812	-5,986		
- CAPEX in PPE and associates	-26,297	-21,997	-20,297	-18,097	-18,097	-17,997	-17,997	-17,997	-17,997		
+ decrease in RE dev from transfers to cost of sales	2,293	2,523	2,685	2,855	3,156	3,371	3,540	3,717	3,902		
- Residential CAPEX	-3,900	-3,700	-2,700	-3,639	-3,931	-4,166	-4,375	-4,594	-4,823		
Operating FCFF	-6,949	-1,360	3,823	7,196	8,254	9,510	11,114	12,277	13,241	Terminal value	831,171
										Terminal growth	2.9%
NPV of operating FCFF	137,524										
NPV of terminal value	235,734										
NPV of core operating assets	373,257										
	THB m	THB/sh									
NPV of core operating assets	373,257	83.2									
Investment (CPNREIT, CPNCG and others)	47,994	10.7									
Net debt	76,245	17.0									
Minority interests	8,418	1.9									
Fairly value of equity	336,588	75.0	<== target price								
Number of shares (million)	4,488										
WACC calculation											
WACC	6.9%										
Cost of equity											
Rf	3.0%										
Market risk premium	7.4%										
Beta	1.0%										
Cost of equity	10.7%										
Equity weight	55.9%										
Cost of debt											
Pretax cost of debt	2.5%										
Marginal tax rate	20.0%										
Cost of debt	2.0%										
Debt weight	44.1%										

Source: Company, MST

7.2 Cheap valuation with upside risk to consensus' earnings forecasts

CPN is trading at FY24E P/E of 19x, 27% lower than the 5-year mean of 26x. Our earnings forecasts in FY23/24E are 9%/7% higher than consensus' estimates. Our revenue forecasts for FY23/24E are 7%/3% higher than the consensus' forecasts likely because we are more optimistic on the non-retail revenue growth than the street. For example, we forecast 2H23E residential revenue of THB3.5b (+243% YoY, +123% HoH) on the back of four condo completions during 2-3Q23E. Also, we forecast hotel revenue growth of >70% pa in FY23-24E on the back of aggressive hotel expansion.

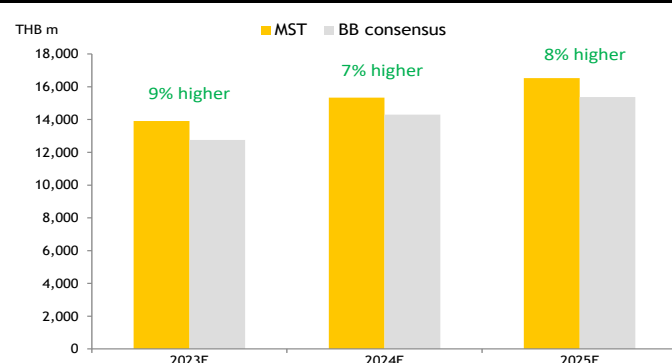
Despite being more aggressive than the consensus, our FY22-27E revenue CAGR of 12% is slightly below the company's 5-year CAGR target of 14-16%.

Fig 108: CPN is trading at FY24E P/E of 19x, 27% lower than the 5-year mean of 26x



Source: SETSMART, Company, MST

Fig 109: Earnings forecasts (MST vs BB consensus)



Source: Bloomberg, Company, MST

7.3 Cheaper than global and local peers

CPN is trading at FY23E P/E of 21x, lower than the global retail peers average of 28x. Also, the company's core EPS CAGR of 16% is slightly higher than the global retail average of 14%.

The situation is similar when we compare CPN to Thai peers. CPN's FY23E P/E of 21x is lower than the Thai retail peer average of 25x. CPN's core EPS CAGR of 16% is also higher than Thai retail average of 15%.

CPN is also cheaper than its sister company, Central Retail Corporation (CRC TB, CP THB39.25, Non rated). CPN's FY23E P/E of 21x and 3-year core EPS CAGR of 16% imply a PEG ratio of 1.3x. In comparison, CRC's FY23E P/E of 28x and 19% core EPS CAGR (based on BB consensus' forecasts) imply a PEG ratio of 1.5x.

