

18 Oct 2022

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**Recommendation:****Buy****Target Price: Bt 14.00**

Price (Bt)	10.10
Market Value (Bt mn)	8,635
Date Established	18 Oct 2022
Average Daily Value (Bt mn)	32.07
Free Float (%)	56.32

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**Expecting confirmation of turnaround in 4Q, Buy at new PO of Bt14.00**

Despite China's Zero-COVID policy, we believe that SPA can drive 56% profit recovery to the normal level in 2019 by 2023. We maintain our Buy rating and upgrade our PO to Bt14.00 (from Bt11.50) due to raised earnings estimates and a re-rating of EV/EBITDA target after proven evidence of recovery and turnaround. Its valuation is at EV/EBITDA of 18.3x for 2023E, near 1SD below its long-term average.

**Earnings upgraded**

We have raised our core profit estimate by 20% for 22E and 11% for 23E to reflect SPA's ability to increase prices (5% for each year) leading to a margin upgrade. Operations cash flow is on a positive trend at Bt47mn for 3Q22E and Bt82mn for 4Q22E. Core net profit turnaround is reaffirmed for 4Q22E after a narrower loss QoQ for 3Q22E. Not only has SPA survived the pandemic, but it should also be able to speed up profit growth cycle in 2023-24E with sector supply disappearance.

**New feeder market success**

In a positive surprise, SPA has successfully boosted demand from non-Chinese tourists in Thailand with a stronger hit rate from Middle Eastern tourists (from 4.0% during the pre-COVID year in 2019 to 10.6% in 3Q), Indians (from an insignificant level in 2019 to a 1.4% hit rate in 3Q), Koreans and Japanese (from 3.8% to 6.1%), and westerners (Europe and The Americas from 0.8% to 1.3%). With the recent normalized demand from Thais and expats, SPA's hit rate for foreign tourists in Thailand has doubled from 3.5% in 2019 to 7.1% in 3Q22.

**Opportunities from Chinese migrants**

'Xin yimin' or new Chinese migrants is a global trend. Thailand is the second-highest ranking target of Chinese migration in Southeast Asia. After Thailand's re-opening, skilled Chinese workers under the Board of Investment (BOI) support in Thailand jumped to a record high in August while non-BOI skilled laborers saw a 13% growth from YE21. Thailand welcomes foreign immigrants including Chinese nationals through the Long-Term Resident (LTR) visa.

**Price objective basis and risk**

Our PO is a blend of (1) EV/EBITDA method at Bt14.40 with a re-rated target EV/EBITDA to its long-term average at 25x as high multiples are deserved in our view for the early cycle of turnaround and superior growth (up from 20x EBITDA for 2023E) and (2) DCF at Bt13.70 (9.0% WACC and 2.0% terminal growth). Key downside risks are a negative surprise in the recovery of foreign tourists in Thailand and systematic risk that may de-rate valuations for small-capitalization stocks.

**Estimates (Dec)**

(Bt)	2020A	2021A	2022E	2023E	2024E
Net Income (report - mn)	-209	-287	-99	138	256
EPS	-0.24	-0.34	-0.12	0.16	0.30
EPS Change (YoY)	-156.8%	37.1%	-65.5%	-240.1%	84.8%
DPS	0.00	0.00	0.00	0.06	0.12

**Valuation (Dec)**

	2020A	2021A	2022E	2023E	2024E
P/E	n.a.	n.a.	n.a.	62.4	33.8
Dividend Yield	0.0%	0.0%	0.0%	0.6%	1.2%
EV / EBITDA	603.2	132.7	38.4	18.3	14.6
Free Cash Flow Yield	-1.9%	0.3%	1.6%	4.1%	5.1%

<b>Bus Performance (Dec)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Return on Asset	-10.1%	-11.7%	-4.2%	5.7%	10.3%
Return on Equity	-20.5%	-37.6%	-17.4%	24.7%	37.6%
Operating Margin	-46.5%	-154.3%	-12.7%	15.9%	18.0%
Free Cash Flow (Bt mn)	-163	29	139	351	441
<b>Quality of Earnings (Dec)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Cash Realization Ratio (x)	-0.2	0.3	-2.5	3.6	2.4
Asset Replacement Ratio (x)	5.2	2.9	2.9	2.9	3.0
Net Debt-to-Equity Ratio	1.6	2.2	3.0	2.4	1.8
Interest Cover	(8.8)	(5.7)	(1.1)	3.4	5.8
<b>Income Statement Data (Dec) (Bt Millions)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Sales	427	168	601	1,150	1,678
% Change	-69.1%	-60.7%	258.8%	91.2%	46.0%
EBIT	-190	-251	-52	223	352
% Change	-163.6%	32.5%	-79.3%	-528.7%	57.7%
EBITDA	17	75	265	551	685
% Change	-96.0%	351.7%	251.7%	107.6%	24.3%
Net Interest & Other Income	9	7	24	40	50
Net Income (report - mn)	-209	-287	-99	138	256
% Change	-185.2%	37.1%	n.a.	n.a.	84.8%
<b>Free Cash Flow Data (Dec) (Bt Millions)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Net Income from Cont Operations (GAAP)	-209	-287	-99	138	256
Depreciation & Amortization	206	327	318	328	333
Change in Working Capital	-20	2	23	38	35
Capital Expenditure	-141	-14	-103	-153	-183
Free Cash Flow	-163	29	139	351	441
Net Debt	1,442	1,378	1,552	1,462	1,377
<b>Balance Sheet Data (Dec) (Bt Millions)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
Cash & Equivalents	115	110	146	89	58
Trade Receivables	22	15	41	47	55
Other Current Assets	95	78	56	78	99
Property, Plant & Equipment	1,075	947	917	938	984
Other Non-Current Assets	1,326	1,108	1,244	1,270	1,352
<b>Total Assets</b>	<b>2,632</b>	<b>2,258</b>	<b>2,404</b>	<b>2,422</b>	<b>2,549</b>
Short-Term Debt	-	-	-	-	-
Other Current Liabilities	361	374	458	495	536
Long-Term Debt	1,316	1,230	1,384	1,267	1,174
Other Non-Current Liabilities	49	35	42	57	84
<b>Total Liabilities</b>	<b>1,727</b>	<b>1,639</b>	<b>1,884</b>	<b>1,820</b>	<b>1,793</b>
Minority interest	0	0	-	-	-
<b>Total Equity</b>	<b>905</b>	<b>618</b>	<b>520</b>	<b>603</b>	<b>756</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,632</b>	<b>2,258</b>	<b>2,404</b>	<b>2,422</b>	<b>2,549</b>

