

Thai Market Compass

Digital wallet a potential boost to retail sector

A major positive driver for 2024-25E

The government has announced details of the cash handout (digital wallet) scheme as well as introduced a new tax deduction measure to support additional consumption. These measures total THB600b (over 3% of GDP) and could provide a significant uplift to 2024-25E private consumption and GDP growth. Based on our screening criteria (details below), we believe COM7 and HMPRO are potentially the two biggest beneficiaries of these measures.

Bigger-than-ever cash handout

The prime minister has finally given the conditions and implementation timeline for the long-awaited digital wallet policy (THB10,000 handout). Excluding those earning THB70k per month and those with savings above THB500k, total number of recipients are likely to reach 50m per government estimate (vs 56m without the high-earners' exclusion). Spending restrictions have been eased to within the district rather than a 4km radius. The policy will become effective in May 2024 and last 12 months. The government has also announced a separate tax deduction measure ('e-Refund') whereby purchases of up to THB50,000 can be used as a deduction against taxable income. While there is no exclusivity between the two policies, we think this will likely apply to high earners in Bangkok. At more than THB600b, these packages could become the biggest consumption stimulus measures ever.

Uncertainty abounds

We see two potential stumbling blocks for the announced stimulus measures. First, legal challenges could mean these plans may need to be scrapped altogether or scaled down significantly. Opposition parties are citing Section 140 of the Constitution (which deals with issues pertaining to state funding) and Section 53 of State Fiscal and Financial Responsibility Act (which deals with limitation on emergency funding). Second, borrowing to support the measures could total THB600b (over 3% of GDP) which could pose challenges given recent capital outflows and declining excess liquidity in Thailand.

HMPRO, COM7 potentially the biggest beneficiaries

While these measures will likely benefit all listed retailers, we believe COM7 and HMPRO are potentially the biggest beneficiaries. First, we think the schemes will favour consumer discretionary (especially those with large ticket sizes) more than staples, and as such CPALL, CPAXT and BJC are not prime candidates, in our view. Second, retailers with high gearing to retail sales in Thailand will benefit more than those with large overseas presence. This excludes names such as CRC (only 71% domestic sales) and CPN (only 47% of rental is variable with sales). Last, operators will need to have enough nationwide footprint or high exposure to Bangkok to capture most of the potential sales uplift. This last condition excludes low store count players such as GLOBAL and DOHOME. COM7 is the only retailer that fits all the criteria whereas HMPRO is likely to be the winner among home improvement stores given its relatively high exposure to Bangkok sales.

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Bloomberg code	Mkt cap (USDm)	Rating	Price (THB)	TP (THB)	Upside (%)
CPALL TB	13,914	BUY	55.75	79.00	41.7
CPN TB	8,074	BUY	64.75	75.00	15.8
CPAXT TB	7,937	HOLD	27.00	30.00	11.1
CRC TB	6,409	NR*	38.25	49.66	29.8
HMPRO TB	4,421	BUY	12.10	18.00	48.8
BJC TB	3,090	BUY	27.75	42.00	51.4
GLOBAL TB	2,418	BUY	17.40	17.70	1.7
COM7 TB	1,723	BUY	26.00	32.50	25.0
DOHOME TB	1,004	NR*	11.70	12.04	2.9

Source: MST, Bloomberg

*NR TPs are based on Bloomberg consensus

1. Bigger-than-ever cash handout

1.1 Details of the digital wallet

On 10 Nov, Prime Minister Srettha Thavisin announced details of the long-awaited digital wallet scheme. Several conditions of the THB10,000 per head cash handout scheme have been changed from the original proposal, including criteria for recipients, timeline, and spending conditions. Still, we expect the measure will provide significant uplift to domestic consumption in Thailand when it goes into effect starting in May of next year.

