Thailand Equity Research

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Morning Brief

1 September 2009

Company

CENTEL (Buy) - Earnings Upgrade

News

Commerce (Overweight) - Commerce: State enterprise workers to get Bt2,000 allowance

Strategy

Strategy - Economic recovery with controllable inflation is positive to the stock market

Where Fundamentals and Timing Converge

Fundamentally 'BUY' rated with technical stop loss & break out signals

#	Stock	Current Price	Fundamental Target	Technical Support: Stop Loss	Technical Support: Upside target	Technical Support: Breakout if above
1	PTTEP	138.50	194.00	will update	158, 163	149
2	DELTA	17.50	22.13	will update	18.3, 20.7	-
3	TSTH	1.77	2.00	will update	2.08-2.10, 2.7	-
4	PTTAR	21.70	22.70	19 (closing)	26.25, 28	-

Fundamentally 'SELL' rated with technical resistance & stop loss warnings

#	Stock	Current Price	Fundamental Target	Technical Resistance: Resistance	Technical Resistance: Downside target

Report Summary

CENTEL (FP Bt4.34, Buy)

Earnings Upgrade

- We revise up our earnings forecasts by 5.9%, 7.6% and 6.1% for 2009-11 to reflect a change in CENTEL's accounting method. Given this earnings upgrade, together with a change in our dividend-payout ratio assumption for the long term from 35% to 40%, our DDM-based fair price rises to Bt4.34/share. Buy rating maintained.
- CENTEL has changed its accounting method for amortizing the lease expenses of Centara Grand at Central World and Sofitel Centara Grand Bangkok from straight line to the systematic method.
- The company will launch 2 new brands in the food business by the end of this year to replace the non-performing Pizza Hut and Baskin Robbins brands.

For more details please see Company Focus

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News Comment

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Commerce (Overweight)

Commerce: State enterprise workers to get Bt2,000 allowance

The State Enterprise Relations Committee yesterday agreed to provide a monthly allowance of Bt2,000 for six months to workers at seven state enterprises (Government Housing Bank, Expressway and Rapid Transit Authority of Thailand, Tourism Authority of Thailand, Government Pharmaceutical Organization, Provincial Electricity Authority, Electricity Generating Authority of Thailand and Port Authority of Thailand) who earn less than Bt15,000 a month. The allowance will cost a total of Bt782mn to fund and be taken from the state enterprises' own budgets.

The committee also agreed that the remaining 57 state enterprises, covering nearly 60,000 workers (and therefore needing a total of Bt13bn to provide the same allowance), should consider requesting such a stipend.

KS Comments

- This news has positive implications for the Commerce sector. Rising incomes of consumers will increase their purchasing power and also stimulate spending.
- We think the modern-trade operators that will benefit from this allowance are CPALL, BIGC and MAKRO. However, we believe that BIGC's and MAKRO's share prices are still feeling the pressure from their weak 3Q09 earnings result and the possibility that the government will reconsider the Wholesales and Retails business Act this month.
- Our top picks in this sector are CPALL (Buy) at a fair price of Bt19.70/share and HMPRO (Outperform) at a fair price of Bt7.70/share.

