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Research

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KRUNGSRI BUSINESS ONLINE

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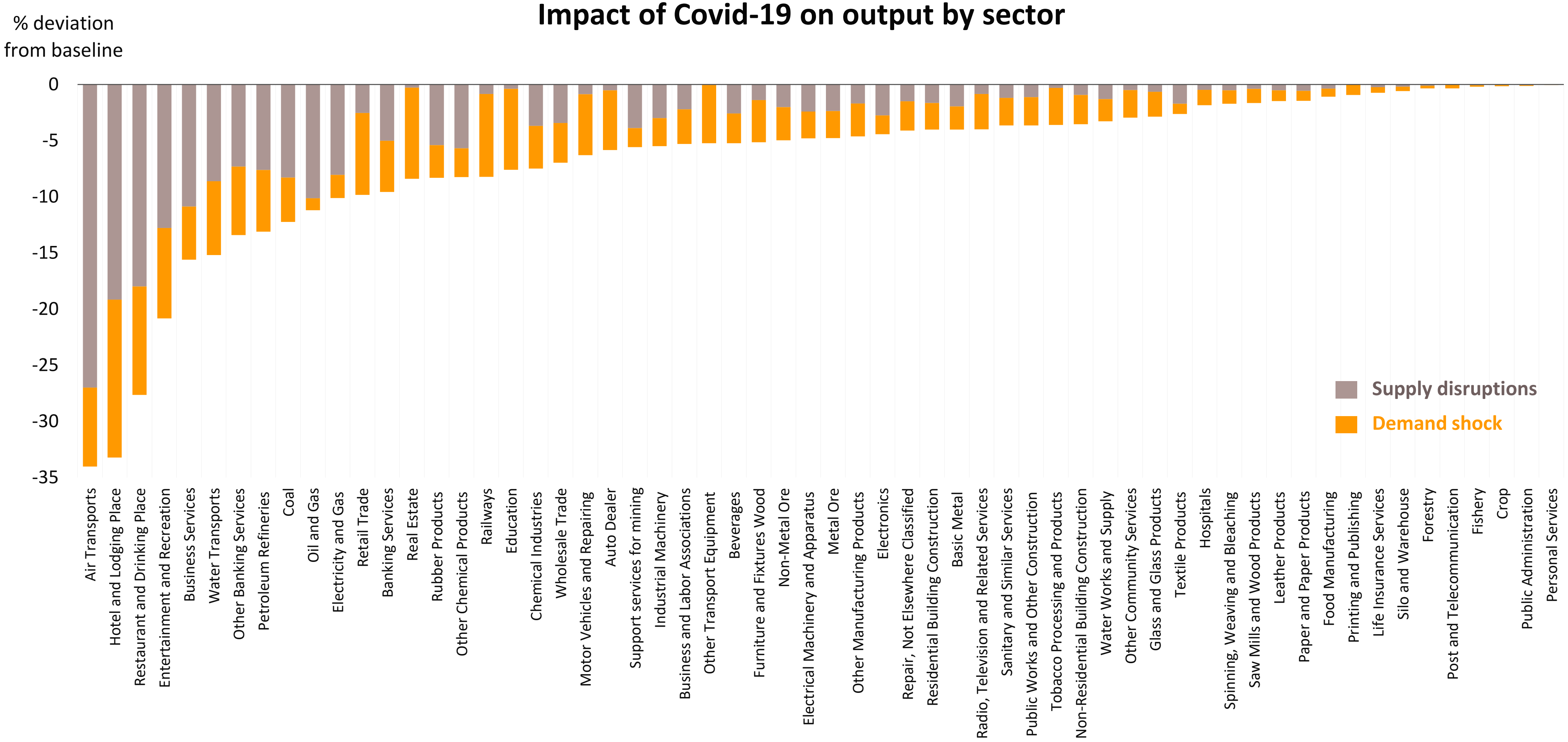
Krungsri Research

Covid-19 impact: Airlines, hotel & lodging, and restaurant sectors would be hardest hit



Source: GTAP, Krungsri Research

Sector impact can be split into four levels

MODERATE impact

- Radio, Television and Related Services
- Sanitary and Similar Services
- Public Works and Other Construction
- Tobacco Processing and Products
- Non-Residential Building Construction
- Water Works and Supply
- Other Community Services
- Glass and Glass Products
- Textile Products
- Spinning, Weaving and Bleaching

