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KEY HIGHLIGHTS

Update

Kerry Express (KEX TB/BUY/Bt24.50/Target: Bt29.00)

2Q22 results preview: Still negative but the worst has passed. Upgrade to BUY.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,574.52	15.31	0.98
SET50	954.71	8.37	0.88
Value (Btm) - SET	48,317		
Top 5 Sector			
BANK	372.01	3.93	1.07
PETRO	1,056.38	11.84	1.13
PROP	233.68	2.04	0.88
ENERG	24,152.51	370.24	1.56
ICT	178.10	2.77	1.58

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
PTT	33.75	1.50	66,612.5
PTTEP	163.00	2.84	12,057.1
ZIGA	6.75	26.17	298,501.1
AOT	69.75	0.72	25,838.5
BANPU	12.80	2.40	139,484.6

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
JTS	135.00	29.81	3,612.9
ZIGA	6.75	26.17	298,501.1
AJA	0.34	21.43	100,539.5
UPA	0.32	18.52	600,320.5
TWZ	0.08	14.29	20,528.5

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
CPL	4.66	(12.08)	22,816.6
AFC	11.00	(9.84)	503.8
CPH	27.50	(8.33)	3,922.1
TWP	4.40	(7.95)	31,582.2
SMK	4.14	(7.59)	153.6

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	113.1	2.8	6.9	50.1
Dubai crude*	112.3	3.0	(0.9)	46.8
Baltic Dry Index	2,596.0	(22.4)	2.0	17.1
Gold Spot***	1,829.1	(0.9)	(4.8)	(0.0)

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(43.7)	(735.8)	3,546.7	8,273.6

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 35.40

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

Thai Lending Rate (%)* - MLR = 5.25

COMPANY UPDATE

Kerry Express (KEX TB)

2Q22 Results Preview: Still Negative But The Worst Has Passed

We expect KEX to report a smaller loss qoq at -Bt390m, mainly due to better cost control. We are more positive on the industry's competitive landscape and now believe the worst has likely passed for KEX. We expect KEX's earnings to recover gradually over 2H22-23. Although its earnings should remain weak in the near term, we foresee limited downside risk at the current valuation. Upgrade to BUY. Target price: Bt29.00.

2022 RESULTS PREVIEW

Year to 31 Dec (Btm)	2Q21	1Q22	2Q22	yoy (%)	qoq (%)
Total revenue	4,600	4,416	4,505	(2.1)	2.0
Gross profit	709	-214	-135	(119.1)	37.0
Operating EBITDA	987	39	185	(81.2)	370.0
Net profit	336	-491	-390	(216.2)	20.6
Percent	2Q21	1Q22	2Q22	yoy (ppts)	qoq (ppts)
Gross margin	15.4	(4.9)	(3.0)	(18.4)	1.9
SG&A to sales	7.1	9.7	8.2	1.1	(1.5)
Net profit margin	7.3	(11.1)	(8.7)	(16.0)	2.5

Source: KEX, UOB Kay Hian

WHAT'S NEW

- **Expect KEX to report a smaller loss qoq.** We expect Kerry Express (KEX) to report another quarter of negative earnings at -Bt390m, weakening yoy from Bt336m but improving qoq from -Bt491m. Qoq earnings improvement is expected to be mainly driven by lower short-term investment expense and better competitive landscape.
- Although 2Q is usually a low season for express delivery service due to the fewer number of operating days, we estimate parcel volume of around 115m, up 30% yoy and 1% qoq. Strong volume growth is expected to be supported by solid demand from e-commerce trends and increase in market share. Meanwhile, we estimate revenue per parcel at Bt39.2 (vs Bt51.1 in 2Q21, and Bt38.8 in 1Q22), improving qoq for the first time in 11 quarters, due to promotional adjustments and the halting of price reductions which started in Jun 22. Total revenue is expected to decline 2% yoy but up 2% qoq to Bt4.5b; meanwhile, cost per parcel fell 8% yoy and 2% qoq due to a better cost efficiency programme and scale benefit. Overall, we expect KEX to post a net margin of -8.7% in 2Q22 (2Q21: 7.3%; 1Q22: -11.1%).

