

**BUY** (Unchanged)**TP: Bt 16.00** (Unchanged)

Change in Numbers

Upside : 15.1%

23 OCTOBER 2019

# Siam Wellness Group (SPA TB)

## Back to strong growth mode

We expect SPA's earnings to return to above-20% growth mode from 2H19F onward. After slowing down to 12-17% in 2018-19F, we estimate SPA's EPS to grow by 24% y-y in 2020F and 25% in 2021F. Key drivers are higher ticket size, rising utilization and continuing branch expansion. We reaffirm our BUY call and TP of Bt16.

**NUTTAPOP PRASITSUKSANT**

662 – 617 4986

nuttapop.pra@thanachartsec.co.th

### Back to 20%+ earnings growth mode

SPA's earnings have disappointed the market in the past few years with only 17% EPS growth in 2018 and 2% y-y in 1H19. Growth expectations for this stock had been high due to SPA's track record of delivering 24-32% EPS growth in 2016-17. We now expect SPA's earnings growth base to return to above 20% p.a. level from 2H19F at 24% y-y before stabilizing at 24-25% in 2020-21F. We reaffirm our BUY call. We see higher ticket size and utilization, continued expansion and sustained tourist arrival growth at an organic level as key drivers. These factors feed into our key assumptions of: 1) 12-16% p.a. same-store sales growth (SSSG) in 2019-21F from normalizing Chinese tourist arrivals and a higher ticket size per visit; 2) 8-10 new branches or 12-22% growth per year; and 3) EBIT margin rising to 23% in 2021F from 20% in 2019F. This leads us to fine tune our 2019-21F EPS.

### Improving utilization

We estimate SPA's branch utilization to turn around to 85% in 2H19F after dipping to 75% in 2H18 and 80% in 1H19 as it was hit by the Chinese tourist arrival hiccups last year and its aggressive branch expansion in 2H18. The rise in utilization is due to Chinese tourist numbers recovering and expansion being more spread out in 2019F. We expect Chinese tourist arrivals to grow strongly by 17% in 2H19F from a low 2H18 bases. For full-year 2019F we project 5% Chinese tourist growth and 3-5% growth in 2020-21F.

### Higher ticket sizes

We see two factors unlocking SPA's revenue per branch. *First*, the offering of a bundled package to combine its increasingly popular "Stretch Me" service with its well-known traditional Thai massage. The bundled package price is 25-30% above that of its normal package. *Second*, its rebranded spa products are finally on the shelf in 4Q19 after more than a year of development. The products have a 15-20% higher ASP. We expect these two factors to boost SPA's revenue per branch by 3-5% over 2019-21F, resulting in both a higher margin and ROE.

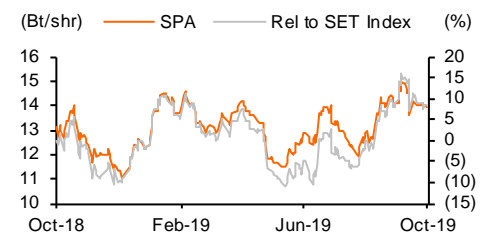
### Our TP implies conservative long-term outlook

Though we expect SPA's EPS growth base to be above 20% from 2H19F into 2021F, to be conservative we cut our long-term growth assumption for SPA beyond 2025F by 7pp. That is to reflect: 1) a slower expansion pace at 6-8 branches p.a. (from 10); 2) slower growth from its overseas franchise business; and 3) the divestment of 'Chaba' nail spa. These cuts offset the roll-over impact to a 2020F base year and our DCF-based 12-month TP remains unchanged at Bt16/share. Note that we also expect SPA to turn to be a net cash company in 2020F.

### COMPANY VALUATION

Y/E Dec (Bt m)	2018A	2019F	2020F	2021F
Sales	1,134	1,389	1,641	1,905
Net profit	206	231	287	357
Consensus NP	—	241	293	347
Diff frm cons (%)	—	(4.0)	(2.1)	2.9
Norm profit	206	231	287	357
Prev. Norm profit	—	236	286	348
Chg frm prev (%)	—	(2.1)	0.2	2.6
Norm EPS (Bt)	0.4	0.4	0.5	0.6
Norm EPS grw (%)	17.4	12.3	24.2	24.5
Norm PE (x)	38.5	34.3	27.6	22.2
EV/EBITDA (x)	24.6	20.9	16.8	13.3
P/BV (x)	8.2	7.2	6.3	5.5
Div yield (%)	1.1	1.5	1.8	2.5
ROE (%)	23.8	22.3	24.3	26.4
Net D/E (%)	14.1	10.9	(1.0)	(13.3)