HEAVIEST impact

- Airlines
- Hotel and Lodging Place
- Restaurant and Drinking Place
- Entertainment and Recreation
- Business Services
- Marine Transportation
- Other Banking Services
- Petroleum Refineries
- Coal
- Retail Trade
- Banking Services
- Real Estate
- Railways
- Education
- Chemical Industries
- Wholesale Trade
- Motor Vehicles and Repairing
- Auto Dealer
- Other Transport Equipment
- Furniture and Fixtures Wood

SLOW Recovery

LOW Impact

HIGH Impact

QUICK Recovery

MILD impact

- Hospital
- Saw Mills and Wood Products
- Leather Products
- Paper and Paper Products
- Food Manufacturing
- Printing and Publishing
- Life Insurance Services
- Silo and Warehouse
- Forestry
- Post and Telecommunication
- Fishery
- Crop
- Public Administration
- Personal Services

HEAVY impact with quicker recovery

- Oil and Gas
- Electricity and Gas
- Rubber Products
- Other Chemical Products
- Support services for mining
- Industrial Machinery
- Business and Labor Associations
- Beverages
- Non-Metal Ore
- Electrical Machinery and Apparatus
- Metal Ore
- Other Manufacturing Products
- Electronics
- Repair, Not Elsewhere Classified
- Residential Building Construction
- Basic Metal

Source: Krungsri Research

Our base-case forecast: U-curve recovery

Outcome Scenarios

Health policy effectiveness

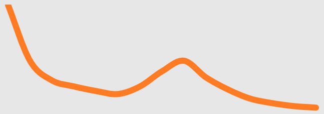
Outbreak can be controlled in a few months	Damage is limited but slower growth ahead	Damage is limited but slower growth ahead.	Damage is limited and quick recovery ahead.
Outbreak is contained within 3-6 months	Risk **Outbreak is contained in 1H20 but the economy is severely hit.**	Base **Outbreak is contained in 1H20 but recovery is slow.**	Damage is moderate and a recovery would be seen in 2020.
Easing public health controls lead to second outbreak	**Second outbreak, leading to deep recession**	Risk **Second outbreak, leading to deep recession**	Extensive damage
Outbreak is contained at the end of this year	Deep recession is very likely.	Deep recession is very likely.	Deep recession is very likely.
	Economic policy cannot mitigate Covid-19 impact. Impact becomes more severe and recovery is very slow.	Economic policy can partially mitigate Covid-19 impact. Impact becomes more moderate with a clear recovery path.	Economic policy is able to support the economy. Impact becomes more moderate but expect a quick recovery.

Economic policy effectiveness

Scenario	COVID-19 Period	Transition Period	Post COVID Period
Base: U-curve recovery 	Period: 20Q1 … 21Q1 The COVID-19 pandemic would end in Q2, coupled with two-month lockdown.	Period: 20Q1 … 21Q1 The economy recover gradually in the second half of 2020.	Period: 20Q1 … 21Q1

Source: McKinsey, Krungsri Research

Risk scenarios are L-shaped and UL-shaped recovery

	Scenario	COVID-19 Period	Transition Period	Post COVID Period
U	**Base: U-curve recovery** 	Period: 20Q1 21Q1 The COVID-19 pandemic would end in Q2, coupled with two-month lockdown.	Period: 20Q1 21Q1 The economy recover gradually in the second half of 2020.	Period: 20Q1 21Q1
L	**Financial contagion: L-shape recovery** 	Period: 20Q1 21Q1 The COVID-19 outbreak is contained in Q2, coupled with two-month lockdown.	Period: 20Q1 21Q1 COVID-19 would have persistent impact on economy as both real and financial sectors are badly hit. Economic policy response is insufficient to support the economy. Slow recovery.	Period: 20Q1 21Q1
UL	**Second outbreak: UL-shape** 	Period: 20Q1 21Q1 The outbreak seems to be under control. But lax protective health measures would lead to a second outbreak. The pandemic period would last the whole of 2020.	Period: 20Q1 21Q1 Recovery would be very slow.	Period: 20Q1 21Q1 Post COVID period might not be seen in the next few years.