Fig 110: Peer comparison as of 17 Oct 2023

		Rating	Price	Target price	Market Cap	P/E (x)		P/BV (x)		ROE (%)		EPS Growth (%)		3-year CAGR (FY 22-25E)
Ticker	Name		(LC)	(LC)	(USDm)	FY 23E	FY 24E	FY 23E	FY 24E	FY 23E	FY 24E	FY 23E	FY 24E	Core EPS CAGR (%)
Europe/North America														
MKS LN	MARKS & SPENCER GROUP PLC		220.6	238.8	5,287	13.4	11.8	1.4	1.4	10.5	12.3	5.1	13.3	10.2
SBRY LN	SAINSBURY (J) PLC		256.2	276.9	7,372	11.5	12.3	0.7	0.8	6.2	6.6	(25.5)	(5.9)	(8.9)
TSCO LN	TESCO PLC		277.6	314.4	23,973	13.1	11.9	1.4	1.6	10.4	13.4	9.6	10.4	9.1
CA FP	CARREFOUR SA		15.9	20.1	12,079	9.4	7.8	1.0	0.9	10.4	11.5	(7.0)	19.9	9.3
CO FP	CASINO GUICHARD PERRACHON		1.1	2.2	128	18.1	5.0	0.0	0.0	1.1	4.0	102.1	259.7	na
OR FP	L'OREAL		385.6	425.7	218,007	31.7	29.0	7.1	6.3	22.9	22.7	14.3	9.3	10.5
ATD/B CN	ALIMENTATION COUCHE-TARD -B				52,408	na	na	na	na	23.7	22.6	14.5	4.2	9.8
BBY US	BEST BUY CO INC		70.8	82.8	15,400	10.7	11.4	5.5	4.9	51.6	45.4	(33.6)	(5.9)	(12.3)
WMT US	WALMART INC		161.2	177.6	433,907	26.4	24.9	5.5	5.1	19.0	20.7	24.6	5.9	13.3
HD US	HOME DEPOT INC		297.3	342.9	297,350	17.9	19.5	na	696.3	(541)	2,491	6.8	(8.3)	1.3
Europe/North America 'S AVERAGE					1,065,911	16.9	14.8	2.8	79.7	(38.5)	265.0	11.1	30.3	4.7
East Asia														
8267 JP	AEON CO LTD		3,053.0	2,546.7	17,798	96.6	81.7	2.7	2.7	2.6	3.2	310.9	18.2	82.4
4452 JP	KAO CORP		5,384.0	5,873.3	16,771	55.7	24.8	2.7	2.6	5.8	11.0	(47.2)	124.5	11.0
4912 JP	LION CORP		1,409.0	1,844.4	2,756	21.2	19.0	1.4	1.3	6.9	7.4	(13.8)	11.8	1.3
4911 JP	SHISEIDO CO LTD		4,903.0	7,182.7	13,112	54.1	28.3	3.2	3.0	6.2	11.2	5.9	91.4	37.7
3382 JP	SEVEN & I HOLDINGS CO LTD		5,299.0	6,835.8	31,405	16.4	18.2	1.4	1.4	9.1	7.4	35.6	(10.2)	15.2
004990 KS	LOTTE CORP		26,350.0		2,041	7.6	7.4			4.6	4.9	45.7	2.4	8.7
004170 KS	SHINSEGAE INC		179,300.0	279,947.4	1,304	5.4	4.7	0.4	0.4	7.7	8.3	(18.9)	14.1	1.8
002790 KS	AMOREPACIFIC GROUP		26,850.0	35,600.0	1,635	21.8	17.4	0.8	0.7	3.3	4.0	87.1	25.3	39.8
601933 CH	YONGHUI SUPERSTORES CO LTD-A		3.1	3.6	3,860	103.7	52.7	3.7	3.5	1.7	6.0	109.8	96.7	na
2912 TT	PRESIDENT CHAIN STORE CORP		259.5	304.8	8,348	24.3	22.3	7.0	6.6	29.9	31.0	19.4	9.3	11.9
East Asia ' AVERAGE					99,029	40.7	27.6	2.6	2.5	7.8	9.4	53.4	38.3	23.3
DFI SP	DFI RETAIL GROUP HOLDINGS LT		2.3	3.3	3,127	19.9	12.3	3.0	2.6	15.8	24.4	236.3	62.1	na
SINGAPORE'S AVERAGE					3,127	19.9	12.3	3.0	2.6	15.8	24.4	236.3	62.1	na
SEM MK	7-Eleven Malaysia Holdings	Hold	2.0	2.1	526	28.8	26.0	13.3	11.1	46.1	42.6	9.8	11.1	12.7
MALAYSIA'S AVERAGE					526	28.8	26.0	13.3	11.1	46.1	42.6	9.8	11.1	12.7
BJC TB	Berli Jucker	Buy	28.50	42.00	3,141	21.4	18.6	0.9	0.9	4.4	5.0	7.4	14.8	10.4
COM7 TB	Com7 PCL	Buy	29.75	37.00	1,964	20.8	17.6	8.1	6.3	38.6	35.5	13.3	18.2	16.6
CPALL TB	CP All	Buy	57.75	79.00	14,268	29.6	24.1	4.7	4.2	15.7	17.4	32.0	22.9	21.6
CPN TB	Central Pattana	Buy	63.75	75.00	7,869	20.6	18.7	3.1	2.8	15.1	15.2	31.3	10.3	16.0
CRC TB	CENTRAL RETAIL CORP PCL		39.25	50.10	6,506	28.5	23.1	3.5	3.1	12.9	14.3	15.5	23.5	18.5
GLOBAL TB	Siam Global House	Hold	15.40	17.40	2,118	24.7	22.1	3.3	3.0	12.9	13.2	(15.9)	11.9	1.8
HMPRO TB	Home Product Center	Buy	12.30	18.00	4,449	23.7	21.7	6.2	5.8	26.3	26.7	9.8	9.1	9.1
CPAXT TB	CP AXTRA PCL		29.75	37.12	8,651	33.2	26.3	1.1	1.1	3.2	3.9	22.6	26.3	21.5
MC TB	MC GROUP PCL		13.70	14.95	298	18.0	14.6	2.9	2.8	17.2	19.4	24.6	23.7	19.1
THAILAND'S AVERAGE					49,264	24.5	20.8	3.7	3.3	16.3	16.7	15.6	17.8	15.0
Global retail' average					1,217,857	27.6	21.2	3.4	27.0	(3.2)	95.5	33.3	29.7	14.3

