

28 December 2017

Strategy | Strategy - Thailand

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On The Cusp Of a Golden Era

In 2018, Thailand would see structural change towards a new economy, led by political, economic and corporate earnings expansion, as well as growth in infrastructure, new S-curve industries, and rising consumption. Our 12-month SET Index target is 1,909 pts (+14.5% vs 2017), driven by:

1. Election roadmap to be held in Nov 2018 – we believe the country would gain even more stability and investor confidence. This event should attract foreign and local direct investment, while the capital market should be more active compared to 2017. Based on previous elections, we expect significant fund inflows into the Thai market, with the SET index projected to gain more than 100 points during the four months in the lead up to the elections;
2. Fundamental improvements. GDP growth is gaining momentum and is expected to rise further, supported by previous and ongoing infrastructure project biddings, and continuous economic stimulus. We expect corporate earnings to continue to expand by 11.1% in 2018.

Stepping towards an election roadmap in Nov 2018. The 20th constitution was approved by referendum in Aug 2016, and endorsed by King Rama X in April. It constrains the power of future democratically-elected governments with the establishment of a 250-seat senate appointed by the military. The 500 seats in the lower house of parliament would be elected through a modified proportional representation system. Based on recent polls, despite declining popularity of the current military Government, PM Prayuth Chan-Ocha still has the support to retain his position. We expect the upcoming elections to attract foreign direct investment (FDI) and equities flow.

Economic structural change. In 1990-2000, structural changes resulted in an industrial-based (labour-intensive) economy (from agriculture-based), which focused on the export of goods and services. Thailand's GDP grew strongly by an average of 8.6% pa in 1990-1996 before the economic crisis of 1997-1998. The golden years of Thailand's export sector were during 1999-2007, with average export growth of 8.8% pa and average GDP growth of 4.4% pa. Looking into 2015-2020 – and with political stability – the Government is to utilise fiscal stimuli to spearhead the economy, injecting USD51bn in infrastructure spending over the next five years. The revival of the Eastern Economic Corridor (EEC) initiative with 10 new S-curve industries as Thailand's future sectors – which would put the country onto a high technology base – would entail total investment of USD43bn during 2017-2021. Excluding the overlapping investment of G-infrastructure projects and the EEC, the total investment would be USD80.8bn during 2015-2022. This should increase GDP growth to a full capacity rate of 5-6% within five years.

Consumption to escalate. Looking at the bigger picture, we foresee domestic consumption growing stronger driven by domestic factors: 2018 would be the year of celebrations for the Royal Coronation of King Rama X, lower household debt, better farm incomes and recovery in exports. Tourist consumption would be driven by the fact that Thailand is set to be a key holiday destination. We expect the number of inbound tourists to continue to reach new highs at 37m visitors projected in 2018 (+6% from 35m in 2017), and tourism income growing strongly by 10% in 2018 (two-thirds of which would come from international visitors).

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-18F	P/B (x) Dec-18F	Yield (%) Dec-18F
Amata Corporation	BUY	THB25.50	Under review	Under review	18.4	2.1	2.2
Bangkok Dusit Medical	BUY	THB21.30	THB24.00	12.7	37.1	5.6	1.6
Berli Jucker	BUY	THB58.50	Under review	Under review	33.8	2.1	1.5
CP ALL	BUY	THB74.50	THB82.00	10.1	28.8	9.8	1.7
Golden Land Property	BUY	THB8.40	THB10.50	25.0	13.5	1.3	3.7
Kasikornbank	BUY	THB228.00	THB251.00	10.1	12.7	1.4	1.9
Malee Group	BUY	THB37.75	THB48.50	28.5	19.1	5.6	2.7
Minor International	BUY	THB42.25	THB47.00	11.2	27.2	3.8	1.2
Namying Terminal	BUY	THB6.15	THB7.10	15.4	20.3	2.0	4.1
Sino-Thai Engineering & Construction	BUY	THB22.80	THB30.00	31.6	28.5	2.8	1.7
Supalai	BUY	THB23.40	THB28.00	19.7	7.6	1.5	5.0
The Platinum Group	BUY	THB8.15	THB10.30	26.4	26.0	2.5	

Source: Company data, RHB

Overweight (Maintained)

Stocks Covered: 87

Ratings (Buy/Neutral/Sell): 51 / 17 / 19

Last 12m Earnings Revision Trend: Neutral

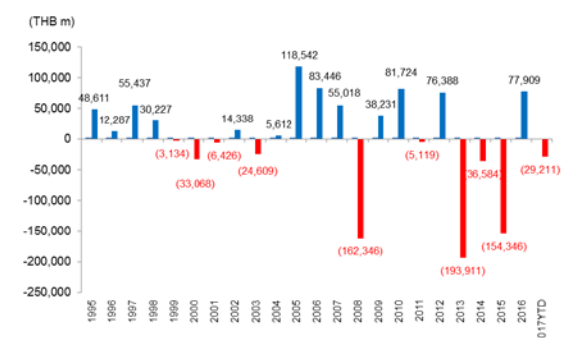
SET Index closed 1,738.19 pts (+12.7%YTD)
 2017 SET target (5-year average 17.5x) 1,718 pts
 2018 SET target (5-year average 17.5x) 1,909 pts

SET's financial ratio

Key Inputs	2013	2014	2015	2016	2017E	2018E
Return on Equity	13.8%	11.2%	9.8%	12.0%	12.3%	12.7%
Dividend payout	53.0%	53.0%	53.0%	53.0%	53.7%	192.9%
EPS (THB)	86.51	73.92	68.53	90.29	96.55	107.28
EPS growth	1.8%	-14.6%	-7.3%	31.7%	6.9%	11.1%
BV (THB)	638.4	669.0	707.3	756.3	783.0	836.7
Dividend yield	3.5%	2.6%	2.8%	3.1%	3.0%	3.4%
P/E (x)	15.01	20.26	18.79	17.09	17.55	15.79
P/BV (x)	2.03	2.24	1.82	2.04	2.16	2.03
SET index (pts)	1,299	1,498	1,288	1,543	1,718	1,909
SET/Market return	-6.7%	15.3%	-14.0%	19.8%	11.3%	11.1%
Dividend yield	3.5%	2.6%	2.8%	3.1%	3.0%	3.4%
Total return	-3.2%	17.9%	-11.2%	22.9%	14.4%	14.5%

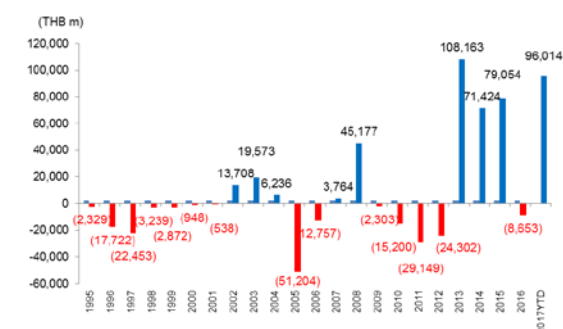
Source: RHB

Annual net buy/sell by foreign investors



Source: RHB

Annual net buy/sell by local institutions



Source: Bloomberg

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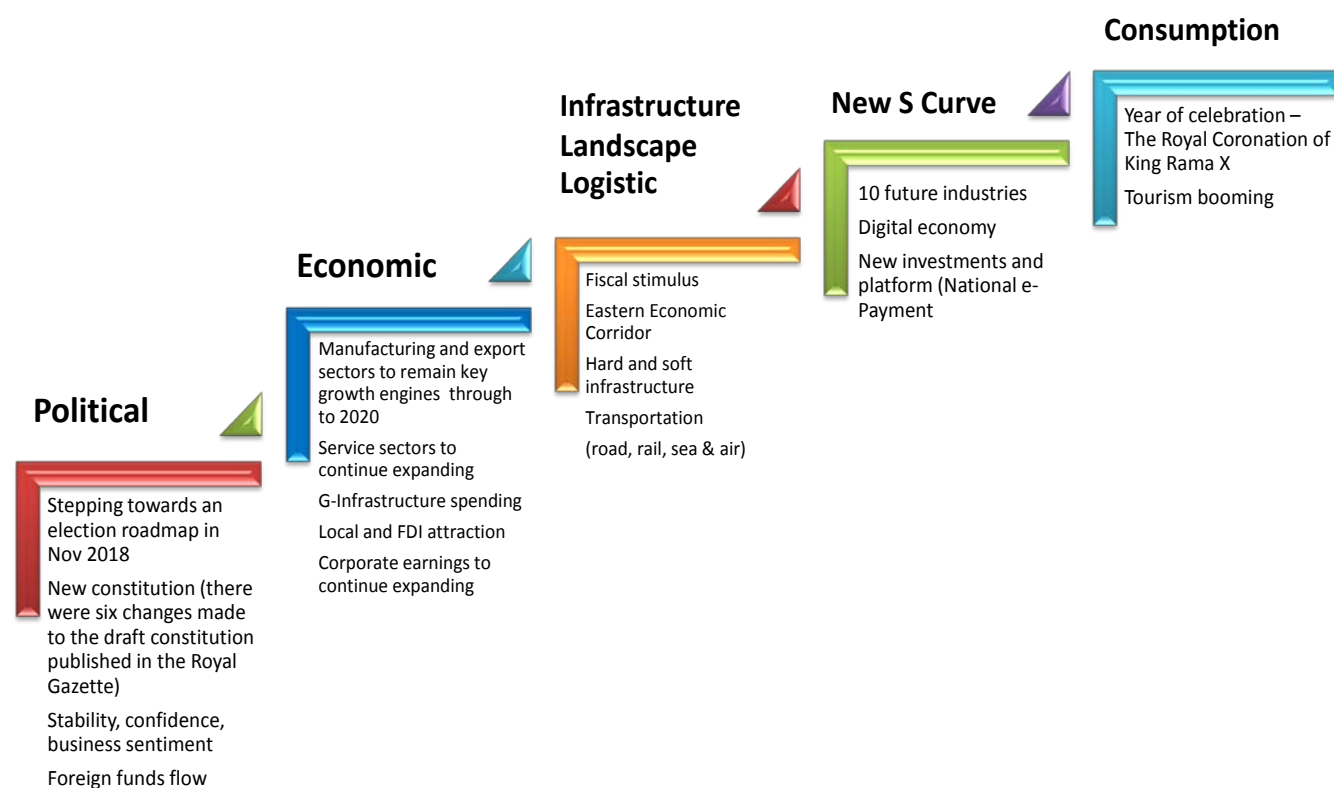
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Thai Market's 2018 Outlook

Structural changes towards a new economy

Figure 1: Five steps to a new economy



Source: RHB

Thematic 1: Political Changes

General election to be held in Nov 2018

History of Thailand's democracy in brief:

- Started in 1932 (86 years to-date);
- 29 prime ministers since the start of Thailand's democratic period;
- 13 successful military coups – the most recent was in 2014;
- The 20th constitution was approved by referendum in Aug 2016 and endorsed by King Rama X in April. It constrains the power of future democratically-elected governments with the establishment of a 250-seat senate appointed by the military. The 500 seats in the lower house of parliament would be elected through a modified proportional representation system.

Expectations for the upcoming election in 2018:

- According to polls, despite the declining popularity of the current military Government, current Prime Minister Chan-Ocha still has the support to retain his position;
- New constitution (anti-corruption);
- New faces in the new Government from either of the three political players – the military, Democrat Party or Pheu Thai;
- Social stability to remain intact;
- To gain foreign investors' confidence and improve business sentiment;
- To attract fund flows, ie FDIs, fund flows into the equities market, etc. Private investments are expected to become more active.

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Figure 2: Political polls

Political polls			
Popularity of Thai Political Party 2017 (Bangkok Poll as of January 2017) • Democrat Party (+0.6%) • Peur Thai Party (+0.4%) • Charthaipattana (+0.7%) • Undecided (-3.1%)		Jan'17	Sep'16
		17.5%	16.9%
		15.3%	15.7%
		1.9%	1.2%
		60.0%	63.1%
Continue to support General Prayuth Chan-Ocha as the next Prime Minister? • Yes (+3.2%) • No (-3.9%) • Neutral (+0.7%) <i>Sources:</i>	Jul'17	Jan'17	Sep'16
	78.4%	61.8%	58.6%
	9.0%	17.9%	21.8%
	12.6%	20.3%	19.6%
	<i>Super Poll</i>	<i>BKK Poll</i>	<i>BKK Poll</i>
Expectations of the General Chan-Ocha's new cabinet (Bangkok Poll as at November) • Improving the economy, social security and standards of living • Governance • Transparency • Clear election roadmap • Elections to be on the roadmap Government should lift the ban on political activities		Nov'17	
		61.6%	
		48.6%	
		47.9%	
		40.1%	
The next election should be held (Bangkok Poll as at November) • When the country is ready • As planned in the road map		Nov'17	
		70%	
		30%	

Source: Super Poll, Bangkok, and RHB

Key political events vs the SET Index

Figure 3: General elections should favour the market



Source: RHB

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General elections vs foreign equity flows

Statistics show that the SET Index gained in the four months leading up to an election, but fell two months later.

Figure 4: Record of past impact of political elections on the SET index

Political Events (2001 - present)	4 months prior election		Gain/Loss	SET Index (pts)		Foreign Flows (THBm)	SET Index (pts)		Foreign Flows (THBm)
	Start	End		Low	High		2 months later	Close	
General election (Feb 6, 2005)	Oct-04	Feb-05	118	628	746	109,784	-87	659	(17,285)
Yellow Shirts uprising	Jun-04	Sep-06	-211	577	788	273,790			
Coup d'etat against -Thaksin	19-Sep-06	25-Sep-06	18	679	697	11,118			
General election (Jan 29, 2008)	Sep-07	Feb-08	196	729	925	(40,520)	-92	832	(10,069)
Yellow Shirts - seizure of	8-Nov-08	12-Dec-08	-99	380	479	(21,640)			
Suvarnabhumi Airport									
Red Shirts - seizure of Ratchaprasong	Apr-10	May-10	-106	714	820	(42)			
General election (Jul 3, 2011)	Mar-11	Jul-11	152	984	1,136	43,314	-220	916	(58,690)
PDRC protest against Yingluck	Aug-13	Apr-14	-221	1,205	1,427	(142,694)			
Yingluck dissolved Parliament	Apr-14	May-14	-106	1,287	1,393	(19,888)			
Coup d'etat against - Yingluck	21-May-14	22-Jun-14	124	1,370	1,493	(36,425)			
Constitution Referendum	May-16	Aug-16	207	1,351	1,558	102,931	-63	1,496	(502)

Source: RHB, SET Smart

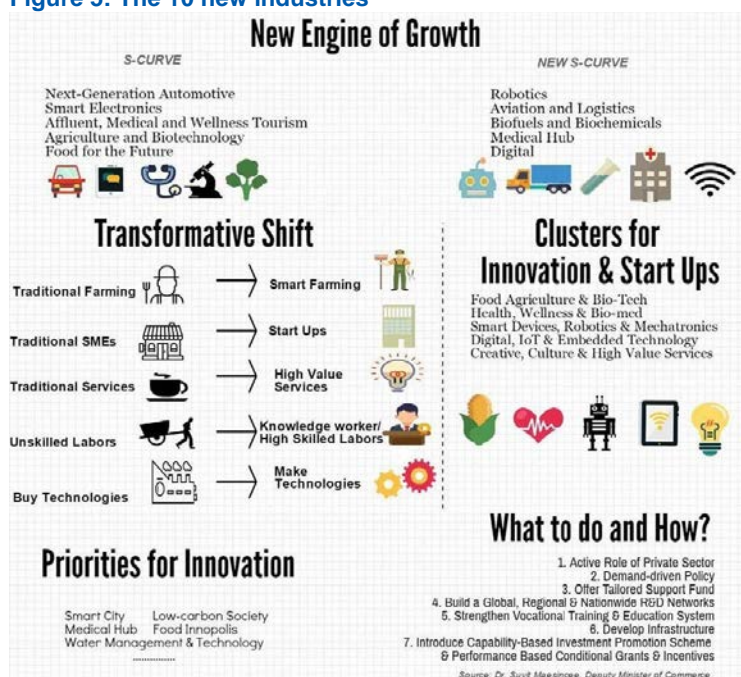
Thematic 2: Structural Economic Changes

The new future growth

In 1990-2000:

- Structure changes into an industrial-based economy from an agriculture-based one, focused on the export of goods & services;
- Labour-intensive structure given low-wage competitiveness;
- Industries applied mid- to low-end technologies eg electrical appliances, textile, and processed agricultural products;
- GDP grew at an average of 8.6% pa during 1990-1996;
- Economic crisis in 1997-1998;
- The golden years of Thailand's export sector was during 1999-2007, when exports grew by an average 8.8% pa (average GDP growth was 4.4% during 1999-2007).

Figure 5: The 10 new industries

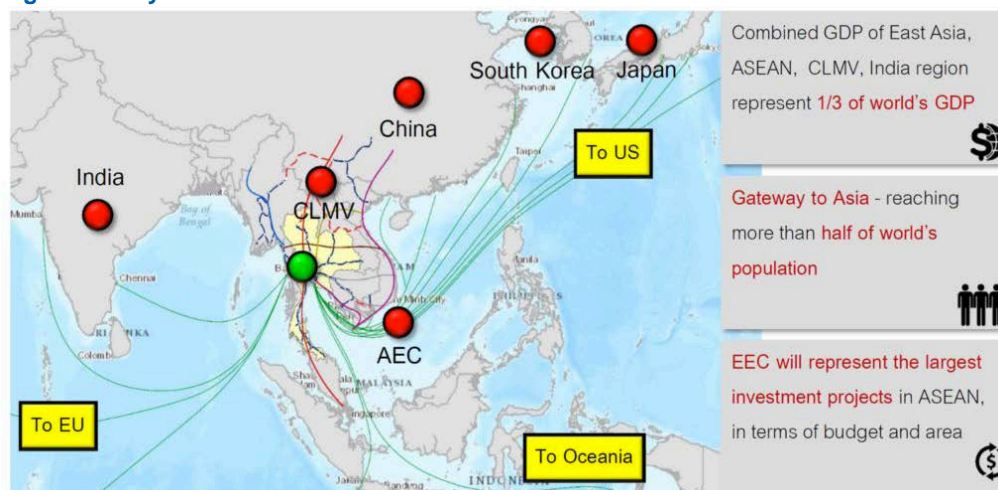


Source: Division of Economic Information Department of International Economic Affairs, Ministry of Foreign Affairs

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In the future (2015-2020):

- i. Political landscape to become more stable;
- ii. 10 new S-curve industries in Thailand would be gearing towards a value-based economy, with innovation, technology, and creativity;
- iii. To increase economic growth rate to 5-6% within five years;
- iv. Fiscal stimulus would be used to spearhead economic growth, with plans to inject USD55bn in infrastructure spending for over the next five years;
- v. Better Board of Investment (BOI) privileges in order to draw in foreign and local direct investments;
- vi. Revival of the EEC – the strategic geographic centre for the Cambodia-Laos-Myanmar-Vietnam (CLMV) and ASEAN regions;
- vii. New transportation/logistics hubs in Thailand and regionally.

Thematic 3: Infrastructure/Landscape/Logistics**Big picture: Thailand's place in China's Belt and Road (BAR) initiative****Figure 6: Why the EEC?**

Source: Royal Thai embassy

Figure 7: Actual infrastructure bids in 2016-2017

FY	Project name	Tentative timeline for bids	Distance (Km)	Project value (THBm)
2016	• Orange Line MRT (Min Buri to Cultural Centre)	Oct-16	20	74,609
	• Pink Line MRT (Min Buri to Pak Kret)	Nov-16	36	53,490
	• Yellow Line MRT (Lat Phrao to Samrong)	Nov-16	30	51,810
	• Suvarnabhumi Airport Expansion (Contracts No. 1 & 4)	Jun-16	-	13,980
	• Motorway: Bang Pa In to Nakhonratchasima	May-16	196	84,600
	• Motorway: Bang Yai to Kanchanaburi	Apr-16	96	55,620
	Total			334,109
2017	• Suvarnabhumi Airport Expansion (Midfield Concourse (2 nd -4 th floors) + connection to tunnel)	Aug-17	-	14,235
	• Rolling stock for Blue Line MRT (Hua Lamphong to Bang Sue)	Jun-17	-	19,643
	• Double track: Map Ka Bao to Jira (Contracts No.1 & 3)	Sep-17	66	16,850
	• Double track: Prachuap Khiri Khan to Chumphon (Contracts No.1 & 2)	Sep-17	167	12,457
	• Double track: Lopburi to Paknampho (Contract No. 1 & 2)	Sep-17	116	18,699
	• Double track: Nakhon Pathom to Hua Hin (Contract No.1 & 2)	Aug-17	169	15,718
	• Double track: Hua Hin to Prachuap Khiri Khan	Jul-17	84	5,807
	• Gold Line MRT	Sep-17	1.80	2,080
	Total			105,489

Source: RHB

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Figure 8: Infrastructure bids expected in 2018-2019

FY	Project name	Tentative timeline for bids	Distance (Km)	Project value (THBm)
2018	• Purple Line MRT extension (Tao Pun-Rat Burana)	1Q18	24	101,112
	• Orange Line MRT (Cultural Centre-Taling Chan)	3Q18	21	109,000
	• BTS extension (Samut Prakarn-Bang Pu)	4Q18	7	12,146
	• Airport Rail Link extension (Phayathai-Bang Sue-Don Muang)	4Q18	22	31,149
	• Expressway: Rama III-Daokanong	1Q18	19	31,244
	• Double track: Map Ka Bao to Jira (Contract No. 2)	3Q18	69	10,060
	• Signalling system for five routes of double-track railway	1Q18	-	12,921
	• Double track: Paknampho to Den Chai	1Q18	285	56,000
	• Double track: Jira to Ubon Ratchathani	1Q18	309	35,840
	• Double track: Khon Kaen to Nong Khai	1Q18	174	26,066
	• Thai-Chinese high-speed railway (Phase 1: Bangkok- Nakhon Ratchasima)	2Q18	250	179,000
	• High-speed railway (Bangkok-Rayong)	2Q18	193	152,000
	Total			756,538
2019	• Blue Line MRT extension (Bangkhao-Phutthamonthon Sai 4)	2Q19	8	21,200
	• BTS extension (Khu Khot-Lam Luk Ka)	3Q19	7	9,803
	• Red Line MRT (missing link)	4Q19	26	44,157
	• Red Line MRT (Rangsit-Thammasat)	4Q19	9	7,597
	• High-speed railway (Bangkok-Hua Hin)	3Q19	211	94,600
	• Motorway: Nakhon Pathom-Cha Am	3Q18	109	63,998
	• Double track: Chumphon to Surat Thani	2Q19	167	23,385
	• Double track: Surat Thani to Hat Yai	2Q19	339	51,824
	• Double track: Hat Yai to Padang Besar	3Q19	45	7,942
	• Double track: Den Chai to Chiangmai	1Q19	189	59,924
	• Double track: Bang Phai-Nakhon Phanom	1Q19	355	60,352
	• Double track: Den Chai-Chiang Khong	2Q19	217	76,979
	Total			521,761

Source: RHB

FY17 was a year of disappointment in terms of new public infrastructure bids in Thailand, with total project value of only THB105bn when compared to THB334bn in FY16. The double-track railway projects dominated in FY17, with most of mass rapid transit (MRT) project bids delayed.

However, we foresee better prospects in FY18 as we approach the political elections in 4Q18. As the pre-bidding processes for several MRT projects near the finalisation stage, there would be lower chances for MRT projects to be delayed further, and we expect bidding for the Purple Line extension to commence in 1Q18. FY18 would also be the first year for the high-speed railway for Thailand, as from 21 Dec 2017, Thailand and China jointly inaugurated the construction of a high-speed railway under the BAR Initiative, from Bangkok to the North-eastern province of Nakhon Ratchasima.

The first phase of the railway would have 253km linking Bangkok with Nakhon Ratchasima, which is the gateway to the North-eastern region of Thailand. The ground-breaking ceremony confirms our view that this project is to be the first high-speed railway for Thailand.

As such, the bidding value in FY18 should recover strongly from the low in FY17, with the majority of public infrastructure bids to be distributed to the MRT, high-speed railway, and double-track railway projects.

Sino-Thai Engineering & Construction (STEC TB, BUY, TP: THB30.00)

Market cap: USD1,145m

Average turnover: USD6.29m

- Sino-Thai Engineering & Construction's (Sino-Thai) orderbook recently increased to a new record-high of more than THB100bn – this was after the company won contracts for three MRT lines (Orange, Yellow, and Pink);
- Sino-Thai is also qualified for – and could potentially win – new bids in 2018. These include MRT extension lines and brand new high-speed railway projects;
- A stronger recurring net profit growth of 18% YoY for FY18 can be achieved, based on the fact that construction work for three MRT lines would materialise in 2Q18;
- Sino-Thai's key advantage – being in a strong net cash position – supports the upcoming influx of new infrastructure project potentials for the company, as well as its investments in recurring-income businesses eg a 10% stake in Thai Solar Energy and a recent 1.8% stake acquisition in Gulf Energy Development.

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These investments would mitigate the risk of relying on the construction business. As of September, the sum of cash on hand and short-term investments remained abundant at THB5.6bn.

Valuation. 28.6x P/E for FY18F, equivalent to +1SD above its 8-year mean average.

Potential to win bids for:

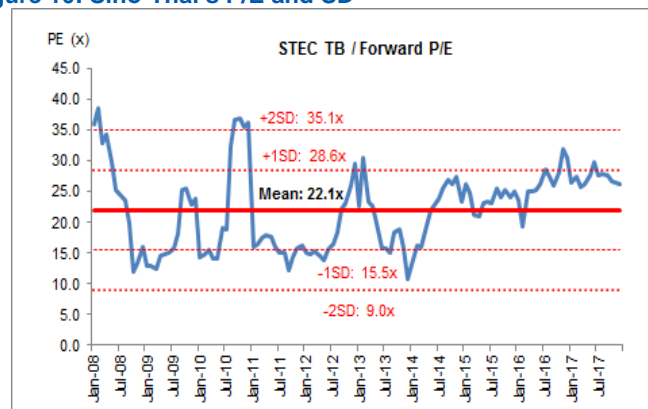
- Purple Line MRT extension;
- Orange Line MRT extension;
- High-speed railway.