### PRICE PERFORMANCE



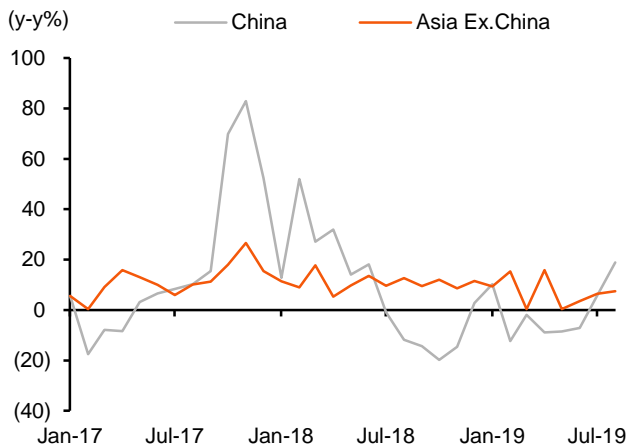
### COMPANY INFORMATION

Price as of 22-Oct-19 (Bt)	13.90
Market Cap (US\$ m)	261.8
Listed Shares (m shares)	570.0
Free Float (%)	54.8
Avg Daily Turnover (US\$ m)	0.4
12M Price H/L (Bt)	15.00/11.00
Sector	MAI
Major Shareholder	Jiravanstit family 15.96%

Sources: Bloomberg, Company data, Thanachart estimates

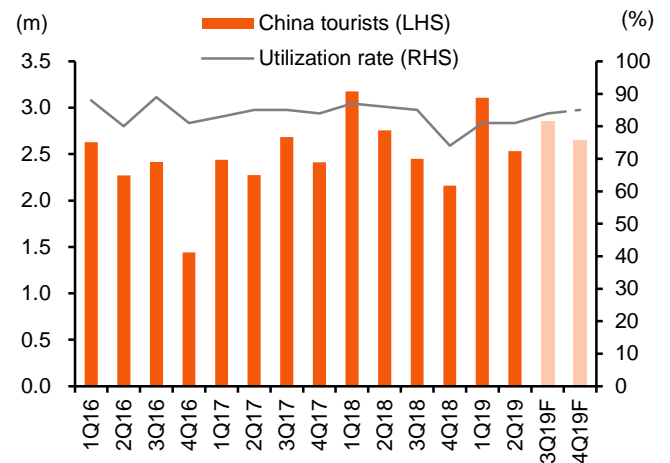


**Ex 1: Recovering Tourist Arrivals**



Sources: Tourism Authority of Thailand (TAT)