Source: Bloomberg, Company, MST

8. Risks

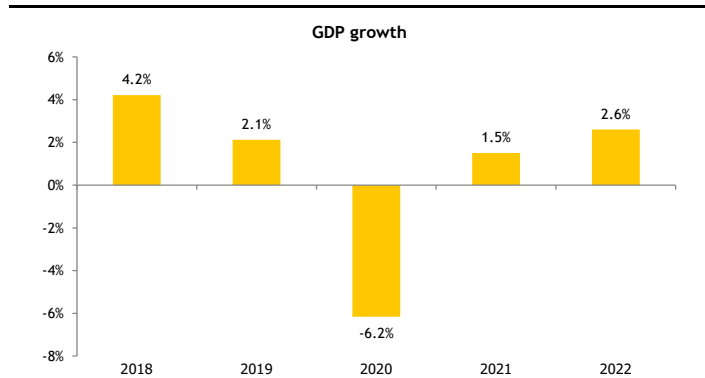
8.1 Lease renewals

CPN's business continuity depends on successful renewals of land leases as some of the company's shopping malls (19 out of 38 malls) were built upon leasehold land. Nevertheless, CPN has a solid track record of lease renewals in a timely manner. Recent lease renewals were Central Rama 2 in 2020 (the new lease ends in 2055) and Central Ladprao in 2008 (the new lease ends in 2028).