## Forecast upgraded

**Benefitting from service price hike:** We have narrowed our loss forecast for 2022E from Bt123mn to Bt99mn to reflect better-than-expected losses for 3Q22E and slight profit delivery for the festive season in 4Q22E (from just breakeven). We have revised up our core profit forecast by 11% to Bt138mn for 2023E, implying a 56% return to pre-COVID profit at Bt246mn for 2019. We reiterate our view for normalized profit by 2024. Our earnings upgrade for 2023E is mainly to reflect the service price hike. After the re-opening of Thailand, SPA has been able to increase its average service price by 5% to Bt1,160/billing for 9M22. The price hike is ahead of cost pressure in the future. Management intends to raise prices by another 5% in 2023. Thus, we have increased our average gross profit margin estimates by 80bps to 31.50% and lowered SG&A expenses to revenue estimates by 40bps to 15.6%. Our modeled core margin is upgraded by 120bps to 11.6% for 2023E, far below the 17.5% margin for 2019. Total revenue is maintained at Bt1.15bn for 2023E.

Key assumptions have been fine-tuned according to KKPS's foreign tourist arrival estimate at 18mn for 2023. Our estimate is conservative when compared to the target set by the Tourism Authority of Thailand at 20mn foreign tourists in Thailand in 2023. However, the return of Chinese tourists to Thailand has not been priced into our model for 2023. In terms of our sensitivity analysis, based on an 8.0% hit rate and 55% of SPA's fixed cost model, we estimate revenue upside by Bt97mn (8% for 2023E) and profit upside by Bt32mn for every 1mn Chinese inbound tourists to Thailand.

We have factored in equity income from the joint venture business (51%-held by SPA and 49% by Amara Asia Co., Ltd) for Sleep Clinic to consult and improve sleep quality as well as develop various cannabis products for medical purposes. The equity income is forecast to start in 2023 with a small contribution of Bt5mn.

**On quarterly turnaround:** We estimate core losses of Bt22mn for 3Q22 and a turnaround to profit of Bt10mn for 4Q22 based on revenue of Bt150mn for 3Q22E and Bt209mn for 4Q22E. Gross profit margin should rise from 8.5% for 2Q22 (against negative gross margin since 2Q20) to 12.5% for 3Q22E and 28.2% for 4Q22E (far from the pre-COVID level of 32.1% for 4Q19).

**Surviving without the need for recapitalization:** Cash flows from operations are on the uptrend from Bt4mn for 1Q22 to Bt32mn for 2Q22 with Bt47mn forecast for 3Q22 and Bt82mn for 4Q22. Excluding TFRS16, the debt-to-equity ratio is 1.2x at end-June, below the 2.0x debt covenant. We forecast peak leverage ratio at YE22, then a gradual lowering from equity recovery. Thus, concerns about a capital increase are about to end in our view.

**Zero-COVID policy in China means no increase in supply for a while:** According to the Global Wellness Institute (GWI), the latest survey in 2020 indicates official day spa supply declining by 15% YoY. The Thai Spa Association revealed a 30% local supply disappearance in Thailand during the COVID-19 outbreak in 2020-2021. Given the zero-COVID policy in China, SPA should gain from a favorable competitive landscape, as demand is on the recovery but supply remains limited.

