

BUY**TP: Bt10.00**

Initiation

Upside: 44.9%

Demco Public Co Ltd (DEMCO TB)

Alternative power play

We initiate on DEMCO with a BUY to a Bt10.00 TP. This is an engineering contractor play on the alternative fuel power plant boom with a multi-year earnings base lift. We leave as upside 3G-related work and investments in power plants. ROE is at 20%-plus with a 4.7% yield and rising. At the current price, DEMCO is trading at only 9.2x PE.

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DEMCO is a BUY to a TP of Bt10.00/share

DEMCO is one of the top five electrical engineering contractors and steel structure manufacturers in Thailand. We initiate coverage with a BUY to a Bt10.00 TP. First, it is a play on Thailand's power plant construction boom. Second, DEMCO is enjoying a period of a multi-year lift in its income base. Third, it's a 20%-plus ROE company with a low-risk income model via direct investments in power projects which earn it stable income flow. Fourth, it's cheap at only 9.2x PE with a decent dividend yield of 4.7%. Lastly, there is upside to our numbers if DEMCO invests in minority stakes in new power plant projects (potentially 540MW) and, if the 2.1GHz 3G platform goes ahead, there will be a lot of new 3G-related work for DEMCO.

A play on the alternative power industry

DEMCO is exposed to the power plant boom in Thailand in three ways. First, the traditional method is by selling steel structures for use in power base stations, distribution or transmission lines and undertaking electrical engineering construction work. Second, DEMCO is now a contractor for Wind Energy Holding Co. Ltd. (WEH) for wind power projects (240MW under construction and 540MW awaiting power purchase agreement (PPA) contracts) while it is also a contractor for solar power projects. Third, DEMCO is investing in some of those projects to earn stable and recurring income. So far, it has a 16.2% stake in two projects (Huay Bong 2 and 3) with a combined 180MW of capacity and a 10% stake in the 60MW Khao Kor project. We estimate recurring income (equity and dividend income) from these three projects will account for 33-42% of its earnings base in 2013-15.

Hefty earnings base lift

A major lift in DEMCO's earnings base over the next three years will come from a jump in construction revenue and recurring equity and dividend income. We forecast construction revenue to surge from Bt3.2bn in 2011 to Bt5.9bn in 2012 and Bt6.7bn in 2015. Construction revenue includes contractor income and product sales. Revenue in the next three to four years will be from Bt6bn in existing backlog, Bt8bn-10bn of work from EGAT, MEA, PEA, IPPs and SPPs and Bt9bn of work from WEH's remaining projects. As for recurring dividend and equity income, we forecast contribution to turn from losses of Bt11m in 2011 and Bt8m in 2012 to a Bt255m gain in 2015.

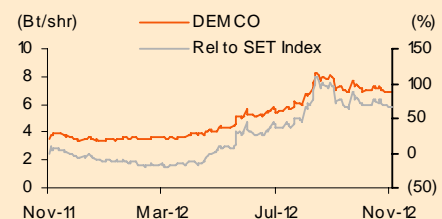
Sound financial status

With equity investment of Bt1.5bn in three wind power plants in 2011-12, we expect net D/E to rise to 1.0x this year but fall to 0.4x in 2013, supported by operating cash flow of Bt602m in 2013. If DEMCO decides to also invest in minority stakes in WEH's seven wind power projects (540MW), we estimate the company could easily handle 10-15% stakes worth Bt1.5bn-2.3bn in 2013-15 via debt and internal cash flow without the need for a capital call.

COMPANY VALUATION

Y/E Dec (Bt m)	2011	2012F	2013F	2014F
Sales	3,289	6,022	5,979	5,778
Net profit	119	387	454	540
Consensus NP	—	371	530	620
Diff from cons (%)	—	4.4	(14.4)	(13.0)
Norm profit	119	387	454	540
Norm EPS (Bt)	0.2	0.7	0.7	0.9
Norm EPS gr (%)	33.0	204.1	10.9	13.8
Norm PE (x)	31.1	10.2	9.2	8.1
EV/EBITDA (x)	19.6	10.8	11.4	11.5
P/BV (x)	3.5	2.3	1.8	1.6
Div. yield (%)	1.4	4.4	4.7	5.6
ROE (%)	11.4	27.8	21.5	20.3
Net D/E (%)	58.1	97.8	37.3	20.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 26 Nov 12 (Bt)	6.90
Market cap (US\$ m)	116.4
Listed shares (m shares)	528.3
Free float (%)	45.8
Avg daily turnover (US\$ m)	1.4
12M price H/L (Bt)	8.5/3.3
Sector	Utilities
Major shareholder	Puipunthavong Family 20.1%