Fig 1: Digital wallet conditions as set out by the prime minister

Items	Conditions
Amount per recipient	THB10,000
Eligibility	16 years and older, earnings less than THB70,000 a month and having less than THB500,000 in total savings
Payment form	Digital wallet via KTB's "Pao Tung" mobile banking application
Time line	Starting May 2024, ending April 2025
Spending conditions	Within district of registered address only; first spending must be within 6 months of May 2024
Goods/services excluded	No online purchase; cannot be spent on cigarettes, alcohol, cannabis, jewelry, utilities, fuels, tuition
Convertibility	Cannot be converted into cash; cannot be used to repay debt
Conditions for shops	Must be registered on the income tax system; no need to register for VAT
Number of recipients	50m
Total budget	THB500b

Source: MST

1.2 e-Refund scheme a positive surprise

Additionally, the government has announced 'e-Refund', a tax deduction scheme for shopping spend up to THB50,000. This is likely to appease those high earners who are excluded from the digital wallet scheme. We think the total number of recipients could be up to 6m. The scheme is set to start in Jan 2024 and could last up to 2 months. The government has set up a separate budget of THB100b to accommodate this scheme although this amount also includes spending on measures to increase Thailand's long-term competitiveness.

1.3 Largest stimulus ever

The Thai government has introduced several measures to stimulate domestic consumption over the years. Since 2015, we have tallied 13 such measures which include both co-payment and tax-deduction schemes. These range in sizes from less than 0.1% of GDP to over 1.3% during Covid years.

Fig 2: Summary of past and proposed consumption stimulus measures

Number	Year	Scheme	Mechanism	Date	Duration (days)	Amount (THBb)	% of GDP	Recipients (m)
1	2015	Shop Chuay Chart	Tax deduction	25-31 Dec 2015	7	9	0.07%	1.0
2	2016	Shop Chuay Chart	Tax deduction	14-31 Dec 2016	18	17	0.12%	1.5
3	2017	Shop Chuay Chart	Tax deduction	11 Nov - 3 Dec 2017	23	23	0.15%	1.5
4	2018	Shop Chuay Chart	Tax deduction	15 Dec 2018 - 16 Jan 2019	31	12	0.07%	1.5
5	2019	Chim Shop Chai	Co-Payment	27 Sep 2019 - 31 Jan 2020	127	29	0.17%	11.8
6	2020	Shop Dee Mee Kuen	Tax deduction	23 Oct - 31 Dec 2020	70	55-120	0.35-0.77%	1.85-4.0
7	2020	Kon La Kreung 1/2	Co-Payment	23 Oct 2020 - 31 Jan 2021	152	102	0.63%	14.8
8	2021	Kon La Kreung 3	Co-Payment	1 Jul - 31 Dec 2021	183	224	1.39%	26.4
9	2021	Ying Chai Ying Dai	Co-Payment	1 Jul - 31 Dec 2021	184	4	0.02%	0.1
10	2022	Kon La Kreung 4	Co-Payment	1 Feb - 30 Apr 2022	88	62	0.36%	26.3
11	2022	Shop Dee Mee Kuen	Tax deduction	1 Jan - 15 Feb 2022	15	42	0.24%	1.5-2
12	2022	Kon La Kreung 5	Co-Payment	1 Sep - 31 Oct 2022	60	36	0.21%	24.0
13	2023	Shop Dee Mee Kuen	Tax deduction	1 Jan - 15 Feb 2023	45	56	0.31%	1.5-2
14	2024	e-Refund *	Tax deduction	From 1 Jan 2024	*	100*	*	6.0
15	2024	Digital Wallet *	Handout	May - Oct 2024	182	500	2.70%	50.0

Note: * proposed or not yet finalized

Source: MST

The two schemes together will also be one of the longest-running set of stimulus measures. The e-Refund scheme is likely to last 45 days (similar to the last round of “Shop Dee Mee Kuen” tax deduction measure. The digital wallet scheme is set to run from May 2024 to the end of April 2025. This means that, starting from January 2024, Thailand’s economy is likely to benefit from spending uplift in 14 out of the subsequent 16 months.

