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KEY HIGHLIGHTS

Strategy

Gearing Up For Recovery

Cautiously optimistic in 2H21; investment strategy is skewed towards domestic economic reopening and resilient global economic growth.

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Update

Siam Cement (SCC TB/BUY/Bt420.00/Target: Bt545.00)

Expect 2Q21 earnings to remain strong on chemical spread and dividend income.

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True Corporation (TRUE TB/BUY/Bt3.04/Target: Bt4.00)

2Q21 results preview: Expect operating loss to continue into 2Q21.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,552.09	8.42	0.55
SET50	934.18	4.42	0.48
Value (Btm) - SET	75,451		
Top 5 Sector			
BANK	330.67	2.33	0.71
PETRO	1,071.07	12.61	1.19
PROP	215.17	0.62	0.29
ENERG	22,670.25	(22.11)	(0.10)
ICT	141.29	0.88	0.63

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
KBANK	114.00	2.24	25,070.2
GUNKUL	4.76	3.48	560,166.1
PTT	37.25	0.00	57,764.8
SCB	92.00	0.00	22,247.2
BBL	105.00	0.48	18,668.6

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
AO	0.02	100.00	93,269.2
EFORL	0.11	22.22	1,364,587.2
NINE	3.68	18.71	305.9
STOWER	0.07	16.67	53,385.0
SAAM	6.30	15.60	23,024.5

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
COMAN	4.84	(13.57)	3,058.1
MVP	5.90	(13.24)	5,587.6
RCI	3.32	(9.29)	55.8
RWI	1.74	(8.42)	44,317.4
HYDRO	0.33	(8.33)	6,560.9

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	75.7	5.0	21.8	47.8
Dubai crude*	73.5	4.8	21.4	46.4
Baltic Dry Index	3,300.0	15.5	53.8	141.6
Gold Spot***	1,806.3	(3.8)	4.2	(4.8)

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(2.3)	(173.4)	(2,642.1)	6,165.1

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 32.52

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%) - MLR = 5.25

STRATEGY – THAILAND

Gearing Up For Recovery

We remain cautiously optimistic towards the index in 2H21 as we expect it to be supported by: a) improved economic activities on the reopening of the economy, b) strong corporate earnings rebound, c) mass vaccinations, and d) high liquidity on the sidelines. Our investment strategy is skewed towards domestic economic reopening and resilient global economic growth. Our top picks are BBL, BDMS, COM7, CPN, IVL, KBANK, MINT, PTTGC, SCGP and SPALI.

WHAT'S NEW

- Slower-than-expected GDP recovery.** Given lower foreign arrivals and muted private consumption, Thailand's economy is expected to post a positive growth of only 1.5-2.5% yoy in 2021 (previous forecast: 2.5-3.5%), according to the Office of the National Economic and Social Development. Thailand's economic revival will likely be stronger in 2H21, supported by economic reopening, additional stimulus and higher exports.
- Strong corporate earnings.** Aggregate earnings of the companies under our coverage are expected to rebound sharply by 62% yoy in 2021 due to strong growth in the energy, petrochemical and construction services sectors. For 2022, aggregate earnings growth is projected to rise further by 10% yoy. Due to the foreign arrivals and the mass vaccination rollout in Thailand, the hotel sector is expected to report a profit in 2022 following an expected net loss in 2021.
- Mass vaccinations a game changer.** The number of new COVID-19 infections has surged since the Songkran Festival in Apr 21 when locals travelled freely nationwide. The Thai government aims to procure 100m doses of the COVID-19 vaccine for 50m residents before end-21. Given the slow vaccination rollout of <8m doses in Jun 21, the government's target to dispense 100m doses by end-21 is challenging. Mass vaccinations will buoy sentiments in Thailand's stock market and attract foreign capital inflows.
- More volatility from Fed tapering.** No clear signals came out of the Federal Reserve's meeting in Jun 21, but investors believe the meeting marks the end of the global economy's peak dovishness. Rate hikes are expected to come sooner than expected. Although Thailand's exports to the US will accelerate on the US economic rebound, any pullback in the latter's money supply will roil Thailand's stock market in 2H21.
- SET index target of 1,760 in Jun 22.** Our EPS estimates are revised up to Bt80.6 (from Bt76.5) in 2021 and Bt90.1 (from Bt85.3) in 2022. Our 12-month SET target is 1,760 based on 20.6x 2021F PE and average EPS of Bt85.3 for 2021-22.
- Risks.** Tepid economic recovery, elevated household debts and muted foreign arrivals.
- Prefer domestic economic reopening and global recovery plays.** We prefer stocks that are beneficiaries of the reopening of the local economy, supported by the mass vaccination programme and a more resilient global economic rebound.
- Top picks are BBL, BDMS, COM7, CPN, IVL, KBANK, MINT, PTTGC, SCGP and SPALI.**

