

# Thailand Morning Cuppa

## Top Story

### LPN Development (LPN TB, SELL, TP: THB3.00)

Another Weak Quarter In 2Q21; Still SELL

Company Update

Maintain SELL and THB3.00 TP, 40% downside. As LPN Development has released its 2Q21 presales data, we continue to expect its recovery to be sluggish. Its FY21 earnings should remain at a low-base level, without any signs of improvement for the next three years. Also, FY21 earnings are heavily reliant on its 2H21 performance – which should be dampened by the new wave of COVID-19 infections in Thailand.

Analyst: Chatree Srismacharoen +66 2088 9743

*Today's Report: LPN Development : Another Weak Quarter In 2Q21; Still SELL (14 Jul 2021)*

*Previous Report: LPN Development : Weak Earnings Momentum Inevitable; SELL (7 May 2021)*

Chart 1: SET intra-day graph



SET	2018	2019	2020	2021F
PE (x)	16.23	18.10	26.21	29.86
P/BV (x)	1.74	1.70	1.62	1.73
Yield (%)	3.35	3.26	2.75	2.30

SET Value by investor Type: Daily	Buy (THBm)	Sell (THBm)	Net (THBm)
Institution	6,002.63	3,517.72	2,484.90
Proprietary	7,300.63	7,694.48	-393.85
Foreign	31,955.95	30,519.32	1,436.63
Retail	29,963.77	33,491.46	-3,527.68

SET Value by investor Type	MTD (THBm)	YTD (THBm)
Institution	-3,206.46	-43,998.20
Proprietary	824.55	7,373.37
Foreign	-5,813.15	-82,075.34
Retail	8,195.05	118,700.16

SET50 Index Future	Long	Short	Net	MTD	YTD
Institution	35,208	42,314	-7,106	-7,261	37,446
Foreign	77,756	46,734	31,022	19,901	-3,317
Local	75,767	99,683	-23,916	-12,640	-34,129

Note: \*As at 13 Jul 2020 closing

Table 1: Key market indices (14 Jul 2020)

	Index	Chg	% Chg
SET	1570.99	+21.15	+1.36
SET50	944.31	+12.07	+1.29
SET100	2156.05	+28.93	+1.36
Dow Jones	34888.79	-107.39	-0.31
Nasdaq	14677.65	-55.59	-0.38
S&P500	4369.21	-15.42	-0.35
FTSE	7124.72	-0.70	-0.01
FSSTI	3166.81	+19.67	+0.63
Hang Seng	27963.41	+448.17	+1.63
Nikkei	28718.24	+149.22	+0.52
KLCI	1519.56	+6.67	+0.44
SHANGHAI SE	3566.52	+18.68	+0.53
JCI	6012.03	-66.54	-1.09

Note: \*As at 13 Jul 2020 closing

## Bulletins

STOCK/SECTOR	NEWS	COMMENT	RATING
Consumer – Retail Berli Jucker (BJC TB) CP All (CPALL TB) Home Product Center (HMPRO TB)	<p>The Cabinet on Tuesday approved relief measures for operators and people affected by lockdown measures in 10 dark red zone provinces in Greater Bangkok and the far south. These measures are for one month (July). The aid is limited to those in nine sectors, including construction, accommodation, entertainment &amp; recreational activities, transportation &amp; warehouses, and retail, amongst others.</p> <p>It was considered based on workers' descriptions under the Social Security Act. Company employees (under Section 33) will get compensation equal to half their salaries, but totaling not more than THB10,000 each for Thai nationals. Registered self-employed people or freelancers (Sections 39 and 40) will be given THB5,000 each. Those who have not registered with the Social Security Office may do so within this month to qualify for this scheme.</p> <p>Operators who hire workers under the social security system will get compensation equal to THB3,000 per employee, but not more than THB600,000 in total. The aid for the operators and employees is estimated at THB30bn. The Government will also provide utility subsidies worth THB12bn for businesses and households in July and August. (<i>Bangkok Post</i>)</p>	<p>The relief measures may be a positive sentiment to the retail sector, as it supports individuals' living expenses and small businesses' financials in the short term. However, the measures may continue in case COVID-19 in Thailand continues its spread and is yet to be under control.</p> <p>We expect eligible workers to spend these subsidies mainly on necessities and debt repayments. It may be positive to staple retailers, including Berli Jucker (BJC) and CP All (CPALL), as well as the latter's Siam Makro subsidiary. Nonetheless, there is downside to retailers' 2021F earnings based on the ongoing severe pandemic spread, which may undermine their 3Q21 outlooks and 2H21 momentums.</p> <p>We still maintain our sector call and look forward to a recovery from 4Q21, with continued government stimulus packages as key support. Our Top Pick remains CPALL as a long-term investment, as Lotus's improving performance in the post-transition period may strengthen equity profits and the long-term earnings growth outlook. Home Product Center (HMPRO) is another pick, given the rising demand for work-from-home products, as well as a smaller impact from lockdowns, as home improvement stores are still operating as normal. We retain our calls and TPs for BJC, CPALL, and HMPRO.</p>	<p><b>Sector:</b> NEUTRAL</p> <p><b>Stocks:</b> BJC: BUY, TP: THB44.00</p> <p>CPALL: BUY, TP: THB75.00</p> <p>HMPRO: BUY, TP: THB17.00</p>

