

# Thailand Morning Cuppa

## Top Story & Economic Research

### Strong Expansion of Gold Bolsters April Exports

#### Economics View

- A strong expansion in gold helped exports to rise 2.1% YoY in April vs consensus estimates of a 4.6% decline. Excluding gold, oil and weapons, exports would have contracted by 7.5%.
- Rice exports expanded for the first time in 18 months as some countries halted their rice exports. This resulted in the share of food and agricultural products to total exports in April rising to about 20%, a significant increase from its average of 15%.
- While exports delivered another upside surprise in April following growth in March, we maintain our view that real exports will contract 12.4% YoY this year as the unprecedented lockdown measures to contain the COVID-19 pandemic will cause simultaneous shocks to demand and the global supply chain. The weakness in imports and production also point towards a sharp contraction in exports for the year.

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*Today's Report: [Strong Expansion of Gold Bolsters April Exports \(27 May 2020\)](#)*

*Previous Report: [COVID-19 Pandemic Update: 18-22 May 2020 \(22 May 2020\)](#)*

## Bulletins

STOCK/SECTOR	NEWS	COMMENT	RATING
Exotic Food (XO TB)	<p>Exotic Food is a Thai manufacturer of seasoning products with strong positioning in the European market (c.85% of sales).</p> <p>The company posted stabilised FY20F earnings: Robust sales orders despite the COVID-19 pandemic, lower opex YoY in 1H20, and secured raw material prices. <i>(Company)</i></p>	<p>We believe XO will greatly benefit from a surge in home cooking activities, which will become the new normal. This may boost earnings in the longer term.</p> <p>Potential earnings upsides from a new distributor: To enhance sales coverage in the UK and penetrate more new export destinations.</p>	NOT RATED
R&B Food Supply (RBF TB)	<p>R&amp;B Food Supply is the biggest local player in the production of flavour &amp; fragrance substances (36% of sales) and food coatings (36% of sales).</p> <p>Solid demand engenders a promising earnings growth outlook: Sales growth is likely above the company's target of 10-12%, improving sales mix of high-GPM flavour &amp; fragrance products, and cost-savings from new food coating facilities abroad. <i>(Company)</i></p>	<p>Overseas investments in Indonesia and Vietnam should capture the growing long-term demand for chicken and seafood processing there.</p> <p>New innovative products are in the pipeline to serve a new normal post-COVID-19 environment and sophisticated consumer behaviour, ie ingredients for food to be sold via vending machines and delivery services.</p>	NOT RATED

SISB  
(SISB TB)

Based on industry data, there is abundant room for Thailand's international school student numbers to grow in the long term. Currently, international school students number 87,000 – which accounts for only 1% of total students in the country. Industry competition is not too fragile, as there are 207 active international schools across the country, and only 20% of these are turning a profit. Among these, SISB is one of the successful school networks – having recorded more than 100% YoY net profit growth and rising GPM during FY18-19.

Although FY20 earnings will inevitably decline YoY due to the impact of COVID-19 on tuition fees, management is confident that earnings growth will resume immediately, when school operations returning to normal, ie students go back into the physical classroom. SISB should see a new high in FY21 earnings, and also strong growth due to the low base of FY20.

Looking ahead, it is prioritising the expansion of its second-best campus in Bangkok. The company will achieve this by doubling campus capacity – as this campus has performed well in terms of student number growth since commencing operations in FY17. Also, the utilisation rate is the best among its five campuses, at 75%. In the long term, SISB's expansion is to gear towards new campuses in ASEAN, by duplicating the successful model in Thailand. *(Company)*

As SISB runs affordable international schools in Thailand – annual tuition fees range from THB400,000 to THB700,000 – the impact of COVID-19 on consumer incomes could result in it gaining new students, as parents switch to cheaper schools. Presently, management is still confident about reaching its target of 200 new students for this year, which is equivalent to 7-8% YoY growth from its current 2,639 students.

From our update with SISB, we believe that management is positioning the company as a growth stock and a pure education services provider. SISB should be our preferred stock, as long as the company can generate the superb earnings growth that justifies its current market valuation of more than 30x P/E. Major catalysts include: The definite resumption of earnings right after lessons resume in the physical classroom and medium-term expansion of its second-best campus to capture another growth story for the company.

NOT RATED

Airports Of Thailand (AOT TB)

Deputy Transport Minister Thaworn Senneam has put the brakes on a plan to transfer four airports under the supervision of the Department of Airports (DOA) to Airports of Thailand to manage, saying that a thorough study was necessary to avoid legal problems and benefit the public. The four airports run by the DOA are considered state assets and their transfer to AOT, which is a state enterprise agency and a listed company, may violate the law. The transfer is aimed at providing improved services for airlines and air travellers.

