

**BUY** (From HOLD) **TP: Bt 9.00** (From Bt 7.60)**Change in Numbers** **Upside: 33.3%**

## Siam Future Development (SF TB)

### More new projects

**We raise our TP to Bt9.00 as SF plans to open more new shopping malls in partnership with LPN, Aeon and IKEA (IKEA 2). With our forecast for average 15% p.a. EPS growth over 2014-16 and what we view as an inexpensive valuation, we upgrade SF to BUY from Hold. But CPALL and CPN are still our preferred choices in the retail sector.**

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BUY for its own value ...

We raise our 12-month DCF-based TP for SF to Bt9.00 from Bt7.60 as SF plans to open more new shopping malls over the next few years via its own investments and partnerships such as community malls with Aeon Town Co., Ltd., IKEA 2 with Ikano Pte. Ltd. and its investments in LPN Development's (LPN TB, Bt23.60, BUY) housing projects. Given no new projects this year but additional projects planned in the next few years, we lower our earnings projection by 7% in 2013 but raise 2014's by 3%, 2015's by 8% and from 2016 onwards by an average of 17%. With forecast EPS growth of 17% in 2014 and 14% in 2015 and what we see as inexpensive valuations on trading PE multiples of 11.9x in 2014F and 10.4x in 2015F versus its 2007-12 historical PE band of 4-35x, we upgrade our rating to BUY from Hold.

... but we still prefer CPALL and CPN

While we see SF's earnings prospects, fundamentals and valuation as more enticing than before, it still offers low 2013F returns at 5.2% ROA, 10.5% ROE and 6.1% ROIC compared with the retail sector averages of 8.8%, 24.2% and 21.4% and its direct peer Central Pattana Pcl.'s (CPN TB, Bt44.25, BUY) of 6.8%, 19.7% and 9.1%. In our view, the key reasons for SF's low returns are the nature of the neighborhood shopping mall business with low rental rates and low barriers to entry given low investment costs and small scale. We prefer the high-return business models of CPALL and CPN. They are also enticing on a PE multiple and ROE matrix basis, in our view.

More new projects in the pipeline

We see SF's planned new projects having higher visibility and sustainability than in the past few years when SF opened only one shopping mall – Navamin City Avenue phase II as its resources were tied up for its first IKEA store. The potential new projects are as follows. 1) SF plans to develop 6,000 sq m shopping malls at LPN's Township projects with the first one in Rangsit, Klong 1 due to open in 2014. There would be no co-investment by LPN. 2) SF plans via a 50-50% JV with Aeon Town (a subsidiary of Aeon Japan) to develop open-air, neighborhood shopping malls, with two scheduled to open in 2014 and 2015. 3) SF hopes to set up another 49% JV with Ikano to develop a second IKEA store in the west of Bangkok in 2018.

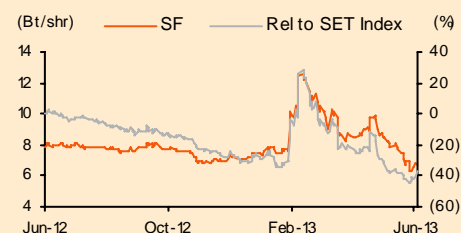
Capital call risk already looks in the price

SF expects Bt1.8bn of capex in 2013-15 on new projects and for cash injections into the two JVs. It plans a capital increase with around 10% dilution to finance those investments. The timeframe is uncertain for this. With the 31% plunge in SF's share price versus 12% for the SET, we think the current price already reflects market concerns over the capital call. We have not yet factored in the capital increase amount into our model but 10% dilution to our current TP would still leave 20% upside from the current price.

#### COMPANY VALUATION

Y/E Dec (Bt m)	2012A	2013F	2014F	2015F
Sales	1,324	1,339	1,570	1,712
Net profit	1,401	615	749	856
Consensus NP	—	651	847	na
Diff frm cons (%)	—	(5.5)	(11.5)	na
Norm profit	1,571	615	749	856
Prev. Norm profit	—	663	725	795
Chg frm prev (%)	—	(7.2)	3.4	7.7
Norm EPS (Bt)	1.4	0.5	0.6	0.7
Norm EPS grw (%)	235.0	(65.9)	17.4	14.3
Norm PE (x)	4.7	13.9	11.9	10.4
EV/EBITDA (x)	16.1	17.8	16.1	13.9
P/BV (x)	1.4	1.4	1.3	1.2
Div yield (%)	0.2	2.1	2.5	2.9
ROE (%)	32.4	10.5	11.7	12.2
Net D/E (%)	41.7	37.8	36.8	28.0

