



How management can foster resilience in a challenging economic environment

Date: 08 November 2023

Time: 10:00 a.m. - 11:00 a.m.

Here with you today

Today's webinar will be presented to you by **Matt, Stephan and Toungrat** from our **Deal Strategy & Value Creation** team.



**Matt
Crane**

Partner,
Deal Strategy & Value
Creation



**Stephan
Ulrich**

Manager,
Deal Strategy & Value
Creation



**Toungrat
Pichitdej**

Manager,
Deal Strategy & Value
Creation



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- 02** Impact of the global drivers on the Thai economy
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01

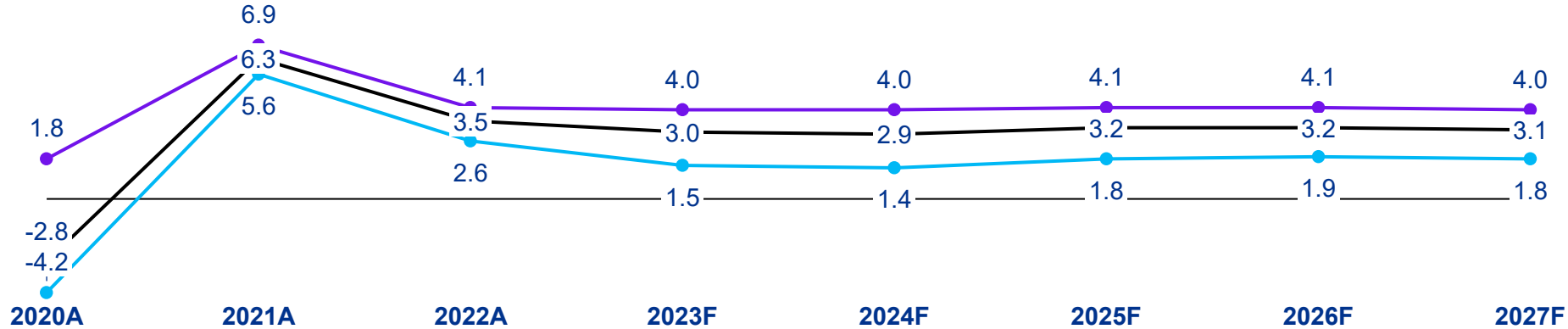
Global economic downturn and its main drivers



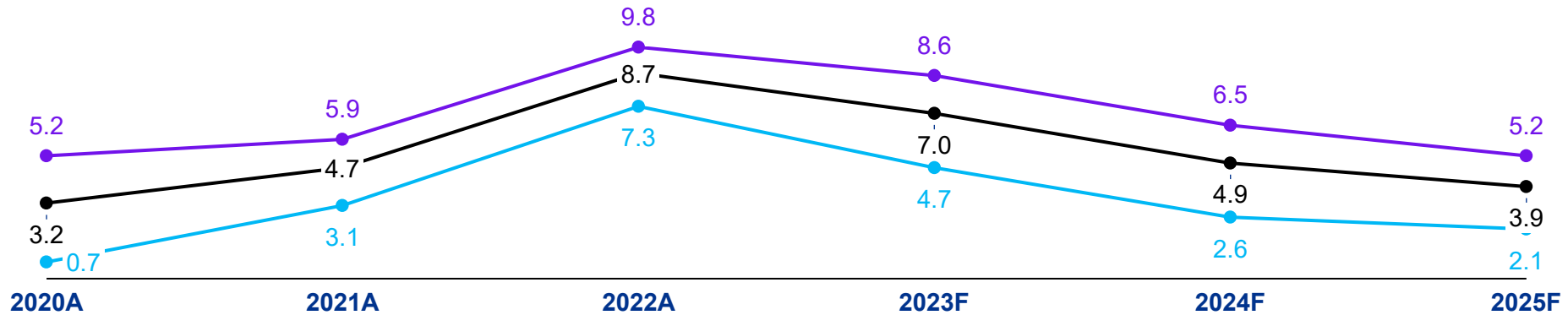
After a post-COVID peak, global economic growth and inflation are projected to slow down and to remain at low levels

—●— World —●— Advanced economies —●— Emerging market and developing economies

Global real GDP growth (%)



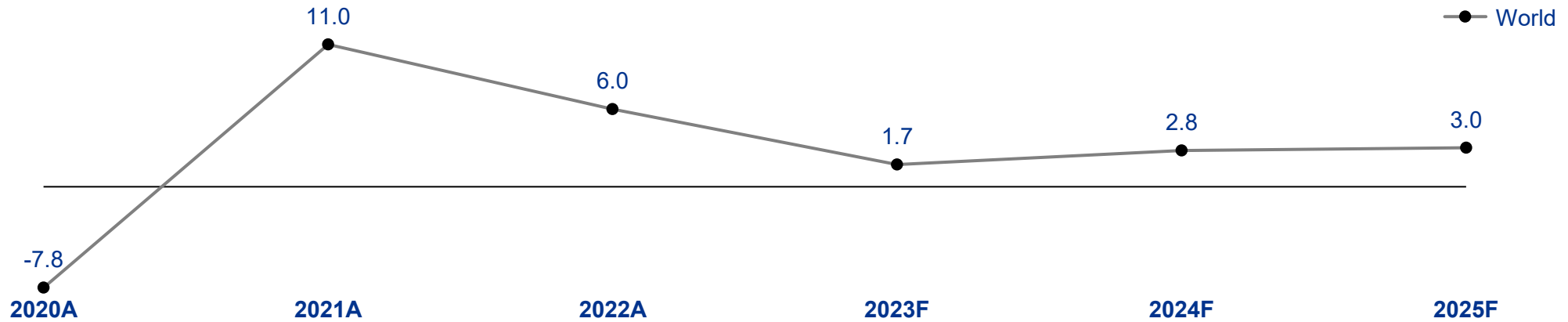
Global inflation rate (%)



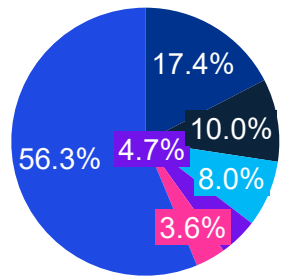
Source: World Bank, International Monetary Fund, and other publicly available information

Almost 50% of global trade volume is driven by only five economies, which therefore have a major impact on global dynamics

