
4Q23: Turning the Corner

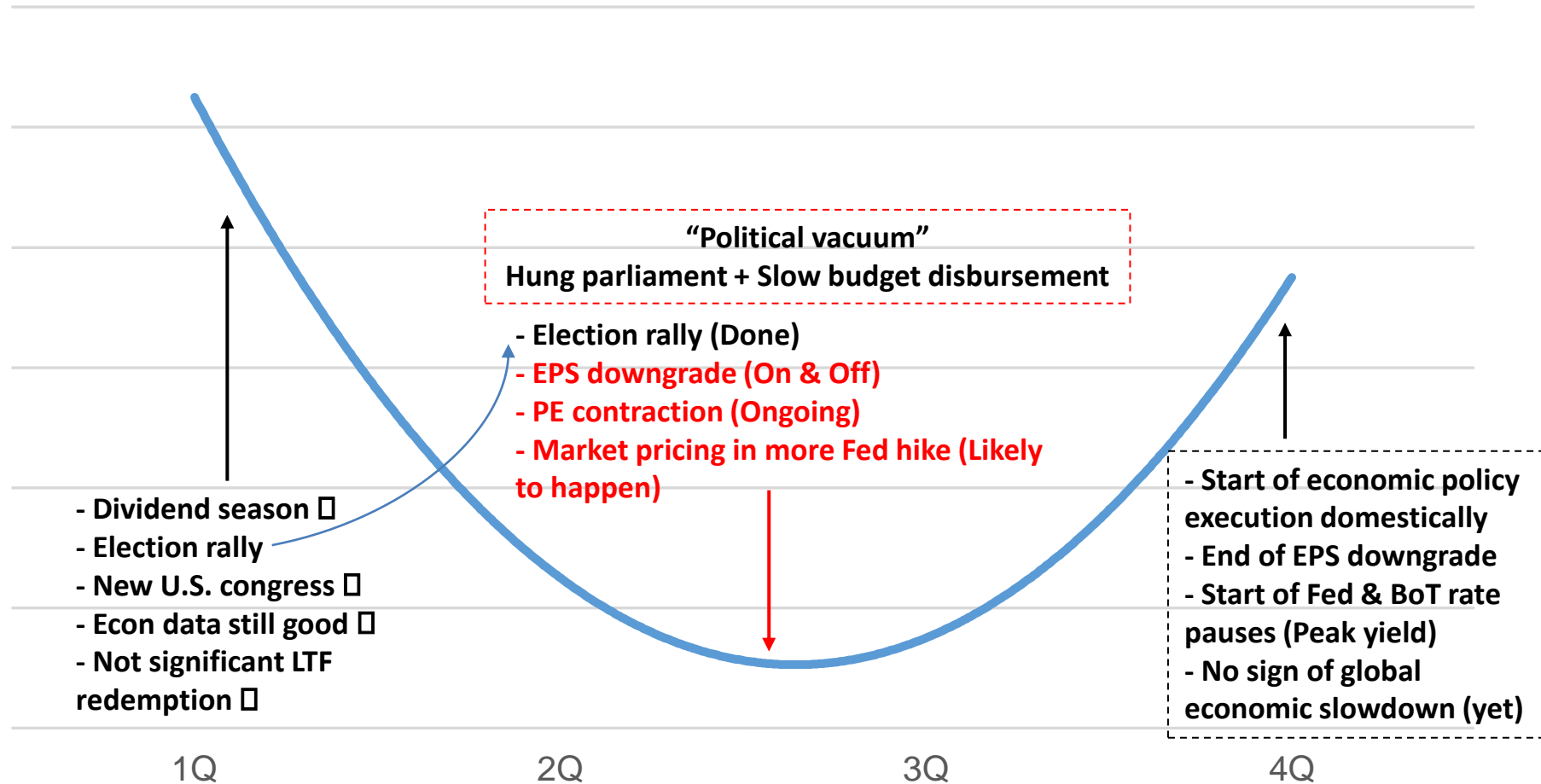
September 2023

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Trinity Securities



Confirming our U-shape pattern projection

Projected SET trajectory in 2023



Fear gauge – Another “Middle of the Road” extension

**Peak of inflation fear
(2Q22 - 3Q22)**

**Peak of recession fear
(After 1Q24)**

**"Middle of the Road"
(Likely extended to 1Q24)**



Top 10 issues in 4Q23

- 1) We expect a peak yield to occur in 4Q23. Fed and BoT likely reach the end of their rate hike cycle. The worst part of PE contraction and EYG depression should be over. A turning point could happen once the final hike delivered on Nov 1st FOMC meeting. After that, expect a 4-months honeymoon period for global equity during November 2023 – February 2024. After the Wait & See recommendation throughout 2Q-3Q, the patience should pay off soon.
- 2) Key obstacle for Thai equity market right now is the lag of (real) foreign investors. Domestic investors also relocate their funds to invest outside (look at M2). However, this could change soon if the Gov't start to apply overseas income tax.

Top 10 issues in 4Q23

- 3) Key risk in this quarter is the revival of inflation, which will be derived from higher oil price compared to last year base. Headline inflation could accelerate especially for net oil importers like Thailand. Global Central banks could remain hawkish in 1H of the quarter. But where they go after that is still in question.
- 4) The impact of the El Niño weather phenomenon in a case of Thailand is still a big question mark. If good plans are not in place, it could lead to damage of people's livelihood, food security and food prices which are estimated by Gov't at a minimum of Bt600 billion up to Bt2 trillion over three years.

Top 10 issues in 4Q23

- 5) The 10,000-baht digital currency handout could be the strong boost for Thai economy. Expected to be launch in 1Q24, this policy could unleash an “economic tsunami” of consumption. If the 2.6-2.7x multiplier expected by the Gov’t turns out to be true, the additional economic output could reach Bt1.5tn (8.7% of GDP) based on Bt560bn initial budget.
- 6) Difficulty of Thai corporate debt rollover should continue during peak yield phenomena. Investors start to lose their faith and confidence in local debentures. Many debt offerings faced a shortfall especially for Non-investment grade and non-rated issues. Beware of highly-leveraged firms in Finance and Property industries who will face refinancing problem.

Top 10 issues in 4Q23

- 7) A potential another hike by BoT to 2.5% in this quarter could lead to 2.9% further PE contraction. Together with our same 2024E EPS of 113 baht, the appropriate SET level in Bull / Base / Bear cases would be 1515 / 1410 / 1310. 1515 seems not to have a lot of upside when compared to current index level.
- 8) However, EPS downgrade should end soon. Oil & Gas sectors should revive from the upgrade in oil price and oil demand assumptions. Domestic-play should start to reap benefit once new government policy kicks in. Tourism-related sectors could also see upward tick if foreign tourists are allured by the new policy such as free-visa travel. These are upside risks to the SET Index in our view.

Top 10 issues in 4Q23

- 9) DELTA is in jeopardy! If the stock's turnover ratio cannot reach 2% in any months starting from September, it will surely be dropped from SET50 and SET100. If occurs, expect a stock unloading from passive/index funds. This could cap upside for the SET index, but it could turn out to be good news for active fund managers in this quarter.
- 10) A patience is needed a little bit more for bond and bond-like investments such as REIT/IFF/Utilities. The best time to buy these stocks could be around the corner, specifically; at the next Fed meeting (Nov) at when we think the peak yield could occur. In addition, high dividend stocks (SETHD) should be on the radar at the end of this year from seasonal factor.

What surprised us so far in 3Q23

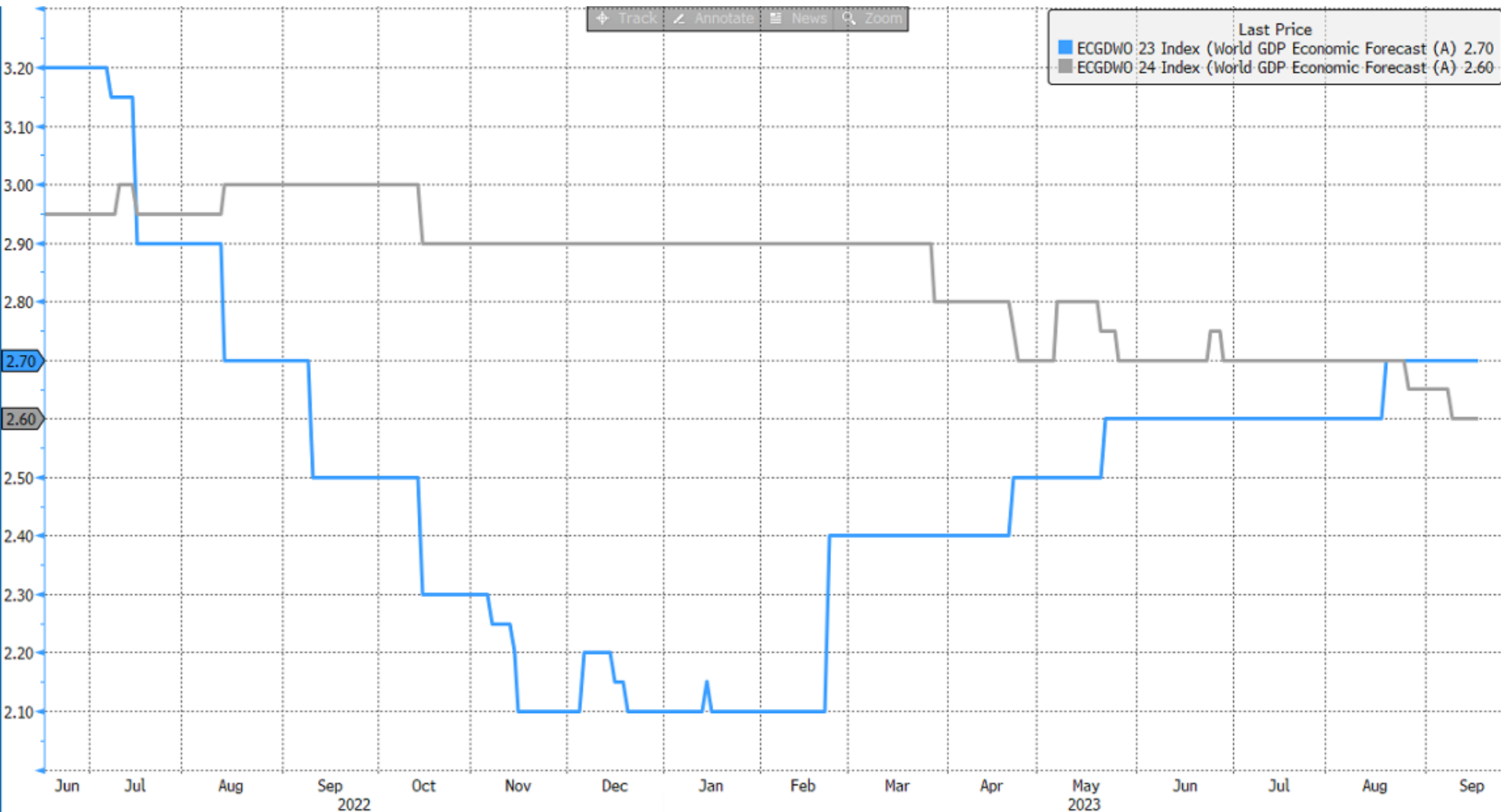
- 1) An outperformance of SETETRON (+14% QTD)
- 2) OPEC+ voluntary cut
- 3) Pheu Thai decision to reduce electricity and diesel prices at higher rates than expected

What did not surprise us in 3Q23

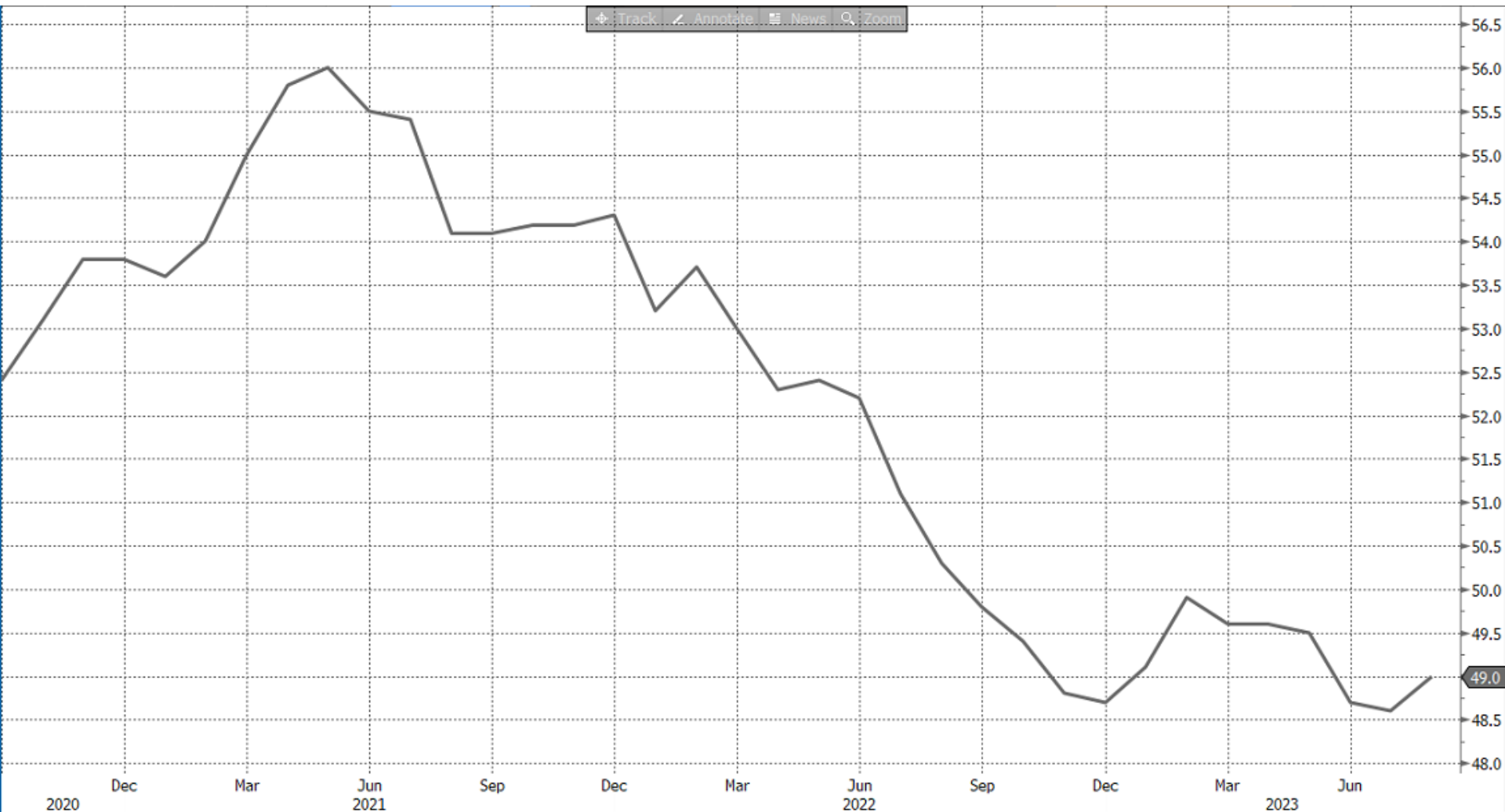
- 1) An underperformance of SETPETRO (-14% QTD)
- 2) An underperformance of Utility stocks
- 3) China recovery
- 4) Ongoing EPS downgrade
- 5) Continuing tightening path of BoT
- 6) Resistance at 1570-1600 holds. On the contrary, key support of 1450 worked very well.

