Strategy

Risk-On Equities, Risk-Off Duration

Highlights

- The US Treasury has doubled its long-end buyback operations, but the structural forces keeping yields high remain unchanged.
- Higher US yields are risk-on for Thai equities and risk-off for Thai duration, not a broad risk-off event. We expect episodic volatility in Thai equities from foreign positioning and rate differentials, but our earnings and fundamental view stay unchanged. Our SET target is 1,818, implying roughly 12% upside, as the case for Thai equities strengthens relative to Thai fixed income.
- We favour stock selection over market beta, and prefer telecoms, healthcare and energy: ADVANC, TRUE, BDMS, BH, PTT and PTTEP.

What's New

- **The US Treasury has stepped in to support long-end bonds, but the real driver of high yields is still there.** The 10-year Treasury yield has climbed from about 4.2% at the start of the year to 4.79%, and the 30-year yield now sits at 5.25%, raising borrowing costs for the government and private sector alike. On 19 August, the Treasury said it would at least double its long-end buybacks, from US$2b to at least US$4b each, across the 10- to 20-year and 20- to 30-year sectors, and raise these operations from two to four per quarter through the 4 November refunding. The programme targets market liquidity, not lower yields.
- **Buybacks can cap spikes, but they cannot push yields structurally lower, because the total size of the programme has not grown.** The quarterly liquidity-support allocation stays unchanged at US$38b, plus a separate US$25b for cash management. The Treasury is shifting existing capacity toward the long end, not adding new buying power, and unlike the Fed it creates no reserves: Every retired bond is refinanced elsewhere on the curve. The 10-year yield closed 5.7bp lower at 4.647% and the 30-year yield fell 9bp to 5.196% on announcement day, but both have since round-tripped above pre-announcement levels. Buybacks are liquidity support, not a structural fix.
- **What is really keeping yields high is a term premium driven by fiscal and global forces, and no buyback can fix that.** Inflation is well below its 2021 peak but still runs near 3.5% against a 2% target. After an August payroll print of +162,000 versus a +56,000 consensus, Interest-rate futures imply a roughly 52% probability that the Fed will raise rates by 25bp this month. The term premium sits near post-2011 highs, driven by rising public debt, persistent deficits and heavy duration supply, with higher Japanese Government Bond (JGB) yields and softer foreign demand adding pressure. Buybacks should contain volatility, but a lasting drop in the 10-year yield needs weaker growth and inflation, lower issuance, or real improvement in US fiscal dynamics.
- **The pressure on yields is structural, not cyclical.** Four forces are at work: a) a widening fiscal deficit and high public debt-to-GDP ratio; b) a buyers' strike in the long end since late-June, worsened by heavy corporate bond issuance competing for the same duration budget; c) a weaker dollar reducing the incentive for unhedged foreign holders; and d) external spillover, mainly rising JGB yields under a tightening Bank of Japan, making Japan's own bonds more attractive to its institutional buyers. Our internal work shows the US term premium has tracked the debt-to-GDP ratio and current account deficit closely over the past five years, at correlations of 97% and 80%.

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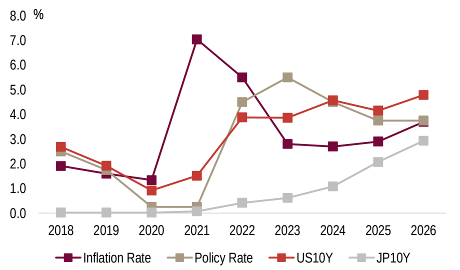
Key Recommendations

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
Advanced Info Service	ADVANC TB	BUY	357.00	415.00
Bangkok Dusit Medical Services	BDMS TB	BUY	20.40	27.00
Bumrungrad Hospital	BH TB	BUY	193.50	236.00
PTT	PTT TB	BUY	41.50	45.00
PTT Exploration and Production	PTTEP TB	BUY	150.00	170.00
True Corporation	TRUE TB	BUY	13.10	15.70