**Ex 2: Normalizing Chinese Tourists**



Sources: Company data, TAT, Thanachart estimates

**Ex 3: Bundled Massage-Stretching Package**



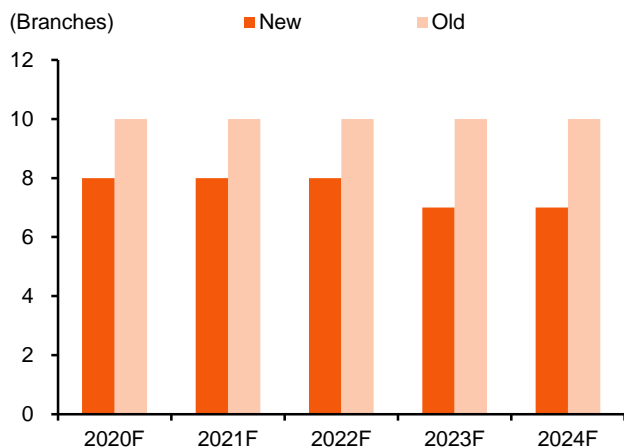
Source: Company data

**Ex 4: Rebranded Products More Lifestyle-oriented**



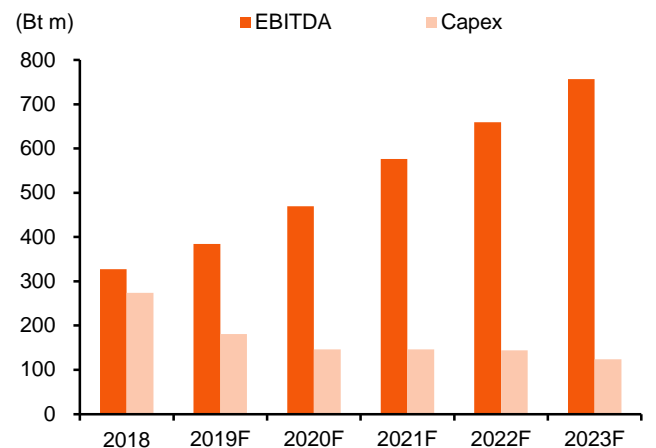
Source: Company data

**Ex 5: Our New Expansion Assumptions**



Source: Thanachart estimates

**Ex 6: A Strong Cash Cow Business**



Sources: Company data; Thanachart estimates

## Ex 7: 12-month DCF-based TP Calculation, Using A Base Year Of 2020F

(Bt m)	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	Terminal value
EBITDA	471	579	672	775	868	972	1,073	1,186	1,283	1,388	—
Free cash flow	271	362	428	534	605	698	780	874	951	1,036	14,712
PV of free cash flow	247	300	323	367	378	397	403	412	407	404	5,224
Risk-free rate (%)	3.5										
Market risk premium (%)	8.0										
Beta	1.0										
WACC (%)	9.9										
Terminal growth (%)	2.0										
Enterprise value - add investments	9,264										
Net debt (2019F)	120										
Minority interest	—										
Equity value	9,144										
# of shares (m)	570										
<b>Target price/share (Bt)</b>	<b>16.00</b>										

Sources: Company data, Thanachart estimates

## Valuation Comparison

## Ex 8: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div Yield	
			19F (%)	20F (%)	19F (x)	20F (x)	19F (x)	20F (x)	19F (x)	20F (x)	19F (%)	20F (%)
Emei Shan Tourism	000888 CH	China	3.8	6.8	14.6	13.7	1.3	1.2	6.2	6.1	1.7	1.8
Shanghai Jin Jiang Int'l	2006 HK	China	(1.3)	7.4	8.8	8.2	0.7	0.7	7.2	7.1	6.9	7.1
Hongkong & Shanghai	45 HK	Hong Kong	na	16.7	32.3	27.7	na	na	na	na	na	na
Shangri-La Asia	69 HK	Hong Kong	(11.1)	6.6	26.4	24.7	na	na	16.9	16.6	1.8	1.9
IGB Corp Bhd	IGB MK	Malaysia	13.6	3.4	na	na	na	na	na	na	na	na
Genting Malaysia Bhd	GENM MK	Malaysia	na	(3.0)	13.3	13.8	1.1	1.1	7.8	7.4	4.1	4.0
Mirvac Group	MGR AU	Australia	(39.9)	6.6	19.0	17.8	1.3	1.2	18.7	17.1	3.7	3.9
Indian Hotels	IH IN	India	(9.0)	42.8	69.4	48.6	4.0	4.0	24.7	19.5	0.4	0.4
Mandarin Oriental Int'l	MAND SP	Singapore	1.2	5.7	48.9	46.2	na	na	na	na	1.8	1.8
Hotel Shilla	008770 KS	South Korea	na	na	na	na	na	na	na	na	na	na
Resorttrust Inc	4681 JP	Japan	7.3	(19.9)	14.1	17.6	1.5	1.4	9.0	9.7	2.8	2.6
Central Plaza Hotel	CENDEL TB*	Thailand	(20.5)	11.6	23.4	20.9	2.9	2.7	10.8	10.1	1.7	1.9
Erawan Group	ERW TB*	Thailand	(12.6)	22.4	28.4	23.2	2.3	2.1	12.8	11.5	1.4	1.7
Minor International	MINT TB*	Thailand	(3.5)	21.8	30.4	25.0	2.2	2.0	14.9	13.7	1.6	1.4
Siam Wellness Group	SPA TB*	Thailand	12.3	24.2	34.3	27.6	7.2	6.3	20.9	16.8	1.5	1.8
<b>Average</b>			<b>(4.2)</b>	<b>11.5</b>	<b>27.3</b>	<b>23.6</b>	<b>2.4</b>	<b>2.2</b>	<b>13.2</b>	<b>11.9</b>	<b>2.3</b>	<b>2.4</b>