Sources: Bloomberg, Company data, Thanachart estimates

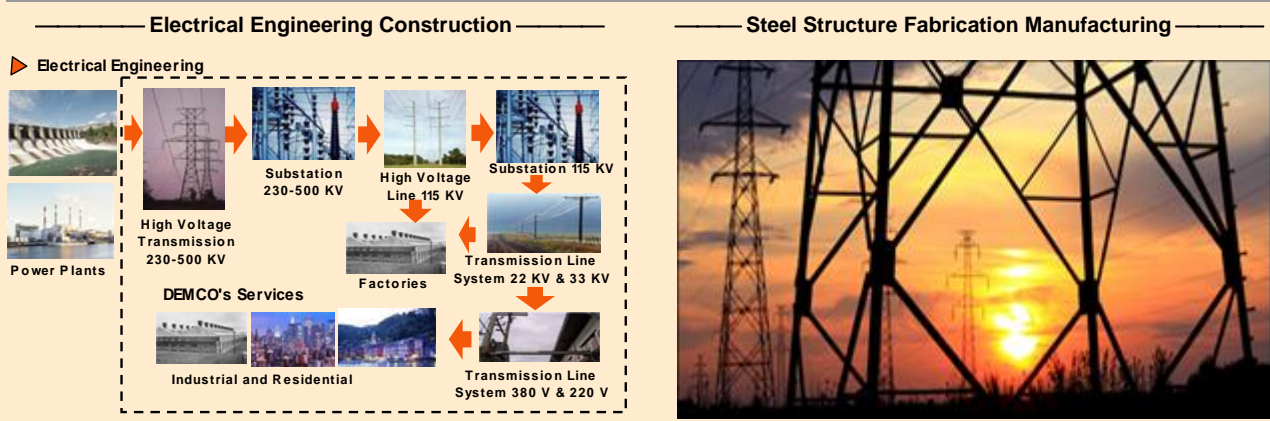
DEMCO is a BUY to a TP of Bt10.00/share

We initiate coverage on Demco Pcl (DEMCO) with a BUY to an 8.3%-WACC DCF-based TP of 10.00/share. Our TP provides 45% upside from the current market price.

DEMCO is one of the top five engineering contractors

DEMCO is among the top five electrical engineering contractors in Thailand. Its peers are Loxley Pcl (LOXLEY), Gunkul Engineering Pcl (GUNKUL), Asian Insulator Pcl (AI), and Sri-U-Thong Co., Ltd (non-listed). It has strong experience in design, supply, construction and installation of electricity distribution lines, high-voltage transmission lines, substation design and construction, telecom towers, etc. In addition, DEMCO is also a steel structure manufacturer supplying them for high-voltage transmission line systems, telecommunication systems and billboards under the "DEMCO" trademark. The company's factory is located in Nongmuang, Lop Buri.

Ex 1: DEMCO's Business



Source: Company data

There are five key reasons to BUY DEMCO as follows:

A play on the power plant construction boom

First, DEMCO is a play on Thailand's power plant construction boom. On top of normal power capacity growth each year, activity is now speeding up in the alternative-fuel power plant industry. This is due to the government's subsidies of Bt8/unit and a Bt6.5/unit adder for solar power plants and Bt3.5/unit for wind power. Licenses, especially for solar power, have maturity dates and construction is being accelerated. As a leading electrical engineering contractor and manufacturer, DEMCO is a direct play on the power plant boom in Thailand. DEMCO is exposed to the boom in three ways and we explain these in the second main section of this report.

Enjoying a phase of a multi-year earnings base lift

Second, DEMCO is enjoying a multi-year lift in its income base. Thanks to a strong backlog on hand and hefty new project line-up for its construction work over the next three years, together with a new source of recurring income from the company's new investments in three wind power projects, DEMCO's earnings are therefore forecast to rise to a new base from less than Bt100bn on average over the past three years to Bt387m, Bt454m, Bt540m and Bt723m in 2012-15, respectively.

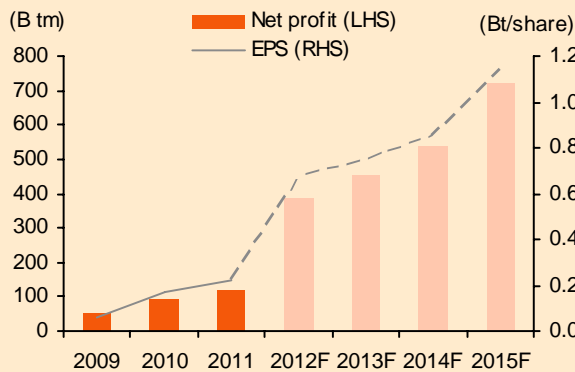
A 20%-plus ROE company with a lower-risk income model

Third, the diversification of DEMCO's business by investing in wind power projects not only enhances its earnings but also creates a lower-risk income model. With strong and sustainable equity income and dividend income contribution from DEMCO's three wind power projects from 2013 onwards, we therefore see its ROE being sustained at a high level of more than 20% from 2013 onwards compared to an average of 11% in 2009-11.