#### PRICE PERFORMANCE



#### COMPANY INFORMATION

Price as of 18-Jun-13 (Bt)	6.75
Market cap (US\$ m)	300.1
Listed shares (m shares)	1,316.0
Free float (%)	43.1
Avg daily turnover (US\$ m)	5.7
12M price H/L (Bt)	11.9/5.8
Sector	Property
Major shareholder	Major Cineplex Group 20.1%

Sources: Bloomberg, Company data, Thanachart estimates

**We lift our TP to Bt9.0/share**

**BUY for its own value ...**

We raise our 12-month DCF-based TP for Siam Future Development (SF) to Bt9.00 from Bt7.60 as it has plans in the pipeline to open more shopping malls over the next few years via its own investments and partnerships such as community malls with Aeon Town Co., Ltd., IKEA 2 with Ikano Pte. Ltd and investments in LPN Development's (LPN TB, Bt23.60, BUY) housing projects.

Given no new projects this year but planned additional larger-sized projects through its own investments and joint-venture projects over the next few years, we therefore revise up our new shopping mall and equity income assumptions as shown in Exhibit 1. Our earnings forecast are therefore lowered by 7% in 2013 but we raise 2014 by 3%, 2015 by 8% and 2016 onwards by 17% on average.

**Ex 1: Changes In Key Assumptions And Earnings Revisions**

	2013F	2014F	2015F
<b># own shopping malls (stores)</b>			
New	—	2	1
Old	2	1	—
<b>Change</b>	<b>(2)</b>	<b>1</b>	<b>1</b>
<b>Equity income (Bt m)*</b>			
New	253	302	346
Old	268	292	319
<b>Change (%)</b>	<b>(6)</b>	<b>3</b>	<b>9</b>
<b>Normalized profit (Bt m)</b>			
New	615	749	856
Old	663	725	795
<b>Change (%)</b>	<b>(7)</b>	<b>3</b>	<b>8</b>

Source: Thanachart estimates

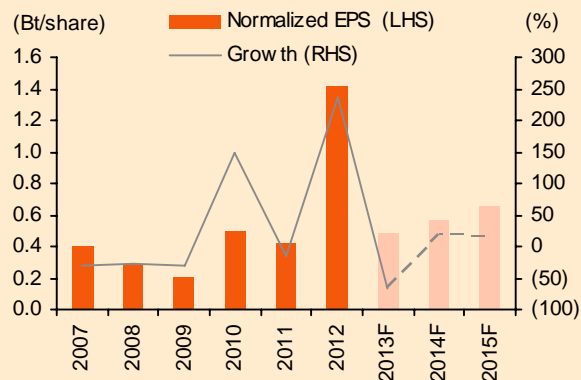
Note: \* Including projected equity income contribution from a new joint-venture company with Aeon Town, starting from 2014 onwards

**We upgrade SF to BUY**

We upgrade our rating on SF to BUY from HOLD for the following reasons:

- 1) Given more planned new projects, we forecast SF to deliver EPS growth of 17% in 2014 and 14% in 2015.
- 2) We see SF's valuation as inexpensive as it is trading at PE of 11.9x in 2014F and 10.4x in 2015F (on our forecasts) compared with its historical PE band of 4-35x in 2007-12 while we believe its earnings growth prospects are also better than in past years.

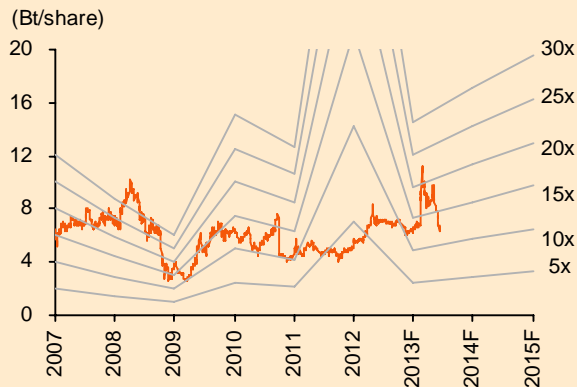
**Ex 2: SF's Normalized EPS and Growth**



