

Thursday, July 25, 2019

Investment Strategy

There is no new factor for SET Index. Markets are watching the Fed and the ECB meetings, expecting to see easing monetary policies. Today we sell stocks that already rallied and hardly have upside now while invest more in stocks that are likely to outperform the SET, especially our top picks TTCL(FV@12.50) and EASTW(FV@B15.20).

SET Index swings second day

Without new positive factor, SET Index yesterday remained volatile for the second day (like on Tuesday) and closed at 1,725.44 pts, up 0.57 pts (+0.03%) with trading value of B52.8bn. The market was supported by ICT plays, especially ADVANC (+1.41%), DTAC (+3.04%), TRUE (+2.34%), and JMART (+1.61%), and commerce plays COM7 (+1.67%) and BEAUTY (+1.04%), while weakened by food plays, especially CPF (-2.61%), MINT (-1.84%), and M (-0.63%), as well as big-cap SCB (-2.12%), IVL (-1.83%), and CPN (-1.02%).

SET Index is still undergoing correction without any new significant factor. Markets are keeping an eye on the ECB and the Fed meetings, especially interest rate directions; they are anticipated to use more easing monetary policies. Meanwhile in Thailand, economic stimulus measures are expected after the new government announce their policies to the parliament on July 25-26, 2019. We recommend stocks that have strong 2Q19 profit, pay 1H19 interim dividend, and benefit from the current situation (e.g. the drought or the government's economic stimulus measures). For our investment portfolio, we sell M and KKP to take profit as they already rallied and have limited upside now, while we invest 10% more in TTCL(FV@B12.50) and 15% more in EASTW(FV@B15.20). TTCL's 2Q19 profit is expected to shine, while its power plant business in Myanmar is showing a good development. EASTW would benefit from the drought, so we revise up EASTW's forecast and fair value.

Watch ECB meeting today, Fed meeting next week

The world is clearly entering the interest rate downtrend. Central banks of many countries have signaled easing monetary policies. Global markets are closely watching the European Central Bank (ECB) meeting today. While market expect nothing new at this meeting, some economists anticipated the ECB deposit rate to be lowered by 0.1% from -0.4% at present to -0.5%. Latest Bloomberg survey suggested 40% probability of the ECB deposit rate cut, versus 60% chance that the ECB deposit rate would be held unchanged.

U.S. 2Q19 GDP growth will be reported this Friday. U.S. 2Q19 GDP growth is estimated at 1.8%qoq and 2.6%yoy, slowing down from 3.1%qoq and 3.2%yoy in 1Q19. This will determine Fed fund rate cut decision. At the Fed meeting on July 30-31, U.S. benchmark interest rate is highly anticipated to be lowered from the current level of 2.5%. Bloomberg survey suggested 100% probability of Fed fund rate cut at this meeting, 80% chance of a 0.25% cut and 20%

SET Index	1,725.44
Change (pts)	0.57
Market Cap (Million B)	52,833

Net Buy and Sell by Investor Type (Million B)	
Foreign	57.50
Proprietary	-455.03
Institutional	36.11
Retail	361.42

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of a 0.5% cut). Otherwise, if the Fed fund rate cut is postponed from this meeting, markets are likely to undergo a correction in the near future.

Amid worldwide interest rates downtrend, fund inflow is still expected in Asia, but it would be hindered for the short term by Brexit concern. GBP has weakened 1.73% mtd and 1.7% ytd, while USD has strengthened 1.64% mtd; this would slow down fund outflow from assets in USD while weaken fund inflow to Asia. Fund inflow is likely among safe haven assets.

Oil inventories drop sixth week, but crude oil price falls

Reported by U.S. Energy Information Administration (EIA), oil inventories decreased for the sixth consecutive week by 10.8 million barrels (more than 4 million barrels drop expected). The OPEC+ cartel agreed to extend its 1.2 million bpd oil production curb deal by nine months to March 31, 2020. However, oil supply still increased as U.S. oil production rose to 11.3 million bpd, making the US the world's No.1 oil producer, followed by Russia with oil production of 11.1 million bpd. In the Middle East, Libya-based El Shalala oil field resumed production on Tuesday, boosting oil supply by 292,000 bpd.