Figure 9: Sino-Thai's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	18,331	17,953	19,685	22,365	25,896
Reported net profit (THBm)	1,527	1,381	1,404	1,540	1,653
Recurring net profit (THBm)	1,156	901	1,037	1,221	1,432
Recurring net profit growth (%)	(24.0)	(22.1)	15.1	17.8	17.3
Recurring EPS (THB)	0.76	0.59	0.68	0.80	0.94
DPS (THB)	0.33	0.22	0.33	0.38	0.40
Recurring P/E (x)	32.3	41.5	36.0	30.6	26.1
P/B (x)	4.02	3.67	3.32	3.03	2.78
P/CF (x)	na	26.5	6.4	43.9	16.4
Dividend Yield (%)	1.3	0.9	1.3	1.6	1.6
EV/EBITDA (x)	17.9	19.3	15.8	13.8	11.7
Return on average equity (%)	17.3	14.2	13.1	13.1	12.8
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(19.3)	(26.2)	(27.2)

Source: RHB

Figure 10: Sino-Thai's P/E and SD



Source: RHB

Thematic 4: S-Curve & New S-Curve Industries

First-tier new investments: automotive, aviation and robotics

Figure 11: 10 targeted industries under the EEC scheme



Source: Eastern Economic Corridor Office

S-Curve and new S-Curve industries. Thailand 4.0 is one of the ultimate objectives under the military Government. This is because it is an economic model that aims to resolve several economic challenges from past economic models. To become Thailand 4.0, the economy, social welfare, people, and environment are equally emphasised.

For economic objectives that most investors focus on, Thailand's GDP growth rate would be stimulated to 5-6% pa within five years, from the current 3-4% pa. Per capita national income would more than double to USD15,000 pa by FY2032.

The method to cope with Thailand 4.0 should be more advanced than before, with "Investment 4.0" being coined as a term under Thailand 4.0 for economic dimension. Manufacturers are likely to shift to become value-oriented from volume-oriented, and the importance of "economy of scale" would diminish inevitably. For the 10 targeted industries that are to be promoted under the EEC, innovation is gaining its role as a key production factor, while capital and labour would have less focus.

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Three major components uphold the corridor:

- i. **Basic infrastructure.** This component is a major pre-requisite in order to prepare the availability of infrastructure, especially the transportation network. As Thailand is located in the central part of the ASEAN region connecting Myanmar with Vietnam, and China with Malaysia, a multi-modal transportation network, especially sea, rail, and air transportation, would be the major focus for not only Thailand but also other ASEAN member states as a whole.

There are five transportation projects prioritised under the Government's plan including:

- a. U-Tapao International Airport in Rayong,
 - b. High-speed railway projects including the project to link three international airports and connect Bangkok with Rayong, which is one of three provinces under the EEC;
 - c. A maintenance, repair, and overhaul (MRO) centre co-invested by Thai Airways (THAI TB, NR) and Airbus (AIR FP, NR);
 - d. Deep sea ports including Laem Chabang in Chonburi and Map Ta Phut in Rayong;
 - e. Research centres for the 10 targeted industries including Eastern Economic Corridor of Innovation (EECI) and Digital Park Thailand (EECd);
- ii. **Law and regulations.** The EEC Act is the master law to be applied in three provinces (Chonburi, Rayong, and Chachoengsao) and would govern investment activities especially in the ten targeted industries. One major objective of this Act is to facilitate FDI into Thailand and help shorten the pre-investment period.

The Government has initiated the EEC track that would take 8-10 months or half of the public-private partnership (PPP) fast-track period normally seen in ordinary public construction projects under the PPP model;

- iii. **Benefits and privileges.** The objective of EEC is to stimulate FDI inflows into Thailand especially from high-technology industries with bright prospects. Therefore, the benefits and privileges provided to these industries must be more superior than ordinary industries. Tax holidays with a maximum period of 15 years should be a key feature within this EEC package and more attractive than Indonesia's and Vietnam's.

Even before the enforcement of the EEC Act, the Government has successfully raised the attractiveness of Thailand in the eyes of FDI investors and we believe this should be in preparation for the EEC era.

Based on the World Bank's ease of doing business database, Thailand's rank has climbed significantly to no.26 among countries around the world from no.46 previously. Although Thailand's rank remains at No.3 among ASEAN member states behind Singapore and Malaysia, the gap between Thailand and Malaysia has become smaller.

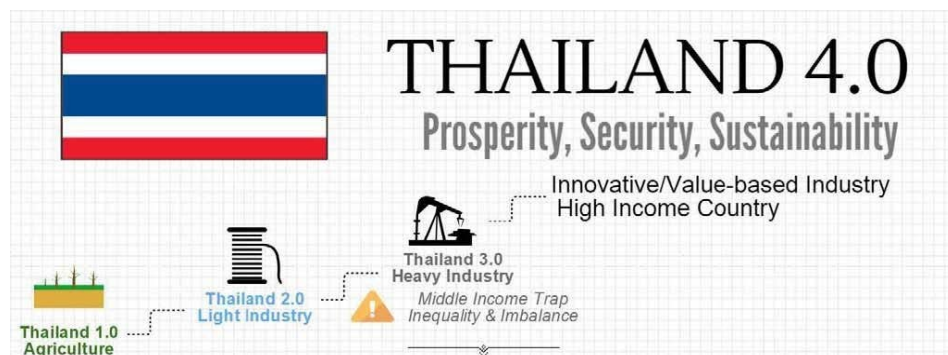
At this juncture, there is another opportunity for Thailand to benefit from EEC, as there have been clear signs of FDI inflow from China and Hong Kong since 2016, mostly notable in the electronics and auto parts sectors. We believe that after the enforcement of the EEC Act, FDIs from China and Hong Kong may outpace FDIs from Japan, which has been the No.1 FDI source for Thailand for a long time.

Among the 10 targeted industries, we expect several industries including electric vehicle (EV), robotics, and food for the future to be able to grow easily in Thailand.

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New version of Thailand 4.0 is meaningful

Figure 12: Thailand 4.0



Note: "Thailand 4.0 is an economic model that aims to unlock the country from several economic challenges that resulted from past economic development models, which placed emphasis on agriculture (Thailand 1.0), light industry (Thailand 2.0), and advanced industry (Thailand 3.0). These challenges include a middle income trap, an inequality trap, and an imbalance trap."

Source: Eastern Economic Corridor Office

Figure 13: The four objectives of Thailand 4.0

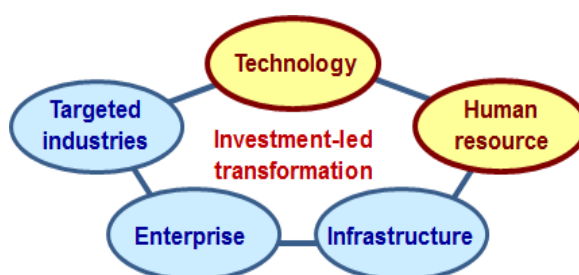
Economic prosperity	Social well-being	Raising human values	Environmental protection
<ul style="list-style-type: none"> Create a value-based economy that is driven by innovation, technology and creativity Increase R&D expenditure to 4% of GDP Increase economic growth rate to a full capacity rate of 5-6% within five years Increase national income per capita to USD15,000 by FY32 	<ul style="list-style-type: none"> Create a society that moves forward without leaving anyone behind Reduce social disparity to 0.36 (Gini index) in 2032 Transform into a social welfare system within 20 years Develop at least 20,000 households into "smart farmers" within five years 	<ul style="list-style-type: none"> Transform Thai citizens into "competent human beings in the 21st Century" and "Thais 4.0" in the first world Raise Thailand's Human Development Index (HDI) from 0.722 to 0.8, ie to be in the top 50 countries within 10 years Ensure that at least five Thai universities are ranked amongst the world's Top 100 higher education institutions within 20 years 	<ul style="list-style-type: none"> Become a livable society that possesses an economic system capable of adjusting to climate change and a low carbon society Develop at least 10 cities into the world's most livable cities Reduce terrorism risks

Source: Eastern Economic Corridor Office, RHB

EEC is a key component for Thailand 4.0

Figure 14: Investment 4.0

From	To
Volume-based	Value-based
Capital-driven	Innovation-driven
Physical capital	Human capital
Manufacturing	High value services
Sector-based & standard tax incentives	Whole "tailored" packages & negotiations



Source: Board of Investment

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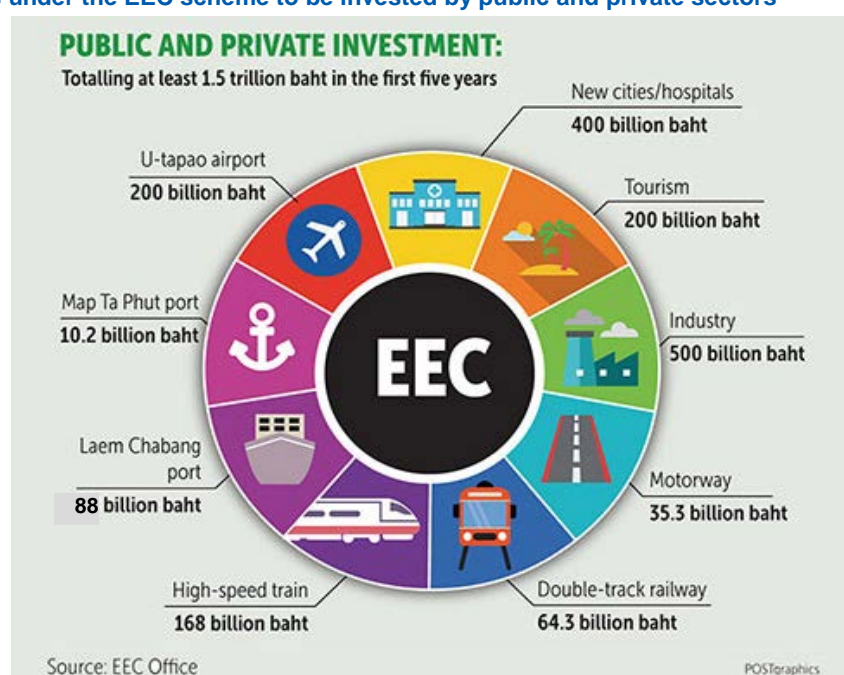
Figure 15: Thailand 4.0

Core technology	Industrial cluster
Bio-technology	Agriculture & food
Bio-medical	Health & wellness
Mechatronics	Smart devices & robotics
Embedded technology	Digital & Internet of Things (IOT)
Service design & technology	Creative, culture and high value services

Source: Board of Investment

First pillar to uphold the corridor: Basic infrastructure

Figure 16: Major projects under the EEC scheme to be invested by public and private sectors

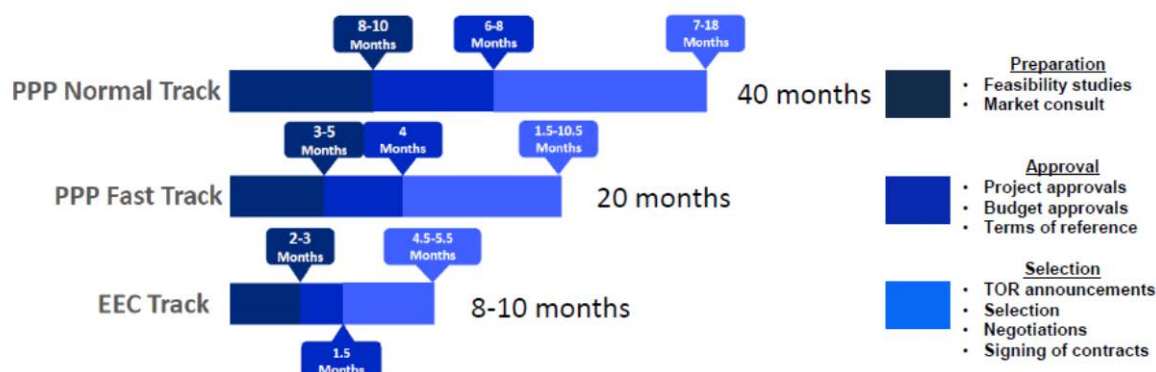


Source: Bangkok Post

Investment in the EEC

- Total investment value of THB1.5trn (USD44bn) for a 5-year period of investment (FY17-21);
- Multi-modal transportation network – including land, sea and air – to be a key focus of infrastructure investment;
- EEC scheme to be applied in three provinces in the eastern region of Thailand, ie Chachoengsao, Chonburi, and Rayong, with a combined area of 30,000 *rai* (48m sq m) and representing 20% of the kingdom's overall GDP;
- Prime location for regional connectivity – able to link the Dawei deep-sea port in Myanmar to Sihanoukville Port (Cambodia) and Vung Tau Port (Vietnam);
- Most prioritised investments include the U-Tapao International Airport, a high-speed railway, an MRO centre for the aviation industry, Map Ta Phut Port, Laem Chabang Port, the EECi, and EECd;
- Other projects include new cities and tourist attractions within the EEC area, which are to be developed in tandem with the transportation network

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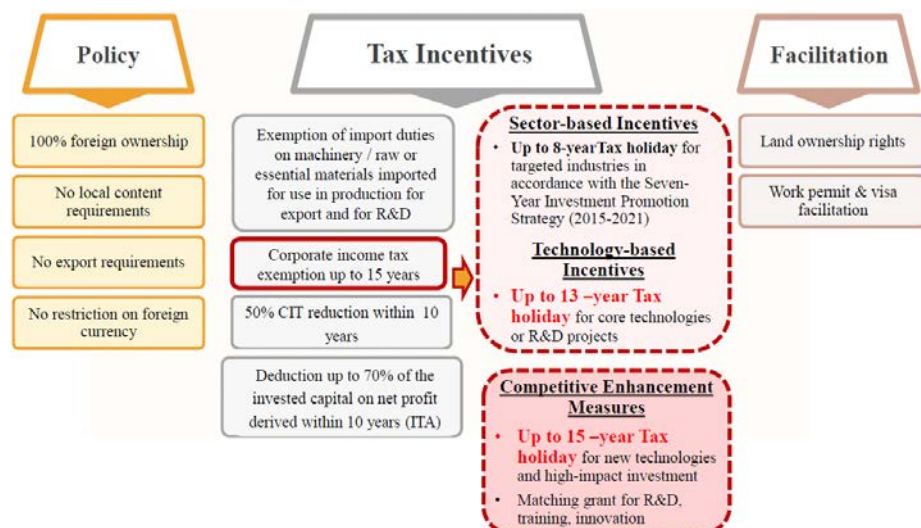
Second pillar: Laws and regulations**Figure 17: EEC track is expected to shorten the processing period by half**

Source: CH Karnchang

- EEC Act to be an essential law applied in the three respective provinces, ie Chonburi, Chachoengsao, and Rayong, in order to attract FDI inflows into the 10 targeted industries – this law would only be applied by the EEC Development Committee chaired by Prime Minister Chan-Ocha;
- One-stop investment centre to be established to facilitate procedures for FDI investors – this is in order to conform with laws and regulations set under the EEC Act, and accelerate the processes before approvals.

Third pillar: Benefits and privileges**Benefits under the EEC scheme:**

- The exemption of corporate income taxation is to be granted for up to 15 years instead of the current maximum of eight years;
- Maximum personal income tax rate of 17% for management, investors and experts;
- 5-year business visas;
- Land lease for 50 years plus another renewal term of 49 years;
- International trade using foreign currencies without exchanging into THB;
- 3-month PPP procedure;
- Fast-tracked environmental impact assessments (EIAs).

Figure 18: EEC's privileges and benefits

Source: Board of Investment

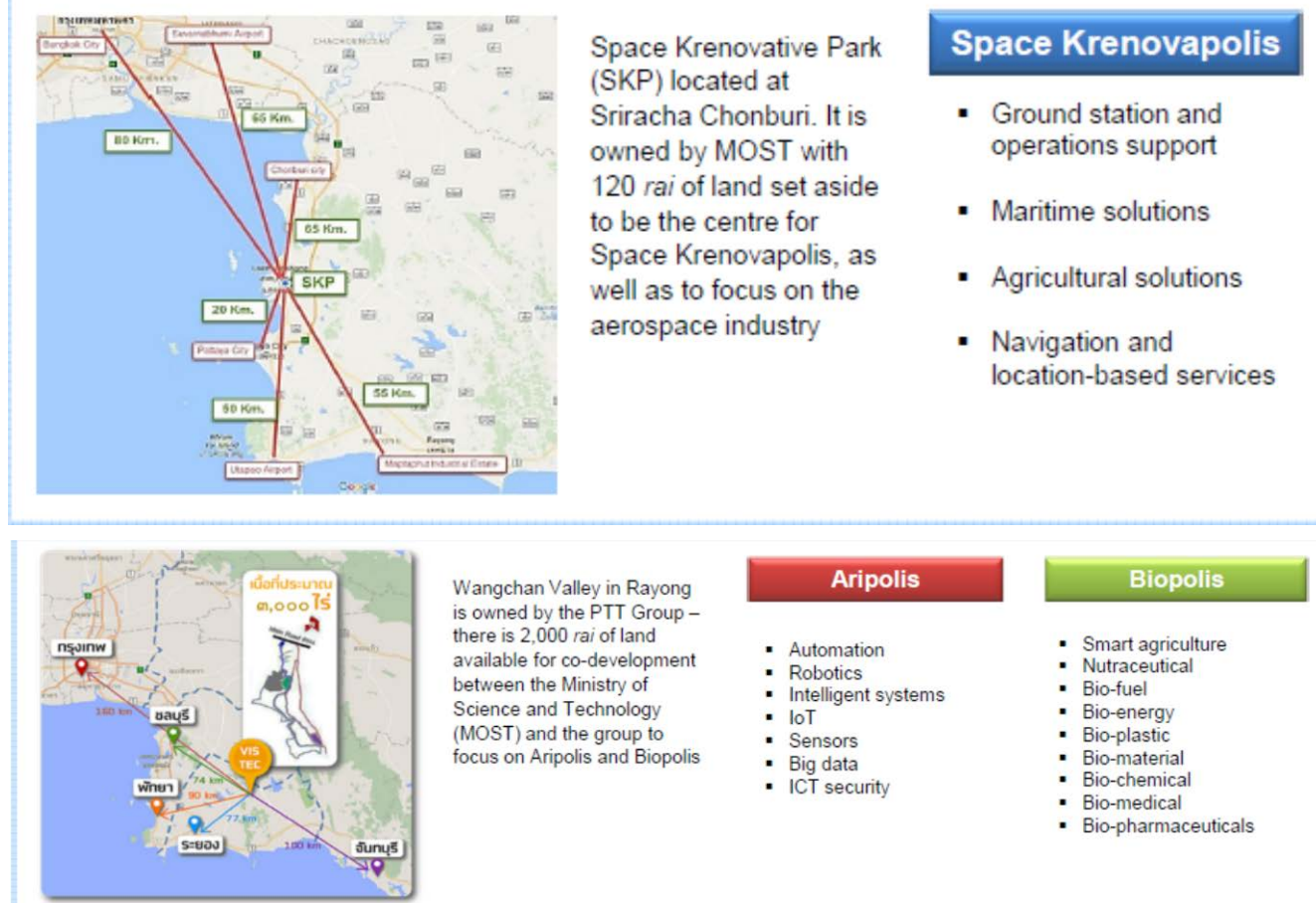
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The EECi

Objectives of the EECi:

- To conduct research on technologies and innovations that can be applied to the 10 targeted industries;
- To transfer new technologies and know-how to the private sector to develop the 10 targeted industries;
- To connect R&D knowledge between Thailand and foreign countries.

Figure 19: The EECi

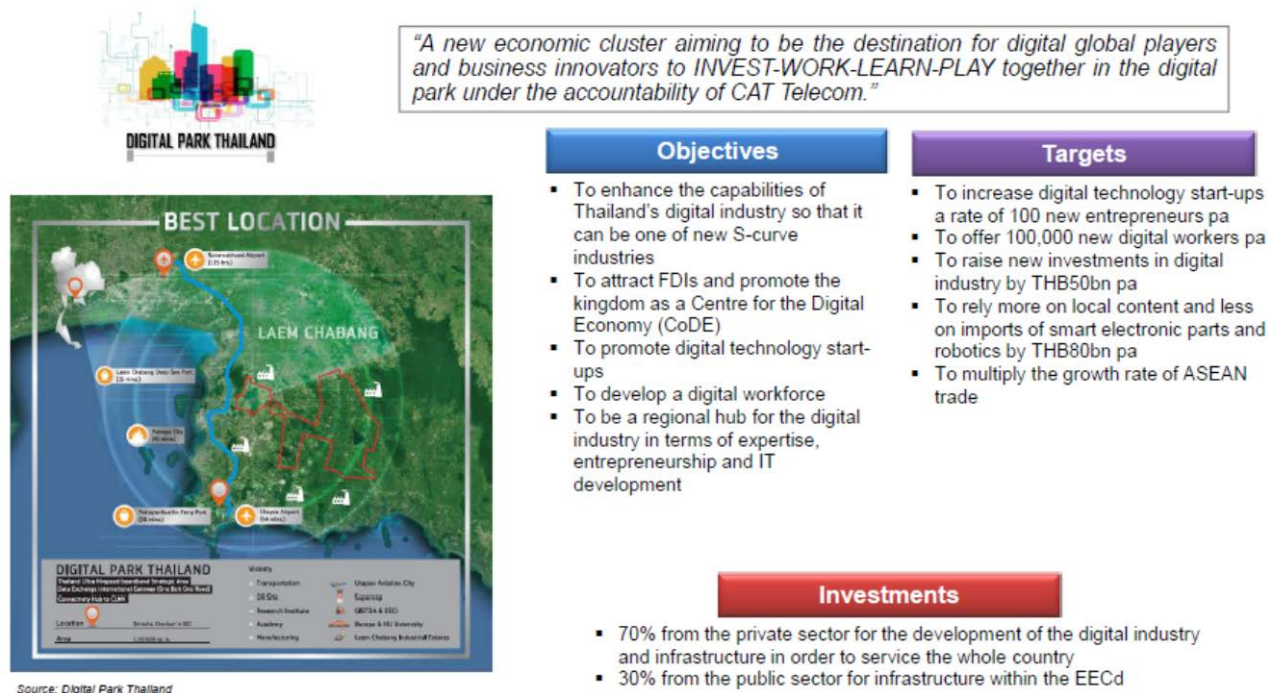


Source: RHB, Eastern Economic Corridor of Innovation

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The EECd

Figure 20: Digital Park Thailand or EECd



709-rai land plot located at Sriracha Chonburi

Source: RHV, Digital Park Thailand

Progress of major EEC projects

Figure 21: The third commercial airport: U-Tapao International Airport



Source: U-Tapao Rayong-Pattaya International Airport

- Phase 2 of U-Tapao International Airport's expansion – which is set to increase annual passenger capacity to 3m from 800,000 – has been completed in terms of the construction phase. It is expected to begin commercial operations soon
- For the near-term plan to increase the airport's efficiency, a new taxiway and runway, MRO centre (co-invested by Thai Airways and Airbus), and an air cargo centre are undergoing design processes and are slated to begin the construction phases in mid-FY18
- 6,500 rai of land within the airport is available for future developments, which include a regional aviation hub that is currently undergoing the master plan preparation and feasibility study processes. These processes are likely to be completed within mid-FY18

Figure 22: High-speed railway linking three airports



Source: RHB

- This project is poised for investment under the PPP methodology, with an estimated investment cost of about THB300bn (72% for the high-speed railway project and 28% for commercial projects within the rail network's major stations)
- Project period: 30-50 years
- Key timelines for the project:
 - To invite PPP investors in Jan 2018;
 - To propose terms of reference (TOR) in Feb 2018;
 - To sign the PPP contract in Aug 2018.
 - To begin commercial operations in FY23.

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Figure 23: Laem Chabang Port



Source: Laem Chabang Port

- Total investment cost for Phase 3 is THB141bn (40% for infrastructure construction and 60% for the operating concession) under a PPP. This is in order to increase annual capacity to 18m TEU (from 11m TEU currently), and raise the port's world ranking to within the Top 10 mark from 22nd currently;
- The current process is under the environmental health impact assessment (EHIA) study process, which should be finished in May 2018;
- Construction period is expected to take four years, while the period of selecting the port operator is three years. Currently, there are several strong interest from Chinese investors for the port operator concession;
- Phase 3 is slated to begin commercial operations in FY25.

Figure 24: Map Ta Phut Port

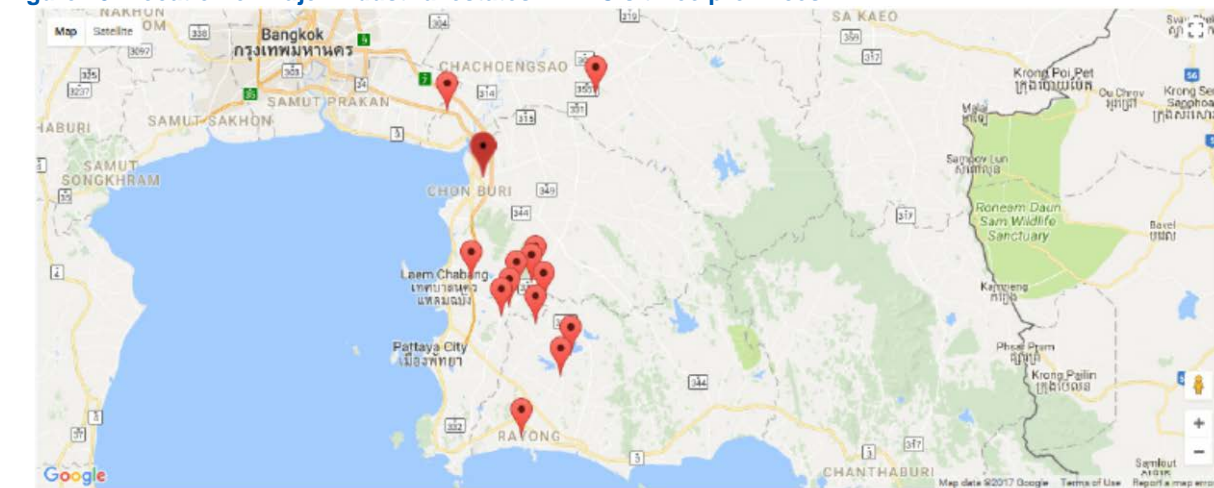


Source: Map Ta Phut Port

- Total investment cost for Phase 3's infrastructure construction is THB10bn. This is being undertaken to increase the port's capacity to handle natural gas and other raw materials for the petrochemical industry by 19m tonnes pa within the next 20 years;
- The project is also under a PPP, where the private sector would be responsible for the operation of the concession;
- Key timelines for the project:
 - To invite PPP investors in Jun 2018;
 - To propose the TOR in Jul 2018;
 - To sign the PPP contract in Feb 2019;
 - To begin commercial operations in FY24.