Cheap valuation

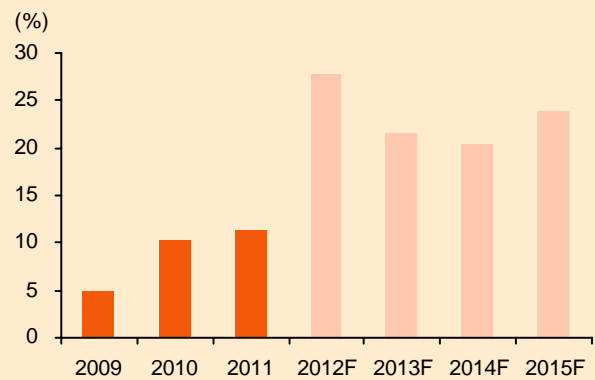
Fourth, DEMCO is trading at PE of 9.2x in 2013F and falling. This is cheap compared with its historical PE band of 5x-45x in 2007-11 and average trading PE of 13.3x. It's also inexpensive compared with the sector average PE of 11.5x in 2013F. The company's dividend yield is decent too at 4.7% in 2013F.

Ex 2: DEMCO's Earnings Are Heading Up



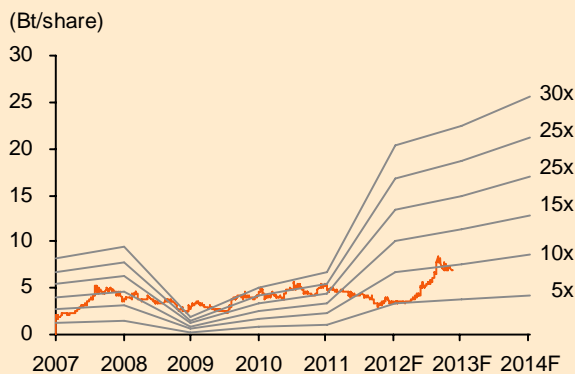
Sources: Company data; Thanachart estimates

Ex 3: ROE Is Also Rising With Lower Risk



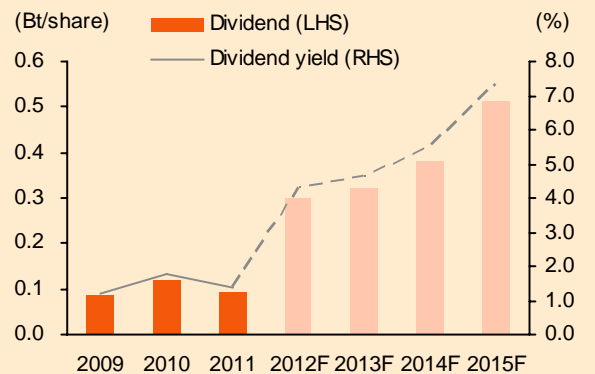
Sources: Company data; Thanachart estimates

Ex 4: DEMCO's Valuation Is Inexpensive



Sources: Bloomberg; Thanachart estimates

Ex 5: Dividend Yield Is Good Too



Sources: Company data; Thanachart estimates

Two areas of upside

Investments in seven wind farms will add Bt5.00/share

Steel structure sales for the 2.1GHz 3G platform will add Bt0.20/share

Lastly, there are also two areas of upside to our earnings and TP. The upside could amount to a combined Bt5.20/share on top of our TP of Bt10.00.

DEMCO is both a contractor for and a partner of the specialized alternative fuel power plant operator Wind Energy Holding Co., Ltd (WEH). Aside from being WEH's contractor, DEMCO has also invested in 10.0-16.2% stakes in WEH's 240MW of wind power plants that are now under construction. WEH still has 540MW (seven plants) in the pipeline awaiting PPA contracts with the Electricity Generating Authority of Thailand (EGAT) and DEMCO is interested in buying some stakes in those projects. If we assume that DEMCO invests in 10% stakes in the seven projects, dividend income contribution from the projects to DEMCO would commence in 2016. This would add Bt5.00/share on top of our current TP.