Global Economy & Market Sentiment

Global economy: 2023 is not worrisome, but 2024?



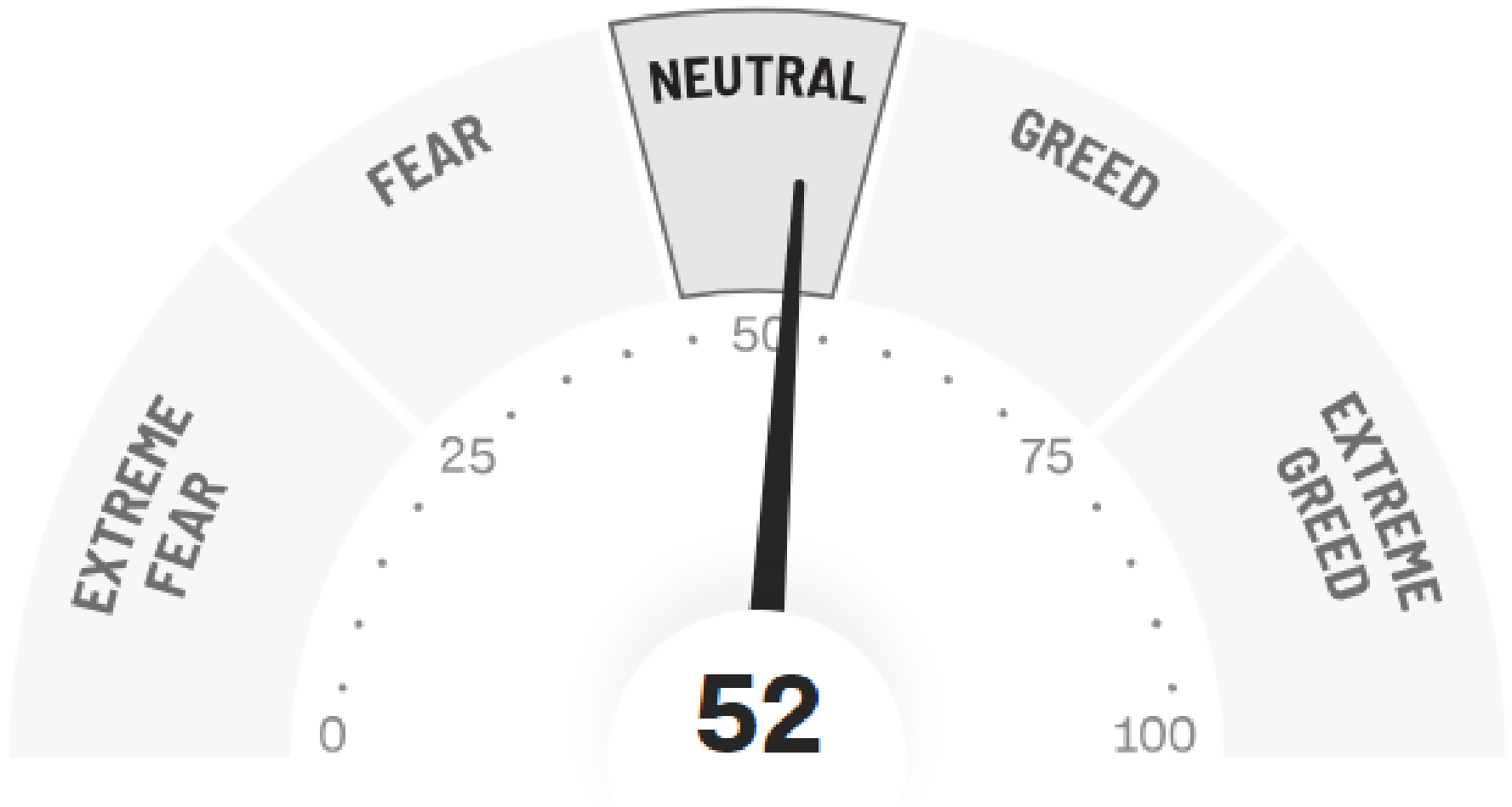
Global manufacturing PMI was crawling back



Global economic surprise back to positive territory



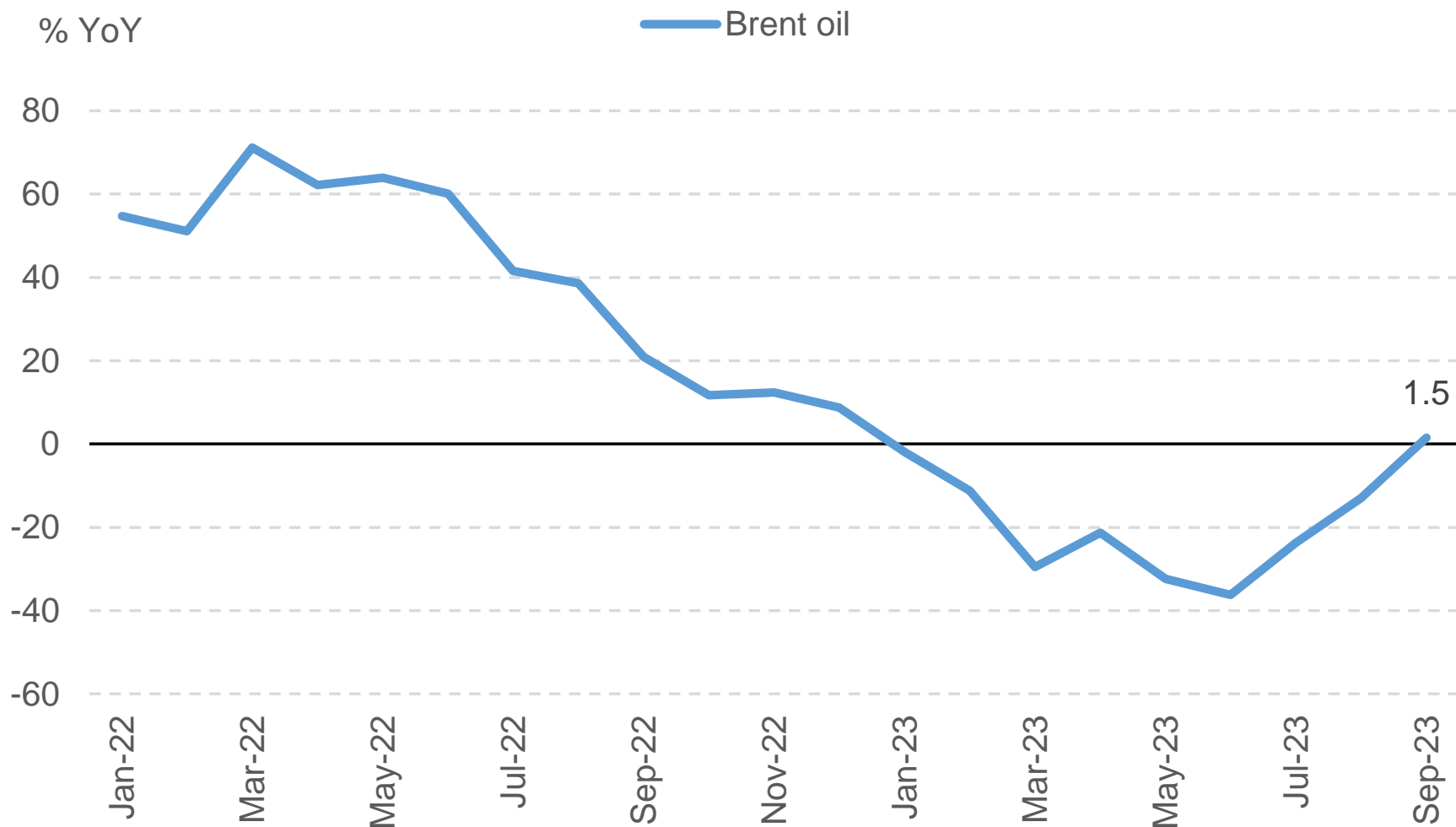
CNN Fear & Greed Index is down to neutral (Extreme greed at 3 months ago)



Note: Data as of 18 September 2023

Source: CNN

Revived inflation is in the pipeline



Note: Data as of 22 September 2023

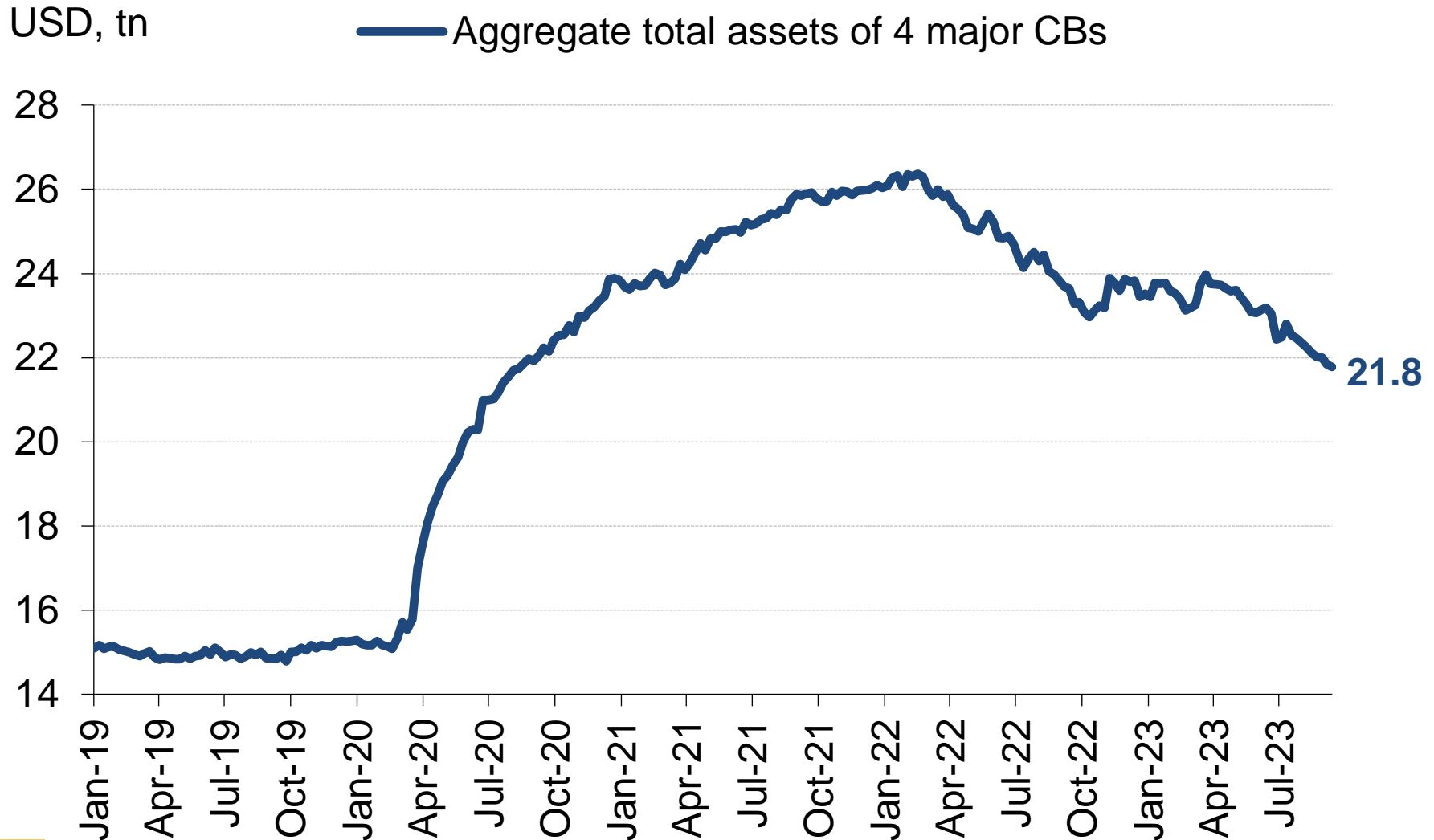
Sources: Bloomberg, Trinity Research

Market is still underpricing the Fed (why caution is still needed in October)

MEETING PROBABILITIES										
MEETING DATE	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600	600-625
11/1/2023		0.0%	0.0%	0.0%	0.0%	0.0%	77.6%	22.4%	0.0%	0.0%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	57.8%	36.5%	5.7%	0.0%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	55.4%	37.3%	7.0%	0.2%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	5.5%	53.6%	34.3%	6.3%	0.2%
5/1/2024	0.0%	0.0%	0.0%	0.0%	1.9%	21.8%	47.1%	24.8%	4.2%	0.1%
6/12/2024	0.0%	0.0%	0.0%	0.7%	9.2%	31.1%	38.9%	17.3%	2.7%	0.1%
7/31/2024	0.0%	0.0%	0.3%	4.8%	19.8%	34.9%	28.4%	10.2%	1.5%	0.0%
9/18/2024	0.0%	0.2%	2.7%	12.9%	28.0%	31.4%	18.6%	5.5%	0.7%	0.0%
11/7/2024	0.1%	1.5%	7.9%	20.6%	29.7%	24.9%	11.9%	3.0%	0.3%	0.0%
12/18/2024	1.0%	5.6%	16.0%	26.4%	26.6%	16.6%	6.2%	1.3%	0.1%	0.0%

