

INVESTMENT BANKING
Top Thailand Small Cap Companies

20 Jewels 2020 Edition



TOP THAILAND SMALL CAP COMPANIES

20 JEWELS

2020 EDITION

THAILAND

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<See important disclaimer and disclosures at the end of this report>

CONTENTS

List Of Companies By Alphabetical Order

After You PCL.....	1
Bangkok Aviation Fuel Service PCL.....	3
Chularat Hospital PCL.....	5
Com7 PCL	7
Diamond Building Products PCL.....	9
Eastern Water Resources Development and Management PCL	11
Exotic Food PCL.....	13
GFPT PCL	15
Mega Lifesciences PCL	17
Netbay PCL.....	19
Praram 9 Hospital PCL.....	21
PTG Energy PCL	23
R&B Food Supply PCL	25
Seafo PCL	27
SISB PCL	29
Sri Trang Agro-Industry PCL	31
Team Consulting Engineering & Management PCL	33
Thanapiriya PCL	35
TQM Corporation PCL.....	37
WHA Utilities & Power PCL	39

List of Companies By Industry Classification

Agribusiness

GFPT PCL	15
Sri Trang Agro-Industry PCL	31

Commerce

COM7 PCL	7
Mega Lifesciences PCL	17

Construction Materials

Diamond Building Products PCL	9
-------------------------------	---

Construction Services

Seafo PCL	27
-----------	----

Energy & Utilities

Bangkok Aviation Fuel Service PCL	3
Eastern Water Resources Development & Management PCL	11
PTG Energy PCL	23
WHA Utilities & Power PCL	39

Food & Beverage

R&B Food Supply PCL	25
---------------------	----

Health Care Services

Chularat Hospital PCL	5
Praram 9 Hospital PCL	21

Insurance

TQM Corporation PCL	37
---------------------	----

Mai

After You PCL	1
Netbay PCL	19
Thanapiriya PCL	35
Exotic Food PCL	13

Professional Services

SISB PCL	29
Team Consulting Engineering & Management PCL	33

Foreword

The facts: The Thailand Top Small Cap Jewels Handbook 2019, which featured 20 small-cap stocks, provided negative absolute returns – an average of -25% – which is slightly deeper than the SET's -22%, but better off than the MAI Index's -30%. However, these counters outperformed in terms of average returns: 16%, or the highest price returns reached between 30 Apr 2019 and 30 Apr 2020. This figure is higher than the SET and MAI Indices' returns of 4% and 3% over the same period.

This year, in order to be more alpha in terms of ideas in today's tough market, there are 12 companies in this handbook we have not covered before. We hope investors find this book valuable and discover new ideas, which ought to generate excess returns for their respective portfolios.

RHB Research wishes to express our gratitude to the management teams of the featured companies for their generous time in helping us better understand their respective business models – allowing us, in turn, to share our views and opinions. Credit is also due to our dedicated team of analysts who have invested countless man-hours to produce this year's edition. RHB Thailand Research team remains humbled and encouraged by the continued interest and support of all institutional and retail clients of RHB Investment Bank.

Kasamapon Hamnilrat

Head of Thailand Research RHB Securities (Thailand) PCL
14 May 2020

Price performance of the 20 small-cap stocks featured in the 2019 edition

Ticker	Name	Closing price (THB)		Absolute return in 2019	Highest price reached	Date of highest price	Return +/-
		30-Apr-19	30-Apr-20				
SET	SET Index (pts)	1,673.52	1,301.66	-22%	1,740.91	1-Jul-19	4.0%
MAI	MAI Index (pts)	366.15	256.19	-30%	376.20	24-Jul-19	3%
1 ASK TB	Asia Sermkij Leasing	23.60	16.60	-30%	27.00	20-Jan-20	14%
2 BKD TB	Bangkok Dec-Con	2.90	2.00	-31%	2.94	26-Jul-19	1%
3 BEC TB	BEC World	9.00	4.90	-46%	10.80	26-Jul-19	20%
4 CHG TB	Chularat Hospital	1.96	2.46	26%	2.82	27-Jan-20	44%
5 COL TB	COL	24.70	14.10	-43%	25.00	2-May-19	1%
6 COM7	COM7 PCL	19.70	21.50	9%	29.75	4-Nov-19	51%
7 DRT TB	Diamond Building Product	5.45	5.35	-2%	6.50	17-Feb-20	19%
8 DCC TB	Dynasty Ceramic PCL	2.06	1.53	-26%	2.26	30-Jul-19	10%
9 EASTW TB	Eastern Water Resources	11.40	10.00	-12%	13.70	10-Jul-19	20%
10 GFPT TB	GFPT PCL	15.50	11.40	-26%	18.80	23-Aug-19	21%
11 GOLD TB	Golden Land Property	8.30	7.90	-5%	8.60	17-Sep-19	4%
12 KGI TB	KGI Securities	4.34	3.86	-11%	4.76	22-Jul-19	10%
13 MAJOR TB	Major Cineplex	28.50	14.60	-49%	30.75	19-Jun-19	8%
14 THANI TB	Ratchthani Leasing	6.20	3.96	-36%	7.80	8-Aug-19	26%
15 SEAFCO TB	Seafoo	7.55	5.30	-30%	8.70	1-Jul-19	15%
16 SYNEX TB	Synnex Thailand	11.50	6.15	-47%	11.80	10-Jul-19	3%
17 ERW TB	The Erawan Group	6.95	3.06	-56%	7.10	3-May-19	2%
18 PLAT TB	The Platinum Group	6.05	3.10	-49%	6.45	23-Jul-19	7%
19 TK TB	Thitikorn	10.30	8.90	-14%	11.30	11-Jun-19	10%
20 WHAUP TB	Wha Utilities and Power	5.90	4.72	-20%	7.45	3-Sep-19	26%
Simple average return				-25%			16%

20 Jewels – at a glance

Company name	FV	Mkt Cap (THBm)	P/E (x)		P/BV (x)		Div Yield (%)		ROE (%)	
	(THB)		FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
After You PCL	na	7,218.0	49.0	30.4	7.5	7.0	2.1	3.3	15.6	23.8
Bangkok Aviation Fuel Service PCL	na	14,662.4	11.2	11.6	1.5	1.5	7.4	6.8	16.0	16.0
Chularat Hospital PCL	2.8	27,060.0	41.2	37.1	7.5	7.0	2.0	1.9	18.4	19.5
Com7 PCL	na	25,800.0	29.2	21.2	9.3	7.6	2.3	3.7	35.1	39.5
Diamond Building Products PCL	na	5,024.2	11.9	8.8	2.4	2.2	6.8	7.5	20.4	25.3
Eastern Water Resources Development and Management PCL	na	16,637.0	14.9	15.9	1.5	1.5	4.7	4.7	10.3	9.5
Exotic Food PCL	na	2,209.0	8.3	18.1	2.5	2.8	16.7	3.0	34.3	16.0
GFPT PCL	na	14,168.0	20.5	17.8	1.7	1.6	1.7	1.5	8.5	9.2
Mega Lifesciences PCL	35.0	25,284.2	23.3	22.9	4.4	5.1	2.4	2.0	18.8	18.9
Netbay PCL	na	6,250.0	42.0	34.9	13.2	12.5	2.4	3.1	31.5	35.8
Praram 9 Hospital PCL	na	5,425.5	44.8	21.8	2.3	1.5	1.8	2.2	5.2	7.2
PTG Energy PCL	na	23,213.0	37.6	14.6	4.3	3.5	1.4	3.6	11.5	24.0
R&B Food Supply PCL	na	9,400.0	21.5	26.5	3.3	2.4	3.6	3.2	14.5	11.8
Seafoo PCL	na	3,883.0	9.6	9.5	2.5	2.4	5.9	5.0	26.2	25.0
SISB PCL	na	8,084.0	78.1	36.6	5.1	4.4	na	1.2	6.5	12.1
Sri Trang Agro-Industry	na	19,968.0	9.7	na	0.8	0.8	5.0	2.7	8.3	na
Team Consulting Engineering and Management PCL	na	1,400.0	12.3	12.1	1.5	1.5	7.3	5.3	12.2	12.5
Thanapiriya PCL	na	1,648.0	25.3	18.6	2.5	2.3	1.7	2.4	10.4	13.1
TQM Corporation PCL	na	23,625.0	58.4	46.6	11.0	10.1	0.4	2.2	18.8	21.6
Wha Utilities and Power	7.5	17,901.0	7.9	9.4	1.7	2.2	4.2	4.5	21.6	15.4
Average		12,595.6	27.8	21.8	4.3	4.0	4.2	3.5	17.2	18.7

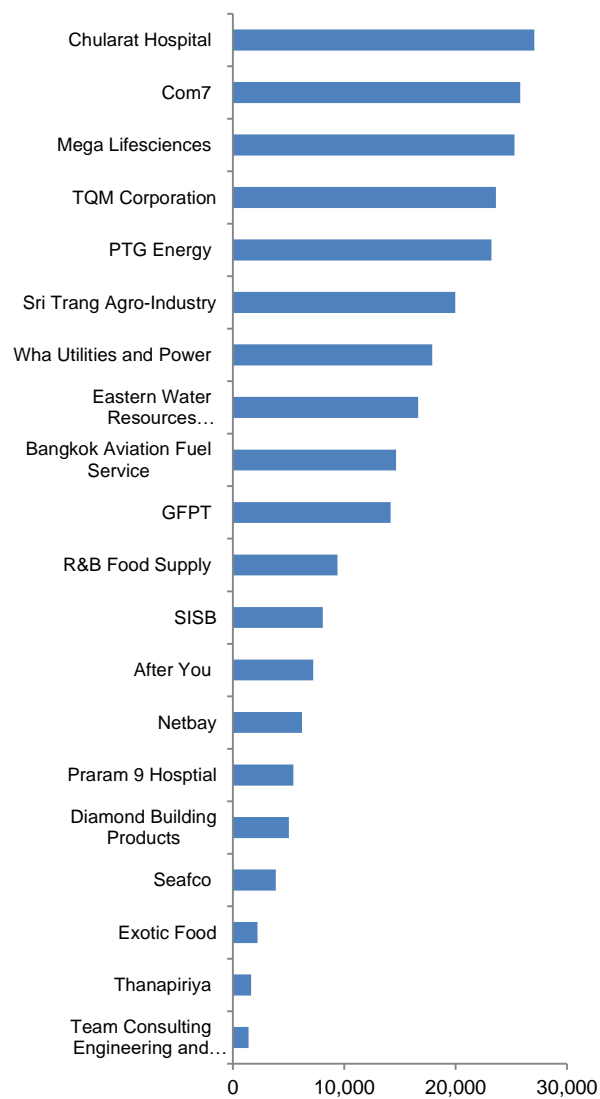
Note: All prices as at 30 April 2020

Note 2: na = not available

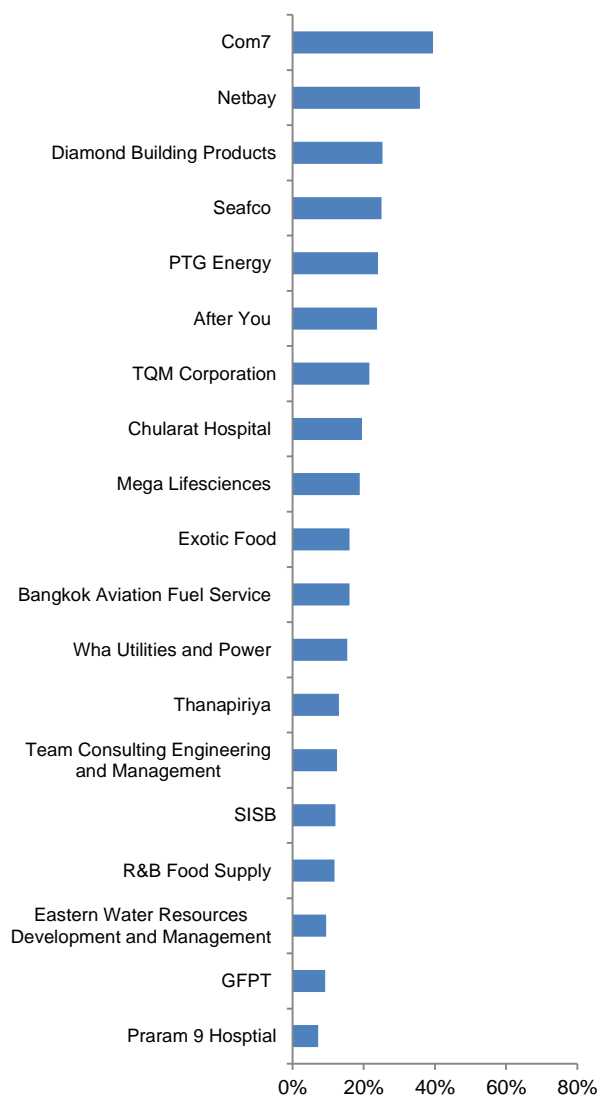
Source: Bloomberg, RHB

Market capitalisation of the Top 20 (THBm)

FY19 ROE of the Top 20 (%)



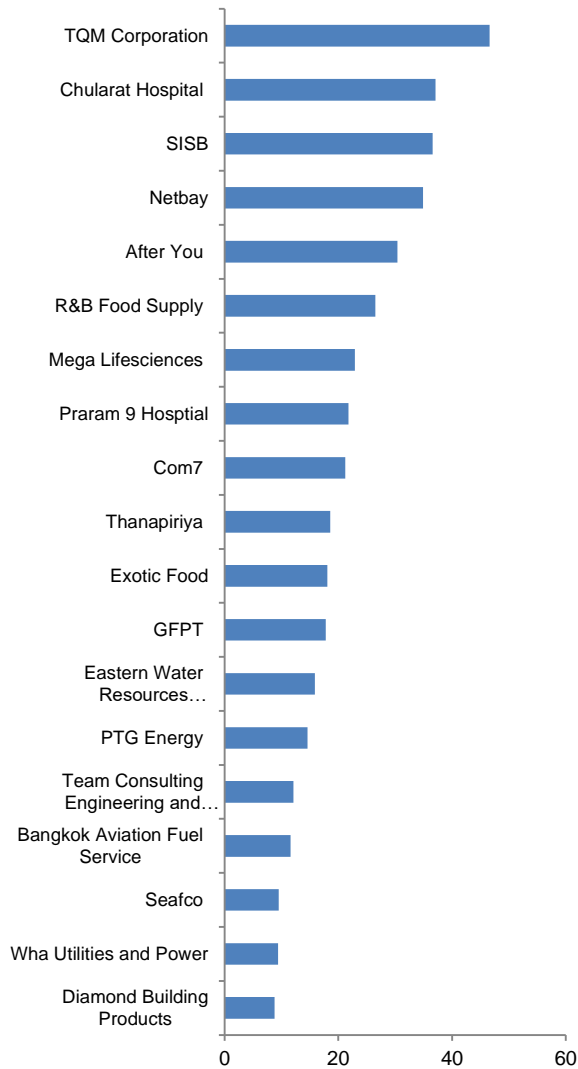
Source: Bloomberg, RHB



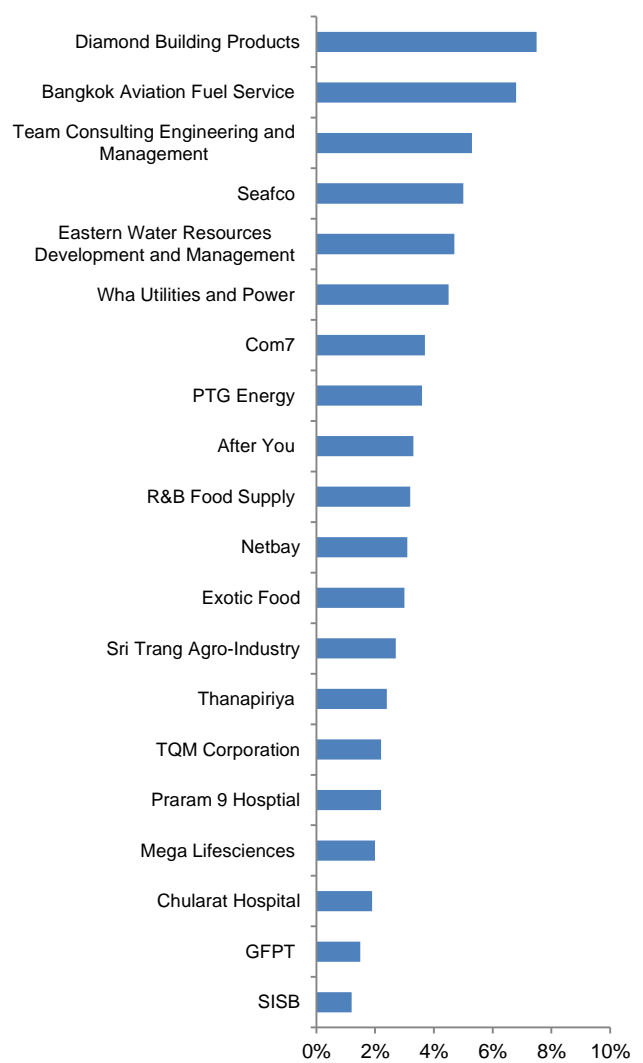
Source: Bloomberg, RHB

FY19 P/E of the Top 20 (x)

FY19 dividend yield for the Top 20 (%)



Source: Bloomberg, RHB



Source: Bloomberg, RHB

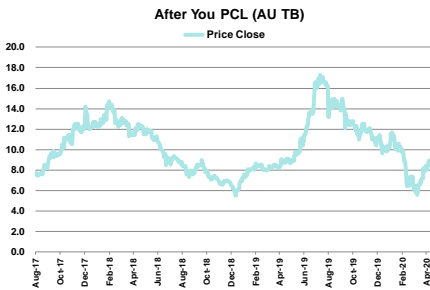


After You

In Preparation For a Greater Next Year

Target: N/A

Price: THB8.85



Source: Bloomberg

Stock Profile

Bloomberg Ticker	AU TB
Avg Turnover (THB/USD)	50.76m/1.57m
Net Gearing (%)	-8.1
Market Cap (THBm)	7,218m
Beta (x)	1.32
BVPS (THB)	1.27
52-wk Price low/high (THB)	5.50 - 17.50
Free float (%)	35

Major Shareholders (%)

Gulapat Kanokwatanawan	31.8
Maetup T Suwan	29.4
UBS AG, Singapore Branch	3.7

Share Performance (%)

	1m	3m	6m	12m
Absolute	33.1	(14.9)	(20.3)	1.1
Relative	16.4	1.0	(0.9)	24.2

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Investment Merits

- A leading player in Thailand’s premium dessert café market with vast opportunities to expand abroad and penetrate broader market segmentations
- Cautious FY20 business plan to support earnings growth in FY21
- Post-pandemic recovery and bullish outlook triggers long-term investment

Company Profile

After You operates dessert cafés in Bangkok and Thailand’s major cities. It has 38 outlets and 93% of its sales comes from this business as at end 2019 – of this, 72%, 22%, and 6% comprised dine-in, takeaway, and delivery customers. AU also runs non-café businesses (7% of sales), including pop-up stores, online sales, catering, original equipment manufacturing (OEM), and franchising. Local customers make up the bulk, generating c.80% of average store sales. Foreign customers make up 20% of café sales.