Another upside to our earnings forecast and TP is if the 2.1GHz 3G platform goes ahead, DEMCO's existing business may get a lot of new 3G-related construction work by selling steel structures to three telecom operators – Advance Info Service Pcl (ADVANC), Total Access Communication Pcl (DTAC) and True Corporation Pcl (TRUE). Total investment for 3G infrastructure work for the three operators is around Bt80bn-100bn and DEMCO estimates it can sell at least Bt1.0bn-1.2bn worth of steel structures to the telecom operators in 2013-14. But given the uncertainty over 2.1GHz 3G licensing being derailed, we don't include this sales revenue in our projections.

If we incorporate DEMCO's steel structure sales of Bt500m in 2013 and Bt700m in 2014 into our projection, this would add Bt0.20/share on top of our current TP. Note that DEMCO is now a supplier of steel structures to TRUE for its 3G construction on 850MHz with a total value of Bt400m.

Ex 6: Upside To DEMCO's Earnings And TP

	EPS (Bt/share)			Target price (Bt/share)
	2013F	2014F	2015F	
Base case	454	540	723	10.0
Scenario 1: 3G platform goes head	492	595	723	10.2
Change from base case (%)	8.4	10.2	—	0.2
Scenario 2: Invests in power plants	440	496	647	15.0
Change from base case (%)	(3.4)	(8.2)	(10.6)	5.0

Source: Thanachart estimates

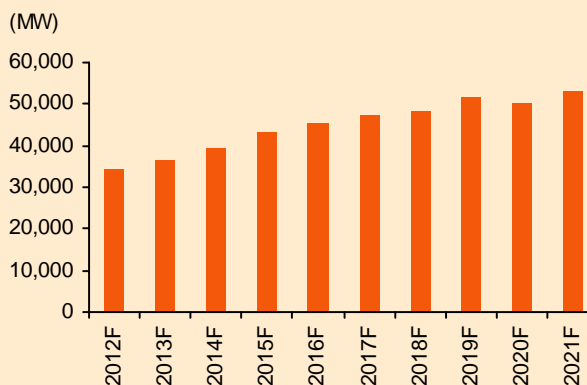
A play on the alternative power industry

Alternative power plant activity in Thailand is ramping up swiftly

Thailand's Power Development Plan (PDP) targets total electricity capacity to increase by 8% p.a. over the next five years (2013-17) with the proportion of alternative fuel power capacity rising from 15% of the total in 2012 to 20% in 2017. According to the PDP, new renewable development capacity to be initiated over 2012-2021 amounts to 9,377MW. This means there will be around Bt600bn of investment in renewable energy projects over the next 10 years.

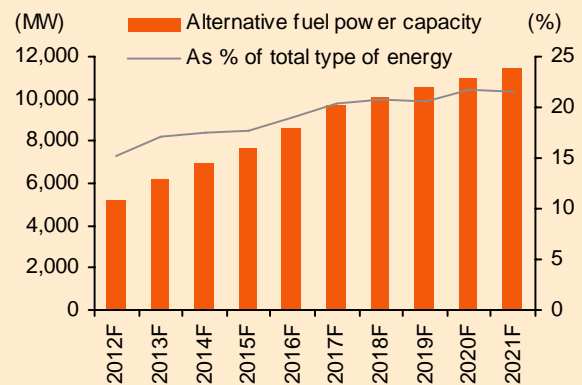
Alternative fuel power plant activity is ramping up swiftly in Thailand. This is not only due to normal growth in power capacity but also to subsidies by the government via EGAT. Solar power plants are the first wave of the boom and wind will soon follow. The first batch of solar licenses given out during 2007-09 enjoys an Bt8/unit adder (subsidy) and the second lot gets a Bt6.5/unit adder. The license holders are now speeding up construction as there are expiration dates for those licenses of say in two years' time. For wind power the adder is Bt3.5/unit and DEMCO is one of the first companies to have studied and gained exposure in this area.

Ex 7: Uptrend In Electricity Generation Capacity



Source: Thailand Power Development

Ex 8: Strong Support For Alternative Fuel Power



Source: Thailand Power Development

Exposed to the power plant boom in three ways

1) Traditional way of being a supplier and contractor

From being a manufacturer, supplier and engineering contractor in the power plant industry, DEMCO has decided to go one step further by investing in wind power projects and it is now exposed to the power plant boom in Thailand in three ways.

First, DEMCO is enjoying power plant capacity increases by EGAT, the Metropolitan Electricity Authority (MEA), the Provincial Electricity Authority (PEA) and private operators following the PDP's targeted new capacity. DEMCO is seeing rising demand via the company's traditional method of selling steel structures used in power base stations and undertaking electrical engineering construction of transmission lines, substations and electric systems for the relevant electricity agencies.