Meanwhile, oil price would continue to drop due to a decline in demand because the economy worldwide has been depressed by trade war. The IMF revised down world GDP growth for the third time this year to 3.2% in 2019 and 3.5% in 2020 (from the April forecast of 3.3% and 3.6%). **Conflicts at the Korean Peninsula remained intense. This morning, North Korea launched two missiles into the sea near Japan's exclusive economic zone (EEZ).**

Dubai crude oil price yesterday closed at US\$60.82 and marked the YTD average of US\$64.2, still higher than our assumption of US\$60 in 2019 while in line with our assumption of US\$65 from 2020 on. 2Q19 earnings of the energy-refinery industry would drop from 1Q19 because a decline in crude oil price would result in stock loss. We still recommend staying away from energy-refinery plays for the short term.

Property plays' 2Q19 profit to fall qoq, yoy

2Q19 profit of the property sector is expected to fall yoy and qoq and make a year's low. In 1Q19, property sales and transfers were very robust and property developers actively sold off their ready-for-transfer inventories in order to avoid impact of the new mortgage measure that took effect on April 1, 2019. Moreover, the sector recognized additional personnel expense (under the new labor protection law) of B370m in total.

We revise down LPN's 2019 net profit forecast by 9% to B1.38bn (staying flat from 2018). We lower projection on revenue from transfers by 11.5% to B10bn to reflect opening of fewer new projects and lower presales. Fair value drops from B8.20 to B7.50. We downgrade recommendation to Switch.

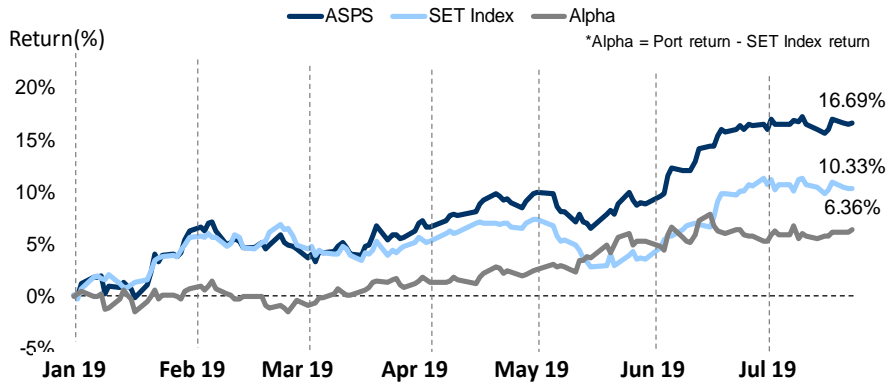
We are working on earnings previews for other property developers. Notably, many property places have rallied robustly since the beginning of the year, especially ORI (+43%), PSH (+28.9%), and SPALI (+29.7%), so they are fully valued now. Investors have to be more cautious about property plays.



TTCL, EASTW included in portfolio, replacing fully-valued stocks

Our investment portfolio is still providing robust return of 16.69%ytd, outperforming SET return of 10.33%. Notably, six out of seven stocks in our portfolio outperform the SET in July, providing consistently and satisfyingly high return.

YTD return of ASPS portfolio vs YTD SET return



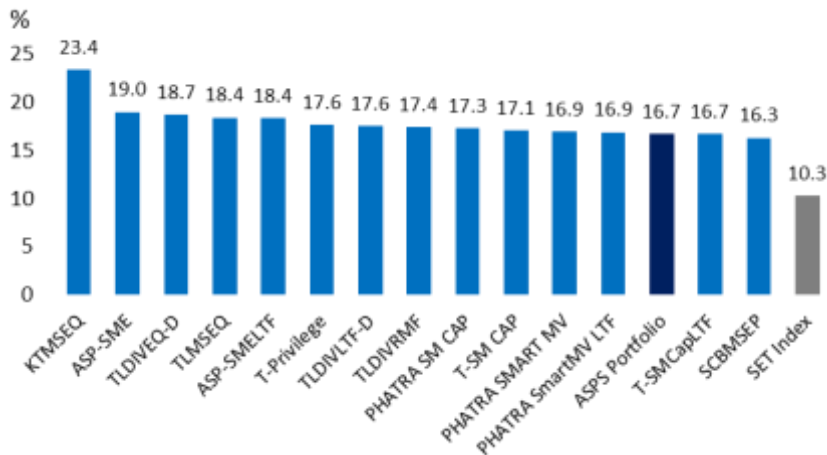
Month	Jan	Feb	Mar	Apr	May	Jun	Jul (mtd)	YTD
ASPS Portfolio*	5.43%	-0.62%	0.86%	3.24%	-0.16%	6.84%	0.26%	16.69%
SET Index	4.98%	0.72%	-0.90%	2.13%	-3.18%	6.80%	-0.28%	10.33%
Alpha	0.45%	-1.34%	1.76%	1.11%	3.02%	0.04%	0.54%	6.36%

Note: Return of ASPS portfolio before deduction of security trading fee

Source: Morningstar / ASPS Research

Notably, our portfolio provides the eighth highest return among 330 mutual funds nationwide.