Major industrial estate players in the EEC area

Figure 25: Location of major industrial estates in EEC's three provinces



Chachoengsao	Chonburi	Rayong
<ul style="list-style-type: none"> Well Grow Industrial Estate Gateway City 	<ul style="list-style-type: none"> Amata Nakorn Pinthong Industrial Estate Pinthong Industrial Estate 5 Hemaraj Chonburi IE (I+II) 	<ul style="list-style-type: none"> Hemaraj Eastern Seaboard Industrial Estates (I+II+IV) Amata City Eastern Seaboard Industrial Estate Hemaraj Rayong Industrial Land Hemaraj Eastern Industrial Estate – Map Ta Phut
 	  	 

Source: Industrial Estate Authority of Thailand

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EEC to benefit several sectors

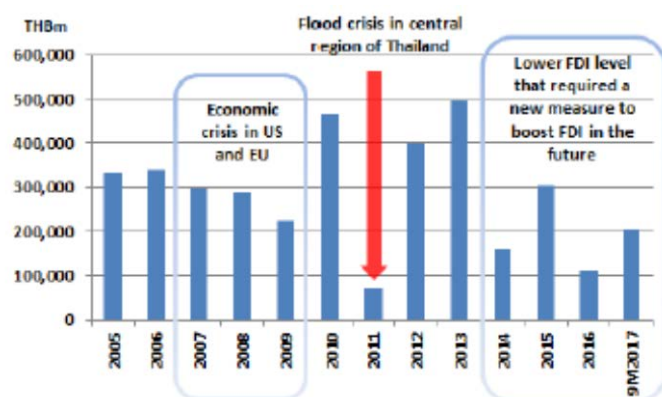
Figure 26: First-tier beneficiaries include industrial estates as well as utility and logistics services providers

Sector	Reason	Major beneficiaries
Industrial estates	<ul style="list-style-type: none"> Before the EEC, sales performances of industrial land players had become weak due to intense competition within the industry and buyers' bargaining power. The EEC's location in Thailand's eastern region has also remained more popular than the central region; The leased factory space business has also been slow, and developers have tried not to increase the supply of new factory spaces, especially in the central region; Large developers have expanded their businesses internationally – mostly in neighbouring countries – with GDP growth and FDI inflow prospects stronger than Thailand's; After the EEC, the industry should improve in terms of industrial land sales, especially from FDIs in the 10 targeted industries. Demand for locations in the kingdom's eastern region would also improve even more. 	Amata Corp, TICON Industrial Connection (Ticon), WHA Corp
Utility services	<ul style="list-style-type: none"> This is the critical recurring income stream that industrial developers are likely to enjoy after land sale transactions; Demand for electricity and water is set to increase significantly in the eastern region, where the supply of water is more limited than that in Thailand's central region; New investments in industrial estates should be a key driver for utilities demand in the near term, while new residential & commercial projects are likely to provide additional demand in the next phase. 	WHA Utilities and Power, Eastern Water Resources Development and Management
Logistics	<ul style="list-style-type: none"> The expansion of rail, road, sea, and air transportation projects in Chonburi and Rayong ought to support logistics activities, which should rise in tandem with higher trade volumes, especially for targeted industries; In the long term, the EEC could play a regional centre role in connecting the Andaman and South China seas, which could multiply trade volumes. 	Namyong Terminal, WICE Logistics, JWD Infologistics
Construction	<ul style="list-style-type: none"> New project developments under the EEC initiative is a mix of project sizes, which can be shared by all small-to-large construction companies; Large construction companies should have the potential to land large-scale projects, including the high-speed railway and future expansions of U-Tapao International Airport. 	Sino-Thai, CH Karnchang
Residential	<ul style="list-style-type: none"> The EEC area is likely to be a new blue ocean market for residential businesses. Currently, only a few SET-listed companies have expanded into this area with new projects; As three provinces in EEC are ranked in Thailand's Top-5 in terms of GDP per capita, purchasing power is a key factor for residential developers to consider. 	Supalai, Golden Land, Quality Houses, Origin Property
Construction materials	<ul style="list-style-type: none"> Higher construction activities in the EEC ought to lead to stronger demand for cement and steel; In addition to public transportation projects, new city developments in three provinces should be the major demand driver from the private sector side. 	Siam Cement

Source: RHB

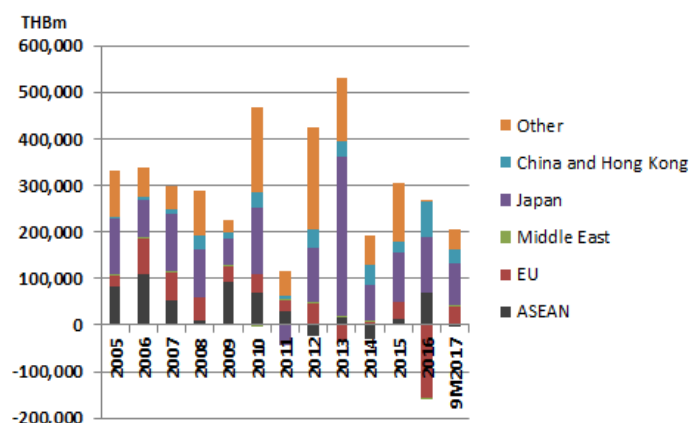
China and Hong Kong's FDI catching up with Japan's

Figure 27: FDI inflows into Thailand



Source: Bank of Thailand (BoT), RHB

Figure 28: FDI from China and Hong Kong to catch up with Japan's



Source: BoT, RHB

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Thailand ranked third in ASEAN, 26th among 190 countries – a jump from its 46th ranking last year

Figure 29: World Bank's database on ease of doing business

DB 2018 Rank	Economy	DTF score	DTF change	DB 2018 Rank	Economy	DTF score	DTF change
1	New Zealand	86.55	-0.18	65	Albania	68.70	+0.96
2	Singapore	84.57	+0.04	66	Bahrain	68.13	+0.01
3	Denmark	84.06	-0.01	67	Greece	68.02	+0.01
4	Korea, Rep.	83.92	0.00	68	Vietnam	67.93	+2.85
5	Hong Kong SAR, China	83.44	+0.29	69	Morocco	67.91	-0.03
6	United States	82.54	-0.01	70	Jamaica	67.27	+0.57
7	United Kingdom	82.22	-0.12	71	Oman	67.20	+0.08
8	Norway	82.16	-0.25	72	Indonesia	66.47	+2.25
9	Georgia	82.04	+2.12	73	El Salvador	66.42	+3.54
10	Sweden	81.27	+0.03	74	Uzbekistan	66.33	+4.46
11	Macedonia, FYR	81.18	-0.21	75	Bhutan	66.27	+1.06
12	Estonia	80.80	+0.05	76	Ukraine	65.75	+1.90
13	Finland	80.37	-0.11	77	Kyrgyz Republic	65.70	+0.54
14	Australia	80.14	0.00	78	China	65.29	+0.40
15	Taiwan, China	80.07	+0.41	79	Panama	65.27	+1.25
16	Lithuania	79.87	+1.05	80	Kenya	65.15	+2.59
17	Ireland	79.51	-0.19	81	Botswana	64.94	+0.07
18	Canada	79.29	-0.09	82	South Africa	64.89	-0.08
19	Latvia	79.26	-0.79	83	Qatar	64.86	+0.61
20	Germany	79.00	-0.19	84	Malta	64.72	+0.43
21	United Arab Emirates	78.73	+1.87	85	Zambia	64.50	+3.92
22	Austria	78.54	-0.15	86	Bosnia and Herzegovina	64.20	+0.42
23	Iceland	78.50	+0.01	87	Samoa	63.89	+2.06
24	Malaysia	78.43	+0.96	88	Tunisia	63.58	-0.20
25	Mauritius	77.54	+2.09	89	Tonga	63.43	+0.50
26	Thailand	77.44	+5.68	90	Vanuatu	63.08	+0.02
27	Poland	77.30	+0.18	91	St. Lucia	62.88	+0.01
28	Spain	77.02	0.00	92	Saudi Arabia	62.50	+2.92
29	Portugal	76.84	-0.14	93	San Marino	62.47	-0.03
30	Czech Republic	76.27	+0.03	94	Uruguay	61.99	+0.35
31	France	76.13	-0.06	95	Seychelles	61.41	+1.01
32	Netherlands	76.03	+0.51	96	Kuwait	61.23	+1.52
33	Switzerland	75.92	+0.19	97	Guatemala	61.18	-0.43
34	Japan	75.68	+0.07	98	Dominica	60.96	+0.34
35	Russian Federation	75.50	+0.81	99	Dominican Republic	60.93	+2.52
36	Kazakhstan	75.44	+1.06	100	India	60.76	+4.71
37	Slovenia	75.42	+0.99	101	Fiji	60.74	+0.04
38	Belarus	75.06	+0.55	102	Trinidad and Tobago	60.68	-0.19
39	Slovak Republic	74.90	-0.25	103	Jordan	60.58	+2.38
40	Kosovo	73.49	+4.98	104	Lesotho	60.42	+0.54

Source: The World Bank

Amata Corp (AMATA TB, BUY, TP: THB26.00)**Market cap:** USD792m**Average turnover:** USD5.9m

- After the enforcement of the EEC Act, the overall industry is likely to benefit from FDI inflows into the 10 targeted industries. All of Amata Corp's (Amata) industrial estates in Thailand are located in relevant spots to benefit from the EEC scheme;
- Despite only slight earnings growth of 5% YoY anticipated for FY17, stronger net profit growth is possible from FY18. This is as the enforcement of the EEC Act ought to stimulate FDI inflows, which in turn would increase demand for industrial land;
- Among the 10 targeted industries under the EEC Act, Amata's key focus is on aviation, EVs and food for the future. Currently, these EEC-focused future customers are potential clients that could purchase industrial land plots totalling 1,000 rai at its two industrial estates;
- As a premium industrial estate owner in Chonburi, Amata Nakorn has strong industrial land sales momentum supported by its strategic location, that would interest high-technology sectors, including aviation (proximity to international airports) and the EV industry (plants located closer to deep-sea ports for export purposes).

Valuation. NAV-derived TP is THB26.00 (5% discount to NAV).**Key risks.** A delay in enforcing the EEC Act (the Act is slated to come into force next year, likely in Mar 2018).

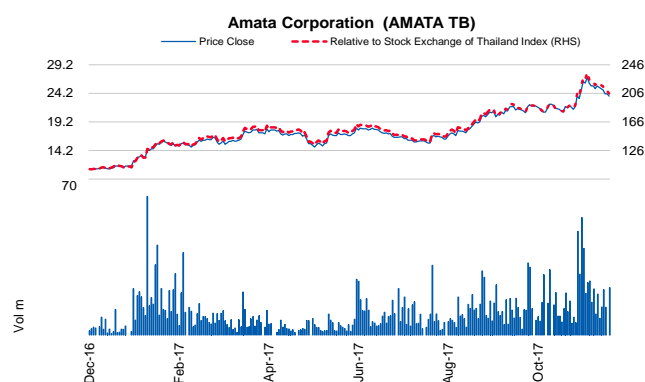
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Figure 30: Amata's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	5,115	4,427	4,374	5,563	6,449
Reported net profit (THBm)	1,216	1,198	1,260	1,482	1,698
Recurring net profit (THBm)	508	1,394	1,260	1,482	1,698
Recurring net profit growth (%)	(77.2)	174.7	(9.7)	17.6	14.6
Recurring EPS (THB)	0.48	1.31	1.18	1.39	1.59
DPS (THB)	0.46	0.45	0.48	0.56	0.65
Recurring P/E (x)	49.8	18.1	20.1	17.1	14.9
P/B (x)	2.41	2.24	2.10	1.95	1.80
Dividend Yield (%)	1.9	1.9	2.0	2.4	2.7
Return on average equity (%)	11.8	11.0	10.8	11.9	12.6
Return on average assets (%)	5.1	4.6	4.5	4.8	5.0
Net debt to equity (%)	24.8	31.9	41.4	47.8	43.1
Our vs consensus EPS (adjusted) (%)			(7.7)	(11.6)	(14.5)

Source: RHB

Figure 31: Amata's price chart



Source: RHB

TICON Industrial Connection (TICON TB, BUY, TP: THB18.50)

Market cap: USD939m

Average turnover: USD1.9m

- TICON Industrial Connection's (Ticon) business focus towards its warehouse division seems more relevant in terms of benefiting from logistics activities via land and sea transportation under the EEC;
- With a low earnings base in FY16, we expect Ticon to post 41% YoY growth in recurring net profit in FY17. This is due to 26% YoY lower financing costs (on the back of debt repayments) and its warehouse business continuing to drive core revenue growth of 9-15% for FY17F-19F;
- A turnaround in business operations and earnings can be anticipated from FY17 onwards. This is based on its new strategic partnerships, which ought to drive the company's long-term business prospects;
- Also on a long-term perspective, Ticon's business expansion beyond Thailand and Indonesia should be a key growth driver, especially when the Sirivadhanabhakdi family's business empire – which has a strong business footprint in ASEAN – can duplicate its business model in other regional countries, such as Vietnam.

Valuation. DCF-derived TP of THB18.50 is based on 7.5% WACC, 3% terminal growth.

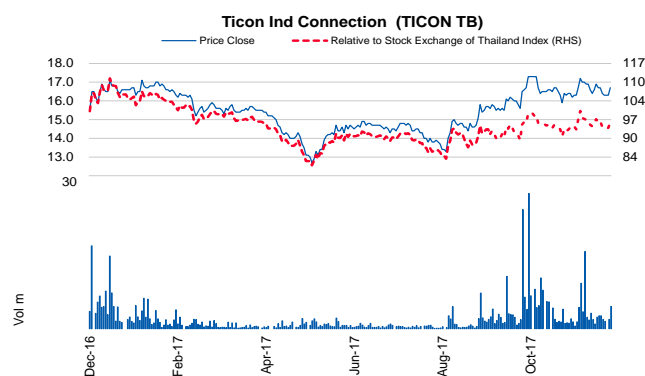
Key risks. A delay in enforcing the EEC Act.

Figure 32: Ticon's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	4,460	1,502	1,724	1,936	2,112
Reported net profit (THBm)	770	275	397	572	641
Recurring net profit (THBm)	927	289	406	582	654
Recurring net profit growth (%)	(1.9)	(68.8)	40.5	43.4	12.4
Recurring EPS (THB)	0.84	0.26	0.28	0.32	0.36
DPS (THB)	0.50	0.08	0.14	0.19	0.22
Recurring P/E (x)	19.8	63.5	60.3	52.6	46.8
P/B (x)	1.58	1.62	1.23	1.22	1.20
Dividend Yield (%)	3.0	0.5	0.8	1.1	1.3
Return on average equity (%)	6.7	2.4	2.2	2.3	2.5
Return on average assets (%)	2.3	0.8	1.0	1.4	1.5
Net debt to equity (%)	178.4	192.2	42.2	47.9	52.6
Our vs consensus EPS (adjusted) (%)			(12.1)	(32.7)	(9.1)

Source: RHB

Figure 33: Ticon's price chart



Source: RHB

WHA Utility and Power (WHAUP TB, NR)

Market cap: USS821m

Average turnover: USD4.2m

- WHA Utility and Power (WHA Utility) operates as a provider of electricity and other utility services for industrial estates. It does this either on its own or under partnerships with other reputable operators. These including Glow Energy and B.Grimm Power;

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- ii. WHA Utility's existing electricity capacity is 478.4MW, and the company is aiming to increase this to 542MW by FY19. Also, its annual capacity of water for industrial usage is about 100m cu m;
- iii. Among the utility services providers, WHA Utility stands to be the biggest beneficiary of the EEC. This is because the bulk of its power plants – except for the Houay Ho hydropower plant in Laos and one solar very small power producer (VSPP) project in Central Thailand – are located at WHA Corp's (WHA) industrial estates in Chonburi and Rayong;
- iv. WHA Utility's earnings growth is expected to be steady and intact from FY18 onwards. This because all four of its new small power plants started operations in FY17.

Key risks:

- i. Delays in the start of commercial operations at its new power plants;
- ii. Unexpected shutdowns at the power plants under its control.

Figure 34: WHA Utility's projects

Project Name	Type		JV Partner	Location	Contracted Capacities (MW)
Operating Phase					
Gheco-I	IPP	Coal	Glow	Map Ta Phut IE	660.0
Glow IPP	IPP	Gas Combined Cycle	Glow	HCIE	713.0
Houay Ho Power	IPP	Hydro	Glow	Lao PDR	152.0
GUP NLL	SPP	Gas Co-gen	Gulf JP	HRIL	122.5
Gulf Solar	VSPP	Solar	Gulf	HLP1, HCIE, HESIE, ESIE	0.6
WHA Gunkul	VSPP	Solar	Gunkul	Bangna and Ayudhaya	3.3
BGWHA-1	SPP	Gas Co-gen	B Grimm	HCIE	121.0
GVTP	SPP	Gas Co-gen	Gulf MP	ESIE	130.0
GTS1	SPP	Gas Co-gen	Gulf MP	ESIE	130.0
GTS2	SPP	Gas Co-gen	Gulf MP	ESIE	130.0
GTS3	SPP	Gas Co-gen	Gulf MP	HESIE	125.0
Total					2,287.4
Construction Phase					
GTS4	SPP	Gas Co-gen	Gulf MP	HESIE	125.0
GNLL2	SPP	Gas Co-gen	Gulf MP	HRIL	120.0
Total					245.0
Development Phase					
CCE	VSPP	Waste-to-energy	Glow& Suez	HCIE	6.9
Total					6.9

Source: RHB

Figure 351: WHA Utility's price performance when compared to the SET Index and energy sector

Source: RHB

Namyong Terminal (NYT TB, BUY, TP: THB7.10)**Market cap:** USD236m**Average turnover:** USD1.7m

- i. Namyong Terminal is the RO-RO market leader in Thailand and handles more than 80% of the country's automobile exports and imports. It has more than 10 years of experience in this sector;
- ii. It has monopoly in the RO-RO business in terms of dealing with vehicle imports and exports. This is due to the company's key competitive advantage in terms of the location of its sea port;
- iii. Auto and auto parts are Thailand's major export products, with an average growth of 3.4% since 2010;
- iv. The additional warehousing service area is likely to be a key driver for Namyong Terminal. The land raises its total rental area by 81% to 270,027 sq m from 149,231 sq m previously. These areas are located in Laem Chabang Port, the country's main port. We expect topline contributions from these new plots of land to be booked by mid-FY18;
- v. Namyong Terminal is in a solid and healthy financial position, with net cash of THB1.61 per share available for a high-dividend payout ratio of more than 90%, or attractive dividend yields of 4-4.5% pa.

Valuation. The DCF-derived TP of THB7.10 based on 1% terminal growth and 8.7% WACC.

Key risks:

- i. A sluggish global economy that leads to weak demand for new cars from Thailand;
- ii. Unable to sign contract extension with the port authority.

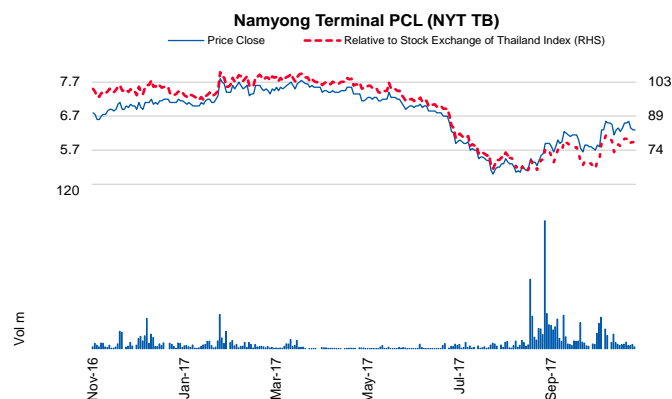
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Figure 36: Namyong Terminal's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	1,352	1,381	1,278	1,332	1,395
Reported net profit (THBm)	445	390	349	376	406
Recurring net profit (THBm)	445	390	349	376	406
Recurring net profit growth (%)	10.0	(12.3)	(10.5)	7.8	8.1
Recurring EPS (THB)	0.36	0.31	0.28	0.30	0.33
DPS (THB)	0.33	0.30	0.25	0.25	0.30
Recurring P/E (x)	17.6	20.0	22.4	20.8	19.2
P/B (x)	2.08	2.09	2.07	2.03	2.02
P/CF (x)	10.8	13.2	12.5	13.6	12.4
Dividend Yield (%)	5.2	4.8	4.0	4.0	4.8
EV/EBITDA (x)	5.02	5.19	5.69	5.48	5.22
Return on average equity (%)	12.0	10.4	9.3	9.9	10.5
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(21.8)	(24.2)	0.0

Source: RHB

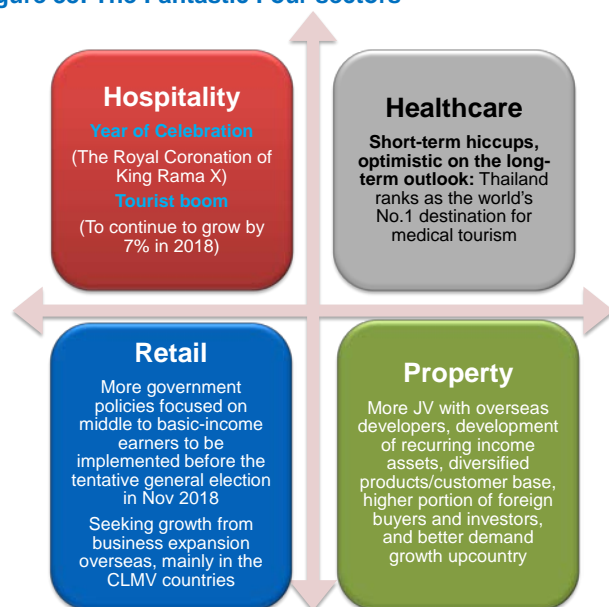
Figure 37: Namyong Terminal's price chart



Source: RHB

Thematic 5: Consumption Picking Up

Figure 38: The Fantastic Four sectors



Source: RHB

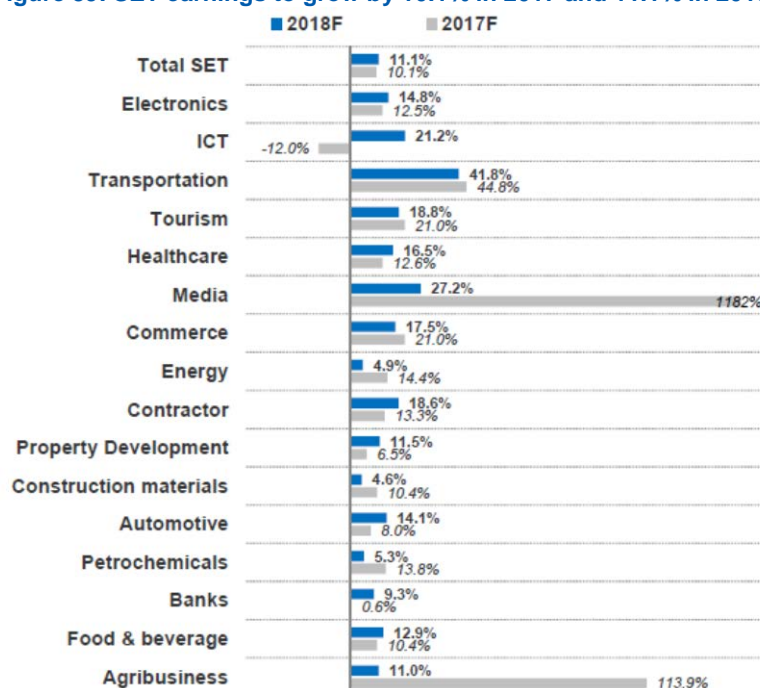
Top Picks:

- Healthcare:** Largest, nation-wide network, complete healthcare services (preventive, curative, rehabilitation) - Bangkok Dusit Medical Services (BDMS TB)
- Property & development:** High dividend plays - Land and Houses (LH TB), cheap and resilient growth plays - Supalai (SPALI TB), and Golden Land (GOLD TB) is a growth stock.
- Consumer-retail:** CLMV+T consumption plays - Berli Jucker (BJC TB), domestic consumption plays - CP ALL (CPALL TB)
- Hospitality:** The Erawan Group (ERW TB) as pure hotel play that is to benefit the most from a solid tourism outlook, while Minor International (MINT TB) is also likely to benefit from a gradual improvement in its food business

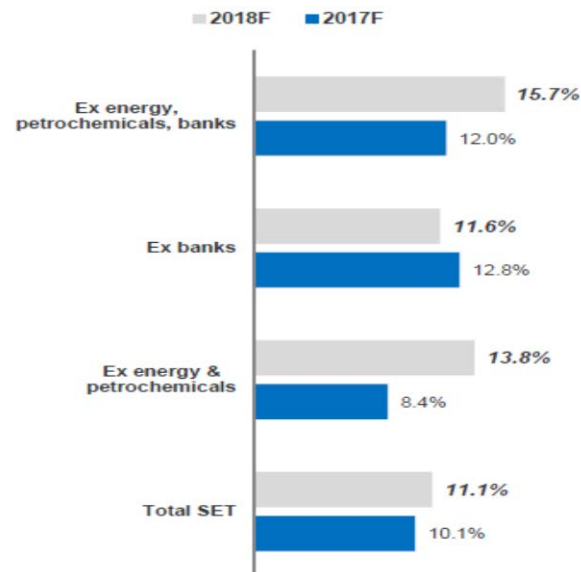
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SET's Earnings Continue To Expand