2) Now also a contractor for wind and solar power projects

Second, DEMCO is now exposing itself to the wind and solar power plant industry. It has signed a memorandum of understanding (MOU) with WEH to be a co-developer and contractor for 10 wind power projects (780MW in combined capacity).

The first three wind power projects with total capacity of 240MW – Huay Bong 3 (90MW), Huay Bong 2 (90MW) and Khao Kor (60MW) – already have PPAs from EGAT. The construction of Huay Bong 3 was already completed last month. Huay Bong 2 and Khao Kor will be finished in January 2013 and November 2013, respectively. The remaining seven wind projects (540MW) are waiting for PPAs.

Apart from wind power projects, DEMCO has also become a turnkey contractor for solar power. The company has won the bids for four solar projects: Siam Solar Generation, Rojana Solar Power Plant, EA Solar and Hang Chat Solar.

Ex 9: Ten Wind Power Projects

Projects	MW	Construction	COD
Huay Bong 3	90	Completion in October 2012	November 2012
Huay Bong 2	90	Completion in January 2013	February 2013
Khao Kor	60	Completion in November 2013	December 2013
Projects 1-3	240		
Wind farm 4	90	Starts 2014	2015-16
Wind farm 5	90	Starts 2014	2015-16
Wind farm 6	90	Starts 2014	2015-16
Projects 4-6	270		
Wind farm 7	90	Starts 2015	2016-17
Wind farm 8	60	Starts 2015	2016-17
Wind farm 9	60	Starts 2015	2016-17
Wind farm 10	60	Starts 2015	2016-17
Projects 7-10	270		
Total	780		

Source: Company data

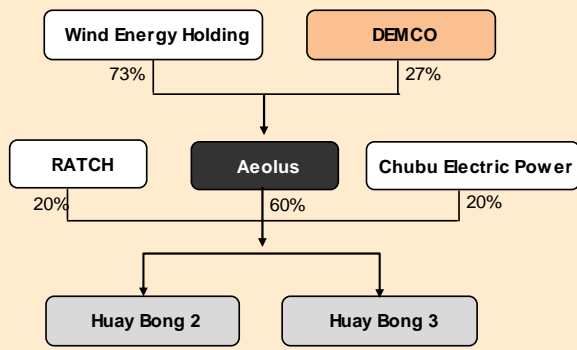
Ex 10: Four Solar Power Projects

Project	MW	Construction period	Project value (Bt m)
EA Solar	8	2011-12	780
Hang Chat Solar	1	2012	84
Siam Solar Generation	17	2012-13	380
Rojana Solar Power Plant	24	2013-14	2,300
Total	50		3,544

Source: Company data

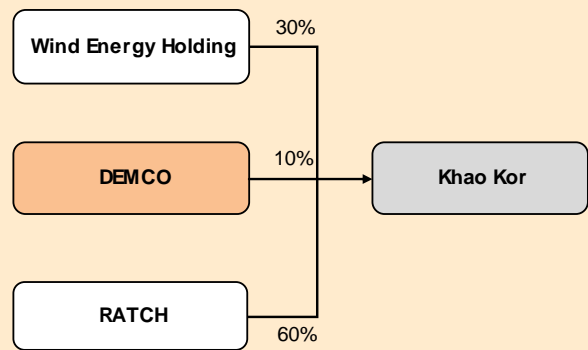
Third, DEMCO is also investing in some of WEH's projects to earn stable, recurring income. So far, it has a 16.2% stake in two projects (Huay Bong 2 and 3) with a combined capacity of 180MW and a 10% holding in the 60MW Khao Kor project. We estimate recurring income will account for 33% of DEMCO's earnings base in 2013, 42% in 2014 and 35% in 2015.

