

STOCK FOCUS

KTB SECURITIES THAILAND

TRADE WHILE LOOKING TO MARKET RESILIENCE

The SET index looks likely to ride a roller coaster for the foreseeable future. On the external front, we believe that the approaching US presidential election will take centre stage and stir volatility in equities across the globe.

On the domestic front, political instability stemming from potential cabinet changes and anti-government protests, coupled with a delay in new measures to shore up tourism and the economy, may put downward pressure on the market. The third-quarter earnings reporting season, due to begin in two weeks with bank results, will also influence the market's direction.

POSITIVE FACTORS

Covid containment: While the continued increase in Covid-19 cases is a source of great concern to markets worldwide, any positive moves, such as progress in vaccine development and outbreak control, as well as fresh US economic stimulus if it materialises, should provide support to equities.

New finance minister: The top job at the Finance Ministry has been vacant for a month, but Prime Minister Prayut Chan-o-cha has said he will fill it next week. The new minister is expected to announce more measures to shore up the broad economy, which should be a tailwind for the Thai bourse.

Banks' Q3 earnings: We forecast aggregate third-quarter net profit of bank stocks under KTB Securities' coverage to grow by 19%

quarter-to-quarter. Any upside surprise when results start coming in at mid-month should drive the market sharply higher.

NEGATIVE FACTORS

Weak Thai GDP outlook: Several research houses have forecast the economy to contract by 8% this year before rebounding by 3-5% in 2021. But we believe that as government stimulus measures start to have an impact, it should fuel buying interest in equities in late 2020.

Domestic politics: All eyes are on anti-government protests, which are expected to continue, and the government's response. Recent changes at the opposition Pheu Thai Party are also being closely watched.

Short-selling rules: The return to normal short-selling regulations at the start of October is likely to be a key factor stirring volatility in the Thai bourse. The SET had tightened the rules in March to reduce volatility at a time when the pandemic was in its early stages.

US presidential election: Democrat Joe Biden is currently leading President Donald Trump in opinion polls for the Nov 3 vote. Mr Trump's positive Covid-19 diagnosis adds yet another element of drama to the race.

OCTOBER OUTLOOK

The SET index is in a downward trend as it extends its decline after hitting a high of 1,454 points in June. In September, the index broke below the supports at 1,300, 1,290 and 1,270 to reach a new low of 1,236.



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We see the next supports at 1,200 and 1,154. We would rather keep an eye on the latter level, which we expect to be intact, and a test of which would trigger a rebound. Resistance levels are at 1,270 and 1,290. The trading range is expected to be between 1,154 and 1,270.

We recommend a trading strategy while looking to buy on signs of market resilience.

Our stock picks for October are:

- **ASIAN** (Buy, target 13.20 baht). We forecast 2021 net profit to grow a further 4% to 736 million baht given the company's debottlenecking and automated production, apart from rising demand for feed after the easing of lockdown restrictions.
- **CBG** (Buy, target 170 baht). Earnings per share (EPS) of the energy drink maker are expected to record a compound annual growth rate of 33% in 2019-21. We forecast core profit to grow 43% to 3.6 billion baht in 2020 and a further 24% to 4.46 billion baht in 2021, because of two factors: domestic and overseas sales are forecast to rise 8-16% on the back of a 30% increase in production capacity for glass bottles and aluminium

cans; and gross profit margin will widen further given economies of scale and higher capacity utilisation.

- **COM7** (Buy, target 45 baht). We forecast net profit to grow 5% to 1.27 billion baht in 2020 and 20% to 1.53 billion baht in 2021. Total revenue is expected to rise by 3-15% given the launches of new smartphone models in the second half of 2020 and higher sales of accessories such as smart watches, Air-Pods and IoT devices. As well, the IT product retailer has extended its distribution network in both offline and online channels. We believe that the firm's flagship stores, Banana IT and Studio 7, will remain a key earnings growth engine in the long term.

- **SMPC** (Buy, target 16 baht). We forecast 2021 net profit to rise 11% to 683 million baht on expectations of still-strong demand for household LPG tanks in Africa and South Asia, as well as potential in South America. SMPC has forecast sales to grow by 10-15% a year in 2021 and 2022.

- **JWD** (Buy, target 10 baht). Earnings are expected to ride an uptrend from the third quarter. We forecast full-year 2020 net profit to drop 18% from a year ago to 297 million baht. But third-quarter earnings are expected to improve to between 60 million and 70 million baht, from 48 million in the second quarter, and to grow further in the fourth quarter. We foresee a 20% rebound in net profit in 2020, as a new cold storage unit is expected to generate revenue for the full year, while auto warehouse and yard management and dangerous goods warehouse services should benefit from a low base in 2020.

- **TACC** (Buy, target 8.30 baht). We forecast 2020 net profit to grow 24% to 201 million baht. In the second half, revenue is estimated to increase further, as main customer 7-Eleven plans to extend the distribution network for health and wellness products by 320 stores in the period from 377 in the first half, in addition to 7-Eleven's "afternoon tea break" campaign. The gross profit margin is forecast to widen by 175 basis points in the second half from the first to 34.7% on the back of larger serving sizes (22-ounce cups).