Source: Krungsri Research

Thailand’s economic outlook 2020-2023

		2019	2020F	2021F	2022F	2023F
GDP	**% YoY**	**2.4**	**-5.0**	**2.0**	**2.5**	**2.8**
Private consumption	%YoY	4.5	-1.1	1.8	2.3	2.5
Public consumption	%YoY	1.4	2.3	2.0	2.0	2.0
Private investment	%YoY	2.8	-5.5	-0.7	2.6	3.2
Public investment	%YoY	0.2	2.0	3.0	3.8	4.4
Export growth	%, in terms of USD	-3.2	-10.0	3.0	3.5	4.0
Import growth	%, in terms of USD	-5.4	-16.0	5.0	6.0	7.5
Inflation	%YoY	0.7	-0.8	0.5	0.7	1.0
US Fed funds rate	%, end of period	1.50-1.75	0 – 0.25	0 - 0.25	0 – 0.25	0.50-0.75
Thai policy rate	%, end of period	1.25	0.50	0.50	0.50	0.75
Thai 2-year bond yield	%, end of period	1.19	0.75	0.85	1.00	1.15
Thai 10-year bond yield	%, end of period	1.49	1.45	1.70	2.05	2.30
THB/USD (average)	Baht per USD	31.05	32.16	31.53	30.79	30.45
THB/100 JPY (average)	Baht per JPY	28.48	30.21	31.08	31.24	30.64

Source: NESDC, BOT, MOC, Department of Tourism, Krungsri Research

THB1.9trn stimulus package would ease Covid-19 impact but may be insufficient to survive crisis

Phase II stimulus

For individuals

- **Cash handouts**
  THB5,000 monthly for three months for laborers and independent workers who are not covered by the Social Security Scheme (9 mn people, THB135 bn in total)
- **Unemployment allowance** Increase allowance to 50% of wages for up to 180 days for those under Social Security Scheme
- **Special loans from state banks**
  - Up to THB50,000 per person at 0.35% interest rate with collateral (THB20 bn in total)
  - Up to THB10,000 per person at 0.1% interest rate without collateral (THB10 bn in total)
- **Tax benefits**
  - Extend deadline to file tax returns from March to August for individual taxpayers

For business operators & tourism business

- Special credit line from several SFIs: THB3mn each at 2% interest rate per year for the first two years
- Extend corporate income tax payment deadline by three months to August and September
- Extend deadline for excise tax payments by three months to July 15 for entertainment and services businesses
- Extend deadline for VAT and special business tax payments by one month

Phase III stimulus

THB1 trn

Decree allowing the MOF to borrow money for stimulus package

- **THB600bn (over 6 months) to help farmers, laborers and independent workers and to support public health services**
- THB400bn plan to strengthen the community economy and develop local infrastructure

THB500 bn

Decree allowing the BOT to provide soft loans to businesses, particularly SMEs

- **THB500bn loan program at 2% annual interest rate to help SMEs who have credit line of up to THB500mn each**
- BOT allows commercial banks and SFIs to offer a six-month moratorium on principle and interest repayment for SMEs who have credit line of up to THB100mn

THB400 bn

Decree allowing **the BOT to set up a corporate bond liquidity stabilization fund (BSF)** to back stop the corporate bond market