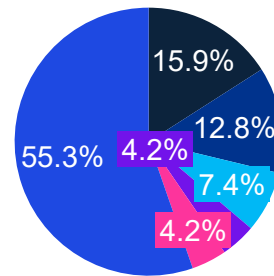
Global trade volume growth (%)



Global imports and exports



% of total global export value in 2022



% of total global import value in 2022



Source: World Bank, International Monetary Fund, and other publicly available information

There are four key drivers of the global economic downturn

1



Tightening global financial conditions

2



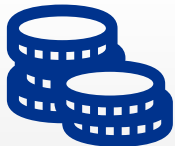
Geopolitical uncertainties

3



Economic leaders facing major disruption

4



Conservative investment outlook

Tightening global financial conditions



1. Tightening global financial conditions

A tightened global financial situation can **raise the risk of a financial crisis** via higher borrowing costs, reduced credit access, and eroding investor and consumer confidence



Example: Policy interest rates hikes

- Global financial market becoming more **sensitive to borrowing costs**
- Ongoing hikes, primarily in advanced economies, caused many global banks to incur unrealized losses, putting **pressure on their lending capacity**
- Spillover effects of **financial stress to EMDEs¹** such as:
 - **Currency depreciation**
 - Wider **sovereign spreads**
 - Increased risk of **debt distress** due to rising debt servicing costs

Note: (1) Emerging markets and developing economies

Source: World Bank, other publicly available information and KPMG analysis

Geopolitical uncertainties



2. Geopolitical uncertainties

Projected intensification and escalation of **geopolitical events in multiple regions** are anticipated to persist and to continue to create an **economic ripple effect on other countries**



Example: Russia-Ukraine conflict

Effects on **energy prices**, disrupting **trade and supply chain**



Rising **global inflation** pressure



Rising **financial market** volatility



Eroding **business & consumer confidence**



Example: Israel-Hamas conflict

Middle East accounts for a **third of global energy supply**, potentially disrupting **trade and supply chain**



Rising **oil prices**



High **inflation on imported oil**



Prolonged **interest rate hikes**, tightening financial market



Example: Taiwan-China tensions

Disruptions on **global trade and manufacturing**, increasing risk of **global economic recession**



Semiconductor trade disruption with Taiwan



Declining trade with China as availability of **Chinese trade financing** decreases



Disruptions of **Chinese outbound investment & lending activities**

Source: Publicly available information and KPMG analysis

Economic leaders facing major disruption



3. Economic leaders facing major disruption

Economic leaders (e.g. USA and China) when facing major disruption exert a major **ripple effect** on the global economy in their counterpart roles to other countries' economies:



Major **trading partners**



Major suppliers of **raw material and business services** in the global supply chain



Major consumers of **commodities**



Major source of **financial contagion and financial support**



Example: China future outlook

- China's future growth is expected to be slower or negative due to the **unresolved real estate problem** that led to mounting debt, **deflation**, struggling **exports** and **high youth unemployment**
- These domestic issues impact global economics in the form of:
 - Weakening **foreign investment**
 - **Trade slump** especially from countries that have China as their main source of imports
 - **Currency depreciation**

Source: World Bank, Euromonitor, other publicly available information and KPMG analysis

Conservative investment outlook



4. Conservative investment outlook

Amidst future uncertainty stemming from many global economic risk forecasts, businesses and consumers adopting conservative **spending and investing strategies** are exacerbating an already deep cycle of global recession



Example: FDI Indicator

- Global **foreign direct investment** in 2022 **dropped by 24%** and is expected to **persist at low levels**
- Many projects, including M&A, are expected to remain on a **downward trajectory** in response to various economic risks that are unlikely to be easily resolved



Example: CCI Indicator

- **Consumer confidence index** is forecasted to be **relatively volatile and still below pre-pandemic levels** in response to various economic risks
- Furthermore, recession is projected in various countries' future outlook, resulting in many risk-averse individuals maintaining **high precautionary savings**

Source: World Bank, Euromonitor, other publicly available information

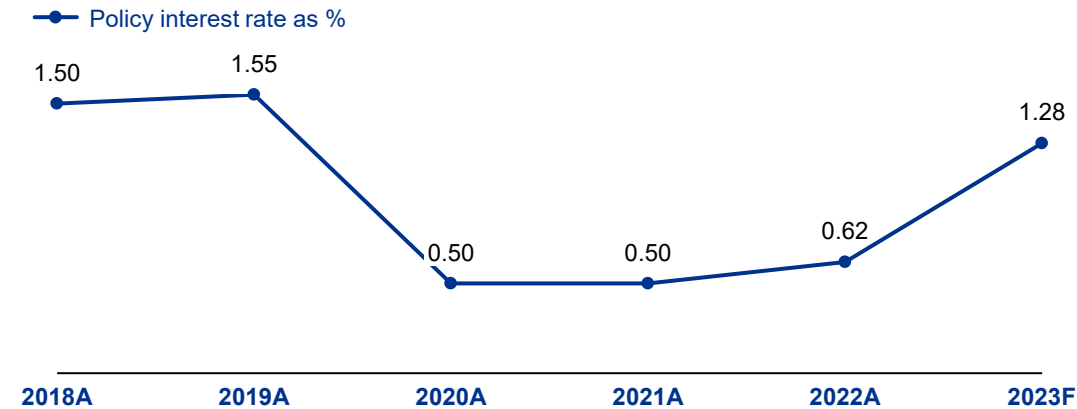
02

Impact of the global drivers on the Thai economy



Tightening global financial environment will increase pressure on Thailand's financial market and slow economic growth

Thailand's central bank has lifted its interest rate in line with global trend



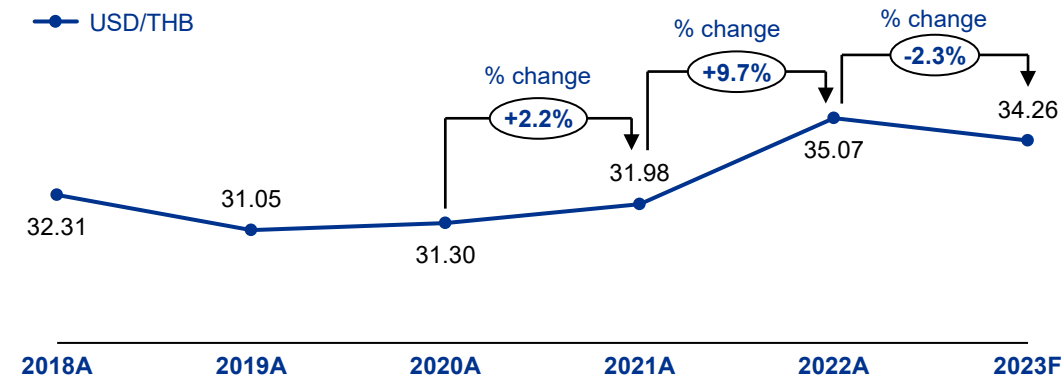
Rising interest rates



With regard to future inflation, it is expected that global central banks are likely to **hike their policy rates**, prompting a forecast for **Thailand to keep up with the global interest rate**. This puts pressure on Thailand's financial market with:

- Stricter **credit standards**
- Raised risk of **debt distress** from **higher borrowing costs**
- Slowdown in **household consumption and business investment**

FX Baht per US dollar is fluctuating following volatile US outlook



Volatile currency market



- Thailand's currency is known to be strongly influenced by **various global financial policies** such as US monetary policy expectations
- Fluctuating US oil prices and interest rates will lead to **frequent USD/THB exchange rate changes**, impacting Thailand as follows:
 - Raises uncertainty for **business & consumer spending**
 - Risk of **imported inflation** and rise in **cost of debt servicing**
 - Hinder Thailand's export-oriented industries' **competitiveness and trade balance**

Source: CIMB Thai, International Monetary Fund, SCB EIC analysis data, other publicly available information and KPMG analysis

Geopolitical uncertainties have a negative impact on Thailand's growth prospects

USA economic outlook

Ongoing **tightened financial conditions** and **recession risk** in the US will continue to impact Thailand's economy as follows:

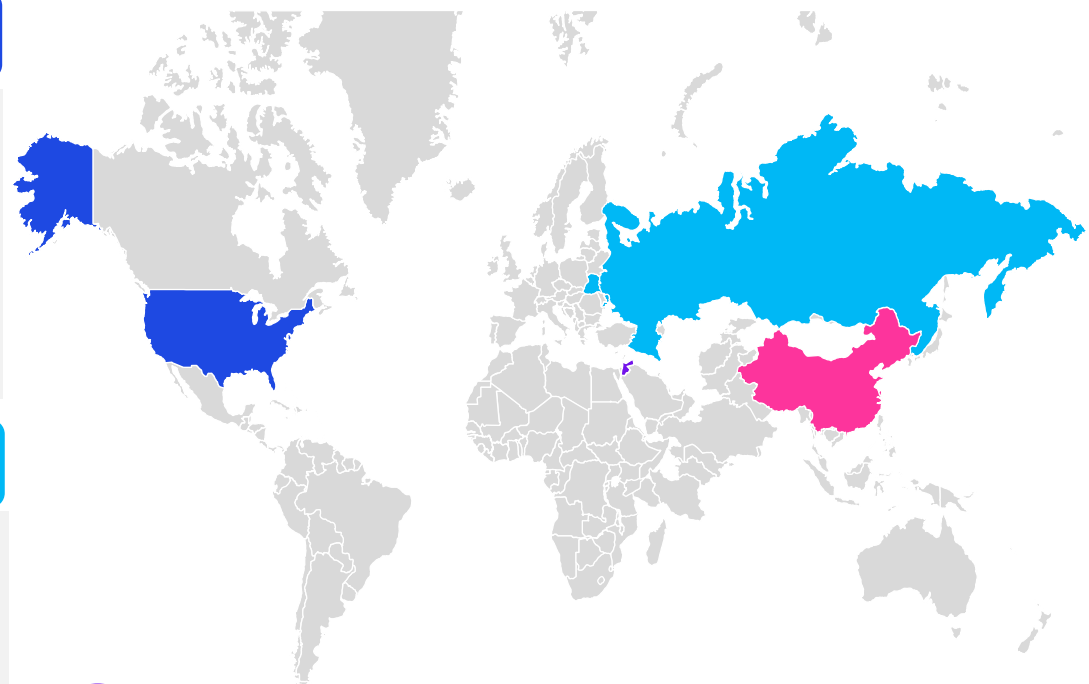
Thailand trade demand:
US, key trading partner of Thailand, posing risk to Thai exports

Russia-Ukraine economic outlook

Russia-Ukraine ongoing tension will continue to impact Thailand's exports, inflation and GDP growth as follows:

Thailand energy security:
Russia, global energy supplier, will affect Thai industrial sectors

Thailand commodities prices:
Ukraine, key commodities supplier, will erode Thai consumer spending power and business cost burden



Israel-Hamas conflict

Potential intensification of the tension will continue to impact Thailand's exports and inflation as follows:

Thailand energy security:
Middle East is one of Thailand's major sources of imported oil

Thailand commodities prices:
Rising oil prices will revive inflation pressure

Taiwan and China economic outlook

China's **real estate crisis** and **policy shift** will continue to impact Thailand's overall economy as follows:

Thailand investment & tourism:
Thailand, major tourist destination and FDI partner for China, is affected by the real estate crisis, as it reduces Chinese consumer spending and business prospects

Thailand export demand:
With China as Thailand's leading trading partner, its new policy reliance on domestic production will impact the demand for Thai exports

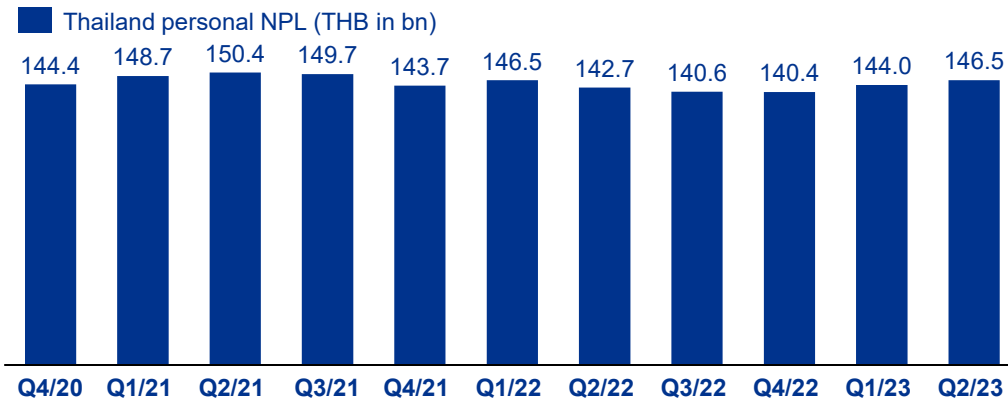
Taiwan-China geopolitical tensions will continue to disrupt the semiconductor supply chain, impacting Thailand as follows:

Risk of Thailand tech war:
Major semiconductor disruptions will continue to harm Thailand's manufacturing businesses (e.g. automotives, electronics)

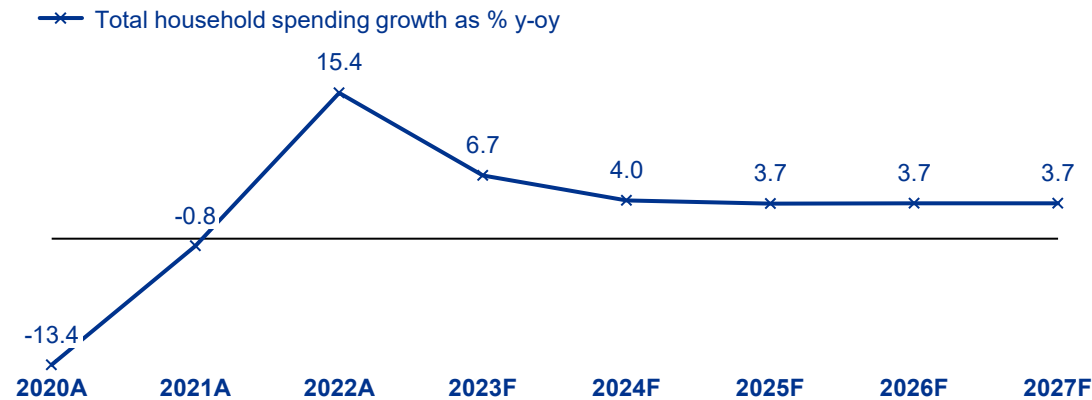
Source: BOT, Fitch Solution, Bloomberg, other publicly available information and KPMG analysis

Global conservative outlook is anticipated to impact Thailand's market, leading to reduced consumer spending and an increase of non-performing loans

NPL levels are expected to worsen from future economic uncertainties



Consumer spending is expected to be conservative with slowing growth



Source: BOT, Fitch Solutions, Thailand's Financial Access Survey of Thai Household, National Credit Bureau, other publicly available information and KPMG analysis

Global conservative outlook



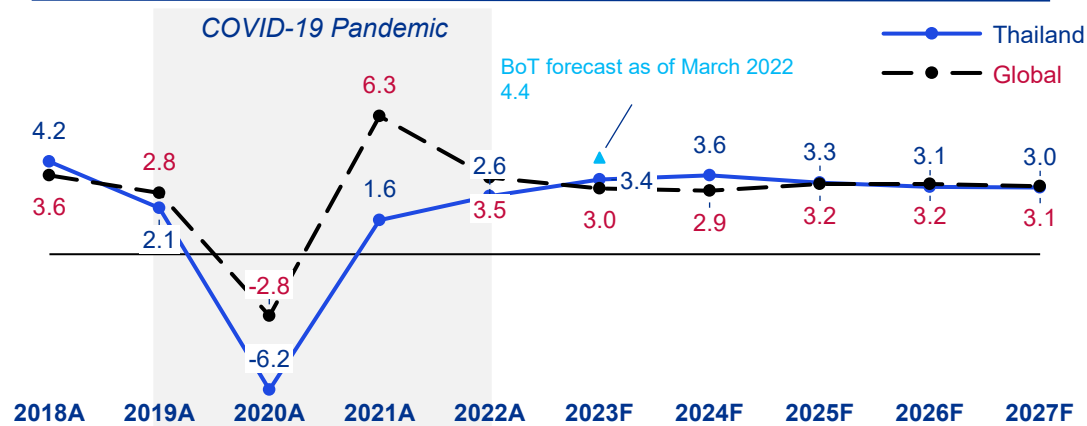
- Ongoing global conservative spending and investment are anticipated to persist, resulting in **weakened global demand** that remains below pre-pandemic levels
- This is forecast to reduce Thailand business activity, including export demand, tourism and investment, thereby slower-than-expected **economic growth trajectory and financial stability** that will further exacerbate the **growing existing debt burden in Thailand**



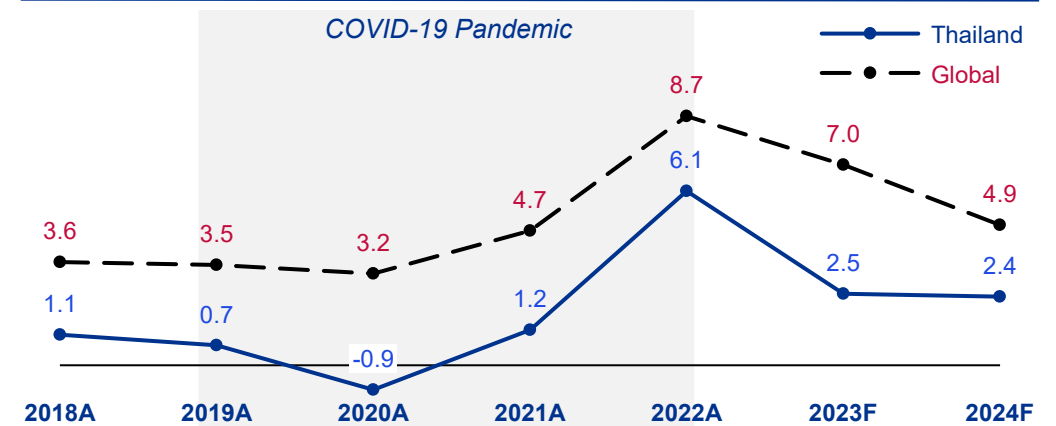
- Worsening of debt burden is anticipated to **exert further pressure on Thai business & consumer spending**, particularly low-income households, who are adopting more cautious spending habits
- **Residential and retail sectors** are expected to be most impacted as investment prospects and consumer confidence are subdued. Individuals are prioritizing **essential spending** and are less likely to initiate **big-ticket spending** such as on housing

Thailand's economy is forecasted to grow, but hurdles have reduced growth expectations to low levels