Sources: Company data; Thanachart estimates

Note: High EPS in 2012 resulted from asset revaluation of the Megabangna project

**Ex 3: SF's PE Band Chart**



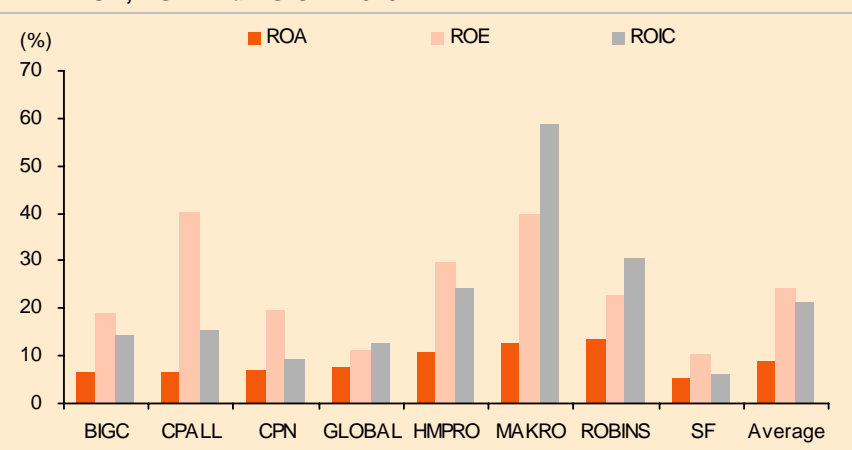
Sources: Bloomberg; Thanachart estimates

*SF is still a low-return company and we prefer high-return business models*

... but we still prefer CPALL and CPN

Although we see SF's earnings prospects, fundamentals and valuation as more enticing than in the past given its plans for more projects and its recent share price correction, we still forecast it to offer low ROA, ROE and ROIC. We project only a 5.2% ROA, 10.5% ROE and 6.1% ROIC in 2013F compared with the retail sector averages of 8.8%, 24.2% and 21.4% and its direct peer Central Pattana Pcl.'s (CPN TB, Bt44.25, BUY) of 6.8%, 19.7% and 9.1% respectively. In our view, the key reasons for SF's low returns are the nature of the neighborhood shopping mall business with low rental rates and low barriers to entry because of low investment costs and small scale.

**Ex 4: ROA, ROE And ROIC In 2013F**



Source: Thanachart estimates

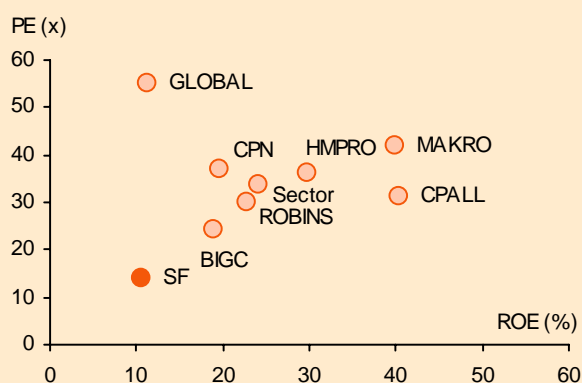
*In the retail sector, we prefer CPALL and CPN*

In the retail sector, we continue to prefer high-return business models like those of CPALL Pcl. (CPALL TB, Bt38.50, BUY) and CPN because we expect them to enjoy better ROA, ROE and ROIC. In addition, they look attractive on a PE multiple and ROE matrix basis, in our view. Note that we don't forecast Siam Global House Pcl.'s (GLOBAL TB, Bt23.00, BUY) to offer high returns because it is still early on in a high growth phase while we also estimate it to provide the strongest EPS growth in the retail sector with a three-year EPS CAGR of 55% in 2012-15F.

**CPALL:** Despite CPALL's financial leverage rising materially because of its latest M&A deal to spend Bt189bn to acquire Siam Makro Pcl. (MAKRO TB, Bt774.00, HOLD), we still see its ROA, ROE and ROIC outstripping those of SF. CPALL is the largest convenience store (CVS) operator in Thailand and it dominates the CVS market, enjoying strong bargaining power over suppliers and benefiting from economies of scale. On a PE and ROE matrix basis, with our projection for CPALL to offer better ROE than SF, we believe it is reasonable for CPALL to trade at higher PE multiples. We therefore see CPALL as a more enticing investment than SF.

