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KEY HIGHLIGHTS

Sector

Banking

Banks' solid capital could pay dividends for 2020.

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Update

Airports of Thailand (AOT TB/SELL/Bt61.50/Target: Bt51.00)

Lower revenue guidance implies not just throughput risk but counterparty risk from duty-free exposure; downgrade to SELL.

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Khon Kaen Sugar Industry (KSL TB/SELL/Bt2.14/Target: Bt1.84)

FY20-21 financial performances would be weak; downgrade to SELL.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,370.82	(2.16)	(0.16)
SET50	907.67	(2.96)	(0.33)
Value (Btm) - SET	57,076		
Top 5 Sector			
BANK	304.21	(2.88)	(0.94)
PETRO	806.29	(5.04)	(0.62)
PROP	205.72	(0.70)	(0.34)
ENERG	22,052.93	20.35	0.09
ICT	144.33	(0.28)	(0.19)

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
BAM	25.50	0.99	146,563
PTTEP	95.50	1.60	25,139
CPF	32.25	0.78	70,455
KBANK	95.75	(2.05)	19,897
PTT	38.25	1.32	48,335

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
MAX	0.02	100.00	23,218
T	0.04	33.33	8
EFORL	0.04	33.33	848
CEN	0.85	14.86	2,291
NDR	1.32	14.78	4,043

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
TFI	0.05	(16.67)	15.9
CMO	1.03	(8.04)	3,946.2
KKC	0.63	(7.35)	383.4
SIRI	0.86	(6.52)	621,899.1
THE	1.47	(6.37)	65

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	42.2	18.3	31.9	(33.0)
Dubai crude*	41.5	21.3	37.1	(36.6)
Baltic Dry Index	1,555.0	212.2	148.8	42.7
Gold Spot***	1,750.6	0.9	16.8	15.4

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(130.3)	(330.2)	(6,392.9)	(6,181.0)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 31.04

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

Thai Lending Rate (%) - MLR = 5.25

* Based on Bangkok Bank's rate

SECTOR UPDATE

Banking – Thailand

Banks' Solid Capital Could Pay Dividends For 2020

We perform a stress test on the sector and expect banks' tier-1 capital to remain above the minimal requirement, so there is minimal risk of banks recapitalising. We expect banks to pay lower dividends in 2020, given weaker earnings. The BOT's orders to suspend interim dividend and halt share buyback programmes could cause short-term volatility. However, a sharp fall in share prices would be an opportunity for long-term investments. Maintain MARKET WEIGHT. Bangkok Bank is our preferred bank.

WHAT'S NEW

- Capital preservation requirement in a crisis.** The Bank of Thailand (BOT) has ordered commercial banks to suspend interim dividend for 2020 and halt share buybacks to preserve banks' capitals amid economic uncertainties going forward. Like other countries in the world, Thailand's economy would be severely affected by the Covid-19 outbreak in 2020 and partially experience a recovery in 2021. The BOT raised concerns that Covid-19 would widely affect businesses and individuals that could lead to banks' asset quality deterioration. Moreover, the BOT has ordered commercial banks to propose a comprehensive capital planning and stress testing for the next 1-3 years.
- To focus on economic fundamentals and less on capital markets.** The economic recovery will remain fragile even during the post COVID-19 outbreak era. The BOT prefers banks to prepare for uncertainties. Strong capital and adequate liquidity are most essential amid a crisis. Despite high BIS ratio at 18.7% for Thailand's banking system, banks would need to proactively support and ease financial stress for businesses and individuals. Additional capitals may be required for banks to stay healthy amid higher economic risks. Commercial banks should stay focused on balance sheet strength and thus maintain high capital buffer rather than paying interim dividends as usual and conducting share buyback programs to please shareholders. Banks' stocks are expected to negatively respond to the news. Sector's valuation is undemanding to reflect uncertainties. Banks will be paying dividends this year, but lower than 2019's level given weaker earnings.
- Banks have adequate capital to withstand uncertainties.** Given their capital positions in 1Q20, Thai banks have sufficient tier 1 capital at 11.0-17.5% (vs minimum requirement at 9.5% for 2020-22) and BIS ratio at 15.7-22.2% (vs min requirement at 12% for 2020-22). We performed a stress test on the sector and conclude that Thai banks have adequate capitals to counter uncertainties and comply with the BOT's minimal requirements. Assuming banks' tier-1 capital to be below the minimum requirement of 9.5%, banks would have to report huge losses of Bt10b-188b in 2020, which is too pessimistic based on our expectations.