Highlights

Cautious moves in FY20. It is inevitable that AU’s dessert café business will be impacted by COVID-19 – resulting in the company setting up cautious long-term investment strategies. The opening of six new stores – mainly in Bangkok – may continue, but with 20% smaller seating capacity to improve efficiency and maintain kitchen sizes. The latter is to serve rising demand for takeaways and deliveries. More selective pop-up stores (c.3-4) will be launched from the 25 seen in 2019, focusing on second- and third-tier cities to access new markets and create brand awareness. An in-house mobile app may be launched in 2H20 to enhance store turnover, sales, and ticket sizes. AU also manages its own factory – attaining more bakery purchase orders from OEM clients – which ensures operational economies of scale and up to 80% utilisation. Such preparations may strongly support the company in recovering earnings in FY21, ie after the pandemic is contained.

Towards an asset-light strategy. AU is launching new business models with a focus on franchising. We believe it will be able to launch its first franchisee branch in Hong Kong in 2H20, given the efficient measures to control COVID-19 there. This represents the company’s maiden steps in exploring franchise opportunities abroad. In Thailand, AU targets to introduce a new café brand – Mikka Café & Bakery (Mikka) – in 2Q20. This franchise will offer affordable quality coffee and bakery goods, with accessible opportunity to broaden locations throughout the kingdom. Mikka will operate at lower costs vis-a-vis After You Café. Both formats may support ingredient sales and strengthen recurring income from franchise and loyalty fees in the longer term.

Seeking FY21 earnings recovery. From February, COVID-19 affected AU’s customer traffic, ie once the pandemic hit China – its biggest source of foreign customers. Restrictive measures on restaurant dining in April-



May undermined local customer sales. While the bulk of outlets stayed open, we expect delivery sales to grow by 50% in 1H20, which may not offset dine-in transactions. We expect earnings to slowly recover in 2H20. A material rebound in tourism may occur from FY21 onwards, while food deliveries could become another concrete channel to help boost future sales. Along with AU's cautious business development plans and strong market positioning in the premium dessert segment, sales may recover over the next year and support FY21 bottomline to approach pre-COVID-19 levels.

Company Report Card

Latest results. AU reported an outstanding 61% net profit growth in 2019. Total sales increased 37%, supported by the opening of six new branches (taking its store count to 38), robust +8.9% YoY SSSG (2018: -5% YoY), and an increase in pop-up store sales. GPM dropped 2.1ppts to 65%, mainly from higher takeaway product sales, which usually have smaller GPMs vs dine-in customers. Better opex control helped boost EBITDA and NP margins by 3ppts to 30% and 20%.

Balance sheet/cash flow. AU has had a solid balance sheet and net cash position since its 2016 IPO – this should ease its longer-term business expansion. 2019 operating cash flow: THB337m (2018: THB209m). 2019 capex stood at THB161m, and AU may ramp it up to THB181m this year, mainly for new stores and factory expansion.

ROE. AU booked a 2019 ROE of 24%, up from 16% during the previous year. This was led by strong improvements in NPM and asset turnover ratio. ROEs may go back to pre-COVID-19 levels in 2021.

Dividend. AU's policy is to pay at least 50% of net profits from its separated financial statements after deducting all reserves. It paid annualised dividends of THB0.29 per share for FY19, or c.3% yield. We expect yields to keep staying around 3% this year and the next.

Management. AU's first dessert café opened in 2007 in Bangkok, with signature dishes like Shibuya Honey Toast and Chocolate Lava Cake. Deputy Managing Director Gulapat Kanokwatanawan is the company's founder. She opened the café to share her love for the aroma of good coffee and taste of sweets. Kanokwatanawan is the biggest shareholder with a 32% stake. Managing Director Maetup T Suwan is the co-founder. He takes charge of AU's operations and currently has a 29% stake in the company, making him the second-largest shareholder.

Investment Case

Look forward to a FY21 recovery. We like AU's long-term outlook, based on its expansion opportunities locally and overseas, and business segments (premium and affordable). Earnings may hiccup this year due to COVID-19, but a possible recovery next year – led by improving tourism numbers and ongoing business expansion – could trigger investments. Based on consensus, we assume the average FY20-21 EPS at THB0.19 (-36%) and THB0.27 (+42%).

FV in the THB9.70-10.80 range – derived from applying target P/Es of 52-58x, +0.5SD to +1SD to its 3-year historical trading mean.

Key risks: Consumption slowdowns, delays in opening new stores, tumbling foreign customer numbers due to a weakened tourism industry, changing product mix to low-margin takeaway sales, and uncertainties like natural disasters, outbreaks, and political turmoil.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	724	871	1,194
Reported net profit (THBm)	129	147	237
Recurring net profit (THBm)	129	147	237
Recurring net profit growth (%)	30.5	14.4	60.8
Recurring EPS (THB)	0.16	0.18	0.29
DPS (THB)	0.15	0.19	0.29
Dividend Yield (%)	1.7	2.1	3.3
Recurring P/E (x)	56.0	49.0	30.4
Return on average equity (%)	14.8	15.6	23.8
P/B (x)	7.7	7.5	7.0
P/CF (x)	48.8	34.5	21.4

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	553	522	549
Total assets	1,034	1,097	1,200
Total current liabilities	83	116	125
Total non-current liabilities	18	24	37
Total liabilities	102	140	162
Shareholder's equity	932	957	1,039
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	1,034	1,097	1,200
Total debt	0	0	0
Net debt	(48)	(62)	(84)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	148	209	337
Cash flow from investing activities	(656)	(73)	(160)
Cash flow from financing activities	(72)	(123)	(155)
Cash at beginning of period	628	49	63
Net change in cash	(580)	14	21
Ending balance cash	49	63	84

Source: Company data, RHB

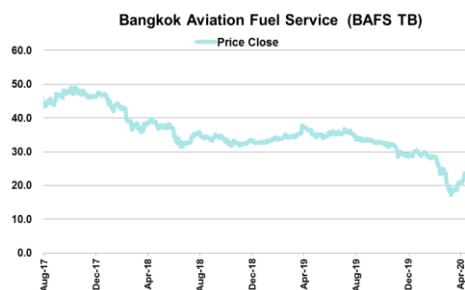


Bangkok Aviation Fuel Service

Target: N/A

Price: THB23.60

Volatile Earnings Ahead; Normalcy In 2021F



Source: Bloomberg

Stock Profile

Bloomberg Ticker	BAFS TB
Avg Turnover (THB/USD)	15.77m/0.49m
Net Gearing (%)	97.0
Market Cap (THBm)	14,662.41m
Beta (x)	0.96
BVPS (THB)	10.22
52-wk Price low/high (THB)	17.1 – 36.7
Free float (%)	31.54

Major Shareholders (%)

Thai Airways International PCL	22.59
Bangkok Airways PCL	9.50

Share Performance (%)

	1m	3m	6m	12m
Absolute	22.34	(19.30)	(28.68)	(34.75)
Relative	6.25	(4.06)	(9.27)	(11.44)

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Investment Merits

- The sole aircraft refuelling system at Thailand's major airports, with high operating and net margins, and attractive dividend yield during normal times.
- Strong and stable management team as well as shareholders.
- Long-term growth potential as it captures transportation fuels market share outside Bangkok, as well as its plans to diversify from aviation fuels business.

Company Profile

Bangkok Aviation Fuel Services (BAFS) is the sole aircraft fuelling company at Thailand's major airports (Suvarnabhumi, Don Mueang, Samui, Sukhothai and Trat airports). The company provides aviation fuel storage, aviation fuel transportation via high pressure pipeline system, hydrant systems to aircraft aprons, and refuelling services.

Highlights

Strong company, when normalcy returns. We like BAFS as it the sole aviation refuelling company at Suvarnabhumi Airport (BKK) and Don Mueang Airport (DMK). It has strong margins, with a 36% EBIT margin and 26% net profit margin for 2019. Its ROE is high at 12.3% and ROA at 5.8% for 2019.

2020F earnings are expected to decline by c.39% YoY to c.TH619m, with revenue falling by 15% to c.TH63.3bn. Top management has taken a 50% pay cut this year. We expect 2021F earnings to return to normalcy. With a boost of c.4-5% in revenue as Suvarnabhumi Phase II starts commercial operations for the full year, 2021F net profit should rebound to c.TH61bn (+61% YoY).

Strategy to diversify away from aviation to non-aviation earnings. BAFS is looking to augment its revenues from current levels of TH63-4bn to TH610bn over the next five to ten years. This will be through transportation pipelines, expanding domestically and in neighbouring countries to build and operate aviation refuelling systems, and potential investments in renewables.

Company Report Card

Latest results. In FY19, aviation fuel services volume at BKK and DMK totalled 6.1bn litres (+2.3% YoY), while total flights increased to 307,184 (+1.2% YoY). Total revenue was TH63.9bn (+3.9% YoY), while service income stood at TH63.8bn (+3.1% YoY). Recurring net profit was slightly lower at TH61.0bn (-2.9% YoY), as BAFS recognised higher depreciation and interest expense from the Northern Fuel Pipeline Phase 1 project in 2Q19. The company's net profit margin was still solid at 26%, with EBITDA margins at 52% for the year.

Dividend. The company's dividend policy is 50% payout on net profit. However, its dividend payout has consistently been at c.80% of recurring net profit over the past three years. At current prices, its historical dividend yield is c.6%-7%.

Management. There are 14 board of director members. Palakorn Suwanrath is the Chairman, and has held this position since 2007. He has also served as Privy Councillor since 2001. Palakorn holds no shares in BAFS. MR Supadis Diskul is the Executive Chairman of BAFS (2014 to present). He holds 0.665% of BAFS shares.

Investment Case

Strong company, when normalcy returns. We like this company as it the sole provider of jet refuelling at BKK and DMK. It has strong margins, with 52.8% gross margins, 36% EBIT margin and 26% net profit margin for 2019. Its ROE is high at 12.3% and ROA at 5.8% for 2019. Our DCF valuation for this company is THB21.00/share, with WACC at 6.9%.

2020F earnings are expected to decline by c.39% YoY to c.TH619m, with revenue falling by 15% to c.TH3.3bn. Earnings remain highly uncertain at this point as this depends on how the COVID-19 pandemic dissipates.

We believe that 2021F earnings should return to normal, with a boost revenue of c.4-5% as a result of the full-year commercial operations of the Suvarnabhumi Phase II project. Suvarnabhumi Phase II is expected to open in Aug 2020. BAFS has already invested THB710m for the underground refuelling system, which was completed in Nov 2019. This project will result in an extra 28 bays. 2021F net profit should rebound to a normalised level of c.TH1bn (+61% YoY), assuming the COVID-19 pandemic dissipates.

Strategy to diversify away from aviation to non-aviation earnings. BAFS is looking to augment its revenues from current levels of THB3-4bn to THB10bn over the next five to ten years. This will be through several avenues:

- i. **Fuel transportation pipelines.** Its Northern Fuel Pipeline Project will provide jet, diesel and gasoline to its customers in the northern part of Thailand. This is a move away from supplying solely aviation fuels.
- ii. **Refuelling systems contracts.** BAFS is currently bidding for the U-Tapao Airport refuelling system with a partner. Apart from this project, BAFS is also looking to expand this joint venture to bid for other refuelling systems contracts abroad (first to neighbouring countries).
- iii. **Renewables investment.** This will be in solar power plants that should provide returns of c.11%-12%.
- iv. **Refuelling and dispensing trucks.** BAFS has acquired a company to build trucks for its business (saving c.TH6m per truck from doing it in-house). They will look to take orders from outside clients as well.

Key risks. The COVID-19 pandemic exerts downward pressure on flight throughput, and could result in adverse impact on its earnings.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	3,640	3,807	3,956
Reported net profit (THBm)	971	1,051	1,020
Recurring net profit (THBm)	971	1,051	1,020
Recurring net profit growth (%)	(11.5)	8.2	(2.9)
Recurring EPS (THB)	1.52	1.65	1.60
DPS (MYR)	1.25	1.37	1.25
Dividend Yield (%)	6.8	7.4	6.8
Recurring P/E (x)	12.2	11.2	11.6
Return on average equity (%)	16.0	16.0	16.0
P/B (x)	1.6	1.5	1.5
P/CF (x)	6.0	6.4	7.9

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	2,556	2,737	2,593
Total assets	12,414	16,290	17,346
Total current liabilities	1,078	920	1,022
Total non-current liabilities	3,766	7,518	8,460
Total liabilities	4,845	8,437	9,482
Shareholder's equity	6,230	6,477	6,518
Minority interest	1,340	1,376	1,346
Other equity	-	-	-
Total liabilities & equity	12,414	16,290	17,346
Total debt	3,164	6,642	7,726
Net debt	1,711	5,137	6,299

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	1,981	1,838	1,488
Cash flow from investing activities	(3,439)	(4,217)	(1,406)
Cash flow from financing activities	(1,237)	2,429	(160)
Cash at beginning of period	4,148	1,454	1,504
Net change in cash	(2,694)	50	(78)
Ending balance cash	1,454	1,504	1,436

Source: Company data, RHB

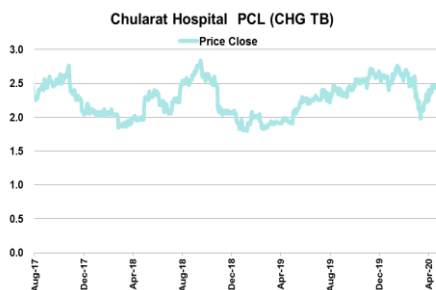


Chularat Hospital

Best Small-Cap Play For Healthcare

Target: THB2.80

Price: THB2.46



Source: Bloomberg

Stock Profile

Bloomberg Ticker	CHG TB
Avg Turnover (THB/USD)	102.6m/3.2m
Net Gearing (%)	14.3
Market Cap (THBm)	27,060m
Beta (x)	0.70
BVPS (THB)	0.38
52-wk Price low/high (THB)	1.77 – 2.82
Free float (%)	40.07

Major Shareholders (%)

Plussind family	23.8
Punyaphol family	18.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	2.56	(7.69)	(5.51)	24.35
Relative	(9.43)	9.26	15.95	48.39

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Investment Merits

- Higher Social Security Office (SSO) revenue due to price adjustment from Social Security Scheme (SSS).
- Ramp up in volume from A-class patients.
- Capture new market through new greenfield project.

Company Profile

Chularat Hospital Group operates nine hospitals and four clinics in six provinces in the eastern region. It is a healthcare provider that has the highest exposure in the Eastern Economic Corridor (EEC), with well-diversified revenue from both cash and SSO patients.

Highlights

Upward price adjustment from SSS. We expect FY20F SSO revenue to grow 11%, mainly due to the upward price adjustment from the SSS. The price adjustment comprised an increase of basic capitalisation to THB1,640/head (+9.3% vs earlier scheme), high cost care (Adj.RW>2) increase to THB746.00/head/year (+16.5%) and increase in risk-adjusted capitalisation on outpatient (OPD) 26 chronic diseases to THB453.00 (+1.34%). This included the increased of SSO quota for Chularat 11 Hospital (from 110k to 130k) that should partially support overall group patient traffic this year.

Ramp-up in volume from A-class patients. FY20F A-class patient revenue (both OPD and inpatient) is expected to grow 9.5%, driven by services expansion in existing sites and increased utilisation rate from two new hospitals (Chularat 304 and Ruampat Chachoengsao). We expect both projects to turn a profit at the bottomline level, and be key factors driving the group's margin improvement this year.

Capturing new market through new greenfield project. Chularat has invested in an 80% stake in Ruampat Mae Sot International Company for a greenfield project to build a 100-bed hospital in Tak Province (Mae Sot district). This should create more upside and allow the company to expand its customer base outside the eastern region of the country. The new hospital, which aims to provide comprehensive medical services to both Thai and international patients (cross border), is expected to start full operations in 2021, and should offer upside to the company in the medium term.

Company Report Card

Latest results. In FY19, Chularat's earnings rose to THB705m (+11.1% YoY), mainly on higher revenue from government welfare programmes (+17% YoY) and the opening of two new hospitals. However, its overall margin dropped slightly due to extra items and new opening of projects that have yet to break even.

Dividends should remain intact. Chularat announced annual DPS of THB0.50 (equivalent to 78% payout ratio) in FY19, in line with its dividend policy (<50% of net profit). While the company still has many projects in its pipeline, we believe it will maintain its payout policy with a prospective dividend yield of c.2%.

Management. Dr Kumpol Plussind and his family (24% stake) as well as the Panyapol family (18% stake) are the founders and management of Chularat Hospital Group. The team has successfully managed several medical service businesses, with a track record exceeding 25 years.

Investment Case

Solid growth outlook. Chularat has a strong presence in the eastern part of Thailand, where it should fully benefit from the promotion of the EEC. The initiation of the infrastructure project by the Government and the massive investment from the private sector should result in higher population density in the longer term. We also expect potential upside from both volume and revenue intensity thanks to the group's new project expansions in the pipeline and its hospital fees that are still relatively low compared to its peers.

More room to enhance margins. The company plans to raise the portion of A-class and foreign patients to expand overall group margins. The current portion of 63% in terms of revenue generation is expected to increase to c.70% in the medium term thanks to the new site openings in the pipeline focusing on A-Class customers.

We maintain our BUY recommendation, with a TP of THB2.80 based on DCF valuation (WACC: 9%; TG: 2%). This implies a recurring P/E of 37x (-0.75SD of its historical mean since its listing).

Key risks. Failure to promote EEC projects due to adverse economic conditions, change in SSO policy, and delay in new project openings are key risks.

Profit & Loss	Dec-19	Dec-20F	Dec-21F
Total turnover (THBm)	5,165	5,560	6,040
Reported net profit (THBm)	705	783	904
Recurring net profit (THBm)	705	783	904
Recurring net profit growth (%)	11.1	11.1	15.5
Recurring EPS (THB)	0.06	0.07	0.08
DPS (THB)	0.05	0.05	0.06
Dividend Yield (%)	1.9%	1.9%	2.2%
Recurring P/E (x)	41.2	37.1	32.1
Return on average equity (%)	18.4	19.5	20.9
P/B (x)	7.5	7.0	6.5
P/CF (x)	52.8	53.0	45.9

Source: Company data, RHB

Balance Sheet (THBm)	Dec-19	Dec-20F	Dec-21F
Total current assets	1,764	1,871	1,809
Total assets	6,265	6,188	5,933
Total current liabilities	1,682	1,201	901
Total non-current liabilities	2,370	2,042	1,442
Total liabilities	3,702	3,933	4,256
Shareholder's equity	194	213	235
Minority interest	-	-	-
Other equity	3,896	4,146	4,491
Total liabilities & equity	6,266	6,188	5,933
Total debt	1,967	1,776	1,170
Net debt	1,029	575	117

Source: Company data, RHB

Cash flow (THBm)	Dec-19	Dec-20F	Dec-21F
Cash flow from operations	925	1,162	1,202
Cash flow from investing activities	(933)	(152)	(152)
Cash flow from financing activities	(205)	(852)	(1,240)
Cash at beginning of period	471	467	625
Net change in cash	(213)	158	(191)
Ending balance cash	467	625	433

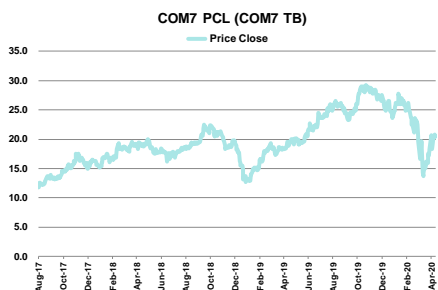
Source: Company data, RHB

**Com7**

Look Forward To Post-COVID-19 Rebound

Target: N/A

Price: THB21.50



Source: Bloomberg

Stock Profile

Bloomberg Ticker	COM7 TB
Avg Turnover (THB/USD)	209.33m/6.46m
Net Gearing (%)	25.1
Market Cap (THBm)	25,800m
Beta (x)	1.12
BVPS (THB)	2.81
52-wk Price low/high (THB)	13.20 - 29.75
Free float (%)	47

Major Shareholders (%)

Sura Khanittaweekul	25.1
Pongsak Thammatatharee	16.7
Buncha Phantumkomol	6.8

Share Performance (%)

	1m	3m	6m	12m
Absolute	37.1	(17.7)	(24.8)	9.0
Relative	21.0	(2.5)	(5.4)	32.3

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Investment Merits

- Earnings expected to rebound in 2H20 and reach pre-COVID levels in FY21.
- Pent-up demand for new phones and IoT to improve sales and GPM.
- Strong financials to support potential market consolidation.