Global Liquidity Monitoring

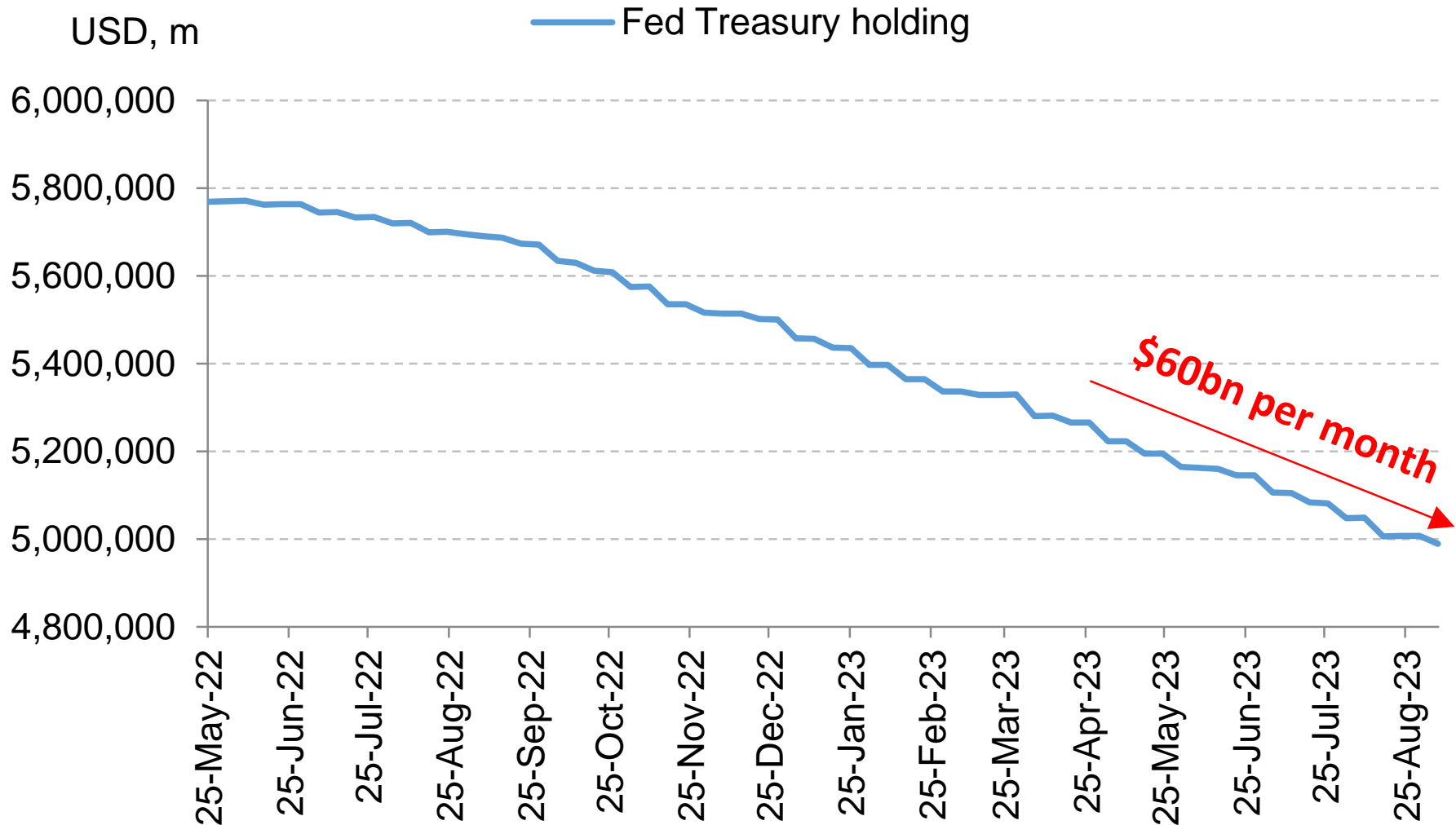
Global Central Bank balance sheet is declining, but not look troublesome



Note: Data as of 18 September 2023

Source: Bloomberg

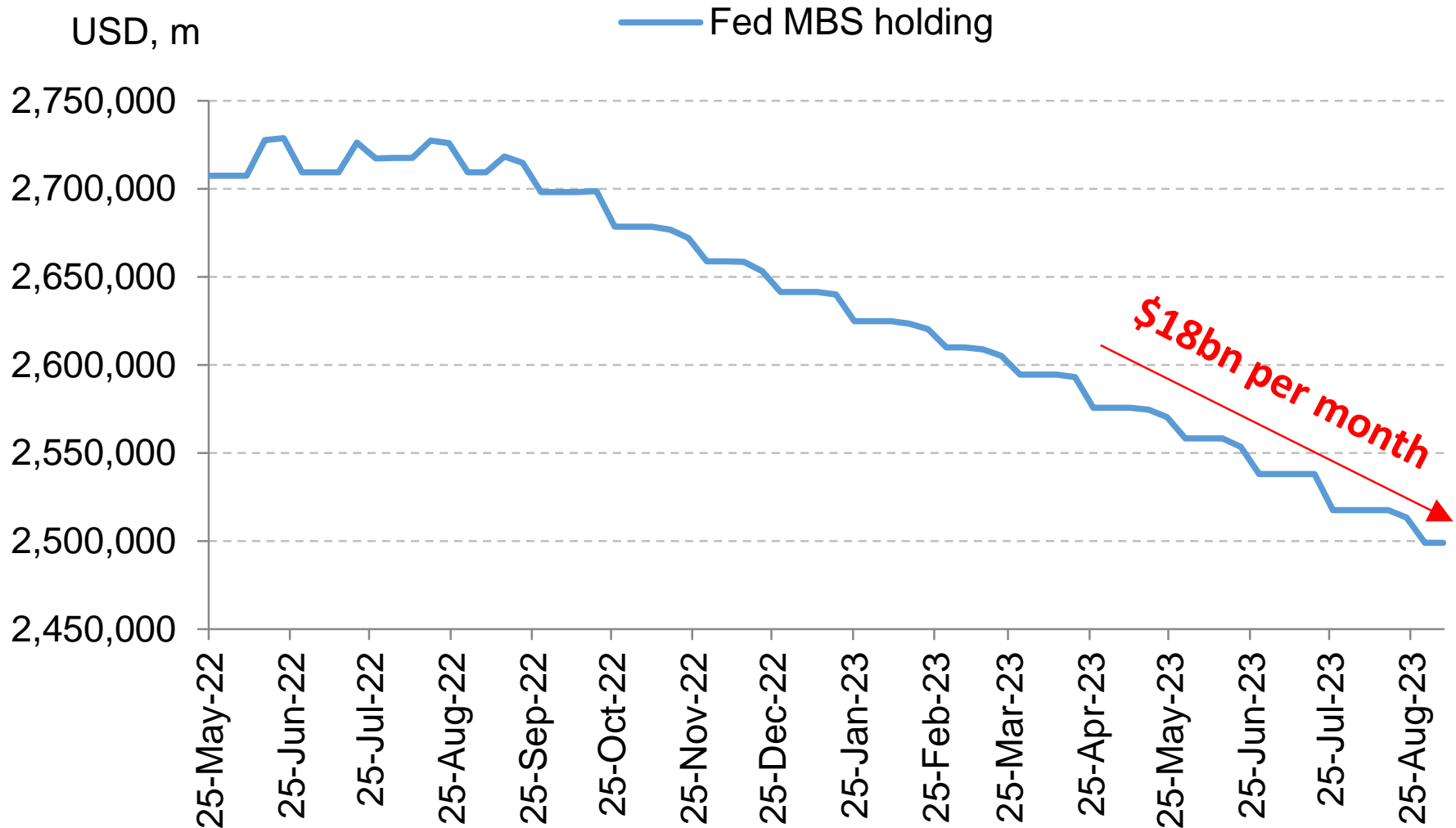
Fed Treasury holdings still ran off at constant pace



Note: Data as of 18 September 2023

Sources: Fed, Trinity Research

Also, Fed MBS holdings still ran off at constant pace



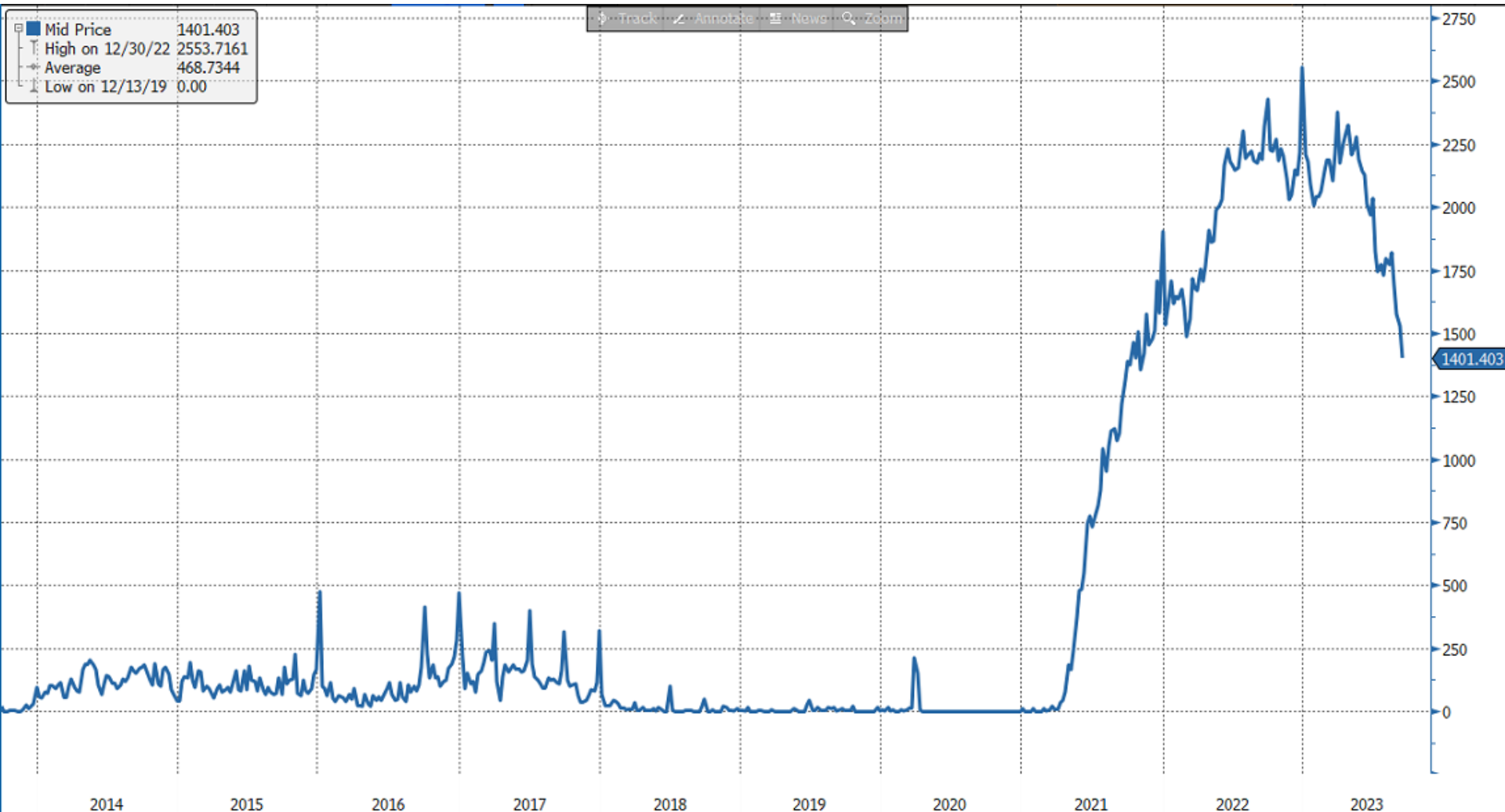
Note: Data as of 18 September 2023

Sources: Fed, Trinity Research

Treasury's coffer rebuilding is in the process (USD, m)



Part of that rebuilding has been drawn from reverse repo (RRP) facility



Still no problem on U.S. bank reserves



Note: Data as of 18 September 2023

Source: Bloomberg

Liquidity Scarcity

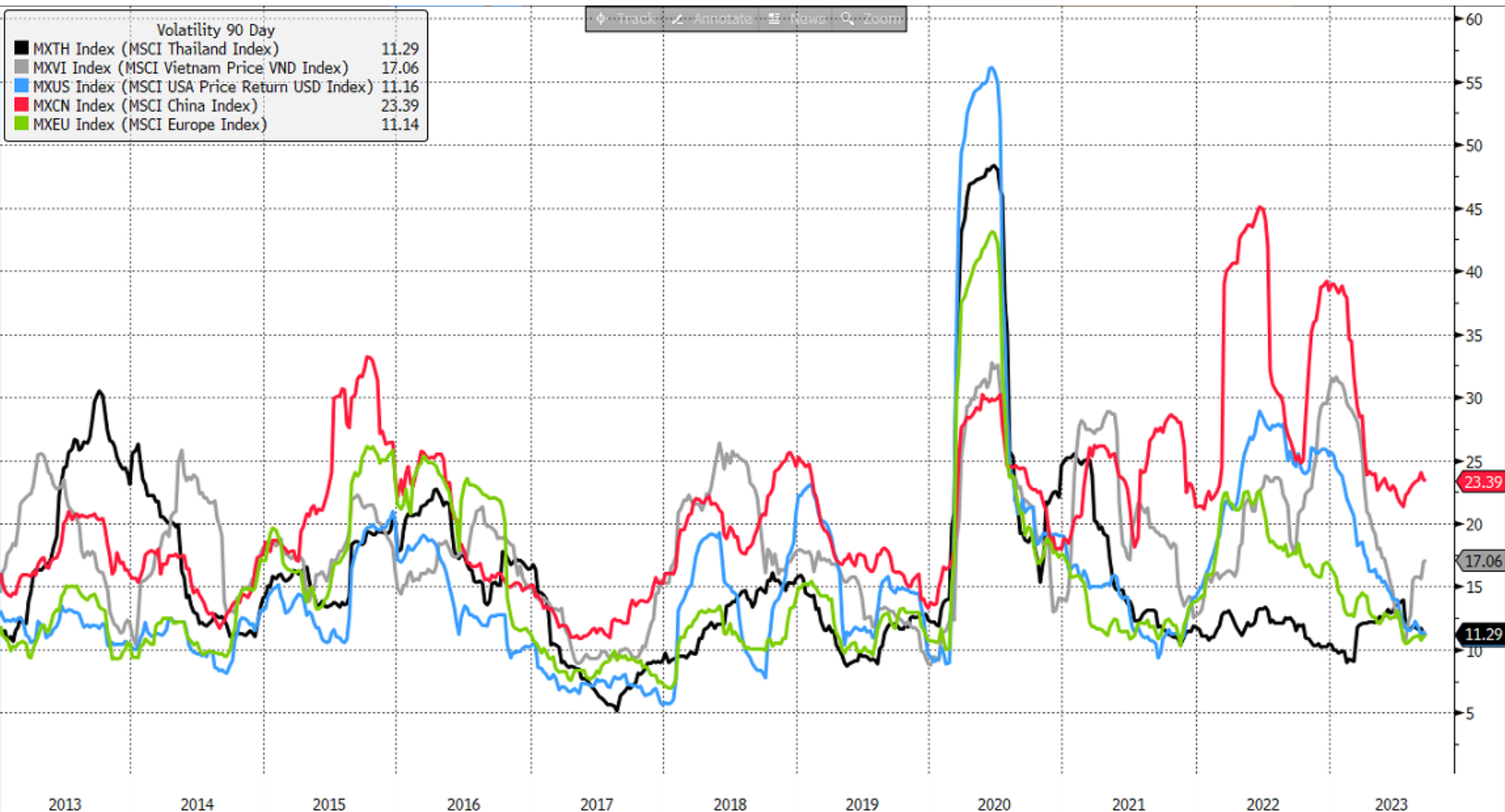
Our take

- Domestic liquidity is so scarce right now (M2). Expect trading volume of Thai equity to stay at thin level in the 1H of quarter.
- Together with the dominance of High Frequency Trading (HFT), retail participation could structurally stay low.
- HFT is still the problem for retail traders and the main reason why low volatility regime should exist for Thai equity market.
- However, potential repatriation tax starting in 2024 could accelerate relocations during the remaining of 2023. M2 could turn the corner.
- Also, if the new Gov't re-launch tax deduction vehicle like LTF in the past, this could boost domestic liquidity as well.