Global Synergy (GPSC TB)	Power On 13 Jul, Global Power Synergy announced that its wholly owned Global Renewable Synergy (GRSC) subsidiary has completed the acquisition of shares in India's Avaada Energy (Avaada). GRSC has invested in the latter by way of subscribing in new shares of approximately 41.6% in Avaada – the total investment amounts to THB14,825m.  Avaada has developed – and is operating – a large portfolio of solar power plants in India, with a total capacity of 3,744MW (operating: 1,392MW; under construction: 2,352MW, with expected commercial operations by 2021-2022). It aims to expand its renewable energy portfolio in accordance with the significant growth expected in electricity demand in the South Asian nation. (SET)	Finally, this is a significantly positive investment – something that investors and analysts have been waiting for since the acquisition of Glow Energy in 2019. With a total 41.6% investment in Avaada, this translates into 1,557MWe, adding 30.8% to GPSC's currently capacity of 5,055MWe. Basically, our study suggests that every 100MWe increase will result in an upside of THB1.20-1.30 per share. Given a THB20bn facility with a 3% pa interest rate from the parent, net D/E should rise 0.2x to 0.9x – below the internal policy of less than or equal to 1x. Hence, there is no need for a cash call, in our view.  This deal aligns with GPSC's goal to increase more renewable energy capacities internationally and also enhance its expertise in solar and collaborations with partners. In addition, we believe Street is likely to respond to this development in positive ways, as this deal is GPSC's maiden foray in India and should provide more investment opportunities there. The South Asian country has also set a goal to add its renewable portion by up to 450GWh by 2030 from 73GWh now.  We also believe consensus – including us – will revise up GPSC's forecasts and TPs sooner, ie as soon as management provides more details. While retain our call and TP for now, we will update again accordingly.	BUY, TP: THB82.00
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**Top BUYs**