Strategy

1 September 2009

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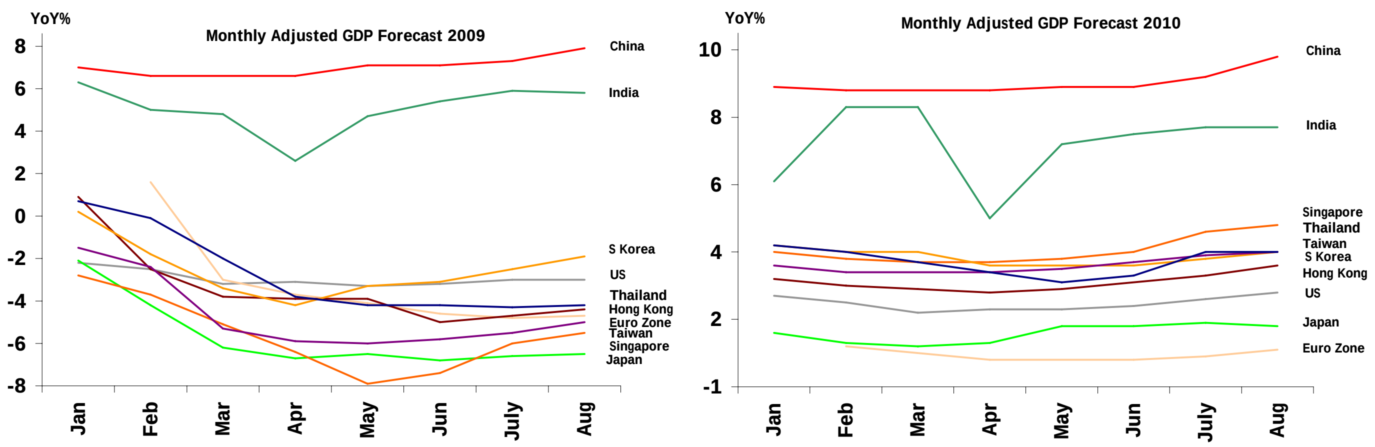
Economic recovery with controllable inflation is positive to the stock market

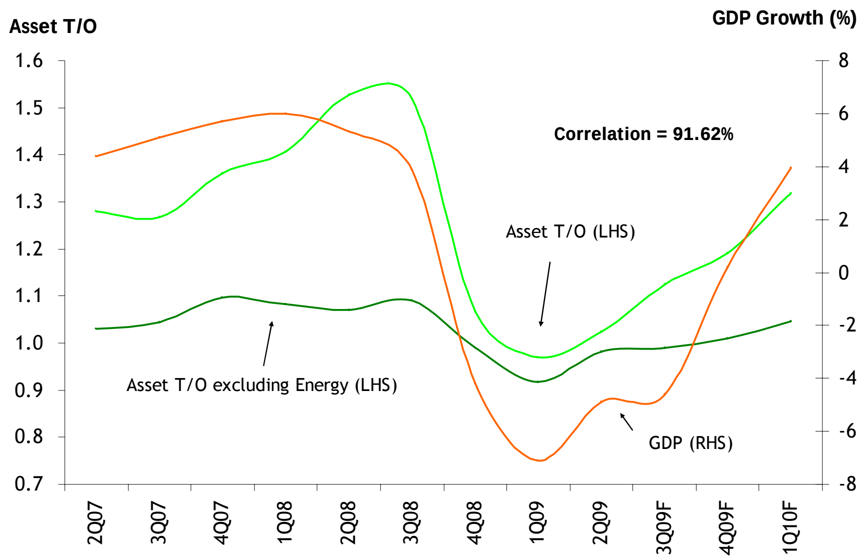
Over the past 3 months, consensus has continuously revised up its 2009 and 2010 GDP growth forecasts (Figure1) as many economic indicators around the world beat expectations. This could be positive for the Thai stock market, as we mentioned in our previous strategy report, as the earnings momentum of Thai corporates in the future could improve from asset turnover rather than gross profit margin due to rising prices for oil and other commodity products. We also found that asset turnover is positively correlated to nominal GDP growth. Thus, whenever analysts revise up GDP it will be positive to asset turnover and corporate earnings. Figure 2 shows the positive relationship between Thai nominal GDP growth and the asset turnover of all stocks under our coverage with a correlation 92%. We believe that the better-than-expected performance of many economic indicators around the world, including in Thailand, in the last 2-3 months will lead consensus to continue to revise up GDP growth, which will definitely be positive to asset turnover. To get an idea of how much asset turnover can increase, we use the relationship between Thai nominal GDP growth and asset turnover, as shown in Figure 3. Accordingly, if nominal GDP growth next year is 7.5% (as forecast by KResearch), asset turnover will increase to 1.327 times in 2010 from 1.032 times in 2009 (see the relationship in Figure 3).