The board of AOT agreed to the transfer of four airports in Udon Thani, Tak, Krabi, and Buri Ram, while the Transport Ministry had initially mulled the transfer of four airports in Udon Thani, Sakon Nakhon, Tak, and Chumphon.

Senneam said two options would likely be studied: The DOA hiring the AOT to manage the airports or the latter leasing and managing the airports and investing in airport upgrades. (Bangkok Post)

We believe the transfer of the four airports to AOT will remain an overhang issue, due to:

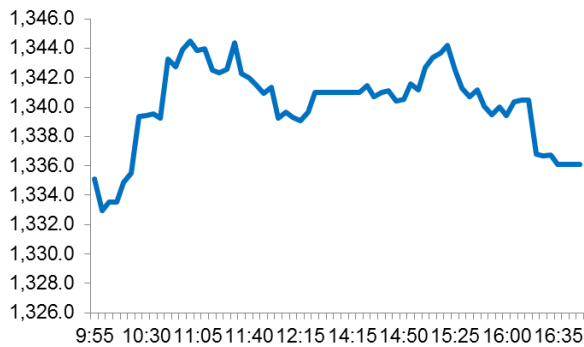
- i. The effect of COVID-19 on a slow recovery in Thailand's tourism industry during the next couple of years;
- ii. AOT's weakening earnings and financials;
- iii. State legal issues mostly taking more than a year to come to any conclusion.

The weak air traffic numbers have caused a delay in the planned opening of Suvarnabhumi Airport's extension terminal to 2H21F, and we expect other developments may be extended afterwards, including the Suvarnabhumi Airport City commercialised project. Despite market expectations over the easing of lockdown measures in the kingdom, international flights and visitors – the company's key sources of income – will be continue to be banned in June. This ban may be extended further if COVID-19 abroad continues to remain uncontrolled.

We maintain a bearish view on AOT's outlook for this year and the next, expecting FY20-21 (Sep) YoY core profit growth at -72% and +13%. Operations should return to pre-COVID-19 levels in 2QFY22. We also expect the company to book a c.THB3bn core loss in 3QFY20, as a result of the weakest-ever air traffic numbers to date.

SELL,  
TP: THB41.00

**Chart 1: SET intra-day graph**



SET	2017	2018	2019	2020F
PE (x)	17.60	16.25	19.72	15.81
P/BV (x)	2.03	1.74	1.50	1.43
Yield (%)	2.80	3.35	2.82	3.11

SET Value by investor Type: Daily	Sell (THBm)	Net (THBm)
Institution	9,927.70	4,994.47
Proprietary	7,097.96	5,940.29
Foreign	21,344.92	22,612.59
Retail	35,583.85	40,407.08

SET Value by investor Type	MTD (THBm)	YTD (THBm)
Institution	15,464.70	65,212.77
Proprietary	1,469.27	-1,368.37
Foreign	-34,516.43	-196,847.20
Retail	17,582.46	133,002.79

SET50 Index Future	Long	Short	Net	MTD	YTD
Institution	31,040	29,367	1,673	13,340	-10,387
Foreign	42,026	44,352	-2,326	-12,320	104,936
Local	63,272	62,619	653	-1,020	-94,549

Foreign Fund Flows (USDm)	MTD	YTD	YoY		
Thailand	-39.7	-44.5	-1075.9	-6154.5	-1782.0

Note: \*As at 26 May 2020 closing

**Table 1: Key market indices (27 May 2020)**

	Index	Chg	Chg (%)	YTD (%)
SET	1336.09	15.11	1.14%	-15.4%
SET50	888.53	10.47	1.19%	-16.8%
SET100	1960.27	23.57	1.22%	-16.3%
Dow Jones	24995.11	529.95	2.17%	-12.4%
S&P500	2991.77	36.32	1.23%	-7.4%
Nasdaq	9340.22	15.63	0.17%	4.1%
FTSE	6067.76	74.48	1.24%	-19.6%
FSSTI	2530.30	30.47	1.22%	-21.5%
Hang Seng	23384.66	432.42	1.88%	-17.0%
Nikkei	21271.17	529.52	2.55%	-10.1%
KLCI	1436.76	UNCHG	UNCHG	-9.6%
SHANGHAI SE	2846.55	28.58	1.01%	-6.7%
JCI	4626.80	80.85	1.78%	-26.6%

**Foreign Exchange Rates / Oil Market**

USD	Closed	Chg	Chg (%)
Baht (Onshore)	31.88	-0.01	0.04
Yen	107.49	-0.05	0.05
Euro	1.10	0.00	-0.03