Figure 39: SET earnings to grow by 10.1% in 2017 and 11.1% in 2018



Source: RHB



Source: RHB

SET's Valuation & Deviation Matrix

Figure 40: SET's earnings performance and valuations

SET Earnings Performance & Valuations									
Year	Net Profit (THB mn)	+/-	EPS (THB)	+/-	BPS (THB)	ROE	P/BV (x)	P/E (x)	Div. Yield
2001	188,073	n.m.	35.55	n.m.	217.7	16.3%	1.40	8.55	1.8%
2002	206,544	9.8%	37.07	4.3%	245.5	15.1%	1.45	9.62	2.7%
2003	312,678	51.4%	50.41	36.0%	296.0	17.0%	2.61	15.32	2.2%
2004	457,623	46.4%	67.61	34.1%	349.2	19.4%	1.91	9.88	3.4%
2005	499,184	9.1%	69.79	3.2%	382.1	18.3%	1.87	10.23	3.9%
2006	454,362	-9.0%	60.82	-12.9%	413.3	14.7%	1.65	11.18	4.9%
2007	483,975	6.5%	62.58	2.9%	430.9	14.5%	1.99	13.71	3.4%
2008	362,828	-25.0%	45.75	-26.9%	438.9	10.4%	1.03	9.83	7.5%
2009	463,226	27.7%	57.94	26.6%	472.0	12.3%	1.56	12.68	3.6%
2010	573,306	23.8%	71.04	22.6%	511.9	13.9%	2.02	14.54	3.1%
2011	602,187	5.0%	73.44	3.4%	541.8	13.6%	1.89	13.96	3.6%
2012	722,688	20.0%	85.02	15.8%	602.8	14.1%	2.31	16.37	3.2%
2013	765,849	6.0%	86.51	1.8%	638.4	13.8%	2.03	15.01	3.5%
2014	683,917	-10.7%	73.92	-14.6%	669.0	11.2%	2.24	20.26	2.6%
2015	653,552	-4.4%	68.53	-7.3%	707.3	9.8%	1.82	18.79	2.8%
2016	882,434	35.0%	90.29	31.7%	756.3	12.0%	2.04	17.09	3.1%
2017F	971,244	10.1%	96.55	6.9%	783.0	12.3%	2.16	17.55	3.0%
2018F	1,079,252	11.1%	107.28	11.1%	836.7	12.7%	2.03	15.79	3.4%

Note: 2001-2016 figures are based on the SET Index at end of a fiscal year Average 5-year payout ratio: 54%

RHB assumes the SET's payout ratio is at 50% for 2014-2017

Source: RHB

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Figure 41: SET's valuation matrix

P/E (x)	EPS (THB)		P/BV (x)	BV (THB)	
	2017F	2018F		2017F	2018F
	97.99	108.89		794.72	849.16
15.23	1,492	1,658	1.89	1,502	1,605
16.58	1,625	1,805	2.03	1,613	1,724
17.51	1,718	1,909	2.05	1,629	1,741
18.72	1,834	2,038	2.09	1,661	1,775
15.00	1,470	1,633	1.90	1,510	1,613
16.00	1,568	1,742	2.00	1,589	1,698
17.00	1,666	1,851	2.10	1,669	1,783
18.00	1,764	1,960	2.20	1,748	1,868

SET Target	1,718	1,909	SET's mean	P/E	P/BV
Market return	11.3%	11.1%	3-year	18.71	2.03
Div.Yield	3.0%	3.4%	5-year	17.51	2.09
Total return	14.4%	14.5%	7-year	16.58	2.05
ROE	12.3%	12.7%	10-year	15.23	1.89

Source: RHB

Figure 42: Peer comparison

Peers comparison	2018F P/E	2018 EPS growth
Thailand	15.1	10.3%
Philippines	17.9	7.1%
Malaysia	15.2	9.2%
Singapore	14.4	6.0%
Hong Kong	12.2	3.1%

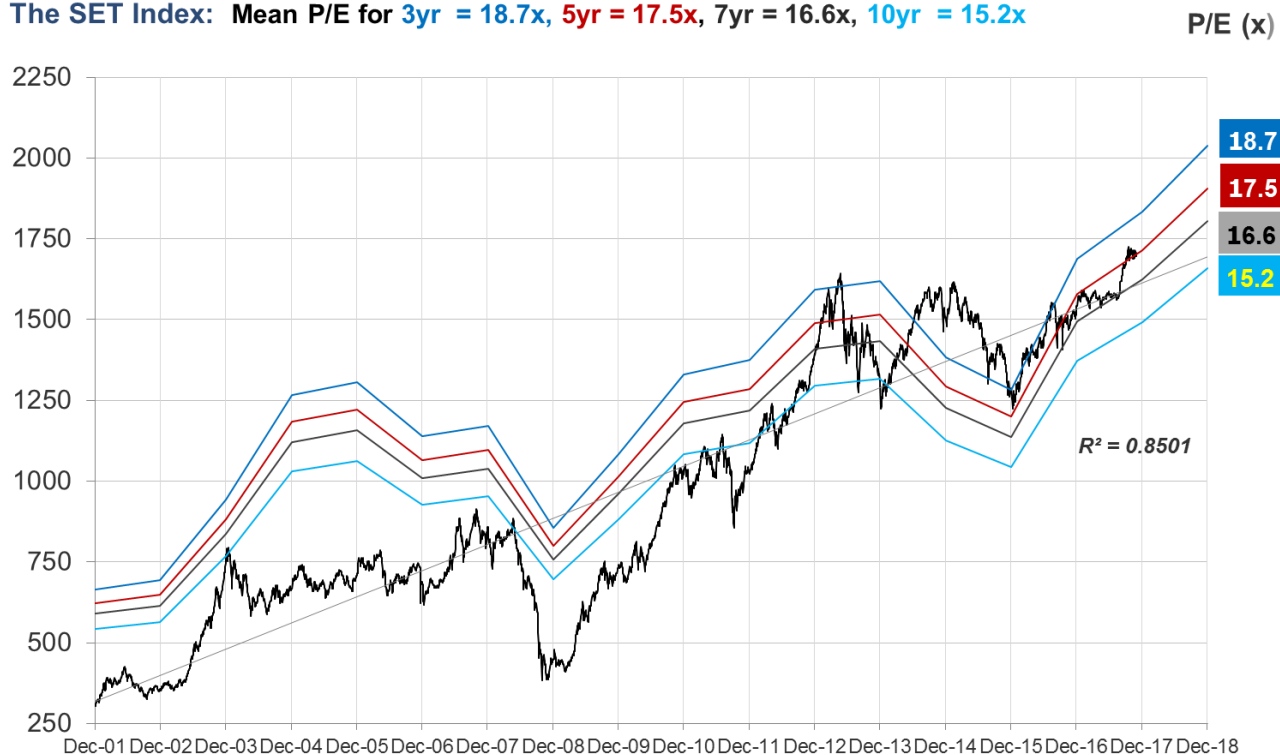
Peers comparison	2018F dividend yields	2018F ROE
Thailand	2.9%	12.7%
Philippines	1.6%	12.2%
Malaysia	3.5%	10.2%
Singapore	3.3%	8.4%
Hong Kong	3.3%	10.7%

Source: Bloomberg

2018 SET Index Target: 1,909 pts

Figure 43: The SET index

The SET Index: Mean P/E for 3yr = 18.7x, 5yr = 17.5x, 7yr = 16.6x, 10yr = 15.2x



Source: RHB

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Bottom Up Approach:

Figure 44: Top BUYs and Top SELLs

Sector	Sector Outlook	Rating	Top BUYs	Top SELLs
Banking	<ul style="list-style-type: none"> Earnings growth recovery of 8-9% YoY in 2018F-2019F vs -6% in 2017F More resilient asset quality outlook. NPL ratio likely to peak in 4Q17-2Q18 given improved economic growth, proactive NPL management, and restrictive lending policies Undemanding valuations – the sector is trading at FY18F P/BV of 1.1x vs a mean of 1.4x 	OVERWEIGHT	Bangkok Bank, Kasikornbank, TMB Bank	Krungthai Bank
Healthcare	<ul style="list-style-type: none"> Short-term hiccups – needs time to boost medical tourists from the CLMV countries and China. This is to compensate for fewer medical tourists from the Middle Eastern, tough competition and leading private hospitals being under an investment cycle. Near-term earnings are likely to grow at a single-digit rate Mid-end hospitals with patients under the social security scheme are now in the limelight after the Government approved an increase in payment rates Optimistic on long-term outlook – Thailand ranks as the world's No.1 destination for medical tourism (10-year CAGR of 11% for foreign patients), solid personal healthcare insurance growth and healthcare expenditure growth, high potential from CLMV countries, and plenty of room for price increases 	NEUTRAL	Bangkok Dusit Medical Services	Bumrungrad Hospital
Property	<ul style="list-style-type: none"> 2017 presales and new launches should grow by 30%, due mainly to the flourishing mid- to high-end segments We expect the sector's growth to normalise in 2018 New long-term growth drivers: more joint ventures with overseas developers, development of recurring income assets, diversified products/customer base, higher portion of foreign buyers and investors, and better demand growth upcountry 	OVERWEIGHT	Land & Houses, Supalai, Golden Land Property Development, Ananda Development	Quality Houses, LPN Development, Sansiri
Contractor	<ul style="list-style-type: none"> 2017 has been slow, as there were only c.THB105-110bn worth of project value being launched for bids during the year. Most of them were double-track railway projects with low-margin prospects FY18 is likely to be a better year for government agencies to launch new public infrastructure bids. This is as several infrastructure projects are near the end of the pre-bidding processes, especially MRT extensions eg Purple Line, Orange Line, and BTS. 	OVERWEIGHT	Sino-Thai, CH Karnchang	Italian-Thai Development
Transportation & logistics	<ul style="list-style-type: none"> Huge investment in transportation infrastructure, according to EEC Future mass transit line would be a big jump for rail transportation in Bangkok Continuous growth expectations for Thai exports 	NEUTRAL	Bangkok Expressway & Metro, Namyong Terminal	Airports of Thailand
Oil & gas	<ul style="list-style-type: none"> OPEC and non-OPEC cooperation to drive oil markets going forward Geopolitical events cannot be ruled out, and this can put a premium on oil prices Refining margins should remain robust, while demand is likely to still outpace supply Petrochemical spreads are possibly seeing some slight softening 	OVERWEIGHT	Star Refining Petroleum, PTT Exploration & Production (PTTEP), Bangchak Corp, PTT Global Chemical (PTTGC)	Thai Oil
Media	<ul style="list-style-type: none"> 2017 advertising expenditure (adex) should be sluggish, decreasing by 9-10% YoY Adex is expected to start recovering by 8-10% in 2018, driven by a strong GDP growth and continuous improvements in the Consumer Confidence Index (CCI) Strongest growth prospects are TV, outdoor and transit, and online 	UNDERWEIGHT	Major Cineplex Group	VGI Global Media, BEC World, Workpoint Entertainment, RS
Consumer	<ul style="list-style-type: none"> Expect a gradual recovery in domestic consumption, with sector SSSG turning positive in 2018 More government policies focused on middle to basic-income earners are to be implemented before general elections in Nov 2018 Retailers of staple goods would benefit first from the recovery Seeking growth from overseas expansion, mainly in CLMV countries 	OVERWEIGHT	Berli Jucker, CP ALL, Malee Group	Home Product Center (HMPRO)
Tourism	<ul style="list-style-type: none"> Expect a stronger rebound in Chinese and Russian visitor numbers in 4Q17-1Q18 Thailand remains one of the most popular overseas holiday destinations Solid tourism demand to benefit room rate hike, which would continue to drive revenue per available room (RevPar) growth New room supplies may go to the super luxury and blue ocean, and budget/economy segments 	OVERWEIGHT	The Erawan Group (Erawan), Minor International, Central Plaza Hotel	Airports of Thailand

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Construction materials

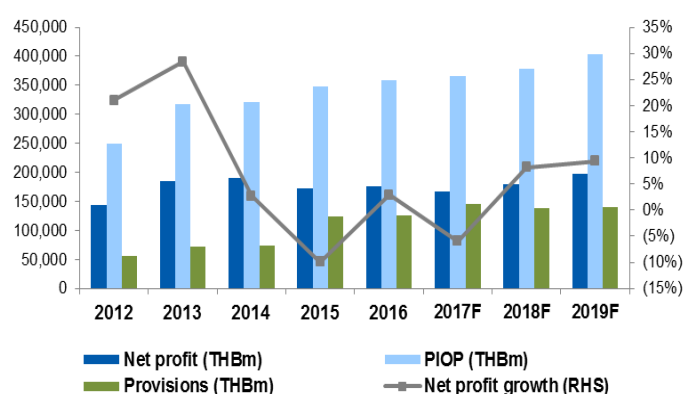
- Cement demand in 2017 is expected to decline further by 4% YoY after a 6% YoY drop in 9M17 and a 2% dip in 2016. This is as demand from the residential and commercial sectors for 9M17 remained soft, with negative growth of 9% YoY and 6% YoY respectively
- Slight positive cement demand growth (1-2% YoY) is anticipated for the overall industry in 2018, while domestic cement prices are not likely to increase significantly from the low base of THB1,650.00 per tonne. Only a series of infrastructure bids would stimulate orders from construction companies and also drive domestic cement prices

NEUTRAL

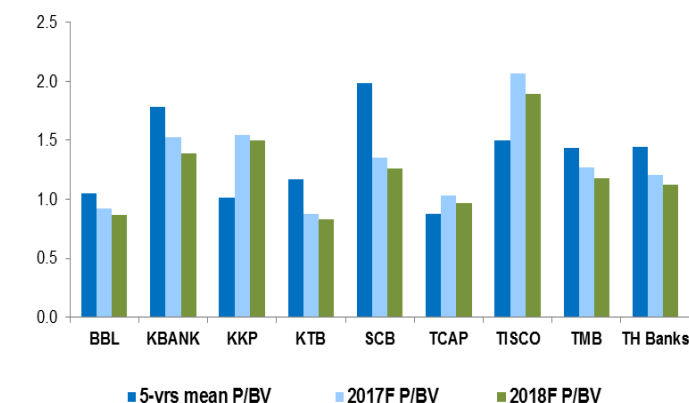
Siam Cement

-

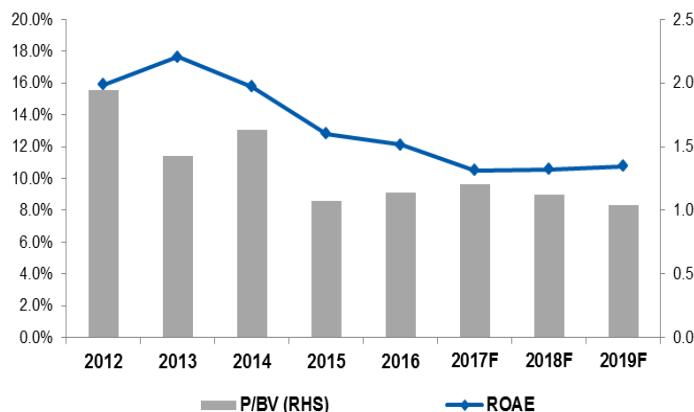
Source: RHB

Banks: Growth Rebound In Sight**Figure 45: Sustainable growth ahead**

Source: RHB

Figure 46: Banks' valuations vs historical mean based on P/BV

Source: RHB

Figure 47: Undemanding valuations with improved ROEs

Source: RHB

- Sustainable growth ahead.** Thai banks' earnings are expected to turn into positive growth of 8-9% YoY for 2018-2019 (2017: -6% YoY) on lower credit costs and higher loans growth
- Higher loans growth.** We expect aggregate loans growth to accelerate to 3.6-4.9% for 2017-2018 vs low growth of 2.6% for 2016, underpinned by higher GDP growth estimates of 3.7-4% for 2017-2018 (2016: 3.2%)
- The ROE uptrend.** Given higher earnings growth, ROEs are likely to rebound and be more sustainable for 2018-2019, at around 10.6-10.8% from the bottom level of 10.5% for 2017
- Undemanding valuations.** Thai banks are trading at FY18F P/BV of 1.2x (-1SD of the historical mean of 1.4x).

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Banks: More Stable Asset Quality

Figure 48: More stable asset quality

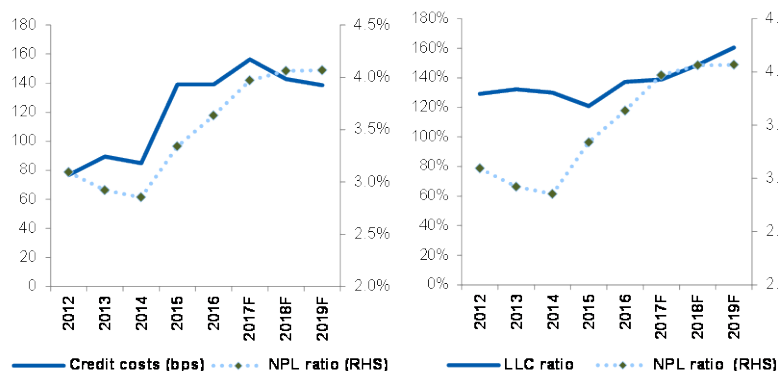


Figure 49: Thai banks' capital funds

	2Q17	
	Common equity tier 1	Total capital funds
Large banks		
BAY	12.3%	16.0%
BBL	16.4%	18.1%
KBANK	14.3%	16.9%
KTB	13.1%	16.7%
SCB	15.3%	17.4%
Average	14.3%	17.0%
Small and mid-sized banks		
KKP	14.2%	17.5%
TCAP	12.1%	16.4%
TISCO	15.6%	20.5%
TMB	12.3%	16.5%
Average	13.5%	17.7%
* Minimum requirement in 2017	5.750%	9.750%
* Minimum requirement in 2018	6.375%	10.375%
* Minimum requirement in 2019	7.000%	11.000%
* Minimum requirement in 2019 for 5 large banks	7.500%	11.500%

Source: RHB

Source: RHB

Figure 50: Asset quality comparisons

Company name	Asset quality at Sep 2017		
	NPL ratio	LLC ratio	Reserves to required reserves
Large banks			
Bangkok Bank	3.8%	154.0%	192.5%
Kasikornbank	3.3%	140.7%	261.0%
Krungthai Bank	4.5%	115.4%	127.6%
Siam Commercial Bank	2.8%	136.4%	150.4%
Small and mid-sized banks			
Kiatnakin Bank	5.6%	105.5%	184.7%
Thanachart Capital	2.2%	142.0%	189.8%
Tisco Financial Group	2.3%	186.2%	199.7%
TMB Bank	2.4%	140.8%	153.7%
Thai Banks	4.0%	140.1%	179.9%

Source: RHB

- **Stable asset quality.** NPLs are expected to increase moderately going forward. The NPL ratio is expected to peak around the 4Q17-1H18 period (3Q17: 4%). This might enable banks to ease their credit cost policies if the impact of International Financial Reporting Standard 9 (IFRS9) are not significant
- **New regulations remain unclear.** Thai banks are to initiate IFRS 9 in 2019. There is still no clarity over IFRS 9, as the banks and Bank of Thailand (BoT) are still undergoing discussions over this standard. This is a specific risk for the sector
- **Solid capital funds.** Given the stricter capital requirements for large banks for 2019, the impact is likely to be limited. This is due to the strong capital funds scenario among the large banks

Banking Sector's 2018 Outlook: OVERWEIGHT

Figure 51: Mobile banking



Source: Google.com

Improved fundamentals. Given an improving economic environment, lending growth is likely to be higher at 5% YoY for 2018 (2017: 3.5-4.0%). Asset quality is expected to be more resilient in 2018, as the BoT and commercial banks expect the NPL cycle to likely peak soon, at around the 4Q17-2Q18 period. We expect aggregate net profit to increase 8-9% for 2018-2019 from -6% for 2017

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Digital transformation. Thai banks are aware of the digital disruption from new technologies. They continue to invest in both technology infrastructure and human resources to improve banking efficiency. Thai banks have launched easy-to-use mobile applications (apps) to expand banking services and make it easier for customers to undertake transactions. Digital banking services are likely to become a dominant trend going forward.

New financial innovations. Five commercial banks – Bangkok Bank, Kasikornbank, Siam Commercial Bank, Krungthai Bank, and Government Saving Bank – have met all regulatory criteria for providing Quick Response Code (QR Code) payment services through the *PromptPay* system. Kasikornbank has also introduced blockchain technology, which is to be used to certify original documents for greater credibility, with document storage and retrieval service systems as well.

New regulations. Thai banks are adopting IFRS 9 in 2019, ie much later than Malaysia and Singapore, who are set to begin in 2018. Thai banks are expected to start parallel runs in 2018 – this is in order to have enough provisions before adoption in 2019. Although new IFRS 9 rules remain under discussion, we could see banks' loan loss provisions increasing.

Kasikornbank (KBANK TB, BUY, TP: THB251.00)

Market cap: USD16,371m.

Average turnover: USD19.1m

- Leader in digital banking platforms, with product innovations (eg QR Code and blockchains) to gain more market share in the consumer and small and medium enterprise (SME) lending segments;
- More sustainable export growth to reduce NPL risks and encourage higher lending in SMEs;
- Resilient balance sheet – stable NPL and high LLC ratios to ease provisioning policy and sustain future growth;
- Earnings growth rebound for 2018-2019 supported by higher loans growth and lower credit costs;
- Uptrend in ROE after bottoming out in 2017.

Valuations

- Trades at 1.4x FY18F P/BV, ie below its 5-year mean P/BV of 1.8x;
- GGM-based THB251.00 TP implies FY18F P/BV of 1.6x (-0.5SD of the historical mean) and 14x P/E

Key risks

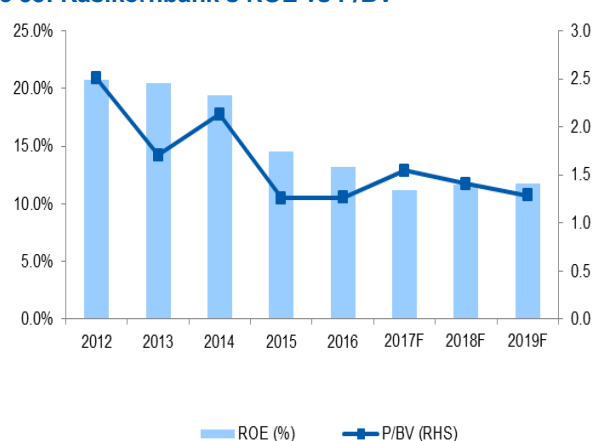
- Weak economic growth rebound;
- Deterioration in asset quality;
- Tighter financial regulatory environment (eg IFRS 9 and Basel III).

Figure 52: Kasikornbank's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Reported net profit (THBm)	39,474	40,174	37,749	43,060	47,348
Net profit growth (%)	(14.5)	1.8	(6.0)	14.1	10.0
Recurring net profit (THBm)	39,474	40,174	37,749	43,060	47,348
Recurring EPS (THB)	16.5	16.8	15.8	18.0	19.8
BVPS (THB)	119	134	147	161	176
DPS (THB)	4.00	4.00	3.79	4.32	4.75
Recurring P/E (x)	13.3	13.1	13.9	12.2	11.1
P/B (x)	1.84	1.64	1.50	1.37	1.25
Dividend Yield (%)	1.8	1.8	1.7	2.0	2.2
Return on average equity (%)	14.5	13.2	11.2	11.7	11.7
Return on average assets (%)	1.6	1.5	1.3	1.4	1.5
Our vs consensus EPS (adjusted) (%)			(5.1)	(8.0)	0.0

Source: RHB

Figure 53: Kasikornbank's ROE vs P/BV



Source: RHB

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Bangkok Bank (BBL TB, BUY, TP: THB220.00)**Market cap:** USD11,886m**Average turnover:** USD19.1m

- Fundamentals improved with higher profitability and a more resilient balance sheet;
- Top corporate lender to benefit from the public investment cycle;
- Highest LLC ratio among the large banks to counter NPL risks and sustain earnings growth;
- Earnings growth rebound for 2018-2019 supported by higher loans and fee income growth, as well as lower credit costs;
- Uptrend in ROEs after bottoming out in 2017.

Valuation

- Trades at 0.9x FY18 P/BV, below its 5-year mean P/BV of 1.1x;
- GGM-based THB220.00 TP implies FY18 P/BV of 1x (-0.5SD of the historical mean) and 11.4x P/E.

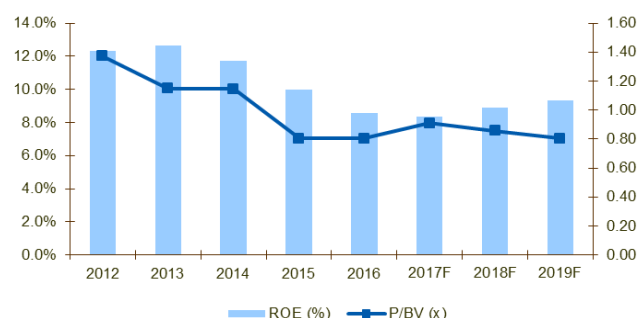
Key risks

- Weak economic growth rebound;
- Deterioration in asset quality;
- Tighter financial regulatory environment (eg IFRS 9 and Basel III).

Figure 54: Bangkok Bank's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Reported net profit (THBm)	34,181	31,815	32,535	36,873	41,274
Net profit growth (%)	(5.9)	(6.9)	2.3	13.3	11.9
Recurring net profit (THBm)	34,181	31,815	32,535	36,873	41,274
Recurring EPS (THB)	17.9	16.7	17.0	19.3	21.6
BVPS (THB)	190	199	211	224	239
DPS (THB)	6.50	6.50	6.14	6.95	7.78
Recurring P/E (x)	10.7	11.5	11.3	9.9	8.9
P/B (x)	1.01	0.97	0.91	0.86	0.80
Dividend Yield (%)	3.4	3.4	3.2	3.6	4.1
Return on average equity (%)	10.0	8.6	8.3	8.9	9.3
Return on average assets (%)	1.2	1.1	1.1	1.2	1.3
Our vs consensus EPS (adjusted) (%)			(2.6)	(0.9)	0.0

Source: RHB

Figure 55: Bangkok Bank's ROE vs P/BV

Source: RHB

Healthcare Sector's 2018 Outlook: NEUTRAL

Short-term hiccups. Needs time to boost medical tourism from the CLMV countries and China to compensate for fewer medical tourists from the Middle East, as well as tough competition, and the fact that leading private hospitals are undergoing an investment cycle.