[Click here](#) for Blue Top dated 09 Jul 21

PEER COMPARISON - VALUATION

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	PE			EPS Growth (%)	PEG	P/B	Yield (%)	ROE (%)
							2020F (x)	2021F (x)	2022F (x)					
Bangkok Bank	BBL TB	BUY	108.00	149.00	37.96	6,789	12.0	8.5	7.4	41.4	0.2	0.4	3.3	5.3
Bangkok Dusit Medical Services	BDMS TB	BUY	23.50	26.00	10.63	12,298	51.8	52.5	46.2	(1.5)	(35.9)	4.1	1.0	7.6
COM7	COM7 TB	BUY	69.00	83.00	20.29	2,727	55.2	35.0	27.5	57.8	0.6	16.5	1.4	53.1
Central Pattana	CPN TB	BUY	51.75	62.00	19.81	7,648	24.3	26.2	20.6	(7.3)	(3.6)	3.0	1.2	10.9
Indorama Ventures	IVL TB	BUY	39.75	60.00	50.94	7,349	92.4	15.5	13.2	497.9	0.0	1.7	2.5	10.6
Kasikornbank	KBANK TB	BUY	117.00	162.00	38.46	9,128	9.5	8.1	7.2	17.7	0.5	0.6	3.8	7.6
Minor International	MINT TB	BUY	30.00	35.00	16.67	5,133	n.a.	n.a.	108.5	5.1	na	3.7	n.a.	(30.7)
PTT Global Chemical	PTTGC TB	BUY	59.00	76.00	28.81	8,760	1,332.7	5.8	8.6	22,851.0	0.0	0.8	5.6	15.1
SCGP	SCGP TB	BUY	63.25	62.00	(1.98)	8,941	42.0	31.4	27.7	33.9	0.9	2.9	0.9	7.6
Supalai	SPALI TB	BUY	20.30	24.50	20.69	1,433	11.0	7.5	7.3	47.7	0.2	1.1	5.6	14.8

Source: UOB Kay Hian

TOP PICKS

Company	Last Price (Bt)	Target Price (Bt)	Potential Upside (%)
BBL	108.00	149.00	37.96
BDMS	23.50	26.00	10.63
COM7	69.00	83.00	20.29
CPN	51.75	62.00	19.81
IVL	39.75	60.00	50.94
KBANK	117.00	162.00	38.46
MINT	30.00	35.00	16.67
PTTGC	59.00	76.00	28.81
SCGP	63.25	62.00	(1.98)
SPALI	20.30	24.50	20.69

Source: UOB Kay Hian

SECTOR RATINGS

Sector	UOBKH Rating
Banking	OVERWEIGHT
Consumer Staples	MARKET WEIGHT
Construction Services	OVERWEIGHT
Electronics	OVERWEIGHT
Energy & Petrochemical	OVERWEIGHT
Finance	MARKET WEIGHT
Healthcare	OVERWEIGHT
Hotel	MARKET WEIGHT
Industrial Estate	MARKET WEIGHT
Media	UNDERWEIGHT
Property	OVERWEIGHT
Retail	MARKET WEIGHT
Telecommunications	MARKET WEIGHT
Utilities	MARKET WEIGHT

Source: UOB Kay Hian

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- **Light at the end of the pandemic tunnel.** Thailand's GDP decreased 2.6% yoy in 1Q21, lower than the 4.2% decrease in 4Q20. After seasonal adjustment, the economy expanded minimally in 1Q21 by 0.2% qoq. However, Thailand is struggling to curb the new COVID-19 infections which have been accelerating since the Songkran Festival in Apr 21. Although the economy is expected to rebound in 2021 following the sharp 6.1% yoy decline in 2020, the recovery will be slower than expected due to escalating impact from the pandemic and slow vaccination progress. The Bank of Thailand (BOT) lowered its GDP growth projection to 1.8% yoy in 2021 (from 3% earlier) as it lowers its forecasts of foreign arrivals to 0.7m (from 3m) and private consumption growth to 2.5% yoy (from 3.0%) in the year. For 2022, the BOT has also lowered GDP growth to 3.9% yoy (from 4.7%). Any improvement in GDP will be largely due to higher private spending (consumption and investment), rising public investments and exports, and an additional 10m foreign arrivals in 2022.
- **Economic recovery to pre-COVID-19 levels likely to be delayed to 1Q23.** The Bank of Thailand (BOT) has forecast that Thailand's economic recovery to pre-COVID-19 levels will be delayed to 1Q23 (from earlier forecast of 2H22) as a result of the latest wave of COVID-19 infections and slow vaccination progress. The BOT further predicts that the speed of economic growth recovery will mainly depend on the procurement and distribution of vaccines.
- **Accommodative measures and easing monetary policies.** We believe the government's public expenditure would remain an important economic driver in 2021, given: a) lacklustre private sector spending, b) elevated job losses, and c) high household debts. The government's pro-growth policies are necessary to help sustain future growth amid the fragile economic recovery ahead. Moreover, monetary policy should remain accommodative to ease the financial burdens of businesses and individuals. We expect the BOT to keep the policy rate at 0.5% for the rest of the year.
- **Earnings to resume growth in 2021.** After the strong earnings results in 1Q21, we see a better outlook for corporate earnings in 2021-22. Our earnings projection is expected to rebound strongly by 62% yoy to Bt753b in 2021 following a sharp 36% yoy decline in 2020, and is likely to rise 10% yoy to B829b in 2022. We anticipate a broad-based earnings recovery in 2021. Sectors that will likely report robust earnings growth in 2021 include energy (+397%) and petrochemical (+113%), as the global economic recovery gives oil demand and elevated oil prices a lift. In addition, earnings growth for construction services (+171%) will rebound strongly, given a huge backlog and low-base effects.
- **High liquidity on the sidelines.** The SET traded above 1,600 in Jun 21 and is exceeding the pre-COVID-19 level of 1,579.84 in Dec 19. This is partly due to vaccine optimism. Also, broad money, or M2, and commercial banks' deposits increased further by 1.2% and 2.0% respectively in 4M21 following M2's 10.1% rise and deposits' 9.7% increase in 2020. Although the economy has been improving, we believe plenty of cash remains on the sidelines and may be relocated to stocks for higher returns amid prolonged low interest rates, mass vaccinations and accommodative stimulus.
- **Vaccinations still a game changer.** Despite the availability of fiscal stimulus and accommodative measures, we believe the business and economic environment will not return to normal if mass vaccinations are too slow. The government is trying to speed up the procurement and distribution of vaccines so that the economy can get back on its feet as quickly as possible. The prime minister announced in mid-Jun 21 that the country has inked agreements with Pfizer, Johnson & Johnson, Moderna, Sinovac, Sinopharm and AstraZeneca for 105.5m doses to be delivered in 2021. He expects 50m people to get vaccinated in 2021 if the vaccines arrive as planned. This will then enable the economy to reopen fully within 120 days from Jun 21 with businesses resuming normal operations and visitors free to travel across the country.
- **100m doses of vaccines a challenging target.** We think the government's target to dispense 100m doses of vaccine by end-21 is challenging given the scarcity of vaccines in many countries. Despite the vaccine shortage, we are still optimistic that mass vaccinations will pave the way for further economic reopening. As investors' confidence rise, they will start to look for higher investment returns. We expect some foreign capital to flow back to Thailand's stock market in 2H21 if vaccinations progress as planned.
- **Risks.** Headwinds that could roil the stock market further in 2H21 are: a) a lacklustre economic recovery from the escalating impact of the pandemic; b) higher household debts –