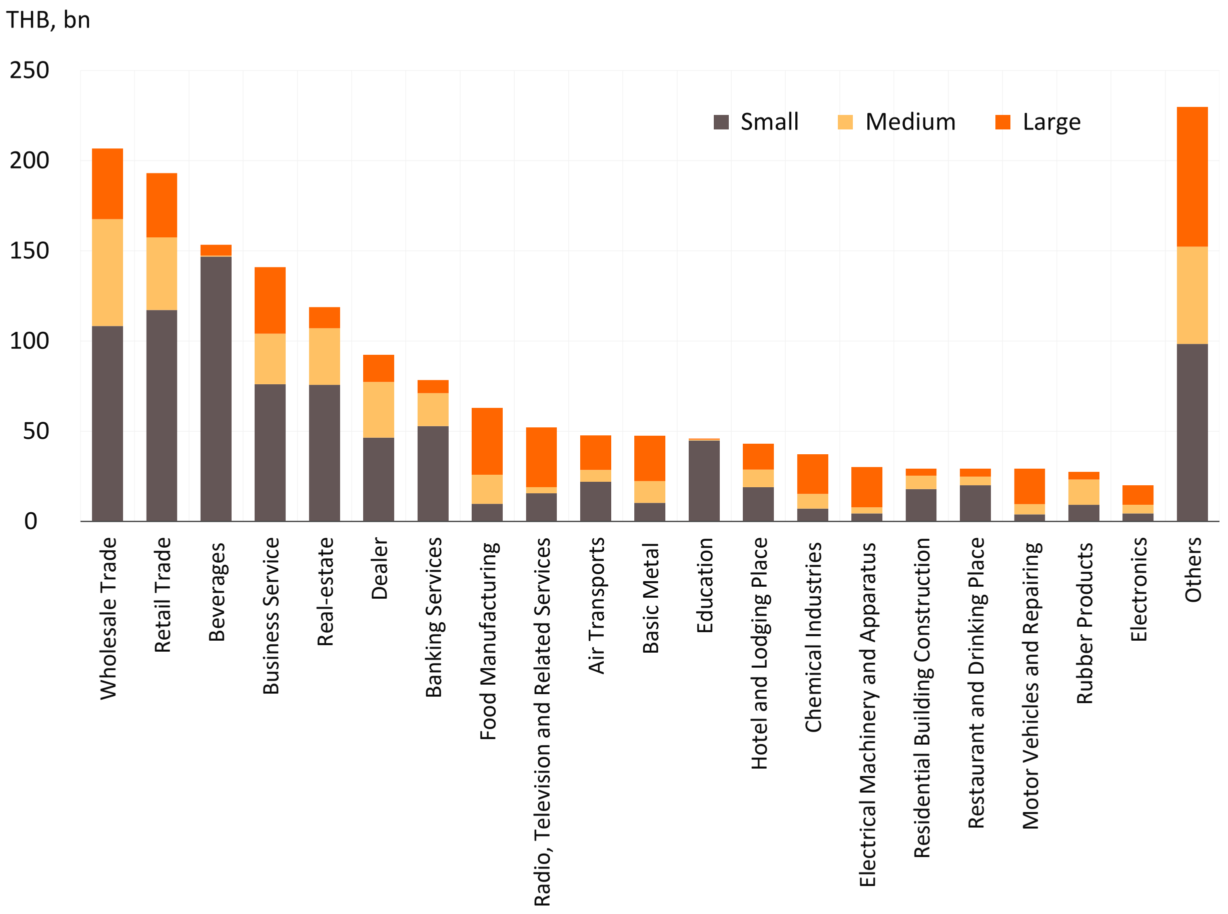
Additional measures

- Approve legislation to transfer THB80-100 bn of budget allocations between ministries to finance measures to handle the COVID-19 outbreak
- BOT will halve the rate that financial institutions must contribute to the Financial Institutions Development Fund (FIDF) from 0.46% of deposit base to 0.23% for two years