Mid-end hospitals with patients under the social security scheme are now in the limelight after the Government approved an increase in payment rates.

Optimistic over the long-term outlook. This is given:

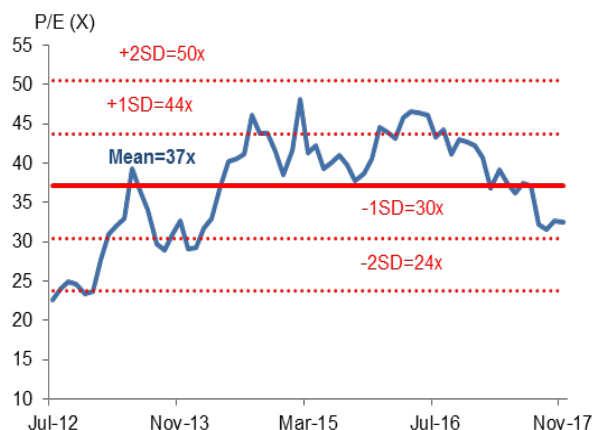
- Thailand's rank as the world's top medical tourism destination (11% 10-year CAGR for foreign patients);
- Solid personal healthcare insurance growth (13% pa in 2011-2015) and healthcare expenditures growth (6% pa in 2012-2020F);
- High potential from the CLMV countries where medical standards are much lower than Thailand's;
- Still room to increase prices;
- An ageing society opens up new opportunities.

Valuations and recommendations. Thailand's healthcare index has slipped 5% YTD. A meaningful recovery was seen over the past few months after the Social Security Office (SSO) announced an increase in payment rates for hospitals under its scheme. A recent pick-up in foreign patient numbers and better-than-expected 3Q17 results were other positives. For the full year, Bloomberg consensus expects core profit growth to be flat

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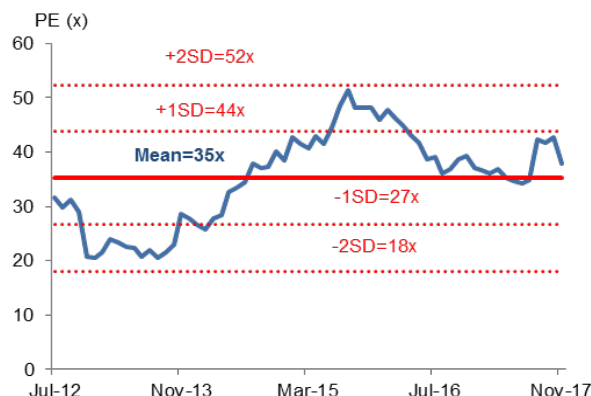
Prefer Bangkok Dusit Medical Services to Bumrungrad Hospital (BCH TB).

Figure 56: Bangkok Dusit's P/E and SD



Source: RHB

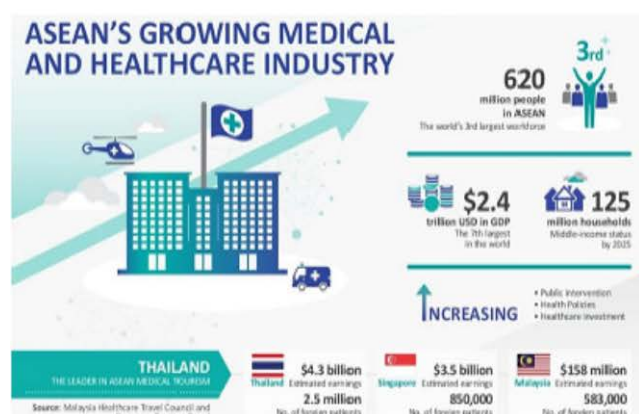
Figure 57: Bumrungrad Hospital's P/E and SD



Source: RHB

Long-Term Opportunities

Figure 58: Healthcare industry in Thailand and other ASEAN countries



Source: Office of Insurance Commission and K-Research

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Bangkok Dusit Medical Services (BDMS TB, BUY, TP: THB24.00)

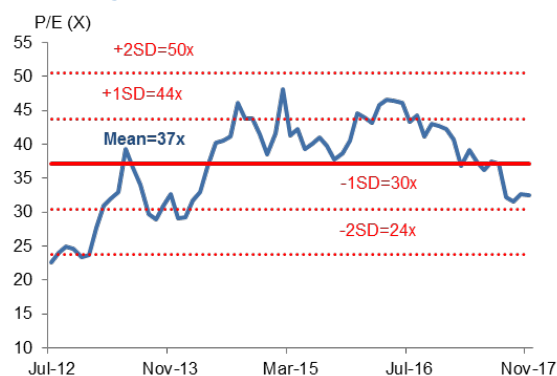
Market cap: USD10,068m Average turnover: USD14.8m

- 45 hospitals under its umbrella, increasing to 50 by 2020. Nine top-tier hospitals in major provinces and Bangkok as a centre of excellence. Focus is on the mid- to high-end customer segments and 30% of its revenue comes from foreign patients;
- Complete healthcare services from hospitals nationwide to the top-rated BDMS Wellness Clinic in Bangkok's central business district (CBD) and Chiva Transitional Care Hospital;
- Bright future ahead, given the pick-up in the number of patients, improved margins, less financing costs related to convertible bonds, and the BDMS Wellness Centre possibly reaching breakeven in less than two years;
- Solid long-term growth is expected, given room for efficiency improvements, synergy of its hospital network, complete healthcare services, and influx of medical tourists from strong government support.

Valuation. DCF-derived TP is THB24.00 (WACC: 8%, TG: 2%).**Key risks.** Rising competition, shortage of skilled nurses and doctors, difficulties in implementing its cost savings programme due to the multi-location structure of its network, and economic conditions.**Figure 59: Bangkok Dusit's forecasts and valuations**

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	62,834	67,984	71,131	76,053	81,678
Reported net profit (THBm)	8,021	8,386	10,092	8,886	9,861
Recurring net profit (THBm)	7,812	8,177	7,792	8,886	9,861
Recurring net profit growth (%)	5.7	4.7	(4.7)	14.0	11.0
Recurring EPS (THB)	0.50	0.53	0.50	0.57	0.64
DPS (THB)	0.36	0.32	0.39	0.34	0.38
Recurring P/E (x)	42.0	40.2	42.1	37.0	33.3
P/B (x)	6.79	6.41	5.83	5.55	5.16
P/CF (x)	22.9	26.8	25.9	21.8	19.8
Dividend Yield (%)	1.7	1.5	1.8	1.6	1.8
EV/EBITDA (x)	17.5	17.1	18.7	16.4	14.8
Return on average equity (%)	17.1	16.8	18.8	15.4	16.1
Net debt to equity (%)	26.8	29.5	34.1	29.6	22.6
Our vs consensus EPS (adjusted) (%)			(16.2)	2.4	(2.1)

Source: RHB

Figure 60: Bangkok Dusit's P/E and SD

Source: RHB

Property Sector's 2018 Outlook: OVERWEIGHT

Another 10.5% QoQ growth in 3Q17 sector presales drove 9M17 growth to 30% YoY. Hence, full-year presales growth should come in at 30%, ie higher than earlier estimates of 20-25%. 2017 earnings, on the other hand, are estimated to be at around THB32bn, which implies flat growth over the past four consecutive years.

Note that the sector has been in a slow growth stage since 2015, given flat revenue and earnings. Meanwhile, presales have been fluctuating – depending on the macroeconomic outlook and government stimulus packages.

Developers are seeking new growth drivers. These include partnerships with foreign developers, the development of commercial properties that can later be monetised via REITs, penetration into different segments to broaden the customer base, and overseas marketing to lure foreign buyers.

Keep an eye out for at least six new landmarks in Bangkok with a total value of THB270bn, which are to be developed over the next 5-7 years. Prefer counters with top foreign partners, new generation management, strong backing from billionaire shareholders/landlords, and well-diversified product portfolios. Land and Houses and Supalai are our picks for big-caps, with Golden Land for small-caps.

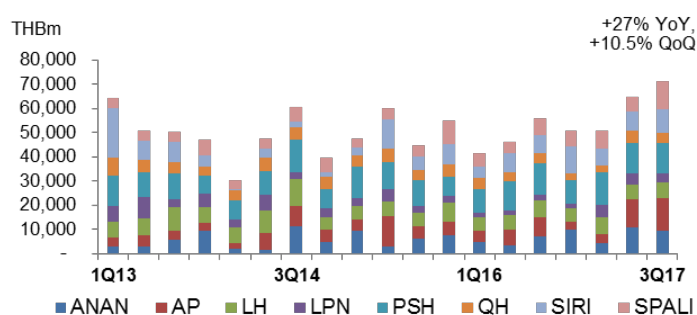
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Figure 61: Property sector's valuations

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-18F	P/B (x) Dec-18F	Yield (%) Dec-18F
Ananda Development	BUY	THB5.95	THB6.60	10.9	9.2	1.3	2.7
Golden Land Property	BUY	THB8.70	THB10.50	20.7	14.0	1.3	3.6
Land and Houses	BUY	THB10.40	THB11.70	12.5	13.8	2.5	6.1
Supalai	BUY	THB24.40	THB28.00	14.8	7.9	1.5	4.8
AP Thailand PCL	NEUTRAL	THB8.95	THB9.40	5.0	8.4	1.2	4.3
Pruksa Holding	NEUTRAL	THB24.00	THB23.50	(2.1)	8.6	1.3	5.8
LPN Development	SELL	THB12.80	THB9.50	(25.8)	11.9	1.4	3.4
Quality Houses	SELL	THB2.84	THB2.40	(15.5)	10.1	1.2	4.0
Sansiri PCL	TAKE PROFIT	THB2.26	THB2.00	(11.5)	10.3	1.0	4.0

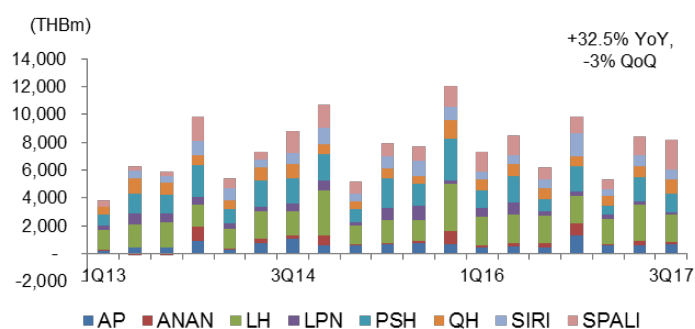
Source: RHB

Figure 62: Quarterly presales



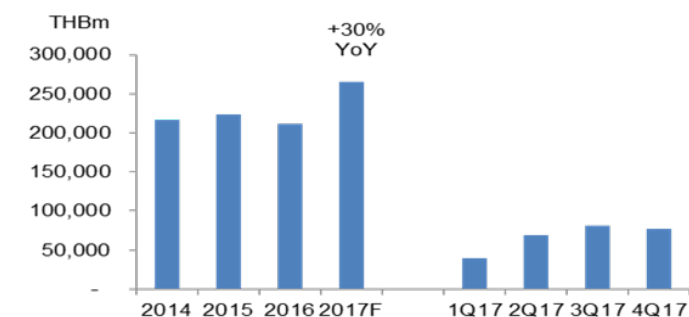
Source: RHB

Figure 63: Quarterly earnings



Source: RHB

Figure 64: New launches

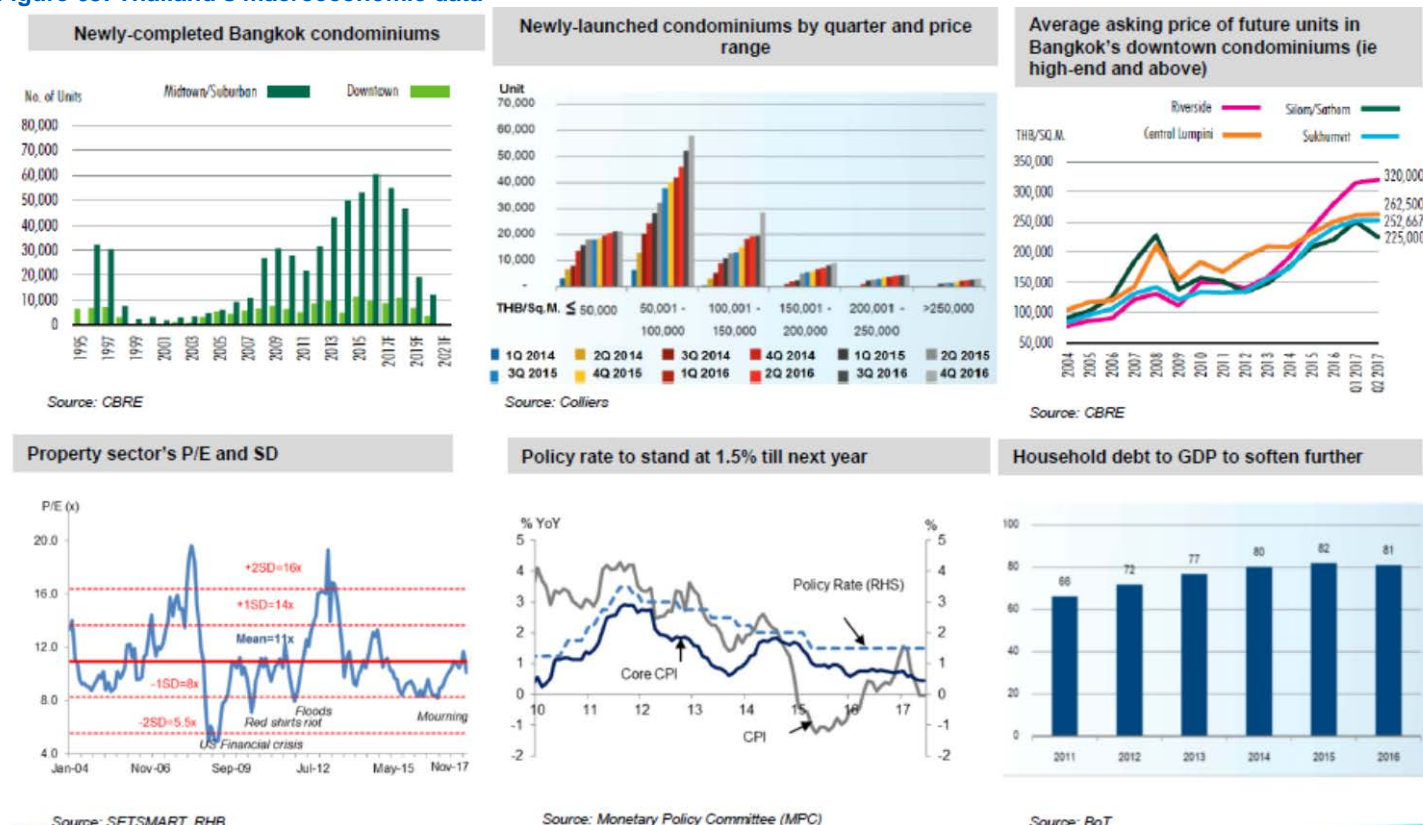


Source: RHB

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Property Sector's Macroeconomic Data

Figure 65: Thailand's macroeconomic data



Supalai (SPALI TB, BUY, TP: THB28.00)

Market cap: USD1.3bn

Average daily turnover: USD8.5m

- Gradually moving up the ladder from a simple conservative mid- to low-end developer to its current position;
- A potential recovery in upcountry demand if the Government starts a new round of populist policies in preparation for the upcoming elections;
- Well-prepared for massive investments to re-rate into a diversified developer. Recently won the auction for prime land in Bangkok's central business district (CBD) from the Australian Embassy, which is slated for a mixed use development (ie residential + office);
- 3Q17 was an exciting quarter for Supalai, given peak performances in terms of presales, revenue recognition and earnings, and acquisition of the prime land plot in Bangkok's CBD;
- Resilient earnings growth, handsome dividend yields of 5% for 2018F-2019F and healthy ROEs.

Valuation. TP of THB28.00 is pegged to a P/E of 10x.

Key risks. The pace of macroeconomic recovery, high rejection/cancellation rates in the mid- to low-end segments, and investments in Australia's residential sector.

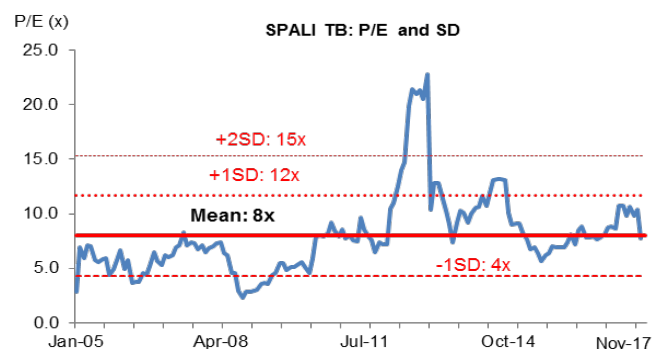
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Figure 66: Supalai's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	21,364	23,336	25,778	29,162	32,973
Reported net profit (THBm)	4,349	4,886	5,541	5,979	6,751
Recurring net profit (THBm)	4,349	4,886	5,423	5,979	6,751
Recurring net profit growth (%)	(2.9)	12.3	11.0	10.3	12.9
Recurring EPS (THB)	2.53	2.85	3.16	3.10	3.15
DPS (THB)	1.00	1.05	0.00	1.18	1.26
Recurring P/E (x)	9.35	8.33	7.50	7.65	7.53
P/B (x)	2.05	1.77	1.48	1.49	1.33
Dividend Yield (%)	4.2	4.4	na	5.0	5.3
Return on average equity (%)	23.3	22.8	21.9	19.4	18.7
Return on average assets (%)	10.2	9.9	9.5	8.7	8.8
Net debt to equity (%)	94.8	86.1	100.1	81.8	79.1
Our vs consensus EPS (adjusted) (%)			2.9	(0.8)	(4.7)

Source: RHB

Figure 67: Supalai's P/E and SD



Source: RHB

Consumer (Retail) Sector's 2018 Outlook: OVERWEIGHT

Figure 68: Outlook and catalysts for the consumer sector

Sector outlook

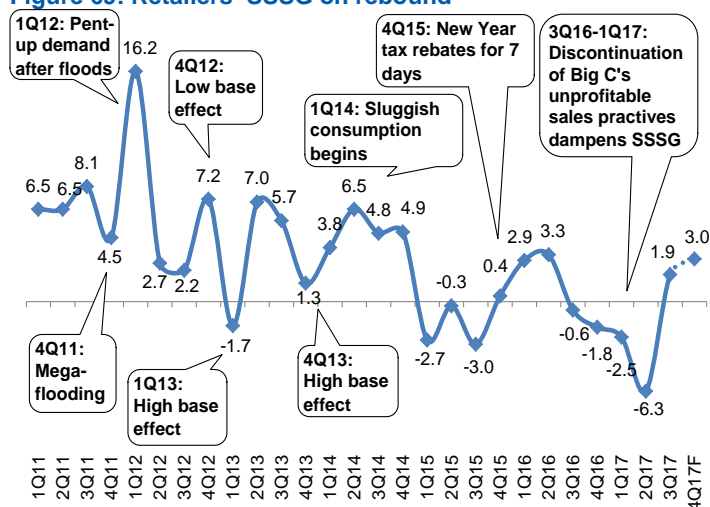
- Improving farming income, private investments (export and services), and infrastructure projects may lower unemployment and pass-through to local consumption in the 6-8 months ahead
- Product mix changes to keep SSSG and GPMs elevated
- Online business trends place more concerns on discretionary retailers, as well as a high substitution from rivals. Meanwhile, shopping malls may enhance their projects in order to cater to a whole range of lifestyles choices
- Business potentials abroad, mainly in the CLMV region, which would help sustain Thai retailers' growth in the long run
- Six companies under our coverage are set to book an aggregated core profit CAGR of 18% for 2016-2019

Source: RHB

Key catalysts

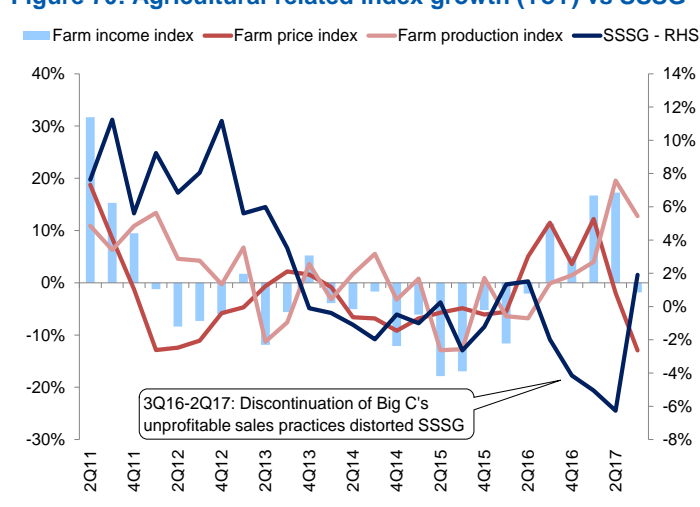
- Government measures to spur consumption – further populist policies before the general elections in Nov 2018 may boost spending power and lower household debt
- Staple retailers are focusing on the middle- to lower-end segments, which would benefit first
- SSSG to turn positive (+2%) in 2018 for the first time in four years, given the improved momentum since August
- Another strong quarter expected in 4Q's high season
- Top Picks – CP ALL for a promising outlook at both 7-Eleven and Makro and Berli Jucker, and is set to record the sector's highest growth, as well as a stronger momentum from its Big C business.

Figure 69: Retailers' SSSG on rebound



Source: RHB

Figure 70: Agricultural-related index growth (YoY) vs SSSG



Source: RHB

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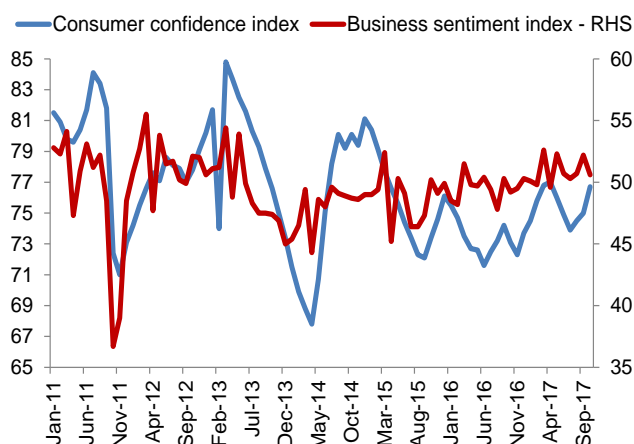
A Better Outlook For Thai Retailers

Figure 71: Major listed Thai retailers' presence abroad

Company	Major existing overseas investments	Contribution to total sales	Future investment projects abroad	Contribution to total sales
Berli Jucker	Vietnam <ul style="list-style-type: none"> - Aluminum can production (TBC -Ball) - Glass production (Malaya -Vietnam Glass) - B's Mart convenience stores - Product distribution, trading, and logistics (Thai Corp and Thai An) - Tofu production (Ichiban Foods) Malaysia <ul style="list-style-type: none"> - Glass production (Malaya Glass) - Snacks production (BJC Foods Malaysia) Laos <ul style="list-style-type: none"> - M-Point Mart convenience store franchising 	c.8%	Vietnam <ul style="list-style-type: none"> - Expected purchase of MM Mega Market cash-and-carry stores from parent company TCC Group Laos <ul style="list-style-type: none"> - Possible opening of Big C Supercenter and Mini Big C Cambodia <ul style="list-style-type: none"> - Potential opening of Big C Supercenter 	n.a.
CP All	Business units under Siam Makro <ul style="list-style-type: none"> - Food services provider to food professionals in Hong Kong, Singapore, United Arab Emirates and Vietnam 	c.2%	Business units under Siam Makro <ul style="list-style-type: none"> - Makro cash -and-carry stores in Cambodia - Possible food retailing in China - Possible cash -and-carry stores in India 	n.a.
Central Pattana	None	n.a.	<ul style="list-style-type: none"> - Central i -City in Selangor, Malaysia - Plans to open shopping centres in Indonesia and Vietnam are under study 	c.2%
Home Product Center	Malaysia <ul style="list-style-type: none"> - Four HomePro stores in Putrajaya, Selangor, Melaka, and Ipoh 	c.3%	Malaysia <ul style="list-style-type: none"> - To open 1-2 stores in 2H17 with a long term target to have 40 stores Cambodia <ul style="list-style-type: none"> - Possible opening of HomePro stores 	n.a.
Robinson	Vietnam <ul style="list-style-type: none"> - Own-operated Robins Department Store in Hanoi - Robins Department Store franchise in Ho Chi Minh City - Investment in Vietnamese electronics retailer Nguyen Kim Trading via an associate company, Power Buy 	c.3%	n.a.	n.a.

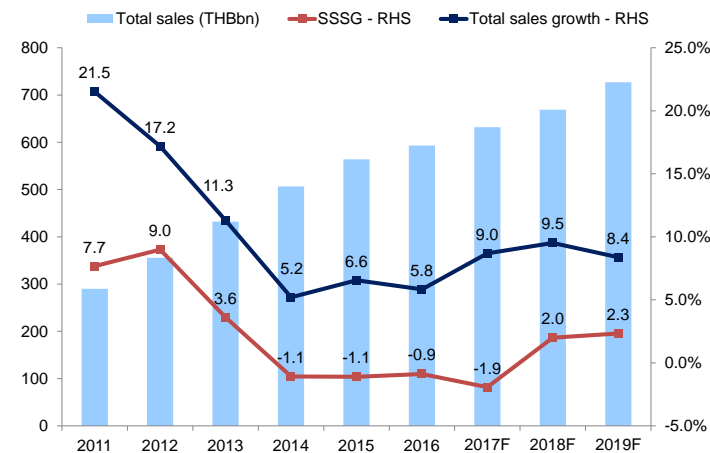
Source: RHB

Figure 72: Consumer confidence is improving



Source: RHB

Figure 73: Retailers' total sales growth and SSSG



Source: RHB

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CP ALL (CPALL TB, BUY, TP: THB82.00)**Market cap:** USD19,131m**Average daily turnover:** USD29.4m

- Opening of new 7-Eleven convenience stores, which remain at an aggressive number of 700;
- Siam Makro's expansion abroad (in Cambodia in 4Q17) would not generate significant loss to CP ALL – it may provide synergies with CP Group's overseas operations;
- Its CVS business' strategy – to focus on food & personal care items, exclusive products, and adjustments to the product sales mix to serve demand at each location – continues to improve SSSG, spending per ticket, and profit margins;
- A strong 4Q17 earnings outlook is expected, supported by the high season for retail and low base effect due to the strict mourning period since a year ago;
- Expect 2017 core profit to continue growing 17% before ramping up to 19% in 2018. This would be thanks to an improvement in local consumption and the opening of new stores.