Fig 3 : Time line of past and proposed stimulus measures

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Jan					4	5	7	11	13	14*	15*
Feb							7	10,11	13	14*	15*
Mar							7	10			15*
Apr								10			15*
May										15*	
Jun										15*	
Jul							8,9			15*	
Aug							8,9			15*	
Sep					5		8,9	12		15*	
Oct					5	6,7	8,9	12		15*	
Nov					5	6,7	8,9			15*	
Dec	1	2	3	4	5	6,7	8,9			15*	

Note: Number in the box corresponds to measures in Figure 2

Source: MST

2. Uncertainties abound

2.1 Legal challenges could derail or scale down implementation

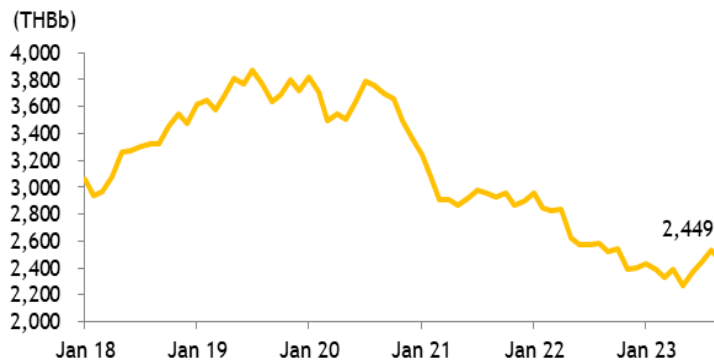
We view legal challenges as potentially the biggest stumbling blocks to get these policies forward. Unfavorable rulings by the court (should it ever get involved) could mean these stimulus measures may need to be scaled down significantly. Opposition parties are citing Section 140 of the Constitution (which deals with issues pertaining to state funding) and Section 53 of State Fiscal and Financial Responsibility Act (which deals with limitation on emergency funding). Academics also cite several potential legal challenges relating to Section 20 and 62 of Public Debt Management Act.

We note that there has been a precedent for the Constitutional Court to deem extra spending bill unconstitutional. This happened in 2013 when the government led by Prime Minister Yingluck Shinawatra proposed THB2t extra spending bill for construction of a high-speed railway. The court ruled that the bill was unconstitutional as it was not for emergency spending. As such, a similar ruling could also happen this time around as well.

2.2 Funding is less problematic

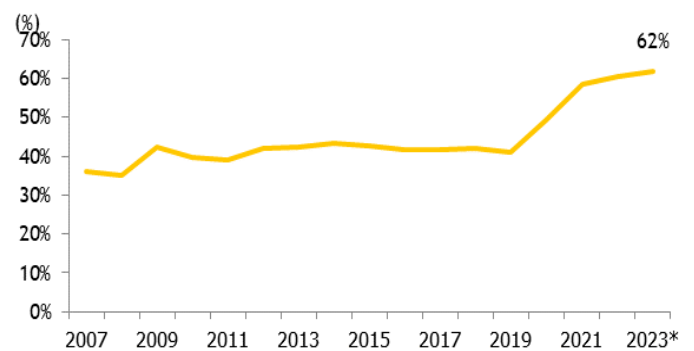
While funding for the two policies could post some challenges for the government, we think this issue is less problematic than legal challenges. Current public debt-to-GDP ratio is less than 62% which is well below the 70% limit. The extra 8% of headroom amounts to THB1.47t which we believe is more than enough to support the total amount of up to THB0.6t. We note that our discussion with both the Bank of Thailand and National Economic and Social Development Council (NESDC) suggest that typically only 85% of the handout is expected to be spent. This means the actual burden on the government could amount to THB0.51t for the two schemes combined. Even if we factor in potential new borrowing of THB0.7t for fiscal year 2024 budget deficit, we think the government will still have enough debt headroom. We think the real challenges are likely to be for fiscal year 2025. Having said that, next year is when the debt ceiling is scheduled to be review and the government may try to increase the limit to give it more leeway going forward.

Fig 4: Bank of Thailand bond outstanding



Source: BOT, MST

Fig 5: Public debt to GDP



Source: PDMO, MST

3. HMPRO, COM7 potentially the biggest beneficiaries

3.1 Schemes to favour listed players over mom-and-pop shops

We think the digital wallet scheme will favour listed players over mom-and-pop shops. First, small, local shops may not all be able to access the payment systems, and for the tax deductible scheme, not all local shops will be on the tax-reporting system. This could limit the potential number of shops that will participate in these two schemes. Second, we also see potential uncertainty over payment terms from the government. The scheme may require retailers to shoulder several months of receivables from the government after the sales are made. The significant increase in working capital requirement could make it difficult for small retailers to benefit from the scheme. Last, in the local media, we also hear discussions of potential fraud to take advantage of mom-and-pop shops whereby a third party offers to pay the shops 70-80% of the receivable values up front. This means these mom-and-pop shops would not be able to enjoy the full margins of the sales they make.