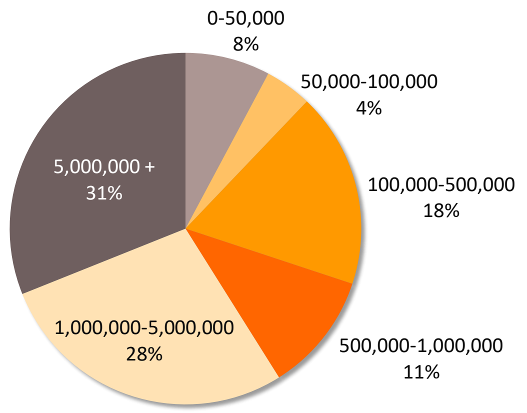
Source: The Cabinet, Krungsri Research

Businesses in the formal sector would need Bt1.7 trillion to survive the crisis

Liquidity needed by sector and size



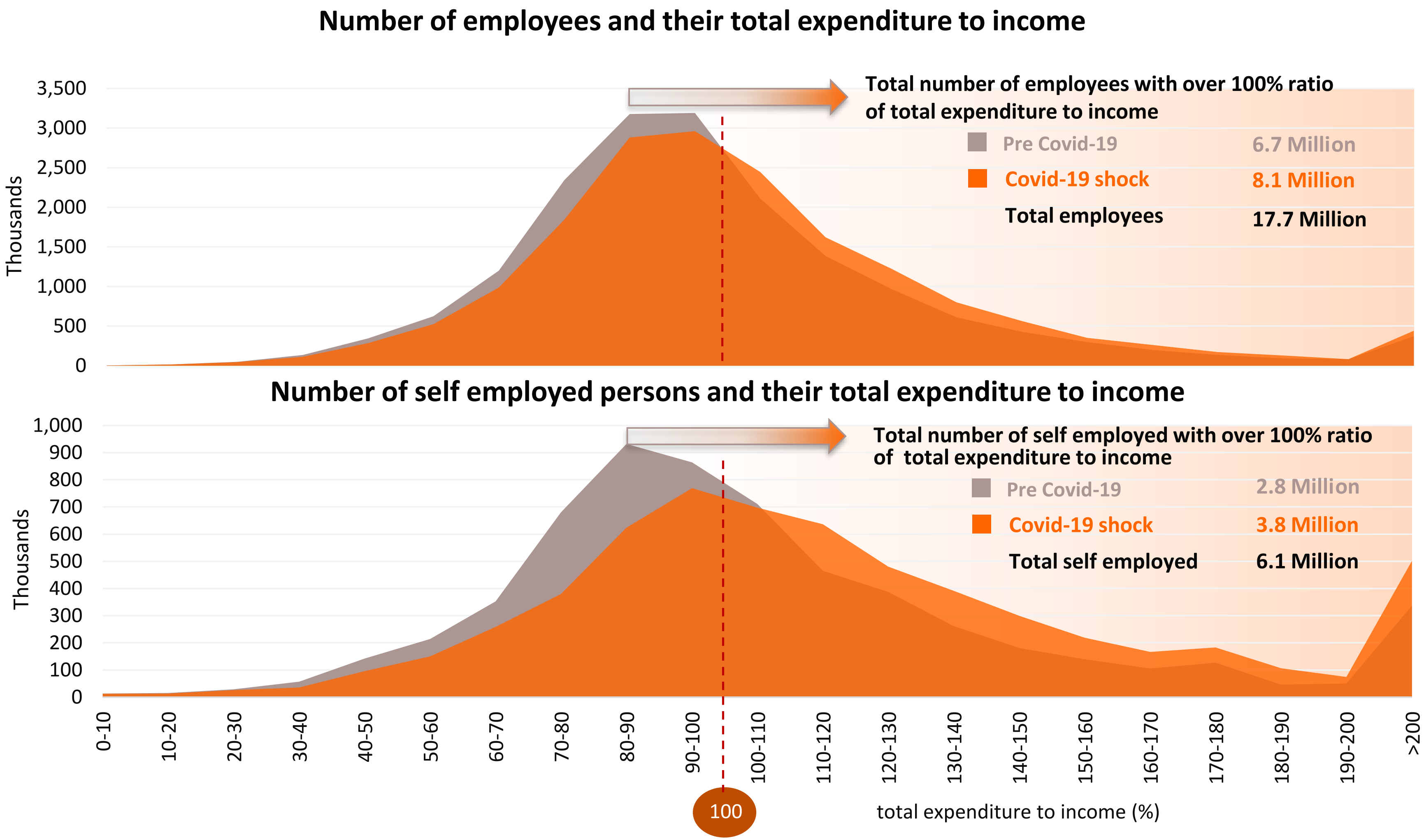
Liquidity needed by sector



Liquidity needed	Number of firms
0-50,000	14,639
50,000-100,000	8,086
100,000-500,000	33,637
500,000-1,000,000	20,590
1,000,000-5,000,000	52,209
5,000,000 +	58,200