Ex 11: Sharehold Structure In Huay Bong 2-3



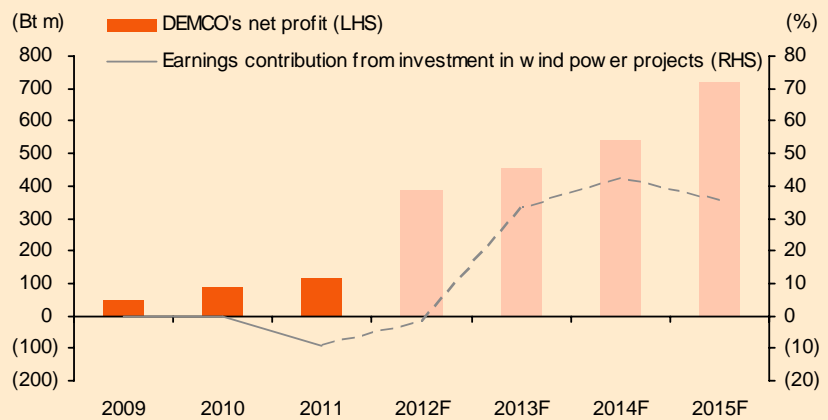
Source: Company data

Ex 12: Shareholding Structure In Khao Kor Project



Source: Company data

Ex 13: Earnings Contribution From Wind Power Project Investments

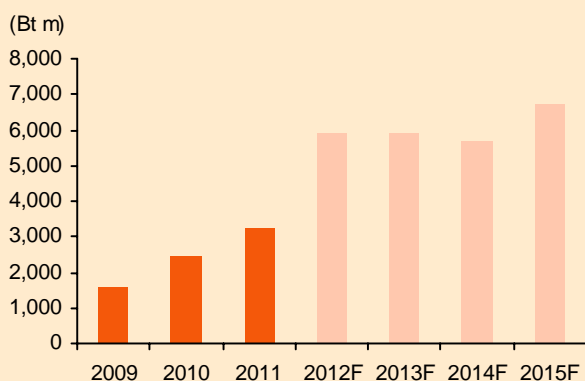


Sources: Company data, Thanachart estimates

Hefty earnings base lift

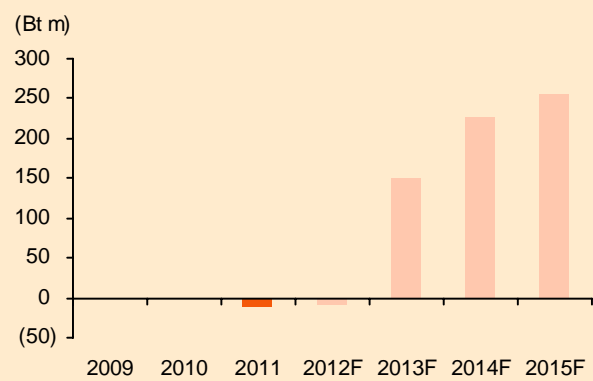
Exhibit 2 on page 3 shows a major lift in DEMCO's earnings base over the next three years. The boost will come from both a jump in construction revenue and also recurring equity and dividend income. We forecast construction revenue to surge from Bt3.2bn in 2011 to Bt5.9bn in 2012 and Bt6.7bn in 2015. Note that construction revenue includes both contractor income and product sales. As for recurring dividend and equity income, we forecast contribution to earnings to improve from a loss of Bt11m in 2011 to a Bt8m loss in 2012 and then turn to a Bt255m gain in 2015.

Ex 14: Construction Revenue



Sources: Company data; Thanachart estimates

Ex 15: Recurring Income From Investments



Sources: Company data; Thanachart estimates

Strong existing backlog of Bt6.0bn

Bt8bn-10bn worth of projects lined up from EGAT, MEA, PEA, SPPs and IPPs

Bt9bn worth of projects lined up from its partner WEH

DEMCO's net D/E will fall to 0.4x in 2013F

No need for a capital call for investment in seven new wind power projects

Key drivers of construction revenue are given below:

First, DEMCO's existing backlog from electrical engineering, solar and wind power projects of Bt6.0bn at end 3Q12 secures 60% of its construction revenue in 2013.

Second, DEMCO has a strong project line-up.

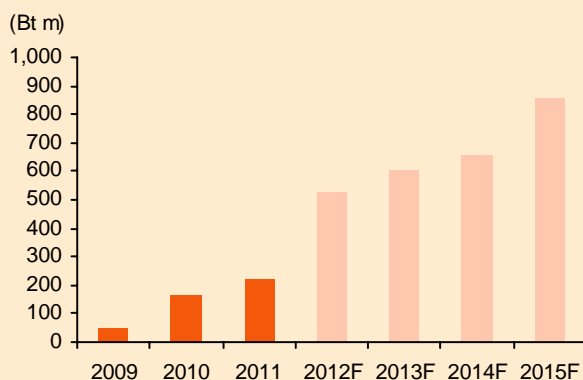
- EGAT, MEA and PEA have more than Bt10bn in investment budgets to spend on power projects each year. DEMCO expects to win some of Bt1.2bn worth of work from small power producer (SPP) and independent power producer (IPP) projects in 2013 and we forecast total new electrical engineering construction work for DEMCO of Bt2.6bn in 2013 and Bt2.8bn in 2014.
- DEMCO is already a contractor for WEH's three wind power plants (240MW) and it is waiting for seven more WEH wind power projects of a combined 540MW. Construction of the 540MW, 270MW (three plants) worth Bt4.1bn for DEMCO is expected to start in 2014. The remaining 270MW (four plants) with a Bt4.9bn construction value is expected to see construction begin in 2015.