Sources: Company data, Thanachart estimates

Note: \* Thanachart estimates, using normalized EPS

Based on 22 Oct 2019 closing prices

## COMPANY DESCRIPTION

Siam Wellness Group Pcl operates wellness spas and other related businesses, with four main operations: 1) Spas under the brands "Let's Relax", "Rarin-Jinda Wellness Spa" & "Baan-Suan Massage". 2) Hotel & Restaurants: A boutique resort hotel in Chiang Mai under the name "Rarin-Jinda Wellness Spa Resort" and the "Deck 1" and "D Bistro" restaurants. 3) Spa products: Distributes and sells spa-related products under the "Blooming" brand. 4) Traditional Thai massage school "Blooming Thai Massage School" to train therapists in massage and spa services to support its business expansion.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Strong brand recognition, especially among Chinese and other Asian tourists
- Its own upstream business helps provide sufficient therapists and products for rapid expansion
- Asset-light business model

### O — Opportunity

- Gaining market share from smaller local players via both organic and inorganic expansion
- Expansion of its business overseas
- Adding more services as bundled packages to increase ticket size

### W — Weakness

- Relies heavily on expansion to grow, due to limited capacity of service hours per branch
- Highly dependent on tourist traffic

### T — Threat

- Extraordinary and uncontrollable events, i.e. geopolitical disturbances, natural disasters, etc. could disrupt its operations and decrease tourist traffic
- Large network but only a small management team

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	14.57	16.00	10%
<b>Net profit 19F (Bt m)</b>	241	231	-4%
<b>Net profit 20F (Bt m)</b>	293	287	-2%
<b>Consensus REC</b>	<b>BUY: 4</b>	<b>HOLD: 1</b>	<b>SELL: 0</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2019-20F profits are slightly below the Bloomberg consensus estimates, likely due to us having lower SSSG assumptions.
- However, our TP is 10% higher, which we believe is due to us having a more bullish view on SPA's long-term EPS growth.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- A slower pace of expansion, both for domestic and overseas branches, would represent the key downside risk to our earnings forecasts.
- Any events causing a downturn in Thailand's tourism industry, i.e. involving politics, the global economy or natural disasters, would be negative for our numbers.
- The success rates of new services added to its portfolio represent another swing factor to our projections.

Source: Thanachart

**INCOME STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Sales	948	1,134	1,389	1,641	1,905
Cost of sales	620	750	949	1,117	1,274
<b>Gross profit</b>	<b>328</b>	<b>384</b>	<b>439</b>	<b>525</b>	<b>631</b>
% gross margin	34.6%	33.9%	31.6%	32.0%	33.1%
Selling & administration expenses	130	152	176	191	206
<b>Operating profit</b>	<b>198</b>	<b>232</b>	<b>264</b>	<b>334</b>	<b>424</b>
% operating margin	20.9%	20.4%	19.0%	20.4%	22.3%
Depreciation & amortization	77	96	121	137	155
<b>EBITDA</b>	<b>275</b>	<b>328</b>	<b>385</b>	<b>471</b>	<b>579</b>
% EBITDA margin	29.0%	28.9%	27.7%	28.7%	30.4%
Non-operating income	15	18	19	20	21
Non-operating expenses	0	0	0	0	0
Interest expense	(7)	(9)	(10)	(10)	(7)
<b>Pre-tax profit</b>	<b>206</b>	<b>241</b>	<b>273</b>	<b>343</b>	<b>438</b>
Income tax	31	35	42	57	81
<b>After-tax profit</b>	<b>175</b>	<b>206</b>	<b>231</b>	<b>287</b>	<b>357</b>
% net margin	18.5%	18.1%	16.6%	17.5%	18.7%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(0)	(0)	(0)	(0)	(0)
Extraordinary items	0	0	0	0	0
<b>NET PROFIT</b>	<b>175</b>	<b>206</b>	<b>231</b>	<b>287</b>	<b>357</b>
<b>Normalized profit</b>	<b>175</b>	<b>206</b>	<b>231</b>	<b>287</b>	<b>357</b>
EPS (Bt)	0.3	0.4	0.4	0.5	0.6
Normalized EPS (Bt)	0.3	0.4	0.4	0.5	0.6