8.2 Recessions

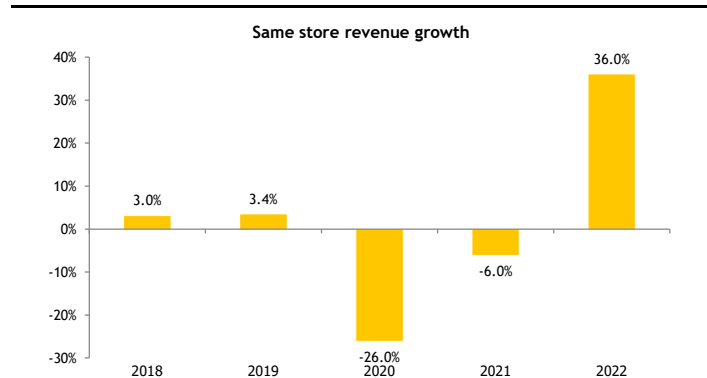
A recession is the key risk to CPN's financial performances. Substantial declines in consumer purchasing power could lead to decreases in occupancy and rental rates in the retail business. Historical data show that CPN's same-store revenue growth has a positive correlation with GDP growth.

Fig 111: Thailand's GDP growth



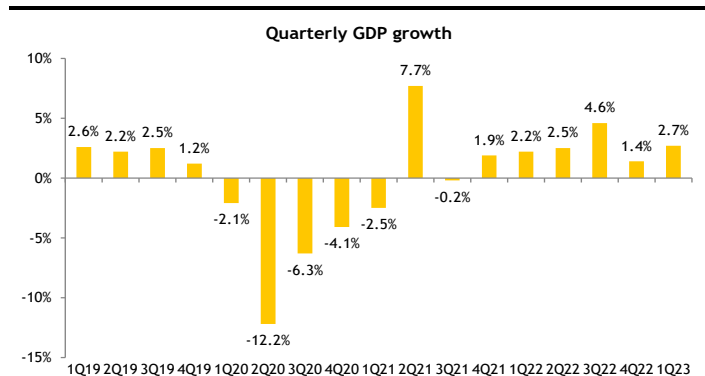
Source: BoT, MST

Fig 112: CPN's same store revenue growth



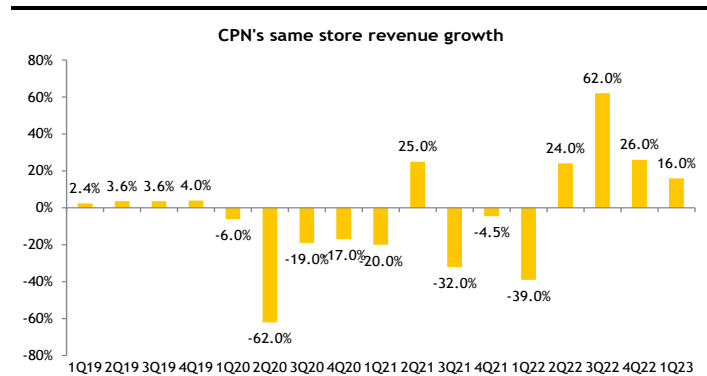
Source: Company, MST

Fig 113: Quarterly GDP growth



Source: BoT, MST

Fig 114: CPN's quarterly same-store revenue growth

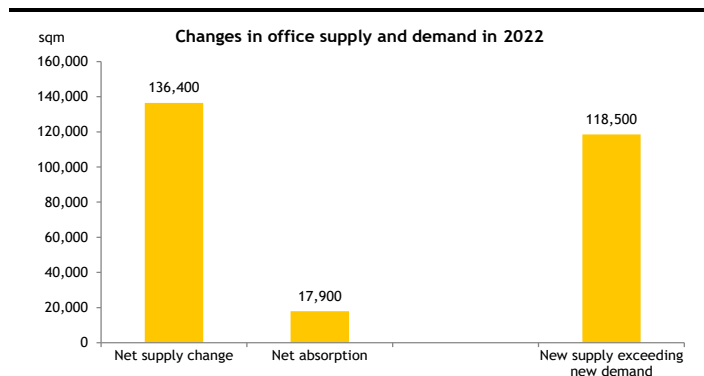


Source: Company, MST

8.3 Rising office supply in Bangkok

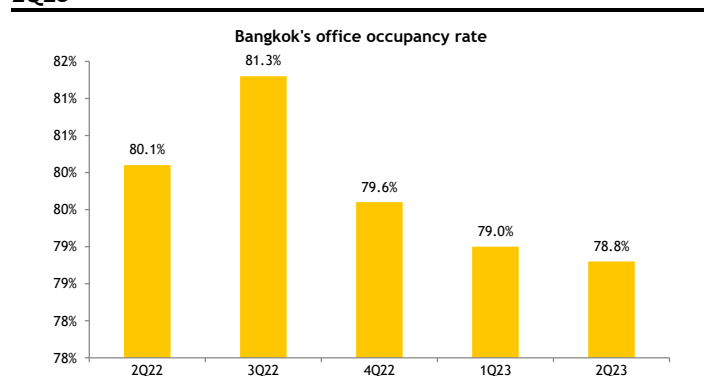
Rising office supply and hybrid work environment have hurt the office market; office contributed 4% of FY22 revenue. In 2022, net absorption of office space was 17,900 sqm in Bangkok. On the other hand, net supply increased by 136,400 sqm, resulting in six consecutive years of supply increases exceeding demand increases in the Bangkok market.

