Press Release

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TRIS Rating Holds a Conference on "Thailand's Economic and Industry Outlook in 2021"

In a virtual conference today organized by TRIS Rating Co., Ltd., Mr. Sakda Pongcharoenyong, President of TRIS Rating and its senior analytical managers share their perspectives on the outlook of the Thai economy and the recovery trends of selected industries in 2021. Participants in the seminar include institutional investors, bond underwriters, and financial advisors from various entities. The core ideas of the seminar are as follows:

The year 2020 was an extremely difficult year for most businesses affected by the economic fallout from the Coronavirus Disease 2019 (COVID-19). Sharp declines in revenues and earnings were seen in most businesses across sectors/industries. TRIS Rating has seen businesses coping with the sharp declines in revenue by aggressively cutting costs, stockpiling cash, and delaying capital expenditures in anticipation of a tough time ahead. As we assess the recovery prospects of rated issuers in 2021, the most relevant questions are likely to surround three key aspects: pace of recovery, debt levels, and liquidity.

Based on the quarterly operating performances of 136 corporate issuers rated by TRIS Rating, **the recovery paths for most businesses in the manufacturing sector started in the third quarter of 2020. However, the pace of recovery will likely vary significantly among industries. The recovery prospects for businesses in the service sector, especially those in the hospitality and aviation industry remain highly uncertain following the recent resurgence of virus infections in Thailand and globally.**

As the impact of COVID-19 translated into sharp declines in revenue and cash flows of those rated companies, the inevitable results were spikes in the debt ratios that indicate the weakening of their financial profiles. However, we see the improving trend starting in the third quarter of 2020 as most issuers gradually recovered from the worst second quarter. **We expect the improving trend to continue over the next few years, with a majority of the rated issuers projected to recover to the pre-COVID-19 performance levels in 2022.**

The heightened liquidity risk at the peak of pandemic fears in 2020 is a reminder of the need for corporates to have diversified funding sources. There are clear signs of reviving risk appetite for corporate credits, in particular debt issues from highly rated issuers. However, the reviving market appetite has come with significantly higher borrowing costs for the issuers. Corporate credit spreads have widened significantly in 2020 across rating categories. However, data in the recent months suggest the spreads are trending down for highly rated debt issues.

Below are TRIS Rating's views on the Thai economy and the trends of selected industries in 2021.

Thailand's 2021 Economic Outlook

TRIS Rating projects Thailand's gross domestic product (GDP) to grow by 2.6% in 2021, a rebound from the 6.1% contraction in 2020. Although the Thai economy is clearly on a recovery path, the resurgence of COVID-19 infections has once again clouded the recovery prospects. **The key assumption in our economic forecast is three to four million tourist arrivals in 2021**. Despite the recognition of the necessity for the Thai economy to reduce its dependency on tourism, **the revival of the tourism industry is still the key for a swift revival of the domestic economy in the near term.** The revival of exports has been slow with the world's major economies still struggling with sharp increases in domestic virus infections. Private consumption will likely be suppressed by the economic and social fallout from COVID-19 including rising household debts, unemployment, and tightened business liquidity.

The hope is rested on the effectiveness of widespread vaccinations worldwide that would eventually allow a significant return of tourists towards the last quarter of 2021, and the government stimulus measures worldwide to revitalize the global economy. In our view, the Thai government's economic relief measures to the vulnerable group of the population have been effective to a certain degree in bringing the economy on a recovery path. Public sector expenditures will continue to be an important driver for the Thai economy over the next few years. **All in, we see the Thai economy to continue on a recovery path, but the pace of recovery will be largely dictated by a number of key external factors, especially the effectiveness of vaccinations worldwide and the recovery of global economy.**

Banking

Banking performance in 2020 was severely impacted by the COVID-19 pandemic mainly due to increased provisions, with net profit of nine listed banks plummeting by over 30% year-on-year (y-o-y). The positive surprise was the higher-than-expected credit growth, driven by a surge in corporate lending at major banks as corporates rushed to draw down credit lines amid heightened refinancing risk in the bond market. We expect credit growth in 2021 to decline to a low single-digit rate typically seen for the Thai banks in recent years as the liquidity in the bond market has largely normalized. Asset quality has been a key concern given the severe economic impacts inflicted on borrowers in 2020. We believe non-performing loans (NPLs) could still be on an uptrend but manageable as the economy is expected to recover gradually. In terms of loan loss provisions, considering the lower credit costs guidance announced by several banks, we expect overall provisions to be lower in 2021.

As a result, banking sector's financial performance should recover gradually. We also expect capital positions of most banks to remain robust, supported by strong earnings buffers, limited dividend payments, and slower credit growth.

Nonbank Financial Institutions (NBFIs)

The COVID-19 pandemic has affected NBFIs in various aspects, particularly loan growth and revenue-generating capacity. As for asset quality, the various debt relief measures offered to clients by NBFIs have generally helped alleviate the asset quality impact. We expect the recovery of Thai economy to support loan growth for NBFIs in 2021. The revival in car sales has been strong and should continue in 2021. We expect strong growth in demand for new auto loans, especially from logistics-related businesses. However, the motorcycle loan segment will likely remain vulnerable due to the sharp deterioration in asset quality that has led to cautious lending in this segment in recent years. On the other hand, title loan businesses have shown decent growth and maintained healthy quality of asset. Nonetheless, the intensifying competition from new players in the industry will likely add pressure on the operators' profitability. As for credit card and personal loan lenders, the lower interest rate ceiling will likely have significant impact on their revenues. However, such revenue impact should be mitigated by stronger fee income from an expected increase in card usage. In terms of capital strength, most companies in the nonbank lending sector have preserved their capital strengths, sufficient to cushion against potential losses associated with respective types of assets.