Thailand's household debt to GDP rose to 89.3% in Dec 20 from 79.4% in Dec 19 – eroding future consumption and weakening loan quality, leading to elevated NPLs; and c) muted foreign arrivals – Thailand's economy will not be able to rebound in a sustainable manner if tourism-related businesses remain weak.

- **Tourism-related sectors continue to struggle.** Based on earnings projections of the companies under our coverage, the hotel sector will likely continue to report a net loss of Bt25b in 2021 (vs a loss of Bt27.8b in 2020). Recently, the hotel sector reported an aggregate net loss of Bt8.2b in 1Q21. Given the larger-than-expected impact from the pandemic and slow vaccination progress in Thailand, the BOT forecast only 0.7m foreign tourists in 2021, way below the 6.7m seen in 2020.
- Under the "Phuket Tourism Sandbox" model starting from 1 July, Phuket will waive quarantine requirements for foreign tourists who have been fully vaccinated against COVID-19. However, businesses in Phuket have responded cautiously to the plan, as hotel operators and local airlines do not have much confidence that foreign tourists will return to the island due to the strict requirements imposed on tourists. For example, the government has extended the compulsory stay for vaccinated tourists to Phuket from seven days to 14. Visitors are also required to submit three swab test results even if they had negative results prior to arrival. Given the tough regulations and slow vaccination rollout in Thailand, we believe tourism and related sectors will remain challenging in 2021.
- **More volatility expected from US Fed.** At a meeting in Jun 21, the Federal Reserve raised their expectations for inflation and brought forward the time frame for when it will raise interest rates. Although the Fed gave no indication as to when it would begin scaling back on its aggressive bond-buying programme and implementing the rate hikes, the Fed's chairman acknowledged that both issues had been discussed at the meeting. The rate hikes could take place in 2023 (instead of 2024 as expected earlier), based on officials' views. The uncertainty could hurt Thailand's stock market. More market volatility can be expected due to foreign capital outflows and the depreciation of the baht against the US dollar.
- **Stock market.** Despite concerns on the Fed's tapering, stalled domestic economic recovery and high household debts, we are cautiously optimistic towards the SET index going forward. Our view is mainly supported by improving global economic conditions, as well as Thailand's strong corporate earnings growth, mass vaccination campaign and high liquidity.
- **12-month SET target of 1,760.** Our 12-month SET target is 1,760 at Jun 22, based on 2021F PE of 20.6x and average EPS of Bt85.3 in 2021-22. Our SET target provides roughly 13-14% upside from the current level. We have raised our SET target to 1,660 at end-21 (from 1,630 earlier) to factor in our revised EPS of Bt80.6 (from Bt76.5) in 2021, the economic reopening and mass vaccination programme in 2H21. In addition, we lift our EPS estimate to Bt90.06 for 2022 (from Bt85.30).