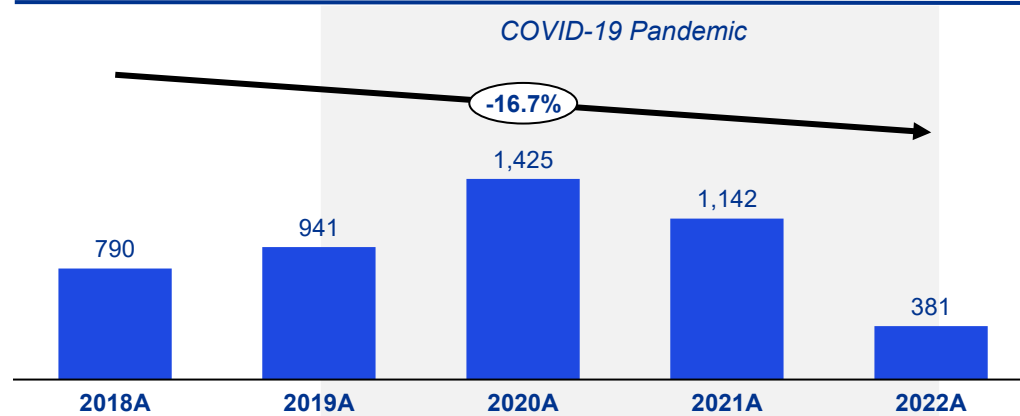
Thailand growth rate of real GDP (%)



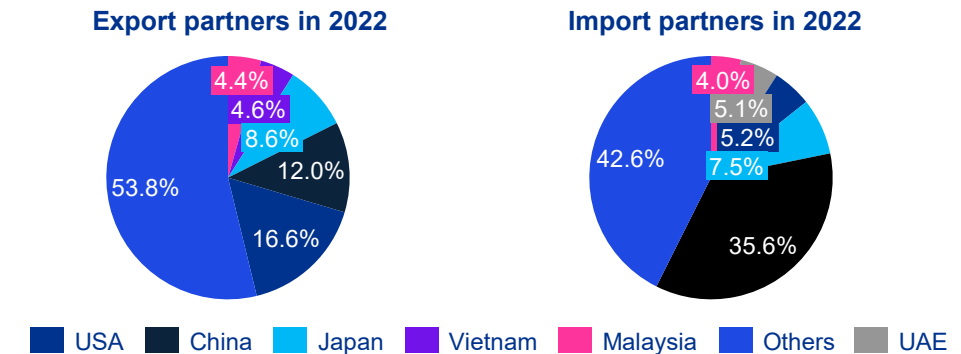
Thailand inflation rate (%)



Thailand net export value (THB bn)



Thailand's key trading partners (% of total value)



Source: World Bank, International Monetary Fund, other publicly available information

Although anticipated to face hurdles to economic growth, the Thai economy is expected to perform similar to or better than other economies



Despite anticipated hurdles to economic growth, the recovery of the Thai economy is expected to **align with or outpace large ASEAN economies**. By **2036**, Thailand is projected to join **Asia Pacific's trillion-dollar economies** such as China, following a 20-year plan emphasizing **innovation & value-based economic transformation**, with a particular focus on automation and robotics

+ Positive Drivers



- Negative Drivers



Source: Bank of Thailand, SP Global, other publicly available information and KPMG analysis