YTD return of Thai mutual funds vs YTD SET return



Note: Return of ASPS portfolio before deduction of security trading fee

Source: Morningstar / ASPS Research

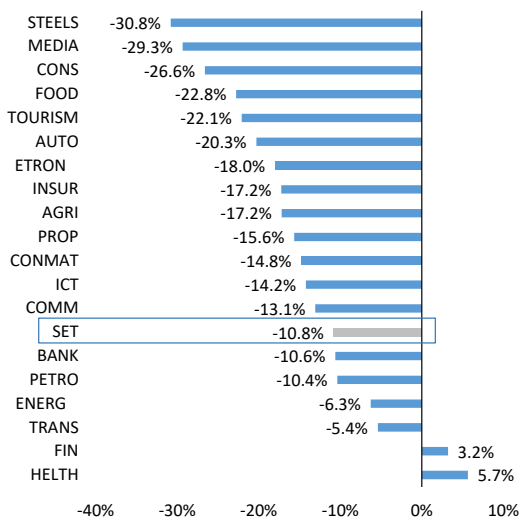
Today we sell fully-valued KKP and M to take profit and switch to stocks with good stories that we have just revised up their forecasts. We increase investment in EASTW by 15% and TTCL by 10%.

EASTW(BUY:FV@B15.20) – We revise up EASTW to reflect many positive factors. EASTW already signed industrial water sales contracts with Amata City industrial estate in Rayong (COD in 2021) and GULF's GPD IPP project (COD in 2022). It will revise its raw water selling price rate formula. Moreover, the drought has continuously lowered water supply, possibly boosting EASTW's raw and tap water sales volume (similar to previous droughts) beyond our conservative projection.

TTCL(BUY:FV@B12.50) – 2Q19 profit is estimated at B532m, jumping 110%qoq thanks to higher income from major projects and extraordinary profit from the sale of 60% shares in TTGP at the value of US\$21m in late May 2019. The sales of TTGP shares would strengthen TTCL's financial position, improving net gearing from 2.33x at end-1Q19 to 1.27x at end-2Q19. Moreover, TTCL is anticipated to sign the deal for Ahlone project phase 2 with Myanmar's government in 3Q19, which would boost TTCL's backlog by US\$480m. All these good news would significantly boost TTCL's business fundamentals and financial position. We revise up TTCL's 2019 earnings forecast by 136% and raise its fair value by B10 to B12.50.

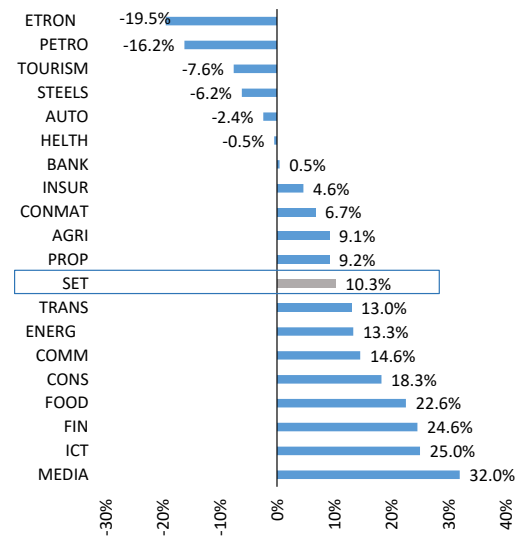
Stay tuned for our investment analyses and strategies. We hope you will enjoy favorable investment returns.