**Figure 1: Forecast changes**

Bt mn	2019A	2020A	2021A	2022E	2023E	2024E
<b>Service and sales revenue</b>						
Previous	1,403	436	175	625	1,196	1,736
Current	1,403	436	175	625	1,190	1,729
% Change	0%	0%	0%	0%	0%	0%
<b>Gross profit</b>						
Previous	441	(80)	(151)	72	353	530
Current	441	(80)	(151)	72	362	553
% Change	0%	0%	0%	0%	3%	4%
<b>Core net profit</b>						
Previous	245	-209	-287	-123	125	256
Current	245	-209	-287	-99	138	256
% Change	0%	0%	0%	+20%	11%	0%
<b>GPM</b>						
Previous	31.9%	-18.7%	-90.0%	11.9%	30.7%	31.7%
Current	31.9%	-18.7%	-90.0%	11.9%	31.5%	33.0%
% Change	0.0%	0.0%	0.0%	0.0%	0.8%	1.2%
<b>SG&amp;A to revenue</b>						
Previous	11.7%	27.8%	64.3%	26.0%	16.0%	13.8%
Current	11.7%	27.8%	64.3%	24.6%	15.6%	15.0%
% Change	0.0%	0.0%	0.0%	-1.4%	-0.4%	1.2%
<b>Equity income</b>						
Previous	-	-	-	-	-	-
Current	-	-	-	-	5	9
% Change	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%
<b>NPM</b>						
Previous	17.5%	-48.0%	-163.9%	-19.7%	10.4%	14.8%
Current	17.5%	-48.0%	-163.9%	-15.8%	11.6%	14.8%
% Change	0.0%	0.0%	0.0%	3.9%	1.2%	0.0%

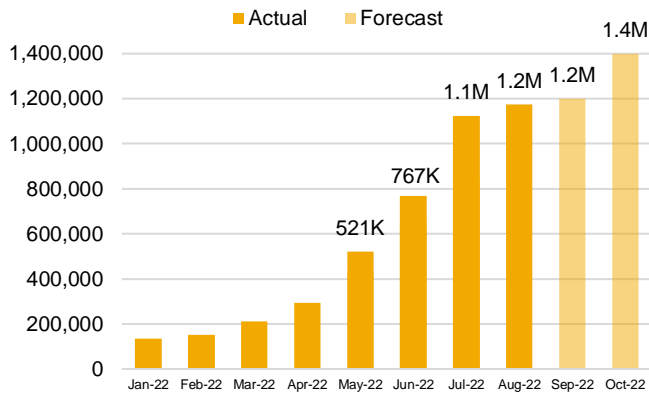
Source: Company data, KKPS estimates

**Figure 2: Key assumptions**

	2019A	2020A	2021A	2022E	2023E	2024E
Total branches	63	70	70	72	74	77
Rarinjinda	3	3	3	3	3	3
Let's Relax	45	48	49	51	53	54
Baan Suan	10	10	10	10	10	10
Others	5	9	8	8	8	10
Same-store sales, YoY	16.0%	-67.0%	-54.0%	330.0%	90.0%	40.0%
Sales per branch, Bt mn	21.4	5.2	1.8	7.8	14.8	20.8
Foreign tourists in Thailand, mn people	-	-	-	10.3	18.3	24.8
Selling expenses, Bt mn	52	34	24	36	46	67
Administration expenses, Bt mn	110	84	84	112	133	185

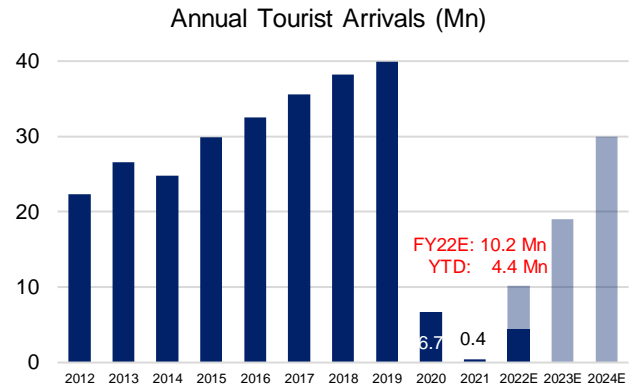
Source: Company data, KKPS estimates

**Figure 3: Foreign tourists in Thailand, monthly**



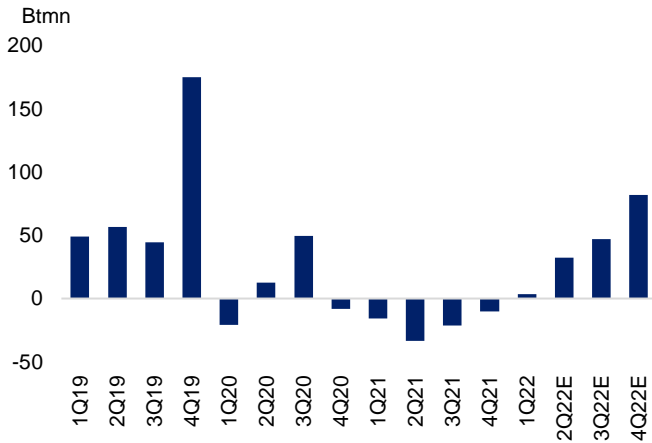
Source: Ministry of Tourism and Sports, KKPS estimates