Local liquidity (M2 growth) decelerated further



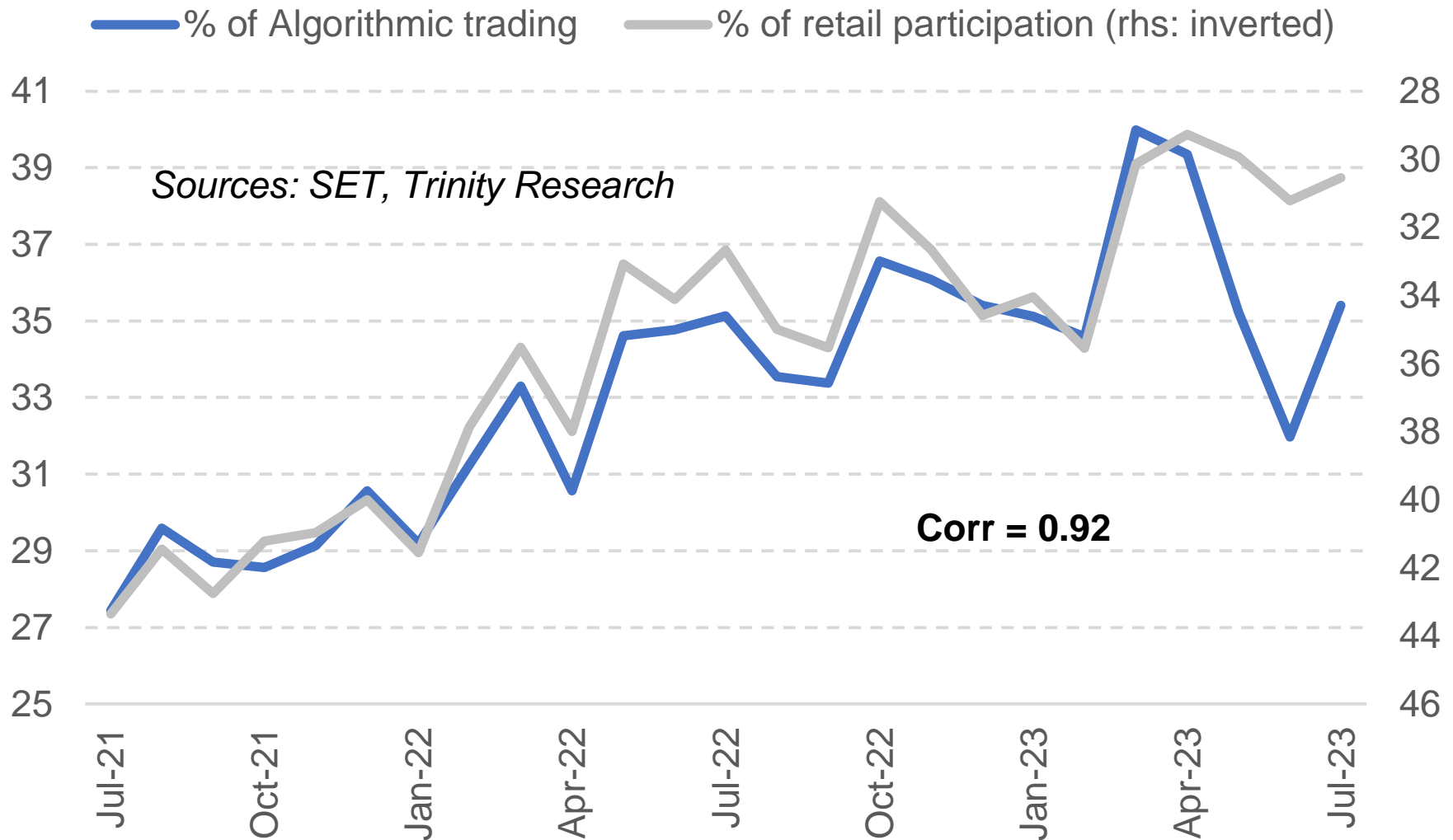
Low volatility regime for Thai equity should exist ...



Note: Data as of 20 September 2023

Source: Bloomberg

... and retail investor participation should stay low, as long as HFT still dominate the market



Corporate Debt Overhang Continues

What we said 3 months ago is still valid

- Expect some jitters among investors after the recent default of big Thai companies. The flight from higher-risk issuers may begin to take shape.
- For smaller firms, to tap the debt capital market could become harder. They might need to move back to traditional bank loans in order to finance themselves. A shortfall in debt offering has started to be seen since June.
- Borrowers seeking other refinancing options such as offshore market may have to face another challenge: the weakening baht.

A new height in 2Y and 5Y THB yield



Note: Data as of 19 June 2023

Source: Bloomberg

Thai corporate bond spread widened further (5Y BBB)



Note: Data as of 21 September 2023

Source: Bloomberg

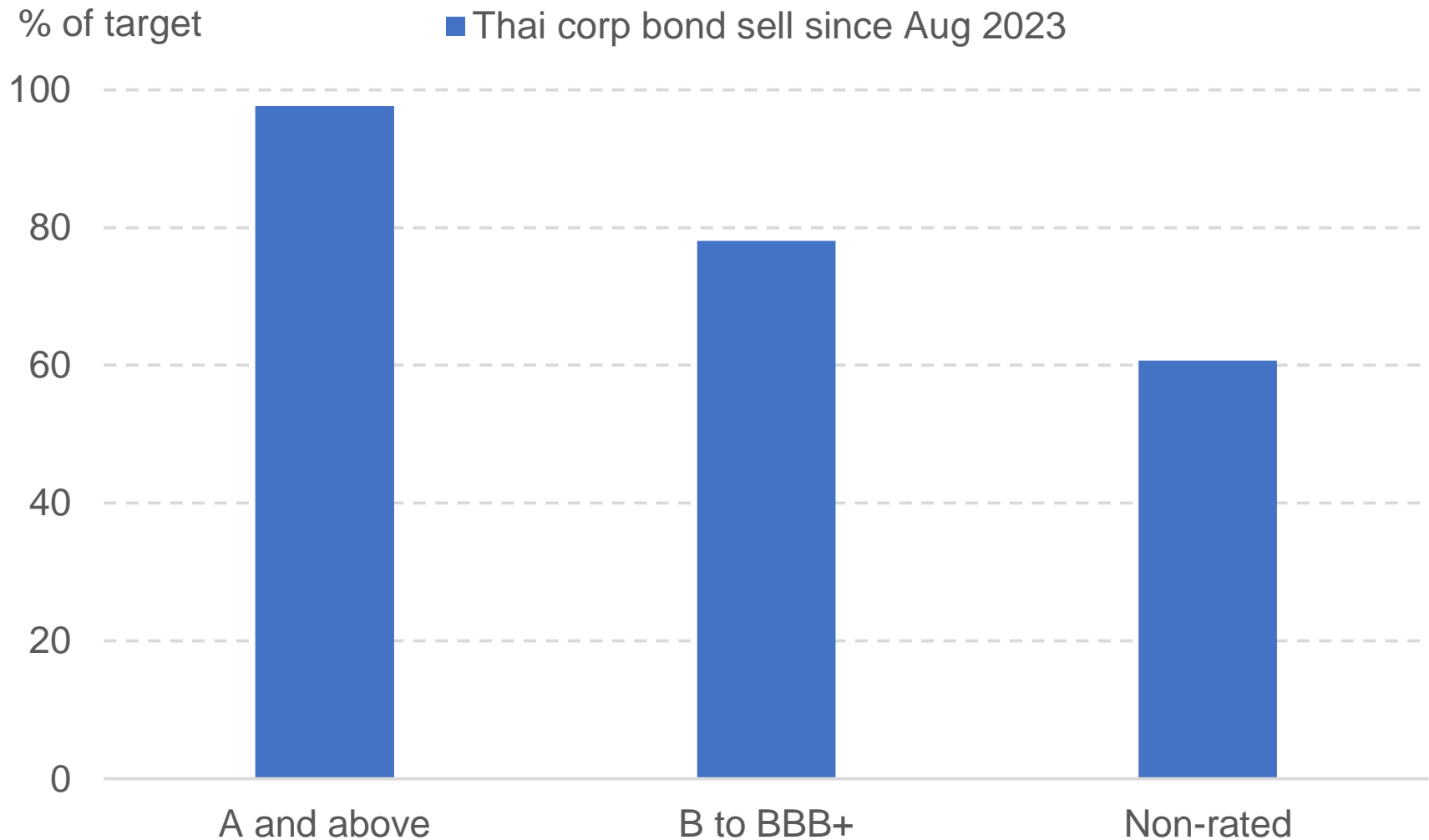
Resulting in new height of corporate bond yield



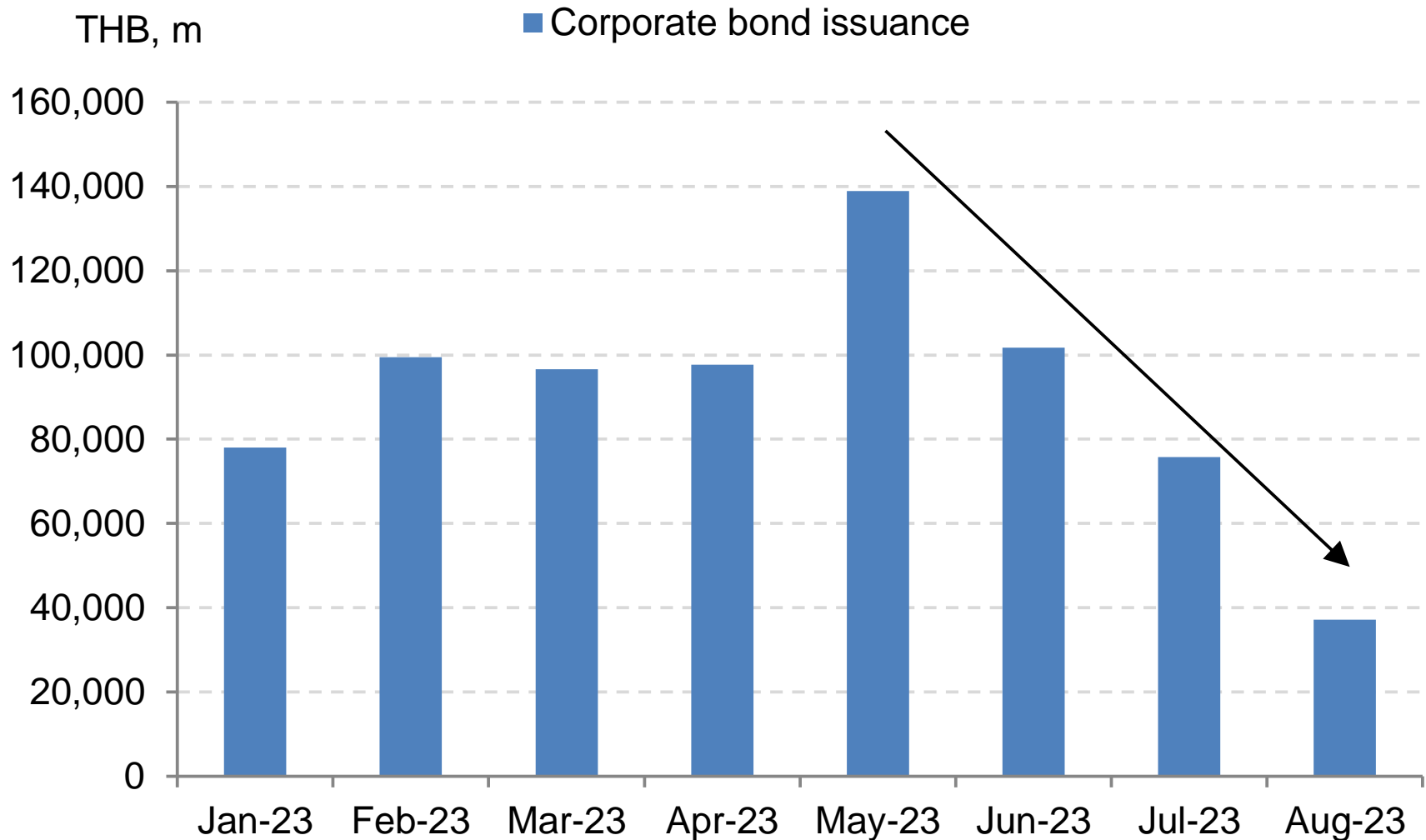
Note: Data as of 21 September 2023

Source: Bloomberg

Difficulty in corporate bond selling continued to be seen, especially for non-rated firms