Fig 115: Changes in office supply and demand in 2022



Source: Knight Frank, MST

Fig 116: Bangkok's office occupancy rate dropped to 78.8% in 2Q23



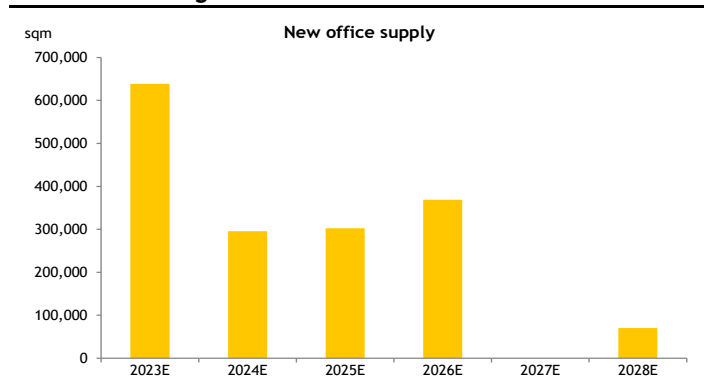
Source: Knight Frank, MST

Office supply increases continued outweighing demand increase in 1-2Q23; as a result, Bangkok's office occupancy rate dropped to 78.8% in 2Q23 from 79.0% in 1Q23 and 79.6% in 4Q22. CPN's five office buildings also saw combined occupancy rate drop to 82% in 2Q23 from 86% in 1Q23 and 90% in 4Q22.

Surges in office supply poses a risk to CPN's office revenue

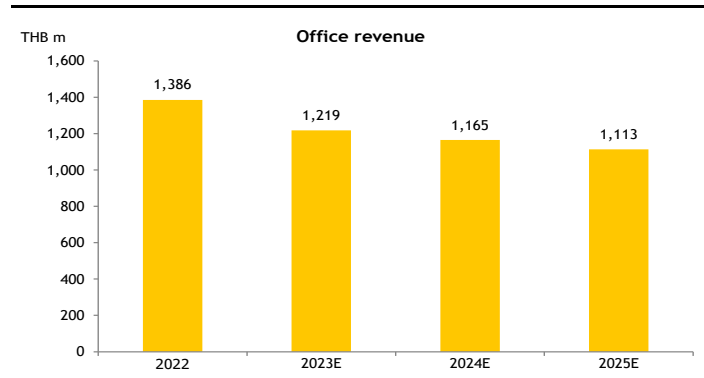
Knight Frank, real estate agent and advisor, forecasts 2023-28 new supply at 1.7m sqm, of which 638,666 sqm is scheduled to be completed in 2023. Hence, downside risk for CPN is lower-than-expected office revenue. Nevertheless, we have factored in the weak outlook by forecasting a negative revenue CAGR of 7% in FY22-25E for CPN's office business.