MARKET WEIGHT

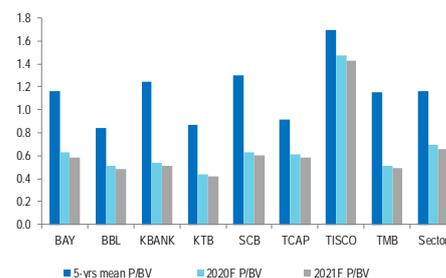
(Maintained)

TOP BUYS

Company	Rec	Target Price (Bt)	Share Price (Bt)
BBL	BUY	136.00	115.50

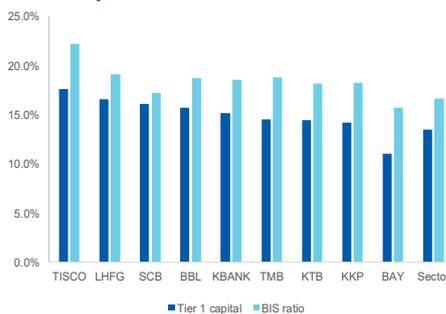
Source: UOB Kay Hian

P/BV



Source: UOB Kay Hian

Tier 1 capital and BIS ratio at 1Q20



Source: UOB Kay Hian

ANALYSTS(S)

Tanadech Rungsrithananon
+662 659 8303
tanadech@uobkayhian.co.th

PEER COMPARISON

Company	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit		PE		Net EPS Growth (%)	P/B	Yield	ROE
						2020F (Btm)	2021F (Bt m)	2020F (x)	2021F (x)				
BAY TB	HOLD	24.70	23.60	(4.5)	5,742	23,557	24,910	7.6	7.1	(28.1)	0.6	3.2	8.4
BBL TB	BUY	115.50	136.00	17.7	6,958	30,923	33,865	7.0	6.4	(13.7)	0.5	5.7	7.2
KBANK TB	BUY	95.75	118.00	23.2	7,566	31,288	33,233	7.5	7.1	(19.2)	0.6	5.0	7.5
KTB TB	HOLD	10.80	11.00	1.9	4,779	22,058	22,835	6.7	6.5	(24.7)	0.4	6.0	6.5
SCB TB	HOLD	77.25	82.00	6.1	8,599	33,831	34,988	7.9	7.6	(16.3)	0.6	6.3	8.3
TCAP TB	HOLD	38.00	40.00	5.3	1,447	8,048	5,601	5.5	7.9	(25.5)	0.6	9.4	11.9
TISCO TB	HOLD	73.50	87.00	18.4	1,963	6,373	6,722	9.5	9.0	(12.4)	1.5	8.6	16.1
TMB TB	BUY	1.10	1.14	3.6	3,357	12,358	13,643	8.4	7.6	(22.1)	0.5	3.6	6.1
Sector					40,410	168,436	175,797	7.4	7.1	(16.7)	0.6	5.5	8.1

Source: UOB Kay Hian

• **Phase 2 of Covid-19 relief measures.** The BOT met up with banks and non-banking financial companies last week and announced new relief measures for debtors. The scheme includes the reduction of the interest rate ceiling for credit cards and personal loans and new alternative measures to alleviate financial burdens to individuals going forward. These following measures would start on 1 August:

- The interest rate ceiling for credit cards will be cut to 16% per year from 18%.
- The interest rate ceiling for revolving loans and instalment loans will be cut to 25% per year from 28%.
- The interest rate ceiling for car cash will be cut to 24% per year from 28%.
- Increasing credit card, revolving loans, and instalment loan limits to 2 times from 1.5 times of debtors' income who have income lower than Bt30,000 per month (1 Aug 20 till 31 Dec 21).
- Providing alternative measures for debtors such as reducing minimum payment, extending the repayment period, reducing instalment rate, cutting interest rates, and postponing payment.
- Financial service providers have to conduct restructure debt programmes for debtors who are unable to repay debts and become NPLs.

Given banks' loan portfolios, consumer loans are mostly through mortgage and auto HP lending, which are not significantly affected by these measures. BBL and KBANK are likely to experience lesser impact given that proportion of consumer loans to total loans are lower at 15% and 28% respectively compared with peer banks.

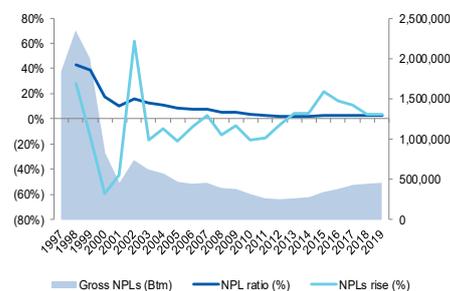
ACTION

• **Maintain MARKET WEIGHT.** Bank stocks have decreased 20-40% ytd compared with Dec 19, underperforming the SET Index's -13%. Sector is trading at 0.6x 2020F P/B, the lowest since AFC (P/B 0.6x in 1997) and the GFC (0.7x in 2008). Large banks like BBL, KBANK, KTB, and SCB is trading at 0.4-0.6x, even lower than during the AFC period. Although sector valuation has moderately factored in uncertainties, we are cautiously concerned that it might take some time for the economy to resume to normal operations. Banking business would continue to be pressured given lingering concerns over weakening loan demands and rising new NPLs going forward.

• **Stock picks.** Given rising concerns of asset quality deterioration and lacklustre loan demands, we prefer banks with solid balance sheets that can withstand economic uncertainties, have attractive valuation, and high dividend payment. We like BBL for its undemanding valuation (0.5x 2020F P/B), solid tier 1 capital at 17.7%, and high dividend yield. We also prefer a corporate bank like BBL over SME and consumer banks given that corporate banking would see less impact from the Covid-19 pandemic. We expect BBL's solid earnings growth to rebound at 10% yoy in 2021 after declining 14% yoy in 2020.