03

**How the KPMG
Financial
Performance Index
(FPI) can help
identify the most-
impacted sectors**

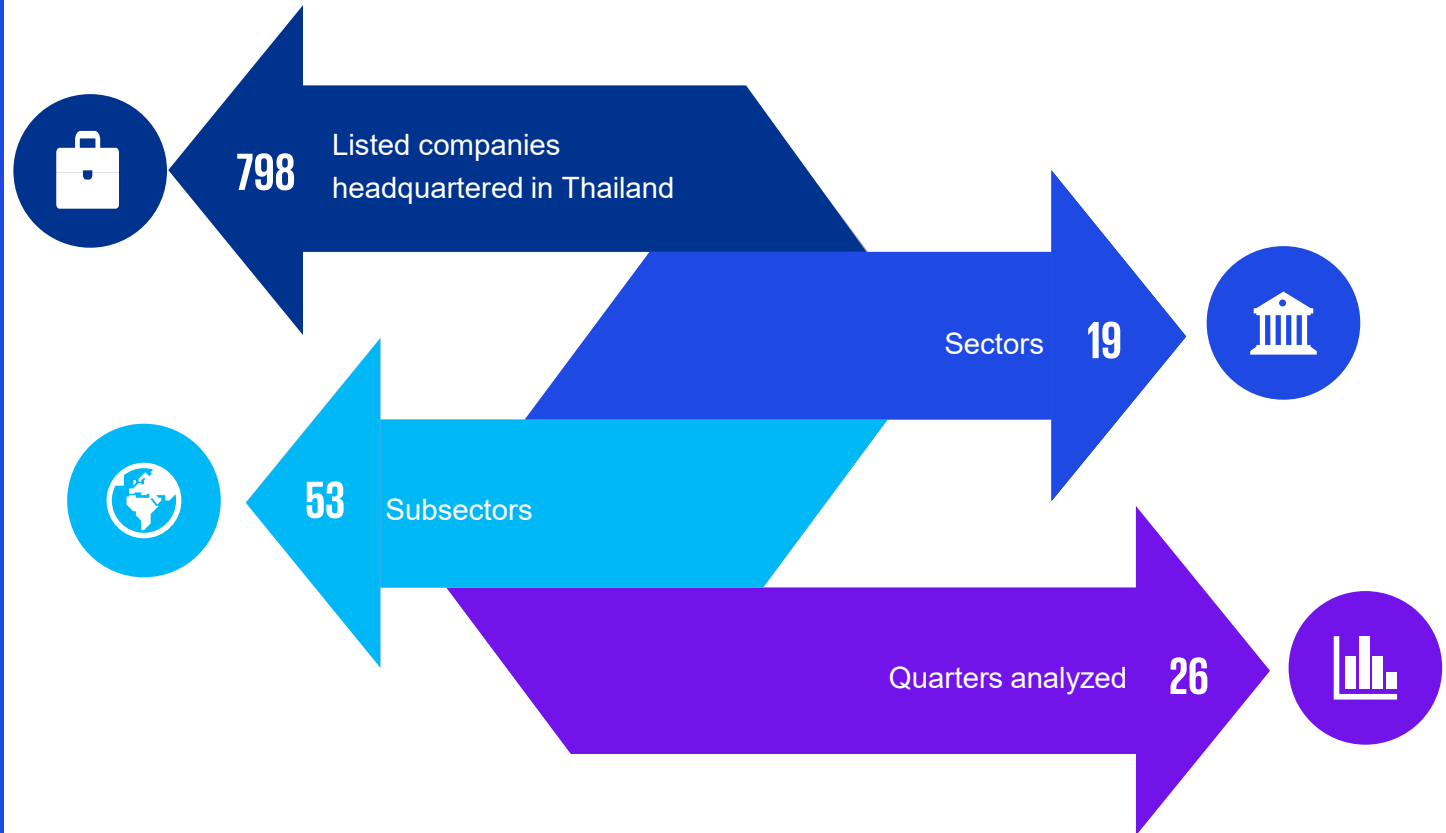


The FPI data offers a comprehensive view on the Thai economy

Financial Performance Index

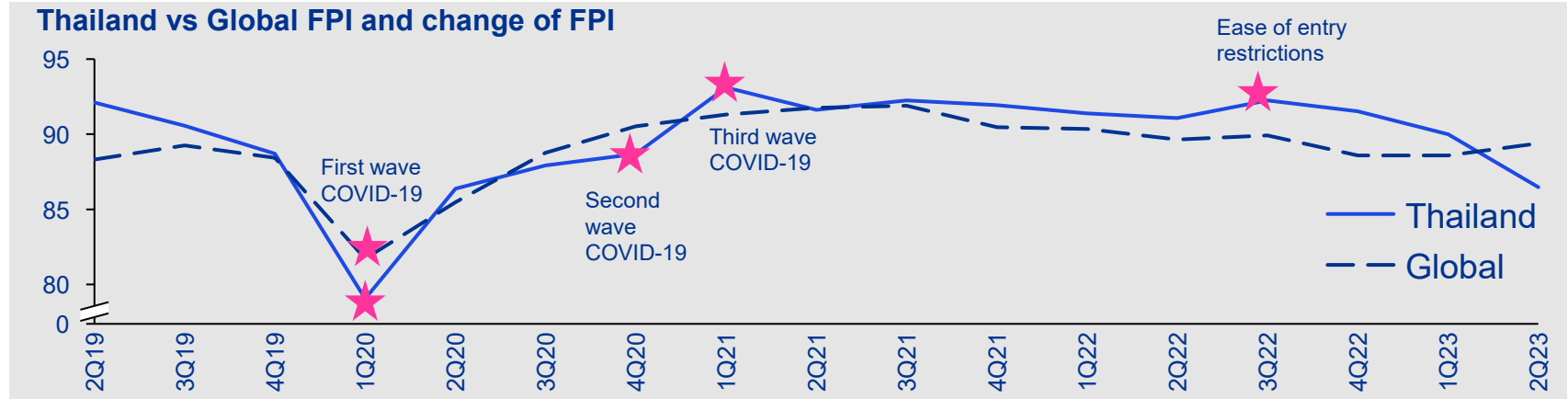


The FPI (Financial Performance Index) is a tool that can help build a comprehensive view of the Thai and global economies. It also helps identify new business opportunities by providing differentiated tools to see different business sectors' financial health