Fig 117: Knight Frank forecasts new office supply of 1.7m sqm to come in during 2023-28



Source: Knight Frank, MST

Fig 118: We forecast CPN's office revenue to drop in FY23-25E



Source: Company, MST

Fig 119: Top five new office buildings in terms of leasable areas during 2023-28

	Location	Expected completion	Leasable area (sqm)
One Bangkok (4 & 5)	Rama 4 (CBD)	4Q23	195,200
One Bangkok (3)	Rama 4 (CBD)	2024	96,500
One Bangkok (2)	Rama 4 (CBD)	2025	97,000
One Bangkok Signature	Rama 4 (CBD)	2026	145,000
One Bangkok - total			533,700
Central Embassy Phase II	Wireless Road (CBD)	2026	143,000
Bangkok Mall	Banga - Trad (non-CBD)	2025	100,000
BTS Park	BTS Mochit (non-CBD)	2025	70,000
Mochit Complex	BTS Mochit (non-CBD)	2028	70,000

Source: Knight Frank, MST

8.4 Other external factors

Political instability, terrorist attacks and disease outbreaks could potentially keep shoppers at home and result in weak consumer purchasing power. While CPN should remain resilient amid short-term shocks thanks to fixed rental contracts, prolonged disruptions could force CPN to offer rental discounts to tenants. For example, CPN gave rental discounts of 39%/12% to retail tenants in FY21/22 to help cushion the negative impact of Covid-19 outbreak. The discount has already normalised to 3% in 2Q23, equivalent to the pre-Covid level.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	33.4	26.1	20.7	18.8	17.4
Core P/E (x)	53.8	30.1	20.7	18.8	17.4
P/BV (x)	3.5	3.9	3.1	2.8	2.6
P/NTA (x)	3.5	3.9	3.1	2.8	2.6
Net dividend yield (%)	1.1	1.6	2.2	2.4	2.6
FCF yield (%)	nm	2.4	1.3	5.2	5.8
EV/EBITDA (x)	23.8	19.1	14.8	13.4	12.5
EV/EBIT (x)	55.6	32.1	22.5	19.8	18.4

INCOME STATEMENT (THB m)

Revenue	24,840.0	35,574.6	44,485.1	47,520.7	52,181.9
EBITDA	14,188.2	20,988.4	25,277.3	27,884.4	29,235.6
Depreciation	(8,124.2)	(8,512.0)	(8,693.2)	(9,056.1)	(9,332.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	6,064.0	12,476.4	16,584.1	18,828.4	19,903.0
Net interest income /(exp)	(369.0)	(651.5)	(1,174.2)	(1,553.6)	(1,561.8)
Associates & JV	704.0	1,559.6	1,712.6	1,662.7	2,017.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	2,629.0	(23.5)	0.0	0.0	0.0
Pretax profit	9,028.0	13,360.9	17,122.5	18,937.5	20,358.6
Income tax	(1,798.0)	(2,486.7)	(3,082.0)	(3,455.0)	(3,668.2)
Minorities	(81.5)	(114.3)	(130.0)	(143.0)	(157.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7,148.5	10,759.9	13,910.5	15,339.5	16,533.1
Core net profit	4,712.5	10,593.9	13,910.5	15,339.5	16,533.1

BALANCE SHEET (THB m)

Cash & Short Term Investments	6,057.2	6,120.7	6,718.7	5,755.0	5,514.6
Accounts receivable	4,202.6	2,942.7	1,367.1	1,499.8	1,645.4
Inventory	10,062.2	13,666.5	14,146.5	15,753.1	16,930.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	169,848.0	172,707.2	186,913.8	185,996.7	185,811.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	39,984.0	40,275.6	40,275.6	46,275.6	46,275.6
Other assets	33,266.9	36,979.2	42,073.9	44,285.3	46,611.5
Total assets	263,420.8	272,691.9	291,495.6	299,565.5	302,788.6
ST interest bearing debt	30,095.1	27,440.9	19,000.0	30,000.0	10,000.0
Accounts payable	707.6	1,274.2	1,753.0	1,749.1	1,979.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	50,684.0	52,304.0	65,000.0	52,000.0	64,000.0
Other liabilities	99,859.0	102,053.0	105,337.0	106,188.0	107,393.0
Total Liabilities	181,345.6	183,071.7	191,089.8	189,936.9	183,372.4
Shareholders Equity	73,102.3	81,474.9	92,130.6	101,210.4	110,840.7
Minority Interest	8,972.9	8,145.2	8,275.1	8,418.1	8,575.4
Total shareholder equity	82,075.2	89,620.2	100,405.8	109,628.6	119,416.2
Total liabilities and equity	263,420.8	272,691.9	291,495.6	299,565.5	302,788.6