Source: MOC, Krungsri Research

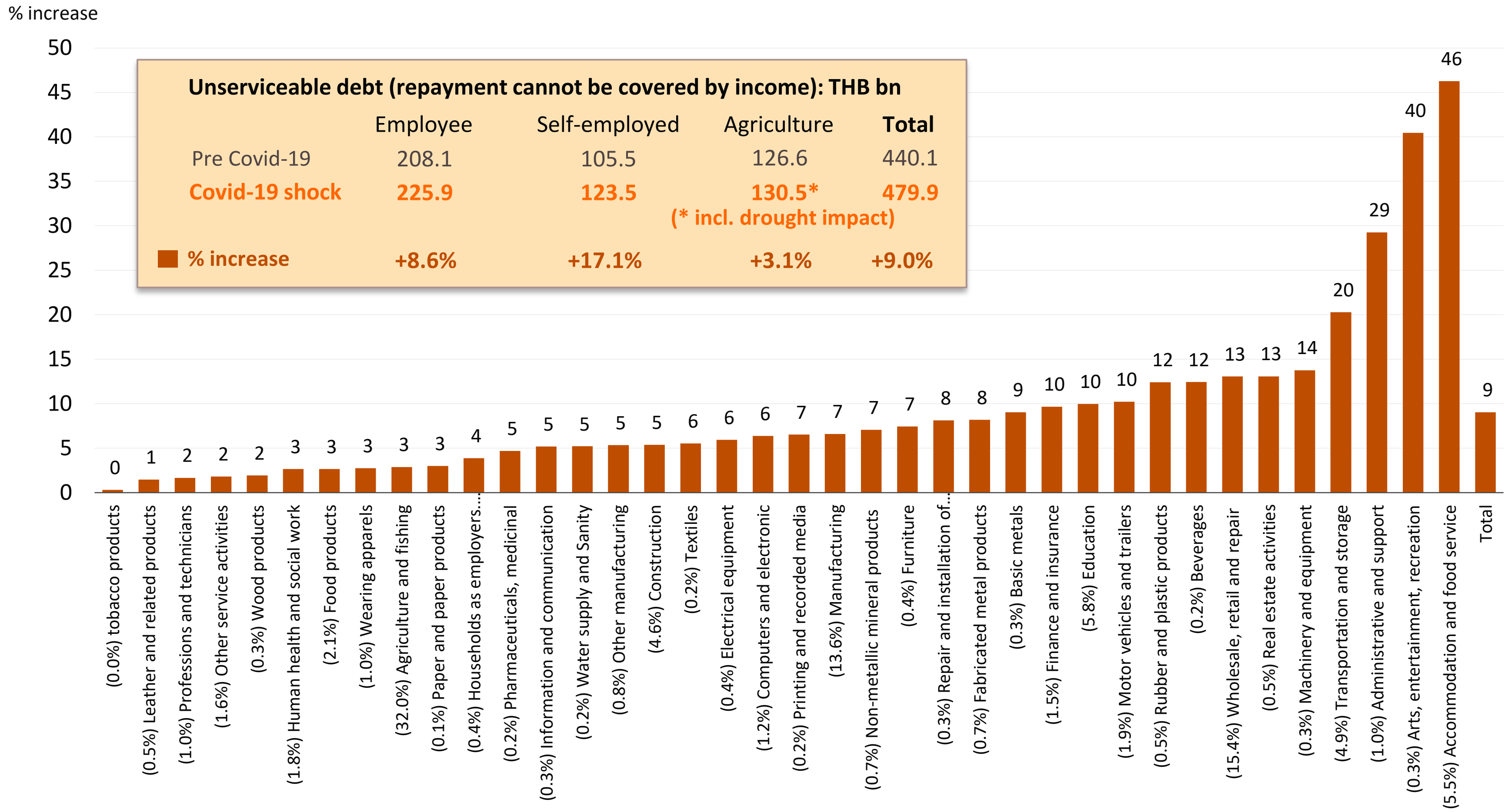
Pandemic has raised the share of vulnerable employees by 8ppt to 46% and non-farm self-employed by 16ppt to 62%



Source: NSO, Krungsri Research

Unserviceable household debts would increase by 9%, which could delay economic recovery