**Figure 4: Foreign tourists in Thailand, yearly**



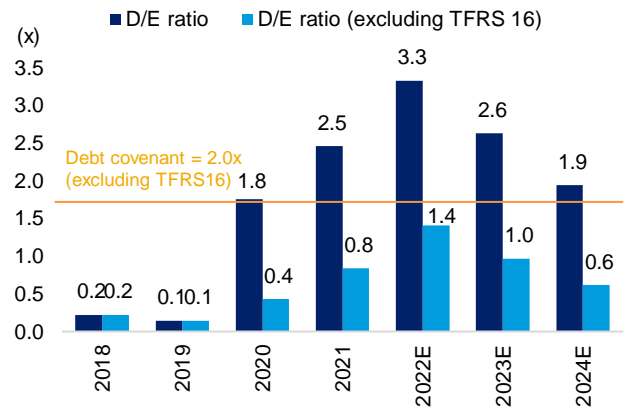
Source: Ministry of Tourism and Sports, KKPS estimates

**Figure 5: SPA's operating cash flow, quarterly**



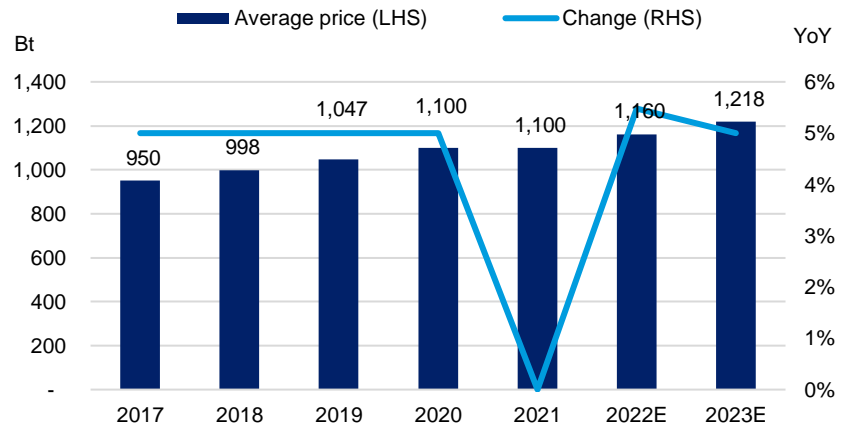
Source: SPA, KKPS estimates

**Figure 6: SPA's balance sheet/Leverage ratio**



Source: SPA, KKPS estimates

**Figure 7: SPA's average service price (billing/head)**



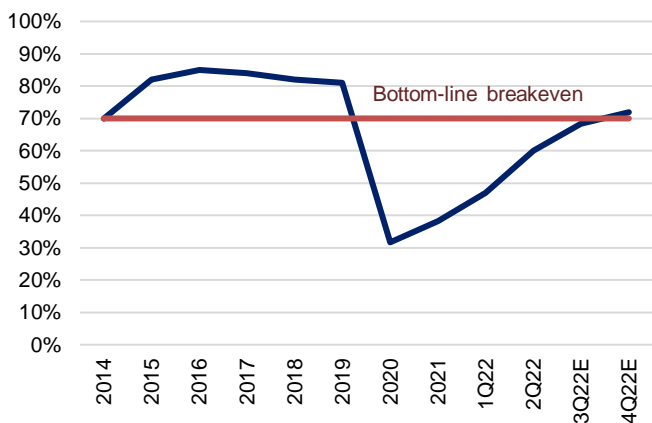
Source: Company data, KKPS

**Figure 8: Spa revenue and supply in Thailand**

	Spa revenues (US\$ mn)			Number of Spas		
	2017	2019	2020	2017	2019	2020
Hotel/Resort Spas	911.1	1,135.7	742.3	1,408	1,484	1,484
Destination Spas & Health Resorts	220.0	272.0	189.4	44	46	49
Other Spas	103.5	124.1	67.7	934	949	801
Day/Club/Salon Spas	76.4	92.0	50.2	345	351	298
Medical Spas	4.3	5.2	2.8	10	10	8
Thermal/Mineral Springs Spas	1.9	2.3	1.5	19	19	19
<b>Total</b>	<b>1,317.4</b>	<b>1,631.4</b>	<b>1,053.9</b>	<b>2,760</b>	<b>2,859</b>	<b>2,659</b>