ACTION

- **OVERWEIGHT banking, energy and petrochemical, construction services, electronics, healthcare, and property.** Our strategy is skewed towards an improvement in the domestic economy and a resilient global economic recovery. Thailand's economic recovery is gaining momentum and is likely to be stronger in 2H21 on economic reopening and mass vaccination. Fundamentally, our strategy is to OVERWEIGHT the banking, energy and petrochemical, construction services, electronics, healthcare and property sectors.
- **Stocks set to benefit from economic reopening.** We believe sectors and stocks with their main revenue streams coming from domestic consumption will benefit the most from the government's plan to reopen the economy fully within 120 days from Jun 21. The reopening of the economy which was to be in 1H22 came sooner than expected. We suggest accumulating stocks that will see a stronger rebound in 2H21, underpinned by an improvement in local economic activities and continued global economic revival.
- We recommend buying leading companies in cyclical sectors with solid fundamentals and the ability to weather uncertainties. Tactically, we recommend selectively buying consumer finance, retailer, consumer staples and hotel stocks.
- **Our top picks** are BBL, BDMS, COM7, CPN, IVL, KBANK, MINT, PTTGC, SCGP and SPALI.

COMPANY UPDATE

Siam Cement (SCC TB)

Expect 2Q21 To Remain Strong On Chemical Spreads And Dividend Income

We expect SCC's net profit to remain strong in 2Q21, driven by stronger chemical production volume from the full operations of the MOC debottleneck project and chemical spreads. We expect 3Q21 earnings to soften on lower chemical spreads and absence of dividend income from its JV. However, chemical spreads will still remain high on the back of restocking demand to offset the high capacity expansion in 2H21. Maintain BUY and a target price of Bt545.00.

WHAT'S NEW

- **Expect net profit to remain high in 2Q21.** We expect Siam Cement (SCC) to post a net profit of Bt14.6b in 2Q21, down 2.2% qoq but up 55.7% yoy. The qoq decline in net profit will be mainly due to lower inventory gain (2Q21F: Bt250m gain, 1Q21: Bt1.1b gain, 2Q20: Bt590m loss).
- If the extraordinary items were stripped out, we expect SCC's core earnings to rise 3.7% qoq to Bt14.3b in 2Q21 due to: a) the stronger earnings contribution from its chemical business, and b) high dividend income from its JVs (Toyota Motor Thailand and Siam Kubota), which are normally recorded in 2Q and 4Q of the year given the high agricultural price environment which boosts sales of automobiles, pick-up trucks and tractors in 1H21. However, the positive factors are fully offset by the seasonal low in cement & building materials and packaging businesses. The yoy rise in core earnings will also mainly be due to the stronger chemical spreads and the stronger earnings performance in packaging business.
- **Chemical business (60% of total 1Q21 net profit) will remain as the key earnings support in 2Q21.** We expect net profit contribution from the chemical business to increase 1.2% qoq and 95.7% yoy to Bt8.3b in 2Q21 due to: a) a 2.5% qoq and 1.8% yoy increase in high Density polyethylene (HDPE) and polypropylene (PP) production volume to 500,000 tonnes in 2Q21 after a full quarter's operation of the Map Ta Phut Olefin Debottleneck (MOCD). Meanwhile, HDPE spread (2Q21: US\$590/tonne, 1Q21: US\$588, 2Q20: US\$486) and PP spread (2Q21: US\$704/tonne, 1Q21: US\$791, 2Q20: US\$560) will remain high.

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net turnover	437,980	399,939	456,491	485,923	498,207
EBITDA	58,104	65,053	82,995	90,495	95,606
Operating profit	34,173	40,735	56,788	62,398	65,618
Net profit (rep./act.)	32,014	34,144	48,328	50,202	52,310
Net profit (adj.)	38,194	36,336	47,238	50,202	52,310
EPS (Bt)	31.8	30.3	39.4	41.8	43.6
PE (x)	13.2	13.9	10.7	10.0	9.6
P/B (x)	1.8	1.6	1.5	1.4	1.3
EV/EBITDA (x)	12.4	11.1	8.7	8.0	7.5
Dividend yield (%)	4.1	3.3	3.7	4.4	4.6
Net margin (%)	7.3	8.5	10.6	10.3	10.5
Net debt/(cash) to equity (%)	67.3	49.3	45.2	43.4	40.3
Interest cover (x)	9.0	9.2	10.0	10.2	10.6
ROE (%)	11.5	11.4	14.5	14.0	13.5
Consensus net profit	-	-	44,063	43,986	46,374
UOBKH/Consensus (x)	-	-	1.07	1.14	1.13

Source: Siam Cement, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt420.00
Target Price	Bt545.00
Upside	+29.8%

COMPANY DESCRIPTION

SCC operates as a holding company which is engaged in the industrial supplies and construction industries. The company operates six core businesses - chemical, paper, cement, building materials, distribution and investment.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCC TB
Shares issued (m):	1,200.0
Market cap (Btm):	504,000.0
Market cap (US\$m):	15,457.8
3-mth avg daily t'over (US\$m):	41.9

Price Performance (%)

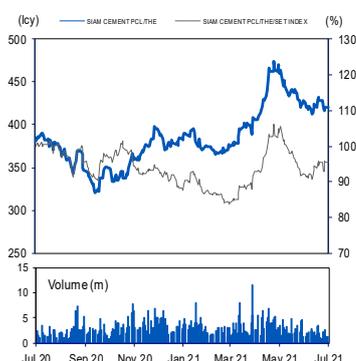
52-week high/low	Bt474.00/Bt321.00			
1mth	3mth	6mth	1yr	YTD
(0.9)	2.9	9.1	9.9	11.1