Company Profile

Com7 operates several chains of retail stores, focusing on IT-related products such as computers, mobile phones, and devices. Its core business includes retail (Banana IT, Studio 7, BKK, Kingkong phone, etc); B2B; service (iCare, TRUE shop); and online (BNN.in.th) with 787 stores around Thailand as at 2019. 50% of revenue were contributed from phone sales, 17% from tablets, 14% from accessories, and 12% from laptops. It is the largest distributor of *Apple* products and the largest after sales service provider in Thailand.

Highlights

2Q20 to be the weakest quarter. Com7 may be able to keep its 1Q20 performance stable due to favourable sales in January-February. However, shopping mall closure from end-March to May would severely affect as much as 90% of its outlets. Online sales may jump by three times and ramp up contribution from 2% to 5% of total revenue, while sales from corporate customers may be boosted (above 4% of revenue). It may be offered rental fee discounts for the lockdown stores from mall operators, but all these factors may be unable to offset the loss of sales at physical stores over the period. As such, we expect earnings to bottom out in 2Q20.

Set to rebound from 2H20 onwards. We currently expect COVID-19 to be contained by end-2Q20. Com7 may gradually benefit from the pent-up demand for smartphones, Internet of Things (IoT) products, and accessories following the re-opening of retail malls in 3Q20, while possible launches of 5G phones may trigger sales momentum from 4Q20. Its inventory clearances are likely to support sales over 2H20, albeit weak GPM, and may capture weak consumer purchasing power post-pandemic. Stronger sales amid lower store opex due to rental fee discounts at shopping malls may also be a potential upside to profit margins.

Last man standing. As the country's leading IT retailer, Com7 has negotiated with most of its suppliers on extensions of inventory and payable terms, while its balance sheet has remained strong with THB1.3bn cash on hand and a minimal 25% gearing. After the crisis, we believe the company may be a potential acquirer of smaller vendors with liquidity problems, which should enhance its market share and economies of scales in operations going forward.

Company Report Card

Latest results. Com7 posted total sales of THB33.4bn (+20% YoY) in 2019, mainly from the expansion of its B2C, services and franchise businesses. Total store count in its portfolio has increased to 787 stores (+23% YoY), mostly contributed by new opening of Banana IT, Bana Mobile, TRUE shops and the expansion of its franchise stores. GPM improved by 24bps to 13.2% (vs 13.0% in 2018) from its focus on accessories and IoT products. Net profit rose to THB1.22bn (+38% YoY) partly driven by strong SSSG (+12%) with lower SG&A-to-sales ratio compared to 2018. Net profit margin increased to 3.6% (vs 3.2% in 2018).

Balance sheet/cash flow. The company's net D/E ratio has minimally increased to 0.25x (2018: 0.23x) on rising short-term loans. Growing its franchise business requires less capex vs its traditional business – this should enable Com7 to maintain its financial position at a comfortable level.

ROE. Com7's ROE increased to 39% in 2018 (vs 35% a year earlier), mainly from improved profitability. The effect of COVID-19 may dampen FY20 ROE to under 30%, but we expect earnings recovery in the following years to see ROE rebound to pre-COVID levels by FY21.

Dividend. The company's dividend policy is to pay not less than 40% of its net profit. It declared THB0.80 in annualised DPS for FY19, which was equivalent to an attractive dividend yield of 4%. We expect dividend yield to stay in the range of 3-4% over the next two years.

Management. Com7's CEO, Sura Khanittaweekul, is a long time veteran in the retail business for IT-related products in Thailand. He founded the company in 2004 before listing it in 2015. He currently holds 25% of total outstanding shares – the biggest holder.

Investment Case

Favourable long-term view. We remain optimistic on Com7's business outlook over the next couple of years based on its leading stance in the IT retailing, the growing tech trends of 5G and IoT, an improving sales mix from high-margin accessory products, and potential further M&A. Net profit may weaken this year due to the effect of COVID-19, but earnings momentum, which may improve from 2H20, could trigger investments. Based on consensus, we assume average FY20F EPS of THB0.73 (-28%) and THB1.03 (+41%) for FY21F.

FV in the range of THB22.20-24.40 derived from applying a targeted P/E of 30x-33x (+0.5SD to +1SD from the stock's 3-year historical trading mean).

Key risks include delays in the expansion of its store network and the re-opening of existing stores due to the COVID-19 lockdown, postponement of new product launches, lower turnover of mobile products from end users, and provisions for obsolete inventories.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	22,577	27,963	33,429
Reported net profit (THBm)	609	891	1,216
Recurring net profit (THBm)	602	883	1,217
Recurring net profit growth (%)	49.2	46.9	37.8
Recurring EPS (THB)	0.50	0.74	1.01
DPS (THB)	0.35	0.50	0.80
Dividend Yield (%)	1.6	2.3	3.7
Recurring P/E (x)	42.9	29.2	21.2
Return on average equity (%)	28.4	35.1	39.5
P/B (x)	11.2	9.3	7.6
P/CF (x)	61.8	6.5	6.1

Source: Company data, RHB

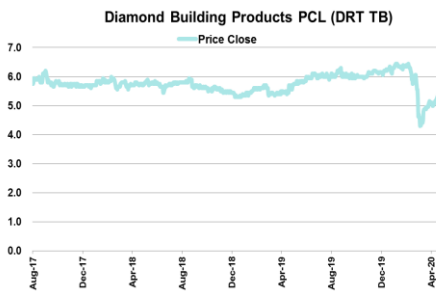
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	5,646	5,876	7,217
Total assets	7,178	7,586	9,160
Total current liabilities	4,827	4,709	5,630
Total non-current liabilities	53	101	154
Total liabilities	4,880	4,810	5,784
Shareholder's equity	2,298	2,771	3,374
Minority interest	0	5	2
Other equity	0	0	0
Total liabilities & equity	7,178	7,586	9,160
Total debt	1,673	1,691	2,152
Net debt	976	632	848

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	104	1,000	1,058
Cash flow from investing activities	(343)	(349)	(412)
Cash flow from financing activities	225	(289)	(400)
Cash at beginning of period	711	697	1,059
Net change in cash	(14)	362	245
Ending balance cash	697	1,059	1,304

Source: Company data, RHB

A Mix of Growth And Dividends



Source: Bloomberg

Stock Profile

Bloomberg Ticker	DRT TB
Avg Turnover (THB/USD)	2.42m/0.07m
Net Gearing (%)	19.03
Market Cap (THBm)	5,024.20m
Beta (x)	0.88
BVPS (THB)	2.38
52-wk Price low/high (THB)	4.06 – 6.50
Free float (%)	35.52

Major Shareholders (%)

Myriad Materials	58.85
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Share Performance (%)

	1m	3m	6m	12m
Absolute	6.85	(17.19)	(11.67)	(6.19)
Relative	(9.23)	(1.94)	7.75	17.12

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Investment Merits

- Growth in FY19 outperforming the industry
- Return to growth in FY21
- A balanced mix between growth and dividends

Company Profile

Diamond Building Products manufactures and distributes roofing products, boards and ceilings, siding boards, other roof accessories and non-roof products, and provides roof stripping and installation services under the trademark names Diamond, Adamas, and Jearnai.

Highlights

Growth in FY19 outperforming the industry. Even in FY19, a difficult year for construction material industry sales in Thailand, DRT recorded revenue growth of 9.7% YoY and net profit growth of 35% YoY. This was supported by its core strength as a full-coverage provider of wall, ceiling, and roof products. Note that industry cement demand, which is a proxy for the overall industry, increased at a slim growth rate of +1% YoY in FY19.

Return to growth in FY21. In the much more difficult FY20, with the severe impact from the pandemic, we expect a negative impact on the company due to the temporary closure of modern trade channels and weaker demand from residential project developers. As these two channels normally account for 30% of DRT's total sale volume, we view FY20 earnings may decline in the range of 10% and 13% YoY. This moderate impact is based on continuous sales growth from other major channels, including traditional agents and exports as these have not been disrupted by the lockdowns. Once the situation is back to normal, we expect DRT's modern trade channels to re-strengthen and help mitigate earnings downside risk.

A balanced mix between growth and dividends. Within Thailand's construction material sector, DRT can be regarded as one of the best stocks, offering consistent earnings growth and superb dividend yields paid to investors. Since FY15, its earnings have grown consistently, with the lowest rate of 3% YoY in FY18 and the strongest rate of 35% YoY in FY19. We view FY20 as an exceptional case as the negative growth cannot be avoided for all players in the sector. However, based on its solid cash flow stream, we expect DRT to maintain cash dividends despite a temporary earnings drop in FY20.

Company Report Card

Latest results. The company achieved a record net profit of THB572m in FY19, or a strong earnings growth of 35% YoY. This was significantly higher than the 2-5% YoY earnings growth in FY17-18. The impressive results were in tandem with:

- i. FY19 core revenue growth of 9.7% YoY on higher sales volume of roofing tiles, autoclaved aerated concrete blocks, siding boards and trusses;
- ii. Higher GP margin of 26%, and
- iii. Stringent control on SG&A expense and 22% YoY lower financial cost, underpinned by a 12% YoY decline in interest-bearing debt balance.

Excluding revenue from sale of unused land and provision for employee retirement benefits recorded in FY19, net profit would still mark a record high at THB548m (+30% YoY).

Balance sheet/cash flow. DRT can be regarded as one of the more conservative companies within Thailand's building materials sector. Although there has been a demand slowdown and tough competition within the industry, the company is able to stringently manage working capital, and aims to reduce the interest-bearing debt balance gradually. Net D/E has declined to 0.19x in FY19 (from 0.24x in FY18). Operating cash flow has normally been in positive territory in the range of THB500-800m pa, while the absence of capital expenditure requirements resulted in positive FCFF available for debt repayment and dividend payout.

ROE. On the back of strong earnings growth and higher profit margin, FY19 ROE climbed up to 25% from the stable 20% level during FY17-18. This improvement compares favourably to its mid-sized peers. For FY20 onwards, we expect ROE to stay within the range of 20-25%.

Dividend. Notwithstanding its dividend payout policy of >50%, DRT has normally paid out cash dividends at a rate above 75% of net profit. However, it paid cash dividend of THB0.40 per share semi-annually for FY19, implying a lower-than-normal 66% payout ratio. We believe that the company would prioritise stable growth of dividend per share rather than swinging in tandem with the EPS trend. Therefore, we expect DPS for FY20F to hover around THB0.40, implying 7-8% dividend yield. In our view, DRT can be regarded as a dividend stock.

Management. Satid Sudbuntad was promoted from Managing Director to CEO on 1 Jan 2018. He has been with the company for more than 15 years, and is involved in all departments, including production, marketing, customer relationships, and investor relations.

Investment Case

FV of THB6.50, which indicates a 15-year average P/E of 12x. We perceive the company as a dividend play, with consistent earnings growth supported by its major advantage in terms of a full suite of building materials for roofs, walls, and ceilings.

Key risks. Poor purchasing power in rural areas, high household debt level, and increase in energy costs.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	4,171	4,329	4,748
Reported net profit (THBm)	412	423	572
Recurring net profit (THBm)	412	423	572
Recurring net profit growth (%)	5.0	2.7	35.2
Recurring EPS (THB)	0.39	0.45	0.60
DPS (THB)	0.36	0.36	0.40
Dividend Yield (%)	6.8	6.8	7.5
Recurring P/E (x)	13.5	11.9	8.8
Return on average equity (%)	20.6	20.4	25.3
P/B (x)	2.8	2.4	2.2
P/CF (x)	6.8	9.9	7.3

Source: Company data, RHB

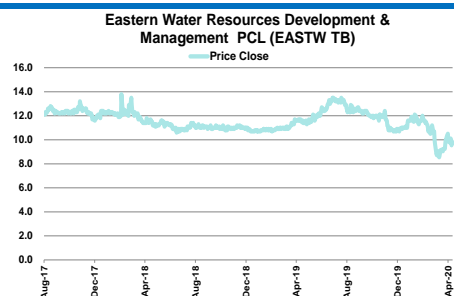
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	1,151	1,366	1,410
Total assets	3,017	3,138	3,332
Total current liabilities	885	922	858
Total non-current liabilities	138	139	215
Total liabilities	1,023	1,062	1,073
Shareholder's equity	1,995	2,076	2,259
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	3,017	3,138	3,332
Total debt	542	527	461
Net debt	522	506	430

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	822	507	688
Cash flow from investing activities	(92)	(140)	(239)
Cash flow from financing activities	(725)	(370)	(438)
Cash at beginning of period	21	24	20
Net change in cash	3	(4)	11
Ending balance cash	24	20	31

Source: Company data, RHB

Smooth As Water



Source: Bloomberg

Stock Profile

Bloomberg Ticker	EASTW TB
Avg Turnover (THB/USD)	14.67m/0.45m
Net Gearing (%)	66.32
Market Cap (THBm)	16,637m
Beta (x)	0.80
BVPS (THB)	6.52
52-wk Price low/high (THB)	8.40 – 13.70
Free float (%)	35.76

Major Shareholders (%)

Provincial Waterworks Authority	40.2
Manila Water (Thailand)	18.7
Industrial Estate Authority	4.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	8.11	(13.79)	(16.67)	(12.28)
Relative	(7.98)	1.45	2.75	11.03

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Investment Merits

- Supplying water in the drought situation is becoming more essential
- The stock is defensive in nature, as always
- On the verge of an FY21 earnings growth

Company Profile

Eastern Water Resources Development & Management develops and manages the main water pipeline systems in Thailand's eastern seaboard. It supplies raw water to industrial estates, factories, and the Provincial Waterworks Authority (PWA).

Highlights

More critical role in supplying water to the country's eastern production hub. EASTW has been playing a major role in supplying water and ensuring supply availability to the manufacturing hub in Thailand's eastern region for more than twenty years. This implies that the company has passed through several hydrologic cycles – ie periods of fertility and drought. EASTW can be regarded as almost a monopoly player in the three provinces that comprise the Eastern Economic Corridor (EEC). The challenge that lies ahead is the drought situation, which has sparked concerns amongst industrial users within the EEC. Note that the latter initiative is promoted by the Government to entice foreign direct investment (FDI) into Thailand. This drought situation should become an opportunity for the company to secure stronger demand from its regular customers. This is because such customers are likely to rely more heavily on EASTW's resources during this period.

Defensive in nature, as always. Although the company has been a defensive stock that has provided recurring income for two decades – as evidenced by FY15-19 core revenues ranging between THB4.2bn and THB4.7bn – the drought's impact on water supply availability is expected to be more intensive than in past years. Consequently, this should be a negative factor in locking EASTW's FY20 sales volume growth. We note that the company has already agreed with its regular clients to cut water volumes by 10% from January to June. In order to mitigate earnings risks, EASTW has terminated the price discount applied to its 20% of total sales volumes. It also expects the drought situation to ease off after the upcoming rainy season.

On the verge of earnings growth in FY21. Based on the current situation, we expect FY20 performance to be 5-10% YoY lower in terms of both revenue and net profit. However, we expect the situation to reverse in FY21. This is based on two factors. Firstly, when EASTW constructs the pipeline network to connect to other reservoirs – while also seeking additional reservoirs nearby – to secure long-term supply availability. Secondly, the upcoming rainy season – this historically starts in May – should solve the drought situation in the short term.

Company Report Card

Latest results. The company's earnings have gradually declined since FY15 – EASTW booked an FY19 net profit of THB1.04bn (-6.5% YoY). The major factor behind this trend has been lower sales volumes during FY15-18 from PWA, which is its largest client and major shareholder. Although FY19 core revenue resumed the positive growth (+10.9% YoY), especially raw water revenue (+19% YoY), GPM was much lower for the latter business: 50.9% in FY19 from 60.5% in FY18. This was due to higher electricity costs from managing its water distribution assets.

Balance sheet/cash flow. In spite of lower earnings in FY19, EASTW's financial position has been strong. It has also been preparing – on a regular basis – for new future investments, especially in expanding its raw water supply network. EASTW's net D/E as at end-FY19 of 0.66x is deemed acceptable. Even with FY19 being the year of new investments, the company can manage its cash flow efficiently – this has resulted in positive FCFF.

ROE. ROE has declined in tandem with EASTW's lower net profit to 9.7% in FY19 (FY15: 16.7%). Based on its high dividend payout history, the ROE figures may not be as high as industry peers. However, we expect ROE to bottom out from FY19's low base.

Dividend. EASTW can be regarded as a pure dividend stock. Regardless of the declining earnings trend during FY15-19, it paid a constant dividend of THB0.47 pa semi-annually. Although the dividend policy is set at a minimum 30% payout ratio, EASTW can adopt a 50-75% ratio. This is supported by its strong FCFF in the range of THB1.5-1.6bn pa during FY16-18, as well as THB311m in the high-capex FY19 period. We expect it to pay this constant THB0.47 per share dividend for FY20.

Management. As two state agencies – PWA and Industrial Estate Authority of Thailand – are major shareholders with a combined stake of 45%, each department of EASTW is run by professionals.

Investment Case

Organic growth still ongoing. Even during the pandemic crisis, demand for both raw and tap water remains essential for the production bases in Thailand's eastern region. Meanwhile, there may be upside from higher demand as a result of the new FDI wave after COVID-19 ends.

Based on the upper band of P/Es between +1.5SD and +2SD above the 11-year P/E average of 13.9x, FV falls between THB11.40 (+1.5SD) and THB12.50 (+2SD).