Figure 1: Consensus continues to revise up GDP growth in 2009 and 2010



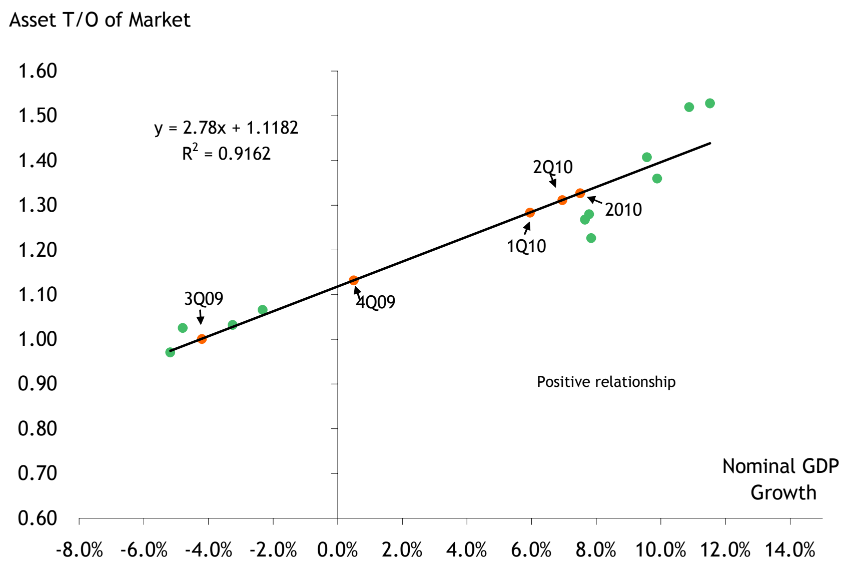
Source: Economic consensus

Figure 2: GDP growth is positively correlated to asset turnover



Source: KS, KResearch

Figure 3: Relationship between GDP growth and asset turnover

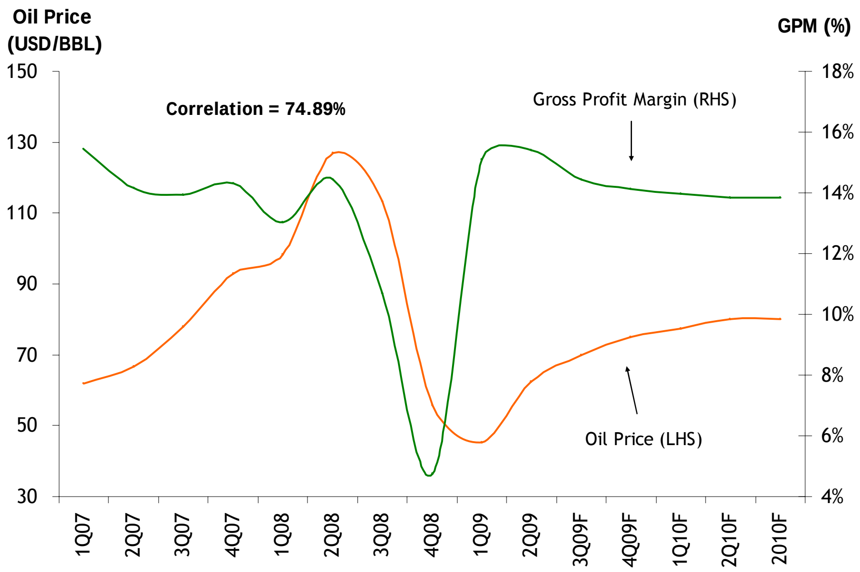


Source: KS, KResearch

The next question is how rising asset turnover can offset the decline in gross profit margin as a result of increasing raw material prices. Figure 4 indicates the relationship between oil prices and the gross profit margins of Thai corporates under our coverage is definitely negatively correlated. Thus, if average oil prices next year reach USD80/bbl, as we have forecast, gross profit margin would drop to 13.8% from 14.8% in 2009 (see Figure 5). From our sensitivity analysis in Figure 6, if gross profit margin in 2010 drops to 13.8% and asset turnover increases to 1.327 times, as we mentioned earlier, the multiplicity between asset turnover and gross profit margin will increase to 18.3% from 15.2% in 2009. Thus, if consensus continues to revise up GDP growth, we will see analysts upgrade the earnings and fair prices of listed companies as asset turnover has more influence on net profit than gross profit margin. We also ran a sensitivity analysis for 3Q09 to 2Q10 and found that the multiplicity of asset turnover and gross profit margin will reach its highest point in 1Q10, based on the assumptions in Figure 6, which will be positive to earnings momentum in the medium term. While the multiplicity of asset turnover and gross profit margin will drop slightly in 3Q09, this is due to smaller stock gains in the petrochemical and refinery sector and not real operations. The risk to our forecast is lower-than-expected GDP or oil prices increasing to more than USD75/bbl next year.