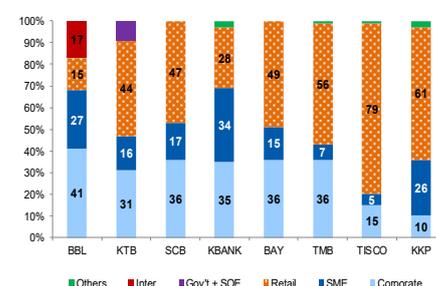
• **Stress test on banks' capital.** Banks will not be able to pay dividends for 2020 if tier-1 capital is below 9.5% and lower than 12% for BIS ratio. We have performed a stress test on the sector. Our analysis is based on our expectation that banks' net losses could cause tier-1 capital to drop to below 9.5%. In summary, banks would have to incur huge net losses for 2020, which is unlikely despite escalating concerns on higher NPLs. If banks' tier 1 capital is below the minimum requirement of 9.5%, they may not be allowed to pay dividends and need to recapitalise. We expect BAY to report net profit of Bt23.5b for 2020. However, based on our analysis, if the bank reports huge net loss of up to Bt38.5b, this would decrease its tier 1 capital to be lower than the minimum requirement of 9.5%. BBL is the strongest as it would have to report net loss of Bt188b to cause tier 1 capital to drop to below 9.5%. Among small banks, tier 1 capital could be lower than 9.5% if KKP and TISCO reported respective net losses of Bt10.9b in 2020 (vs our estimate of Bt5.5b) and Bt12.7b in 2020 (vs our estimate of Bt6.4b).

BANKING SYSTEM GROSS NPLS TREND



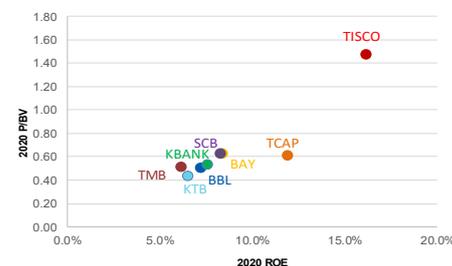
Source: UOB Kay Hian

BANKS' LOAN PORTFOLIOS



Source: UOB Kay Hian

BANKS' ROE IN 2020



Source: UOB Kay Hian

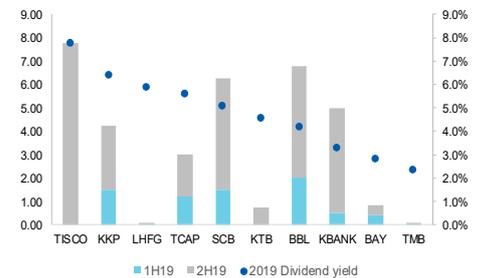
SECTOR EARNINGS OUTLOOK



Source: UOB Kay Hian

• **KKP would be more impacted by negative sentiments from suspension of interim dividend.** Among the 11 listed Thai banks, BAY, BBL, KBANK, KKP, LHFH, SCB, TCAP have historically paid an interim dividend. However, CIMBT, KTB, TISCO, TMB normally pay dividend once a year. The BOT's order for banks to hold off on interim dividends in 2020 is a warning message, as it prefers banks to conservatively maintain high capitals to prepare for any economic uncertainties. Asset quality would deteriorate further if Thailand's economic recovery is not strong enough going forward, as debtors may continue to struggle to repay debts. We think banks would continue to pay dividends for 2020, but expect a lower dividend payment in 2020 compared with that in 2019.

DIVIDEND PAYMENT IN 2019



Source: UOB Kay Hian

Note that banks normally pay dividends in April and May. Among Thai banks, KKP could experience a larger impact from negative sentiments generated by the cancellation of interim dividend. Note that TCAP is no longer under the BOT's orders since it is not regulated by the BOT after selling its entire stakes in Thanachart Bank in Dec 19.

• **Share buybacks.** KBANK completed its share buyback in February. TCAP has often conducted share buybacks whenever it sees a sharp decline in share price, and has completed the share buybacks in April.

NPL RATIO AND LLC RATIO IN 1Q20

	NPL ratio	LLC ratio
BAY	2.2%	159%
BBL	3.5%	204%
KBANK	3.9%	139%
KKP	3.7%	116%
KTB	4.4%	127%
LHFH	2.0%	154%
SCB	3.2%	140%
TCAP	6.7%	91%
TISCO	2.6%	190%
TMB	2.8%	106%

Source: UOB Kay Hian

RISKS

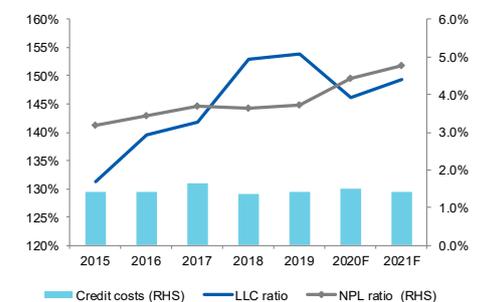
- Lower demand for loan given the sluggish economy going forward.
- NIMs would be lower, impacted by the lower interest rates environment and new NPLs.
- Higher NPLs require higher provisions, which will erode future growth and profitability.