Key risks: A water resource situation that favours PWA shifting its preference towards its own resources, as well as the risk of not being able to renew its concessions after they expire.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	4,308	4,221	4,680
Reported net profit (THBm)	1,221	1,118	1,045
Recurring net profit (THBm)	1,221	1,118	1,045
Recurring net profit growth (%)	(6.0)	(8.5)	(6.5)
Recurring EPS (THB)	0.73	0.67	0.63
DPS (THB)	0.47	0.47	0.47
Dividend Yield (%)	4.7	4.7	4.7
Recurring P/E (x)	13.7	14.9	15.9
Return on average equity (%)	11.7	10.3	9.5
P/B (x)	1.6	1.5	1.5
P/CF (x)	8.1	9.4	7.4

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	889	1,469	1,150
Total assets	19,483	20,141	21,181
Total current liabilities	1,493	2,229	3,130
Total non-current liabilities	7,560	7,106	7,037
Total liabilities	9,053	9,336	10,167
Shareholder's equity	10,228	10,613	10,832
Minority interest	187	180	174
Other equity	15	11	8
Total liabilities & equity	19,483	20,141	21,181
Total debt	7,285	7,208	7,363
Net debt	7,248	6,630	7,305

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	2,058	1,768	2,234
Cash flow from investing activities	(486)	(253)	(1,922)
Cash flow from financing activities	(1,720)	(974)	(831)
Cash at beginning of period	186	37	578
Net change in cash	(148)	541	(520)
Ending balance cash	37	578	58

Source: Company data, RHB

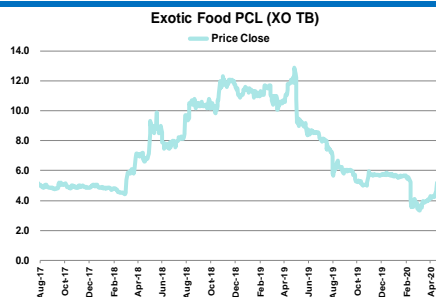


Exotic Food

Towards a New Normal In F&B

Target: N/A

Price: THB5.20



Source: Bloomberg

Stock Profile

Bloomberg Ticker	XO TB
Avg Turnover (THB/USD)	8.01m/0.25m
Net Gearing (%)	-4.4
Market Cap (THBm)	2,209m
Beta (x)	1.14
BVPS (THB)	1.89
52-wk Price low/high (THB)	3.14 - 12.90
Free float (%)	45

Major Shareholders (%)

Soyphet Jantarach	23.1
Vasana Jantarach	14.3
Jittiporn Jantarach	8.9

Share Performance (%)

	1m	3m	6m	12m
Absolute	38.3	(2.7)	7.9	(55.0)
Relative	22.2	12.6	27.3	(31.6)

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Investment Merits

- Popularity of home cooking during the COVID-19 pandemic keeps sales robust
- Strong 1H20 outlook; FY20F earnings growth to be maintained
- Seek potential upside from enhancing distribution channels

Company Profile

Exotic Food manufactures and distributes seasoning products like sauces for dipping (81% of sales), food ingredients like coconut milk and curry paste (10% of sales), fruit & vegetable juices (1% of sales), prepared Thai cuisine meals (1% of sales), and instant & semi-instant foods like dried and preserved products (7% of sales). With more than 700 store-keeping units (SKUs) in its stable, these are distributed under the company's own brands such as Exotic Food, Thai Pride and Flying Goose. Products are exported to over 60 countries, with the majority 81% of sales generated from Europe in 2019. It focuses on selling products to distributors abroad, and these are stocked in grocery and modern retail stores for end-users.

Highlights

Rising demand due to an increase in home cooking. Lockdowns in Europe – whether partial or full, due to the COVID-19 pandemic – has dampened dining-out activities. However, consumers have stockpiled food and necessities, as many are confined to their own homes. We believe Exotic Food should benefit from this. Management said that purchase orders have been robust since February, and expects to see positive sales growth throughout 1H20. Post-pandemic, we believe home cooking activities will become a new normal. As Thai cuisine is one of the most famous in the world, growing demand for food ingredients may strongly support Exotic Food's performance and key business growth ahead.

FY20F earnings growth to be maintained. Amidst uncertainties, management targets to keep sales stable YoY, at around THB1bn for FY20. Apart from a favourable 1H20 outlook, the THB depreciation (which is likely to happen over 2020), may encourage distributors to order its products. This is because 70% of Exotic Food's sales are quoted in THB. It plans to launch 5-10 new product SKUs to attract customers, and is installing a new machine line to boost capacity for its food ingredient production by c.20-30%. This is mainly for curry pastes, for which equipment is fully utilised. This is to replace the low-margin juice business, which was terminated last year. The stabilised sales may help maintain profit margins. A reclassification of fixed costs at its new factory may also lead to zero impact, since GPM may decrease but the opex-to-sales ratio will improve. As such, we estimate FY20 EPS at THB0.29, which is unchanged from FY19.

Seek broader distribution opportunities. We believe Exotic Food aims to grow its distributor network in the UK to enhance sales coverage there, and penetrate more new export destinations to capitalise on a possible new normal in stepped-up home cooking activity. This may boost earnings over the longer term.

Company Report Card

Latest results. Exotic Food's FY19 net profit tumbled 45% YoY on declining sales and GPM, and rising opex. Total sales fell 13% YoY from decreasing sales volume in seasoning and dipping sauce products in Europe, as well as the THB appreciating against the USD and EUR. GPM shrunk by 2.4ppt, as decreased purchase orders also led to a lower overall utilisation rate and elevated production costs per unit. The company's opex-to-sales ratio surged as much as 6.3ppt to 24%, due to an increase in promotion cost amidst weak sales and expenses related to the discontinuation of drink products.

Balance sheet/cash flow. It has had a solid balance sheet with a net cash position, which should ease financial needs to support operations and longer-term business expansion. Exotic Food's cash cycle was at 13 days (FY18: 12 days). Operating cash flow plunged by 45% YoY to THB146m in 2019, while debt repayments and high dividends for 2018 lowered financing cash flow. Capex was at c.TH60m last year and may stay at c.TH20-30m this year and the next, for a new production line on food ingredients.

ROE. Exotic Food's ROE was at 16% in 2019, vs 34% the previous year – mainly due to NPM shrinking by 7.1ppt.

Dividend. The company's policy is to pay at least 50% of NPAT as dividends. It paid semi-annual DPS of a combined THB0.16 for FY19, implying a c.3% yield. We expect yields to stay around 2-3% over the next two years.

Management. Exotic Food was established in 1999, and built its first owned production facilities in 2000. Founded by Managing Director Jittiporn Jantarach (9% stake) and Deputy Managing Director Vasana Jantarach (14% stake), the stock was listed in 2014. Their mother, Soyphet Jantarach, is the vice chairman, and holds 23%.

Investment Case

Another choice for the post-COVID theme. Exotic Food should benefit from the lockdown measures in the EU and the US. It should see earnings grow in FY21, on a possible new global uplift in home-cooking activity, even after the COVID-19 pandemic ends. This could pave the way for long-term benefits – and more importantly, act as a key investment catalyst for the stock, in our view.

Its fair value ranges THB6.10-6.80, derived from applying P/E's of 21-23x to the EPS assumption of THB0.29, which is unchanged from FY19. Our P/E range is based on the Thai food and beverage sector's 5-year historical trading mean to +1SD, and is equivalent to about +0.5SD from the stock's 5-year historical mean. Exotic Food is trading at 18x FY20 P/E, which is close to its 5-year historical mean of 19x.

Key risks. Consumption slowdown, fluctuation in raw material prices and FX rates, and uncertainties like natural disasters and virus or disease outbreaks.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	945	1,145	991
Reported net profit (THBm)	59	222	122
Recurring net profit (THBm)	59	222	122
Recurring net profit growth (%)	(23.8)	275.9	(45.0)
Recurring EPS (THB)	0.17	0.63	0.29
DPS (THB)	0.08	0.87	0.16
Dividend Yield (%)	1.5	16.7	3.0
Recurring P/E (x)	31.0	8.3	18.1
Return on average equity (%)	10.8	34.3	16.0
P/B (x)	3.2	2.5	2.8
P/CF (x)	18.3	7.0	15.2

Source: Company data, RHB

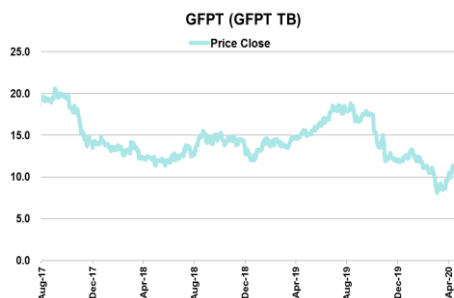
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	277	436	359
Total assets	750	992	934
Total current liabilities	144	243	125
Total non-current liabilities	37	24	8
Total liabilities	182	266	133
Shareholder's equity	561	718	793
Minority interest	0	0	0
Other equity	7	7	8
Total liabilities & equity	750	992	934
Total debt	54	44	24
Net debt	(56)	(141)	(35)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	100	265	146
Cash flow from investing activities	(44)	(185)	(117)
Cash flow from financing activities	(1)	(5)	(154)
Cash at beginning of period	55	110	185
Net change in cash	55	75	(126)
Ending balance cash	110	185	60

Source: Company data, RHB

Relatively Cheap For Long-Term Holding



Source: Bloomberg

Stock Profile

Bloomberg Ticker	GFPT TB
Avg Turnover (THB/USD)	60.6m/1.89m
Net Gearing (%)	17.2
Market Cap (THBm)	14,168m
Beta (x)	1.01
BVPS (THB)	10.76
52-wk Price low/high (MYR)	7.25 – 18.80
Free float (%)	72.16

Major Shareholders (%)

Sirimongkolasem family	54.1
Nichirei foods	4.5

Share Performance (%)

	1m	3m	6m	12m
Absolute	29.9	(6.6)	(19.9)	(27.6)
Relative	13.4	8.3	(0.7)	(4.5)

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Investment Merits

- Higher export volumes with the THB tailwind
- Scaling up of profits from both associates

Company Profile

GFPT is one of Thailand's largest chicken exporters with a fully integrated production structure, ie feed mills, farms, and food processing plants.

Highlights

Higher export volumes with the THB tailwind. Asia's prolonged African Swine Fever (ASF) crisis and rising protein substitution demand have resulted in a continuing increase in Thailand's chicken export volumes – this is since the kingdom was lifted up from export bans in China and the EU. While we see positive signals from recurring demand from both key markets, we believe the THB's depreciation will make GFPT's product pricing more competitive. We also believe the market has priced in concerns over the delay in replacing its new chicken processing production line, which was damaged in a fire last year. We think the company's plans to pass on some production volumes or other product types to its subsidiaries should also help revamp sales and help GFPT maintain its resilient topline growth momentum this year.

Scaling up of the share of profits from associates. The company's FY20 share of profits from associates McKey Food Services (Thailand) and GFPT Nichirei (Thailand) (GFN) rose 260% YoY to THB256m. This was thanks to higher production capacities from GFPT's new processing plants and elevated selling prices of by-products domestically. We also expect to see a higher share of profit growth from both associates this year, driven by the ramping up of utilisation rates and rise in by-products demand in China.

Company Report Card

Latest results. Despite various extra expenses – eg employee benefits and losses from the fire – GFPT still recorded a 15% YoY rise in FY19 earnings to THB1.2bn. This was mainly from higher revenue, better-than-expected share of profits, and effective cost controls. The company's processed food segment was its key growth driver last year, thanks to higher selling prices domestically. The solid GPM of 14.4% vs 14.3% YoY previously made gross profits increase 1.5% YoY to THB2.4bn.

Solid balance sheet. GFPT had a strong 2019 balance sheet, with a net D/E ratio of 0.25x – a slight decrease from 0.27x in the previous year.

This should be enough to support its internal funding for further expansion – ie a new broiler farm, slaughter house, and processing plant – in the medium term. We note that all its loans are in the local currency, with zero exposure to foreign borrowings.

ROE. Despite a slight decrease in GPM prospects due to a temporary change in product mix, we expect GFPT's ROE to continue rebounding in 2020 – mainly from better profitability due to the absence of one-off expenses and effective cost controls. We expect ROEs to slightly increase to 9-10.5% in 2020-2021.

Dividend. GFPT's dividend payment policy is less than 50% of the company's separated financial statement net profits. It recently announced an FY19 dividend payment of THB250m at THB0.20 per share – in line with this policy. We expect GFPT's dividend yield to be around 1.8-2% over the next three years.

Management. The Sirimongkolkasem family is the majority shareholder with a 54.1% stake, followed by Nichirei Foods via the GFN partnership (4.5%). Managing Director Anan Sirimongkolkasem is an experienced broiler export veteran. He is also the president of the Thai Broiler Processing Exporters Association.

Investment Case

Opportunity to buy. We think the 60% drop in share price since last year's fire incident has been overdone, which makes GFPT's valuation look relatively cheap when compared to the industry and its peers: FY20F P/E of 12.8x vs 18.2x. The company's competitive business structure has allowed it to have the highest NPMs, vis-à-vis its key competitors: 7% vs c.3-5%. The current share price, which trades at discount to BV (0.9x vs the industry's 1.7x) should partially provide a buffer to its downsides. Although consensus TP that stood at THB 12.0 still offered 9% upside from the current share price level.

Promising demand with stabilising pricing levels. Despite the temporary decrease in chicken processing production (25% for nine months) due to the fire, we think the new import quota from the EU, prolonged ASF crisis in Asia, and recurring orders from Chinese customers, should see demand for GFPT's products remain partially intact this year. We also think the solid broiler prices (1Q20: +3% YoY) and feed costs remaining at relatively low levels should partially support its core operations in 2020.

Key risks include a fall in margins from the temporary change in product mix, delays in new production lines, and regulatory uncertainties over international trade barriers.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	17,246	16,943	17,133
Reported net profit (THBm)	1,662	1,038	1,195
Recurring net profit (THBm)	1,662	1,038	1,195
Recurring net profit growth (%)	1.1	(37.5)	15.1
Recurring EPS (THB)	1.33	0.83	0.95
DPS (THB)	0.30	0.30	0.25
Dividend Yield (%)	1.76	1.76	1.47
Recurring P/E (x)	12.8	20.5	17.8
Return on average equity (%)	13.9	8.5	9.2
P/B (x)	1.78	1.69	1.58
P/CF (x)	8.68	8.60	10.58

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	5,371	5,771	5,713
Total assets	17,278	18,130	18,820
Total current liabilities	2,975	2,988	1,937
Total non-current liabilities	2,229	2,415	3,268
Total liabilities	5,204	5,403	5,205
Shareholder's equity	12,074	12,726	13,615
Minority interest	130	123	130
Other equity	10	12	12
Total liabilities & equity	17,278	18,129	18,820
Total debt	3,585	3,449	3,433
Net debt	2,849	2,208	2,346

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	2,455	2,478	2,014
Cash flow from investing ac	(1,349)	(1,374)	(1,758)
Cash flow from financing ac	(680)	(599)	(408)
Cash at beginning of period	310	736	1,241
Net change in cash	426	505	(152)
Ending balance cash	736	1,241	1,087

Source: Company data, RHB

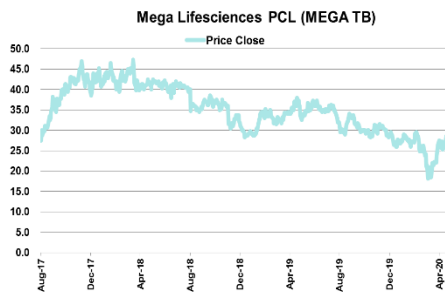


Mega Lifesciences

Solid Growth From An Underpenetrated Market

Target: THB35.00

Price: THB29.00



Source: Bloomberg

Stock Profile

Bloomberg Ticker	MEGA TB
Avg Turnover (THB/USD)	76.2m/2.37m
Net Gearing (%)	Net cash
Market Cap (THBm)	25,284m
Beta (x)	1.18
BVPS (THB)	7.12
52-wk Price low/high (THB)	17.90 – 38.25
Free float (%)	40.4

Major Shareholders (%)

Shah family	50.1
Vivek Dhawan	6.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	28.38	4.59	(0.87)	(20.83)
Relative	13.02	18.81	18.03	1.56

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Investment Merits

- The scaling up of the Myanmar distribution business
- Expansion through JV and M&A
- Tangible growth from underpenetrated markets

Company Profile

Mega Lifesciences is a leading international manufacturer and distributor of pharmaceutical, nutraceutical products, and fast-moving consumer goods (FMCG). It has a strong presence in developing countries in South-East Asia and sub-Saharan Africa.

Highlights

The scaling up of the Maxxcare business. We expect revenue from MEGA's distribution business to become the biggest topline generator this year. We believe its short-term growth will mainly be driven by the continued scaling up of its new distribution centre in Yangon. While we expect this business unit to become the spearhead of the group's short-term growth during the current economic situation, we maintain our conservative revenue growth forecast of c.8-10% in 2020-2021 – thanks to the rise of logistics demand in its core markets.

Regional expansion via JV and M&A. The JV with India's MSN Laboratories on a new advanced pharmaceutical products manufacturing plant and acquisition Indonesia's Futamed Pharmaceuticals should be MEGA's key mid-term in-organic growth drivers. While we have left both of these as upsides until further details, we believe they can widen the group's products portfolio, enhance distribution channels, and improve margins from 2022 onwards.

Tangible growth in core markets. MEGA's core markets in South-East Asia – ie Myanmar, Cambodia, and Vietnam – and sub-Saharan Africa still have much more room for growth. This is thanks to their relatively low healthcare spending per capita – c.30-50x lower than in developed nations. The rise in healthcare spending from governments within these regions – regional averages: c.16-22% pa – and growing health insurance industries there could also solidify MEGA's market growth in the long term.

Company Report Card

Latest results. In FY19, MEGA posted a 15.7% YoY core earnings rise to THB1.36bn. This was driven by higher revenue and effective cost controls. The group's distribution unit became the key topline growth driver during this period, growing 16.9% YoY to THB0.7bn.

This was thanks to the Myanmar unit and its new distribution centre, which went fully operational last year. However, overall group margins dropped slightly to 41.3% vs 43.1% previously on a change in revenue mix. This was driven by the higher revenue growth of its distribution wing, which has relatively lower margins.

Stable dividend payment. MEGA announced an annual FY19 DPS of THB0.71, or 3.1% yield. The company has maintained its payout ratio of c.30-50% above its dividend policy of less than 25% of net profit during the past three years. While MEGA still has many projects in the pipeline, with its net cash position, we believe it will maintain its payout policy, with FY20F-21F's dividend yield prospects of c.3%.

Healthy cash flow with solid balance sheet. MEGA has held a net cash position despite its active M&A strategy and new projects in the pipeline. This is thanks to the strong free cash flow turnover.

Management. CEO Vivek Dhawan is a pharmaceutical veteran who has more than 40-years experience in the industry. He has been at the helm of MEGA since the start and has been successful in expanding its brand products business into 34 countries.

Investment Case

Core markets still at early stage growth cycles. Over 80% of MEGA's total revenue is contributed by its businesses in developing countries in Asia and sub-Saharan Africa. We see these countries as the group's top fastest-growing markets, given their still relatively low public and private healthcare spend. We believe the pharmaceutical and nutraceutical markets in these countries will expand rapidly – above their respective economic growth rates – driven by aging population numbers on the rise and increasing health awareness.

The distribution business also has a bright future. International FMCGs and pharmaceutical players both share the same characteristic when they first enter into developing markets – they tend to outsource their distribution services to avoid investing in a logistics network. Retail growth in such underpenetrated markets, and the lack of logistics infrastructure and cold storage facilities currently should allow MEGA to gain market share over the medium term.