CASH FLOW (THB m)

Pretax profit	9,028.0	13,360.9	17,122.5	18,937.5	20,358.6
Depreciation & amortisation	8,124.2	8,512.0	8,693.2	9,056.1	9,332.7
Adj net interest (income)/exp	583.6	292.3	(7.6)	(363.7)	(348.1)
Change in working capital	(3,112.5)	(1,922.1)	560.5	(3,114.5)	(2,199.7)
Cash taxes paid	(1,713.7)	(2,463.6)	(3,083.5)	(3,527.7)	(3,737.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	13,413.0	18,748.2	26,551.0	35,357.0	38,615.9
Capex	(14,745.0)	(11,178.0)	(22,897.0)	(20,297.0)	(21,997.0)
Free cash flow	(1,332.0)	7,570.2	3,654.0	15,060.0	16,618.9
Dividends paid	(3,141.6)	(2,692.8)	(5,161.2)	(6,259.7)	(6,902.8)
Equity raised / (purchased)	0.0	0.0	1,158.2	0.0	0.0
Change in Debt	34,293.1	(1,034.2)	4,255.1	(2,000.0)	(8,000.0)
Other invest/financing cash flow	(32,987.2)	(3,779.8)	(3,308.1)	(7,764.0)	(1,956.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(3,167.7)	63.5	598.0	(963.7)	(240.4)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(10.8)	43.2	25.0	6.8	9.8
EBITDA growth	(14.6)	47.9	20.4	10.3	4.8
EBIT growth	(30.4)	105.7	32.9	13.5	5.7
Pretax growth	(23.3)	48.0	28.2	10.6	7.5
Reported net profit growth	(25.2)	50.5	29.3	10.3	7.8
Core net profit growth	(35.0)	124.8	31.3	10.3	7.8
Profitability ratios (%)					
EBITDA margin	57.1	59.0	56.8	58.7	56.0
EBIT margin	24.4	35.1	37.3	39.6	38.1
Pretax profit margin	36.3	37.6	38.5	39.9	39.0
Payout ratio	37.7	48.0	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	28.8	30.2	31.3	32.3	31.7
Revenue / Assets (x)	0.1	0.1	0.2	0.2	0.2
Assets / Equity (x)	3.6	3.3	3.2	3.0	2.7
ROAE (%)	10.1	13.9	16.0	15.9	15.6
ROAA (%)	1.9	4.0	4.9	5.2	5.5
Leverage & Expense Analysis					
Asset / Liability (x)	1.5	1.5	1.5	1.6	1.7
Net gearing (%) (incl perps)	91.0	82.2	77.0	69.5	57.4
Net gearing (%) (excl. perps)	91.0	82.2	77.0	69.5	57.4
Net interest cover (x)	16.4	19.1	14.1	12.1	12.7
Debt / EBITDA (x)	5.7	3.8	3.3	2.9	2.5
Capex / revenue (%)	59.4	31.4	51.5	42.7	42.2
Net debt / (net cash)	74,721.9	73,624.2	77,281.3	76,245.0	68,485.4

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ili@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFLI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thu@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTE
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840
thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837
kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845
jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs

PHILIPPINES

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriquez@maybank.com
• Banking & Finance • Transport • Telcos
• Utilities

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer • Gaming • Property • REITs

THAILAND

Chak REUNGSINPINYA *Head of Research*
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology • REITs
• Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Adi WICAKSONO
(62) 21 8066 8686
adi.wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

Hong Kong

**MIB Securities (Hong Kong)
Limited**
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888

Fax: (63) 2 8848 5738

Sales Trading

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

Philippines

Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com