Major Shareholders

	%
Maha Vajiralongkorn	33.3
Stock Exchange of Thailand	10.0
STATE STREET Corp	4.3

FY21 NAV/Share (Bt)	287.15
FY21 Net Debt/Share (Bt)	129.79

PRICE CHART



Source: Bloomberg

ANALYST(S)

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2Q21 RESULTS PREVIEW

Year to 31 Dec	2Q20 (Btm)	1Q21 (Btm)	2Q21F (Btm)	yoy % change	qoq % change
Revenue	96,010	122,066	128,169	33.5	5.0
COGS	-74,145	-91,692	-96,768	30.5	5.5
SG&A	-12,451	-15,345	-16,021	28.7	4.4
EBITDA	23,094	23,665	24,184	4.7	2.2
Interest expenses	-647	-1,691	-1,700	162.9	0.5
Net income	9,384	14,914	14,587	55.4	(2.2)
- Cement	1,944	2,809	1,900	(2.3)	(32.4)
- Chemical	4,564	8,829	8,931	95.7	1.2
- Packaging	1,461	1,632	1,511	3.4	(7.4)
EPS (Bt)	7.8	12.4	12.2	55.4	(2.2)
Inventory gain/ (loss)	-590	1,140	250	142.4	(78.1)
Other non-recurring items	-40	-50	0	n.a.	n.a.
Recurring Income	10,014	13,824	14,337	43.2	3.7
SG&A/Sales (%)	13.0%	12.6%	12.8%	33.5	5.0
EBITDA margin (%)	24.1%	19.4%	18.6%	30.5	5.5
Net profit margin (%)	9.8%	12.2%	11.6%	28.7	4.4

Source: SCC, UOB Kay Hian

- Cement business' earnings (15-20% of total 1Q21 net profit) expected to soften both qoq and yoy.** We expect net profit contribution from the cement business to decline 32.4% qoq and 2.3% yoy. The qoq decline in net profit will be due to the seasonal effect given fewer working days during 2Q21 compared with 1Q21. The yoy decline in net profit would be mainly from the impact from the new wave of COVID-19 infections. Overall cement demand was good in Apr-May 21, but the new wave of COVID-19 infections has affected demand for cement in Jun 21. However, the negative will be offset by firm demand for building & materials as well as a manageable cost of production in 2Q21 (we estimate SCC locked in 75-85% of its coal volume for 2021 at a much lower price than current price).
- Packaging business' earnings (15-20% of total net profit) expected to decline qoq but remain strong yoy.** We expect SCG Packaging (SCGP TB, 72.12%-owned by SCC) to post a net profit of Bt1.5b in 2Q21, down 7.4% but up 3.4% yoy. The qoq decline in earnings would mainly come from lower revenue as a result of: a) the new wave of COVID-19 infections spreading in the region, and b) seasonal low packaging demand given several festive celebrations in the region including Songkran (Thailand) and Hari Raya (Indonesia). However, these negative factors will be partially offset by: a) SCGP's new production line of thermoformed barrier food packaging at Visy Packaging (Thailand) in Mar 21 which increased output by 347m pieces per year, or 15-20% of capacity, and b) the commercial start-up of Fajar plant #2 in Surabaya, Indonesia in Apr 21, which increased SCC's total production by 400,000 tonnes a year.

STOCK IMPACT

- Expect 3Q21 core earnings to decline qoq.** We expect SCC's core earnings to decline qoq in 3Q21, dragged down by softened HDPE and PP spreads as a result of high crude oil prices as well as the absence of dividend income from JVs in 3Q21. On a yoy basis, we expect core earnings to improve as chemical spreads will remain high as compared with 3Q20.

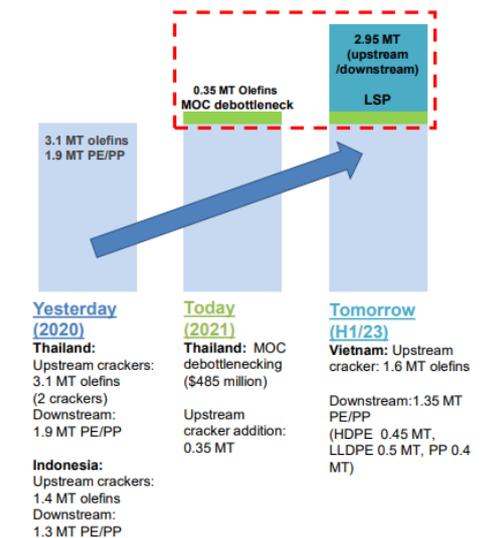
EARNINGS REVISION/RISK

- None. Based on our 2Q21 earnings forecasts, 1H21 earnings should account for 60% of our 2021 full-year forecast. We also expect 2H21 earnings to soften on the lower chemical spreads trend as well as the low season for the cement segment.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of Bt545.00,** based on SOTP valuation. We peg the valuations of the chemical, cement and packaging businesses to the 5-year mean of their regional PE mean multiples of 14x, 12x and 31x respectively. In the O&G space, PTTGC (BUY/Target: Bt76.00), IVL (BUY/Target: Bt60.00) and PTTEP (BUY, Target: Bt140.00) remain our top picks.