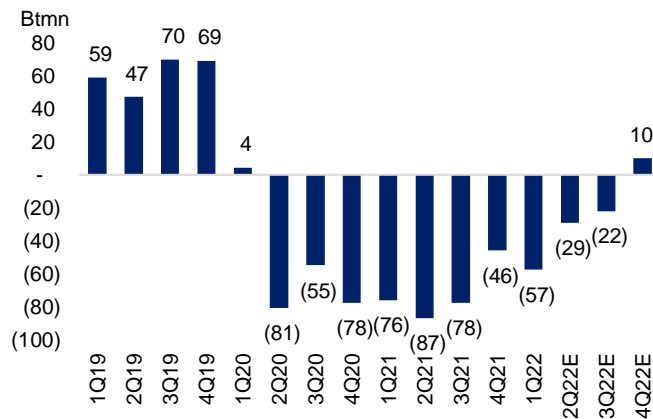
Source: Global Wellness Institute

**Figure 9: SPA's staff utilization rate**



Source: SPA, KKPS estimates

**Figure 10: SPA's quarterly core earnings (bottom-line)**



Source: SPA, KKPS estimates

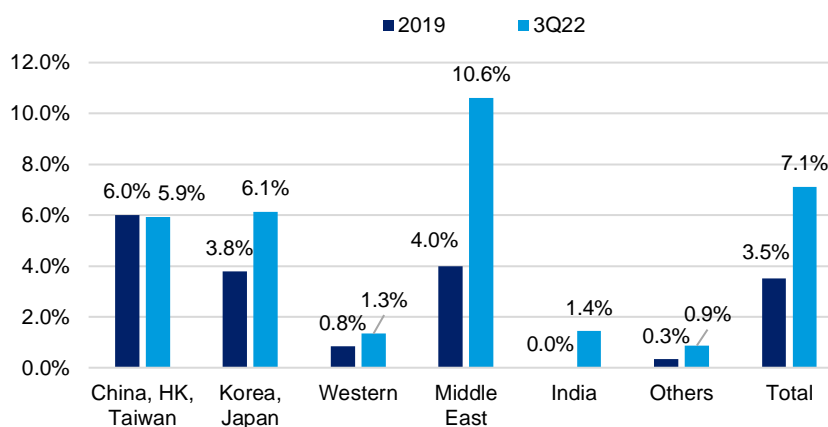
## New feeder market success

Among the uncertainty as to when China's Zero-COVID policy will ease, SPA's management has pushed forth the effort to drive new feeders of foreign tourist demand in Thailand (ex-China). This is while Thai and expat demand have shown almost full recovery post the re-opening in 2Q22. The action plan is adding Arabic language in the menu and marketing activities with the Tourism Authority of Thailand.

In 3Q22, SPA successfully achieved a stronger hit rate from Middle Eastern tourists in Thailand (from 4.0% in the pre-COVID year in 2019 to 10.6% for 3Q22), Indians (from an insignificant contribution in 2019 to a 1.4% hit rate for 3Q22), Koreans and Japanese (from 3.8% to 6.1%), and westerners (Europe and The Americas from 0.8% to 1.3%). This has led to an overall hit rate increase for foreign tourists from 3.5% for the pre-COVID level in 2019 to 7.1% in 3Q22.

Thanks to the proven success of adding new feeder markets into its portfolio (revenue contribution in Figures 13-14), we are of the view that SPA's recovery outlook in 2023 is riding on the top two foreign tourist feeder markets in Thailand which are the Middle East (77% recovery to the pre-COVID level by 4Q22E) and South Asia (mainly from India, 57% recovery to the pre-COVID level).

**Figure 11: Foreign tourist hit rate, pre COVID-19 in 2019 vs. 3Q22**



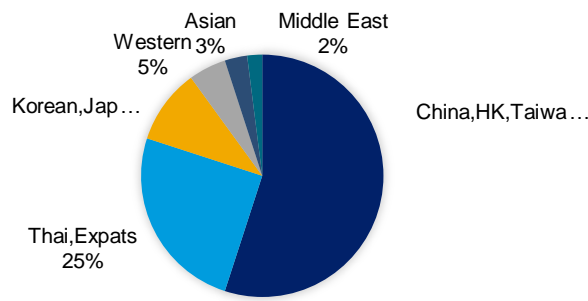
Hit rate = Volume for SPA/total volume in Thailand

Source: Department of Tourism, Company data, KKPS

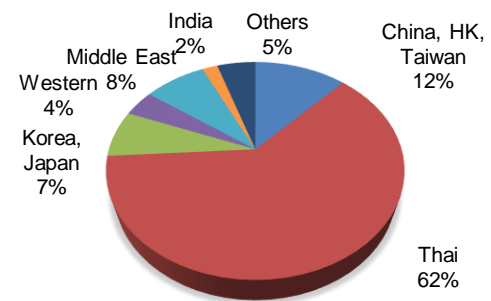
**Figure 12: Foreign tourists in Thailand in 3Q22-4Q22E versus 2019**

	Number (mn)			% 2022/2019		
	3Q22	4Q22E	2022E	3Q22	4Q22E	2022E
Total	3.37	3.90	9.35	-65%	-63%	-77%
East Asia	1.94	2.08	4.83	-73%	70%	-93%
ASEAN	1.54	1.70	3.86	-44%	-43%	-65%
Northeast Asia	0.40	0.39	0.97	-91%	-90%	-94%
Europe	0.56	0.93	2.11	-49%	-53%	-68%
The Americas	0.15	0.21	0.50	-47%	-55%	-68%
South Asia	0.39	0.43	1.11	-32%	-31%	-53%
Oceania	0.12	0.12	0.33	-46%	-43%	-62%
Middle East	0.18	0.11	0.42	-29%	-33%	-42%