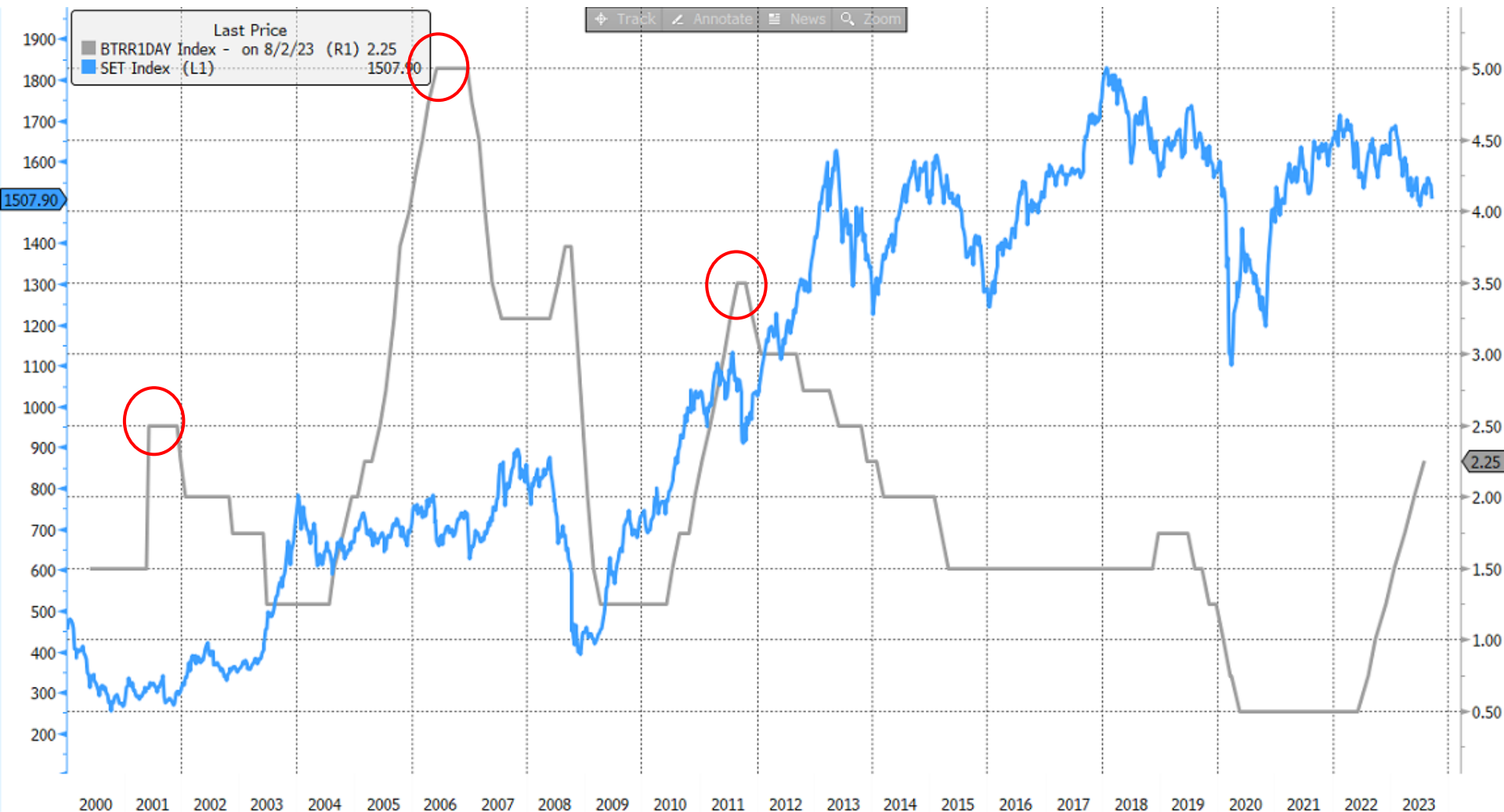


Issuance of corporate bond declined after recent payment defaults



End of Rate Hike Cycle

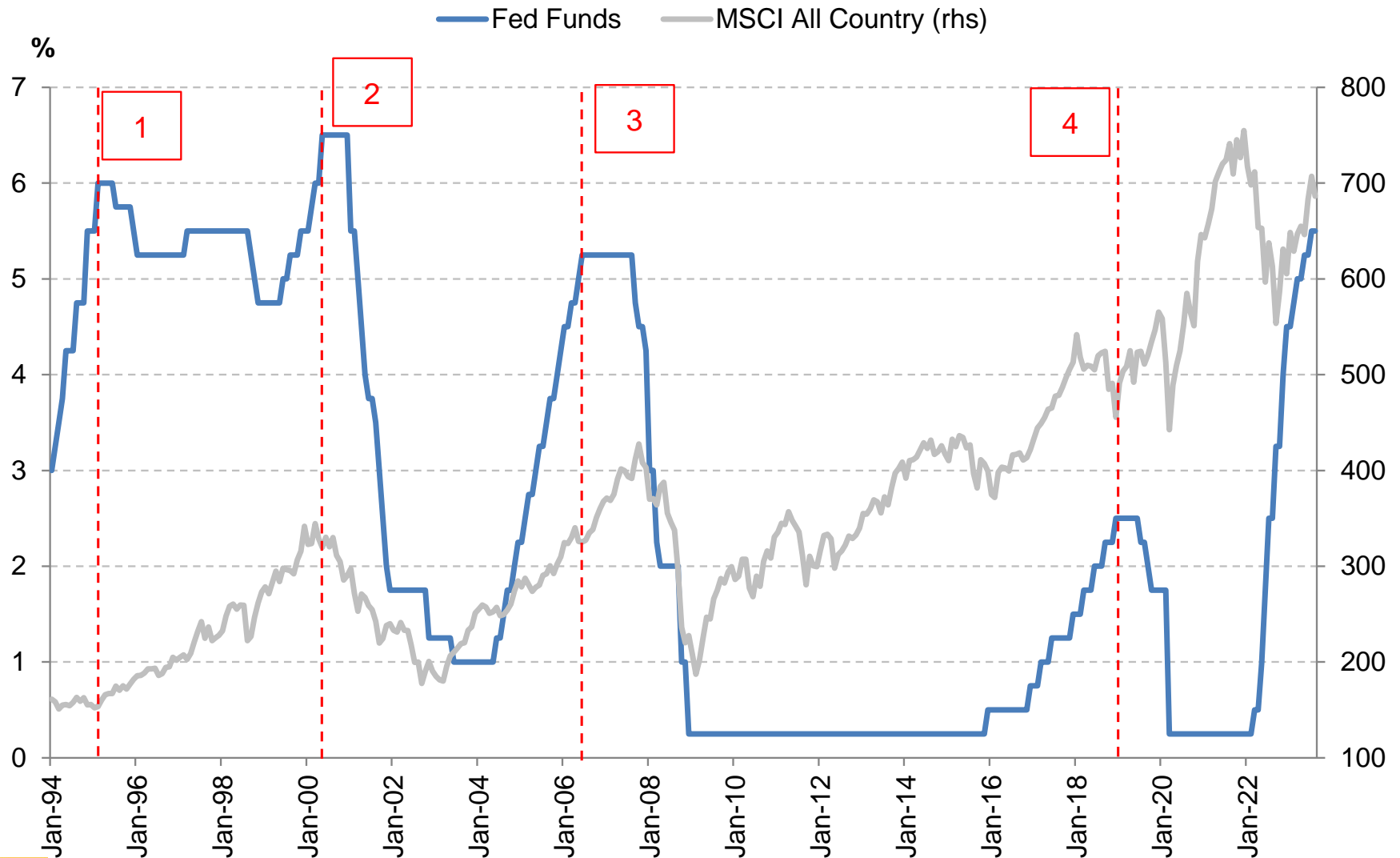
Since 2000 there were 3 major episode when BoT ended their rate hike cycle



Subsequent return of SET after BoT delivered a final hike of the cycle

End of rate hike cycle	Peak of MPC rate	1-mth return	3-mth return	6-mth return	1-yr return	2-yr return
July 2001	2.50%	+0.5	-9.3	+2.6	+27.5	+54.1
July 2006	5.00%	+3.3	+5.7	-4.0	+24.0	-3.1
October 2011	3.50%	+7.4	+15.5	+30.4	+42.7	+62.0
Average		3.7	4.0	9.7	31.4	37.7

Since 1990 there were 4 episode when Fed ended their rate hike cycle



Note: Data as of 20 September 2023

Sources: Bloomberg, Trinity Research

Subsequent return of MSCI All Country (MXWD) after Fed ended rate hike cycle

End of rate hike cycle	Peak of Fed Funds rate	1-mth return	3-mth return	6-mth return	1-yr return	2-yr return
Feb 1995	6.00%	+4.4%	+9.0%	+11.2%	+21.2%	+35.1%
May 2000	6.50%	+3.3%	+3.1%	-10.7%	-16.4%	-27.2%
June 2006	5.25%	+0.6%	+4.1%	+13.1%	+23.0%	+9.3%
Dec 2018	2.50%	+7.8%	+11.6%	+14.9%	+24.0%	+41.8%
Average		+4.0%	+6.9%	+7.1%	+13.0%	+14.8%

Subsequent return of MSCI DM (MXWO) after Fed ended rate hike cycle

End of rate hike cycle	Peak of Fed Funds rate	1-mth return	3-mth return	6-mth return	1-yr return	2-yr return
Feb 1995	6.00%	+4.6%	+8.9%	+11.2%	+21.7%	+35.9%
May 2000	6.50%	+3.3%	+3.4%	-9.8%	-16.0%	-27.5%
June 2006	5.25%	+0.6%	+4.0%	+12.4%	+21.4%	+6.2%
Dec 2018	2.50%	+7.7%	+11.9%	+15.6%	+25.2%	+42.8%
Average		+4.0%	+7.1%	+7.3%	+13.1%	+14.4%

Subsequent return of MSCI EM (MXEF) after Fed ended rate hike cycle

End of rate hike cycle	Peak of Fed Funds rate	1-mth return	3-mth return	6-mth return	1-yr return	2-yr return
Feb 1995	6.00%	+0.4%	+10.0%	+9.6%	+12.6%	+23.8%
May 2000	6.50%	+3.2%	-1.9%	-24.4%	-23.4%	-19.8%
June 2006	5.25%	+1.1%	+4.1%	+22.1%	+41.8%	+45.4%
Dec 2018	2.50%	+8.7%	+9.6%	+9.2%	+15.4%	+33.7%
Average		+3.4%	+5.4%	+4.1%	+11.6%	+20.8%

Subsequent return of SET after Fed ended rate hike cycle

End of rate hike cycle	Peak of Fed Funds rate	1-mth return	3-mth return	6-mth return	1-yr return	2-yr return
Feb 1995	6.00%	-5.6%	+8.1%	+2.1%	+2.6%	-43.5%
May 2000	6.50%	+0.7%	-4.8%	-14.0%	-4.1%	+26.2%
June 2006	5.25%	+2.0%	+1.2%	+0.3%	+14.5%	+13.3%
Dec 2018	2.50%	+5.0%	+4.8%	+10.6%	+1.0%	-7.3%
Average		+0.5%	+2.3%	-0.3%	+3.5%	-2.8%

Subsequent return of Gold after Fed ended rate hike cycle

End of rate hike cycle	Peak of Fed Funds rate	1-mth return	3-mth return	6-mth return	1-yr return	2-yr return
Feb 1995	6.00%	+3.8%	+1.9%	+1.5%	+6.3%	-3.6%
May 2000	6.50%	+6.4%	+2.1%	-0.6%	-2.3%	+20.0%
June 2006	5.25%	+3.4%	-2.8%	+3.4%	+5.5%	+50.3%
Dec 2018	2.50%	+3.0%	+0.8%	+9.9%	+18.3%	+48.0%
Average		+4.2%	+0.5%	+3.5%	+6.9%	+28.7%

Thai Equity Snapshot & Index Strategy

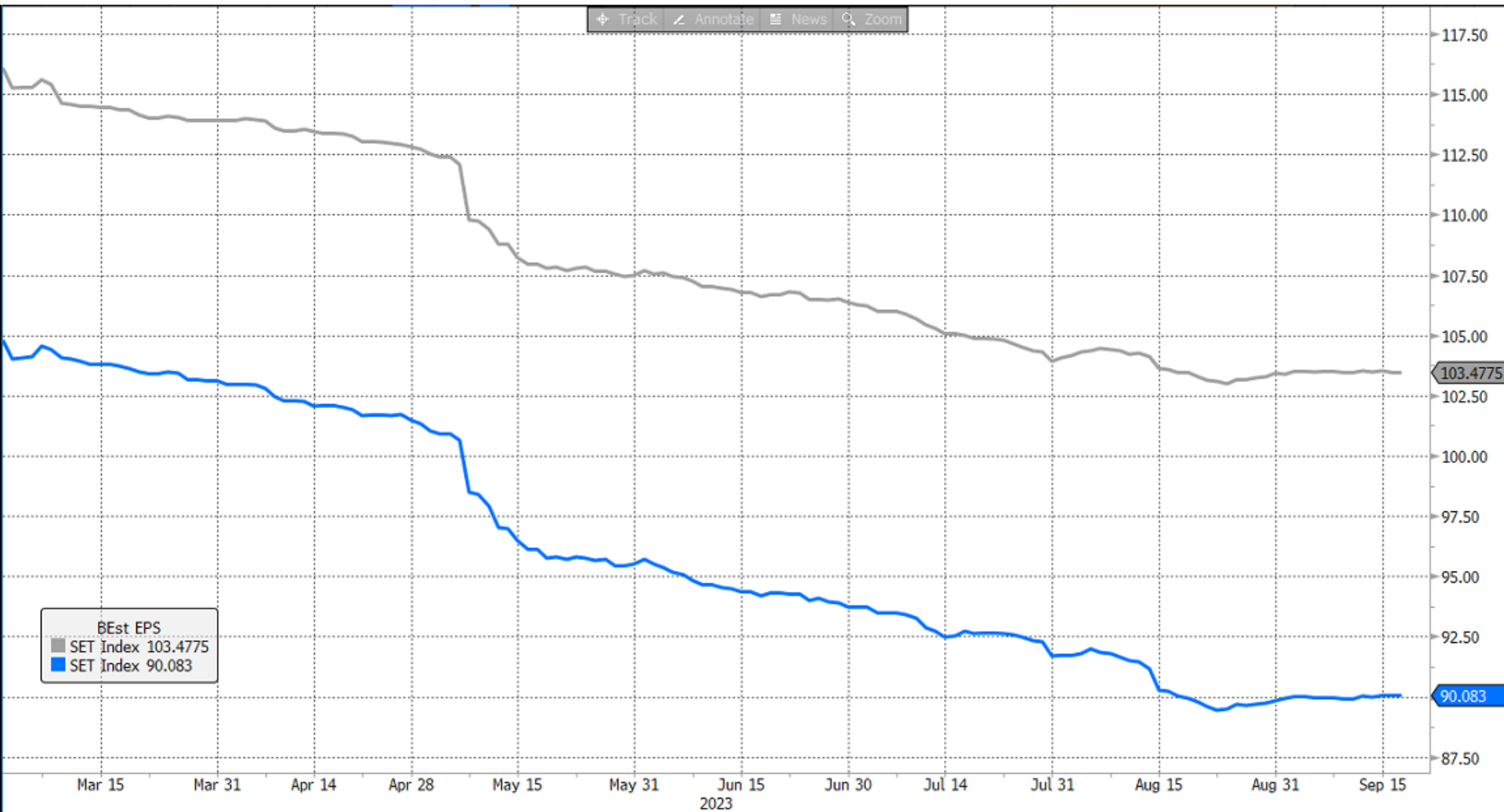
SET index strategy for 4Q23

- **What happened in 3Q:** Another 5.8% PE contraction from previously due to RP assumption change to 2.50%. 2024E EPS is still maintained at 113.
- **Direction:** Consolidate then Sideways up. Index will be finding the bottom during the 1H of quarter, due large part to market re-pricing towards Central bank tightening scheme. 2H will be better once Fed deliver final hike, likely in November.
- **Range:** 1st resistance is 1570 while blue-sky scenario will be 1600. On the downside, 1st support level is 1490-1500 and key support is at 1460-1480 (**No new low**)
- **Strategy:** Look to buy on weakness during October – Mid November and then enjoy the ride.