Sound financial status

DEMCO spent cash of around Bt500m and Bt1.0bn on its investments in WEH's three wind power plants in 2011-12. The investments were financed by debt of Bt475m, warrant exercises (DEMCO-W3, DEMCO-W4 and ESOP warrants) of Bt700m, internal cash flow with EBITDA of Bt220m and Bt527m in 2011-12 and treasury stock resold on the stock market for around Bt230m. With the investments, we forecast DEMCO's net D/E ratio to rise to 1.0x in 2012 from 0.6x in 2011. While a 1x ratio isn't considered as being high for this kind of business, we project the level to fall to only 0.4x in 2013, supported by a stronger operation with adjusted EBITDA (including cash dividend from its wind power projects) at Bt603m in 2013.

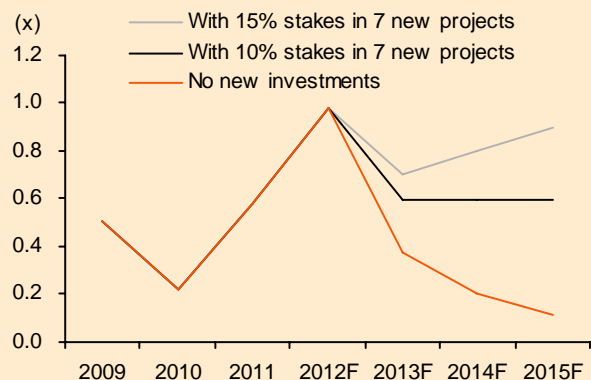
WEH still has seven wind power projects of 540MW in the pipeline to develop (awaiting PPAs from EGAT). DEMCO is again interested in being a minority shareholder with 10-15% stakes in each project. Assuming a 10-15% holding in all projects, DEMCO needs to spend Bt1.5bn-2.3bn in cash in 2013-15. Based on our calculations, DEMCO can easily finance the investment by debt and internal cash flow. We estimate DEMCO's adjusted EBITDA at Bt603m, Bt658m and Bt859m in 2013-15, respectively. DEMCO's net gearing will increase to 0.7x, 0.8x and 0.9x in 2013-15 if it invests in a 15% stake in each project or 0.6x, 0.6x and 0.6x at only 10% holdings compared with 0.4x, 0.2x and 0.1x if there are no new project investments.

Ex 16: Strong Operating Cash Flows ...



Sources: Company data; Thanachart estimates

Ex 17: ... And Falling Financial Risk



Sources: Company data; Thanachart estimates

COMPANY DESCRIPTION

DEMCO was set up in 1992 and listed on the SET in 2006. DEMCO has five core businesses: 1) design, construction and contractor for all kinds of electrical engineering work such as transmission lines; substations; 2) mechanical and electrical systems; 3) energy conservation; 4) telecoms; and 5) fabrication and distribution of steel structures for transmission lines and billboards. Apart from being an electrical engineering contractor and steel structure manufacturer, DEMCO began to invest in wind energy projects in 2011.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Lots of experience in electrical engineering construction.
- Strong track records with EGAT, PEA and MEA.
- Business diversification into alternative energy work.
- Strong cooperation with Wind Energy Holding, the first wind power developer in Thailand.

O — Opportunity

- Strong demand for power plant construction.
- Electricity industry gearing toward renewable energy.
- EGAT, PEA and MEA's high and sustainable budgets.
- Construction of new 2.1GHz 3G platforms.

CONSENSUS COMPARISON

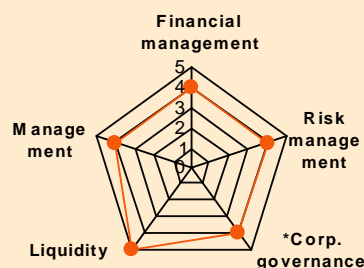
	Consensus	Thanachart	Diff
Target price (Bt)	9.30	10.00	8%
Net profit 12F (Bt m)	371	387	4%
Net profit 13F (Bt m)	530	454	-14%
Consensus REC	BUY: 2	HOLD: 0	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is higher than the Street's on our more bullish view on DEMCO's project line-up in the longer term.
- Our profit in 2013F is lower than the consensus on our more conservative assumption for steel structure sales to 2.1GHz 3G projects.

Sources: Bloomberg consensus, Thanachart

COMPANY RATING



Rating Scale

Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; *CG Awards, no rating

W — Weakness

- Rising net gearing in the short term due to high investment compared to the company's equity base.

T — Threat

- There are many players in the electrical engineering construction business but DEMCO provides more fully integrated services.

RISKS TO OUR INVESTMENT CASE

- Fewer-than-expected newly signed projects.
- Rising competition in bidding prices.