Synergy of both businesses in Myanmar. We think the group's full-service distribution business will put it in a good position to capture growth in Myanmar's pharmaceutical market. As the country has low pharmaceutical production domestically (international brands make up 40% of such products in the market), we think a strong pharmaceutical player aiming to successfully penetrate the Myanmar market will need to rely on a logistics network, quality warehouses (with cold storage facilities), and connections in the healthcare industry. MEGA can provide such services.

Maintain BUY and DCF-based THB35.00 TP (WACC: 7.8%, TG: 2.5%). This implies a recurring P/E of 22x, -1SD of its 5-year historical mean.

Key risks: A temporary drop in nutraceutical demand due to economic sluggishness and lower purchasing power in the short term. Delays in the construction of a new pharmaceutical manufacturing plant in Myanmar could be the other downside.

Profit & Loss	Dec 19	Dec 20F	Dec 21F
Total turnover (THBm)	11,129	11,525	12,333
Reported net profit (THBm)	1,139	1,383	1,422
Recurring net profit (THBm)	1,365	1,394	1,433
Recurring net profit growth (%)	15.7	2.2	2.8
Recurring EPS (THB)	1.6	1.6	1.7
DPS (THB)	0.71	0.73	0.75
Dividend Yield (%)	2.0	2.0	2.1
Recurring P/E (x)	22.9	22.4	21.8
Return on average equity (%)	18.9	18.2	18.2
P/B (x)	5.1	4.5	4.0
P/CF (x)	20.9	19.3	22.1

Source: Company data, RHB

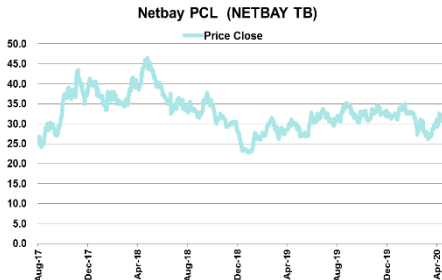
Balance Sheet (THBm)	Dec 19	Dec 20F	Dec 21F
Total current assets	7,245	8,094	9,010
Total assets	10,532	11,494	12,519
Total current liabilities	4,158	4,357	4,598
Total non-current liabilities	200	200	200
Total liabilities	4,358	4,557	4,798
Shareholder's equity	6,175	6,938	7,722
Minority interest	(0.3)	(0.3)	(0.3)
Other equity	-	-	-
Total liabilities & equity	6,175	6,937	7,721
Total debt	891	1,066	1,141
Net debt	net cash	net cash	net cash

Source: Company data, RHB

Cash Flow (THBm)	Dec 19	Dec 20F	Dec 21F
Cash flow from operations	1,495	1,615	1,409
Cash flow from investing activities	(172)	(250)	(250)
Cash flow from financing activities	(621)	(456)	(574)
Cash at beginning of period	559	1,248	2,144
Net change in cash	689	897	572
Ending balance cash	1,248	2,144	2,716

Source: Company data, RHB

New Normalcy Of Documentation



Source: Bloomberg

Stock Profile

Bloomberg Ticker	NETBAY TB
Avg Turnover (THB/USD)	11.93m/0.37m
Net Gearing (%)	Net cash
Market Cap (THBm)	6,200m
Beta (x)	0.97
BVPS (THB)	2.50
52-wk Price low/high (THB)	24.60 – 37.00
Free float (%)	48.47

Major Shareholders (%)

Mr Pichit Viwatrujirapong	51.00
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Share Performance (%)

	1m	3m	6m	12m
Absolute	7.83	(6.06)	(0.80)	3.33
Relative	(8.26)	9.18	18.61	26.65

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Investment Merits

- Megatrend player;
- Ample room for long-term growth;
- Performance under super-growth mode.

Company Profile

The company provides Software as a Service (SaaS) on Cloud Computing and the comprehensive online services, which cover all types of business transactions. The exchange of information can be in any form such as Business-to-Government (B2G), Business-to-Business (B2B), Government-to-Citizen (G2C) and Business-to-Consumer (B2C).

Highlights

Megatrend player. We believe that Netbay's business will be the next-generation business that investors should closely follow. Especially in Thailand where the digitalisation is still in the early stages, Netbay is in the best position to grow along with the higher demand for online services in the future. In addition, the COVID-19 pandemic may be detrimental for most industries but it should prove an opportunity for the company as its prospective clients shift to managing their business transactions on the digital platform.

Ample room for long-term growth. Currently in Thailand, 95% of business transactions relating to import and export are processed via the analogue system. As the company is a well-known service provider of the digital platform for import and export transactions, we expect that 95% of businesses gradually shift to the digital platform. This should benefit Netbay in the long term. Although there is likely high competition among service providers to expand client base, we believe the digital platform market has yet to reach a saturation point. As such, the company can enjoy being one of three operators for this service.

Performance under super-growth mode. Netbay is a rare stock that can command earnings at double-digit growth consistently without any reliance on debt financing while it has also shown superb performance in profit margin and ROE. Although the company cannot avoid the impact of the pandemic – resulting in the deterioration in outstanding performance – we expect it to be temporary (that started from 1Q20 when the e-customs paperless service began to be affected by the pandemic, leading to lower number of import & export transactions). Note that this e-service relating to import and export is normally the largest proportion of its revenue. Therefore, FY20F earnings growth will be in the range of 2-5% YoY – slimmer than the above 20% YoY growth in previous years. As soon as import and export activity recovers after lockdown measures in major countries are lifted, we believe it will see strong earnings growth (above 10% YoY in FY21).

Company Report Card

Latest results. Its solid earnings growth of above 20% YoY has been a major characteristic for Netbay since FY17. This comes as its core revenue is based on the number of online service transactions had grown 14-15% YoY in FY18-19, underpinned by its successful expansion in new client base and the growth of e-commerce business in Thailand thereby boosting the client's online transaction relating to e-payment services for import and export activities. Also, its efficiency in managing service cost and SG&A resulted in NPM expanding from 36.8% in FY17 to 43.5% in FY19.

Balance sheet/cash flow. In tandem with the rising earnings trend, cash flow from operations also increased gradually while the company has not invested intensively over the past years. It currently has no investment plan in the pipeline requiring large capital expenditure. This has allowed Netbay to be debt free. We expect the company to sustain this net cash position for several years and use its FCFF surplus to pay dividends back to shareholders.

ROE. Netbay's ROE has inevitably increased from 28% in FY17 to 35.8% in FY19, which is abnormally high due to strong earnings growth and historically high dividend payout ratio. We expect its exceptional ROE to stay high for FY20F-21F, which is the rationale behind the stock currently trading at a high P/BV.

Dividend. The company has a historically high dividend payout ratio and we expect that it to sustain over a certain period. In the event there is a need of capex for new projects, the company may adopt a lower dividend payout ratio. Therefore, dividend yield may be not its major attraction.

Management. This small and young company has been led by the current CEO, Pichit Viwatrujirapong, since its establishment in 2004. His vision is to develop digital business growth with clients amid the consistent changes in the digitised business world.

Investment Case

Opportunity from new normalcy. Based on its core business expertise in the online service, we expect it to play a greater role in the future and become a new normalcy for business transactions, especially in the international level. FY20F earnings prospects are likely to be affected by the pandemic leading to a sharp drop in import and export transactions. However, we expect it to recover as soon as the international trade volume recovers.

FV of THB38.70. Its share price is trading at a 3-year P/E average of 43x. Although FY20F EPS may miss, we expect the company can re-capture high growth in FY21.

Key risks: A shortage of computer engineering experts that are key to running its operations, a change in technology that may be a negative impact on the company's competitiveness, and heavy reliance on e-customs paperless service.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	315	362	412
Reported net profit (THBm)	116	149	179
Recurring net profit (THBm)	116	149	179
Recurring net profit growth (%)	29.6	28.5	20.3
Recurring EPS (THB)	0.58	0.74	0.90
DPS (THB)	0.48	0.76	0.97
Dividend Yield (%)	1.5	2.4	3.1
Recurring P/E (x)	54.0	42.0	34.9
Return on average equity (%)	27.7	31.5	35.8
P/B (x)	14.9	13.2	12.5
P/CF (x)	59.7	40.6	35.2

Source: Company data, RHB

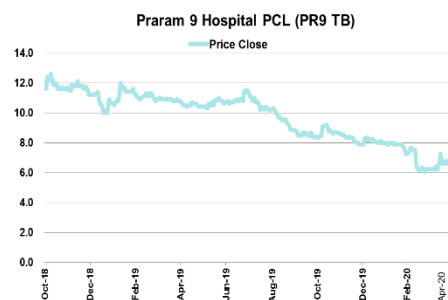
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	443	435	388
Total assets	533	611	647
Total current liabilities	97	119	112
Total non-current liabilities	17	20	35
Total liabilities	115	139	148
Shareholder's equity	418	473	498
Minority interest	0	0	0
Other equity	0	(1)	2
Total liabilities & equity	533	611	647
Total debt	0	0	0
Net debt	(33)	(37)	(39)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	105	154	178
Cash flow from investing activities	(77)	(54)	(25)
Cash flow from financing activities	(45)	(95)	(151)
Cash at beginning of period	50	33	37
Net change in cash	(17)	4	2
Ending balance cash	33	37	39

Source: Company data, RHB

Undervalued With Growth Potential



Source: Bloomberg

Stock Profile

	PR9 TB
Bloomberg Ticker	PR9 TB
Avg Turnover (THB/USD)	25m/0.78m
Net Gearing (%)	Net cash
Market Cap (THBm)	5,425.5m
Beta (x)	0.85
BVPS (THB)	5.14
52-wk Price low/high (THB)	5.5 – 11.6
Free float (%)	57.22

Major Shareholders (%)

Damapong Group	37.1
Aberdeen Standard Small Cap Fund	2.3

Share Performance (%)

	1m	3m	6m	12m
Absolute	8.00	(15.09)	(19.16)	(36.92)
Relative	(7.06)	(0.65)	(0.05)	(14.33)

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Investment Merits

- Strategic location to capture high-quality growth
- Building scale and scope from upcoming new facilities
- Growing organically through utilisation and pricing levels

Company Profile

Praram 9 Hospital operates a 166-bed private hospital. It provides tertiary care, covering health promotion services, prevention, treatment, and rehabilitation from common and specialised diseases. PR9 is in the process of constructing a new building and renovating existing facilities to support extended medical services, as well as a growing number of customers.

Highlights

Strategic location to capture high-quality growth. PR9 is located in Bangkok's Rama 9-Ratchada neighbourhood – a new central business district area popular with the city's expatriate community. The population density of mid- to high-income locals and expatriates in this neighbourhood has increased significantly over the past few years, primarily due to the large number of multinational corporations opening offices there. Consequently, there has been a massive increase in residential high-rise tenancy, with revenues from the international tenants segment outgrowing the local portion, as seen in FY19: +12.5% YoY (foreigners) vs +4.2% YoY (Thais). We think PR9's geographic location should continue to draw in patients, in tandem with the longer-term development in the hospital's vicinity.

Building scale and scope from upcoming facilities. A new 16-storey building comprising various comprehensive healthcare centres – eg gastrointestinal, paediatric, allergies, etc – with 59 licensed beds and 83 examination rooms should be PR9's key growth driver next year. This soon-to-be opened building, which is slated to be fully operational in 2H20, should provide some relief for the hospital's previous capacity constraints at its intensive and critical care units. It should also allow PR9 to fully focus on new market penetration via its medical cooperation network initiative, as well as tapping into the expatriates market segment going forward.

More room for organic growth. Despite its competitive tertiary healthcare services, vis-à-vis other high-end hospitals, PR9's revenue intensity is still relatively low when compared with its peers – c.15-25%. While we expect some margins pressure during the pre-opening phase of its new facilities, we think PR9's pricing management should partially allow the hospital to maintain margins in the short term.

Company Report Card

Latest results. PR9 posted a 5.7% YoY rise in FY19 revenue to THB2.9bn. This was driven by higher topline intensity from the inpatient segment – due to higher medical complexity and volume of patients at the hospital's intensive-care unit – and elevated outpatient traffic. Revenue from the international segment (16% of total revenue) grew an impressive 12.5% YoY thanks to PR9's medical cooperation network and referral offices' marketing campaigns. While the self-payer segment still makes up the bulk of the hospital's revenue – at 75% – its insurance and corporate contract segments have become new growth drivers, with revenue growing by 14.9% and 8.7% in 2019. Although FY19's earnings grew a significant 80.9% YoY to THB284m, this was partly due to the absence of one-off expenses and better operating margins when compared to the previous year.

Dividend. PR9's dividend payment policy is to pay dividends of not less than 40% of its full-year net profit. The hospital announced an FY19 DPS of THB0.14 per share, or a c.2.1% yield. While we note that PR9 is still in the middle of its investment cycle, its current net cash position and strong cash flow should allow it to maintain its payout policy – with dividend yield prospects of c.2% in FY20-22.

Management. PR9 was founded by a group of doctors – Dr Satian Pooprasert, Dr Mongkol Tanjapatkul, Dr Viroon Mavichak, and Dr Prasert Trairatvorakul – who are veterans of Thailand's healthcare industry. These founders have also managed PR9 for more than 20 years. Each founder holds doctorate degrees from various leading institutions, both in Thailand and overseas.

Investment Case

Building growth through new segments. PR9 has a solid mid- to long-term growth outlook, which should be driven by capacity expansion and the population growth in its vicinity. However, the hospital's topline-growing initiatives – via new market penetration in segments like corporate contracts, insurance, and network referral offices – should play an important role in supporting short-term revenue growth. PR9's focus shift towards increasing the volume of non-Thai patients – via an expatriate premium card and international marketing activities through strategic partners – should help the hospital draw in more traffic. It ought to partially support PR9 in maintaining margins too during the pre-opening phase of its new facilities.

Accumulate for long-term holdings. The solid balance sheet and strong cash flow should make PR9 one of the good defensive plays during the current economic situation. Its current share price – it is trading at 25x P/E – is relatively cheap when compared to its peers. We are of the view that the current valuation looks a bargain and should be a good opportunity for investors to accumulate this counter for long-term holdings.

Key risks include delays in the opening of its new facilities and rising depreciation costs, which could pressure margins in the short term.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	2,455	2,733	2,889
Reported net profit (THBm)	262	157	284
Recurring net profit (THBm)	262	154	279
Recurring net profit growth (%)	0.9	(40.9)	80.6
Recurring EPS (THB)	0.44	0.25	0.36
DPS (THB)	-	0.14	0.14
Dividend Yield (%)	-	1.8	2.2
Recurring P/E (x)	-	44.8	21.8
Return on average equity (%)	13.2	5.2	7.2
P/B (x)	-	2.3	1.5
P/CF (x)	-	14.5	12.2

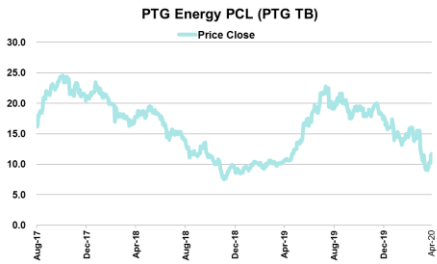
Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	878	2,048	1,643
Total assets	2,856	4,424	4,716
Total current liabilities	654	449	523
Total non-current liabilities	107	102	154
Total liabilities	761	551	677
Shareholder's equity	2,095	3,873	4,038
Minority interest	-	-	-
Other equity	2	1	8
Total liabilities & equity	2,856	4,424	4,716
Total debt	net cash	net cash	net cash
Net debt	net cash	net cash	net cash

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	43435	Dec-19
Cash flow from operations	440	479	490
Cash flow from investing activities	(364)	(1,988)	30
Cash flow from financing activities	(47)	1,494	(111)
Cash at beginning of period	208	237	223
Net change in cash	29	(14)	408
Ending balance cash	237	223	631

Source: Company data, RHB



Source: Bloomberg

Stock Profile

Bloomberg Ticker	PTG TB
Avg Turnover (THB/USD)	246.34m/7.61m
Net Gearing (%)	132.0
Market Cap (THBm)	23,213m
Beta (x)	1.36
BVPS (THB)	3.98
52-wk Price low/high (THB)	8.95 – 23.1
Free float (%)	53.87

Major Shareholders (%)

Ratchakit Holdings	25.12
Wijitthanak Sakanan	10.13

Share Performance (%)

	1m	3m	6m	12m
Absolute	34.95	(4.79)	(24.46)	17.80
Relative	18.87	10.45	(5.04)	41.11

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Investment Merits

- Thailand's third-largest service station provider with a 13.3% market share. Main clientele: Transportation trucks, as diesel is its main sales product. This segment should be less affected by COVID-19
- The company is in a high-volume, low-margin business and is constantly looking to expand its network of 2,027 service stations. It expects to expand its existing stations by another 100 this year
- 2020F-2021F sales volumes are expected to grow 15% and 10%. However, 2020 net profit is expected to fall 33% YoY to THB1bn, rebounding 70% YoY to THB1.7bn in 2021

Company Profile

PTG Energy started in 1988. It initially operated tank farms and distributed gas to local communities, the fishing industry, and factories in southern Thailand. From humble beginnings, it now has tank farms in 10 locations and more than 2,000 retail gas stations nationwide – with its niche market being the provision of diesel to transportation trucks outside Bangkok.

Highlights

PTG's market share for all products stood at 13.3% in 2019 and the company is ranked Thailand's third-largest service station provider. It has a nationwide network of 2,027 service stations. Transportation trucks are its main clientele, with diesel being the main sales product (73% of total sales volume). COVID-19 should have less impact on this company.

2020F sales volumes are expected to grow by 15% YoY to 5,383m litres, with marketing margins at THB1.70 per litre. We expect PTG's net profit to be at THB1bn (-33% YoY), assuming most costs are stable YoY and crude oil prices are at the USD30.00-40.00 per bbl range.

2021F sales volumes are expected to grow by 10% YoY to 5,921m litres, with marketing margins at THB1.70 per litre. We expect net profit at THB1.7bn (+70% YoY), assuming costs are stable YoY and crude oil prices average at USD55.00 per bbl.



Company Report Card

Latest results. In FY19, revenue rose 11.3% YoY to THB120bn, with sales volumes increasing 19% YoY to 4,681m litres – this was while selling prices fell slightly by 2.7% YoY on the decreasing global oil price trend. Gross profits increased 33% YoY to THB9.9bn on higher sales volumes and improved marketing margins. EBITDA was boosted by 50.2% YoY to THB5.2bn on improved marketing margins and costs management. Net profit for the year: THB1.5bn (+150.6% YoY).

Dividend. PTG has a dividend policy of paying out 30% of net profit. However, its payout has consistently been at 54% of earnings over the past two years. At current prices, its historical dividend yield is c. 5% for 2019.

Management. PTG has a 10-person board of directors with Police General Soontorn Saikwan as Chairman. Saikwan has held this position since 2012. He is also a member of the National Legislative Assembly and Deputy Commissioner General with the Royal Thai Police. Pitak Ratchakitprakarn is President & CEO. He has held this position since 2002.

Investment Case

PTG has 2,027 service stations in Thailand with the third-largest market share at 13.3%. Its major markets are outside Bangkok, with core sales being diesel – this accounted for 73% of total sales. Its main clientele are transportation trucks, which are not severely affected by the COVID-19 lockdown.