Source: Tourism Authority of Thailand, Department of Tourism

**Figure 13: SPA's revenue contribution for 2019**

Source: Company data, KKPS

**Figure 14: SPA's revenue contribution for 3Q22E**

Source: Company data, KKPS

## Opportunities from Chinese migrants

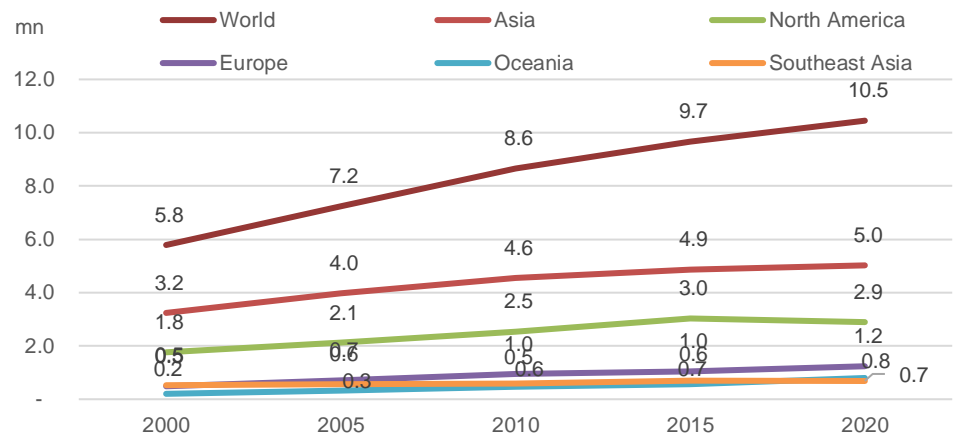
'Xin yimin' or new Chinese migrants is a term used in China to refer to the new wave of skilled and urban migrants from China after the reform era began in the 1980s for business opportunities and economic prosperity under the concept of 'transient migration'. According to the United Nations, Chinese emigrants to other parts of the world have doubled for the past two decades from 5.79mn people in 2000 to 10.46mn people in 2020. Many Chinese moved to developing countries in Southeast Asia (688,000 people in 2020) and Thailand ranks the second-highest (from 200 people in 2000 to 77,000 in 2020) with Singapore at the number one spot (426,000 people in 2020). With the long relationship between the two countries and their people and being the most favored destination for Chinese tourists, new Chinese migrants to Thailand should have high potential growth opportunities. Not only will Thailand's basic need services benefit from increasing Chinese migrants (real estate, international schools, etc), Thai massage services are expected to gain higher demand due to the popularity of wellness activities among the Chinese.

'Xin yimin' or new Chinese migrants to Thailand can be classified into four groups: i) staff and professional workers (China is the third-largest foreign investor in Thailand), ii) education migration, iii) leisure and lifestyle migration (from tourist to long-stay resident and retiree), and iv) combining lifestyle migration with business (for example, e-commerce business of Thai and international products selling to Chinese customers). After Thailand's re-opening, skilled Chinese workers under BOI support in Thailand have increased to an all-time high at 11,651 people in August, up by 13% from 10,816 people at YE21, while the number of non-BOI skilled laborers has increased to 15,434 people.

During the post-pandemic boom, Thailand's policy is to welcome foreign immigrants including the Chinese through the Long-Term Resident (LTR) visa. The LTR visa is a 10-year long visa designed to attract high-potential foreigners who would like to relocate to Thailand for the long-term. It targets four groups which are high-income foreign individuals, foreign retirees, foreigners intending to work remotely from Thailand, and foreign professionals with "special" skills. An LTR visa holder is permitted to bring along up to four family members including their legal spouse and children under the age of 20. The new LTR visas have been issued since 1 September. Through this special visa, the government hopes to bring in one million eligible foreigners over the next five years.



**Figure 15: Number of Chinese emigrants by global destination**



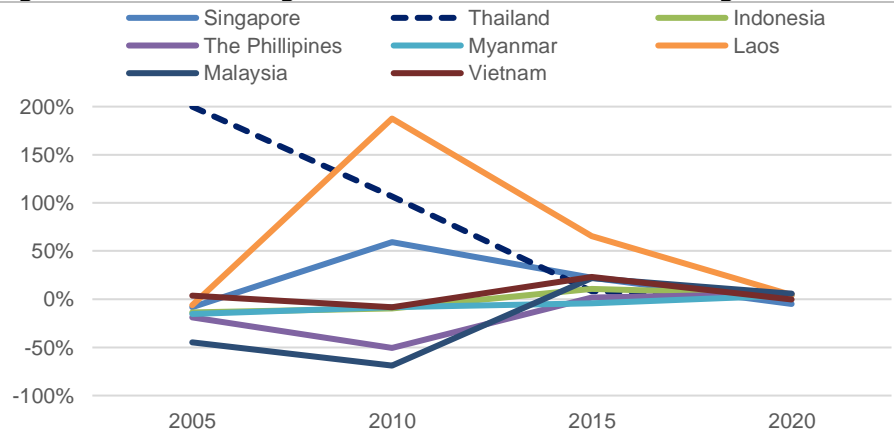
Source: United Nations

**Figure 16: Chinese emigrants to Southeast Asia**

	2000	2005	2010	2015	2020
<b>Total (people)</b>	<b>526,422</b>	<b>552,553</b>	<b>595,897</b>	<b>696,732</b>	<b>688,000</b>
Singapore	250,198	229,651	365,811	448,566	426,000
Thailand	200	33,311	68,811	74,411	77,000
Indonesia	83,502	72,094	65,307	72,302	76,000
The Philippines	88,418	71,566	35,398	35,952	38,000
Myanmar	44,999	38,118	35,082	33,656	35,000
Laos	3,005	2,820	8,110	13,400	14,000
Malaysia	54,430	29,909	9,306	11,347	12,000
Vietnam	2,573	2,661	2,440	3,005	3,000
Brunei Darussalam	1,926	1,969	2,012	2,055	2,000
Cambodia	2,998	2,340	1,682	1,518	2,000
Timor-Leste	1,104	1,172	1,196	953	1,000