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	19,010.1	18,972.1	18,421.8	21,205.3	24,411.2
EBITDA	4,201.6	2,456.1	1,632.4	3,820.2	4,435.3
Operating profit	1,846.0	114.0	(1,006.6)	927.4	1,341.8
Net profit (rep./act.)	1,405.0	44.9	(973.8)	688.4	1,012.8
Net profit (adj.)	1,405.0	44.9	(973.8)	688.4	1,012.8
EPS (Bt)	0.8	0.0	(0.5)	0.4	0.6
PE (x)	31.0	970.5	n.m.	63.3	43.1
P/B (x)	2.9	4.7	6.2	5.7	5.0
EV/EBITDA (x)	10.9	18.7	28.1	12.0	10.4
Dividend yield (%)	2.1	3.0	0.0	0.0	0.0
Net margin (%)	7.4	0.2	(5.3)	3.2	4.1
Net debt/(cash) to equity (%)	(32.7)	31.9	45.6	21.1	12.3
Interest cover (x)	37.5	25.4	21.6	57.1	58.5
ROE (%)	21.5	0.4	n.a.	9.3	12.3
Consensus net profit	-	-	(674)	273	589
UOBKH/Consensus (x)	-	-	1.44	2.52	1.72

Source: Kerry Express, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Upgraded)

Share Price	Bt24.50
Target Price	Bt29.00
Upside	+18.4%
(Previous TP)	Bt21.25

COMPANY DESCRIPTION

KEX is one of the largest private delivery services in Thailand. Its key customers include international express companies, e-commerce companies, home shopping channels, banks, technology companies, telecommunications companies, and financial institutes.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEX TB
Shares issued (m):	1,742.6
Market cap (Btm):	42,693.1
Market cap (US\$m):	1,209.5
3-mth avg daily t'over (US\$m):	3.9

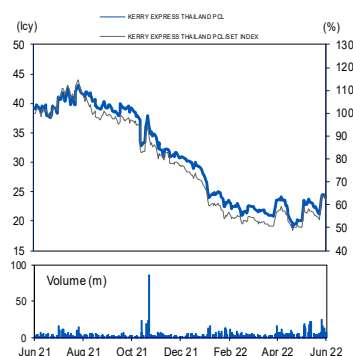
Price Performance (%)

52-week high/low	Bt43.00/Bt18.90			
1mth	3mth	6mth	1yr	YTD
22.5	8.4	(20.3)	(37.6)	(19.0)

Major Shareholders

	%
-	-
FY22 NAV/Share (Bt)	3.94
FY22 Net Debt/Share (Bt)	1.80

PRICE CHART



Source: Bloomberg

ANALYST(S)

Peerawat Dentananan, CFA, FRM
+662 6598302
peerawat@uobkayhian.co.th

Waritthorn Kaewmuang
+662 090 8642
waritthorn@uobkayhian.co.th

KEY STATISTICS

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22F
Revenue (Btm)	4,188	4,600	5,331	4,699	4,416	4,505
Revenue Per Parcel (Bt) - Est	53.8	51.9	51.1	42.3	38.8	39.2
Parcel Volume (M) - Est	77.9	88.7	104.4	111.2	113.7	114.9
Growth pricing	-23%	-22%	-19%	-28%	-28%	-24%
Growth Parcel Volume %	13%	9%	46%	54%	46%	30%
Cost per Parcel (Bt) - Est	48.9	47.6	51.2	49.4	44.5	43.6
Margin spread (Bt)	4.9	4.3	(0.1)	(7.1)	(5.7)	(4.4)
NPM (%)	7.2%	7.3%	0.2%	-12.9%	-11.2%	-8.7%