SS TEST ON BANKS' TIER 1 CAPITAL TO BE BELOW 9.5% IN 2020

(Btm)	Tier 1 capital At Dec 2019	BOT's minimum requirements	Expected net losses if tier 1 capital will be below 9.5%	UOB estimates 2020
BAY	11.9%	9.5%	(38,527)	23,550
BBL	17.7%	9.5%	(188,305)	30,923
KBANK	16.2%	9.5%	(132,036)	31,287
KKP	13.6%	9.5%	(10,985)	5,477
KTB	14.8%	9.5%	(102,226)	22,225
SCB	17.0%	9.5%	(155,599)	33,833
TISCO	16.4%	9.5%	(12,765)	6,373
TMB	14.6%	9.5%	(62,138)	12,356

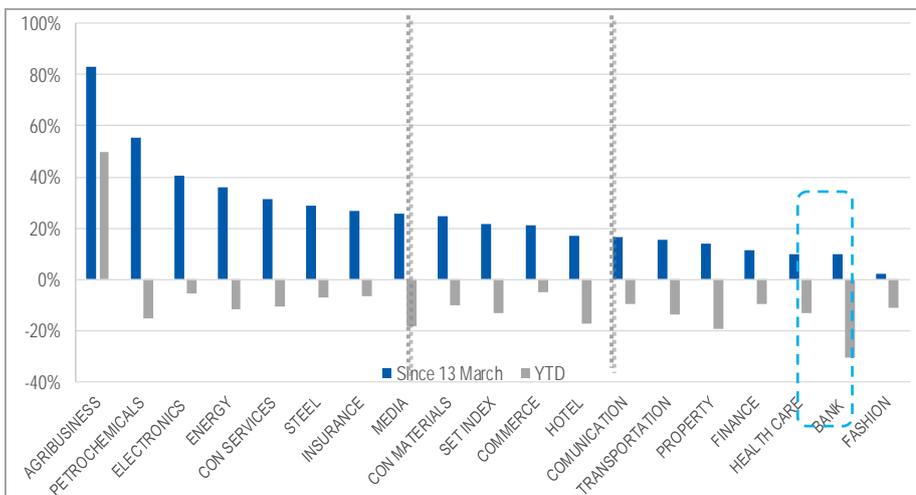
Source: SETSMART, UOB Kay Hian

NPL RATIO, LLC RATIO, CREDIT COSTS



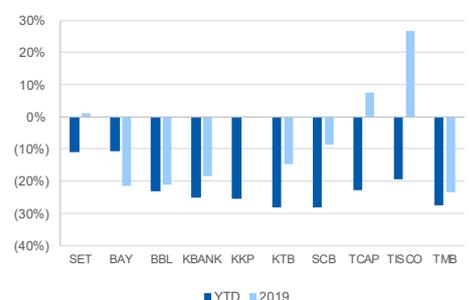
Source: UOB Kay Hian

PRICE RECOVERY OF INDUSTRY SECTORS SINCE 13 MARCH



Source: SETSMART, UOB Kay Hian

BANKS' SHARE PRICE PERFORMANCE



Source: UOB Kay Hian

COMPANY UPDATE

Airports of Thailand (AOT TB)

Lower Revenue Guidance Implies Not Just Throughput Risk But Also Counterparty Risk From Duty-Free Exposure; Downgrade To SELL

AOT's guidance for two consecutive years of revenue decline implies a similar decline in net profit for two years. The airport operator also does not envisage traffic recovering to 2019 levels until after FY22. Implicit within the lowered guidance is a downward reset in minimum duty-free concession revenue. Going by AOT's traffic guidance, we believe there is a risk that the duty-free operator, AOT, will be hard pressed to meet the minimum guaranteed amount, even after FY22. This could impact future dividend payout. Downgrade to SELL and cut target price to Bt51.00.

WHAT'S NEW

- **Warns that FY20 revenue could fall for two consecutive years.** Airports of Thailand (AOT) guided revenue could fall by 50.7% yoy in FY20 and 42% yoy in FY21. This comes on the back of lower pax throughput guidance (-51% yoy) for FY21. While AOT did not guide for throughput in FY21, it indicated that the FY22 pax throughput is likely to be still down by 23% from FY19's level. The guidance for a further decline in revenue in FY21 implies that AOT would be offering steep discounts on concession-based non-aeronautical revenue. In Feb 20, AOT offered specific relief measures, the most pertinent of which was a discount on percentage-based concession fees, although the quantum of discount was not stated.

AOT's RELIEF MEASURES FOR COVID-19 ANNOUNCED IN FEB 20

1	20% discount on fixed monthly fees from 1 Feb 20 to 31 Mar 22 with a potential extension to 2022.
2	Discount on percentage-based fees with monthly annual guarantees. AOT will only collect these fees from Feb 20 to 31 Mar 22.
3	Payment of concession fees to be extended for 6 months if requested by operators.
4	AOT reserves the right to make changes in accordance with the impact caused by Covid-19.