An increase in unserviceable debts of households

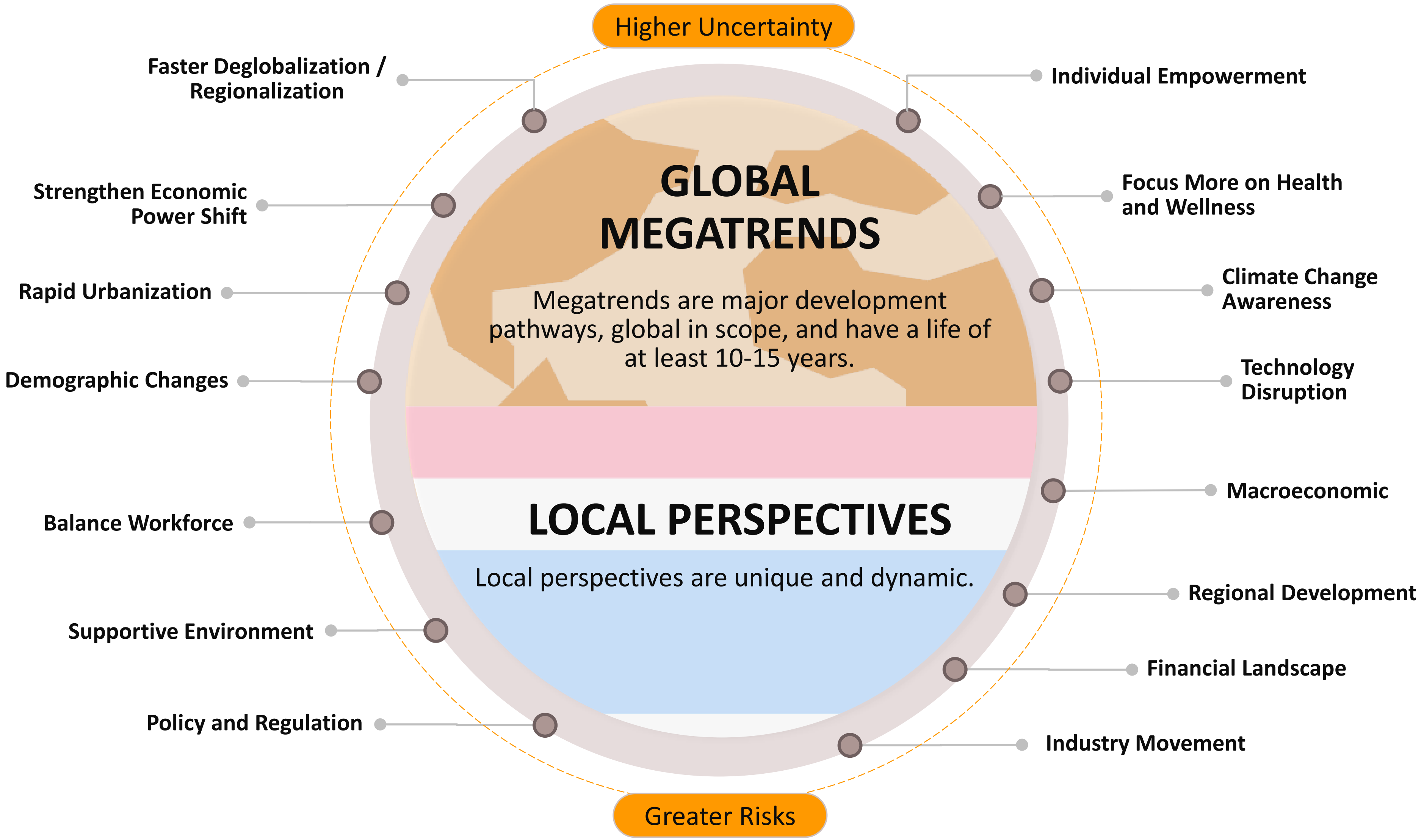


Unserviceable debt (repayment cannot be covered by income): THB bn

	Employee	Self-employed	Agriculture	**Total**
Pre Covid-19	208.1	105.5	126.6	440.1
Covid-19 shock	**225.9**	**123.5**	**130.5***	**479.9**
			(* incl. drought impact)	
% increase	**+8.6%**	**+17.1%**	**+3.1%**	**+9.0%**

Source: GTAP, NSO, Krungsri Research

Eagle's eye perspective to formulate insights



Source: Krungsri Research

Industry transformation in focus

Agriculture & Food

Shift from commodity-based to value-added products to minimize effects of price volatility

Strategy: Move to smart farming with advanced technology (IoT, data analytics, 3D printing) and shift towards value-added products

Supporting factor
- Tropical biodiversity hotspot location
- World's leading exporter in many products
- High production standards in food processing
- Investment incentives
- Increasing demands in both local and external markets

Challenge
- Declining competitiveness of commodity and low value-added products
- Risk of price fluctuations

Power Producer

Supported by recovering economic activities and plans of the authority

Strategy: Develop hybrid renewable energy systems to combine several energy sources and optimize production management

Supporting factor

Power Generation
- Rising consumption of electricity
- PDP2015 and AEDP2015 attracting private investments

Biofuels
- Growing demand for transportation
- Future Industry targeted by the government

Challenge

Power Generation
- Legal complications and inadequate transmission grid in some areas

Biofuels
- Intensifying competition for raw material and/or through higher number of players

Petrochemicals

Moving towards 'green' and specialty products, in line with government policy

Strategy: Shift from oil & gas – derived feedstock to renewable resources serving the circular economy