Oil Price (USD/barrel)		Chg	Chg (%)
Brent	35.55	0.56	1.60
Nymex-Crude Light	33.93	-0.42	-1.22

Note: \*As at 26 May 2020 closing

**Top BUYs**

	TP (THB)	Upside (%)	Catalysts
<b>Advance Info Service (ADVANC TB)</b>	220.00	15.18	<ul style="list-style-type: none"> <li>Better profitability due to the TOT litigation settlement (for towers and 2G equipment) that could decrease its network opex by THB3.2bn pa</li> <li>Strong convergence services portfolio, with a low base of fixed broadband customers who should benefit from the shift in the industry's acquisition trends</li> <li>The scaling up of FBB units that expect to turn profit on EBITDA level this year</li> </ul>
<b>Berli Jucker (BJC TB)</b>	49.00	17.37	<ul style="list-style-type: none"> <li>A fully integrated consumer supply chain that may strongly benefit the purchase of necessities during the COVID-19 pandemic</li> <li>Expect favourable 1H20F results, to be driven by both total sales and efficient cost management of its Big C Supercenter and consumer products manufacturing, which have contributed as much as 75% to earnings</li> <li>Better packaging sales (18% of earnings) to be driven by massive runs of aluminium cans production for new local customers and exports to Vietnam post the customer transition period throughout 2019</li> <li>Long-term synergy with its parent TCC Group's aggressive business expansion in Cambodia, Lao, Vietnam, and Myanmar</li> </ul>
<b>Charoen Pokphand Foods (CPF TB)</b>	35.00	20.69	<ul style="list-style-type: none"> <li>The uptrend of its core business should be prolonged, given the tighter supply conditions due to the African Swine Fever outbreak in Asia, with relatively low feed costs that remain in place – although Charoen Pokphand Foods should benefit from lower policy rates and a weakening THB</li> <li>Upside from the acquisition of Tesco Thailand and Tesco Malaysia. While we expect the company to enhance its fresh products distribution channel by tapping into the hypermarket network, we think CPF could also ramp up its food services in Tesco's retail space, going forward</li> <li>Other positive synergies include cost savings on logistics network sharing, inventory turnover, and cross-selling between retail trading formats</li> </ul>
<b>Chularat Hospital (CHG TB)</b>	2.80	9.38	<ul style="list-style-type: none"> <li>Pure local play for a healthcare provider in Thailand that has limited exposure to the international segment (&lt; 3%)</li> <li>Upward price adjustments from the Social Security Scheme (30% of revenue) will start to fully kick in this year</li> <li>The volume ramp-up of two new projects and expansion in its pipeline should bolster mid-term growth</li> </ul>
<b>Global Power Synergy (GPSC TB)</b>	80.00	2.56	<ul style="list-style-type: none"> <li>We expect two deals to be announced this year in 2H20. One is a 40MW portfolio worth THB3bn. The other is a gas-to-power project. Phase 1 of the c.60-1,200MW project is expected to be in the investment range of c.USD360-960m, depending on size and costs</li> <li>We also like GPSC's shift towards being greener. It will also start to produce semi-solid state batteries by November/December – we believe there is strong growth potential in this business segment</li> </ul>
<b>PTT Exploration &amp; Production (PTTEP TB)</b>	108.00	24.14	<ul style="list-style-type: none"> <li>PTT Exploration &amp; Production is a good proxy for crude oil price. We expect crude oil price to average USD45.00 in 4Q20</li> <li>We expect OPEC+'s 7.7mbpd production restraint in 2H20 to have a positive impact on the global oil market. We expect delivery to recover, higher-cost producers to shut-in uneconomical wells, and the global inventory to drawdown</li> <li>70% of PTTEP's earnings are from natural gas, which is sold to PTT via long-term take or pay contracts. The natural gas price is indirectly linked with crude oil with time lag of 1-6 months. The remaining portion of its products are liquids, which are sold at the market price of crude oil</li> <li>We expect PTTEP's sales volume to be boosted YOY as a result of its recent acquisitions (Murphy and Partex). We are also positive on its SK410B natural gas find in Malaysia, which may be fast-tracked into development</li> </ul>
<b>Thai Union Group (TU TB)</b>	16.00	25.00	<ul style="list-style-type: none"> <li>THB depreciation and low inventory cost on hand should become its key catalyst this year</li> <li>Private labels should see a turnaround post sluggish original equipment manufacturers' orders in 2H19. This was due to customer speculation on low tuna price levels</li> </ul>

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