Valuation. DCF-derived THB82.00 TP implies 32x 2018F P/E, ie +1SD to its 5-year historical P/E.

Key risks:

- Intense competition in hypermarkets that may squeeze profit margins at Siam Makro cash-and-carry stores.
- Increasing leverage.

Figure 74: CP All's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	391,817	434,712	484,692	539,052	589,656
Reported net profit (THBm)	13,682	16,754	19,492	23,246	27,358
Recurring net profit (THBm)	13,687	16,599	19,492	23,246	27,358
Recurring net profit growth (%)	39.3	21.3	17.4	19.3	17.7
Recurring EPS (THB)	1.52	1.85	2.17	2.59	3.05
DPS (THB)	0.81	0.91	1.06	1.26	1.48
Recurring P/E (x)	46.3	38.2	32.5	27.2	23.1
P/B (x)	16.5	13.5	11.2	9.3	7.8
P/CF (x)	20.0	13.2	18.2	16.3	14.6
Dividend Yield (%)	1.1	1.3	1.5	1.8	2.1
EV/EBITDA (x)	24.5	21.4	18.7	16.4	14.5
Return on average equity (%)	38.8	39.2	37.7	37.4	36.6
Net debt to equity (%)	398.2	253.1	197.6	156.0	121.3
Our vs consensus EPS (adjusted) (%)			1.4	2.6	2.3

Source: RHB

Figure 75: CP All's P/E band

Source: RHB

Home Product Center (HMPRO TB, TAKE PROFIT, TP: THB11.70)**Market cap:** USD5,281m**Average turnover:** USD8.69m

- In the midst of store downsizing in Thailand, while the slow pace of new outlets there may limit its sale growth;
- Saturation of regular HomePro store format is likely, while its Mega Home business may experience strong competition from Siam Global House and Thai Watsadu;
- Operations in Malaysia are achieving economies-of-scale level due to a boost in store numbers, but may need more time to study consumer behaviour and enlarge the spending per bill;
- Improving sales mix of rebranded private label products, which offers strong GPMs, may be the only key growth driver for its bottomline;
- Expect 4Q17 earnings to continue growing supported by the tax break for shoppers, while its core profit is likely to expand at a CAGR of 13% during 2016-2019F.

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Valuation

- DCF-derived THB11.70 TP implies 29x 2018F P/E, ie +0.5SD to its 5-year historical P/E;
- Demanding valuations and slower profit growth outlook when compared to both local and regional peers.

Key risks

- Delays in the opening of new stores;
- High-volume business – Mega Home – which undermines GPMs.

Figure 76: Home Product Center's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	52,513	56,928	59,600	64,128	69,101
Reported net profit (THBm)	3,499	4,125	4,726	5,378	6,028
Recurring net profit (THBm)	3,499	4,125	4,726	5,378	6,028
Recurring net profit growth (%)	5.6	17.9	14.6	13.8	12.1
Recurring EPS (THB)	0.27	0.31	0.36	0.41	0.46
DPS (THB)	0.25	0.30	0.34	0.39	0.44
Recurring P/E (x)	47.7	41.8	36.5	32.0	28.6
P/B (x)	10.2	9.8	9.4	9.1	7.9
P/CF (x)	25.4	24.2	19.8	19.0	18.8
Dividend Yield (%)	1.9	2.3	2.6	3.0	3.3
EV/EBITDA (x)	22.8	21.4	19.6	17.6	15.9
Return on average equity (%)	21.4	23.9	26.3	28.8	29.5
Net debt to equity (%)	68.9	75.1	68.3	68.8	53.8
Our vs consensus EPS (adjusted) (%)			(1.3)	(0.7)	(3.3)

Source: RHB

Figure 77: Home Product Center's P/E band



Source: RHB

Tourism Sector's 2018 Outlook: OVERWEIGHT

Figure 78: Outlook and catalysts for the tourism sector

Sector outlook

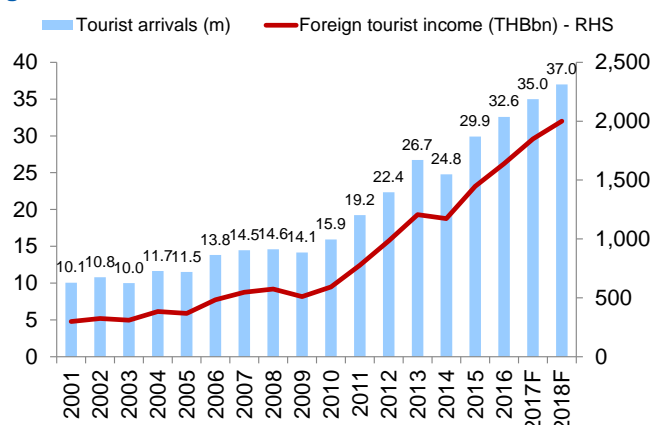
- Upbeat tourism outlook in 4Q17 and 2018 – international tourist arrivals to grow 6-7% and foreign tourism income to grow by an average of 10% over 2017-2018
- Chinese arrivals to increase to 1m a year and lift contributions to total visitor numbers by 1% annually
- Thailand was a top global and Asia-Pacific destination in 2016-2017 – as ranked by MasterCard – and this trend is likely to continue in 2018
- New hotels are geared towards the budget segment, while new luxury hotels are in the super high-end sub-segment
- Airbnb is not a big threat to Thai hotels

Source: RHB

Key catalysts

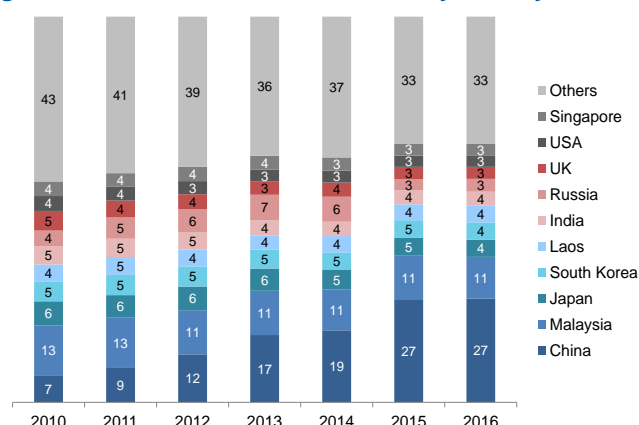
- Hotels to remain busy throughout 4Q17 and 2018 – average occupancy rate of more than 70% for luxury properties and more than 80% for the mid-scale and economy segments
- Expect 3-5% average room rate hike, which result in positive average RevPar growth and, consequently, a bigger increase in profit margins
- Quick-service restaurants (QSRs) SSSG on a recovery
- Top Picks – Erawan as pure hotel play that is to benefit the most from a solid tourism outlook, while Minor International is also likely to benefit from a gradual improvement in its food business

Figure 79: International tourist arrivals and tourism income



Source: RHB

Figure 80: International tourist arrivals by country (%)

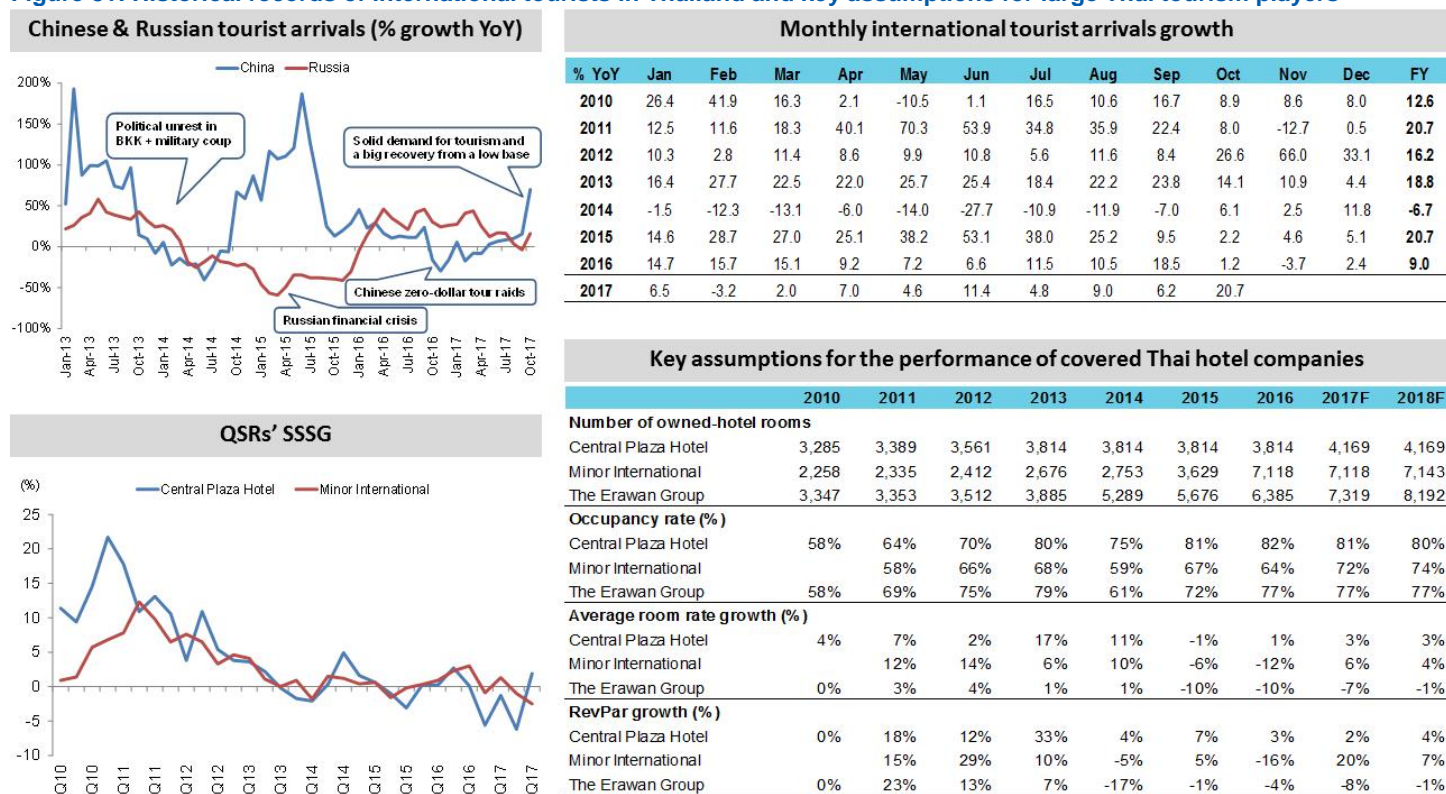


Source: RHB

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Thai tourism to continue charting new highs

Figure 81: Historical records of international tourists in Thailand and key assumptions for large Thai tourism players



Source: Thailand's Tourism and Sports Ministry, RHB

Minor International (MINT TB, BUY, TP: THB47.00)

Market cap: USD5,404m

Average turnover: USD17m

- Better outlook for hotels (42% of total revenue).** Apart from its Thai properties, Minor International has acquired hotels in Portugal and Brazil, which are entering high seasons. Meanwhile, downsides for hotels in Maldives are limited;
- Its food business in China (13% of food revenue) is doing well, while its core Thailand hub (63%) is likely to benefit from consumption recovery. Meanwhile, its Singapore hub (13%) is likely to take a few more years to turn around;
- Supportive businesses in good shape – the time-sharing units (7% of total sales) are to turn positive (10% growth), while more high-end residential projects for sale in Desaru (Malaysia) and Ubud (Indonesia) ought to smoothen earnings;
- Bright prospects for 4Q17F-1Q18F earnings. Minor International's diversified businesses and asset locations should minimise operational risks in the longer term.
- Expect core profit growth of 25% in 2017 and 18% in 2018.

Valuation. DCF-derived TP of THB47.00 (WACC: 7.7%, TG: 3%).

Key risks. Extended slowdown of food consumption in Thailand and Singapore, weaker-than-expected hotel room rate hikes (particularly in Bangkok and the Maldives), and a volatile AUD, as its Australian unit accounts for 15% of total revenue

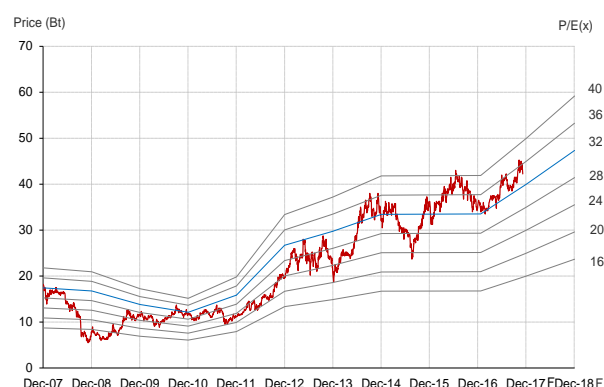
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Figure 82: Minor International's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	42,345	51,152	59,065	63,870	68,538
Reported net profit (THBm)	7,040	6,590	5,777	6,839	8,063
Recurring net profit (THBm)	4,704	4,620	5,777	6,839	8,063
Recurring net profit growth (%)	12.5	(1.8)	25.0	18.4	17.9
Recurring EPS (THB)	1.12	1.05	1.31	1.55	1.83
DPS (THB)	0.35	0.35	0.44	0.52	0.61
Recurring P/E (x)	36.4	38.9	31.1	26.3	22.3
P/B (x)	5.22	4.53	4.07	3.67	3.29
P/CF (x)	85.2	12.7	18.2	16.3	14.6
Dividend Yield (%)	0.9	0.9	1.1	1.3	1.5
EV/EBITDA (x)	20.7	18.7	16.3	14.5	12.7
Return on average equity (%)	22.5	17.8	13.8	14.7	15.5
Net debt to equity (%)	113.0	111.4	102.0	82.6	59.5
Our vs consensus EPS (adjusted) (%)			1.5	4.8	1.0

Source: RHB

Figure 83: Minor International's P/E band



Source: RHB

Airports of Thailand (AOT TB, TAKE PROFIT, TP: THB52.50)

Market cap: USD25,579m

Average turnover: USD60.7m

- 1HFY18F (Sep) earnings are now more promising, supported by the solid growth of international flights and tourists arriving from China from a low base;
- Long-term airport expansion plan is optimistic, but those (except the Suvarnabhumi Phase 2 project) have not been approved by the Cabinet so far;
- Only bids for the renewal of its duty-free concessionaire and development of the commercialised Bangkok Airport City project may be executed in FY18;
- Planned takeover of 15 provincial airports is attractive, as they generate a combined net profit of c.THb1bn, but concerns over delays in the takeover process remains;
- Expect net profit in FY18 and FY19 to increase by 23% and 12% respectively.

Valuation

- DCF-derived THB52.50 TP implies 30x FY18F P/E (+1SD to 5-year historical mean);
- Airports of Thailand's (AoT) business fundamentals remain promising, but expectations on its far-off investment projects – of which details remain uncertain – are overly priced in. They are also already reflected in its solid FY18 earnings.

Key risks

- Delays in project investment plans;
- Changes in government policies and related regulations;
- Uncertainties (political riots, natural disasters, weak domestic and global economies);
- Extended slowdown of food consumption in Thailand and Singapore, weaker-than-expected hotel room rate hikes (particularly in Bangkok and Maldives), and a volatile AUD, as its Australian unit accounts for 15% of total revenue.

Figure 84: AoT's forecasts and valuations

Forecasts and Valuations	Sep-15	Sep-16	Sep-17F	Sep-18F	Sep-19F
Total turnover (THBm)	43,969	50,962	55,393	62,580	67,938
Reported net profit (THBm)	18,729	19,571	20,975	25,549	28,563
Recurring net profit (THBm)	15,755	19,482	20,771	25,549	28,563
Recurring net profit growth (%)	28.6	23.7	6.6	23.0	11.8
Recurring EPS (THB)	1.10	1.36	1.45	1.79	2.00
DPS (THB)	0.65	0.68	0.73	0.89	1.00
Recurring P/E (x)	53.0	42.9	40.2	32.7	29.3
P/B (x)	7.74	6.94	6.35	5.70	5.14
P/CF (x)	56.5	41.5	31.4	25.5	23.3
Dividend Yield (%)	1.1	1.2	1.3	1.5	1.7
EV/EBITDA (x)	28.8	24.8	23.5	20.1	18.2
Return on average equity (%)	18.3	17.1	16.6	18.4	18.5
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			(4.0)	4.2	6.1

Source: RHB

Figure 85: AoT's P/E band



Source: RHB

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Media Sector's 2018 Outlook: UNDERWEIGHT

10M17 recap:

- Adex plunged 9% YoY, mainly from weak spending and consumer confidence;
- Consumer products and auto firms have cut their adex quite substantially;
- Biggest impact was felt at the TV segment, where adex dropped 11.4% YoY.

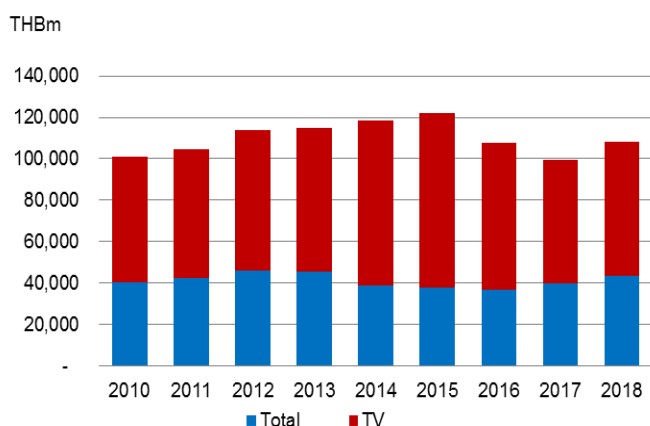
Adex recovery to begin in 2018:

- Adex is expected to start recovering by 8-10% in 2018, driven by a strong GDP growth and continuous improvement in the Consumer Confidence Index (CCI);
- The strongest growth prospects remain in three major platforms, ie TV, outdoor and transit, and online media;
- Other traditional media (radio, newspapers and magazines) are expected to see a continuous decline;

UNDERWEIGHT:

- With structural changes in the digital TV industry, old mass media platforms are still suffering;
- Chasing market share;
- Many media companies are trading at levels higher than 30x 2018F P/E, even though we expect earnings growth to decelerate YoY next year;
- Our sector Top Pick is Major Cineplex (MAJOR TB, BUY, TP: THB35.00).

Figure 86: Media spending breakdown



Source: RHB

Figure 87: Advertising expenditure (THBm)

Channel	3Q17	Chg YoY	10M17	Chg YoY
Analog TV	1,442	-22.8%	33,937	-16.9%
Cable/Satellite TV	167	-1.2%	2,492	-17.1%
Digital TV	961	13.1%	18,015	2.2%
Total TV	2,570	-11.0%	54,444	-11.4%
Radio	224	-22.8%	3,630	-18.1%
Newspapers	572	-22.0%	6,397	-21.7%
Magazines	137	-42.2%	1,622	-35.0%
Cinema	517	44.0%	5,630	23.0%
Outdoor	493	4.9%	5,219	11.9%
Transit	348	-18.7%	4,903	12.8%
In store	23	-34.3%	761	29.6%
Online	85	-17.5%	1,247	-13.4%
Grand total	4,969	-11.9%	83,854	-9.0%

Source: Industry data, The Nielsen Company

Major Cineplex(MAJOR TB, BUY, TP: THB35.00)

Market cap: USD806m

Average turnover: USD1.4m

- A leader in the cinema business with an 80% market share;
- Aggressive cinema screen expansion that is expected to hit 1,000 screens by 2020;
- Expansion of its business into the CLMV nations – a high-growth potential area;
- Expectations of a strong movie line-up could boost its revenue;
- Recovery of overall economy should support consumer spending on entertainment services.

Valuation. DCF-derived value of THB32.45 for its core business (WACC: 9%, TG: 2%) and THB2.55 to reflect potential gains on its investment portfolio.

Key risks

- Slower-than-expected recovery in domestic consumption;
- Growing popularity of movies watched online.

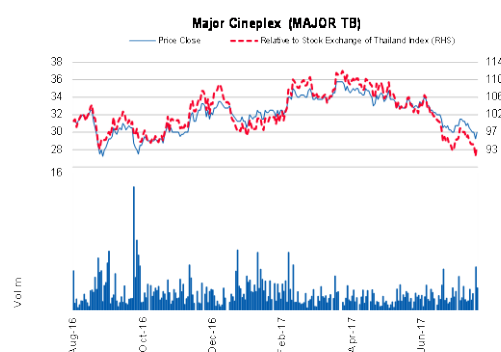
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Figure 88: Major Cineplex's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	8,580	8,745	9,663	10,561	11,168
Reported net profit (THBm)	1,171	1,188	1,288	1,316	1,300
Recurring net profit (THBm)	934	803	988	1,166	1,300
Recurring net profit growth (%)	(4.5)	(14.0)	23.1	18.0	11.5
Recurring EPS (THB)	1.05	0.90	1.10	1.30	1.45
DPS (THB)	1.15	1.20	1.25	1.30	1.35
Recurring P/E (x)	28.6	33.4	27.2	23.0	20.6
P/B (x)	4.07	3.99	3.88	3.79	3.73
P/CF (x)	12.6	13.8	10.7	10.5	10.3
Dividend Yield (%)	3.8	4.0	4.2	4.3	4.5
EV/EBITDA (x)	6.93	7.62	7.39	6.81	6.35
Return on average equity (%)	18.1	17.9	18.9	18.8	18.2
Net debt to equity (%)	65.6	70.4	72.5	67.4	67.0
Our vs consensus EPS (adjusted) (%)			(16.3)	(15.4)	0.0

Source: RHB

Figure 89: Major Cineplex's price chart



Source: RHB

Transportation Sector's 2018 Outlook: NEUTRAL

Figure 90: MRT projects' timeline

Line	Targeted operations year	Distance (km)
Green (Southern)	2018	12.6
Gold	2019	1.7
Blue	2020	14.0
Blue	2020	13.0
Green (Northern)	2020	18.2
Green (Western)	2020	7.0
Dark Red	2020	6.5
Light Red	2020	19.0
Blue	2021	8.0
Pink	2021	34.5
Yellow	2021	30.4
Dark Red	2021	26.3
Green ext. (Northern)	2021	7.0
Green ext. (Southern)	2021	7.0
Purple (Southern)	2022	23.6
LRT	2022	18.3
Grey	2022	16.3
Orange (Eastern)	2023	22.3
Orange (Western)	2023	17.0

Source: BTS Group Holdings

Bright future for mass transit:

- Most of the construction in the new mass transit lines (Pink, Yellow, Green Line extension, and Blue Line extension) are expected to start operations from 2020 onwards;
- The new mass transit lines (Orange, Purple Line extension, Light Green Line extension, light rail transit (LRT), and Grey) are expected to undergo the open bidding process in 2018;

Airlines – restrictions unlocked. The removal of red flag restrictions by the International Civil Aviation Organisation (ICAO) is likely to enable Thai carriers to launch new routes and allow them to add more international flights – this is a direct benefit to Thai aviation and the airports segment.

NEUTRAL:

- Thailand has a lot of transportation projects ahead, such as new mass transit lines, seaport and airport expansions, new expressways, and high-speed trains. These future projects would be the key driver to the transportation sector in the long term'
- Our sector Top Pick is Namyang Terminal (NYT TB, BUY, TP: THB7.10).

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Bangkok Expressway & Metro (BEM TB, UNDER REVIEW)**Market cap:** USD3.7bn**Average turnover:** USD12.6m

- Biggest operator in the expressway business – it operates 87.2km of expressways in Bangkok and its vicinity;
- Leading MRT operator in Thailand – this is in terms of the longest rail length (totalling 43 km), ie the Blue and Purple Lines;
- High ridership growth potential after the new mass transit lines start operations;
- The Blue Line extension would be the game-changer to the company, which could double its mass transit revenue after it starts operating in 2020;
- High potential in getting new mass transit lines in the future.

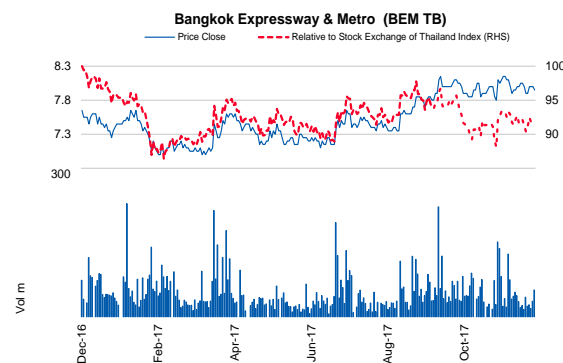
Key risks

- Expiry of Sector A, B and C expressway contracts in 2020;
- Lower- or better-than expected future traffic and ridership growth .

Figure 91: Bangkok Expressway's forecasts and valuations**Figure 92: Bangkok Expressway's price chart**

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	11,738	13,104	15,211	16,873	18,249
Reported net profit (THBm)	2,650	2,606	3,073	3,295	3,811
Recurring net profit (THBm)	1,625	2,580	3,073	3,295	3,811
Recurring net profit growth (%)	(29.8)	58.7	19.1	7.2	15.7
Recurring EPS (THB)	0.11	0.17	0.20	0.22	0.25
DPS (THB)	0.13	0.12	0.14	0.09	0.10
Recurring P/E (x)	69.1	43.5	36.6	34.1	29.5
P/B (x)	3.85	3.77	3.56	3.34	3.13
P/CF (x)	27.0	29.2	11.1	17.7	13.6
Dividend Yield (%)	1.7	1.6	1.9	1.2	1.4
EV/EBITDA (x)	20.0	18.7	15.4	14.2	13.3
Return on average equity (%)	9.2	8.8	10.0	10.1	11.0
Net debt to equity (%)	119.7	135.0	99.6	92.3	80.4
Our vs consensus EPS (adjusted) (%)			(8.6)	(13.8)	0.0

Source: RHB



Source: RHB

Oil & Gas Sector's 2018 Outlook: OVERWEIGHT

Overall, we are positive on the oil markets as we enter into 2018. We believe that production cut extensions would alleviate any concerns over oversupplied oil markets. With tensions between Iran-Saudi Arabia, the US-North Korea, and the US-Iran, we believe geopolitics can also add further premiums to oil prices.