Upside of SET Index was trimmed to 1515, after BoT decided to hike another 0.25%

Case	2024E EPS	Multiple (2.25% RP)	Fair SET (Old)	Multiple (2.50% RP)	Fair SET (New)
Bull	113 baht	13.8x Fwd PE (Stretch)	1560	13.4x Fwd PE	1515
Base	113 baht	12.8x Fwd PE (Magic number)	1450	12.5x Fwd PE	1410
Worst	113 baht	11.9x Fwd PE (LT average)	1350	11.6x Fwd PE	1310

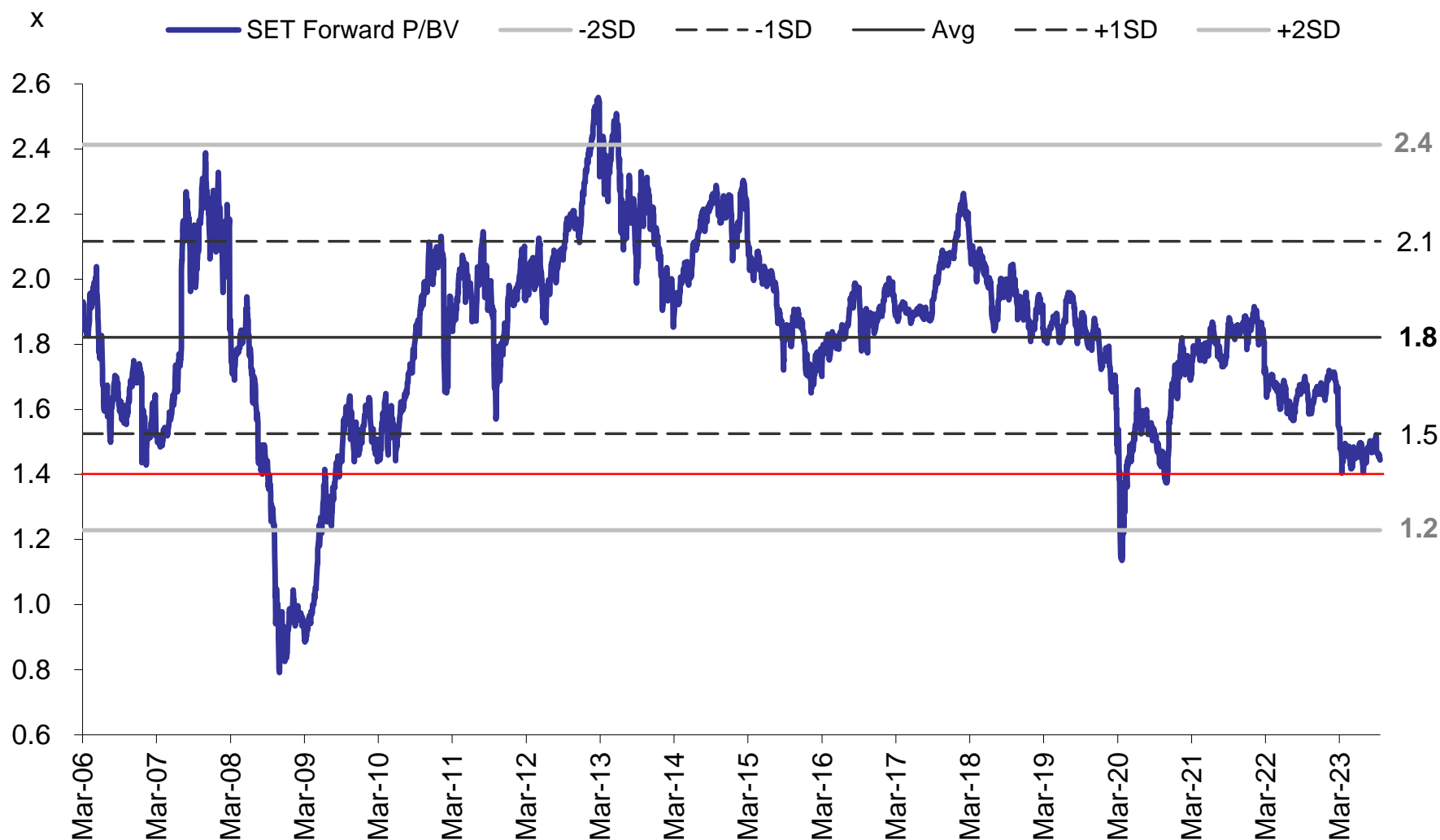
SET EPS looks stabilized. Upward revision ahead?



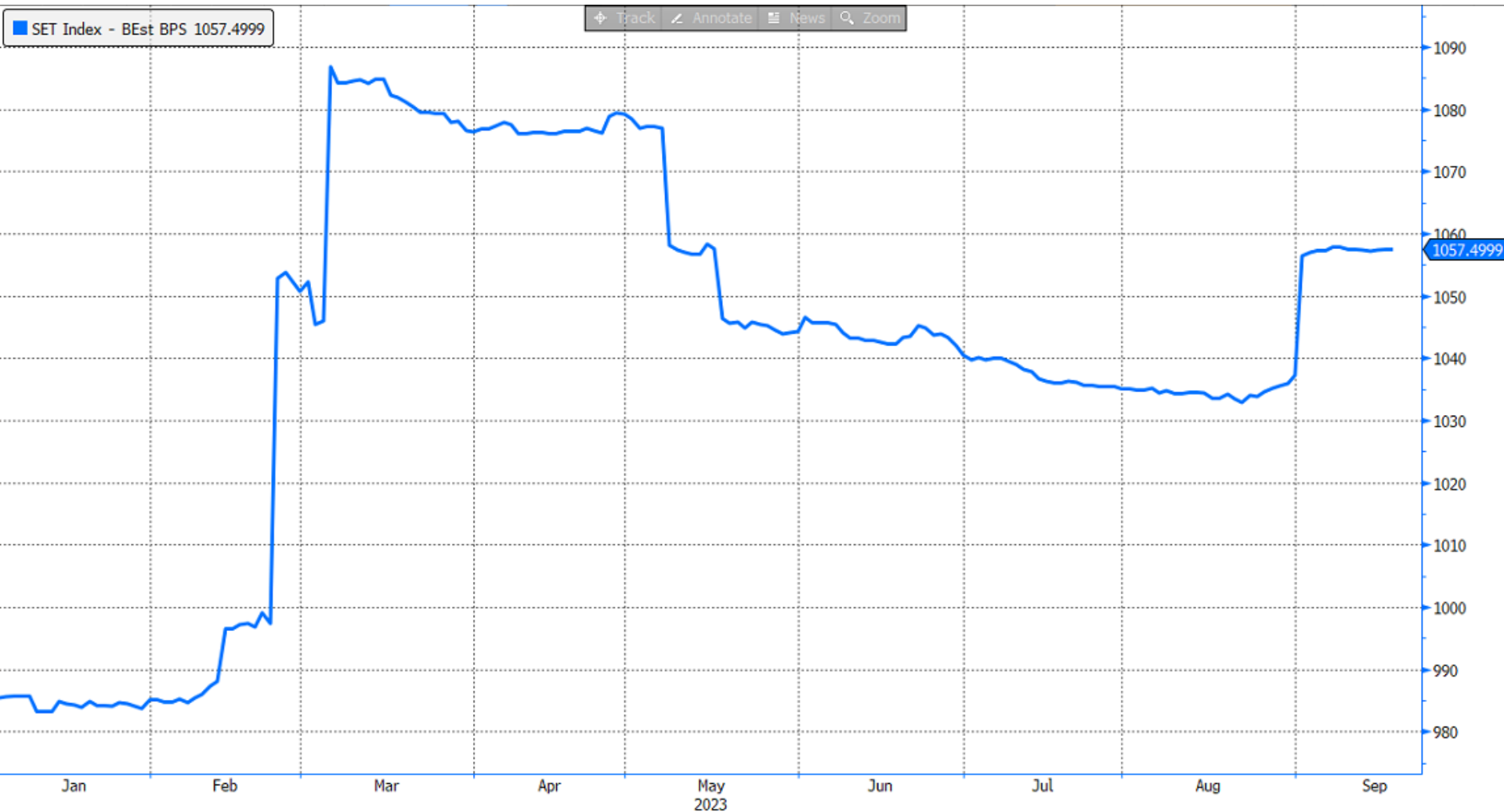
Note: Data as of 19 September 2023

Source: Bloomberg

Our key 4Q23 support of 1480 derived from 1.4x PBV



Good news: Our safe zone shift from 1460 to 1480 after estimated BVPS was crawling up



Investment Theme & Top Picks

Investment theme & picks for 4Q23

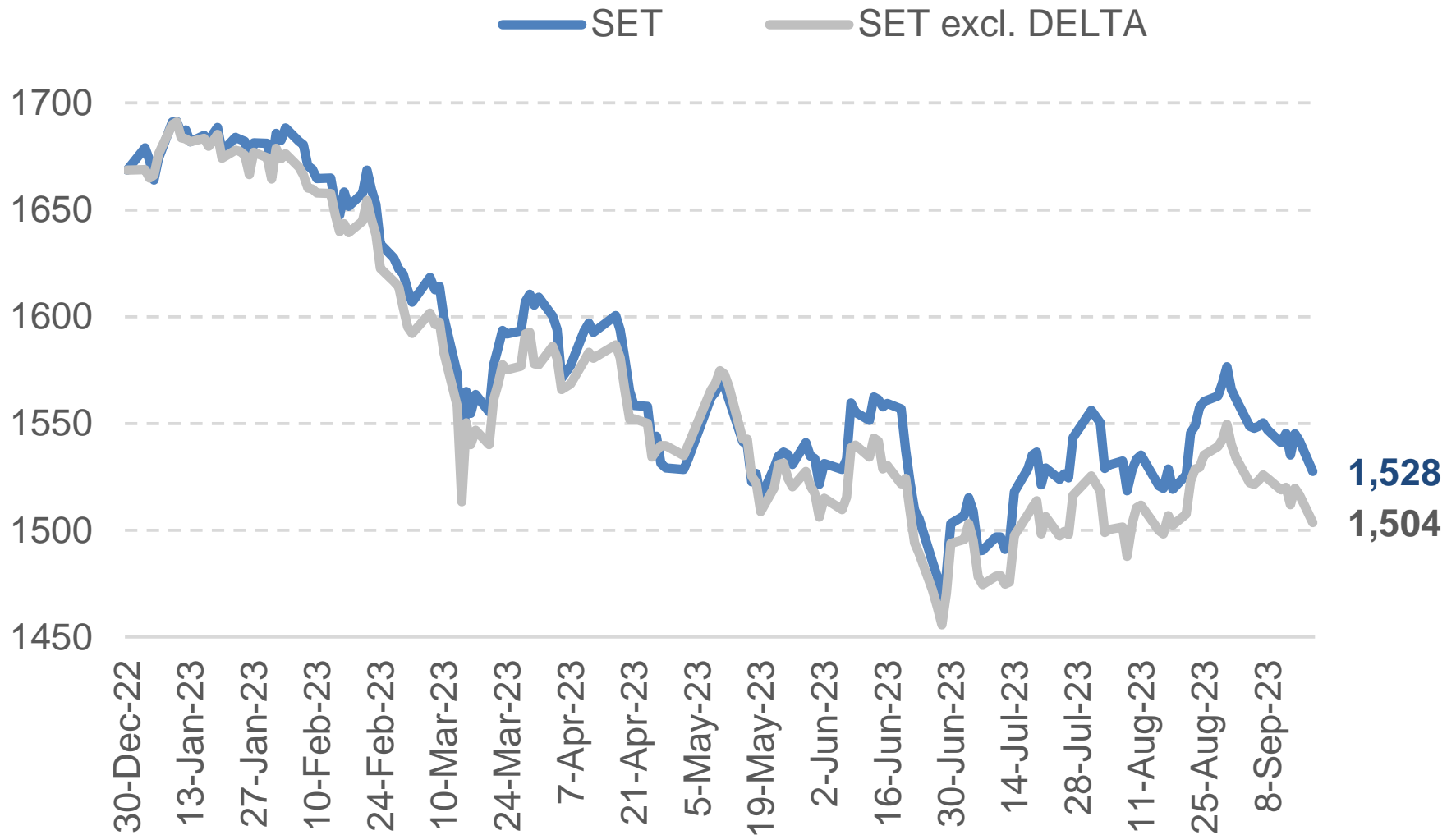
Buy now:

- 1) **Consumer staple and grassroot consumption:** CPALL, CPAXT, BJC, CRC, HMPRO, GLOBAL, DOHOME, TNP, MENA
- 2) **China recovery:** III, LEO, SJWD, WICE, PSL, RCL, TKN
- 3) **Export-oriented:** KCE, HANA, AAI, ITC, CPF, BTG, GFPT, TU

Buy on fact after November Fed:

- 1) **Peak yield:** REIT/IFF/Utilities (GULF, BGRIM, GPSC)