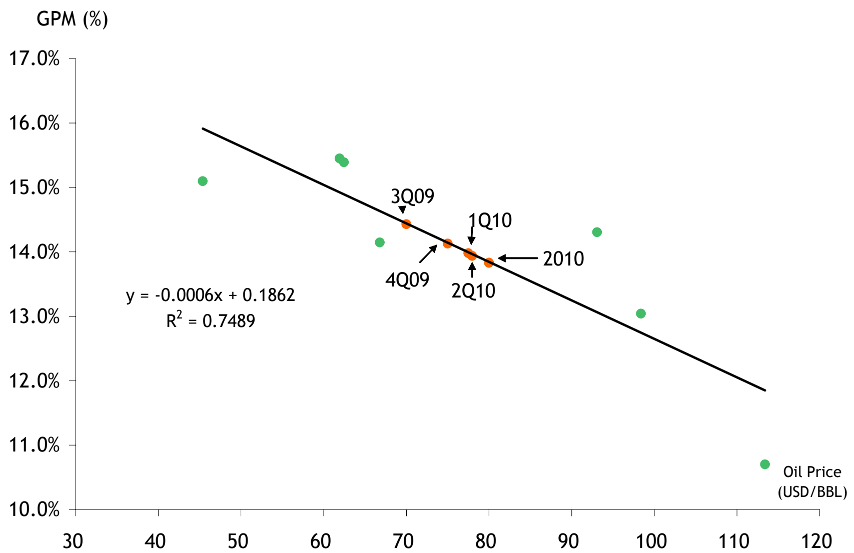
We maintain our SET index target for 1H10 at 710 pts and expect it to reach that level in 1Q10 as earnings momentum will peak at that time, as we mentioned earlier. After 1Q10, we expect the market to trade sideways in line with slower GDP growth and the lower multiplicity between asset turnover and gross profit margin, as indicated in Figure 6.

Figure 4: GPM is negatively correlated with oil prices



Source: Bloomberg, KS, KResearch

Figure 5: Relationship between oil price and gross profit margin



Source: KS, KResearch

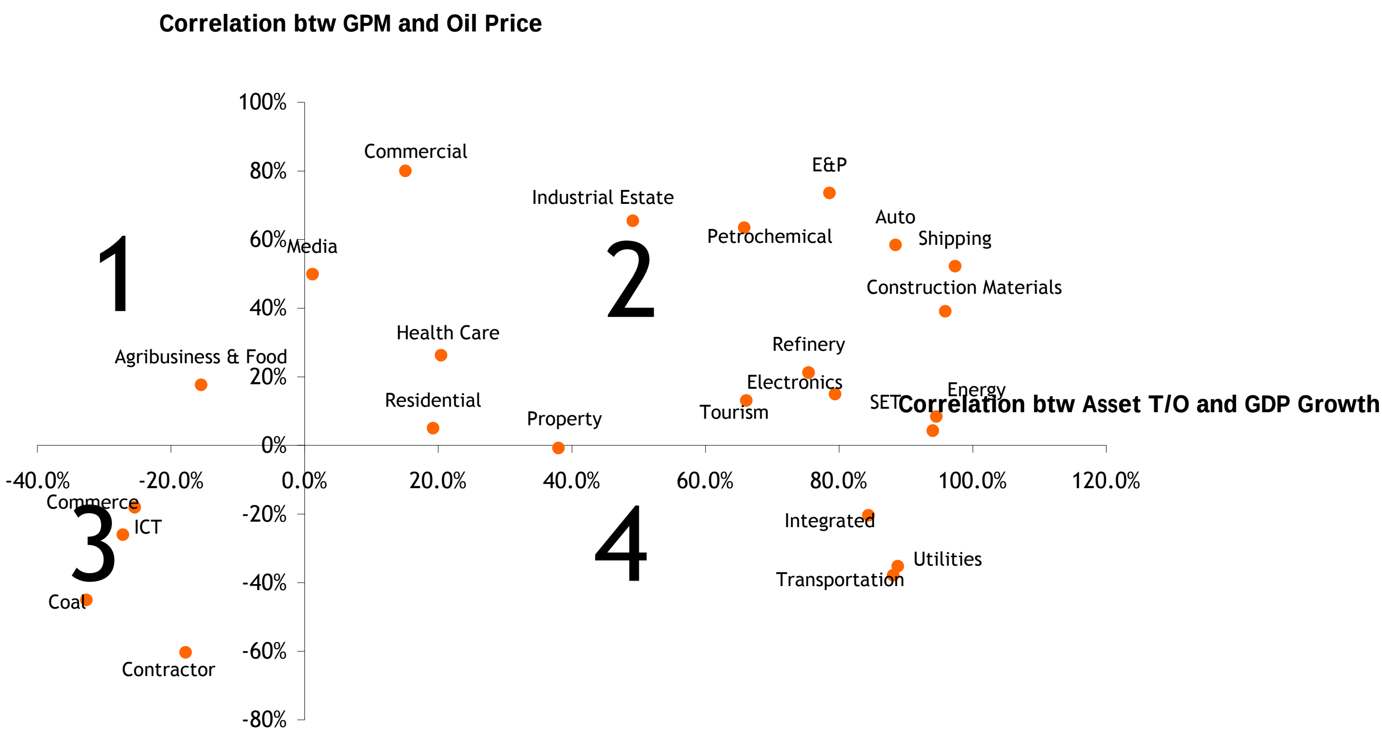
Figure 6: The impact of GDP growth and oil prices on asset turnover and gross profit margin in different periods