Supporting factor
- Fully integrated petrochemical supply chain
- Biodiversity hotspot location
- Bioplastics helping to address global climate change issue
- Investment incentives
- Raw material stability from the move to use bio-feedstock

Challenge
- Price volatility and increasing competition in commodity-grade products in the world market

Source: Krungsri Research

Industry transformation in focus

Construction

Led by public infrastructure investments

Strategy: Adopt prefabrication construction and building information management (BIM) to improve efficiency

Supporting factor

Public Construction
- Government investments, especially mega projects under Action Plan 2016 & 2017

Private Construction
- Crowding-in effects of public investments

Challenge
- Possible delays in projects, particularly due to political uncertainty

Transportation & Logistics

Progress in infrastructure development will boost demand and investment opportunities

Strategy: Focus on data analytics & digital technology (e.g. IoT, AI, RFID) and hyper-connection with regional logistic networks

Supporting factor
- Thailand's participation in the regional transportation network
- Infrastructure projects by the Thai government
- Rising passenger volume supported by a growing urban population and thriving tourism sector

Challenge
- Relatively weak position in freight transportation compared to other countries in the region

Real Estate

Prospects for some segments amid the gradually improving housing market

Strategy: Focus on agile real estate to deliver highly-effective workplaces for flexible use

Supporting factor

Housing
- Gradually restore consumer confidence and spending power
- Progress in infrastructure projects
- Economic connectivity raising foreign demand

Office Buildings
- Rising demand from local SMEs and startups
- Competitive rents in Asia Pacific region
- Supportive government policy (e.g. for ROH)

Industrial Estate
- Government measures to attract private investment

Challenge
- Persistent housing oversupply
- Mixed impact from Land & Building Tax (effective 2019)

Source: Krungsri Research

Industry transformation in focus

Modern Trade & Telecommunications

Driven by recovering domestic demand and technological advancements

Strategy: Develop omni-channel platform linked with 5G technology and build partnerships with other businesses (logistics, online market place) to serve changing consumer lifestyle

Supporting factor

Modern Trade
- Government economic policies, rising purchasing power and urbanization rate
- Growing tourist arrivals

Telecommunications
- Digital Economy initiatives by the government
- Technological advances and changing consumer lifestyle

Challenge

Modern Trade
- Intense competition
- Expansion of online shopping

Telecommunications
- Substantial investment in network infrastructure, as well as, exorbitant license fees (in the initial phase)

Hotel & Healthcare

Continue to grow driven by both internal and external demand

Strategy: Develop connected networking platforms using digital technology (Robotics, IoT, AI, Bigdata) and build partnerships with other businesses (real estate, IT, services, insurance)

Supporting factor

Hotel
- One of the most popular tourist destinations that is perceived to offer good value for money
- Rising number of routes and flights
- Marketing efforts by TAT

Hospital
- A leading medical tourism destination in Southeast Asia
- Ageing society, rising urbanization, rising health awareness

Challenge

Hotel
- Rise of substitute products (including Airbnb) and oversupply in certain locations

Hospital
- High competition, shortage of medical personnel, and rising costs of medical devices and technology

Source: Krungsri Research

Industry transformation in focus

Hi-tech

Waiting for a revolution to connect the 'new world' to ensure sustainable growth

Strategy: Adopt electrification and autonomous technology with connectivity platform to serve personal activities

Supporting factor

<u>**Electronics & Electrical Appliances**</u>
- A key production base for several E&E product items
- Government-targeted industry
- IoT will support demand for electronic parts

<u>**Automobile**</u>
- A leading producer and exporter of automobiles
- Government supporting R&D of electric vehicles
- Rising demand for internal combustion engine (ICE)

<u>**Machinery**</u>
- Increasing adoption of automation and robotics
- Attractive foreign investment policy

Challenge
- Limited R&D investments
- Some electronic products will see slow future growth
- Thai machinery industry largely rely on basic technology

Fashion

Focus on innovation, design and branding

Strategy: Apply digital transformation and data analytics to create branding and customize consumer experience with higher culture value

Supporting
- Stronger prospects for manufacturers of technical textiles
- Recovery in exports of fashion products along with improving global trade

Challenge
- Constraints on raw materials, high wages, and high transportation costs
- Intense competition in the global market
- Thailand textile and garment exports currently account for only 1-2% of global exports

Source: Krungsri Research

KRUNGSRI RESEARCH

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