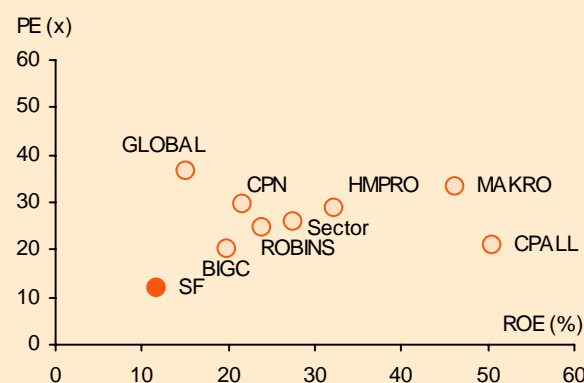
**CPN:** CPN's business model is to develop closed-door, large-scale shopping complexes which have higher returns than open-air, neighborhood mall because of higher rental rates, while there are only a limited number of large chain players in the market given high investment costs while shopping in closed-door buildings is more popular as a lifestyle trend among Thais. Return on investment for CPN's projects is thus higher than for SF. On a PE and ROE matrix basis, we see CPN looking slightly more expensive than SF. Although they are in the same business, they use different accounting methods. CPN's financial statements still book depreciation from its investments in each project, while SF uses a mark-to-market method. SF's earnings are therefore not impacted by depreciation costs. We believe that if they used the same accounting method, CPN's valuation would be more attractive than SF's. In addition, we forecast CPN's earnings growth in 2013-14 to also be better than SF's.

Ex 5: PE vs ROE – 2013F



Source: Thanachart estimates

Ex 6: PE vs ROE – 2014F



Source: Thanachart estimates

Ex 7: Valuation Comparison

Name	BBG code	EPS growth		PE		P/BV		EV/EBITDA		Div yield	
		13F (%)	14F (%)	13F (x)	14F (x)	13F (x)	14F (x)	13F (x)	14F (x)	13F (%)	14F (%)
Big C Supercenter	BIGC TB	5.8	20.3	24.3	20.2	4.3	3.7	13.2	11.1	1.2	1.5
CP All	CPALL TB	4.1	49.9	30.2	20.1	11.5	9.1	23.3	14.7	2.3	2.7
Central Pattana	CPN TB	18.6	23.8	36.8	29.8	6.9	6.0	24.1	20.0	1.1	1.4
Siam Global House	GLOBAL TB	60.3	51.2	52.8	34.9	5.6	5.0	31.5	21.1	0.6	0.9
Home Product	HMPRO TB	20.7	25.0	34.3	27.4	9.4	8.3	20.2	16.6	2.0	2.6
Siam Makro	MAKRO TB	24.8	26.7	41.9	33.0	16.0	14.6	28.2	22.5	2.1	2.7
Robinson Dept Store	ROBINS TB	32.7	22.6	29.1	23.7	6.1	5.3	18.0	14.4	1.5	1.9
Siam Future Development	SF TB	(65.9)	17.4	13.9	11.9	1.4	1.3	17.8	16.1	2.1	2.5
<b>Average</b>		<b>12.6</b>	<b>29.6</b>	<b>32.9</b>	<b>25.1</b>	<b>7.7</b>	<b>6.7</b>	<b>22.0</b>	<b>17.1</b>	<b>1.6</b>	<b>2.0</b>

Source: Thanachart estimates

Based on 18 June 2013 closing prices

### More new projects in the pipeline

We believe SF's planned new projects in the pipeline have higher visibility and sustainability than over the past few years when it opened only one shopping mall, Navamin City Avenue phase II, because its resources were tied up for its first IKEA store. The potential new projects are as follows:

**First**, SF plans to develop 6,000 sq m shopping malls at LPN's Township projects (large-sized condominium projects of around 10,000 units) with the first one in Rangsit Klong 1, Patthum Thani province scheduled for launch in 2014. LPN doesn't plan any co-investment. LPN would develop its own property project and SF would then lease space in LPN's project. According to LPN, it targets to have four Township projects on the outskirts of Bangkok (north, east, south and west of the capital).