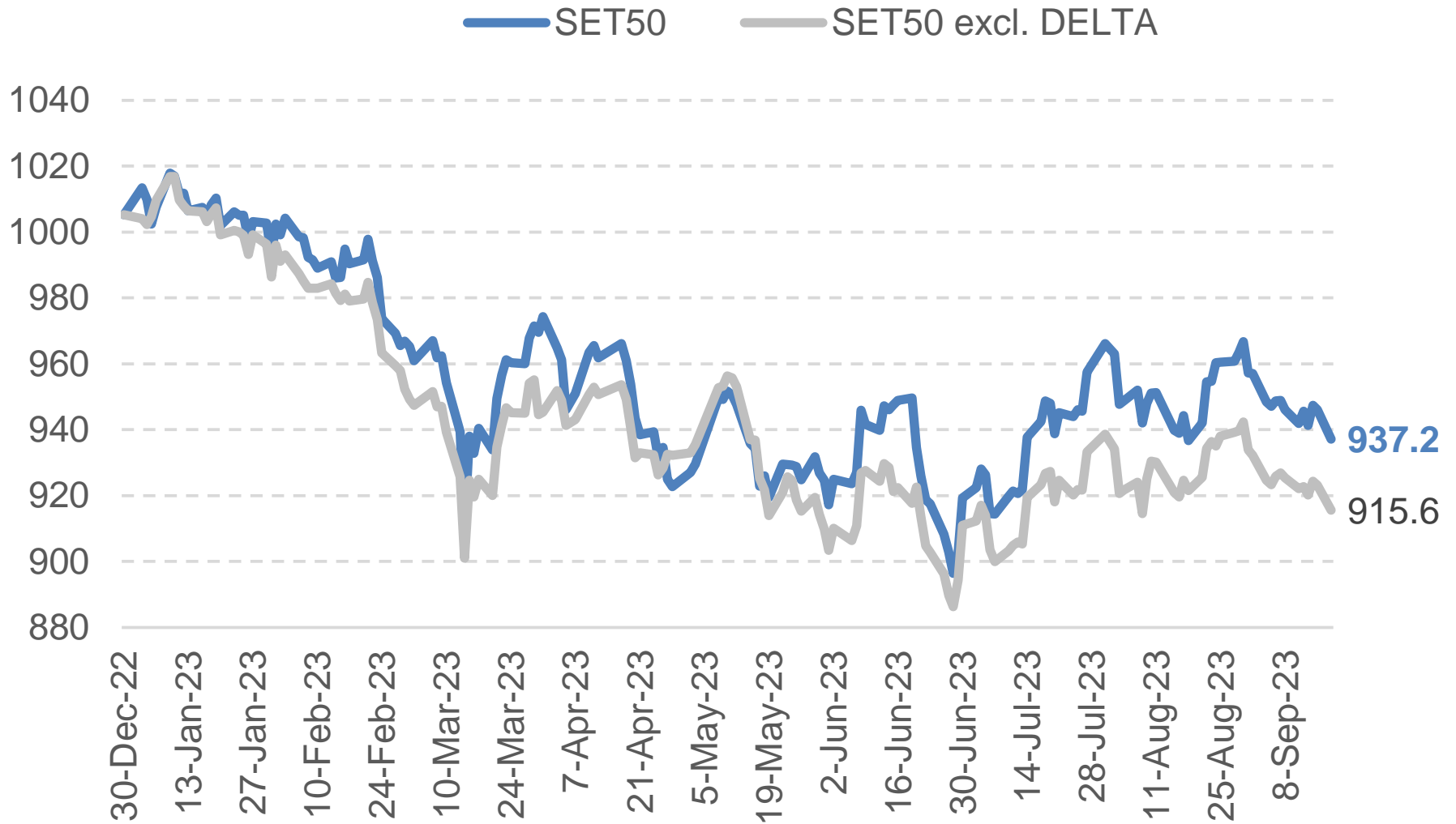
DELTA impact on the SET in 2023



Note: Data as of 19 September 2023

Source: Trinity Research

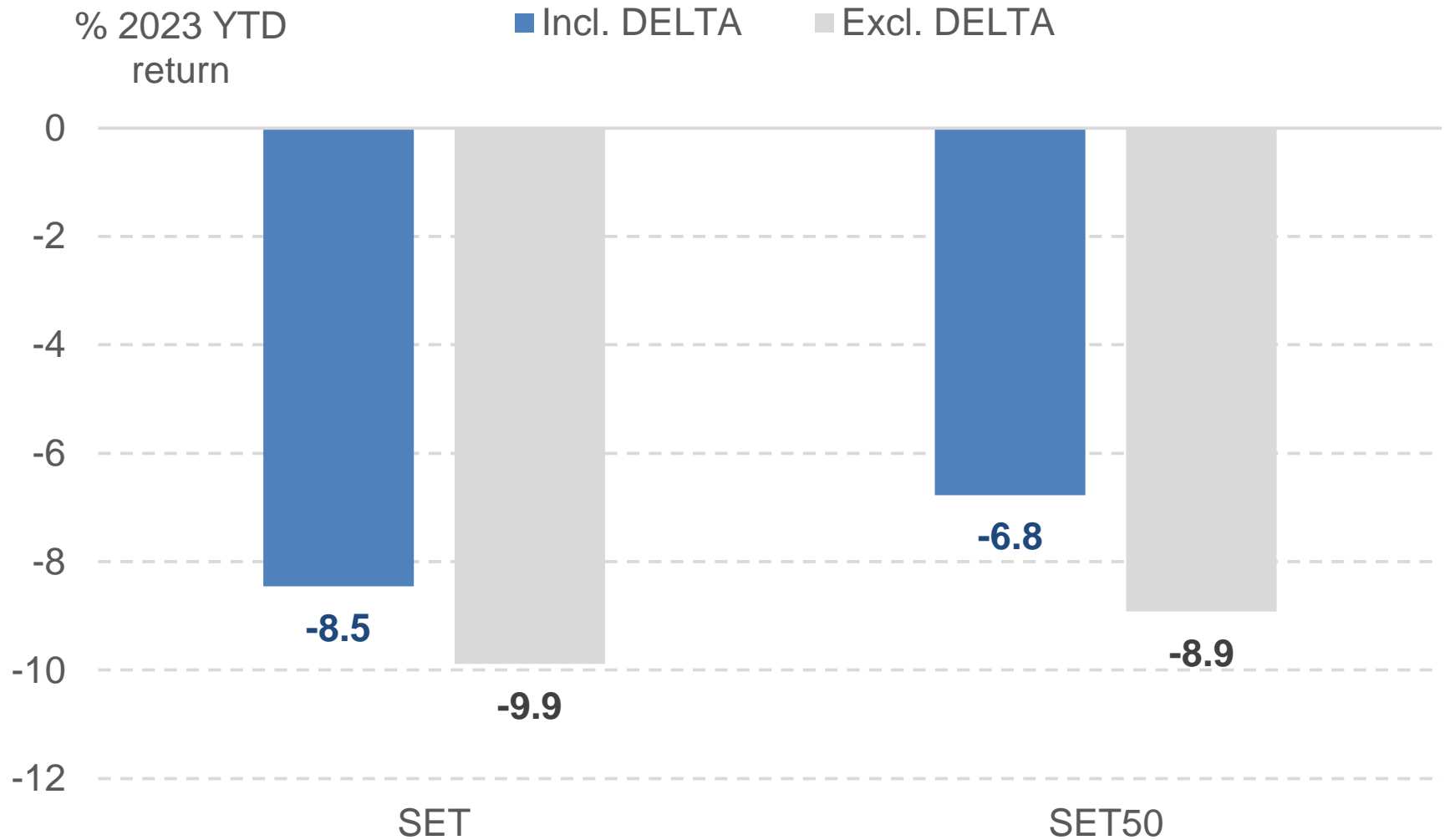
DELTA impact on the SET50 in 2023



Note: Data as of 19 September 2023

Source: Trinity Research

2023 YTD return comparison



SET50 Predictions & Free float adjusted index

Our take

- DELTA could be in jeopardy to be removed from both SET50 and SET100 due to subpar turnover ratio.
- If this happens, expect a liquidation process from passive/index funds to take place throughout 4Q23.
- This phenomena could limit SET Index upside in 4Q23 due to stock's hefty weight in the index.
- It could also increase the chance that active portfolio with no/low DELTA weight can beat market easily in this quarter.
- If DELTA is removed, the importance of introducing free-float adjusted market cap index at the beginning of next year could be smaller.

SET50 Index prediction for 1H24

<i>(Current member)</i>	Avg. daily market cap (Bt)	Free float (%)	No. of months trading above 50% of avg. market trading value	No. of months trading above 2.0% turnover ratio		<i>(Potential member)</i>	Avg. daily market cap (Bt)	Free float (%)	No. of months trading above 50% of avg. market trading value	No. of months trading above 2.0% turnover ratio
DELTA	1,340,935,235,050	22.4	7	8		AOT	1,023,570,405,000	30.0	10	8
AOT	1,023,570,405,000	30.0	10	8		PTT	994,706,344,406	48.9	10	8
PTT	994,706,344,406	48.9	10	8		PTTEP	654,849,091,730	34.7	10	10
PTTEP	654,849,091,730	34.7	10	10		ADVANC	643,916,407,844	36.2	10	9
ADVANC	643,916,407,844	36.2	10	9		CPALL	577,613,416,676	59.0	10	9
CPALL	577,613,416,676	59.0	10	9		GULF	547,058,118,657	26.1	10	9
GULF	547,058,118,657	26.1	10	9		BDMS	433,851,651,734	69.8	10	10
BDMS	433,851,651,734	69.8	10	10		SCB	391,089,511,269	76.4	10	10
SCB	391,089,511,269	76.4	10	10		SCC	372,840,000,000	66.2	10	9
SCC	372,840,000,000	66.2	10	9		BBL	319,253,974,022	98.6	10	10
BBL	319,253,974,022	98.6	10	10		KBANK	307,538,721,571	79.7	10	10
KBANK	307,538,721,571	79.7	10	10		CPN	302,154,600,000	68.3	10	8
CPN	302,154,600,000	68.3	10	8		KTB	268,759,657,838	44.9	10	10
KTB	268,759,657,838	44.9	10	10		CRC	246,818,675,000	54.6	10	8
CRC	246,818,675,000	54.6	10	8		OR	239,880,000,000	23.7	10	9
OR	239,880,000,000	23.7	10	9		TRUE	239,273,298,047	31.5	10	8
TRUE	239,273,298,047	31.5	10	8		INTUCH	233,126,194,700	28.4	10	7
INTUCH	233,126,194,700	28.4	10	7		EA	227,157,000,000	39.9	10	10
EA	227,157,000,000	39.9	10	10		BH	204,921,595,848	65.1	10	10
BH	204,921,595,848	65.1	10	10		MINT	182,982,591,886	63.0	10	10
MINT	182,982,591,886	63.0	10	10		CPF	182,213,888,867	46.3	10	9
CPF	182,213,888,867	46.3	10	9		HMPRO	177,935,709,278	40.9	10	9
HMPRO	177,935,709,278	40.9	10	9		SCGP	168,711,763,860	26.4	10	10
SCGP	168,711,763,860	26.4	10	10		TTB	166,027,583,202	29.8	10	10
TTB	166,027,583,202	29.8	10	10		PTTGC	161,980,404,528	54.8	10	10

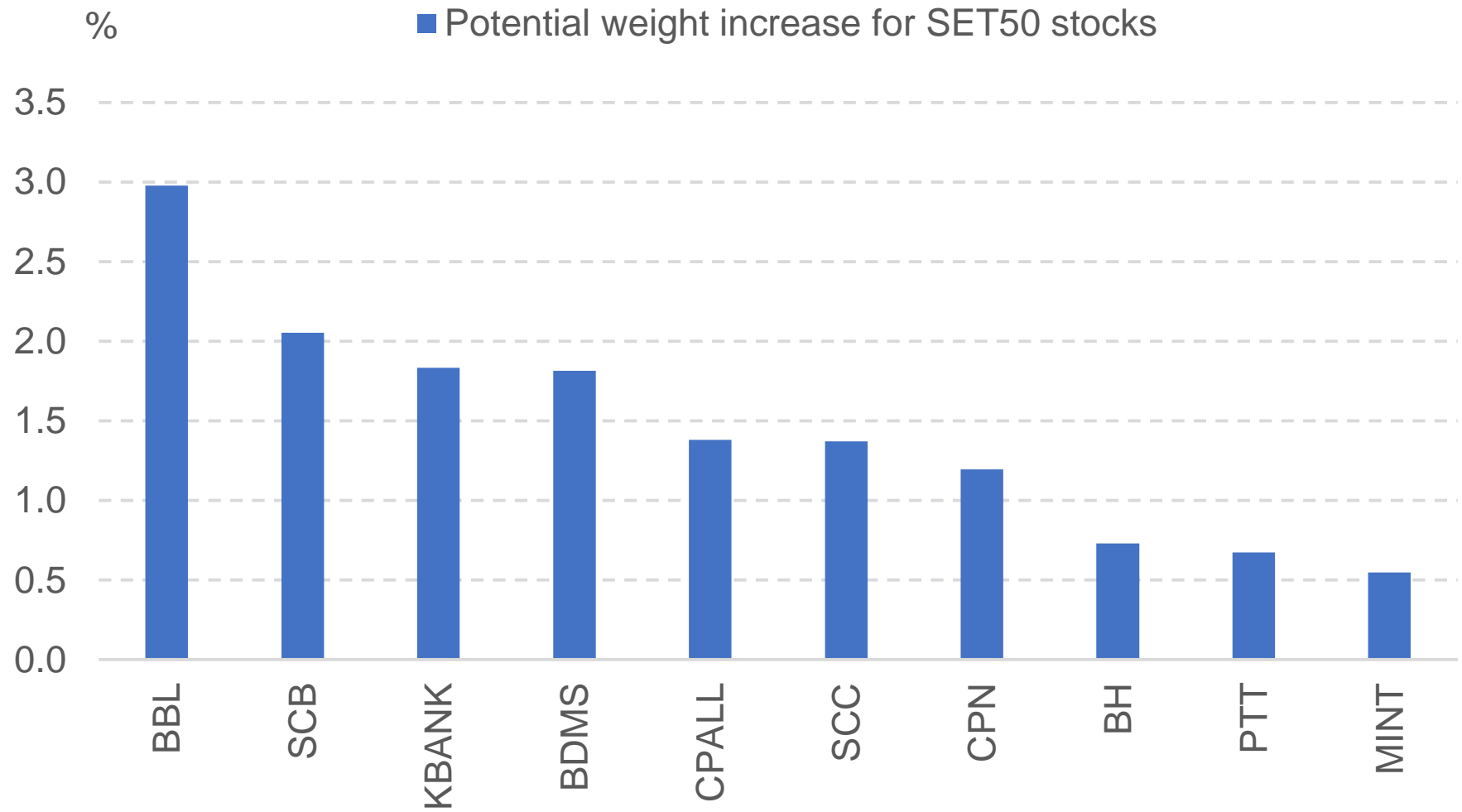
SET50 Index prediction for 1H24 (Con't)