Source: AOT

- **Concession revenue (two-thirds of non-aeronautical revenue) likely to decline sharply over the next two years.** This implies that King Power's new duty-free contract, which was to kick in FY21 will be put on hold. The contract was seen to be a key earnings driver, given that the minimum guarantee was 180% higher than the previous contract.

KEY FINANCIALS

Year to 30 Sep (Btm)	2018	2019	2020F	2021F	2022F
Net turnover	60,537	62,783	30,810	18,081	59,504
EBITDA	36,187	36,367	11,420	1,072	32,281
Operating profit	30,545	30,515	5,800	(5,175)	25,910
Net profit (rep./act.)	25,171	25,026	5,993	(3,625)	21,572
Net profit (adj.)	25,041	24,421	5,924	(3,542)	21,526
EPS (Bt)	1.8	1.7	0.4	(0.2)	1.5
PE (x)	36.5	37.4	148.3	n.m.	40.8
P/B (x)	6.4	5.9	6.1	6.3	5.4
EV/EBITDA (x)	23.7	23.6	73.0	777.6	25.8
Dividend yield (%)	1.6	1.6	0.1	(0.1)	1.5
Net margin (%)	41.6	39.9	19.5	(20.0)	36.3
Net debt/(cash) to equity (%)	(38.1)	(40.5)	(31.8)	(27.1)	(27.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	18.3	16.8	4.0	n.a.	14.3
Consensus net profit	-	-	7,890	15,764	29,412
UOBKH/Consensus (x)	-	-	0.75	na	0.73

Source: AOT, Bloomberg, UOB Kay Hian

SELL (Downgraded)

Share Price	Bt61.50
Target Price	Bt51.00
Upside	-17.1%
(Previous TP)	Bt64.00

COMPANY DESCRIPTION

AOT operates 6 of the 38 airports in Thailand, but collectively these 6 airports account for 83% of the total pax throughput

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	AOT TB
Shares issued (m):	14,285.7
Market cap (Btm):	878,570.6
Market cap (US\$m):	28,331.8
3-mth avg daily t'over (US\$m):	70.0

Price Performance (%)

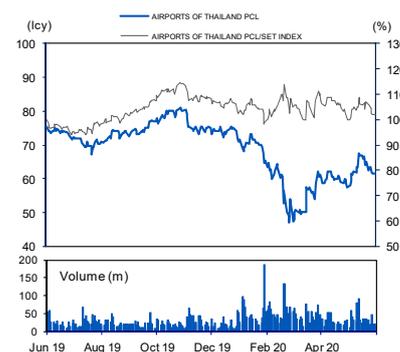
52-week high/low Bt81.00/Bt47.00

1mth	3mth	6mth	1yr	YTD
2.5	30.9	(18.0)	(16.6)	(17.2)

Major Shareholders

	%
Finance Ministry	70.0
Thai NVDR Co Ltd	4.5
FY20 NAV/Share (Bt)	10.14
FY20 Net Cash/Share (Bt)	3.22

PRICE CHART



Source: Bloomberg

ANALYST(S)

K Ajith
+65 6590 6627
ajith@uobkayhian.com

- We now believe that FY21 concession revenue in 2021 could decline by as much as 95% from 2019's revenue as AOT is likely to move to percentage of sales, rather than minimum guarantees for duty-free revenue. Full resumption of minimum guaranteed duty-free revenue might also not kick in until 2HFY22.
- **AOT likely to swing into a loss in FY22.** We have assumed that cash operating cost would decline at half the rate of revenue in FY21, and under 5% yoy decline for FY22. Thus, much of the decline in revenue in FY22 is likely to flow through to bottom line. We have also assumed that AOT will delay some of its airport expansion plans and thus incur lower capex for the next two years.

STOCK IMPACT

- **Market is sanguine about AOT's profit warning**, presumably expecting a faster rate of recovery in air travel. However, we are less sanguine. International travel is likely to commence with travel bubbles across select countries, rather than a free-for-all travel. Next, there would likely be stringent checks prior to departure and all these will impact hub connectivity to and from Bangkok. AOT's statement indicates that its estimates assume a vaccine for Covid-19 is available by mid-21.
- **Substantial counterparty risk with dependency on duty-free operator, King Power.** King Power secured a 10-year contract to operate duty-free operations at four airports along with other commercial areas. However, duty-free shopping behaviour could change post Covid-19, with a greater penchant for online shopping, particularly among shoppers from China. If so, there is a possibility that King Power would not be able to meet its minimum guaranteed amount of Bt23b which has a further escalation clause based on inflation and throughput growth. Any shortfall in duty-free revenue could affect dividend payout as AOT distributes earnings only from non-aeronautical revenue.

EARNINGS REVISION/RISK

- We slash our FY20 net profit forecast by 71%.

VALUATION/RECOMMENDATION

- **Downgrade to SELL and lower our fair value from Bt64.00 to Bt51.00.** We continue to value AOT on an EV/Invested capital basis. We lower our terminal growth rate assumption from 4% to 3.8% and also lower our ROIC forecast. Our target price implies 34x FY22F PE.