Fig 6: Retail sector valuation table

Bloomberg code	Mkt cap (USDm)	Rating	Price (THB)	TP (THB)	Upside (%)	EPS grw. (%)		P/E (x)		P/B (x)		ROE (%)		Div yld (%)	
						23E	24E	23E	24E	23E	24E	23E	24E	23E	24E
CPALL TB	13,914	BUY	55.75	79.00	41.7	32.0	22.9	28.6	23.2	4.5	4.0	16.5	18.3	1.8	2.1
CPN TB	8,074	BUY	64.75	75.00	15.8	32.8	9.7	20.6	18.8	3.1	2.9	16.2	15.9	2.2	2.4
CPAXT TB	7,937	HOLD	27.00	30.00	11.1	7.5	17.7	34.5	29.4	1.0	1.0	2.8	3.3	2.0	2.1
CRC TB	6,409	NR*	38.25	49.66	29.8	14.5	23.0	28.1	22.8	3.4	3.0	12.8	14.1	1.4	1.6
HMPRO TB	4,421	BUY	12.10	18.00	48.8	9.8	9.1	23.3	21.4	6.1	5.7	27.2	27.7	3.4	3.6
BJC TB	3,090	BUY	27.75	42.00	51.4	7.4	14.8	20.8	18.2	0.9	0.9	4.5	5.0	2.9	3.2
GLOBAL TB	2,418	BUY	17.40	17.70	1.7	-24.9	16.3	31.3	26.9	3.7	3.4	12.1	13.3	1.3	1.5
COM7 TB	1,723	BUY	26.00	32.50	25.0	3.5	13.9	19.9	17.5	7.3	6.0	39.6	37.8	3.0	3.1
DOHOME TB	1,004	NR*	11.70	12.04	2.9	-14.6	86.9	54.7	29.3	2.9	2.7	5.3	8.7	0.4	0.6

Note: * NR = Not Rated estimates and TP based on Bloomberg consensus

Source: Company data, Bloomberg, MST

3.2 Discretionary over staples

Among the listed players, we think the digital wallet and tax deductible schemes will benefit consumer discretionary more than consumer staple names. This is because we expect the multiplier effect (about 1.3x based on NESDB's estimate) to help boost spending in goods such as electronics, appliances, and furniture more rather than on consumer necessities (such as food). We also think the tax deduction measure will boost sales of large ticket items, especially among high earners in Bangkok. This means retailers with larger ticket size will likely benefit more as well. As such, while CPALL is our overall top-pick in the retail space, we do not think it will benefit as much as other selected retail names. Likewise, CPAXT's and BJC's high exposure to consumer staples will limit how much benefit they reap from these schemes.

Fig 7: Our screening criteria

Retailer	Segment	Avg store per district	Domestic retail sales exposure
CPALL	Staple	18.18	97%
CPAXT	Staple	2.91	90%
BJC	Staple	2.16	61%
COM7	Discretionary	1.38	100%
CRC	Discretionary	0.95	71%
HMPRO	Discretionary	0.13	98%
GLOBAL	Discretionary	0.09	98%
CPN	Discretionary	0.06	47%
DOHOME	Discretionary	0.02	100%

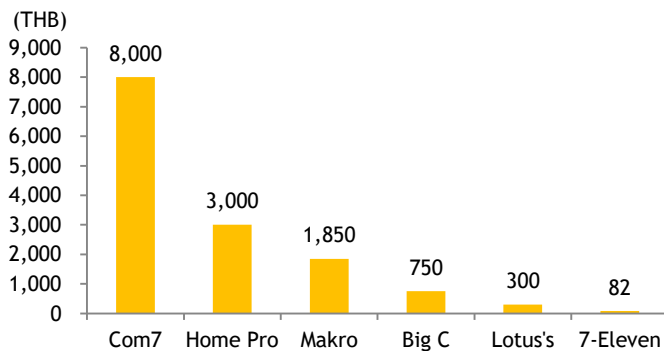
Source: Company data, MST

3.3 Location, location, location

Another screening criteria for us is the locations that listed retailers have. While GLOBAL and Dohome (DOHOME TB, not rated) fit the criteria of being listed and consumer discretionary names, they simply do not have enough footprint to capture a substantial portion of the population. GLOBAL store count is 79 whereas DOHOME's is only 21. These are relatively small numbers compared to the larger retail networks to benefit widely from the scheme given restrictions on spending within the district. It also has relatively small exposure in Bangkok, and as such may not benefit to the same extent as Home Pro on the tax deductible shopping scheme.