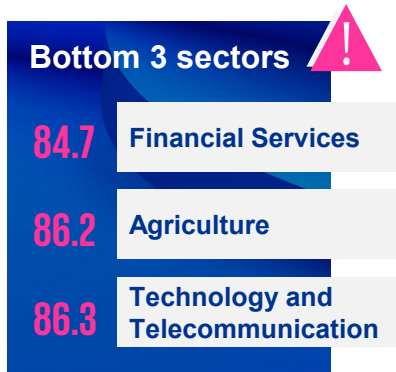


Source: KPMG FPI Q2 2023

Economic impacts can be observed in the FPI trend



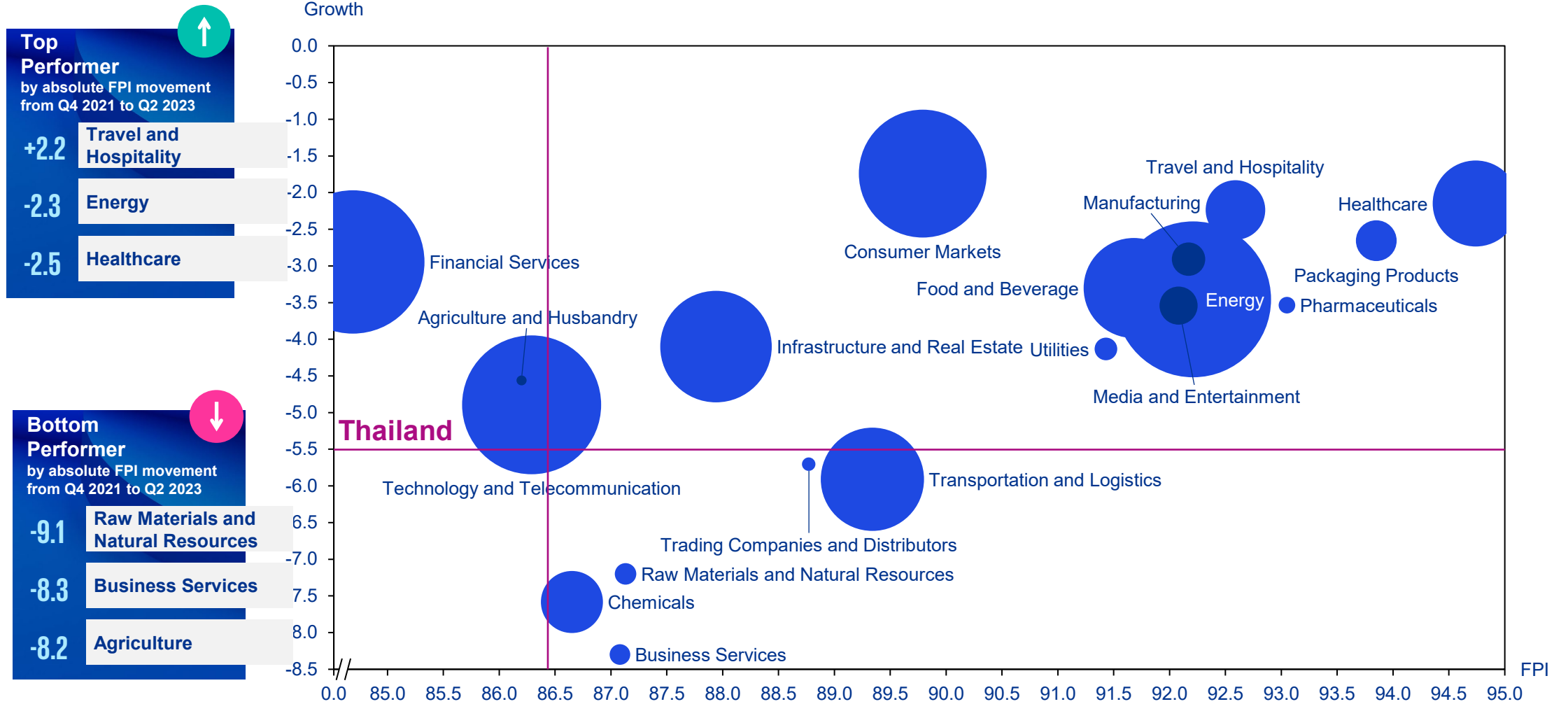
Impacts on the FPI development



- Thailand and global FPI trends over time highlight the **influence of the COVID-19 pandemic**, primarily stemming from the **first wave in Q1 2020**, driven by travel restrictions and uncertain economic outlook, both globally and in Thailand
- Thailand and global FPI **slowly recovered** after the **second and third COVID-19 waves**, with **Thailand's FPI** reaching a **peak** in **Q3 2022** from easing of border restrictions, outperforming the overall slowdown of economies globally
- Main drivers of the economic downturn include tightening of **financial markets**, flaring **geopolitical tension** (e.g. Russia and Ukraine), **negative outlook for major economic leaders** and conservative **investment and spending outlook**
- After the peak relating to the ease of entry restrictions, **Thailand's FPI** is following the global **declining trend**, **aligning** with the recent outlook from the **Bank of Thailand** that has gradually lowered growth expectations since 2022

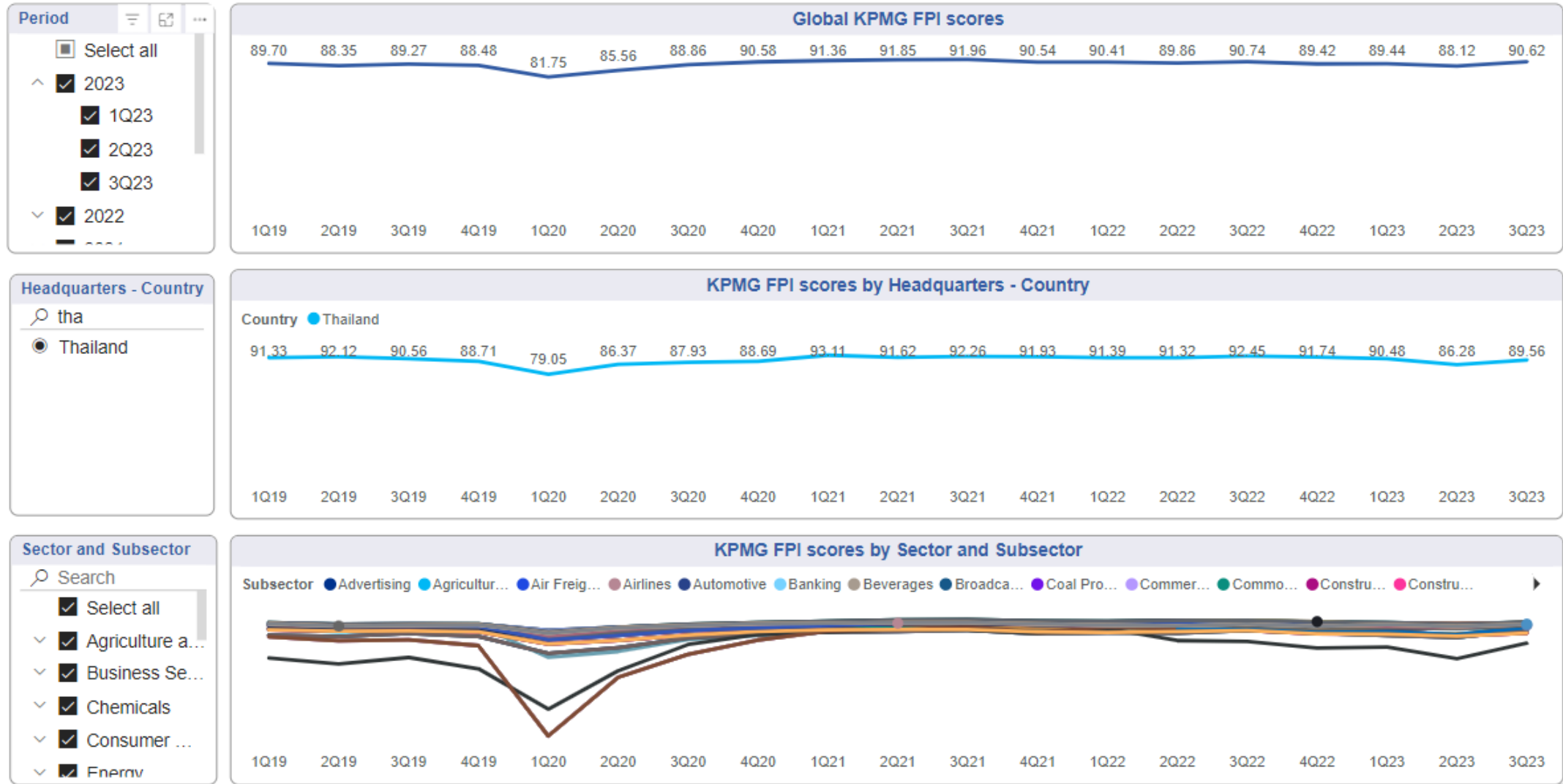
Source: KPMG FPI Q2 2023

A breakdown of individual industries can show more specific trends



Source: KPMG FPI Q2 2023

KPMG FPI demonstration: Click picture to access website



04

**Recommendations
to foster resilience**



Why is the short-term liquidity forecast important?

How much cash is currently available?

There are several sources of cash that impact the available liquidity to process ongoing operating payments.



In order to maintain daily operations, a company needs sufficient cash, e.g. to pay salaries, suppliers, interest payments, taxes. If these payments are stopped, suppliers might refrain from supplying new materials or employees might resign, with severe effect on daily operations.

How long does the available cash last?

Is the available cash sufficient to meet the necessary payments in the near future?

Are there mitigating actions or short-term opportunities to improve cash collection or reduce payments? Is working capital managed efficiently?

Deviations in actual liquidity development against the forecast can be an early indicator of upcoming challenges or changes in economic environment that should be considered by management.