SHARE PRICE CATALYST

- Implementation of effective Covid-19 vaccination.

ASSUMPTIONS

	FY20F	FY21F	FY22F
Visitor arrivals (m)	15.7	18.9	26.1
yoy% chg	-59.8	20.0	38.0
Pax throughput (m)	69.1	87.2	109.5
yoy% chg	-51.3	26.2	25.5
Aircraft movement	245,451	311,599	380,098
yoy% chg	-45.2	27.0	22.0
Concession rev per pax (Bt)	90.3	7.1	215.8
yoy% chg	-26.7	-92.1	2,926.4

Source: UOB Kay Hian

VALUATION

Sustainable ROIC	23.0%
WACC	6.9%
Terminal Growth Rate	3.8%
Derived EV (Btm)	684,180
Add cash less MI (Btm)	44,640
Equity value (Btm)	728,820
Value per share (Bt)	51.0

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (Btm)	2019	2020F	2021F	2022F
Net turnover	62,783	30,810	18,081	59,504
EBITDA	36,367	11,420	1,072	32,281
Deprec. & amort.	5,851	5,620	6,246	6,371
EBIT	30,515	5,800	(5,175)	25,910
Total other non-operating income	615	1,239	629	718
Associate contributions	0.1	(0.2)	(0.1)	0.4
Net interest income/(expense)	354	477	86	274
Pre-tax profit	31,484	7,515	(4,459)	26,903
Tax	(6,389)	(1,503)	878	(5,300)
Minorities	(69)	(18)	(44)	(31)
Net profit	25,026	5,993	(3,625)	21,572
Net profit (adj.)	24,421	5,924	(3,542)	21,526

CASH FLOW

Year to 30 Sep (Btm)	2019	2020F	2021F	2022F
Operating	33,013	7,406	3,927	31,664
Pre-tax profit	31,484	7,516	(4,459)	26,903
Tax	(6,609)	(1,503)	878	(5,300)
Deprec. & amort.	5,851	5,620	6,246	6,371
Working capital changes	1,232	(4,870)	230	2,829
Non-cash items	534	81	82	(45)
Other operating cashflows	519	563	949	907
Investing	(11,523)	(4,663)	(8,384)	(22,235)
Capex (growth)	(9,957)	(8,163)	(9,884)	(23,735)
Investments	(1,773)	3,500	1,500	1,500
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	207	0.0	0.0	0.0
Financing	(20,008)	(9,400)	2,852	(7,907)
Dividend payments	(14,998)	(15,016)	(1,199)	0.0
Issue of shares	204	0.0	0.0	0.0
Proceeds from borrowings	0.0	9,500	9,500	0.0
Loan repayment	(4,330)	(3,171)	(4,500)	(7,000)
Others/interest paid	(884)	(713)	(949)	(907)
Net cash inflow (outflow)	1,481	(6,657)	(1,606)	1,522
Beginning cash & cash equivalent	8,602	10,084	3,427	1,821
Ending cash & cash equivalent	10,084	3,427	1,821	3,343

BALANCE SHEET

Year to 30 Sep (Btm)	2019	2020F	2021F	2022F
Fixed assets	112,275	114,613	118,045	135,330
Other LT assets	5,199	5,324	5,448	5,572
Cash/ST investment	76,061	65,903	62,798	62,820
Other current assets	4,878	5,757	3,700	5,091
Total assets	198,413	191,597	189,991	208,814
ST debt	3,181	3,181	3,181	3,181
Other current liabilities	11,527	7,535	5,709	9,929
LT debt	10,516	16,695	21,695	14,695
Other LT liabilities	17,698	17,698	17,698	17,698
Shareholders' equity	153,931	144,909	140,086	161,657
Minority interest	640	658	702	733
Total liabilities & equity	198,413	191,597	189,991	208,814

KEY METRICS

Year to 30 Sep (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	57.9	37.1	5.9	54.3
Pre-tax margin	50.1	24.4	(24.7)	45.2
Net margin	39.9	19.5	(20.0)	36.3
ROA	13.0	3.1	n.a.	10.8
ROE	16.8	4.0	n.a.	14.3
Growth				
Turnover	3.7	(50.9)	(41.3)	229.1
EBITDA	0.5	(68.6)	(90.6)	2,912.6
Pre-tax profit	1.1	(76.1)	(159.3)	n.a.
Net profit	(0.6)	(76.1)	(160.5)	n.a.
Net profit (adj.)	(2.5)	(75.7)	(159.8)	n.a.
EPS	(2.5)	(75.7)	(159.8)	n.a.
Leverage				
Debt to total capital	8.1	12.0	15.0	9.9
Debt to equity	8.9	13.7	17.8	11.1
Net debt/(cash) to equity	(40.5)	(31.8)	(27.1)	(27.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

COMPANY UPDATE

Khon Kaen Sugar Industry (KSL TB)

FY20-21 Financial Performances Would Be Weak; Downgrade To SELL

We think KSL's earnings in FY20-21 would be pressured by very low sugarcane input and weak sugar ASP. It reported a huge net loss of Bt587m in 2QFY20 due to one-off items. Downgrade to SELL. Target price: Bt1.84.