Source: KEX, UOB Kay Hian

STOCK IMPACT

- **Ray of light at the end of the tunnel.** Industry competition is beginning to see improvement, consistent with management's expectation that the competitive landscape has already passed its worst and should see improvement in 2H22. After a year and a half of aggressive price war, the pricing competition has stopped as most of the express delivery service companies in Thailand are now starting to increase their pricing instead of cutting it.
- **Uncertainty remains for the industry.** The competitive landscape in the market can fluctuate rapidly; however, we believe the industry is now less attractive for newcomers and some players may consider exiting the market. Nevertheless, the competition for the players in the market is still far from over between the key players. Therefore, we believe that we should see sector earnings recovering in 2H22 onwards, but the recovery will be a gradual pattern, not a V-sharp recovery. The oil price situation is another factor that must be monitored, of which oil expense accounts for around 12% of KEX's total cost.

EARNINGS REVISION/RISK

- We cut our 2022 earnings forecast by 42% mainly to factor in a lower gross margin assumption, underpinned by a higher additional cost that KEX invested during the peak of COVID-19, and higher fuel costs. For 2023-24, we raise our earnings forecasts by 10-45% as we now expect the industry price war to ease and lead to a better profitability margin.

KEY EARNINGS REVISION

(Btm)	2022F			2023F			2024F		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Total revenue	18,260	18,260	0.0%	21,035	20,816	1.1%	24,233	23,147	4.7%
Gross profit	237	548	-56.7%	2,251	1,978	13.8%	2,835	2,662	6.5%
Operating profit	(1,007)	(678)	-48.5%	927	670	38.5%	1,342	1,220	10.0%
Net profit	(974)	(685)	-42.1%	688	476	44.7%	1,013	920	10.1%
Gross margin	1.3%	3.0%	-1.70	10.7%	9.5%	1.20	11.7%	11.5%	0.20
SG&A to sales	7.7%	7.6%	0.10	7.1%	7.1%	0.00	6.9%	7.0%	-0.10
Net profit margin	-5.3%	-3.8%	-1.58	3.3%	2.3%	0.99	4.2%	4.0%	0.20

Source: KEX, UOB Kay Hian

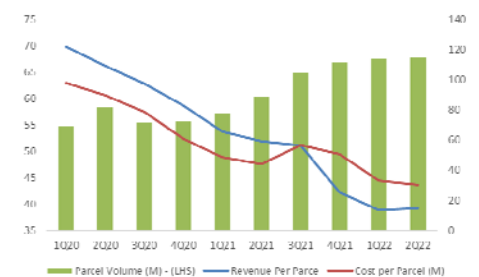
VALUATION/RECOMMENDATION

- **Upgrade to BUY with target price of Bt29.00.** Our earnings revision, coupled with rolling over the valuation to 2023, led to a new target price of Bt29.00, based on DCF methodology. We use WACC of 8.2%, assuming a risk-free rate of 2%, debt premium of 0.1%, equity risk premium of 8.5%, and adjusted equity beta of 1.13x. We assume a terminal growth rate of 3%. Cash flows are discounted back to 2023. We believe KEX's weak earnings outlook has been priced in; meanwhile, we expect KEX's earnings have passed its worst and should gradually recover over 2022-24.

SHARE PRICE CATALYST

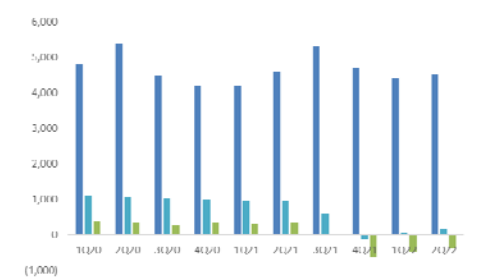
- Higher-than-expected parcels delivery, better-than-expected operation, and announcement of merger or acquisition.