Short-term expectations. We believe 4Q17 would be softer QoQ in terms of core earnings for refineries and petrochemicals. However, we do expect stock gains should crude oil prices stay at such lofty levels. FY17F earnings should be strong YOY.

PTTEP should perform well in 4Q17F on a QoQ basis, with the natural gas price adjustment for its major fields in October. Higher crude oil prices should also help lift earnings in the final quarter of the year.

2018 outlook – stronger oil markets. On 30 Nov, the Declaration of Cooperation was amended for production cuts to take effect for the whole of 2018. The group of producers are scheduled to meet in Jun 2018 to decide on whether or not further action is required to rebalance the oil markets. Libya and Nigeria production has been capped at 1mbpd and 1.8mbpd respectively. The only uncertainty now remains with producers in the US.

We should see strong positive sentiment in the crude oil market. Our crude oil price forecast is now at USD54.00 per bbl for 2017 and USD60.00 per bbl for 2018-2019 onwards.

Our Top BUYs are Star Petroleum Refining, Bangchak Corp, PTTGC and PTTEP.

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Star Petroleum Refining (SPRC TB, BUY, TP: THB19.89)**Market cap:** USD2.1bn**Average turnover:** USD7.3m

- Refined product spreads should remain robust** through 2018, as demand outpaces supply in the Asia-Pacific region;
- Set to be in a net cash position by 2018** – it has minimal capex over the next several years, except for its capacity expansions;
- Capacity expansion.** Star Petroleum Refining is looking to expand its capacity to 175kbpd from current 165kbpd.

This would involve removing bottlenecks on its existing capacity, changing or adding new catalysts, and introducing other productivity enhancements to its refinery. The total investment is expected at c.USD70m. The project is expected to be completed in 2019, which would coincide with its major turnaround.

Valuation

- It trades at 10x P/E, with dividend yield of 5% and undemanding 5.8x EV/EBITDA;
- Our DCF valuation is THB19.89, with WACC at 7.8%.

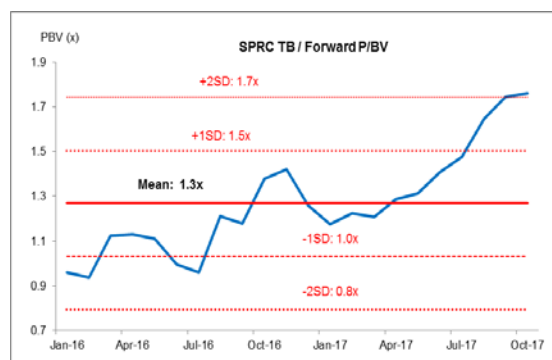
Key risks

- Softer regional/global refined products demand, which results in lower GRMs;
- Crude oil price volatility.

Figure 932: Star Petroleum Refining's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	178,877	155,082	179,438	179,438	158,273
Reported net profit (THBm)	8,227	8,688	6,347	6,988	4,915
Recurring net profit (THBm)	12,442	5,608	6,347	6,988	4,915
Recurring net profit growth (%)	160.5	(54.9)	13.2	10.1	(29.7)
Recurring EPS (THB)	3.03	1.33	1.47	1.61	1.13
DPS (THB)	2.31	2.86	0.73	0.81	0.57
Recurring P/E (x)	5.5	12.5	11.4	10.4	14.7
P/B (x)	1.83	1.68	1.58	1.47	1.40
P/CF (x)	4.5	na	9.3	7.9	10.4
Dividend Yield (%)	13.8	17.1	4.4	4.8	3.4
EV/EBITDA (x)	5.34	5.64	6.85	6.06	7.62
Return on average equity (%)	19.0	21.7	14.3	14.7	9.7
Net debt to equity (%)	0.1	14.8	5.6	net cash	net cash
Our vs consensus EPS (adjusted)					

Source: RHB

Figure 943: Star Petroleum Refining's forward P/BV

Source: RHB

Thai Oil (TOP TB, TAKE PROFIT, TP: THB86.10)**Market cap:** USD5.7m**Average turnover:** USD20m

- Refined product spreads should remain robust** through 2018, as demand outpaces supply in the Asia-Pacific region;
- Potential capacity expansion to 400kbpd from 275kbpd.** We ran preliminary numbers to gauge the possible impact from its potential capacity expansion. We assumed a total investment cost of USD4bn, as well as benefits from an additional USD3.00-4.00 per bbl to GRM, with commercial operations starting in 2022. Under this scenario, our DCF valuation would be in the range of THB111.00-122.00 per share, depending on market GRM at the time of commencement. We expect its final investment decision on this project to be made towards the end of 2017, or the beginning of 2018.

Valuation. We value this stock at THB86.10 (based on 1.35x P/BV). Other valuations: it trades at 9.7x P/E, provides 4.4% yield and is at 4.9x EV/EBITDA.

Key risks

- Softer regional/global refined product demand, which results in lower GRMs;
- Crude oil price volatility.

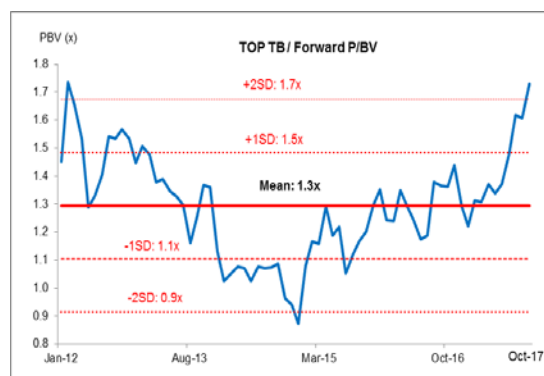
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Figure 954: Thai Oil's forecasts and valuations

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (THBm)	293,569	274,739	295,794	304,222	290,641
Reported net profit (THBm)	12,181	21,222	22,974	19,351	17,068
Recurring net profit (THBm)	21,596	16,188	22,974	19,351	17,068
Recurring net profit growth (%)	67.9	(25.0)	41.9	(15.8)	(11.8)
Recurring EPS (THB)	10.6	7.9	11.3	9.5	8.4
DPS (THB)	2.69	4.50	4.87	4.10	3.62
Recurring P/E (x)	8.7	11.6	8.2	9.7	11.0
P/B (x)	2.04	1.76	1.57	1.45	1.35
P/CF (x)	3.9	67.5	5.0	7.0	7.0
Dividend Yield (%)	2.9	4.9	5.3	4.4	3.9
EV/EBITDA (x)	5.67	6.59	4.98	4.91	4.87
Return on average equity (%)	13.9	21.3	20.3	15.5	12.7
Net debt to equity (%)	23.1	13.9	9.0	0.2	net cash
Our vs consensus EPS (adjusted)					

Source: RHB

Figure 96: Thai Oil's price chart



Source: RHB

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Thailand

Major Obstacles Cleared: All Aboard For Industry 4.0

We are above consensus in terms of our forecasts for Thailand's GDP to grow at 4.2% in 2018. Infrastructure investment would be the key driver of growth once again, as private investments gain traction and public investment is set to rebound.

Meanwhile, private consumption is on track to move higher, supported by growing tourist arrivals, rising asset prices, as well as increased government assistance for the rural side. The uptick in domestic demand should be more than sufficient to offset slowing but resilient exports.

Infrastructure to gain momentum. The Government's digitalisation drive (*PromptPay*, welfare card) creates a pool of valuable data, which could serve to attract e-commerce investments. Barriers to entry for businesses have come down while investor confidence has picked up. Public investment would also be bolstered by three high-speed rail projects due to start next year.

We forecast for exports to grow by 6.8% in 2018. Automotive exports should improve slightly, while agricultural shipments are set to slow.

Manufacturing production is likely to improve, supported by higher domestic demand and a pick-up in vehicle shipments while electronics production would remain resilient on *iPhone X* component orders.

Services sector is projected to grow 5.4% overall next year, underpinned by higher tourist arrivals and increased bank lending.

The current account is expected to register a smaller surplus of USD38.7bn (8.8% of GDP), due to the strong import trend.

We forecast for Consumer Price Index (CPI) to rise 1.2% in 2018, on recovering consumer demand.

No change to monetary policy. BoT would be wary of spooking private investors and derailing rural spending, thus it is likely to keep its policy rate at 1.5% for the whole of 2018, in our view.

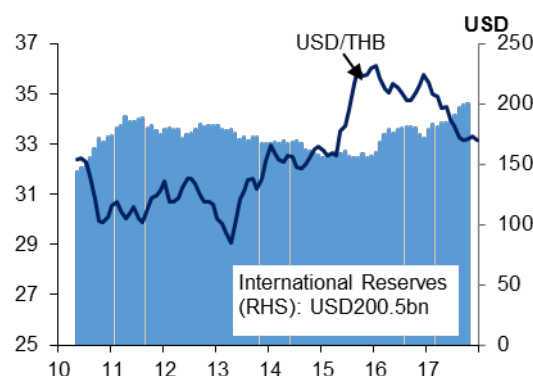
THB is expected to trade at around 32.10 to the USD in 2018. This is on expectations of higher FDI inflow as well as USD weakness.

GDP and Leading Economic Index (LEI)



Source: National Economic and Social Development Board (NESDB), BoT

Strong forex reserves provide foundation for infrastructure push



Source: Bloomberg

Key economic indicators

% YoY	2016	2017F	2018F	4Q16	1Q17	2Q17	3Q17
GDP	3.2	3.7	4.2	3.0	3.3	3.8	4.3
Domestic demand (% Ctr. to GDP)	2.5	2.8	3.7	2.0	2.1	2.1	2.3
Net exports (% Ctr. to GDP)	4.7	1.1	0.5	-2.2	-1.6	-1.5	1.7
CPI	0.2	0.8	1.2	1.1	0.8	0.0	0.9
Policy rate (%)	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Broad money	4.1	4.1	6.1	4.2	3.3	4.3	4.9
Current account (% GDP)	11.9	9.6	8.8	10.3	13.9	6.8	12.0
USD/THB (end of period)	35.8	32.5	32.1	35.8	34.9	34.0	33.1

Source: NESDB, BoT, CEIC data

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Focus Switches To Grassroots Economy

Private investment likely to remain on track

We are above consensus in terms of our forecast for Thailand's GDP to grow at 4.1% in 1Q18 and 4.2% for the full-year. Infrastructure investment is to be the key driver of growth once again, with private investments gaining traction and public investment set to rebound.

Meanwhile, private consumption is on track to move higher, supported by growing tourist arrivals, rising asset prices, as well as increased government assistance on the rural side. The uptick in domestic demand should be more than sufficient to offset slowing but resilient exports.

Figure 97: GDP by demand aggregate (2010=100)

	Wt.	2016				2017				2016			2017			2018F		
	%	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F
		% QoQ				Real, % YoY				Real, % YoY			Real, % YoY			Real, % YoY		
Pvt consumption	50.7	-1.5	1.3	4.2	-0.9	2.5	3.2	3.0	3.1	3.1	3.4	3.8	3.1	3.4	3.8	3.1	3.4	3.8
Government consumption	17.1	-1.7	-3.3	3.8	4.2	1.8	0.3	2.6	2.8	1.6	2.0	3.1	1.6	2.0	3.1	1.6	2.0	3.1
GFCF	24.3	5.2	0.8	-3.3	-1.3	1.8	1.7	0.4	1.2	2.8	1.2	5.5	2.8	1.2	5.5	2.8	1.2	5.5
Public	92.1	-9.3	7.8	-10.4	11.1	8.6	9.7	-7.0	-2.6	9.9	-1.1	10.2	9.9	-1.1	10.2	9.9	-1.1	10.2
Private	4.5	11.4	-1.6	-0.7	-5.5	-0.4	-1.1	3.2	2.9	0.4	2.1	3.8	0.4	2.1	3.8	0.4	2.1	3.8
Domestic demand	12.3	0.2	0.4	2.1	-0.1	2.2	2.3	2.3	2.5	2.8	2.6	4.1	2.8	2.6	4.1	2.8	2.6	4.1
Net exports	14.7	-21.8	78.3	-44.6	45.4	-15.8	-11.5	-10.8	12.4	32.0	14.7	4.0	32.0	14.7	4.0	32.0	14.7	4.0
Exports of goods & services	68.9	0.8	4.7	-4.1	6.1	1.1	2.7	6.0	7.4	2.1	7.5	6.8	2.1	7.5	6.8	2.1	7.5	6.8
Imports of goods & services	54.2	4.1	-3.2	3.9	1.9	3.4	6.1	8.2	6.7	-1.4	6.4	7.3	-1.4	6.4	7.3	-1.4	6.4	7.3
GDP		7.9	3.0	-5.1	-1.1	3.0	3.3	3.8	4.3	3.2	3.7	4.2	3.2	3.7	4.2	3.2	3.7	4.2

Source: NESDB

Private consumption is projected to grow by 3.8% for 2018, as the feel-good factor returns after curfews are rolled back ahead of the coronation of the new king. In addition, sustained export demand and higher tourist arrivals would help support consumer spending in the urban cities, which count manufacturing (24% of GDP), retail trade (20%) and financial intermediation (11%) as their key economic activities.

At the same time, rising property prices and the recent run up in equity prices would lead to a higher wealth effect for consumers. Meanwhile, the Government has proposed to offer free mobile internet to rural areas and cheap internet plans for the low-to-mid income areas. This would allow citizens to make use of e-hailing and e-commerce apps and tap into new streams of additional income.

For the grassroots economy, life has improved very little for many workers over the last few years as the lackadaisical increase in minimum wage and unseasonal weather patterns would leave low-wage earners (45% of total employed or 16.9m persons) susceptible to rising inflation next year.

In light of these challenges, and with the upturn in exports easing the pressure on the manufacturers, the Government has turned its attention to providing assistance. In particular, paddy farmers should benefit from THB73.6bn worth of measures (THB21bn in soft loans and THB52.6bn in grants) to support rice prices for the Nov 2017-Feb 2018 wet harvest season.

The Government is also working on expanding market access for farmers (approximately 11.2m persons), and aiding farmers with debt restructuring provided they agree to take part in another income-generating programme. Meanwhile, Dr Wiwat was recently appointed as the Deputy Minister for Agriculture and Cooperatives in a cabinet reshuffle. He is well-known for his work on the late King Bhumibol Adulyadej's Self Sufficiency Theory. With his appointment, we should expect to see more farming reforms being put forward.

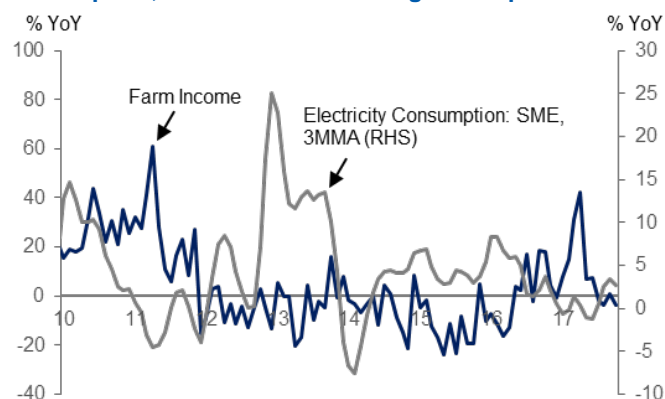
Besides farmers, the authorities have agreed to allocate at least THB100bn via local administration organisations to spend on job-creating projects, particularly in tourism and community developments. The welfare card has been distributed to 11.4m of hard-core poor citizens. The makeup of in-kind subsidies is still being tweaked to better cater for the needs of the recipients. In our view, in addition to the increased amount of household transfers offered by the scheme, the registration of the recipients would make it easier for recipients to access social welfare like healthcare and education for their children in the future.

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Currently many of the poor are informal workers and without housing, thus unable to access these social benefits, which would greatly enhance their ability to improve their situation.

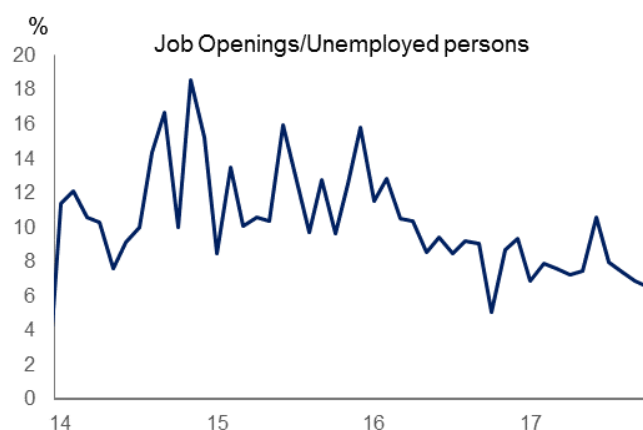
In addition to farmer assistance and rural villages' development costs, welfare cards are an ongoing expenditure this year. Moreover, the authorities would set aside THB861m to finance human resource development in the EEC, as well as subsidising high-speed broadband internet services for 3,920 border villages across 62 provinces by mid-2018. Overall, we expect government consumption to increase 2.9% in 1Q18, before accelerating to +3.1% for the full year, up from +2% estimated for 2017.

Figure 98: Rising SME activities to support urban consumption; farm income shrinking due to prices



Source: BoT, Office of Agricultural Economics

Figure 99: Job market easing



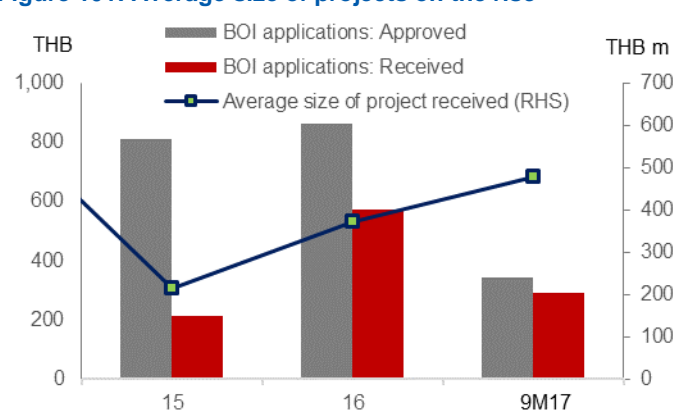
Source: BoT

Figure 100: Huge improvement in ease of doing business

Ease of doing business ranking 2018		
1	New Zealand	
2	Singapore	Unchanged
3	Denmark	
4	South Korea	
5	Hong Kong	Deteriorated from 4
...
24	Malaysia	Deteriorated from 23
26	Thailand	Improved from 46
68	Vietnam	Improved from 82
72	Indonesia	Improved from 91
78	China	Unchanged
113	Philippines	Deteriorated from 99
135	Cambodia	Deteriorated from 131

Source: World Bank

Figure 101: Average size of projects on the rise



Source: BoT

Public investment: clock is ticking

Private investment would continue on an upward trajectory in 2018. As we highlighted in our previous outlook, the Government has been offering market competitive rates to attract higher quality officers and this has yielded results as Thailand moved 20 notches up to 26 (two places behind Malaysia) in the World Bank's 2018 Ease of Doing Business report.

"The requirements to obtain a company's seal are now abolished, the need for approval of company work regulations from the Government has been eliminated, and the process for getting electricity and improved land reliability has been streamlined. As a result, the time needed to start a business has been reduced to just 4.5 days, compared to 27.5 days in previous years," as stated in the report.

On the corporate side, although total applications to the BOI remained lower than last year, we believe that is due to companies waiting for incentives under the EEC Act to be finalised. Indeed, the size of projects has been on the rise, reflecting higher confidence. On print, the EEC Act passed its first cabinet reading, and should be enacted in 1Q18. We foresee private investment inflows picking up in 2H18.

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On the macroeconomic level, Thailand's existing auto-manufacturing ecosystem provides plenty of skilled workers and parts suppliers to make the transition to robotics and aerospace manufacturing more seamless. In Bangkok, Thailand has as many as 200,000 motorcyclists. In the northern states, mature ground logistics connect Thai businesses with the fast growing Cambodia-Laos-Myanmar-Vietnam (CLMV) countries (combined 60m population).

On the demand side, by registering details of low-income citizens, the expansion of free and cheap mobile connectivity, and the wide roll-out of the national e-wallet system named *Promptpay* – the Government would help acclimatise rural folk with online monetary functions, making it much easier for e-commerce and internet applications to achieve critical mass, and at the same time generating a stream of valuable data.

These conditions set Thailand up as a fertile environment for attracting “new economy” businesses. As an example, Alibaba's New Five” strategy, as set out in a recent letter to investors, comprised of New Retail, New Finance, New Manufacturing, New Technology and New Energy.

“Alibaba's vision for the future is to use its ecosystem (core commerce, cloud, logistics, entertainment, and brick and mortar) to support the “Five New” strategy that empowers individuals, small- and medium-sized businesses, farmers and companies of all sizes to do business globally.” Either by accident or design, Thailand's development is moving in the same direction.

Figure 102: EEC's news flow

Corporate Entity	Project	Budget	Status
Huawei Technologies Co	To build its leading ASEAN cloud data centre	initial budget of USD10m	Signed MoU
Saab Group	Cooperation with Amata Corporation to set up maintenance, repair and operations (MRO)	N/A	In discussions
Mitsubishi Electric	Cooperation with Loxley to make household products with Internet of Things (IoT) functionalities	N/A	In discussions

Note: *highest recorded capacity utilisation rate in brackets

Source: Ministry of Commerce (MOC)

Meanwhile, public investment is expected to grow by 10.2 % in 2018, bolstered by the ramp-up in ongoing MRT and private residential projects. Purple (Tao Pun-Rat Burana) and Blue Lines (Bangkhae-Phutthamonthon Sai 4) MRT extensions are up for bidding next month, as is the Gold Line MRT. Further down the road, three segments of the Pan-Asia railway are close to taking off:

- i. **Bangkok-Hua Hin high-speed rail project. Environmental impact assessment (EIA) approval has been granted** and the THB95bn, 211km route would likely be open for PPP bids in 3Q. In our view, initially the concessionaire would have to price the tickets at close to breakeven due to weaker spending power of the residents there. However, the construction of the railway is likely to boost economic activity and deliver higher living standards along the track.

Moreover, with significantly reduced travel times rural residents are able to travel further for higher paid work, or otherwise cut down travelling time, thus take on extra work. Lastly, Hua Hin is a major tourist destination, shortening the travel time from Bangkok has the potential to further bolster tourist inflows, as it allows nearby sun-seekers to visit over weekends.

Hence, we feel that with a longer concession period, and with commercial development rights of the surrounding areas thrown in, the private sector could find this project attractive;

- ii. **Bangkok-Rayong high-speed rail project.** The railway would connect Don Mueang, Suvarnabhumi and U-Tapao international airports. It also links to the EEC. Around 90% of project study has been completed. The trains are set to run at a maximum speed of 250km/h on 1.435 metre gauges.

In our view, this project has a high chance of success as air passengers are more likely to pay a premium for quicker travel. Once in operation, the State Railway of Thailand (SRT) expects the line to ferry 66,000 passengers per day.

- iii. **Bangkok-Nakhon Ratchasima high speed rail project. The project, also known as the Thailand-China railway, had its EIA approved on 5 Dec 2017.** Moving forward, construction on the first 3.5km of rail would start on 21 Dec 2017, while for the remaining 249km, the Chinese side would present detailed designs by the end of this year and tenders for 14 parts of the project is likely to be up for bidding in 1Q18.

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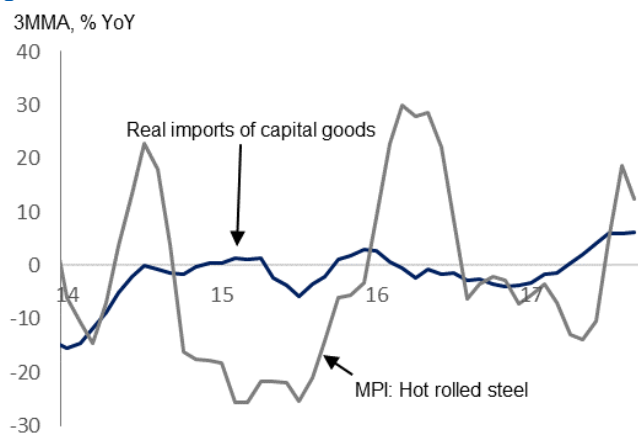
In the long run, all three new high-speed lines would form part of the BAR Initiative, which plans to link China with six other ASEAN countries by rail, facilitating trade and tourism. Thailand has a unique role to play within the BAR Initiative. China's holds a long-held ambition to build a transit route from southwest China to the Bay of Bengal or Andaman Sea – creating a proxy west coast and turn Myanmar into "China's California".

However, high-handedness of Chinese corporates has resulted in loss of public opinion. In 2014, a proposal for a railway from the port of Kyaukphyu (on Myanmar's west coast, when twin oil and gas pipelines export energy supplies to China) to Kunming was cancelled, throwing a spanner into China plans to export goods cheaply and quickly to India and eventually North and South America. The loss of the Kyaukphyu-Kunming line, narrows down China's alternatives – India harbours historical resentment, while China's political capital does not amount to much in Singapore, in our opinion.

The next closest option is the Dawei deep sea port. The Dawei Special Economic Zone (SEZ) project is jointly owned by Myanmar and Thailand (50% each). To reach Dawei, China needs to forge the connection between Kunming and Thailand. The same railway ought to also facilitate shipment of goods to the Malacca and Singapore ports eventually.