PTG plans to expand its service stations by c.100 stations this year. This is pared down from the 150-200 stations initially expected, given the slowdown in domestic demand for transportation fuel in 2020 so far. Total costs for its service stations: c.TH15m per station vis-à-vis competitors' THB30-50m per station. This is because it acquires old stations and refurbishes them under its own brand. Total investment for this year is expected to reach THB2bn, down from its initial target of THB4bn.

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This is a high-volume business that provides relatively low margins. PTG's margins have been relatively stable, with EBIT and NPM at 2% and 1%.

The company's total debt to equity is high at 1.46x as at 2019. However, PTG does not plan to increase its debt – it intends to either maintain or lower its debt going forward. Any future investments will be made in line with EBITDA expectations.

Key risks. COVID-19 is creating downward pressure and possible uncertainty to the overall land transportation sector. This could result in an adverse impact on PTG's earnings if the pandemic is not contained.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	86,425	107,829	120,027
Reported net profit (THBm)	913	625	1,561
Recurring net profit (THBm)	913	625	1,595
Recurring net profit growth (%)	(6.7)	31.6	155.3
Recurring EPS (THB)	0.55	0.37	0.95
DPS (MYR)	0.17	0.20	0.50
Dividend Yield (%)	1.2	1.4	3.6
Recurring P/E (x)	25.3	37.6	14.6
Return on average equity (%)	18.0	11.5	24.0
P/B (x)	4.5	4.3	3.5
P/CF (x)	8.3	4.8	6.3

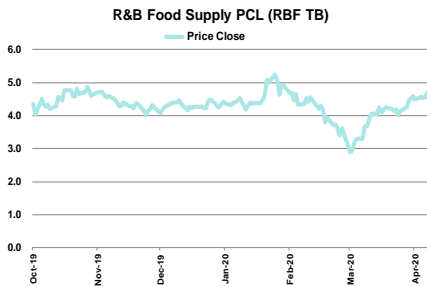
Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	3,909	3,937	4,850
Total assets	17,985	20,940	22,652
Total current liabilities	8,275	10,892	11,614
Total non-current liabilities	4,591	4,572	4,330
Total liabilities	12,867	15,464	15,944
Shareholder's equity	5,105	5,444	6,648
Minority interest	14	32	60
Other equity	-	-	-
Total liabilities & equity	17,985	20,940	22,652
Total debt	8,099	8,892	9,783
Net debt	7,188	7,896	8,746

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	2,790	4,923	3,683
Cash flow from investing activities	(5,698)	(5,347)	(4,225)
Cash flow from financing activities	3,182	508	584
Cash at beginning of period	637	911	996
Net change in cash	274	84	42
Ending balance cash	911	995	1,038

Source: Company data, RHB



Source: Bloomberg

Stock Profile

Bloomberg Ticker	RBF TB
Avg Turnover (THB/USD)	128.36m/3.96m
Net Gearing (%)	-28.3
Market Cap (THBm)	9,400m
Beta (x)	1.02
BVPS (THB)	1.93
52-wk Price low/high (THB)	2.78 - 5.35
Free float (%)	25

Major Shareholders (%)

Petchara Ratanapoompinoy	27.8
Somchai Ratanapoompinoy	27.8
Thai NVDR	8.8

Share Performance (%)

	1m	3m	6m	12m
Absolute	14.3	5.5	1.3	na
Relative	(1.8)	20.7	20.7	na

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Investment Merits

- Biggest local player in flavour & fragrance creation
- Massive growth opportunities both domestically and abroad
- Limited impact from COVID-19 on purchase orders

Company Profile

R&B Food Supply has been in operation for 33 years. It is the biggest local player in the manufacturing and distribution of a full range of food ingredients. The bulk of its clients are food caterers who purchase made-to-order items and/or the company's own-brand products. R&B's key products are flavour & fragrance substances and food colours (36% of total sales), breadcrumbs & sauces (36% of total sales), and frozen and dehydrated products (9% of total sales). It also owns two hotels – Novotel Chumphon Beach & Golf Resort and ibis Style Chiang Mai.

Highlights

Benefiting from growing sophisticated consumer demand. We are optimistic on R&B's business outlook, aided in part by the Government's continued push to brand Thailand as the "Kitchen of the World". This is because rising competition among food industry players to unveil new products, has led R&B to frequently deliver flavour varieties to boost sales and cater to ever-increasing and complex global consumer tastes and trends. 84% of sales are in Thailand, while the remaining 16% come from export sales. Key customers are the big local and international names in the processed food, snacks, beverages, restaurant chains, personal care, and modern retailer industries. Note that the global food flavour market has an expected CAGR of 4.8% over 2019-2024F. In the Asia-Pacific, this market's CAGR is expected to be at its highest, at 6.3%, in 2019-2027F.

Vast opportunities in overseas expansion. We see favourable earnings from 2020 onwards – driven by the opening of two new facilities for breadcrumbs and premix products in Indonesia and Vietnam in 1Q20 and at the end of the year. R&B's Phase 2 in Indonesia should be completed by 2021, with a capex of THB250m. Growing activities in processed food and seafood there may generate solid demand for its products and help save export costs. The company has also begun penetrating China for product distribution since 2019, and it expects improvements this year post COVID-19. R&B plans to launch its Singapore research & development (R&D) lab and representative office for flavour & fragrance by 2021 – a new machine will be installed in Thailand to serve new Singapore office clients. THB75m in capex will be spent on this project.

Strong purchase orders despite COVID-19. Management has kept its 2020 total sales growth target of 10-12%. COVID-19 has had a limited impact on its key businesses, as purchase orders may remain at normal levels throughout 1H20 – thanks to solid demand for food and necessities, as well as R&B's ability to expand its customer base in

flavour & fragrances. This should help offset the weak hotel business.

Company Report Card

Latest results. R&B reported 9% YoY net profit growth in 2019. Total sales increased moderately by 5% YoY, with stronger sales of high-margin flavour & fragrance and breadcrumbs & sauces helping to boost GPM by 1.8ppts to 38.1%. The opex-to-sales ratio rose 1.2ppts to 22.3% post IPO-related expenses during the review period.

Balance sheet/cash flow. The Oct 2019 listing turned R&B's financial position from 0.3x net D/E in end-FY18, to net cash in end-FY19. Its solid balance sheet should ease longer-term business expansions. The improved net working capital, mainly from declining inventory, raised operating cash flow to THB530m in 2019 (2018: THB410m). Nonetheless, capex remained at THB150m last year and may stay at c.TH200m this year and next.

ROE. R&B achieved ROE of 11.8% in 2019 (2018: 14.5%). Its net profit margins continued to escalate by 0.5ppts to 12.3%, but the equity multiplier was lowered to 1.1x from 1.6x in the previous year, as the IPO shrank ROE. We expect the continued solid earnings outlook to support R&B in keeping its ROE stable in 2020.

Dividend. The company's policy is to pay out at least 40% of net profit – according to the separate financial statement post deduction of corporate income tax and other reserves – as dividends to shareholders. It paid THB0.15 per share for FY19, or a c.3% yield. We expect yields to stay at around 3-4% over the next two years.

Management. CEO Somchai Ratanapoompinyo entered the flavour & fragrance business in 1985, and founded R&B in 1989 before listing the company in 2019. He has a background in chemistry and currently holds a 27.8% stake in R&B, making him the largest shareholder. Wife and Deputy CEO Petchara Ratanapoompinyo holds a 27.8% stake. Daughters Dr Junjida and Dr Sanathorn Ratanapoompinyo – both physicians – are directors in the company. They each hold 8.01% stakes in R&B and are likely the company's future successors.

Investment Case

Growth likely to continue in FY20. We expect a moderate 9% growth in revenue and net profit this year, mainly driven by the continued solid demand for food ingredients and factoring in the pandemic-hit hotel unit. We are still optimistic on R&B's longer-term outlook due to sophisticated consumer demand, which may bolster competition in the processed food industry. Business expansion in Indonesia and Vietnam, plus potential future destinations like Singapore, are also positives.

Fair value ranges between THB5.00 and THB5.50, derived from a prospective 26-28x P/E to our THB0.19 FY20 EPS assumption. The P/E range is based on Thailand's food sector's 26x, at +2SD from the 5-year historical trading mean. R&B's superior business outlook deserves a premium valuation. The 28x targeted P/E also reflects the average trading of regional flavour & fragrance players. This compares with the current 23x FY20 P/E, at +1SD of the Thai food sector's 5-year mean.

Key risks. Weaker-than-expected food ingredient sales, raw material price volatility, high dependency on R&D and key industrial manufacturing clients, and weak hotel operations.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	2,916	2,738	2,865
Reported net profit (THBm)	405	324	353
Recurring net profit (THBm)	405	324	353
Recurring net profit growth (%)	10.0	(20.0)	9.0
Recurring EPS (THB)	0.63	0.22	0.18
DPS (THB)	2.25	0.17	0.15
Dividend Yield (%)	47.9	3.6	3.2
Recurring P/E (x)	7.4	21.5	26.6
Return on average equity (%)	18.4	14.5	11.8
P/B (x)	1.3	3.3	2.4
P/CF (x)	9.3	16.9	17.7

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	1,540	1,648	2,659
Total assets	3,150	3,448	4,412
Total current liabilities	635	670	375
Total non-current liabilities	144	686	167
Total liabilities	779	1,356	542
Shareholder's equity	2,277	2,001	3,783
Minority interest	2	(1)	0
Other equity	93	92	87
Total liabilities & equity	3,150	3,448	4,412
Total debt	322	935	139
Net debt	102	686	(1,095)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	322	410	530
Cash flow from investing activities	(269)	(377)	(148)
Cash flow from financing activities	(122)	(4)	603
Cash at beginning of period	289	220	249
Net change in cash	(69)	30	985
Ending balance cash	220	249	1,234

Source: Company data, RHB

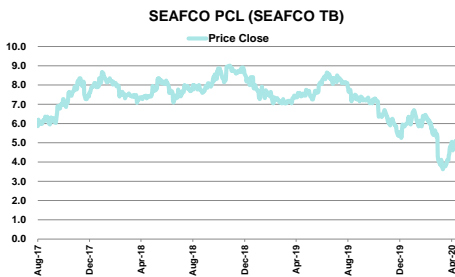


Seafco

Building On a Strong Foundation

Target: N/A

Price: THB5.25



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SEAFCO TB
Avg Turnover (THB/USD)	19.78m/0.61m
Net Gearing (%)	40.93
Market Cap (THBm)	3,846m
Beta (x)	1.36
BVPS (THB)	2.19
52-wk Price low/high (THB)	3.42 – 8.70
Free float (%)	78.45

Major Shareholders (%)

Narong Thasnanipan	7.7
Nutthakarn Thasnanipan	7.3
Pavana Thasnanipan	3.2

Share Performance (%)

	1m	3m	6m	12m
Absolute	26.83	(14.75)	(20.61)	(30.24)
Relative	10.74	0.49	(1.20)	(6.93)

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Investment Merits

- Leading market share in the piling industry.
- Solid performance to reoccur in FY21.
- On stand-by aiming at the next bid cycle.

Company Profile

SEAFCO operates as a contractor for bored piling and diaphragm walls, foundations, and general civil works. It tenders for work in both the Government and the private sector. The overall contract work of the company can be summarised as follows: bored piling, diaphragm wall construction, civil works, including foundation and building construction, and various testing services.

Highlights

Market share leader in the piling industry. For the past decade, SEAFCO has maintained its leading market share position in the piling industry at c.30%, supported by a highly experienced management team and its outstanding reputation for quality, trustworthiness, and on-time delivery. During the heydays of Thailand’s construction cycle, the company had inevitably been the major beneficiary as it normally acts as the first-stage player for all construction projects. This was exemplified in FY18 when several public and private sector projects started the construction process and the company commanded an impressive recurring net profit growth of 127% YoY. In addition, its close alliances with two large construction companies should be a solid entry barrier against its mid-size piling rivals and protection on its market share leadership.

Performance to shine again in FY21. Following superb growth in FY18 and its continued momentum in FY19, we expect FY20 to see opportunities for the company to accumulate new orderbooks that should be awarded to piling contractors within 2H20 and FY21. Major projects in the pipeline include the high-speed railway (HSR) project linking three airports, the U-Tapao Airport expansion, and the Orange-Line Mass Rapid Transit (MRT) expansion. SEAFCO’s alliances have already been awarded the HSR and airport expansion projects, while we also expect the Orange-Line MRT expansion to be secured by these two alliances. This implies that SEAFCO’s earnings should take off again in FY21.

Well-prepared for next cycle. SEAFCO’s major advantages are its strong balance sheet coupled with conservative working capital management and new orderbook opportunities. With its trustworthy reputation among clients and new job cycle ahead, its orderbook could potentially jump past its previous record of THB3bn from the current THB2.5bn



Company Report Card

Latest results. In FY19, the company reached a record-high net profit of THB410m (+11% YoY), with the growth momentum continuing from the strong performance in FY18. The major factor was the continued revenue growth of 9.6% YoY driven by its bored piling and diaphragm wall construction works for the remarkable mixed-use “One Bangkok” project in Bangkok’s central business district area – with the underground construction completed in mid-FY19. GPM in FY19 also stood at an impressive 21.3%, slightly down from 22.6% in FY18, while SG&A expenses remained under stringent control with a 22%YoY decline.

Balance sheet/cash flow. Its accounts receivable and unbilled receivables are under control, and its cash flow from operations has remained positive for the past 10 years. However, the company has consistently invested in new machinery and equipment, financed by debt. Therefore, its interest-bearing debt balance increased 40% YoY in FY19; however, net D/E remained at an acceptable level of 0.4x.

ROE. ROE in FY19 was above average (15-19%) as the company has maintained its earnings uptrend for past five years. Based on its reputation and expertise in specialty construction work, SEAFCO’s ROE is normally higher than ordinary civil-work construction companies.

Dividend. Based on its policy of giving out of at least 40% of net profit in dividends and its past record of >50% dividend payout ratio, the company has paid dividends continuously with a mix of cash and stock dividends. However, the company adopted a pure cash dividend paid quarterly for FY19. For FY20F, we expect the cash dividend yield to be moderate at 5% pa paid semiannually as management takes a cautious stance on working capital due to the COVID-19 pandemic’s impact on its business.

Management. Narong Thasnanipan, the company’s founder and President, is a long-time veteran in the foundation construction business. Note that the company was established in 1974 and has passed through several Thai economic cycles over the past 40 years.

Investment Case

Standing firm for new orderbooks ahead. After SEAFCO enjoyed a strong construction season ending in 1H19, we expect another cycle for the company to occur in FY21 driven by infrastructure projects. As a first-stage construction player, the company should benefit before its construction peers and perform stronger in FY21.

FV in the range of THB7.35. Currently, the share price trades at -1SD below average mean. Once the new cycle resumes, we believe the stock could potentially trade at its 8-year P/E average of 14.7x, implying THB7.35.

Key risks: Delay in launching new infrastructure projects under the current Government administration, and cost increases in diesel and steel.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	1,818	2,765	3,032
Reported net profit (THBm)	211	368	410
Recurring net profit (THBm)	155	368	410
Recurring net profit growth (%)	1.6	127.5	11.2
Recurring EPS (THB)	0.25	0.55	0.55
DPS (THB)	0.25	0.31	0.26
Dividend Yield (%)	4.8	5.9	5.0
Recurring P/E (x)	21.0	9.6	9.5
Return on average equity (%)	13.0	26.2	25.0
P/B (x)	2.7	2.5	2.4
P/CF (x)	7.3	4.2	42.2

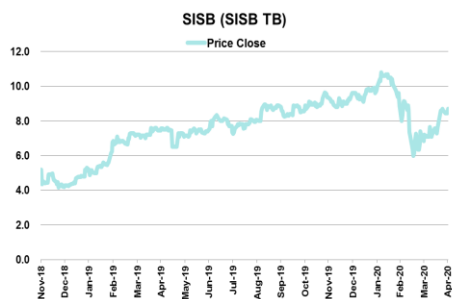
Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	1,103	1,183	1,134
Total assets	2,466	2,993	3,168
Total current liabilities	1,063	1,200	1,080
Total non-current liabilities	207	386	451
Total liabilities	1,270	1,586	1,531
Shareholder’s equity	1,178	1,404	1,626
Minority interest	24	8	14
Other equity	(6)	(6)	(3)
Total liabilities & equity	2,466	2,993	3,168
Total debt	490	524	733
Net debt	129	305	670

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	442	835	92
Cash flow from investing activities	(275)	(690)	(139)
Cash flow from financing activities	56	(187)	(109)
Cash at beginning of period	39	261	218
Net change in cash	221	(42)	(156)
Ending balance cash	261	218	63

Source: Company data, RHB



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SISB TB
Avg Turnover (THB/USD)	46.17m/1.43m
Net Gearing (%)	Net cash
Market Cap (THBm)	7,990m
Beta (x)	1.14
BVPS (THB)	1.93
52-wk Price low/high (THB)	5.50 – 11.10
Free float (%)	21.51

Major Shareholders (%)

Koh Yew Hock	32.8
Wilawan Kaewkanokvijit	28.8
Nongnapa Thongmee	10.2

Share Performance (%)

	1m	3m	6m	12m
Absolute	19.72	(21.30)	(6.59)	13.33
Relative	3.63	(6.05)	12.82	36.65

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Investment Merits

- Proxy for the school education sector in Thailand
- One of a few successful players in the kingdom
- A return to growth mode in FY21

Company Profile

SISB is a leading provider of Singapore's world-renowned education curriculum, which is ranked top in the world for mathematics and science. This curriculum has a strong focus on English, based on the Programme for International Student Assessment or PISA – a global benchmarking test. Since the company's establishment in 2001, SISB has grown to five campuses in Thailand, all of which adopt the Singapore curriculum and Cambridge International General Certificate of Secondary Education or IGCSE A and AS Levels, as well as the International Baccalaureate programme.

Highlights

It was rare to find stocks representing the education system in Thailand on the SET until SISB's listing in Nov 2018. Hence, the counter has acted as the only proxy for the education sector – especially for the country's premium education service, which caters to wealthy families that can afford annual tuition fees of more than THB400,000 per student. We note that, unlike Singapore and Malaysia, international schools in Thailand – with bi-lingual or tri-lingual curriculums – can be regarded as alternatives to the national school system. Therefore, this education category can charge fees much higher than the domestic school system average.

As the domestic market has limited local wealthy and foreign expat families, we believe SISB's successes over the past two decades has been due to four factors. Firstly, it has been successful in tapping the local family market. The children of the latter currently account for 83% of its student numbers. We believe this is due to inadvertent advertising via word-of-mouth and the success garnered by SISB students – these are effective tools in expanding new student registration numbers amongst local families. Secondly, its five campuses are located in residential areas popular with wealthy families. Thirdly, its kindergarten to high school package is affordable for new-generation families. Lastly, SISB has a consistent investment plan for facilities and manpower to entice its existing clients to continue on to secondary schooling with the school given the expansion of its campuses.

Back to growth post return to offline mode. There should be a hiccup in its FY20 earnings, as SISB had to provide tuition fee discounts due to the online learning platform it adopted due to COVID-19. This was activated in April and is slated to last for one academic semester. Consequently, we expect earnings prospects to see a temporary decline of 20% YoY in FY20, while FY21 earnings should

enjoy a new high level, with more than 50% YoY growth mainly coming from organic growth via 200 new registrations per year.