	1Q09	2Q09	3Q09E	4Q09E	1Q10E	2Q10E	2010E	2009E
GDP Nominal	-5.2%	-4.8%	-4.2%	0.5%	6.95%	5.95%	7.50%	-3.25%
Oil Price	45.37	62.44	70.00	75.00	77.5	80	80	63.20
Asset T/O	0.97	1.03	1.001	1.132	1.311	1.283	1.327	1.032
GPM	15.1%	15.4%	14.4%	14.1%	14.0%	13.8%	13.8%	0.148
Asset T/O * GPM	14.7%	15.8%	14.4%	16.0%	18.3%	17.7%	18.3%	15.2%

Source: KS, KResearch

Despite oil prices having a negative correlation with gross profit margin for the market as a whole, some sectors will see a positive impact, especially the commodities sectors. Thus, we believe that the sectors that show a positive correlation both with increasing GDP growth and rising oil prices are likely to outperform the market in the medium term. The sectors in quadrant 2 in Figure 7, such as E&P, Shipping, Petrochemical, Construction materials, Industrial estates, etc, are those where gross profit margin and asset turnover show a positive correlation with oil prices and GDP growth. Among all the sectors in this quadrant, we are currently Overweight on E&P, Tourism, Healthcare and Auto. We also upgrade Shipping to Neutral in this report. On the flip side, the sectors in quadrant 3 in Figure 7 that show a negative correlation with both GDP growth and oil prices include ICT, Contractors, Commerce, and Coal.

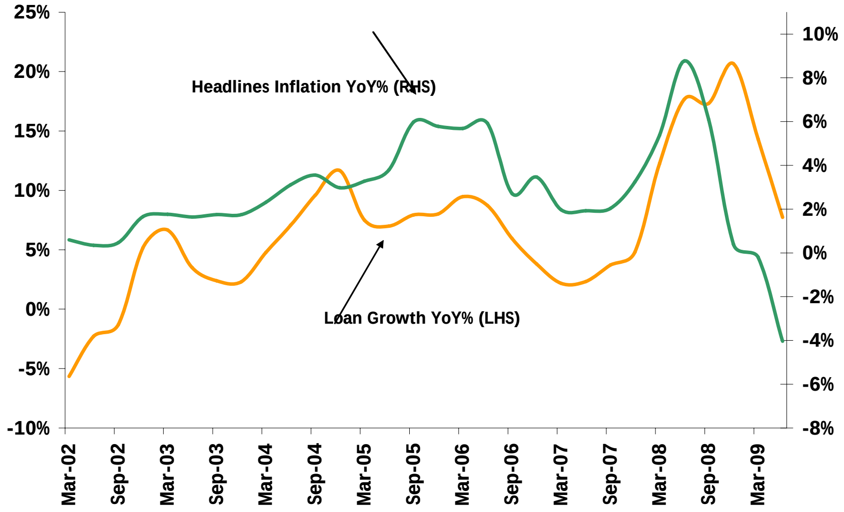
Figure 7: The impact of GDP growth and oil prices on asset turnover and gross profit margin in different sectors