Overall, we expect NBFIs' businesses and financial performances to gradually improve in 2021, although asset quality will still be the key downside risk that needs to be monitored closely.

Oil and Natural Gas

Oil and natural gas companies in Thailand faced one of the most challenging years in 2020. Triggered by the outbreak of the COVID-19 in early 2020, crude oil price dropped by 33% in 2020. Refined petroleum consumption for 2020 declined by 12%, led by jet oil which plunged by 60%. Gasoline and diesel consumption declined by only 2%-3% in 2020, with the demand recovered close to pre-COVID-19 levels since August 2020. Jet oil is on the rocky road to recovery due to travel restrictions and fears of air travel safety. All oil refineries posted net loss for 2020 due to low refining margins and huge stock losses. The COVID-19 had less impact on oil marketing companies due partly to their lesser burden of stock requirements and benefits from the lag-time in price adjustments during a period of declining oil prices.

We expect Dubai oil price to stay in the narrow range of USD40-USD60 per barrel in 2021 and to be less volatile than in 2020. Consumption recovery will likely come first for land transport fuel like diesel and gasoline while the demand for air transport fuel will likely take several years to return to the pre-COVID-19 levels. We expect stock loss will be less prevalent and most oil and natural gas companies to post positive earnings in 2021.

Residential Properties

The demand for residential properties, especially condominiums, was hit hard by the implementation of new loan-to-value rules in 2019 and the COVID-19 outbreak in 2020. Net presales of condominiums of 23 rated developers dropped sharply from a peak of THB200 billion in 2018 to around THB122 billion in 2019 and THB67 billion in 2020. For 2021, the resurgence of COVID-19 infections has clouded the recovery prospects of the condominium segment as foreign buyers may not be able to return until the end of the year. We see the return of foreign buyers as the key to reinvigorate the demand for condominiums. **We expect it will take at least one more year for the condominium demand to recover to the 2019 level. On the contrary, the demand for landed properties is showing a relatively strong recovery.** According to the data collected from 23 rated developers, presales of landed properties grew by 15%-20% y-o-y in 2020 despite concerns over the economic fallout from the pandemic. The growth in landed property sales helped compensate for the sharp drop in condominium presales. Housing title transfers also improved slightly as several developers resorted to aggressive pricing campaigns to accelerate sales and transfers of their completed units. Overall profit margins among the rated developers are expected to drop by 3%-4% in 2020. The ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA) is expected to jump to 7-8 times in 2020, from 4-5 times seen in the past.

We expect the operating performances of rated developers to improve gradually and return to the 2019 level by the end of 2022. However, the operating performances of rated developers could vary depending on their ability to adjust their products to meet the needs of target customers. Developers with diversified portfolios and strong positions in both the condominium and landed property segments are expected to outperform peers.

Hotels

Hotel industry is one of the industries hardest hit by the pandemic. According to the World Tourism Organization (UNWTO), international tourist arrivals worldwide in 2020 was 74% below the 2019 level. For Thailand, number of foreign tourist arrivals dropped by 83% in 2020. Undoubtedly, the hotel industry has suffered an unprecedented decline in business volume, reflected by the 60%-70% y-o-y decline in revenue per available room (RevPAR) in 2020. Hoteliers are forced to resort to aggressive cost-cuttings and lowering their break-even occupancy rates (OR) to minimize operating loss**.**

We expect the recovery to be slow and may take until 2024 for the hotel industry to fully recover. Recovery in 2021 will likely be driven by domestic, leisure market. We do not expect a significant return of international travel sooner than the last quarter of 2021. Business travel will likely take longer to recover. We expect the leverage ratio of issuers in the hotel industry to remain elevated in 2021, before improving to levels falling within the rating guidance threshold in 2022. And it could take at least until 2023 before credit metrics of these issuers recover to the pre-COVID-19 levels.

Agri and Commodity Foods

According to TRIS Rating's database, the agri and commodity food industry is the only industry that managed to achieve a positive growth in revenue in 2020, given the impact from COVID-19. **We maintain a moderately positive outlook for the agri and commodity food industry in 2021. We expect continued robust demand in both swine and poultry segment in 2021.** The world is still rebuilding livestock supplies following the African Swine Fever epidemic that depleted much of pork supply. **Nonetheless, the producers could face higher production costs due to higher prices for soy- and corn-based feed. This will likely pressure their earnings and profits. The prospects for other food segments, such as sugar and shrimp are clouded by sluggish demand, excess supply and intensifying competition. Businesses in these food segments will likely face a slower rebound.**

We expect to see strong demand for natural rubber from surgical glove makers. However, the global demand for tires is still on a decline. **Thus, the outlook for rubber will vary across product segments. Despite the challenges, opportunities are available for the key players. The application of technological innovations to enhance cost efficiency and the improvement of water resource management are good examples of available opportunities. The shifting to value-added products is a trend in newly adopted strategies to sustain and stabilize supply chains and businesses.**

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