WHAT'S NEW

- **Very low sugarcane output in Thailand this year.** Management of Khon Kaen Sugar Industry (KSL) revealed that Thailand's sugarcane crushing season has ended and total sugarcane output is only 75m tons for 2020, down 44% yoy, owing to a severe drought. KSL's sugarcane input is only 5.38m tons for this year, down 48% yoy. Management expects Thailand's sugarcane output would remain flat yoy in 2021 due to droughts.
- **Global sugar prices would remain weak for the rest of this year.** Management sees global sugar prices at 12-14 US cent/lb in 2HFY20 vs 12 US cent/lb currently and about 13 US cent/lb in 2019. This would be due to: a) more severe Covid-19 infection in Brazil, the largest sugar producer in the world, which would disrupt transportation and production; b) the Brazilian real appreciating against the USD; c) reduced global sugar consumption due to Covid-19 impact; and d) very low crude oil prices.

STOCK IMPACT

- **Huge net loss in 2QFY20.** KSL reported a net loss of Bt587m in 2QFY20 vs net profits of Bt416m in 2QFY19 and Bt212m in 1QFY20 due to a large one-off expense of Bt337m to the Cane and Sugar Fund and Bt506m losses from sugar hedging contracts. The results were weaker than our expectation. 2QFY20 sales grew 3% yoy and 14% qoq because of higher sugar sales volume. Gross margin was 11%, down from 33% in 2QFY19 and 21% in 1QFY20 as raw materials prices increased. Cost-to-income ratio was 9%, down yoy and qoq.
- **Earnings would improve qoq but drop yoy in 3QFY20.** We think sales and gross margin would drop yoy in 3QFY20 due to smaller sugar sales volume while sugar ASP would be about flat yoy. We project 3QFY20 net profit of Bt163m, down 25% yoy but improving from the net loss of Bt587m in 2QFY20 as there would be no one-off expense in 3QFY20.

KEY FINANCIALS

Year to 31 Oct (Btm)	2018	2019	2020F	2021F	2022F
Net turnover	17,813	17,855	11,491	9,777	10,558
EBITDA	1,647	1,791	981	1,294	1,613
Operating profit	383	587	(96)	205	511
Net profit (rep./act.)	848	822	(248)	625	949
Net profit (adj.)	848	822	(248)	625	949
EPS (Bt)	0.2	0.2	(0.1)	0.1	0.2
PE (x)	11.1	11.5	n.m.	15.1	9.9
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	15.8	14.5	26.6	20.1	16.1
Dividend yield (%)	2.5	3.5	0.0	2.7	4.0
Net margin (%)	4.8	4.6	(2.2)	6.4	9.0
Net debt/(cash) to equity (%)	97.2	74.7	89.4	87.2	88.6
Interest cover (x)	2.3	2.5	1.9	2.3	3.0
ROE (%)	4.6	4.4	n.a.	3.3	4.9
Consensus net profit	-	-	573	728	775
UOBKH/Consensus (x)	-	-	n.m.	0.86	1.22

Source: KSL., Bloomberg, UOB Kay Hian

SELL

(Downgraded)

Share Price	Bt2.14
Target Price	Bt1.84
Upside	-14.0%
(Previous TP)	Bt1.52)

COMPANY DESCRIPTION

KSL produces sugar and molasses, fertilizers, ethanol, and electricity.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	KSL TB
Shares issued (m):	4,410.2
Market cap (Btm):	9,437.9
Market cap (US\$m):	303.3
3-mth avg daily t'over (US\$m):	0.3

Price Performance (%)

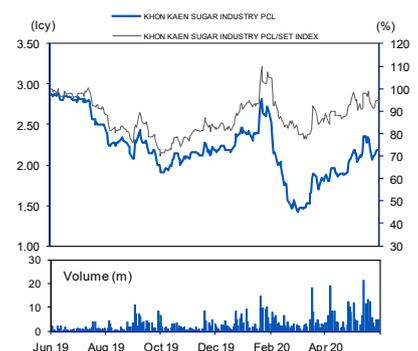
52-week high/low	Bt2.90/Bt1.42			
1mth	3mth	6mth	1yr	YTD
12.0	41.7	0.9	(26.2)	(4.5)

Major Shareholders

	%
KSL Sugar Holding Co., Ltd.	32.3
Chinthammit Family	8.8
Mr.Chanachai Chutimavoraphand	2.7

FY20 NAV/Share (Bt)	4.21
FY20 Net Debt/Share (Bt)	3.76

PRICE CHART



Source: Bloomberg

ANALYST(S)

Thunya Sutavepramochanon
 +662 659 8031
 thunya@uobkayhian.co.th

2QFY20 RESULTS

Year to 31 Oct (Btm)	2QFY19	1QFY20	2QFY20	yoy % chg	qoq % chg	Remarks
Sales	3,334	2,999	3,420	3	14	2QFY20 Sales increased both yoy and qoq thanks to higher sugar selling volume.
Gross profit	1,108	635	365	-67	-42	
SG&A expense	600	528	652	9	23	
Other income	111	194	36	-68	-81	
EBIT	620	301	(757)	n.a.	n.a.	
EBT	470	231	(783)	n.a.	n.a.	
Net profit/(loss)	416	212	(587)	n.a.	n.a.	
Ratio (%)						
Gross margin	33	21	11			
EBITDA margin	32	26	-14			
Net margin	12	7	-17			
DE (x)	1.49	1.06	1.23			

Source: KSL UOB Kay Hian

EARNINGS REVISION/RISK

- We revise down our FY20-21 earnings forecasts because 2QFY20 earnings were very disappointing.