Source: Thanachart

FINANCIAL SUMMARY

Income Statement						(consolidated) Quarterly Earnings					
<i>FY ending Dec (Bt m)</i>	2010A	2011A	2012F	2013F	2014F		3Q11	4Q11	1Q12	2Q12	3Q12
Sales	2,493	3,289	6,022	5,979	5,778	Sales	885	1,133	1,427	1,700	1,674
Cost of sales	2,168	2,880	5,180	5,206	5,014	Cost of sales	743	996	1,252	1,437	1,436
Gross profit	325	408	842	773	763	Gross profit	142	137	175	263	237
SG&A	207	223	337	347	358	SG&A	59	62	72	80	98
Operating profit	118	185	504	426	405	Operating profit	83	74	103	183	139
Depre & amortization	45	35	23	25	26	Depre & amortization	9	7	5	6	5
EBITDA	163	220	527	451	431	EBITDA	93	81	108	189	144
Other income	27	39	89	77	96	Other income	7	8	21	28	16
Other expenses	(13)	(7)	(5)	(5)	(5)	Other expenses	0	(5)	(0)	(1)	(0)
Interest expense	(19)	(41)	(99)	(106)	(66)	Interest expense	(11)	(13)	(20)	(31)	(28)
Pre-tax profit	113	176	490	392	430	Pre-tax profit	79	64	103	178	128
Income tax	39	48	84	78	85	Income tax	26	18	22	26	21
After-tax profit	74	128	406	315	345	After-tax profit	53	46	80	152	106
Equity income	16	(11)	(7)	151	206	Equity income	(0)	(11)	(1)	(3)	(2)
Minority interests	0	3	(12)	(12)	(12)	Minority interests	1	(2)	(1)	(5)	(3)
Extraordinary items	0	0	0	0	0	Extraordinary items	0	0	0	0	0
NET PROFIT	89	119	387	454	540	NET PROFIT	54	33	79	144	102
Normalized profit	89	119	387	454	540	Normalized profit	54	33	79	144	102

Balance Sheet						(consolidated) Financial Ratios And Valuations					
<i>FY ending Dec (Bt m)</i>	2010A	2011A	2012F	2013F	2014F		2010A	2011A	2012F	2013F	2014F
Cash & equivalent	165	201	200	200	200	Norm profit (y-y%)	166	33	204	11	14
A/C receivables	320	586	1,155	1,147	1,108	Net profit (y-y%)	78	33	226	17	19
Inventories	192	216	284	285	275	Dividend payout (%)	73	43	45	45	45
Other current assets	898	1,569	1,500	1,489	1,439						
Investment	52	680	1,700	1,700	1,700	Gross margin (%)	13.0	12.4	14.0	12.9	13.2
Fixed assets	291	307	326	338	344	Operating margin (%)	4.7	4.7	4.7	4.7	4.7
Other assets	52	98	179	178	172	EBITDA margin (%)	6.5	6.7	8.8	7.5	7.5
Total assets	1,969	3,656	5,343	5,337	5,238	Net margin (%)	3.0	3.9	6.7	5.3	6.0
S-T debt	368	795	1,866	1,111	754	ROA (%)	5.0	4.2	8.6	8.5	10.2
A/C payables	265	891	993	998	962	ROE (%)	10.3	11.4	27.8	21.5	20.3
Other current liabilities	255	828	636	632	611	Net D/E (x)	0.2	0.6	1.0	0.4	0.2
L-T debt	31	31	53	31	21						
Other liabilities	0	35	38	38	36	Norm PE (x)	41.4	31.1	10.2	9.2	8.1
Total liabilities	919	2,580	3,586	2,811	2,384	Norm PE at TP (x)	59.9	45.1	14.8	13.4	11.7
Minority interest	21	18	30	30	42	PE (x)	41.4	31.1	10.2	9.2	8.1
Shareholders' equity	1,029	1,058	1,727	2,496	2,812	EV/EBITDA (x)	24.1	19.6	10.8	11.4	11.5
						P/BV (x)	3.6	3.5	2.3	1.8	1.6
						Dividend yield (%)	1.8	1.4	4.4	4.7	5.6
Working capital	247	(88)	445	434	421						
Total debt	398	826	1,919	1,143	775	Normalized EPS (Bt)	0.2	0.2	0.7	0.7	0.9
Net debt	233	625	1,719	943	575	DPS (Bt)	0.1	0.1	0.3	0.3	0.4

Sources: Company data, Thanachart estimates

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Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word “Positive”, is used when we see the industry trend improving. An arrow pointing down, or the word “Negative”, is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word “Unchanged”, is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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