**Secondly**, SF plans via a 50:50 joint venture with Aeon Town (Aeon Japan's subsidiary) to develop open-air, neighborhood shopping malls. Two malls with selling area of around 20,000 sq m each are scheduled to be opened in 2014 and 2015, respectively.

*We see potential new projects have higher visibility and sustainability*

*Own investments ...*

*... 50% JV with Aeon Town*

... 49% stake JV with Ikano

Thirdly, SF plans to set up another 49% stake JV with Ikano Pte. Ltd. to develop a second IKEA store in the west of Bangkok in 2018. Selling area for this new project would be scaled down from 140,000 sq m to 60,000 sq m. SF expects to spend around five years acquiring the land and constructing the project with opening planned for early 2018.

Thanks to the greater number and larger size of its own investment projects in its portfolio (excluding JV projects), we expect SF's total selling area to increase from 229,600 sq m at end 2012 to 257,600 sq m at end 2016.

**Ex 8: New Projects In The Pipeline**

Projects	Investment type	Leaseable area (sq m)	Opening year
1 <sup>st</sup> project	Own investment	10,000	2014
2 <sup>nd</sup> project	Own investment in LPN project	6,000	2014
3 <sup>rd</sup> project	Own investment in LPN project	6,000	2015
4 <sup>th</sup> project	Own investment in LPN project	6,000	2016
1 <sup>st</sup> project	JV with Aeon Town	20,000	2014
2 <sup>nd</sup> project	JV with Aeon Town	20,000	2015
2 <sup>nd</sup> IKEA	JV with Ikano	60,000	2018

Sources: Company data; Thanachart estimates

Capital call risk already looks in the price

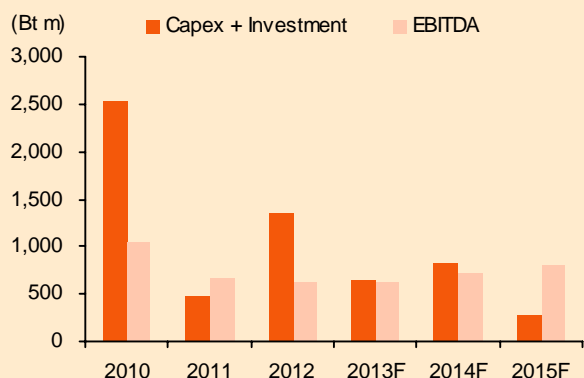
We believe the share price already reflects market worries over a capital call

SF expects to spend Bt1.8bn in capex over 2013-15 on the new projects and cash injections for the two new joint ventures. Although SF's net gearing is not high with a net debt-to-equity ratio of 0.4x at end 2012, SF plans a capital increase with around 10% dilution to finance its investments in the two new joint ventures. The timeframe is still uncertain at this stage because of current poor equity market sentiment. With the 31% plunge in SF's share price after the company announced its intention to raise capital versus a 12% drop for the SET Index, we believe the current price already reflects the market's concern over the capital call risk.

Adjusted for dilution, our target valuation would still provide 20% upside potential

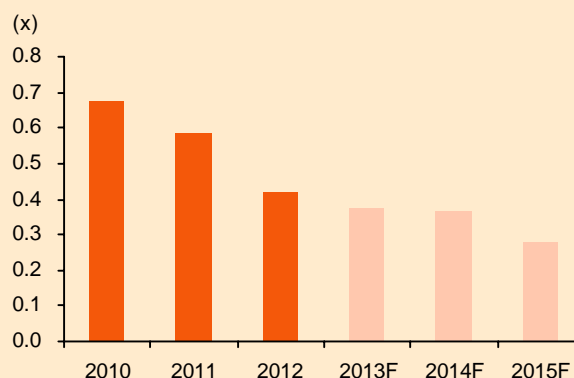
We have not yet factored in the capital increase in our current projection. However, if we incorporate 10% dilution to our current TP, our new fully-diluted target valuation would still provide 20% upside from the current market price.