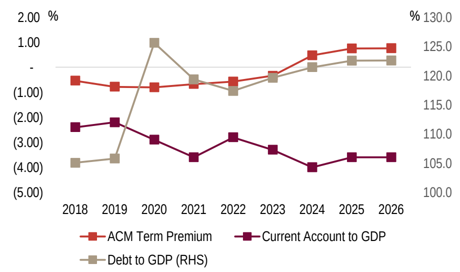
Source: Bloomberg

US Treasury Yields Remain High



Source: Bloomberg, Investing, Trading Economics, UOB Kay Hian

US Treasury Term Premium Has Continued to Increase



** ACM = Adrian, Crump, and Moench model*

Source: Bloomberg, Macro Trend, Trading Economics, New York Fed, UOB Kay Hian

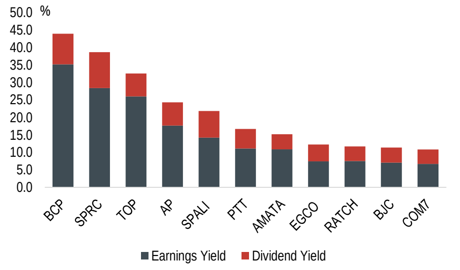
Analysis

- **This move is risk-on for equities and risk-off for duration,** not a systemic risk-off, and the distinction matters for positioning. A classic risk-off is driven by a growth scare: Yields fall, credit spreads widen, and cyclicals underperform defensives. That is not happening here: US payrolls are firm, credit issuance is heavy, and equity indices show no stress. What has been repriced is the price of time: The 10-year TIPS real yield is 2.42% and the 30-year is near 2.95%, a permanently higher risk-free rate without slower growth.
- **The practical result is a duration screen, not a beta screen.** When the real discount rate sits above 2.4%, valuations fall fastest for stocks with back-loaded cash flows and heavy leverage. Investors will pay for earnings due within 12 to 24 months and for cash returned today, but not for value far in the future. Applied to the SET, this reorders the market along a duration axis rather than the cyclical or defensive axis.
- **We expect episodic volatility in Thai equities from hereon, driven by the wide rate gap and heavy year-to-date foreign positioning, but this does not change our earnings or fundamental view.** A US-Thai 10-year spread of roughly 245bp, plus a real-rate gap near 400bp once Thailand's negative real policy rate is included, makes dollar assets more attractive on relative return. That matters more than usual because positioning is no longer light: The SET closed at 1,618.82 on 7 September, up around 30% ytd on close to Bt70b of net foreign buying after three straight years of outflows. Thailand is now a consensus long, and a crowded position meeting a widening carry gap is a recipe for drawdowns that hit the whole index, regardless of sector. This is not an earnings problem: Funding costs stay anchored by a BOT on hold at 1.00%, and EPS is on track to top Bt100 for the first time in years. We would treat this weakness as a chance to reposition, not a reason to cut exposure.

Investment Strategy

- **The regime favours Thai equities but poses a risk to Thai fixed income, and that asymmetry is the core of our index call.** A US-Thai 10-year spread of roughly 245bp leaves the Thai bond market exposed: If global yields stay high, domestic yields face upward drag and bondholders carry mark-to-market risk, with a 10-year yield at just 2.34%. Equities do not face this problem, since Thai corporate funding costs are set by a BOT on hold at 1.00%, not the global curve. We expect a rotation out of domestic fixed income into equities, a flow that partly offsets the foreign carry risk noted earlier and should support a valuation premium above the SET's 16x average. Our SET target is 1,818, based on EPS of Bt100 and an earnings yield gap of 2.5%, equal to 18.2x PE and implying roughly 12% upside from now.
- **Higher US yields are not, in our view, a reason to reduce exposure to Thai equities as a whole. They are a reason to shift from market beta to stock selection.** The index-level case for Thailand remains intact: Domestic funding costs are stable with the BOT on hold at 1.00%, the Thai 10-year yield is at 2.34%, and earnings are recovering. A 4.79% US 10-year yield does not change whether to own Thai equities, only what to own within it. We screen for five traits: a) earnings visibility, b) pricing power, c) clear free cash flow, d) reasonable leverage, and e) no reliance on valuation expansion for returns. The fifth is the binding one: When the global discount rate is high and unlikely to fall, multiple expansion is not available, so returns must come from earnings and cash paid to shareholders. Telecoms, healthcare and energy are simply where the SET offers all five together, and each sit on the right side of one of the three channels above: domestic funding for telecoms, forex for healthcare, and inflation for energy.
- **Telecoms delivers everything these rewards in one sector: Recurring revenue, post-peak capex, and a baht-funded balance sheet.** Revenue is