SCC'S CHEMICAL CAPACITY GROWTH



Source: SCC

REGIONAL PE MEAN



Source: Bloomberg, UOB Kay Hian

SOTP-BASED VALUATION

	Equity value	Bt/share	Methodology
Chemical	445,197	371	14x PE
Cement	99,338	83	12x PE
Paper	204,153	170	31x PE
Other	21,573	18	10x PE
Net debt	(121,193)	-101	
Total	654,460	545	

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Net turnover	399,939	456,491	485,923	498,207
EBITDA	65,053	82,995	90,495	95,606
Deprec. & amort.	24,318	26,208	28,098	29,988
EBIT	40,735	56,788	62,398	65,618
Total other non-operating income	0	0	0	0
Associate contributions	9,456	18,952	18,971	18,990
Net interest income/(expense)	(7,082)	(8,285)	(8,915)	(9,004)
Pre-tax profit	43,109	67,455	72,454	75,604
Tax	(5,809)	(8,518)	(11,232)	(11,811)
Minorities	(3,156)	(10,609)	(11,020)	(11,483)
Preferred dividends	0	0	0	0
Net profit	34,144	48,328	50,202	52,310
Net profit (adj.)	36,336	47,238	50,202	52,310

CASH FLOW

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Operating	70,415	58,548	66,081	73,019
Pre-tax profit	43,109	56,846	61,434	64,121
Tax	(5,809)	(8,518)	(11,232)	(11,811)
Deprec. & amort.	27,377	26,208	28,098	29,988
Associates	(9,456)	(18,952)	(18,971)	(18,990)
Working capital changes	4,723	(7,644)	(4,268)	(1,772)
Non-cash items	0	0	0	0
Other operating cashflows	10,470	10,609	11,020	11,483
Investing	(71,185)	(60,000)	(60,000)	(60,000)
Capex (growth)	(71,185)	(60,000)	(60,000)	(60,000)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	37,542	(21,556)	(2,169)	(3,064)
Dividend payments	(16,409)	(18,556)	(22,169)	(23,065)
Issue of shares	41,691	0	0	0
Proceeds from borrowings	12,260	(3,000)	20,000	20,001
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	36,772	(23,008)	3,912	9,954
Beginning cash & cash equivalent	44,373	103,091	68,532	72,444
Changes due to forex impact	21,945	(11,551)	n.a.	n.a.
Ending cash & cash equivalent	103,091	68,532	72,444	82,398

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Fixed assets	363,425	322,955	340,808	355,827
Other LT assets	171,939	197,018	204,127	207,145
Cash/ST investment	103,091	68,532	72,444	82,398
Other current assets	110,926	104,139	118,810	132,162
Total assets	749,381	692,643	736,189	777,533
ST debt	90,928	79,610	89,610	99,610
Other current liabilities	70,493	53,144	55,729	56,771
LT debt	170,436	144,674	144,674	144,674
Other LT liabilities	21,398	10,562	10,562	10,562
Shareholders' equity	320,972	344,586	372,619	401,864
Minority interest	75,154	60,068	62,995	64,052
Total liabilities & equity	749,381	692,643	736,189	777,533

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	16.3	18.2	18.6	19.2
Pre-tax margin	10.8	14.8	14.9	15.2
Net margin	8.5	10.6	10.3	10.5
ROA	4.9	6.7	7.0	6.9
ROE	11.4	14.5	14.0	13.5
Growth				
Turnover	(8.7)	14.1	6.4	2.5
EBITDA	12.0	27.6	9.0	5.6
Pre-tax profit	9.5	56.5	7.4	4.3
Net profit	6.7	41.5	3.9	4.2
Net profit (adj.)	(4.9)	30.0	6.3	4.2
EPS	(4.9)	30.0	6.3	4.2
Leverage				
Debt to total capital	39.8	35.7	35.0	34.4
Debt to equity	81.4	65.1	62.9	60.8
Net debt/(cash) to equity	49.3	45.2	43.4	40.3
Interest cover (x)	9.2	10.0	10.2	10.6

COMPANY UPDATE

True Corporation (TRUE TB)

2Q21 Results Preview: Expect Operating Loss To Continue Into 2Q21

We expect TRUE to report a slightly better qoq in 2Q21 on more effective implementation of its cost-savings programme, and expect SG&A expenses to decline in 2Q21. The 5G development in Thailand will lift TRUE's overall ARPU in the medium to long term. We also expect to see synergistic benefits between TRUE and Lotus's, CP group's supermarket business, in Thailand and Malaysia. TRUE's share price has been lagging behind peers' as well. **Maintain BUY. Target price: Bt4.00.**