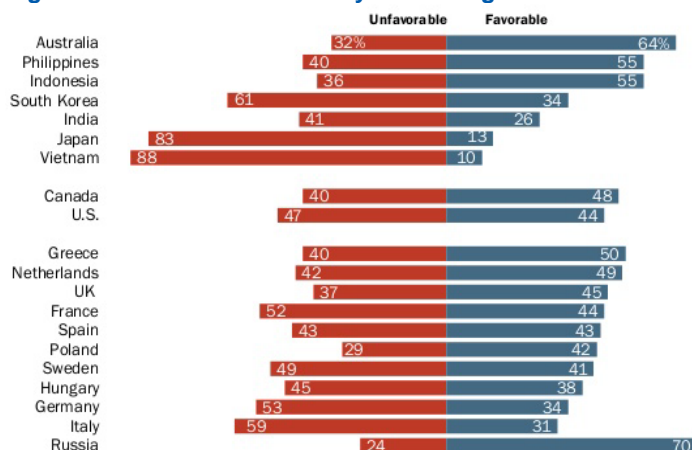
The clock is already ticking: a railway from Kunming to Hekou, a border city on the China-Vietnam border has opened, while railways from Kunming to the China-Laos border and the China-Myanmar border are now under construction. Laos's section of the China-Laos-Thailand railway began construction in Jan 2017, and is scheduled to be operational by Dec 2021.

Figure 103: Investment indicators on the rise



Source: BoT

Figure 104: Views of China vary across regions



Source: Pew Research Center

Figure 105: Thailand's place in the BAR Initiative



Source: BOI

On balance, we expect **domestic demand to expand by 2.6% in 1Q18**, before picking up to +4.1% for the full year and from +2.6% estimated for 2017.

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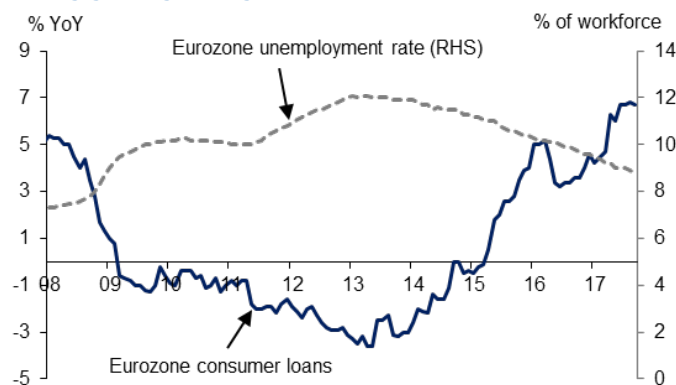
Uncertainty in the US, Goldilocks conditions for Japan and the EU

Export demand is expected to remain boisterous in 1Q, before slowing for the rest of the year. As a whole, 2018 external demand would be undermined by a high base effect from 2Q onwards, slowing economic growth in China, and lacklustre wage growth in the US.

However, in EU and Japan, low yields, coupled with mild inflation and improving labour conditions set up conducive conditions for stronger growth. The former would need more investment as EU corporates begin to move operations out of the UK following Brexit, while the latter is accelerating investments to cater for the 2020 Olympics.

Given the bright global economic outlook, we envisage for Thailand's exports to hold up at +6.8% for the full-year, albeit more moderate compared with +7.5% estimated for 2017.

Figure 106: EU unemployment declining while consumer lending gaining strength



Source: Bloomberg

Figure 107: Narrowing of long- and short-term yield gap highlights uncertainty in the US



Source: Bloomberg

Manufacturing to improve despite export moderation

Figure 108: GDP by industrial origin (2010=100)

	Wt.	2016				2017				2016				2016		
		4Q				1Q				4Q				2016		
		% QoQ				% QoQ				Real, % YoY				Real, % YoY		
	%															
GDP	100.0	7.9	3.0	-5.1	-1.1					3.0	3.3	3.8	4.3	3.2	3.7	4.2
Agriculture	8.3	87.9	-19.0	-10.6	-19.2					3.0	5.7	15.8	9.9	0.6	10.1	2.4
Manufacturing	27.4	5.9	3.6	-6.2	1.3					2.2	1.3	1.0	4.3	1.4	1.8	2.4
Mining & quarrying	2.8	0.8	-4.2	-3.6	-1.7					-4.8	-5.6	-7.6	-8.4	-0.6	-7.2	1.5
Construction	2.8	-11.4	15.9	0.0	-4.2					6.1	2.8	-6.2	-1.7	8.3	-1.5	9.3
Services	55.6	2.6	6.2	-4.7	1.0					4.2	4.5	5.3	5.0	4.7	5.0	5.5
Wholesale & retail	15.4	11.2	17.8	-15.8	-3.5					5.6	5.9	6.0	6.4	5.0	6.2	6.5
Hotels & Restaurants	4.7	0.0	11.9	-1.8	-2.9					4.9	5.3	7.5	6.7	10.3	7.1	8.2
Transport, Strg & comm	7.2	4.0	1.2	-0.6	3.4					5.2	5.4	8.6	8.1	5.5	7.5	7.8
Financial intermediation	7.8	-9.3	5.9	3.5	5.5					6.7	4.6	5.1	4.8	6.2	4.7	5.0
Real estate	6.4	5.5	-0.6	-1.0	0.3					1.9	4.0	4.1	4.2	1.8	4.1	4.2
Education	4.3	-5.7	1.8	0.6	3.3					-0.7	0.2	0.4	-0.3	-0.1	0.1	0.4
Health & social	2.0	5.2	-2.3	-6.9	8.2					4.3	4.1	3.9	3.6	3.3	3.8	4.2

Source: NESDB

On the supply side, manufacturing production is likely to improve in 2018, in line with a pick-up in domestic demand. This would likely be supported also by higher automotive demand from both locally (spurred by Grab payouts and replacement demand) and abroad (higher oil prices to boost Middle East demand and increased shipments to Japan and Australia, which have just shuttered their last car factories in November).

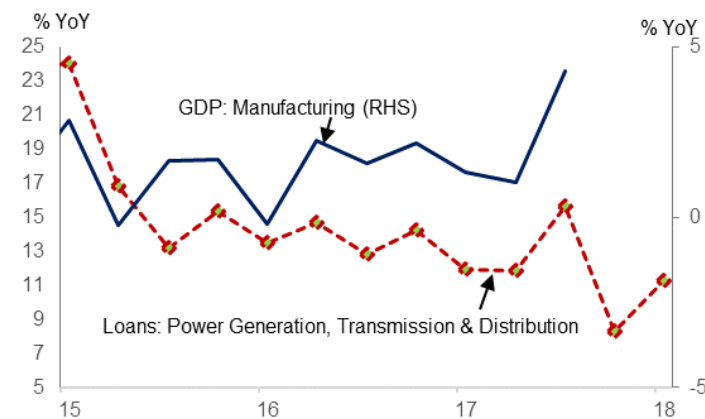
Higher automotive production would boost supporting sectors such as plastics, leather, steel and aluminium. Nevertheless, vehicle shipments to China are set to slow as its demand tails off after front-buying activities in 4Q ahead of an increase in small car taxes at the turn of the year.

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Meanwhile, electronics shipments would be supported by *iPhone X* sales. As we progress, the trend, however, should reverse itself on account of cyclical slowdown in semiconductor demand.

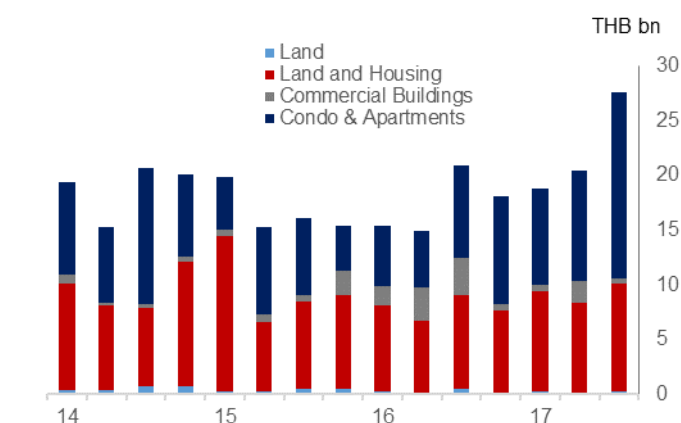
Construction activities are set to rise 9.3% for 2018, a sharp turnaround from a contraction of 1.5% in 2017. Ongoing projects under the 2016 and 2017 Transport Infrastructure Investment Plan (TIIP), and construction of condominiums along with the new MRT routes are set to ramp up, while we should see work on EEC investment commencing in 2H.

Figure 109: Manufacturing loan growth by cluster



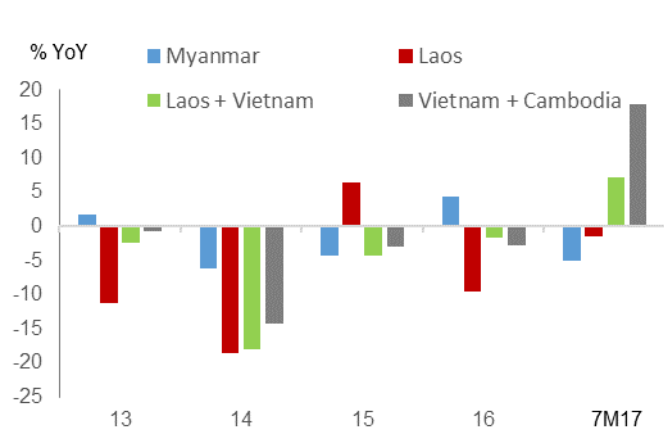
Source: BoT

Figure 110: Developer loans by purpose



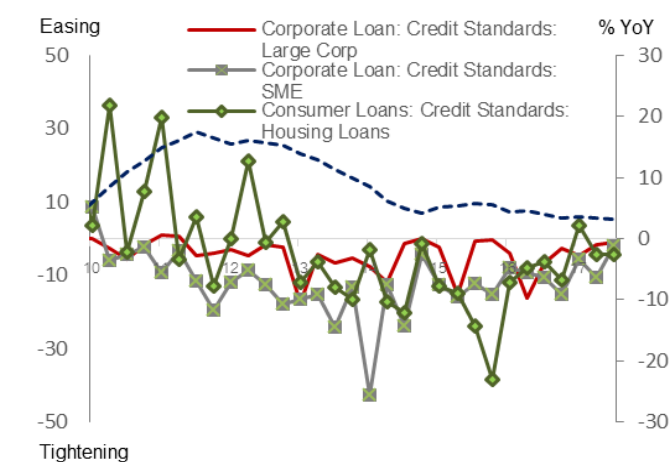
Source: MOC

Figure 111: Sales of vehicles at cross-border logistic hubs



Source: NESDB, BoT

Figure 112: Senior loan officer survey



Source: NESDB

The services sector is projected to grow 5.5% overall for next year, up from +5% estimated for 2017. Hotels & restaurant, logistics and retail sectors would be boosted by higher tourist spending following the conclusion of the mourning period and the return of the high-spending Russian and Chinese visitors. Tourist arrivals are projected to hit 37.1m persons in 2018, up 6.3% from an estimated 34.8m this year, as airlines are set to increase their operating routes after the International Civil Aviation Organisation's red flag was lifted.

Other positive factors include promotional activities in conjunction with the launch of "Amazing Thailand Tourism Year 2018" and the inaugural Michelin Guide certification for Bangkok's eateries (14 one stars, 3 two stars).

The logistics sector would find support from resilient exports, higher tourism, and e-commerce expansion. In addition, China's BAR Initiative has lifted the spending power of the CLMV countries. Thailand has mature ground logistics networks to these nations, which are attractive for e-commerce investment and are well positioned to benefit from its neighbours' robust growth. Indeed, purchases of vehicles in the major towns bordering Vietnam, Cambodia and Laos have picked up this year.

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In the financial intermediation sector, lending and insurance demand are projected to pick up pace as the year progress, supported by resilient exports, higher private investments after the enactment of the EEC Act, as well as easier lending standards with the NPL cycle bottoming out.

Agricultural production is set to soar 10.3% YoY in 1Q18, aided by a low base effect and normalising rainfall. However, production would slow from 2Q onwards due to the high base effect this year, as the production in 2H16 was affected by a drought. We expect the sector to experience a slower growth of 2.4% in 2018, compared with +10.1% estimated for 2017.

Fiscal deficit not alarming as it delivers structural growth

For FY17 (Oct 2016-Sep 2017), the Thai Government collected THB2,459.3bn in revenue, a 2% increase from the fiscal year before. Collection of personal income tax fell 1.7% compared to FY16, weighed by higher tax deductions, while, corporate income tax grew at a slower pace. VAT collection jumped 4.6% YoY, from +1.2% last fiscal year, cushioning some of the fall. At the same time, government expenditure rose 3% YoY, resulting in a higher fiscal deficit (3.1% of GDP).

Going forward, in light of the numerous infrastructure projects set to take off in 2018, we project for a 5.6% increase in fiscal spending, including a 23% increase in capital expenditure. On the revenue side, collection should rise 4.7%, underpinned by higher tourist arrivals and corporate income.

In all, we forecast for a fiscal deficit of 2.9% of GDP in 2018, compared to an 1.8% deficit this year. In our view, at these levels the deficits do not represent a concern as it is used to fund infrastructure projects which would deliver long-term structural growth in the future.

Figure 113: Government's fiscal position (FY16–18)

	FY16	FY17	FY18*	FY16	FY17	FY18F
THB bn	Budget			Actual		RHBRI
Revenue	2,330.0	2,343.0	2,450.0	2,411.5	2,459.3	2,574.9
% YoY	0.2	0.6	4.6	9.3	2.0	4.7
Expenses	2,720.0	2,733.0	2,900.0	2,807.4	2,890.5	3,052.4
% YoY	5.6	-1.5	6.1	7.9	3.0	5.6
- Current Expenditure	2,127.8	2,103.4	2,225.5	2,127.8	2,155.7	-
- Replenishment of Treasury	21.9	0.0	-	21.9	27.1	-
- Capital Expenditure	564.4	548.4	674.5	564.4	659.0	-
- Principal Repayment	62.0	81.2	-	62.0	81.2	-
Budget cash balances	-390.0	-390.0	-450.0	-395.6	-431.2	-477.5
Non-budget cash balances	-	-190.0	-	20.7	71.3	-
Overall cash balances	-390.0	-580.0	-450.0	-374.9	-359.9	-477.5
As a % of GDP	-2.8	-3.9	-2.9	-2.6	-1.8	-2.9

Note: *proposed but yet to be approved

Source: Budget Bureau, BoT

Better loans demand in 2018

Thailand's broad money supply (BM) expanded +4.1% YoY in October, moderating from its +4.9% reading the month before and compared to 4.2% in 2016. Net foreign operations and private demand for credit increased 5% and 3.9% YoY, picking up from gains of 2.5% and 3.6% respectively in September, while government demand for credit declined at a softer pace.

Going forward, we maintain our BM growth estimate of +5.3% for 2018, accelerating from an estimated 5.2% this year. Loan growth is expected to pick up, led by corporate loans, as private investments pick-up, economic growth improves.

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Smaller current account surplus due to strong imports

Thailand's current account surplus rose to USD39.7bn in 10M17, easing from the USD40.6bn surplus registered for the corresponding period the year before. The narrowing of the surplus was caused by sharply higher imports for 10M17. Going forward, we expect imports to outpace exports in 2018 as private investment and consumption both pick up, resulting in a smaller current account surplus of USD38.7bn (8.8% of GDP), compared to an estimated USD43.1bn and 9.6% of GDP this year.

Figure 114: Balance of payments

(USDbn)	2014	2015	2016	2017F	2018F
Exports	226.7	214.1	214.1	228.8	246.9
Imports	209.4	187.2	178.4	194.2	217.4
Trade balance	17.3	26.8	35.8	34.6	29.5
Services, primary & secondary income	-2.2	5.3	10.7	8.5	9.2
Current account balance	15.1	32.1	46.4	43.1	38.7
(% of GDP)	3.7	8.0	11.4	9.6	8.8
Capital account	0.1	0.0	0.0	0.0	0.0
Financial account	-16.2	-17.1	-24.8	-9.4	-12.8
Direct Investment	-0.8	4.0	-10.0	2.3	5.4
Portfolio Investment	-12.0	-16.5	-2.2	-3.6	-13.7
Other Investment	-3.4	-4.6	-12.6	-8.1	-4.5
Net errors & omissions	-0.2	-9.2	0.0	0.0	0.0
Overall balance	-1.2	5.9	37.4	33.7	25.9

Source: BoT

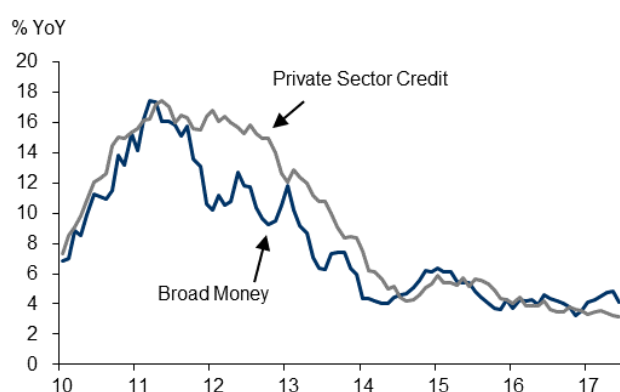
Inflation picks up more gradually than expected

Cumulatively, Thailand's CPI rose 0.6% YoY for 11M17, picking-up from a 0.1% increase in the corresponding period last year. The increase was driven by cost-push factors as higher crude oil prices led to more expensive transport & communication and utilities costs. House rents fell at a slower pace, but remained feeble. Meanwhile, raw food prices declined after spiking last year on weather-induced shortages.

Going forward, we project for CPI to rise 1.2% in 2018, from an estimated 0.8% this year. Food prices look set to improve after shedding its high base effect from last year. Consumer sentiment is set to improve in line with higher economic growth and increased government assistance.

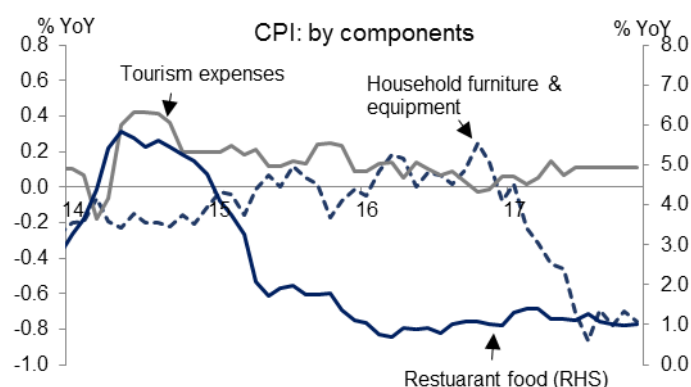
However, energy prices may lag as oil prices could see only a smaller increase compared to this year. In any case, since rural conditions have yet to improve, the Thai Oil Fund would likely step in to smooth any sharp gains in petrol prices next year.

Figure 115: Loan growth has been subdued since 2016



Source: BoT

Figure 116: Demand-pull has been slack despite private consumption pick-up



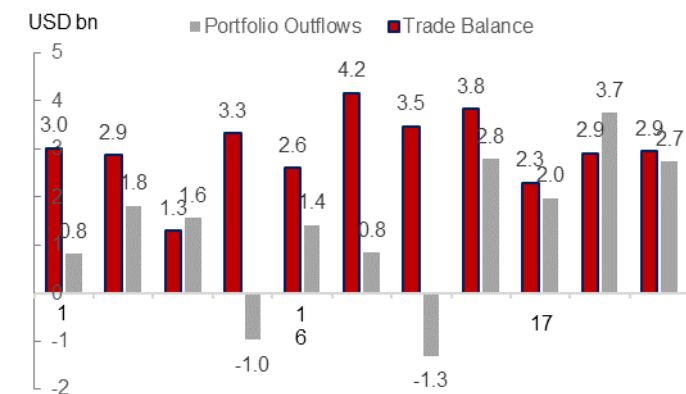
Source: Bureau of Trade and Economic Indices

THB to moderate against USD, no change to interest rates

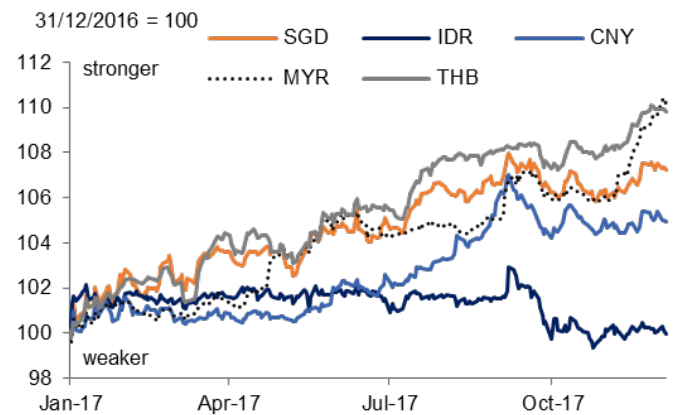
THB has appreciated by 6.2% against USD for the year to October, beating all other ASEAN-5 currencies barring MYR. Going forward, we envisage for THB to trade close to 32.10/USD by end-2018, from THB32.50 estimated for end-2017. As the infrastructure projects progress and private consumption gains traction, Thailand's high level of foreign reserves would fall as imports rise. However, the downside is likely to be offset by a sharp pick up in FDI, and USD weakness.

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Further, we believe that BoT would keep its benchmark lending rate (1-day Bilateral Repurchase Rate) at 1.5% for 2018, as inflation is likely to be muted and the central bank would not want to spook private investment at the last mile.

Figure 117: Portfolio outflows remain elevated

Source: BoT

Figure 118: THB has outperformed most peers

Source: Bloomberg

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Figure 119: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F
Indonesia	4.9	5.0	5.1	5.3	6.4	3.5	3.8	3.6	6.25	4.75	4.25	4.25	13856	13540	13500	13700
Malaysia	5.0	4.2	5.6	5.2	2.1	2.1	3.8	2.7	3.25	3.00	3.00	3.25	4.29	4.49	4.10	3.95
Philippines	5.9	6.8	6.6	6.5	1.4	1.8	3.2	3.3	4.00	3.00	3.00	3.25	46.86	49.62	51.00	50.50
Singapore	2.0	2.0	3.3	3.0	-0.5	-0.5	0.8	1.6	-	-	-	-	1.42	1.45	1.36	1.32
Thailand	2.8	3.2	3.7	4.2	-1.2	0.2	0.8	1.2	1.50	1.50	1.50	1.50	36.02	35.85	32.50	32.10
Vietnam*	6.7	6.2	6.3	6.1	0.6	2.7	3.5	3.4	6.50	6.50	6.00	6.00	22485	22770	23000	23330
China**	6.9	6.7	6.8	6.5	1.4	2.0	1.6	2.1	4.35	4.35	4.35	4.35	6.49	6.95	6.85	7.00

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F
Indonesia	-14.6	-3.9	18.0	10.0	-19.9	-4.9	15.0	11.0	4.6	5.0	5.1	5.3	6.2	5.6	5.5	5.4
Malaysia	1.8	1.1	17.6	6.5	0.4	1.9	18.7	6.2	4.5	3.8	5.2	4.5	3.2	3.5	3.4	3.3
Philippines	-5.3	-2.4	11.0	10.0	8.7	18.3	10.0	9.0	-4.4	6.4	6.2	6.2	6.3	5.5	5.7	5.6
Singapore	-7.3	-4.4	8.5	6.7	-12.1	-4.2	10.6	10.9	-5.1	3.6	9.8	6.5	2.0	2.2	2.1	2.1
Thailand	-5.8	0.5	7.5	7.0	-10.7	-3.9	6.4	8.6	0.3	1.6	1.1	2.9	0.9	0.9	1.0	0.9
Vietnam	7.7	9.2	12.0	9.5	10.7	5.6	14.5	8.7	9.8	7.5	7.9	8.1	3.4	3.3	3.5	3.6
China	-2.8	1.8	7.5	4.9	-14.1	3.8	9.4	5.6	6.1	6.1	6.5	5.5	4.1	4.1	4.1	4.1

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F
Indonesia	-2.5	-2.5	-2.6	-2.7	-2.0	-1.8	-1.6	-1.8	106	116	133	151	311	319	335	348
Malaysia	-3.2	-3.1	-3.0	-2.8	3.0	2.4	2.5	2.7	95	95	104	114	194	201	213	222
Philippines	-0.9	-2.4	-2.7	-2.8	2.6	0.2	0.3	0.6	81	81	84	88	77	75	73	71
Singapore	-1.0	1.3	0.5	0.8	19.7	19.0	19.8	20.7	248	247	249	252	-	-	-	-
Thailand	-2.4	-2.6	-3.5	-2.1	8.0	11.4	9.6	8.4	157	178	201	208	147	152	155	159
Vietnam	-5.3	-5.0	-5.3	-5.2	1.4	2.7	1.9	2.1	28	43	40	45	72	76	79	83
China	-3.4	-3.8	-4.9	-4.5	2.8	1.8	1.4	1.4	3330	3011	3000	2900	1416	1400	1450	1400

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F	2015	2016	2017F	2018F
Indonesia	8.0	9.6	11.0	11.9	10.1	7.8	10.0	12.8	94.2	92.7	91.9	94.3	9.0	10.0	11.0	12.4
Malaysia	1.8	1.5	4.1	5.0	7.9	5.3	5.7	6.0	88.7	89.8	90.5	90.9	2.6	3.0	4.8	5.0
Philippines	8.0	14.3	12.9	12.8	12.7	16.1	16.6	16.7	69.0	70.7	73.0	75.5	9.4	12.8	11.7	12.2
Singapore	0.2	2.7	3.2	5.4	0.0	0.5	4.2	5.8	108.5	107.9	104.5	104.9	4.1	8.1	5.6	6.2
Thailand	4.2	3.8	4.1	5.3	5.5	3.6	4.0	5.1	93.5	93.3	93.1	92.9	4.4	4.2	5.2	5.3
Vietnam	13.6	15.0	10.0	11.2	17.2	18.0	15.0	13.5	78.1	79.6	81.0	83.0	13.6	16.0	17.0	18.0
China	12.4	11.0	10.7	9.6	14.3	13.5	12.0	10.3	69.2	70.8	71.7	72.2	13.3	11.3	11.0	10.6

Note: As at 7 December 2017

Note 2: *M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: **Starting 3 Jun 2016, the Philippines' policy rate was changed to purely BSP's overnight reverse repurchase (RRP) facility at 3.00%

Source: International Monetary Fund (IMF), Various central banks, RHB

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

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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

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