	TP (THB)	Upside (%)	Catalysts
<b>Airports of Thailand (AOT TB)</b>	73.50	18.07	<ul style="list-style-type: none"> <li>3QFY21 (Sep) is likely the weakest quarter, as domestic aviation has led AOT's performance and the severe COVID-19 third wave may dampen local tourism activities. Cost optimisation efforts have been implemented effectively since 3QFY20, but variable expenses rose in tandem with a recovery in aeronautical activities post lockdown</li> <li>Regarding the Government's border re-opening scheme from Jul 2021 onwards, we expect some positive sentiment on the Phuket Sandbox Model towards AOT, as Phuket International Airport is its third-largest property</li> <li>As the first-tier tourism player, AOT may strongly underpin the revival of the tourism industry, while the weakening short-term sentiment and earnings present investors with an opportunity to BUY</li> </ul>
<b>Home Product Center (HMPC TB)</b>	17.00	20.57	<ul style="list-style-type: none"> <li>Expecting normalising earnings in FY21 – to be supported by full-year operations of all stores and retail malls vs a temporary closure from late March to mid-May, with profit margins approaching pre-pandemic levels</li> <li>HMPRO's investment in Vietnam may strongly benefit growing urbanisation and a potential rise in the construction sector</li> <li>Quarterly earnings momentum will continue its upward trajectory in 1Q21</li> <li>Rapid improvement in sustainability development may allow the stock to continue trading at a premium</li> </ul>
<b>Kasikornbank (KBANK TB)</b>	160.00	37.34	<ul style="list-style-type: none"> <li>One of opening theme plays, given the highest exposure to the small &amp; medium enterprise or SME portion among the banks we cover or TH Banks</li> <li>Investors should look forward to an eventual recovery, as the recovery in the short term is likely to be uneven and take time before reaching pre-COVID-19 levels</li> <li>The bank trends to disrupt itself with new technologies. We believe this strategy will help the bank to improve profitability and quality in the long run</li> <li>FY21F earnings outlook is forecasted to rebound 8.5% in line with sector earnings. This is due to lower provisions and a rebound in net fees income</li> <li>Our valuation is conservative and its share price is trading below -1SD from the historical mean, which is compelling</li> </ul>
<b>Mega Lifesciences (MEGA TB)</b>	43.00	10.97	<ul style="list-style-type: none"> <li>Rising health consciousness post-COVID-19 and an aging society may be tailwinds for demand on wellness products. These factors may strongly support MEGA's longer-term outlook based on its key strategies: New product launches in consumer and pharmaceutical healthcare, penetration into new markets, and capturing vast growth opportunities at existing underpenetrated destinations</li> <li>Eyeing to launch its hemp-based products (tablets and liquid), with its strength in owned R&amp;D processes. It is waiting for the Government's finalised regulations, likely by 2H21</li> <li>Operations in Myanmar (c.40% of revenue) may see modest impact from the political unrest. Its Maxxcare distribution business remains operational</li> <li>To continue to deliver YoY profit growth in 2Q21 despite being the weakest quarter, driven by its branded business. Possible recovery in Thailand's local activities and a seasonality effect may improve MEGA's 2H21F earnings momentum vs 1H21F</li> </ul>
<b>PTT Exploration &amp; Production (PTTEP TB)</b>	131.00	14.91	<ul style="list-style-type: none"> <li>We like PTTEP as a good proxy to stronger commodity prices</li> <li>2Q21 earnings is expected to register stronger results on the back of stronger sales volume and crude prices</li> </ul>
<b>PTT Global Chemical (PTTGC TB)</b>	76.00	31.03	<ul style="list-style-type: none"> <li>Bumper 1H21 earnings expected from robust petrochemical product spreads to translate into a strong FY21F rebound in YoY performance</li> <li>Current uptrend in oil prices also expected to see PTTGC regain its gas-based crackers' relative cost advantage over industry peers operating naphtha-based crackers</li> </ul>
<b>Siam Cement (SCC TB)</b>	500.00	16.28	<ul style="list-style-type: none"> <li>Petrochemicals is currently in an upcycle. HDPE-naphtha spread in 1Q21 should remain as high as levels recorded in 4Q20, while the polypropylene-naphtha spread reached another high in 1Q21. SCC's polyolefin sales volumes returned to normal levels after the turnaround of the Map Ta Phut olefin cracker was completed in 4Q20</li> <li>The improvement in cement &amp; building materials business should be noticeable in 1Q21, with cement demand growing 1-2% in Thailand. This would be due to stronger demand from the residential property sector in provincial areas, and continuously solid demand stemming from government infrastructure projects</li> <li>FY21 will start out with strong earnings growth in 1Q21, while the petrochemical division may be driven by higher production volume after de-bottlenecking the Map Ta Phut olefin cracker finishing 2Q21. For 2H21, we expect a brighter outlook for the cement &amp; building materials business especially in ASEAN countries, when construction activities resume to normal</li> </ul>
<b>Tisco Financial (TISCO TB)</b>	111.00	20.00	<ul style="list-style-type: none"> <li>Superior asset quality to peers and strong capital base – highest among TH Banks – made TISCO deserve to trade at premium valuation.</li> <li>Its c.7% dividend yield is compelling and relatively highest among TH banks, with full-year payment basis.</li> <li>We believe TISCO's conservative strategy amidst the pandemic will be proper, allowing the bank to survive post COVID-19</li> <li>FY21 earnings is expected to rebound 7%YoY mainly on lower provisions and a rebound in net fees income, despite moderated NII and a slight increase in overheads</li> </ul>

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