WHAT'S NEW

- Expect a net loss in 2Q21.** We expect True Corporation (TRUE) to post a net loss of Bt394m in 2Q21 compared with a net loss of Bt581m in 1Q21 and net profit of Bt1.3b in 2Q20. The lower net loss qoq would mainly be due to its continued cost improvement programme. Its mobile business' service revenue is expected to slightly decline 0.5% qoq on more net additional subscribers while average revenue per user (ARPU) remains pressured by the economic slowdown and intense market competition. However, we expect SG&A expenses to drop 1% qoq as: a) TRUE changed its focus to telephone and digital marketing from mass marketing in the past, and b) there were no seasonal expenses. The yoy decline in earnings would mainly be due to the huge one-time Digital Infrastructure Fund's (DIF) share sale gains in 2Q20.
- Service revenue to decline slightly by 0.5% qoq.** We expect service revenue to decline 0.5% qoq in 2Q21 as the continued net gain of postpaid subscribers will be offset by a declining ARPU trend given the economic slowdown and the intense market competition in prepaid market. Fixed broadband service revenue is expected to slightly grow from an improvement in net additional subscriber growth while TrueVision service revenue is expected to decline qoq due to lower subscription and event revenue.
- Handset subsidies expected to be lower in 2Q21.** We expect TRUE's handset subsidy to be about Bt187m in 2Q21 (1Q21: Bt266m) as the sales of the iPhone 12 continued in 2Q21 (iPhones normally have a higher margin compared with other 4G/5G smartphones).
- SG&A expenses to be lower qoq.** We expect SG&A expenses to have dropped 1% qoq as: a) TRUE changed its focus to telephone and digital marketing from mass marketing in the past, b) there was an absence of seasonal expenses.

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net turnover	140,943	138,212	141,424	145,502	149,496
EBITDA	33,849	52,083	54,484	58,146	61,680
Operating profit	7,104	10,646	12,137	13,964	15,663
Net profit (rep./act.)	5,637	1,048	1,044	2,398	3,627
Net profit (adj.)	1,703	(2,876)	1,044	2,398	3,627
EPS (Bt)	0.0	(0.1)	0.0	0.1	0.1
PE (x)	70.7	n.m.	115.3	50.2	33.2
P/B (x)	1.0	1.5	1.5	1.5	1.5
EV/EBITDA (x)	9.6	6.3	6.0	5.6	5.3
Dividend yield (%)	3.0	0.0	0.5	1.2	1.8
Net margin (%)	4.0	0.8	0.7	1.6	2.4
Net debt/(cash) to equity (%)	130.2	249.9	262.0	257.5	247.2
Interest cover (x)	3.6	2.8	2.8	2.9	3.0
ROE (%)	4.4	1.0	1.2	2.8	4.2
Consensus net profit	-	-	(1,393)	383	2,305
UOBKH/Consensus (x)	-	-	n.m.	6.27	1.57

Source: True Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt3.04
Target Price	Bt4.00
Upside	+31.6%

COMPANY DESCRIPTION

Integrated holding company with businesses in mobile, fixed lines, Internet, and pay-TV.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	TRUE TB
Shares issued (m):	33,344.2
Market cap (Btm):	101,366.4
Market cap (US\$m):	3,108.9
3-mth avg daily t'over (US\$m):	6.6

Price Performance (%)

52-week high/low Bt3.74/Bt2.72

1mth	3mth	6mth	1yr	YTD
(4.4)	(7.9)	(15.1)	(15.6)	(11.6)

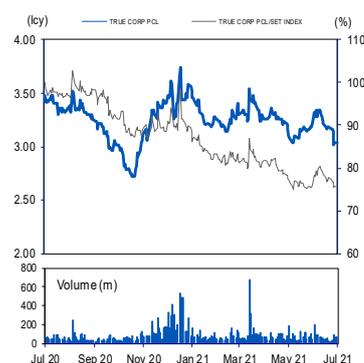
Major Shareholders

	%
CP Group	64.7
Uniq Network	9.6
Wide Broadcast	7.6

FY21 NAV/Share (Bt) 1.98

FY21 Net Debt/Share (Bt) 5.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

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2021 RESULTS PREVIEW

Year to 31 Dec	2020 (Btm)	1Q21 (Btm)	2Q21F (Btm)	yoy % change	qoq % change
Revenue	33,878	35,426	33,967	0.3%	-4.1%
- Service revenue	30,135	30,376	30,224	0.3%	-0.5%
- Sale	3,743	5,050	3,743	0.0%	-25.9%
COGS	24,291	25,450	23,906	-1.6%	-6.1%
SG&A	6,912	6,686	6,619	-4.2%	-1.0%
EBITDA	13,060	14,053	14,310	9.6%	1.8%
Net income	1,262	-581	-394	-131.2%	32.2%
EPS (Bt)	0.03	-0.01	-0.01	-131.2%	32.2%
Other income/expenses	2,109	-137	-100	-104.7%	27.0%
Recurring income	-847	-307	-294	65.3%	4.2%
SG&A/Sales (%)	20.4%	18.9%	19.5%		
EBITDA margin (%)	38.6%	39.7%	42.1%		
Net profit margin (%)	3.7%	-1.6%	-1.2%		