SET vs Sector Return 2018



Source: ASPS Research

SET vs Sector Return 2019 YTD



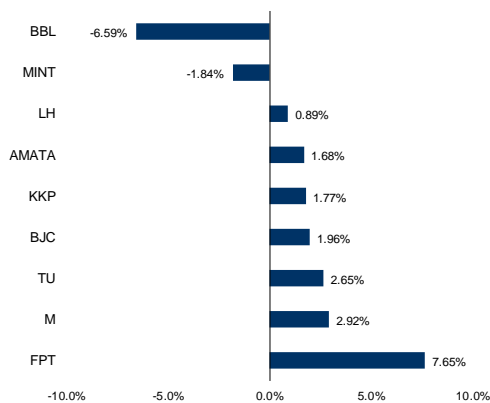
Source: ASPS Research

Market Talk Top Picks

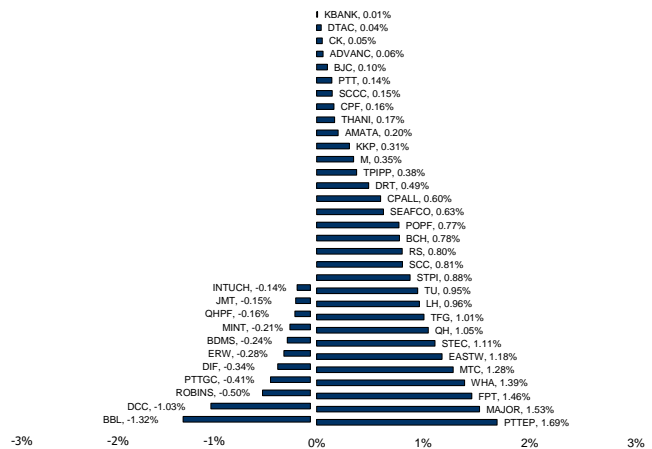
Stocks	Start Date	Fair Value	Weight	Price Avg. Cost	Price Last	Accumulated Return	PER 2019F	PBV 2019F	Dividend Yield	Strategist Comment	-5 Day Chart
MINT	17-Jul-19	47.00	10%	40.75	40.00	-1.84%	27.64	1.70	1.16	Consumption stimulus measures would benefit both food and hotel businesses. 2Q19 profit is expected to grow remarkably thanks to high season for NH Hotel.	
FPT	22-May-19	20.30	10%	17.65	19.00	7.65%	37.09	2.70	1.35	GOLD acquisition expands FPT's integrated property development business. Profit base would grow further owing to joint ventures with foreign partners.	
BBL	24-May-19	227.00	15%	199.67	186.50	-6.59%	9.61	0.81	4.29	Profit is expected to grow 4.9%yoy in 2019 and 7.6%yoy in 2020. Top bank pick for dividend yield of 4%p.a (the highest among big-cap banks) and low beta.	
LH	04-Jul-19	13.60	10%	11.20	11.30	0.89%	13.59	2.41	6.62	LH's dividend yield is expected above 6%p.a. LH also enjoys positive sentiment from interest rate downtrend	
TU	10-Jul-19	23.00	10%	18.90	19.40	2.65%	18.41	2.03	2.84	2Q19 profit would be strong as tuna and shrimp export enters high season. 2Q19 net profit is expected at B1.25bn, growing significantly from 2Q18.	
M	09-Jul-19	84.00	10%	77.00	79.25	2.92%	25.89	5.05	3.48	Today we sell M and KKP to take profit and invest 10% more in TTCL and 15% more in EASTW.	
BJC	11-Jul-19	61.00	10%	51.00	52.00	1.96%	29.21	1.72	1.71	2H19 profit is expected to rebound significantly thanks to consumption stimulus measures and eight new stores. 2019 profit is estimated at B7.1bn, growing 7.1%.	
KKP	03-Jul-19	75.33	15%	70.75	72.00	1.77%	10.06	1.39	6.25	Today we sell M and KKP to take profit and invest 10% more in TTCL and 15% more in EASTW.	
AMATA	18-Jun-19	35.70	10%	23.80	24.20	1.68%	14.77	1.84	2.71	Chinese firms may move production bases to Thailand to avoid trade war impact, while the government is pushing forward EEC projects, having positive sentiment on AMATA.	

Today we sell M and KKP to take profit and invest 10% more in TTCL and 15% more in EASTW.

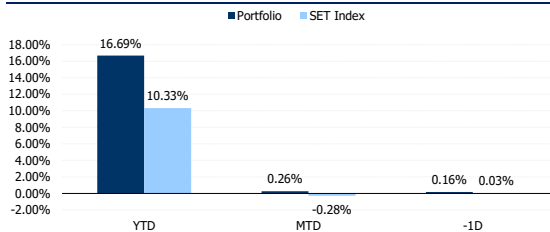
Accumulated returns since our recommendation



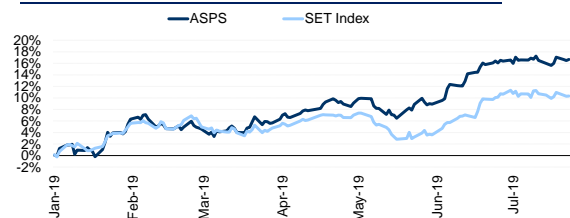
Accumulated contribution returns since beginning of the year



Accumulated returns



Accumulated returns since beginning of the year



Source: ASPS Research