**Ex 9: Capex Plus Investment And EBITDA**



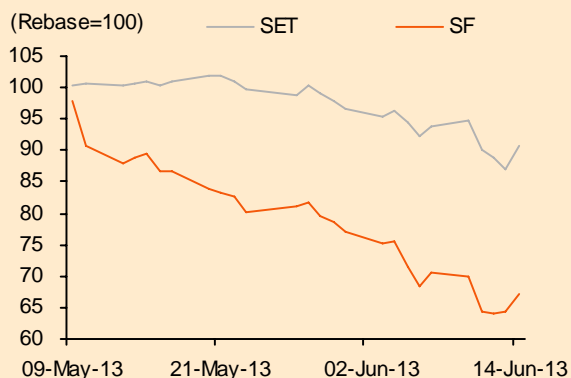
Sources: Company data; Thanachart estimates

**Ex 10: Net D/E Ratio**



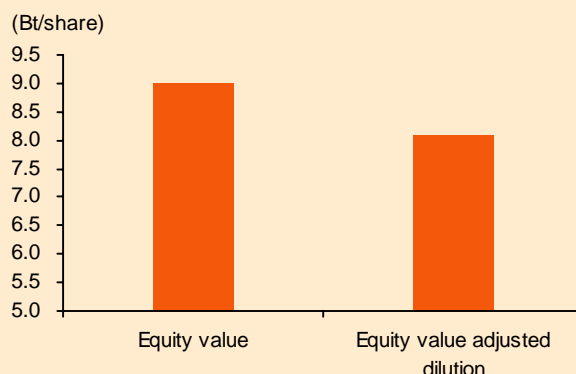
Sources: Company data; Thanachart estimates

**Ex 11: SF Share Price Already Reflects Capital Call**



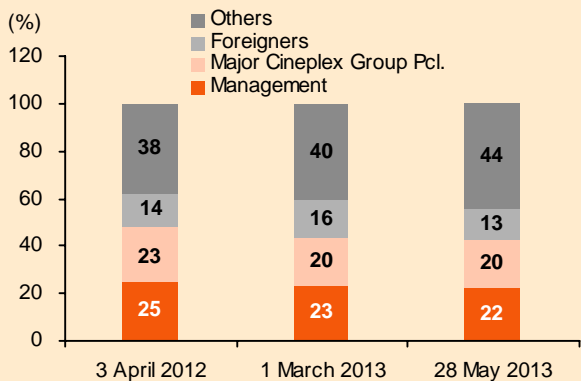
Source: Bloomberg

**Ex 12: TP After Dilution Still Provides 20% Upside**



Source: Thanachart estimates

**Ex 13: SF's Shareholder Structure**



Source: Company data

**Ex 14: SF's Board Of Directors**

SF's board of directors comprises thirteen members and includes four independent directors. Mr. Vicha Poolvaraluck, who is the major shareholder of Major Cineplex Group Pcl. (MAJOR TB, Bt21.40, BUY), is also one of SF's directors.

Source: Company data

**Ex 15: 12-month DCF-based TP Calculation**

(Bt m)	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	Terminal value
EBITDA	621	716	797	900	929	960	992	1,024	1,057	1,092	1,127	1,164	—
Free cash flow	(132)	(237)	368	526	696	721	747	773	800	828	857	888	11,431
PV of free cash flow	(132)	(196)	277	360	434	409	385	363	342	322	303	285	3,672
Risk-free rate (%)	4.0												
Market risk premium (%)	8.0												
Beta	0.9												
Wacc (%)	9.9												
Terminal growth (%)	2.0												
Enterprise value - add investments*	14,629												
Net debt	2,462												
Minority interest	354												
Equity value	11,813												
# of shares	1,316												
<b>Equity value / share</b>	<b>9.0</b>												
<b>Investments:</b>													
IKEA 1 (or Megabangna)	5,731												
Aeon	774												
IKEA 2	1,300												

Source: Thanachart estimates

**COMPANY DESCRIPTION**

Siam Future Development (SF) is an open-air shopping center developer and management service provider. It operates 28 shopping centers at the end of 2012 with properties such as Esplanade, J Avenue – Thonglor 15, Petchkasem Power Center, The Avenue Chaeng Watthana and The Avenue Pattaya, etc. Major Cineplex Group (MAJOR) and SF’s management team hold 20% and 22% stakes. SF’s direct rivals are classified into two groups. The first is closed-door shopping center developers and the second open-air shopping center developers.

Source: Thanachart

**THANACHART’S SWOT ANALYSIS**

**S — Strength**

- One of the big open-air shopping center developers and management service providers.
- The major shareholder, the Poolvaraluck family, has many businesses under its umbrella, mostly entertainment complexes.