Source: TRUE, UOB Kay Hian

STOCK IMPACT

- 5G remains key growth driver for the mid to long term.** We expect 5G development in Thailand to drive earnings growth as 5G packages are expected to be priced higher. According to a London-based data and analytics firm, 5G subscriptions will account for more than 55% of total mobile subscriptions by 2025 in Thailand. 5G demand for digital solutions in sectors such as healthcare, education, retail and tourism will drive the development of 5G in Thailand. TRUE is also focusing more on customers in the Eastern Economic Corridor (EEC) in 5G services/deployment and this should pave the way for another revenue stream in the near future. Moreover, as TRUE is a mobile operator flagship of Charoen Pokphand (CP) group, we expect to see synergistic benefits from the collaboration with Lotus's, CP group's supermarket business, after CP Group bought the Lotus's Thailand and Malaysia businesses for an enterprise value of US\$10.6b.
- Expect core operation to gradually improve in 2H21.** We expect TRUE's core operation to gradually improve on higher service revenue, thanks to strong 5G smartphone sales and 5G price packages which yield higher ARPU than the overall ARPU of Bt213/subscriber/month in 1Q21. Moreover, we expect TRUE to book more revenue from new business opportunities in 5G digital infrastructure in the industrial and the EEC area. Apart from that, TRUE remains focused on its cost savings programme.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY and SOTP-based target price of Bt4.00.** The stock has underperformed the SET Index by 18% ytd and underperformed the ICT index by 15% ytd. TRUE's share price has also been lagging peers.

EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

SOTP-BASED VALUATION

	Bt m	Bt/sh	Comment
Mobile business	208,347	6.2	Target EV/EBITDA of 6x
(+) True Online	2,000	0.1	Target EV/EBITDA of 5x
(+) True Vision	1,000	0.0	Target EV/EBITDA of 5x
(+) value of fund retained	31,566	0.9	Market value
EV	242,914	7.3	
(-) debts	(108,157)	(3.2)	
Equity value	134,757	4.00	

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Net turnover	138,212	141,424	145,502	149,496
EBITDA	52,083	54,484	58,146	61,680
Deprec. & amort.	41,436	42,347	44,182	46,017
EBIT	10,646	12,137	13,964	15,663
Total other non-operating income	4,621	4,300	4,515	4,741
Associate contributions	4,153	3,738	3,775	3,813
Net interest income/(expense)	(18,476)	(19,130)	(19,856)	(20,590)
Pre-tax profit	944	1,044	2,398	3,627
Tax	(19)	0	0	0
Minorities	123	0	0	0
Preferred dividends	0	0	0	0
Net profit	1,048	1,044	2,398	3,627
Net profit (adj.)	(2,876)	1,044	2,398	3,627

CASH FLOW

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Operating	45,799	30,240	41,923	45,015
Pre-tax profit	(3,208)	(2,694)	(1,377)	(186)
Tax	(19)	0	0	0
Deprec. & amort.	41,436	42,347	44,182	46,017
Associates	4,153	3,738	3,775	3,813
Working capital changes	(8,444)	(17,513)	(1,681)	(1,616)
Non-cash items	11,881	(3,738)	(3,775)	(3,813)
Other operating cashflows	0	8,099	800	800
Investing	(64,220)	(36,271)	(34,439)	(33,052)
Capex (growth)	(62,572)	(34,623)	(32,791)	(31,052)
Capex (maintenance)	(2,000)	(2,000)	(2,000)	(2,000)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	352	352	352	0
Financing	(6,699)	(585)	3,561	3,177
Dividend payments	(3,003)	(626)	(1,439)	(2,176)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(1,653)	0	5,000	5,001
Others/interest paid	(2,043)	41	0	352
Net cash inflow (outflow)	(25,120)	(6,616)	11,045	15,140
Beginning cash & cash equivalent	49,450	24,330	17,714	28,760
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	24,330	17,714	28,760	43,899

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Fixed assets	231,894	162,701	164,328	165,971
Other LT assets	281,248	352,616	357,319	359,408
Cash/ST investment	24,330	17,714	28,760	43,899
Other current assets	80,076	98,371	101,036	103,645
Total assets	617,548	631,402	651,443	672,923
ST debt	4,774	0	0	0
Other current liabilities	97,350	98,323	99,306	100,300
LT debt	232,153	241,738	251,419	261,197
Other LT liabilities	197,653	205,300	213,713	222,967
Shareholders' equity	85,089	85,507	86,466	87,916
Minority interest	528	533	539	544
Total liabilities & equity	617,548	631,402	651,443	672,923

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	37.7	38.5	40.0	41.3
Pre-tax margin	0.7	0.7	1.6	2.4
Net margin	0.8	0.7	1.6	2.4
ROA	0.2	0.2	0.4	0.5
ROE	1.0	1.2	2.8	4.2
Growth				
Turnover	(1.9)	2.3	2.9	2.7
EBITDA	53.9	4.6	6.7	6.1
Pre-tax profit	(87.8)	10.5	129.7	51.3
Net profit	(81.4)	(0.4)	129.7	51.3
Net profit (adj.)	(268.9)	n.a.	129.7	51.3
EPS	(268.9)	n.a.	129.7	51.3
Leverage				
Debt to total capital	73.5	73.8	74.3	74.7
Debt to equity	278.4	282.7	290.8	297.1
Net debt/(cash) to equity	249.9	262.0	257.5	247.2
Interest cover (x)	2.8	2.8	2.9	3.0

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