Source: KS

We did not include the Banking sector in Figure 7 but we believe that it will also benefit from rising inflation and higher GDP growth. Nobody doubts the positive relationship between loans growth and GDP growth. Bank loans growth is also strongly correlated with inflation, as indicated in Figure 8. This can be explained by the higher working capital needs of corporates when commodity prices rise. BBL will benefit the most from rising inflation. KResearch has forecast that Thai inflation next year may reach 5% at the top end.

Figure 8: Relationship between inflation and loans growth



Source: BOT, KS

As we believe that consensus will continue to revise up GDP growth and corporate earnings coupled with high inflation next year, we recommend investors Overweight the sectors that benefit from higher GDP growth and inflation. We Overweight the Banking sector (top pick BBL), E&P sector (top pick PTTEP), Hotel sector (MINT) and Hospital sector (BH). We upgrade Shipping (top pick TTA) to Neutral from Underweight. We believe that Shipping will benefit from the economic recovery and high inflation. We also upgrade the ICT sector (top pick ADVANC) to Neutral due to its underperformance relative to the market in the past 3 months despite it gaining no significant benefit from either GDP growth or inflation. However, the ICT sector may benefit from the granting of 3G licenses in the future. In this report, we add the Automobile sector to our portfolio and give it an Overweight rating due to its recovery story (top pick SAT).

We downgrade the Petrochemical sector to Underweight from Neutral due to concerns over new supply in the next 2 years and because its share prices have significantly outperformed the market. Prices of Industrial Estate shares also rose rapidly in the past month, and we downgrade the sector from Neutral to Underweight. We also downgrade Securities to Underweight from Neutral on concern over the liberalization of commissions, starting next year.

Figure 9 KS portfolio

Sector	Current Weight Recommended	Previous Wt from Aug 09	Recom. / Sector Wt.	Top Picks
Banking	Overweight	Overweight	30.3%	BBL
Securities	Underweight	Neutral	0.2%	ASP
Food & Agro - MINT	Neutral	Neutral	2.4%	CPF
Automotive	Overweight	N/A	0.1%	SAT
Petrochemical + SCC	Underweight	Neutral	4.2%	PTTCH
Energy	Neutral	Neutral	38.1%	
Coal	Underweight	Underweight	*2.3%*	BANPU
E&P	Overweight	Overweight	*13.4%*	PTTEP
Integrated	Underweight	Underweight	*14.6%*	PTT
Refinery	Neutral	Neutral	*5.8%*	TOP
Utilities	Underweight	Underweight	*2.0%*	GLOW
Construction - SCC	Neutral	Neutral	2.1%	TSTH
Property	Underweight	Underweight	4.5%	
Contractor	Neutral	Neutral	*0.6%*	STEC
Industrial Estate	Underweight	Neutral	*0.3%*	ROJANA
Residential	Neutral	Neutral	*3.1%*	AP
Commercial	Underweight	Underweight	*0.5%*	CPN
Commerce	Neutral	Neutral	2.5%	CPALL
Healthcare	Overweight	Overweight	1.7%	BH
Media	Neutral	Neutral	1.5%	BEC
Tourism + MINT	Overweight	Overweight	1.6%	MINT
Transport & Shipping	Underweight	Underweight	0.8%	
Shipping	Neutral	Underweight	*0.8%*	PSL
Transportation	Underweight	Underweight	*0.0%*	
Electronics	Neutral	Neutral	1.2%	DELTA
ICT	Neutral	Underweight	8.5%	ADVANC
Total			**100%**	

Source: KS