**O — Opportunity**

- Expansion in Bangkok and surrounding provinces.
- Changes in consumer lifestyles.

**CONSENSUS COMPARISON**

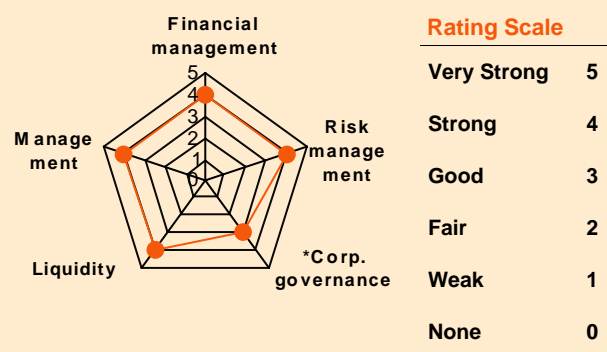
	Consensus	Thanachart	Diff
Target price (Bt)	9.30	9.00	-3%
Net profit 13F (Bt m)	651	615	-6%
Net profit 14F (Bt m)	847	749	-12%
<b>Consensus REC</b>	<b>BUY: 0</b>	<b>HOLD: 3</b>	<b>SELL: 1</b>

**HOW ARE WE DIFFERENT FROM THE STREET?**

- Our earnings forecasts in 2013-14 are 6-12% lower than the Street’s as we are more conservative on new project openings in the short term. However, our target price suggests that we are more bullish on long-term earnings as we already factor in the second IKEA in our projection.

Sources: Bloomberg consensus, Thanachart

**COMPANY RATING**



Source: Thanachart; \*CG Awards

**W — Weakness**

- Highly capital-intensive business.
- Long payback period.

**T — Threat**

- Indirect competition from hypermarkets, especially upcountry.
- Risk of leasehold projects not being renewed.

**RISKS TO OUR INVESTMENT CASE**

- Delays to new projects or fewer new projects opening over the next few years than we currently assume would negatively impact our earnings projections.
- If the economy slows down, SF’s ability to increase rental and occupancy rates may be lower than our expectation at the moment.
- Risk from dilution effect, in case SF needs more cash flow to invest in the company’s new projects. The company may have a capital call.