EARNINGS REVISION

	2019	-----2020F-----		-----2021F-----	
		Old	New	Old	New
Net profit/(loss) (Btm)	822	745	(248)	971	625
% chg.		-4	n.a.	30	-36
yoy % chg	-3	-9	n.a.	30	n.a.
Core profit/(loss) (Btm)	822	745	(248)	971	625
% chg.		-4	n.a.	30	-36
yoy % chg	-3	-9	n.a.	30	n.a.
Assumptions					
Raw sugar ASP (US cent/lb)	12.88	13.44	14.01	14.50	15.00
Gross margin (%)	20.3	21.0	11.9	24.2	15.3
sugarcane input (m ton)	10.32	5.35	5.35	5.94	5.41

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

- **Downgrade to SELL with target price at Bt1.84**, pegged at 13x FY21F PE, or -0.5SD to its 5-year mean. We do not see any catalyst that can boost share price in the next six months.

SHARE PRICE CATALYST

- Large global sugar balance deficit.
- Higher crude oil prices as sugar prices have a 71% correlation to oil prices.

KSL: PE BAND



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Oct (Btm)	2019	2020F	2021F	2022F
Net turnover	17,855	11,491	9,777	10,558
EBITDA	1,791	981	1,294	1,613
Deprec. & amort.	1,205	1,076	1,089	1,102
EBIT	587	(96)	205	511
Total other non-operating income	1,001	(165)	710	767
Associate contributions	101	401	449	494
Net interest income/(expense)	(710)	(522)	(552)	(540)
Pre-tax profit	979	(382)	812	1,232
Tax	(149)	111	(162)	(246)
Minorities	(8.3)	24	(24)	(37)
Net profit	822	(248)	625	949
Net profit (adj.)	822	(248)	625	949

CASH FLOW

Year to 31 Oct (Btm)	2019	2020F	2021F	2022F
Operating	2,622	1,544	869	1,364
Pre-tax profit	979	(382)	812	1,232
Tax	(196)	111	(162)	(246)
Deprec. & amort.	1,205	1,076	1,089	1,102
Working capital changes	75	181	(1,719)	(1,683)
Other operating cashflows	559	558	849	959
Investing	117	(2,000)	(2,000)	(2,000)
Capex (growth)	(476)	(2,000)	(2,000)	(2,000)
Others	593	0.0	0.0	0.0
Financing	(437)	(62)	(421)	683
Dividend payments	(221)	(329)	0.0	(250)
Proceeds from borrowings	(1,303)	(1,191)	(425)	933
Others/interest paid	1,086	1,457	4.8	0.0
Net cash inflow (outflow)	2,301	(518)	(1,552)	47
Beginning cash & cash equivalent	130	2,431	1,913	361
Ending cash & cash equivalent	2,431	1,913	361	407

BALANCE SHEET

Year to 31 Oct (Btm)	2019	2020F	2021F	2022F
Fixed assets	25,868	25,491	25,791	26,091
Other LT assets	10,738	11,044	11,042	11,048
Cash/ST investment	2,430	1,912	360	407
Other current assets	5,084	4,407	5,816	7,250
Total assets	44,121	42,854	43,009	44,796
ST debt	4,880	3,689	3,264	4,197
Other current liabilities	6,938	4,473	5,424	5,579
LT debt	11,761	14,821	13,826	13,826
Other LT liabilities	1,521	1,306	1,306	1,306
Shareholders' equity	19,021	18,564	19,189	19,888
Total liabilities & equity	44,121	42,854	43,009	44,796

KEY METRICS

Year to 31 Oct (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	10.0	8.5	13.2	15.3
Pre-tax margin	5.5	(3.3)	8.3	11.7
Net margin	4.6	(2.2)	6.4	9.0
ROA	1.8	n.a.	1.5	2.2
ROE	4.4	n.a.	3.3	4.9
Growth				
Turnover	0.2	(35.6)	(14.9)	8.0
EBITDA	8.7	(45.3)	32.0	24.6
Pre-tax profit	0.4	(139.0)	n.a.	51.7
Net profit	(3.1)	(130.1)	n.a.	51.7
Net profit (adj.)	(3.1)	(130.1)	n.a.	51.7
EPS	(3.1)	(130.1)	n.a.	51.7
Leverage				
Debt to total capital	46.7	49.9	47.1	47.5
Debt to equity	87.5	99.7	89.1	90.6
Net debt/(cash) to equity	74.7	89.4	87.2	88.6
Interest cover (x)	2.5	1.9	2.3	3.0

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