Company Report Card

Latest results. SISB's earnings have grown impressively – more than 2x in FY18-19, although core revenue from tuition fees and services income increased consistently during this period: +26% and +18% YoY in FY18 and FY19. This was due to the rising GPM trends during this period (FY18: 39%, FY19: 42%), which resulted from 10-15% YoY growth in student number and its high fixed-cost proportion in education and building management costs. Other factors: Higher average tuition fees per head (+6.3% YoY in FY19) and 92% YoY lower financial costs in FY19 after raising funds from its FY18 IPO to pay off interest-bearing debts. These positives resulted in NPM almost doubling to 19.6% in FY19 from 11% in FY18.

Balance sheet/cash flow. SISB's IPO in Nov 2018 turned its financial positions around – from being debt-ridden (3.8x net D/E as at end-FY17) to a net cash position as at end FY18. The high debt position before the IPO was due large investments used for the expansion of its major Pracha Uthit campus. Cash flow from operations has increased consistently in tandem with rising EBITDA – the result of higher accumulative number of student headcount. Negative FCFF is not a major concern, as SISB is under a growth stage with a series of expansion investments.

ROE. Contrary to other new SET-listed companies, SISB can show a higher ROE within a year after IPO. This was due to its ability to generate strong earnings growth within a short term.

Dividend. In our view, this is a growth stock, with less concentration on the dividend perspective. Note that SISB is planning to invest in expanding the second-best campus in Thonburi, with an approximate budget of THB300m. Based on its more than 40% dividend payout policy, we expect this growth stock to pay dividends at the payout ratio – c.40% – as long as possible. As FY20F earnings are expected to decline YoY, dividend yields may not be so attractive.

Management. Koh Yew Hock – the major shareholder and CEO – has been the key management in bringing international standards and multi-lingual curriculum into SISB's school network. This is to create a premium school service and differentiate its offerings vis-à-vis other rivals.

Investment Case

High-growth proxy. In the current circumstance, it is difficult to find a unique-character stock with exceptional growth. We believe SISB meets these criteria as the only proxy for Thailand's education sector and will repeat its multiplying earnings growth in FY21.

FV in the range of THB8.50-9.50. Since its IPO, the share price has been trading in the P/E range of between 30x and 70x on expectations of superb growth performance. While we expect SISB's superb growth to continue as soon as the school system normalises, the share price should therefore trade at the P/E average: 47-52x. This implies FV of between THB8.50 and THB9.50.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	731	924	1,087
Reported net profit (THBm)	18	104	221
Recurring net profit (THBm)	18	104	221
Recurring net profit growth (%)	(74.3)	477.8	113.4
Recurring EPS (THB)	0.04	0.11	0.23
DPS (THB)	NM	-	0.10
Dividend Yield (%)	NM	-	1.2
Recurring P/E (x)	NM	78.1	36.6
Return on average equity (%)	9.6	6.5	12.1
P/B (x)	NM	5.1	4.4
P/CF (x)	NM	27.4	22.3

Source: Company data, RHB

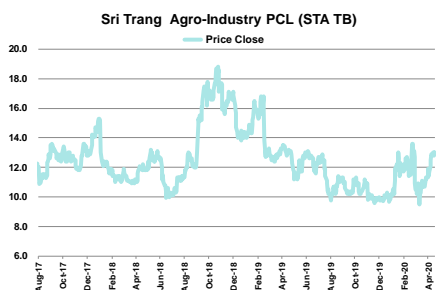
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	196	942	1,172
Total assets	1,725	2,425	2,701
Total current liabilities	849	524	571
Total non-current liabilities	689	304	311
Total liabilities	1,538	827	882
Shareholder's equity	187	1,598	1,819
Minority interest	(0)	(0)	0
Other equity	0	0	0
Total liabilities & equity	1,725	2,425	2,701
Total debt	784	5	7
Net debt	708	(363)	(255)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	225	295	363
Cash flow from investing activities	(426)	(531)	(471)
Cash flow from financing activities	209	527	2
Cash at beginning of period	68	76	367
Net change in cash	8	292	(106)
Ending balance cash	76	367	262

Source: Company data, RHB

Riding An Uptrend For Rubber Gloves



Source: Bloomberg

Stock Profile

Bloomberg Ticker	STA TB
Avg Turnover (THB/USD)	105.82m/3.27m
Net Gearing (%)	104.2
Market Cap (THBm)	19,968m
Beta (x)	1.24
BVPS (THB)	16.59
52-wk Price low/high (THB)	9.00 - 14.10
Free float (%)	55

Major Shareholders (%)

Sri Trang Holdings Co., Ltd.	22.4
Viyavood Sincharoenkul	8.7
Thai NVDR	6.9

Share Performance (%)

	1m	3m	6m	12m
Absolute	24.3	8.1	24.3	1.5
Relative	8.2	23.4	43.7	24.8

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Investment Merits

- Rising healthcare issues suggest a long-term growth for rubber gloves demand;
- Its gloves unit could become a top player globally, post its IPO planned for 2H20;
- Potential earnings turnaround in FY20 for its natural rubber business.

Company Profile

Sri Trang Agro is the world's biggest fully-integrated natural rubber firm which includes plantation, mid-stream products (smoked sheets, block rubber and concentrated latex), and finished goods (gloves and hydraulic hoses) with 80% of sales generated from processed natural rubber and 20% from high-GPM rubber gloves. Key customers are tyre and gloves producers. Of all sales, c.40% are derived from exports to China, c.30% from exports to other Asian destinations while c.20% are derived domestically.

Highlights

Enjoys solid outlook for rubber gloves. COVID-19 pandemic has substantially boosted the demand for rubber gloves. Consciousness over health and hygiene may develop new norms and result in higher growth long-term. Such growth could increase Sri Trang's earnings via its subsidiary Sri Trang Rubber Gloves (Thailand) (STGT) which derived a GPM almost twice higher than the GPM resulted from its traditional natural rubber sales. This could be a key investment highlight for STGT's scheduled IPO in 2H20F. STGT's fund raising could support its expansion to 50bn pieces of gloves in 2025F (+9% 5-year CAGR) vs 33bn pieces expected by the end-2020, to capture market demand and possibly become a top-three rubber glove manufacturer globally.

Favourable industry conditions. We believe Sri Trang would benefit from recent environmental changes in both natural rubber and rubber gloves industries in short-to-medium term. Malaysia imposed a lockdown in March due to COVID-19 and, according to Management, Malaysian glove manufacturers operated at c.75% capacity in April. STGT increased its capacity by 20% in April, just in-time to benefit from a pent-up demand.

FY20 earnings expected to turn positive. We expect Sri Trang's earnings this year to be driven by STGT, where a lower fluctuation in natural rubber price and manageable raw material purchases may help support GPM and earnings of its traditional business. At the same time, COVID-19 may dampen the global demand for mid-stream products. The company cut its sales target this year from 1.3m tons to 1.1m tons. The consensus expects Sri Trang's EPS to turn to a positive THB0.85 in FY20F with a conservative 4% growth to THB088 in FY21F.

Company Report Card

Latest Results. In 2019, Sri Trang reported a net loss of THB239m and had a core loss of THB149m. Total revenue was down 18% because of a lower sales volume for natural rubber products by 17% to 1.1m tons, while rubber gloves provided an 18% sales growth for the year. High volatility in rubber price in 1H19 and a THB/USD appreciation lowered the group's GPM to 8.1% (2018: 9.8%) and in 1Q19 resulted in negative earnings; it was able to record profits in all the remaining quarters.

Balance sheet/cash flow. Its net D/E ratio went up to 1.04x in 2019 vs 0.89x the previous year. Interest-bearing debt increased slightly by 4%, but a net loss and weak operating cash flow lowered the company's cash on hand by 40% and total equity by 3%. Capex was THB63.9bn in 2019 and may stay below THB1.0bn in FY20, mainly for maintenance.

ROE. Sri Trang achieved a negative ROE in FY19 due to its earnings loss. Historically, its low NPM of 1-3% may lead to mid-to-high single-digit ROEs on profitable years.

Dividend. The group pays c.30% of net profit as dividends, but not in excess of retained earnings. It paid annualized dividends of THB0.35/share in FY19 or c.3% yield. We expect yields to remain 2-3% over the next two years.

Management. Sri Trang was founded in 1987 under the management of Somwang Sincharoenkul. The current Chairman and Managing Director, is Dr. Viyavood Sincharoenkul, who listed the group in 1991 on the Thai bourse with a dual listing in 2012 on the Singapore Stock Exchange. Viyavood has an 8.7% stake in the company and is the second largest holder. Two of his sons, Veerasith and Vitchaphol are Executive Directors and one of them is likely to become his successor.

Investment Case

Best proxy for Thai rubber and gloves. Sri Trang is the world's largest fully-integrated rubber producer. The group's leading stance established Thailand as the biggest exporter of natural rubber with high-quality and a large volume output. STGT is the country's No.1 rubber gloves manufacturer, benefitting from a growing demand outlook in tandem with rising global consciousness over health and hygiene. In our view, Sri Trang's possible earnings turnaround this year and the IPO of STGT represent strong investment catalysts.

FV in the range of THB15.00-17.20, which is derived from applying a P/E of 17.7x (+1SD over the stock's 5-year historical trading mean) to the consensus' FY20 EPS of THB0.85, and a P/BV of 1.0x (+1SD over the Thai agribusiness sector's 5-year historical mean) to the consensus' FY20 BVPS of THB17.00. As the margin-driven STGT may contribute the majority two-thirds of Sri Trang's earnings, we believe it is justified for Sri Trang to trade at a premium.

Key risks: Lower-than-expected rubber consumption mainly in tyre production, fluctuations in natural rubber price and FX, raw material oversupply, and delay in capacity expansion for rubber gloves.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	89,387	73,136	60,286
Reported net profit (THBm)	(1,437)	2,064	(149)
Recurring net profit (THBm)	(2,463)	1,113	(239)
Recurring net profit growth (%)	na	na	na
Recurring EPS (THB)	(1.60)	0.72	(0.16)
DPS (THB)	-	0.65	0.35
Dividend Yield (%)	-	5.0	2.7
Recurring P/E (x)	na	9.7	na
Return on average equity (%)	na	8.3	na
P/B (x)	0.9	0.8	0.8
P/CF (x)	3.9	1.8	7.2

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	28,349	24,226	22,543
Total assets	59,708	58,414	58,331
Total current liabilities	25,856	21,136	22,472
Total non-current liabilities	10,574	10,867	10,370
Total liabilities	36,431	32,003	32,842
Shareholder's equity	19,681	21,561	20,955
Minority interest	369	1,706	1,369
Other equity	3,227	3,145	3,164
Total liabilities & equity	59,708	58,414	58,331
Total debt	32,306	27,784	28,937
Net debt	30,064	23,525	26,555

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	5,177	11,071	2,767
Cash flow from investing activities	(2,889)	(4,208)	(4,028)
Cash flow from financing activities	(1,721)	(4,845)	(616)
Cash at beginning of period	1,675	2,242	4,259
Net change in cash	567	2,017	(1,877)
Ending balance cash	2,242	4,259	2,382

Source: Company data, RHB

Experienced Consultant In Public Infrastructure Works

Team Consulting Engineering and Management (TEAMG TB)



Source: Bloomberg

Stock Profile

Bloomberg Ticker	TEAMG TB
Avg Turnover (THB/USD)	3.57m/0.11m
Net Gearing (%)	Net Cash
Market Cap (USD)	1,387m
Beta (x)	0.81
BVPS (THB)	1.36
52-wk Price low/high (THB)	1.50 – 2.48
Free float (%)	52.68

Major Shareholders (%)

Prasert Patramai	9.8
Peerawat Premchun	6.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	16.57	(8.93)	(12.07)	(2.86)
Relative	0.49	6.31	7.35	20.46

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Investment Merits

- Long-time veteran in engineering consultancy.
- Potential to persevere through a globally difficult year.
- Back to growth mode in FY21.

Company Profile

Team Consulting Engineering and Management provides integrated consulting services covering engineering and environmental aspects, including study and design, project management, construction supervision, and environmental impact assessment.

Highlights

Long-time veteran in engineering consultancy. Founded by a group of engineers working on diversified construction projects, with over 40 years of consultancy experience, TEAMG has a solid reputation in the Thai construction industry. It has been involved in the majority of large-scale infrastructure projects under the Government – a key advantage in building credibility in the local private sector and among clients in neighbouring countries. Its revenue is mainly derived from government and state agency projects (54% of core revenue). The company's areas of expertise are transportation & logistics, water resources, environmental assessment, infrastructure and building, and energy innovation.

Potential to persevere through a globally difficult year. Although there are concerns over the postponement in announcements of new public infrastructure bids by the Government, we expect minimal impact on the company's earnings prospects as it can generate core revenue from construction management works for the high-speed rail project linking three airports worth THB900m lasting for the next five years, and other orderbook jobs worth THB3bn. With several infrastructure projects, including deep seaports and airport expansion in the Eastern Economic Corridor (EEC), lying ahead for construction progress, we expect the company's reputation and solid track record to support new wins for construction management jobs for these EEC projects in 2H20.

Back to growth mode in FY21. Based on the best case scenario, we expect the company to sustain FY20 earnings at the same level as FY19. Earnings growth can be anticipated in FY21 when the mass rapid transit (MRT) construction projects are launched for bidding, especially the Orange-Line MRT extension. We expect that TEAMG will not miss out on construction management jobs for such a large project based on its track record in similar jobs for past MRT projects. We also estimate FY21 earnings growth to range between 10-15% YoY.

Company Report Card

Latest results. The company saw strong earnings growth in FY18 of 15% YoY due to enhanced workload management resulting in a 5.6% YoY decline in SG&A expense, while core revenue grew slightly at 4% YoY. Conversely, FY19 net profit grew only slightly 2% YoY, while core revenue grew strongly by 11% YoY in FY19. Financial cost declined significantly 56% YoY due to less reliance on financial debt after the company was listed on the SET in mid-FY18.

Balance sheet/cash flow. Being a company based on an engineering consulting business, its financing structure is not geared towards debt financing. Before its initial public offering (IPO), its net D/E was extremely low at 0.07x as of end-FY17. After the IPO, its position turned net cash, and it is still seeking opportunities to expand new businesses financed by cash proceeds from the IPO. Investing cash flow has been insignificant at THB20-30m per year; however, we expect the company will be conservative in considering new investments without any significant burdens on its current cash flow stream.

ROE. After its equity base was expanded due to the IPO in FY18, ROE declined to 12% and may require time to improve in the medium term.

Dividend. Although the dividend policy is set at a minimum 40% payout ratio, TEAMG can adopt a 65-90% ratio paid semi-annually. However, as it may need higher-than-normal capital expenditure in FY20-21, we conservatively expect that its payout ratio should stay between the minimum policy level of 40% and the actual payout of 65% in FY19.

Management. Key management members and several staff members have been with the company with the company since its establishment. As the core business is construction consulting services, the management team and engineering workforce are most critical in running the business. Note that the company was established in 1978 and has passed through several Thai economic cycles over the past 40 years.

Investment Case

No 1 in engineering consultancy. The company can be regarded as the market share leader in engineering consulting services for public sector projects, especially large-scale infrastructure projects. Therefore, there should be a constant flow of new consulting jobs lying ahead. In the overall construction chain, TEAMG has less risk in terms of project postponement than other players in the chain.

FV in the range of THB2.30-2.50. Since its IPO in mid-FY18, the share price has been trading in the range of 9x and 18x P/E. We expect earnings to gradually increase in tandem with the rising award of new orderbook jobs, especially from the public sector. Therefore, the share price should be trading at the P/E average of 13.5x and above. This implies FV between THB2.30 and THB2.50.

Key risks: Delay in launch of new infrastructure projects under the current Government's administration, any unanticipated resignation of key management members that may affect the prospects of new jobs awarded, and private sector clients postponing construction projects.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	1,590	1,654	1,836
Reported net profit (THBm)	99	114	116
Recurring net profit (THBm)	91	114	116
Recurring net profit growth (%)	3.5	25.1	1.9
Recurring EPS (THB)	0.18	0.17	0.17
DPS (THB)	NM	0.15	0.11
Dividend Yield (%)	NM	7.3	5.3
Recurring P/E (x)	NM	12.3	12.1
Return on average equity (%)	20.9	12.2	12.5
P/B (x)	NM	1.5	1.5
P/CF (x)	NM	(21.6)	6.0

Source: Company data, RHB

Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	831	1,329	1,347
Total assets	1,305	1,828	1,886
Total current liabilities	620	693	663
Total non-current liabilities	214	208	295
Total liabilities	833	901	958
Shareholder's equity	466	921	922
Minority interest	6	6	5
Other equity	0	0	(0)
Total liabilities & equity	1,305	1,828	1,886
Total debt	132	39	27
Net debt	32	(207)	(324)

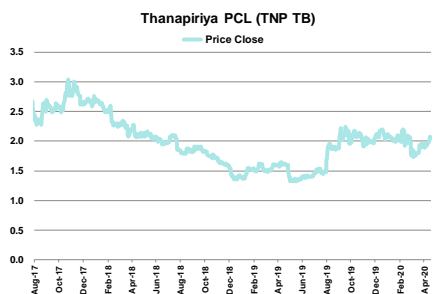
Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	(133)	(65)	235
Cash flow from investing activities	(23)	(22)	(31)
Cash flow from financing activities	12	233	(98)
Cash at beginning of period	244	100	246
Net change in cash	(144)	146	105
Ending balance cash	100	246	351

Source: Company data, RHB



Local Supermarket On Expansion Mode



Source: Bloomberg

Stock Profile

Bloomberg Ticker	TNP TB
Avg Turnover (THB/USD)	1.91 m/0.06m
Net Gearing (%)	-11.1
Market Cap (THBm)	1,648m
Beta (x)	0.89
BVPS (THB)	0.88
52-wk Price low/high (THB)	1.30 - 2.36
Free float (%)	27

Major Shareholders (%)

Amorn Phutthiphiriya	30.7
Thawatchai Phutthiphiriya	30.6
Thanaphoom Phutthiphiriya	3.8

Share Performance (%)

	1m	3m	6m	12m
Absolute	7.8	2.0	0.0	30.0
Relative	(8.3)	17.2	19.4	53.3

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Investment Merits

- No 1 local supermarket in Chiangrai province by market share seeking store network expansion in Thailand's northern region
- Improving sales mix supports profit margin uptrend
- Limited impact from COVID-19 on staple grocery retailers

Company Profile

Based in Thailand's northernmost province of Chiangrai, Thanapiriya is a leading local chain retailing and wholesaling consumer goods (excluding fresh food). It currently operates 28 stores in three provinces in the northern region, comprising 27 supermarkets and one wholesale centre. It offers >15k items for sale at both formats, which can be classified into main categories as follows: household products, personal care, beverages and dried foods, cosmetics, and baby care products.