Source: Thanachart



## FINANCIAL SUMMARY

Income Statement						(consolidated) Quarterly Earnings					
FY ending Dec (Bt m)	2011A	2012A	2013F	2014F	2015F	1Q12	2Q12	3Q12	4Q12	1Q13	
Sales	1,368	1,324	1,339	1,570	1,712	Sales	331	337	323	333	337
Cost of sales	533	526	529	646	688	Cost of sales	116	132	133	145	141
<b>Gross profit</b>	<b>835</b>	<b>798</b>	<b>810</b>	<b>924</b>	<b>1,025</b>	<b>Gross profit</b>	<b>215</b>	<b>205</b>	<b>190</b>	<b>188</b>	<b>196</b>
SG&A	183	197	204	224	243	SG&A	44	44	54	56	53
<b>Operating profit</b>	<b>652</b>	<b>601</b>	<b>606</b>	<b>700</b>	<b>781</b>	<b>Operating profit</b>	<b>171</b>	<b>161</b>	<b>136</b>	<b>132</b>	<b>143</b>
Depre & amortization	17	14	15	15	16	Depre & amortization	4	4	4	3	3
<b>EBITDA</b>	<b>669</b>	<b>615</b>	<b>621</b>	<b>716</b>	<b>797</b>	<b>EBITDA</b>	<b>175</b>	<b>165</b>	<b>140</b>	<b>135</b>	<b>146</b>
Other income	170	37	8	35	38	Other income	5	6	5	7	8
Other expenses	0	0	0	0	0	Other expenses	(9)	0	0	9	(22)
Interest expense	(106)	(102)	(105)	(111)	(111)	Interest expense	(27)	(25)	(25)	(25)	(27)
Pre-tax profit	716	535	509	624	709	Pre-tax profit	140	113	97	186	102
Income tax	238	42	102	125	142	Income tax	30	25	21	(33)	23
After-tax profit	478	493	407	499	567	After-tax profit	110	88	76	219	79
Equity income	28	1,081	253	303	347	Equity income	992	56	68	(35)	63
Minority interests	(67)	(4)	(45)	(53)	(58)	Minority interests	(8)	(8)	(7)	19	(11)
Extraordinary items	270	(170)	0	0	0	Extraordinary items	0	0	0	(170)	0
<b>NET PROFIT</b>	<b>709</b>	<b>1,401</b>	<b>615</b>	<b>749</b>	<b>856</b>	<b>NET PROFIT</b>	<b>1,094</b>	<b>137</b>	<b>136</b>	<b>34</b>	<b>130</b>
<b>Normalized profit</b>	<b>439</b>	<b>1,571</b>	<b>615</b>	<b>749</b>	<b>856</b>	<b>Normalized profit</b>	<b>1,094</b>	<b>137</b>	<b>136</b>	<b>203</b>	<b>130</b>
EPS (Bt)	0.7	1.3	0.5	0.6	0.7	EPS (Bt)	0.9	0.1	0.1	0.0	0.1
Normalized EPS (Bt)	0.4	1.4	0.5	0.6	0.7	Normalized EPS (Bt)	0.9	0.1	0.1	0.2	0.1
Balance Sheet						(consolidated) Financial Ratios And Valuations					
FY ending Dec (Bt m)	2011A	2012A	2013F	2014F	2015F	2011A	2012A	2013F	2014F	2015F	
Cash & equivalent	87	61	60	60	60	Norm profit (y-y%)	(15.2)	257.8	(60.9)	21.9	14.3
A/C receivables	76	66	68	80	87	Normalized EPS (%)	(15.6)	235.0	(65.9)	17.4	14.3
Inventories	0	0	0	0	0	Net profit (y-y%)	37.0	97.6	(56.1)	21.9	14.3
Other current assets	249	261	265	306	331	EPS (%)	36.3	85.0	(61.8)	17.4	14.3
Investment	1,487	2,569	2,944	3,494	3,569	Dividend payout (%)	2.0	12	30.0	30.0	30.0
Fixed assets	7,384	7,638	7,893	8,148	8,342	Gross margin (%)	61.1	60.3	60.5	58.9	59.8
Other assets	1,134	836	846	991	1,081	Operating margin (%)	47.6	45.4	45.3	44.6	45.6
<b>Total assets</b>	<b>10,418</b>	<b>11,430</b>	<b>12,074</b>	<b>13,078</b>	<b>13,470</b>	EBITDA margin (%)	48.9	46.5	46.4	45.6	46.6
S-T debt	303	1,438	1,013	1,078	904	Net margin (%)	34.9	37.3	30.4	31.8	33.1
A/C payables	8	9	9	11	12	ROA (%)	4.2	14.4	5.2	6.0	6.5
Other current liabilities	456	415	427	489	540	ROE (%)	11.4	32.4	10.5	11.7	12.2
L-T debt	2,422	1,085	1,519	1,616	1,356	Net D/E (x)	0.6	0.4	0.4	0.4	0.3
Other liabilities	1,115	1,104	1,117	1,309	1,428	Norm PE (x)	15.9	4.7	13.9	11.9	10.4
<b>Total liabilities</b>	<b>5,919</b>	<b>5,527</b>	<b>5,528</b>	<b>5,913</b>	<b>5,616</b>	Norm PE at TP (x)	21.2	6.3	18.6	15.8	13.8
Minority interest	350	354	399	452	509	PE (x)	9.8	5.3	13.9	11.9	10.4
<b>Shareholders' equity</b>	<b>4,148</b>	<b>5,549</b>	<b>6,148</b>	<b>6,713</b>	<b>7,344</b>	EV/EBITDA (x)	14.4	16.1	17.8	16.1	13.9
Working capital	68	57	59	68	75	P/BV (x)	1.7	1.4	1.4	1.3	1.2
Total debt	2,724	2,523	2,532	2,694	2,260	Dividend yield (%)	0.2	0.2	2.1	2.5	2.9
Net debt	2,637	2,462	2,472	2,634	2,200	BV/share (Bt)	4.0	4.7	4.7	5.1	5.6
Free cash flow	(367)	1,248	412	559	738	DPS (Bt)	0.0	0.0	0.1	0.2	0.2
Year End Shares (m)	1,034	1,105	1,268	1,316	1,316						

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word “Positive”, is used when we see the industry trend improving. An arrow pointing down, or the word “Negative”, is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word “Unchanged”, is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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