*We expect earnings growth to return to over a 20% pace in 2020F*

**BALANCE SHEET**

<b>FY ending Dec (Bt m)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>ASSETS:</b>					
Current assets:	191	176	359	433	524
Cash & cash equivalent	67	79	199	259	337
Account receivables	12	24	27	31	37
Inventories	28	31	39	46	52
Others	84	42	94	96	98
Investments & loans	0	0	0	0	0
Net fixed assets	889	1,067	1,142	1,166	1,172
Other assets	95	126	155	183	212
<b>Total assets</b>	<b>1,176</b>	<b>1,369</b>	<b>1,655</b>	<b>1,782</b>	<b>1,908</b>
<b>LIABILITIES:</b>					
Current liabilities:	207	224	305	299	294
Account payables	86	83	117	138	157
Bank overdraft & ST loans	8	6	6	2	1
Current LT debt	69	84	119	85	51
Others current liabilities	44	51	63	74	86
<b>Total LT debt</b>	<b>185</b>	<b>126</b>	<b>194</b>	<b>158</b>	<b>94</b>
Others LT liabilities	18	34	42	49	57
<b>Total liabilities</b>	<b>421</b>	<b>399</b>	<b>555</b>	<b>523</b>	<b>465</b>
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	143	143	143	143	143
Share premium	279	279	279	279	279
Warrants	0	0	0	0	0
Surplus	(6)	44	44	44	44
<b>Retained earnings</b>	<b>339</b>	<b>505</b>	<b>635</b>	<b>792</b>	<b>978</b>
Shareholders' equity	755	970	1,101	1,258	1,443
<b>Liabilities &amp; equity</b>	<b>1,176</b>	<b>1,369</b>	<b>1,655</b>	<b>1,782</b>	<b>1,908</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Earnings before tax	206	241	273	343	438
Tax paid	(26)	(33)	(38)	(53)	(77)
Depreciation & amortization	77	96	121	137	155
Chg In working capital	4	(17)	23	9	8
Chg In other CA & CL / minorities	10	3	6	5	6
<b>Cash flow from operations</b>	<b>272</b>	<b>290</b>	<b>385</b>	<b>441</b>	<b>530</b>
Capex	(268)	(274)	(196)	(161)	(161)
ST loans & investments	(58)	44	(50)	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(15)	(12)	(21)	(18)	(19)
<b>Cash flow from investments</b>	<b>(340)</b>	<b>(242)</b>	<b>(267)</b>	<b>(179)</b>	<b>(180)</b>
Debt financing	162	(46)	103	(73)	(101)
Capital increase	0	0	0	0	0
Dividends paid	(57)	(40)	(100)	(129)	(172)
Warrants & other surplus	(2)	50	0	0	0
<b>Cash flow from financing</b>	<b>103</b>	<b>(36)</b>	<b>2</b>	<b>(202)</b>	<b>(272)</b>
<b>Free cash flow</b>	<b>4</b>	<b>17</b>	<b>189</b>	<b>280</b>	<b>369</b>

*A cash cow business  
with a negative cash  
cycle*

**VALUATION**

<b>FY ending Dec</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Normalized PE (x)	45.2	38.5	34.3	27.6	22.2
Normalized PE - at target price (x)	52.1	44.4	39.5	31.8	25.5
PE (x)	45.2	38.5	34.3	27.6	22.2
PE - at target price (x)	52.1	44.4	39.5	31.8	25.5
EV/EBITDA (x)	29.5	24.6	20.9	16.8	13.3
EV/EBITDA - at target price (x)	33.9	28.3	24.0	19.3	15.4
P/BV (x)	10.5	8.2	7.2	6.3	5.5
P/BV - at target price (x)	12.1	9.4	8.3	7.2	6.3
P/CFO (x)	29.2	27.3	20.6	18.0	15.0
Price/sales (x)	8.4	7.0	5.7	4.8	4.2
Dividend yield (%)	0.9	1.1	1.5	1.8	2.5
FCF Yield (%)	0.0	0.2	2.4	3.5	4.7
<b>(Bt)</b>					
Normalized EPS	0.3	0.4	0.4	0.5	0.6
EPS	0.3	0.4	0.4	0.5	0.6
DPS	0.1	0.2	0.2	0.3	0.4
BV/share	1.3	1.7	1.9	2.2	2.5
CFO/share	0.5	0.5	0.7	0.8	0.9
FCF/share	0.0	0.0	0.3	0.5	0.6