Highlights

On an expansion mode. Thanapiriya supermarkets are popular among the Chiangrai locals. Its localisation strategy to understand the customer needs of each location has allowed it to continue opening new stores in distant communities and differentiate itself from the big modern retailer names. It opened 4-5 stores each year in 2017-2019, including penetrating into the neighbouring provinces of Phayao (three stores) and Chiangmai (one store). Management has guided for the opening of stores in all 18 districts of Chiangrai (vs 10 currently). With this, along with the opening of a distribution centre in 2017 supporting the logistics for up to 50 outlets, and the urbanisation trends in rural districts, we expect Thanapiriya will be able to expand its store network at the same pace over the next couple of years. The sizing of the new stores may decrease (c.300 sq m/store vs up to 1k sq m currently), but they would still play a vital role in driving total sales going forward.

Keep profit margins uptrend. We expect Thanapiriya to be able to enhance its profit margins further this year. Continued rising retail sales following new supermarket openings may lower the sales mix from low-margin wholesale revenue from the head office (<15%). Among small local retailers, the company is ranked as a top buyer by major suppliers, and has strong relationships with them. This allows Thanapiriya to attain favourable trade terms and promotional support to attract customers. Its low opex-to-sales ratio (10%) vs other modern retailers (>19%) is another positive factor, with its marketing activities focusing on local channels, ie radio, printed and social media.

Pandemic a windfall to grocery sales. The COVID-19 spread may also benefit Thanapiriya as all its stores have remained open as usual, with stronger sales from stockpiling of necessities. This may see positive mid-to-high single-digit SSSG throughout 1H20F and allow the firm to keep FY20F SSSG stable. Post-outbreak, we expect state campaigns to boost consumption and thus benefit retail sales in 2H20F.

Company Report Card

Latest results. Thanapiriya reported a splendid 36% net profit growth in 2019. Total sales increased strongly by 13%, supported by the opening of new branches, while SSSG was +2% thanks to the Government's stimulus policies which encouraged purchasing power – mainly in 4Q19 when SSSG was +10% YoY. Gross profit margin enhanced by 0.8ppts to 15% on an improved sales mix, along with a stable opex-to-sales ratio, supporting its net profit margin hike by 0.8ppts to 4.5%.

Balance sheet/cash flow. The company has had a solid balance sheet with a net cash position since 2014, which would ease its longer-term business expansion. It recorded a cash cycle of 13 days, down one day from the previous year. Operating cash flow was THB126m in 2019 (2018: THB111m). Capex was THB66m last year, and may stay at c.TH60m-70m this year and the next, mainly for the new stores.

ROE. Thanapiriya achieved ROE of 13% in 2019, from 10% the previous year. Its net profit margin rose by 0.8ppts. We expect the continued solid earnings outlook to support the firm in keeping its ROE stable in 2020.

Dividend. The group's policy is to pay out no less than 40% of its net profit after tax and regulatory reserves according to the separate financial statement as dividends to shareholders. It paid semi-annual dividends of a combined THB0.05/share for FY19, or c.3% yield. We expect yields to potentially stay around 2-3% over the next two years.

Management. Thanapiriya began its business in 1965 as a mom-and-pop store in a Chiangrai city municipality market. The company was listed in 2015. CEO Tawatchai Phutthipiriya is the second generation running the business, and is currently the second largest shareholder with a 30.6% stake. His wife Amorn Phutthipiriya, the Deputy Managing Director of Operation, holds a 30.7% share.

Investment Case

Growth likely continue in FY20F. Based on the current situation, we expect FY20 performance of 5-10% YoY higher revenue and net profit would likely be achievable. This compares to management's targeted sales growth of 10-12% pa. The planned opening of five new stores may be the key growth driver of topline sales. SSSG may be flattish at a high single-digit in 1H20F, thanks to the windfall in sales of necessities arising from COVID-19, before slowing down from a high base YoY in the latter half. The Government may release measures to shore up local consumption in 2H. The GP margin uptrend from improving sales mix may continue as another earnings growth support. As such, we expect strong quarterly performance throughout 1H20F.

FV in the range of THB2.44-2.80, which is derived from applying a P/E of 20-23x to our EPS assumption of THB0.12. Our P/E range is based on the stock's 2-year historical trading mean to +1SD, and the commerce sector's conservative -3SD to -2SD to its 5-year historical trading mean. This compares with the current 16x FY20 P/E, or c.-1SD of its 2-year historical trading mean.

Key risks. Consumption slowdown, delay in opening of new stores, unsuccessful store operations in provinces outside Chiangrai, competition from modern retailers and e-commerce players, and events such as natural disasters, outbreaks and political gatherings.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	1,598	1,729	1,952
Reported net profit (THBm)	61	65	89
Recurring net profit (THBm)	61	65	89
Recurring net profit growth (%)	10.1	6.3	36.0
Recurring EPS (THB)	0.08	0.08	0.11
DPS (THB)	0.03	0.04	0.05
Dividend Yield (%)	1.5	1.7	2.4
Recurring P/E (x)	26.9	25.3	18.6
Return on average equity (%)	10.4	10.4	13.1
P/B (x)	2.7	2.5	2.3
P/CF (x)	10.7	14.8	13.1

Source: Company data, RHB

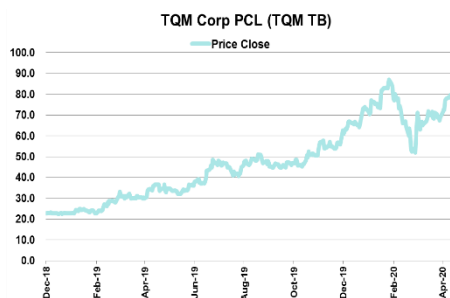
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	349	337	347
Total assets	820	829	869
Total current liabilities	210	177	159
Total non-current liabilities	3	3	6
Total liabilities	213	180	165
Shareholder's equity	607	648	705
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	820	829	869
Total debt	50	12	0
Net debt	(18)	(51)	(78)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	154	111	126
Cash flow from investing activities	(155)	(55)	(66)
Cash flow from financing activities	26	(62)	(44)
Cash at beginning of period	43	68	63
Net change in cash	25	(5)	16
Ending balance cash	68	63	78

Source: Company data, RHB

Rare Growth Stock In FY20



Source: Bloomberg

Stock Profile

	TQM TB
Bloomberg Ticker	TQM TB
Avg Turnover (THB/USD)	178.33m/5.51m
Net Gearing (%)	Net cash
Market Cap (THBm)	22,800m
Beta (x)	1.06
BVPS (THB)	2.48
52-wk Price low/high (THB)	31.25 – 90.00
Free float (%)	41.04

Major Shareholders (%)

Eternal Growth Corporation	50.90
Thai NVDR	5.69

Share Performance (%)

	1m	3m	6m	12m
Absolute	8.57	(7.32)	50.50	108.22
Relative	(7.51)	7.93	69.91	131.53

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Investment Merits

- Leading insurance broker armed with omni-channels
- Both organic and M&A growth
- Opportunity from any crisis

Company Profile

TQM Corp is a holding company whose core businesses provide insurance brokerage services. The company currently has four subsidiaries: TQM Insurance Broker and TJN Insurance Broker (non-life insurance), TQM Life Insurance Broker (life insurance), IT & software provider Casmatt, and a JV in TQLD – an insurance-related services provider.

Highlights

A leading insurance broker. Although Thailand's insurance brokerage business can be regarded as a fragile one – with an uncountable number of players – we believe TQM has dominated its rivals in terms of one-stop services. Clients can contact a 24-hour centre by dialling 1737, it has diversified insurance products – both non-life and life – from the kingdom's leading insurers, and the company has an advanced digital platform to capture new-generation clients. However, more than 90% of TQM's commissions revenue normally comes from non-life insurance products, with more than 80% of this coming from motor insurance. Besides commissions revenue, there is also service revenues, ie recurring income charged on services provided to insurer partners.

Both organic and M&A growth. TQM has emphasised organic growth over the years, as seen by new insurance policy premiums sold boosted to THB12.8bn in FY19 from FY04's THB400m due to manpower expansion – especially sales personnel via the company's omni-channels. After its IPO in Dec 2018, we believe M&A growth should be mandatory if TQM seeks to achieve its FY26 insurance premium target of c.TH50bn pa. This acquisition trail started with the buy of TJN Insurance Broker in FY19. Its next targets will be gradually rolled out in future.

Opportunity from any crisis. On YTD basis, TQM's business performance has remained firm. The panic over COVID-19 also bodes well for its health insurance business, as the company can sell more than one million policies for customers looking to protect themselves against the ravages of the pandemic. This windfall should help mitigate the impact from COVID-19 on slower auto sales volumes domestically, given that the bulk of its revenue currently comes from motor insurance policies. Therefore, we expect FY20 earnings growth of between 15% and 20% YoY. This should be lower than FY19's +25% YoY, especially in a scenario where there are no acquisition transactions this year.

However, this lesser growth should still be much better, vis-à-vis other industries, during a pandemic-stricken year.

Company Report Card

Latest results. TQM's earnings have been in strong growth mode – it posted 51% and 25% YoY growth in FY18 and FY19. In addition to an 8-10% YoY growth in core revenue, the company has been one of the best in terms of controlling service costs and SG&A expenses. There are also no financial cost burdens due to its debt-free position. In fact, TQM recorded interest income growth in FY19: +137% YoY.

Balance sheet/cash flow. Being an insurance brokerage services provider, the company's balance sheet is straightforward and in an asset-light model. Its working capital is dominated by current assets and liabilities, while excess cash balances are normally distributed into cash holdings and investments. TQM was also debt free before its IPO. The company is currently cash rich and well prepared for new acquisition deals.

ROE. TQM's ROE trend has been well supported by its strong earnings growth. Although the company has expanded its equity base via its IPO, it immediately showed higher ROEs in the following financial year. When compared to other peers, TQM's ROE is in the top-tier position, especially when its superb ROE is compared with insurance companies that command only single-digit ROEs on average.

Dividend. Although we regard TQM as a growth stock, its historical dividend payments – especially for its FY19 performance – was quite handsome in terms of payout ratios. However, we treat the more than 100% ratio for the aforementioned year's performance as an exceptional case. Based on its more than 50% dividend payout policy, we expect TQM to pay dividends at a payout ratio of c.50%, as there are several acquisition opportunities ahead in its sights. Under a 50% payout ratio, dividend yields may not be so attractive.

Management. The key management team is dominated by the Punnipa family, who are also TQM's founders. Before the establishment of the company, this family was involved in the non-life insurance products brokerage business for Thailand's leading insurers. When subsequent generations of the family joined the management team, TQM was established, with the focus shifted towards more modernised sales channels – eg telemarketing – and brand marketing.

Investment Case

FV in the range of THB80.00-90.00. Since its Dec 2018 IPO, TQM's share price has been trading in a P/E range of between 20x and 55x on expectations of a superb growth performance. We believe the company can continue its growth momentum in spite of FY20 being one of the worst years for the global economy. This is because it can deliver a variety of insurance products based on client demand. There is also upside from future acquisitions. The share price should, therefore, be trading at the P/E average level of 40-46x above its average.

Key risks: Slower-than-expected auto sales in Thailand, discontinued partnerships with leading insurer names, any aggressive marketing campaigns, and unsuccessful transactions of major acquisitions.

Profit & Loss	Dec-17	Dec-18	Dec-19
Total turnover (THBm)	2,258	2,501	2,712
Reported net profit (THBm)	268	404	507
Recurring net profit (THBm)	268	404	507
Recurring net profit growth (%)	601.2	50.7	25.5
Recurring EPS (THB)	1.19	1.35	1.69
DPS (THB)	NM	0.30	1.75
Dividend Yield (%)	NM	0.4	2.2
Recurring P/E (x)	NM	58.4	46.6
Return on average equity (%)	71.3	18.8	21.6
P/B (x)	NM	11.0	10.1
P/CF (x)	NM	95.8	47.9

Source: Company data, RHB

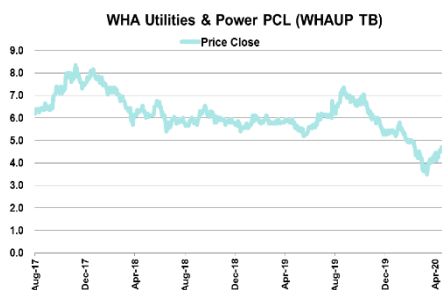
Balance Sheet (THBm)	Dec-17	Dec-18	Dec-19
Total current assets	1,615	3,287	3,489
Total assets	1,906	3,825	4,257
Total current liabilities	1,478	1,622	1,816
Total non-current liabilities	52	58	91
Total liabilities	1,530	1,680	1,907
Shareholder's equity	376	2,145	2,356
Minority interest	0	0	0
Other equity	0	0	(6)
Total liabilities & equity	1,906	3,825	4,257
Total debt	0	0	0
Net debt	(539)	(848)	(959)

Source: Company data, RHB

Cash Flow (THBm)	Dec-17	Dec-18	Dec-19
Cash flow from operations	223	246	494
Cash flow from investing activities	247	(1,324)	(76)
Cash flow from financing activities	(225)	1,386	(307)
Cash at beginning of period	295	539	848
Net change in cash	244	309	111
Ending balance cash	539	848	959

Source: Company data, RHB

Resilient Growth, But Defensive



Source: Bloomberg

Stock Profile

Bloomberg Ticker	WHAUP TB
Avg Turnover (THB/USD)	63.89m/1.98m
Net Gearing (%)	60.8
Market Cap (THBm)	17,901m
Beta (x)	1.01
BVPS (THB)	3.54
52-wk Price low/high (THB)	3.16 – 7.45
Free float (%)	28.32

Major Shareholders (%)

WHA Group	68.8
Bangkok Life Assurance	2.4

Share Performance (%)

	1m	3m	6m	12m
Absolute	12.02	(9.51)	(27.75)	(21.02)
Relative	(3.22)	4.79	(8.77)	1.45

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Investment Merits

- Resilience growth in solar farm projects
- Scaling up through overseas acquisitions
- Organic growth from the local utilities business

Company Profile

WHA Utilities & Power is a subsidiary of the WHA Group – one of the biggest industrial estate operators in Thailand's eastern region. WHAUP's core business is the provision of power and utilities to all industrial estates managed under the group. It currently operates in 10 industrial estates, with an additional four in Thailand and Vietnam under development.

Highlights

Power business – resilient growth, but remaining intact. While the absence of new sizable power plant projects in its current pipeline makes WHAUP look less attractive vis-à-vis its local peers, we note that its organic growth from the solar business remains intact. Plans to grow its solar rooftop portfolio to 100MW in 2022 from 2020's 50MW should be achievable. This is due to its client base on hand, as seen from the positive feedback the company has received from its customers. We also believe the increase in energy output from GHECO-One and Gulf NLL2 should also support the share of profits this year.

The scaling up of the utilities business through overseas acquisitions. The acquisition of utilities in Vietnam – in Cua Lo, Nghe An, and Hanoi – should start to contribute to WHAUP's bottomline this year. This should be thanks to the volume ramp up of its existing site (Phase 1A) and kick-in of new phases that are slated to start commercial operations this year. While WHAUP may be able to raise water production by 35% this year (from equity proportions), we believe this division can contribute profits of THB70-90m in 2020-2022.

Organic growth from local utilities. The company's local utilities business is expect to see a ramp-up in sales volumes, thanks to several sizeable projects that are set to start operations in 2021-2022. These include the Gulf SRC independent power producer project and GC Polyols petrochemical plant. We do expect group GPM to continue to improve slightly from the increasing trend of industrial water usage – which has relatively higher margins – and the rollout of its filtration systems.

Company Report Card

Latest results. WHAUP saw 2019 profits decrease slightly to THB2.1bn (-5% YoY) from higher opex, lower interest income, and decrease in the share of profits from investments. This was mainly due to the change of accounting standards, scheduled maintenance of a major power plant, and some one-off items. However, excluding these impact, core earnings rose 4.5% YoY to THB1.8bn, driven by higher revenue from the utilities business. This was thanks to an increase in water sales volumes, which was mainly due to the new commercial operations date of two small power producers and increase in water usage from an existing customer.

Dividend. WHAUP's dividend payment policy is to pay semi-annual dividends of not less than 40% of the full-year consolidated net profit. The company announced an FY19 DPS of THB0.25, or c.6% yield. An interim dividend from this of THB0.09 has been paid since Dec 2019.

Strong balance sheet. WHAUP's net D/E ratio increased to 0.95x vs 0.58x last year, mainly from short-term loans from financial institutions to facilitate its acquisitions. This was also due to a decrease in equity portions after adopting the new Thai Financial Reporting Standards 15 accounting standard.

Management. WHAUP recently appointed a new CEO, Dr Nippon Bundechanan. Dr Bundechanan is a veteran in the utilities business who was previously Universal Utilities Managing Director. The latter firm is a tap water subsidiary of Eastern Water Resources Development & Management.

Investment Case

Unexciting growth, but attractive dividend yields. While WHAUP has an unexciting growth outlook vis-à-vis other players in the industry, we believe this counter has a trade-off between its relatively laggard valuation and attractive dividend yields. Our FY20 DPS forecast of THB0.27 offers dividend yield of 6.3% from its current market price.

Upside from Vietnam business expansion. In addition to the utilities acquisitions in Vietnam, management guided that WHAUP is in the process of setting up subsidiaries/JVs to develop solar farm opportunities there. We also see potential upsides from the capacity expansion of its existing utilities business – this is thanks to the rise in water consumption and polluted groundwater issues within its strategic area of operations.

We maintain our BUY recommendation, with a SOP-based THB7.50 TP. This implies an FY20 recurring P/E of 8.4x, which is below the industry and peers in both power (16x) and utilities (16.5x).

Key risks are the temporary closure of manufacturing plant in its industrial estates due to COVID-19 – which could led to lower water consumption demand, delays in mega projects, and regulatory risks in Vietnam.

Profit & Loss	Dec 19	Dec 20F	Dec 21F
Total turnover (THBm)	1,845	2,038	2,514
Reported net profit (THBm)	2,377	2,663	2,926
Recurring net profit (THBm)	2,350	2,643	2,926
Recurring net profit growth (%)	4.4	12.5	10.7
Recurring EPS (THB)	0.6	0.7	0.8
DPS (THB)	0.25	0.28	0.31
Dividend Yield (%)	4.5	5.1	5.6
Recurring P/E (x)	9.4	8.4	7.6
Return on average equity (%)	15.4	15.6	15.5
P/B (x)	2.2	2.0	1.8
P/CF (x)	37.9	34.1	27.2

Source: Company data, RHB

Balance Sheet (THBm)	Dec 19	Dec 20F	Dec 21F
Total current assets	1,663	1,335	1,613
Total assets	22,861	22,584	22,612
Total current liabilities	2,722	2,737	3,287
Total non-current liabilities	7,000	6,002	5,006
Total liabilities	9,721	8,740	8,293
Shareholder's equity	11,716	13,302	15,046
Minority interest	1	1	1
Other equity	3,553	3,553	3,553
Total liabilities & equity	24,992	25,596	26,893
Total debt	8,988	7,988	7,488
Net debt	8,558	7,910	7,156

Source: Company data, RHB

Cash Flow (THBm)	Dec 19	Dec 20F	Dec 21F
Cash flow from operations	473	513	724
Cash flow from investing activities:	(300)	(300)	(300)
Cash flow from financing activities	(596)	(565)	(170)
Cash at beginning of period	853	430	78
Net change in cash	(423)	(352)	254
Ending balance cash	430	78	332

Source: Company data, RHB

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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