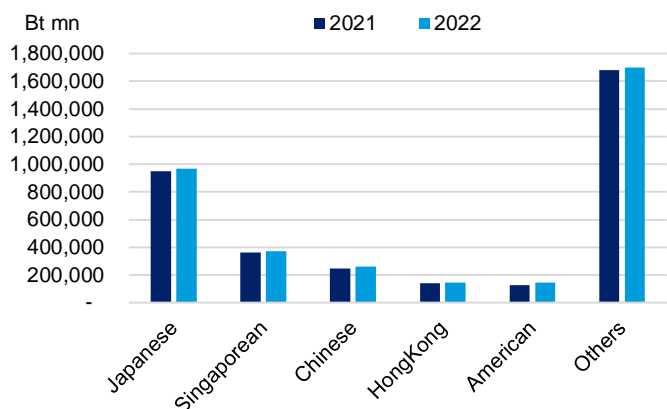
Source: United Nations

**Figure 17: Chinese emigrants to Southeast Asia, YoY changes**



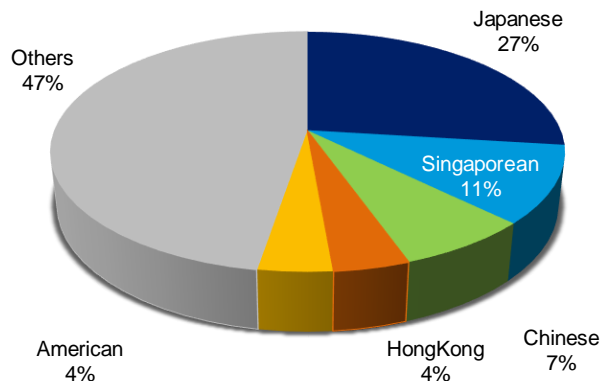
Source: United Nations

**Figure 18: Foreign investors in Thailand, 2021-2022**



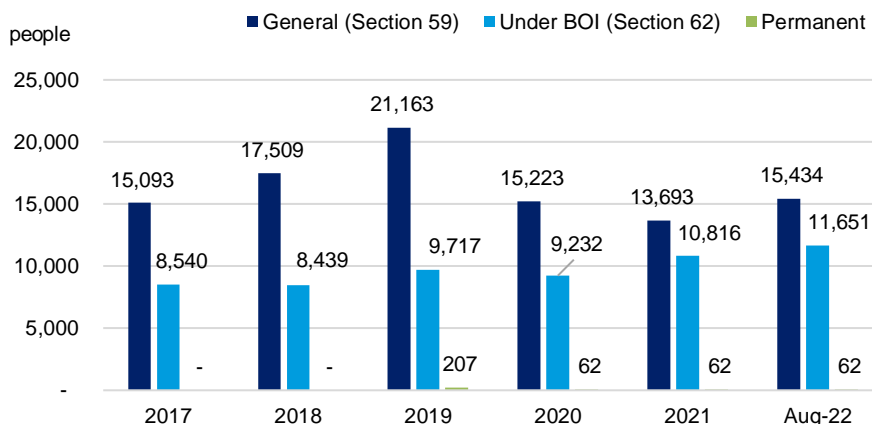
Source: Department of Business Development