<i>(Current member)</i>	Avg. daily market cap (Bt)	Free float (%)	No. of months trading above 50% of avg. market trading value	No. of months trading above 2.0% turnover ratio		<i>(Potential member)</i>	Avg. daily market cap (Bt)	Free float (%)	No. of months trading above 50% of avg. market trading value	No. of months trading above 2.0% turnover ratio
PTTGC	161,980,404,528	54.8	10	10		IVL	156,786,362,031	35.2	10	10
IVL	156,786,362,031	35.2	10	10		TLI	144,155,500,000	20.5	10	6
TLI	144,155,500,000	20.5	10	6		GPSC	143,524,224,780	24.8	10	10
GPSC	143,524,224,780	24.8	10	10		AWC	132,425,696,575	25.0	10	8
AWC	132,425,696,575	25.0	10	8		BEM	131,756,700,000	51.1	10	9
BEM	131,756,700,000	51.1	10	9		KTC	120,794,951,180	35.0	10	9
KTC	120,794,951,180	35.0	10	9		TOP	109,067,021,510	52.0	10	10
TOP	109,067,021,510	52.0	10	10		LH	99,481,362,190	62.5	10	10
LH	99,481,362,190	62.5	10	10		BTS	94,741,158,734	59.3	10	9
BTS	94,741,158,734	59.3	10	9		GLOBAL	91,532,992,411	31.2	10	9
GLOBAL	91,532,992,411	31.2	10	9		OSP	87,334,031,250	51.7	10	9
OSP	87,334,031,250	51.7	10	9		BGRIM	85,375,975,000	31.6	10	10
BGRIM	85,375,975,000	31.6	10	10		MTC	85,065,000,000	32.1	10	10
MTC	85,065,000,000	32.1	10	10		CBG	83,750,000,000	28.6	10	10
CBG	83,750,000,000	28.6	10	10		TISCO	80,524,933,634	73.8	10	10
TISCO	80,524,933,634	73.8	10	10		WHA	78,097,211,198	67.5	10	10
WHA	78,097,211,198	67.5	10	10		COM7	77,099,944,263	47.4	10	10
COM7	77,099,944,263	47.4	10	10		RATCH	73,623,749,492	49.7	10	10
RATCH	73,623,749,492	49.7	10	10		EGCO	69,546,026,500	44.7	10	9
EGCO	69,546,026,500	44.7	10	9		BANPU	69,197,310,961	90.8	10	10
BANPU	69,197,310,961	90.8	10	10		JMT	67,106,598,900	45.8	10	10
TU	66,787,325,147	69.9	10	10		TU	66,787,325,147	69.9	10	10
SAWAD	65,636,684,385	44.8	10	10		SAWAD	65,636,684,385	44.8	10	10
CENTEL	63,652,500,000	76.3	10	10		CENTEL	63,652,500,000	76.3	10	10
TIDLOR	63,438,065,287	44.5	10	10		TIDLOR	63,438,065,287	44.5	10	10

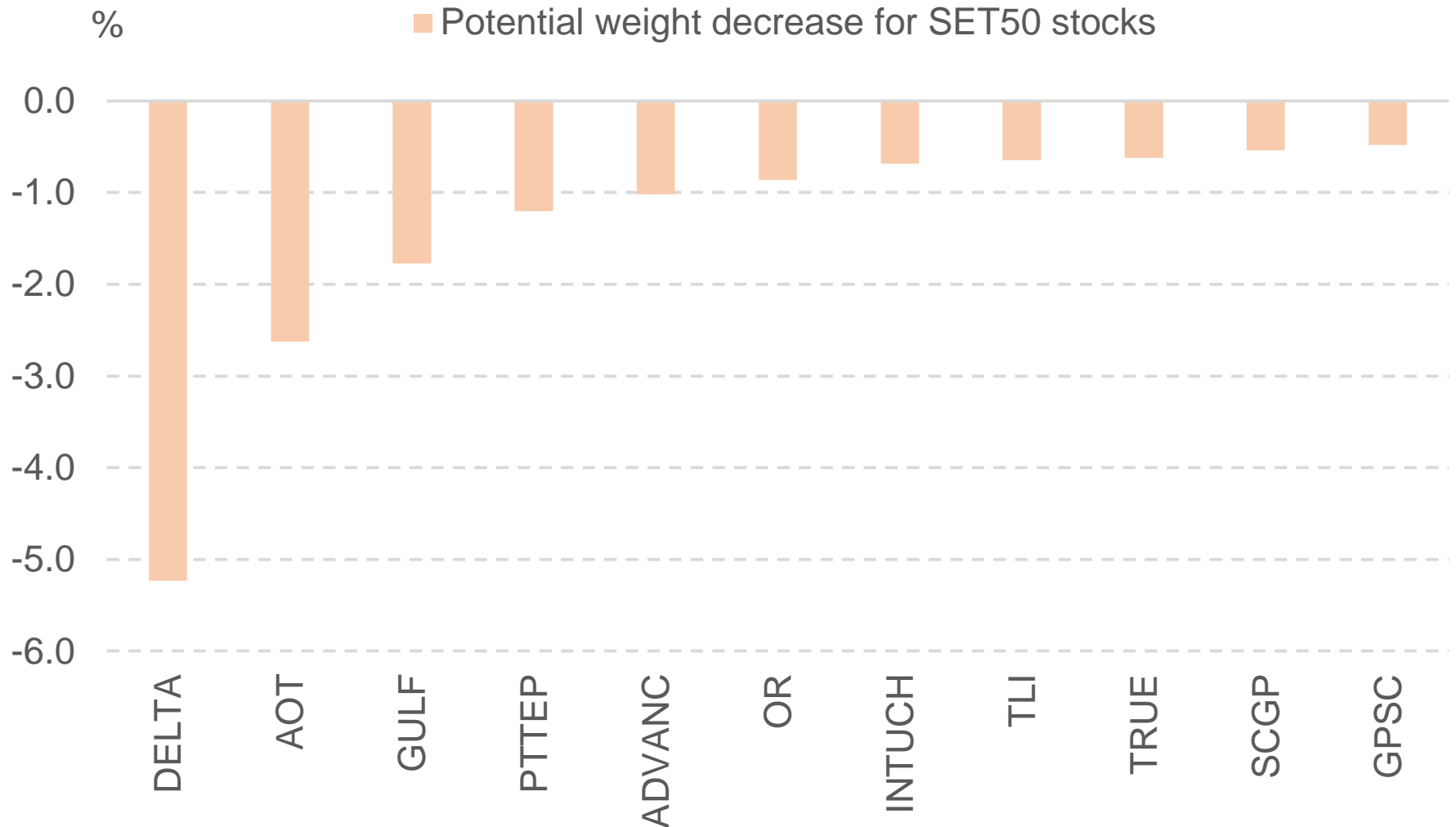
DELTA in jeopardy to be excluded from both SET50 & SET100 due to underqualified turnover ratio

	% Turnover	Remark
Dec 22	7.08	
Jan 23	6.81	
Feb 23	3.98	
Mar 23	4.33	
Apr 23	3.14	*Under trading alert list
May 23	3.59	
June 23	3.04	*Under trading alert list
July 23	1.65	*Under trading alert list
Aug 23	2.02	
Sep 23	1.18	(as of September 27 th)
Oct 23		
Nov 23		

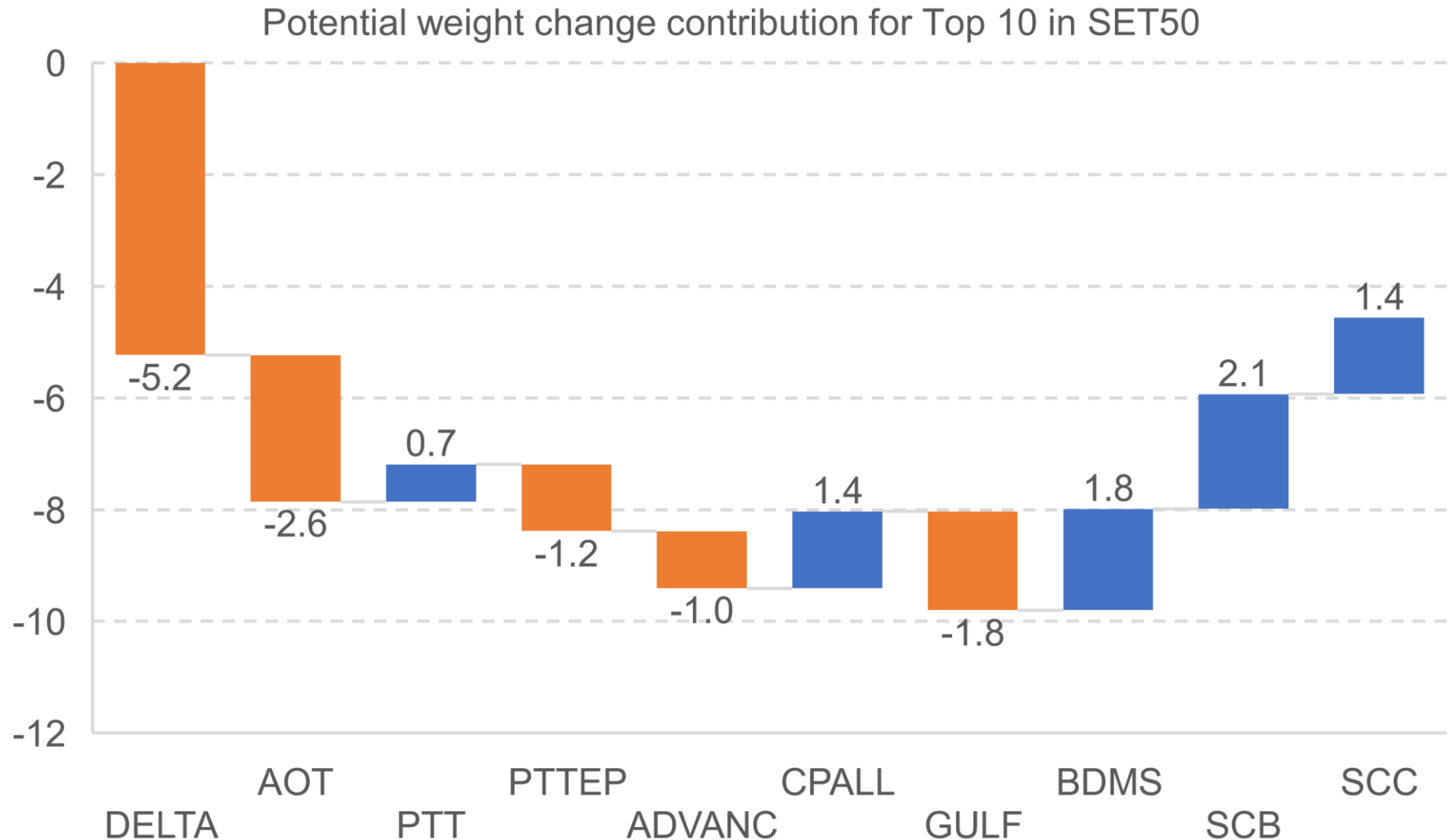
SET50 stocks who stand to benefit the most from FF adjusted index



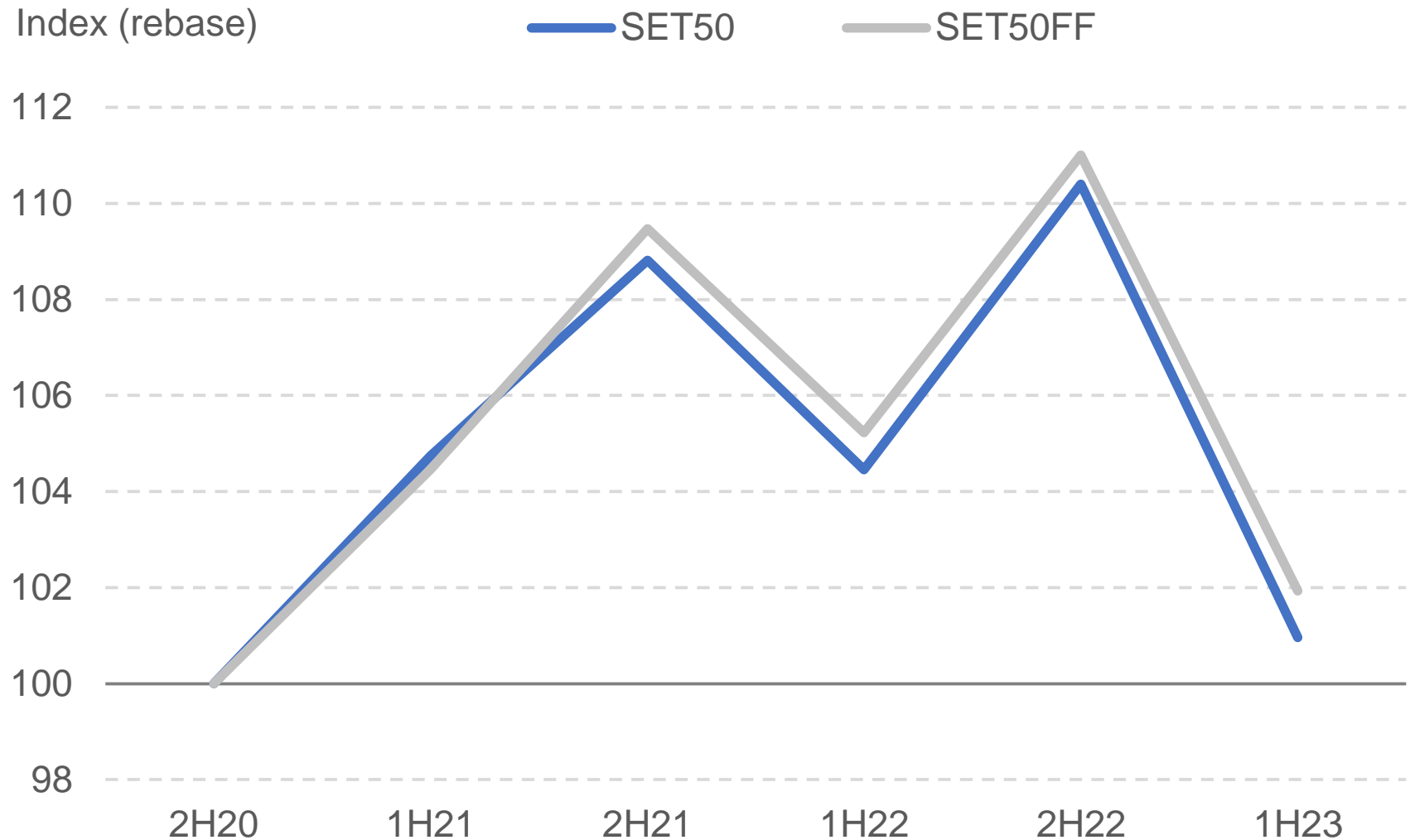
SET50 stock who stand to lose the most from FF adjusted index



A full-scale adjusting to FF adjusted index would initially put pressure on the index



However, returns of full market cap vs. FF adjusted indices are quite the same over the long-run



However, returns of full market cap vs. FF adjusted indices are quite the same over the long-run (Con't)