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2017A	2018A	2019F	2020F	2021F
<b>Growth Rate</b>					
Sales (%)	30.7	19.7	22.4	18.2	16.1
Net profit (%)	24.3	17.4	12.3	24.2	24.5
EPS (%)	24.3	17.4	12.3	24.2	24.5
Normalized profit (%)	24.3	17.4	12.3	24.2	24.5
Normalized EPS (%)	24.3	17.4	12.3	24.2	24.5
Dividend payout ratio (%)	39.0	41.6	50.0	50.0	56.0
<b>Operating performance</b>					
Gross margin (%)	34.6	33.9	31.6	32.0	33.1
Operating margin (%)	20.9	20.4	19.0	20.4	22.3
EBITDA margin (%)	29.0	28.9	27.7	28.7	30.4
Net margin (%)	18.5	18.1	16.6	17.5	18.7
D/E (incl. minor) (x)	0.3	0.2	0.3	0.2	0.1
Net D/E (incl. minor) (x)	0.3	0.1	0.1	(0.0)	(0.1)
Interest coverage - EBIT (x)	30.1	26.2	26.6	32.0	58.6
Interest coverage - EBITDA (x)	41.9	37.0	38.9	45.1	79.9
ROA - using norm profit (%)	17.2	16.2	15.3	16.7	19.4
ROE - using norm profit (%)	25.1	23.8	22.3	24.3	26.4
<b>DuPont</b>					
ROE - using after tax profit (%)	25.1	23.8	22.3	24.3	26.4
- asset turnover (x)	0.9	0.9	0.9	1.0	1.0
- operating margin (%)	22.4	22.0	20.4	21.6	23.4
- leverage (x)	1.5	1.5	1.5	1.5	1.4
- interest burden (%)	96.9	96.5	96.5	97.0	98.4
- tax burden (%)	85.1	85.3	84.5	83.5	81.5
WACC (%)	9.9	9.9	9.9	9.9	9.9
ROIC (%)	23.8	20.8	20.1	22.9	27.8
NOPAT (Bt m)	168	198	223	279	346

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, 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.



**Thanachart Securities Pcl.**

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 617 4900

Email: thanachart.res@thanachartsec.co.th

**Pimpaka Nichgaroon, CFA**

Head of Research

pimpaka.nic@thanachartsec.co.th

**Kalvatee Thongsomaung**

Food, Hotel, Media

kalvatee.tho@thanachartsec.co.th

**Phannarai Tiyapittayarut**

Property, Retail

phannarai.von@thanachartsec.co.th

**Siriporn Arunothai**

Small Cap Research, Healthcare

siriporn.aru@thanachartsec.co.th

**Pattadol Bunnak**

Auto, Food &amp; Beverage

pattadol.bun@thanachartsec.co.th

**Thaloengsak Kucharoenpaisan**

Analyst, Retail Market

thaloengsak.kuc@thanachartsec.co.th

**Adisak Phupiphathirungul, CFA**

Retail Market Strategy

adisak.phu@thanachartsec.co.th

**Pattarawan Wangmingmat**

Senior Technical Analyst

pattarawan.wan@thanachartsec.co.th

**Saksid Phadthanarak**

Construction, Transportation

saksid.pha@thanachartsec.co.th

**Supanna Suwankird**

Utilities

supanna.suw@thanachartsec.co.th

**Wichaya Wongpanuwich, CFA, FRM**

Analyst, Retail Market

wichaya.won@thanachartsec.co.th

**Sittichet Rungrassameephat**

Analyst, Quantitative

sittichet.run@thanachartsec.co.th

**Chak Reungsinpinya**

Energy, Petrochemical

chak.reu@thanachartsec.co.th

**Nuttapop Prasitsuksant**

Electronics, Telecom

nuttapop.pra@thanachartsec.co.th

**Sarachada Sornsong**

Bank, Financial

sarachada.sor@thanachartsec.co.th

**Rata Limsuthiwanpoom**

Industrial Estate, Property Fund, REITs

rata.lim@thanachartsec.co.th

**Witchanan Tambamroong**

Technical Analyst

witchanan.tam@thanachartsec.co.th