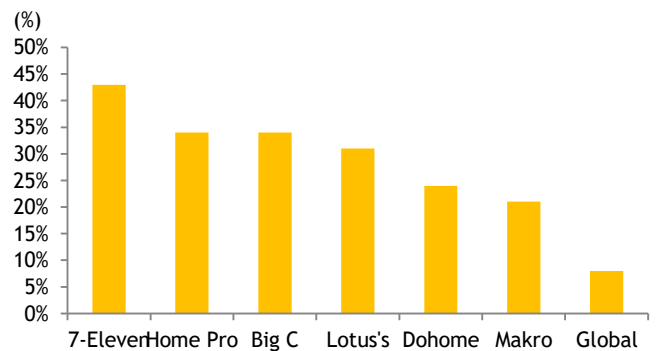
For Central Retail (CRC TB, not rated), its sale exposure in Thailand is only around 70%, and this is likely to limit how much impact both the digital wallet and tax deductible scheme will have on its earnings as overseas sales do not benefit from these measures. Likewise, while CPN could benefit from the scheme, only about 50% of its rental income is variable by sales whereas the rest is fixed. Again, this will limit how much impact the government measures could have on its revenue and bottom line.

Fig 8: Average ticket size



Source: Company data, MST

Fig 9: % of sales in Bangkok



Source: Company data, MST

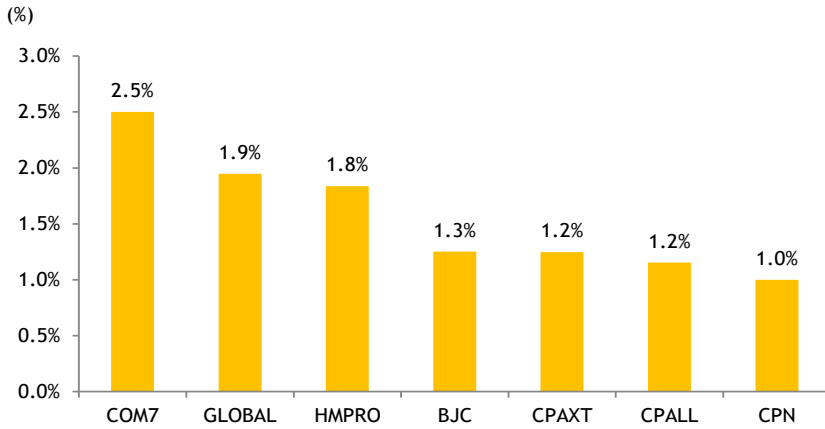
3.4 COM7 and HMPRO are potentially the biggest beneficiaries

Based on our criteria above, we think COM7 and HMPRO are potentially the biggest beneficiaries of these government stimulus measures. With nearly 1,300 stores across 75 (out of 76) provinces, COM7 has one of the widest footprints among consumer discretionary names and is likely to benefit the most from the digital wallet scheme. We also think the company is best placed to benefit from the tax deduction scheme given its average ticket size is one of the highest at THB8,000-9,000.

We also think HMPRO will be a key beneficiary. It has the largest footprint among home improvement retailers, and this is likely to help it earn more than its peers from the digital wallet scheme. Its relatively large exposure to Bangkok (nearly a third of sales) also makes it well placed to benefit from the tax deduction scheme.

In terms of earnings sensitivity to any potential sales uplift, COM7, GLOBAL, and HMPRO are the most sensitive. For every 1% uplift to SSSG, we estimate COM7 earnings will increase by 2.5%. Similar figures apply for GLOBAL and HMPRO at 1.9% and 1.8%, respectively.

Fig 10: 2024E EPS sensitivity to a 1% uplift to SSSG



Source: Company data, MST

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