VOLUME, REVENUE & COST PER PARCEL



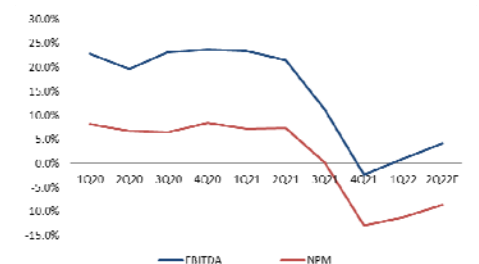
Source: KEX, UOB Kay Hian

EARNINGS OUTLOOK



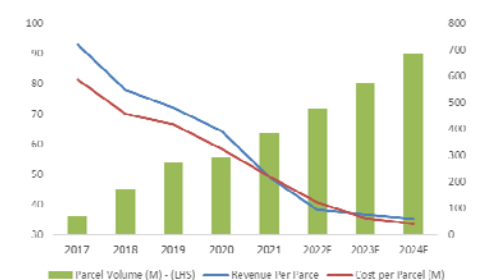
Source: KEX, UOB Kay Hian

MARGIN OUTLOOK



Source: KEX, UOB Kay Hian

KEY ASSUMPTION



Source: KEX, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	18,972	18,422	21,205	24,411
EBITDA	2,456	1,632	3,820	4,435
Deprec. & amort.	2,342	2,639	2,893	3,094
EBIT	114	(1,007)	927	1,342
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(97)	(75)	(67)	(76)
Pre-tax profit	17	(1,082)	861	1,266
Tax	28	108	(172)	(253)
Minorities	0	0	0	0
Net profit	45	(974)	688	1,013
Net profit (adj.)	45	(974)	688	1,013

CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	(701)	2,473	3,844	4,020
Pre-tax profit	17	(1,082)	861	1,266
Tax	28	108	(172)	(253)
Deprec. & amort.	2,342	2,639	2,893	3,094
Working capital changes	497	1	247	74
Non-cash items	(3,614)	807	15	(161)
Other operating cashflows	30	0	0	0
Investing	(4,207)	(1,399)	(2,267)	(3,468)
Capex (growth)	(1,899)	(1,419)	(2,305)	(3,390)
Investments	(2,022)	0	0	0
Others	(285)	21	37	(78)
Financing	(3,001)	(2,292)	(430)	448
Dividend payments	(1,676)	(1,299)	0	0
Issue of shares	77	(7)	0	0
Proceeds from borrowings	(1,396)	(985)	(430)	448
Others/interest paid	(7)	0	0	0
Net cash inflow (outflow)	(7,908)	(1,218)	1,146	1,000
Beginning cash & cash equivalent	9,697	1,789	571	1,717
Ending cash & cash equivalent	1,789	571	1,717	2,717

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Fixed assets	7,335	6,116	5,528	5,824
Other LT assets	2,585	2,570	2,548	2,628
Cash/ST investment	1,789	571	1,717	2,717
Other current assets	5,337	4,656	4,730	5,187
Total assets	17,046	13,914	14,523	16,358
ST debt	2,502	2,502	2,502	2,502
Other current liabilities	2,776	2,903	3,239	3,611
LT debt	2,256	1,271	840	1,289
Other LT liabilities	195	201	216	218
Shareholders' equity	9,299	7,019	7,707	8,720
Minority interest	18	18	18	18
Total liabilities & equity	17,046	13,914	14,523	16,358

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	12.9	8.9	18.0	18.2
Pre-tax margin	0.1	(5.9)	4.1	5.2
Net margin	0.2	(5.3)	3.2	4.1
ROA	0.2	n.a.	4.8	6.6
ROE	0.4	n.a.	9.3	12.3
Growth				
Turnover	(0.2)	(2.9)	15.1	15.1
EBITDA	(41.5)	(33.5)	134.0	16.1
Pre-tax profit	(99.0)	(6,422.6)	n.a.	47.1
Net profit	(96.8)	(2,267.1)	n.a.	47.1
Net profit (adj.)	(96.8)	(2,267.1)	n.a.	47.1
EPS	(96.8)	(2,267.1)	n.a.	47.1
Leverage				
Debt to total capital	33.8	34.9	30.2	30.3
Debt to equity	51.2	53.7	43.4	43.5
Net debt/(cash) to equity	31.9	45.6	21.1	12.3
Interest cover (x)	25.4	21.6	57.1	58.5

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