**Figure 19: Percentage of foreign investment in Thailand for 2022**



Source: Department of Business Development

**Figure 20: Chinese laborers in Thailand**

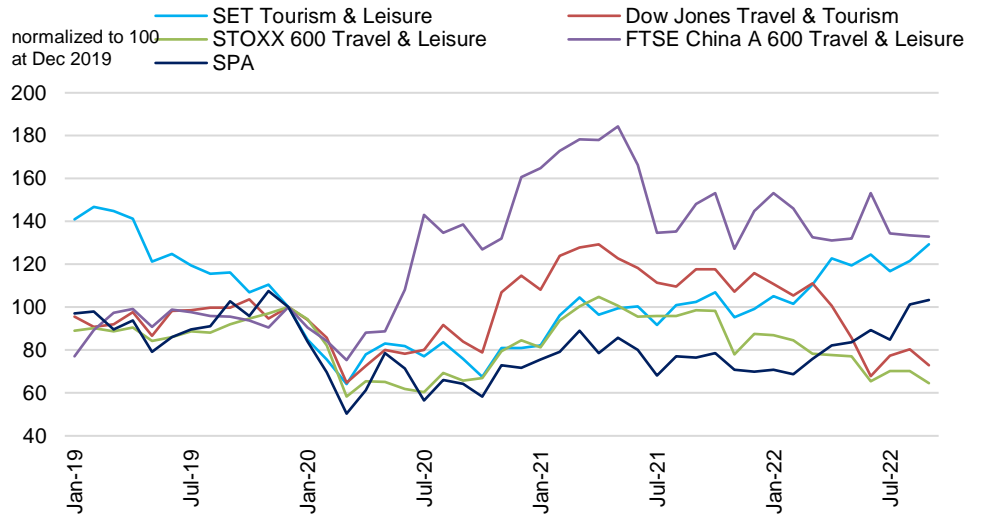


Source: Ministry of Labor

## Valuations

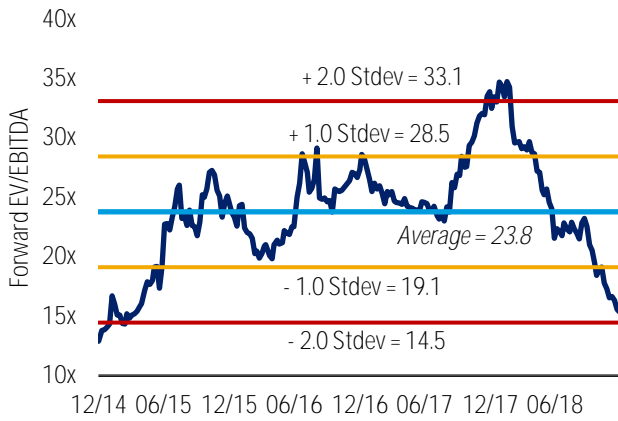
We believe that SPA’s recent share price rally (15% since 27 June) is just to catch up to related tourism sectors after it was the most laggard in 1H22 (Figure 21). However, we see room for SPA’s share price to rally further, as the share price performance is still laggard compared to the SET’s Tourism & Leisure sector. SPA’s share price (Bt10.00 on 17 October) is far below the Bt11.00 level on 16 December 2019 and Bt14.9 during the peak pre-COVID level on 19 February 2018. SPA trades at EV/EBITDA of 18.3x for 2023E, below 1.0SD discount to its long-term average of 24.0x.

**Figure 21: SPA's share price Vs. Tourism index**



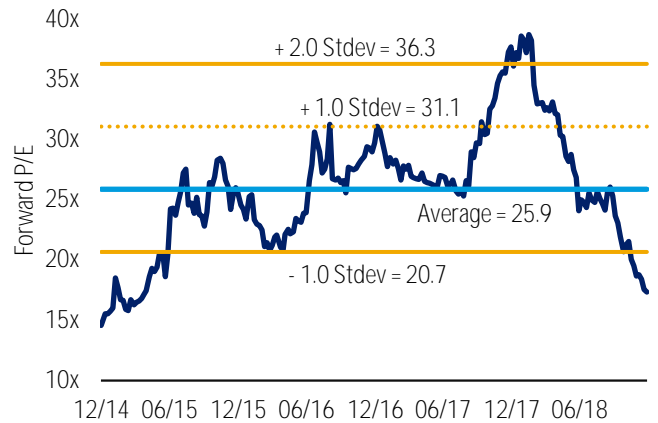
Source: Company data, Bloomberg, KKPS

**Figure 22: EV/EBITDA band**



Source: Company data, Bloomberg, KKPS

**Figure 23: PER band**



Source: Company data, Bloomberg, KKPS

## Price objective basis and risk

We have revised up our PO to Bt14.00 (from Bt11.50) to reflect our new model (earnings upward revision) and re-rated target EV/EBITDA from 20.0x (near 1SD below its long-term mean) to 25.0x (near its mean). High multiples are deserved during the early cycle of its turnaround in our view. Our PO is derived from the average intrinsic value estimates of two methodologies, Bt14.40 from EV/EBITDA for 2023E (up from Bt10.9) and Bt13.70 from DCF (up from Bt12.00). DCF is based on unchanged 9.0% WACC, derived from a risk-free rate assumption of 4% and equity risk premium of 8% (Kiatnakin Phatra Securities' key assumption), 1.3x beta, and 2% terminal growth rate.

The key upside risks are (1) a faster-than-expected return of foreign tourist arrivals in Thailand, (2) a faster-than-expected easing of the Zero-COVID policy in China, and (3) higher-than-expected economy of scale. Meanwhile, the downside risks are (1) a negative surprise in the recovery of foreign tourist demand in Thailand, (2) new pandemic and consumer behavior changes (worries about physical services), and (3) systematic risk that may de-rate the valuations of small-capitalization stocks, particularly in the case of a global liquidity shock.

### Figure 24: SPA – YE23 price objective

Valuation methodology	Bt
EV/EBITDA	14.4
DCF	13.7
<b>Average</b>	<b>14.0</b>

Source: KKPS estimates

### Figure 25: PO calculation by EV/EBITDA

Target EV/EBITDA (x)	25.0x
EBITDA per share	0.64
EV per share	16.1
Net debt per share	1.7
<b>PO (Bt)</b>	<b>14.4</b>

### Figure 26: PO calculation by DCF methodology

PV of free cash flow	5,430
Terminal value	7,734
<b>Total present value</b>	<b>13,164</b>
Net debt	1,462
Minority interest	0
Equity value	11,702
<b>DCF value (Bt)</b>	<b>13.70</b>

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