List of Attractive Yield and Earnings Outlooks



Note: As of 7 Sep 26
Source: Bloomberg, UOB Kay Hian

subscription-based and largely non-discretionary, competitive intensity has fallen since consolidation, and network investment is past its peak, feeding directly into better free cash flow. Because revenue and funding are mostly domestic, the sector is far less sensitive to global yields than the SET as a whole. We hold ADVANC as the core defensive position, on earnings visibility, balance sheet quality and a fully covered dividend. TRUE is a growth pick, not a defensive one: The case rests on merger synergies, ARPU repair and deleveraging.

- **Healthcare earns in cash today, prices ahead of inflation, and gets paid partly in foreign currencies when the baht weakens: A rare combination of defensive earnings and a natural forex hedge.** Demand is non-discretionary and does not track the domestic cycle. Medical cost inflation passes through to pricing with a short lag, and the sector carries low gearing and modest capex, so a higher discount rate does little damage at the operating level. We hold BDMS as the core position, on the breadth of its patient base and network diversification. BH offers higher upside and more operating leverage to a medical tourism recovery, but with higher concentration risk given its international patient mix. Its Middle East exposure means Hormuz-related disruption is a genuine two-way risk.
- **Energy is the only sector in our basket that works as both a yield play and an inflation hedge. That is why we assign the sector a tactical OVERWEIGHT, even though it is the least defensive sector by conventional measures.** The yield case stands on its own: PTT trades at 9.6x 2026F PE with a 6.0% dividend yield, above the SET average and the 5.25% from a 30-year Treasury, funded by cash flow, not leverage. The hedge case makes this position strategic, not just opportunistic: If energy-led inflation is part of what is keeping US yields high, energy profits from the same shock hurt valuations elsewhere, a genuine negative correlation to our main risk, not just a low-beta holding. Brent has recovered to around US$97/bbl on renewed Middle East supply risk, from near US$83/bbl in mid-July.

  We prefer PTT for the yield and defensiveness of its integrated structure, and PTTEP for the purer inflation beta: PTT's downstream and gas businesses cushion earnings if crude falls, while PTTEP gives the direct upstream leverage the hedge needs when it matters most. Together, the pair expresses the trade at both ends: A sharp drop in crude removes the upstream thesis, though the same drop would ease pressure on the rest of the book.

Peer Comparison

Company	Ticker	Rec	Price 7 Sep 26 (Bt)	Target Price (Bt)	Upside To TP (%)	Last Year End	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)	Market Cap. (S$m)	Price/ NAV ps (x)
Advanced Info Service	ADVANC TB	BUY	357.00	415.00	16.25	12/25	22.2	20.1	19.0	4.0	63.9	31,790	18.3
Bangkok Dusit Medical Services	BDMS TB	BUY	20.40	27.00	32.35	12/25	20.5	19.8	18.4	3.8	14.5	9,706	2.9
Bumrungrad Hospital	BH TB	BUY	193.50	236.00	21.96	12/25	22.3	22.0	20.4	2.5	24.9	4,606	5.2
PTT	PTT TB	BUY	41.50	45.00	8.43	12/25	13.1	9.6	11.1	6.0	10.2	35,490	1.0
PTT Exploration and Production	PTTEP TB	BUY	150.00	170.00	13.33	12/25	9.9	7.5	7.8	6.7	14.0	17,829	1.0
True Corporation	TRUE TB	BUY	13.10	15.70	19.85	12/25	38.0	34.6	27.7	1.7	14.1	13,552	4.6

Source: Bloomberg, UOB Kay Hian