Starting with the available liquidity, cash in- and outflows are forecasted to derive short-term liquidity levels



Time horizon

It is common practice to prepare a 13-week direct cash forecast, which covers a financial quarter.

Methodology

For a short-term liquidity forecast, usually a direct approach is applied rather than an indirect one.

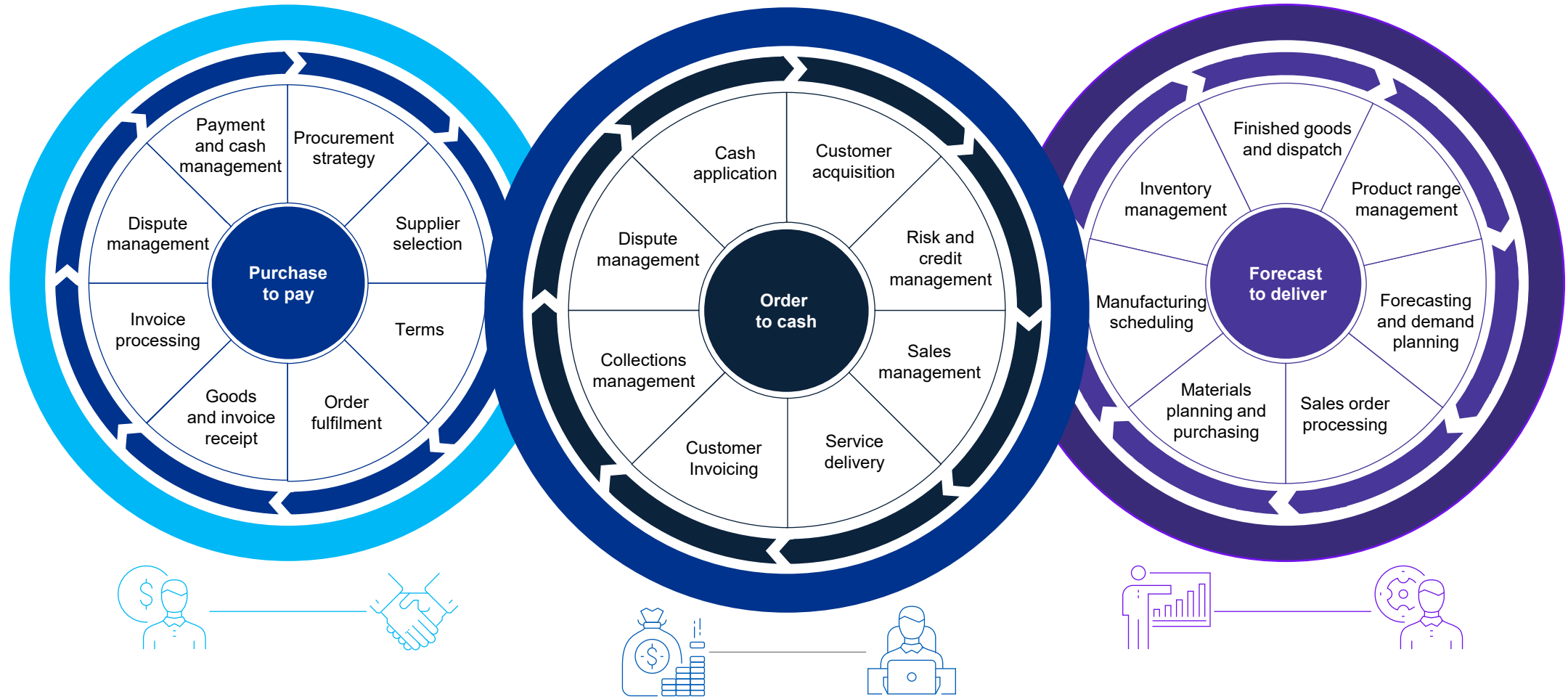
Accuracy

Over time, accuracy deteriorates, however the first 1-2 weeks should be rather on point.

Regular update and plan vs. actual analysis

A close monitoring of actual deviations and regular updates should be conducted

Three main cycles of working capital



Four tips for effective working capital management



Take a proactive approach to invoicing and collections

Make sure customers are invoiced in a timely manner and pay in line with contracted terms, with actions taken immediately where payments become overdue.



Examine forecasted inventory requirements

Critically assess forecasted stock requirements to identify any unnecessary buffer inventories, and highlight inefficiencies in SKU assortment to avoid cash tied up in slow-moving products.



Consider how frequently you make payments to suppliers

Instill fair and transparent payment processes with your suppliers so they know when they will be paid, whilst ensuring that the payments are paid only in accordance with the contract terms.



Leverage data and analytics tools to monitor working capital

Embed operational levels of reporting to ensure you have granular visibility of working capital at a customer, supplier or SKU level to support identification of issues and decision making.

A rapid business assessment can identify potential risks

An holistic analysis of a business, not only for the business itself but also for key customers and suppliers can help identify potential risks and initiate counter-measures in a timely manner.

Market & competition



- Market size
- Growth perspectives
- Influencing factors of market development
- Operating model and market position

Operations



- Utilization of production
- Complexity of processes
- Benchmarking of KPIs

Financials



- Historical development of assets, cash flows and profit
- Identification of key problem areas
- Development of available liquidity

Tax and legal



- Key agreements, e.g. long-term leases, bank agreements, business licenses
- Corporate structure

Key questions

- Loss of market share
- Continued decrease of demand
- New technologies
- Substitution products

- High management turnover
- Underutilization
- High complexity of production processes and inefficiencies

- Decreasing revenues
- Deterioration of margins
- Liquidity constraints
- Covenant breaches/ renegotiation of credit terms

- Banks taking legal actions
- Complex legal structure

Indicators

Key takeaways on fostering resilience

We would recommend...



Robust liquidity forecast

A company must have adequate cash to cover daily expenses. Interrupting these payments can impact daily operations. Forecasting short-term liquidity by assessing available cash and cash flow is crucial for business continuity.



Optimize working capital

Enhancing cash collection, cost reduction, and efficient daily operations can be achieved through working capital optimization. The three main cycles of working capital are purchase-to-pay, order-to-cash, and forecast-to-deliver.



Identify potential risk with rapid business assessment

A comprehensive business analysis involves covering the business nature, key customers and suppliers, which can help identify potential risks and implement timely countermeasures.

05

Q&A:

Time for your
questions



Your contacts

KPMG in Thailand: Bringing the Future into focus

Our turnaround professionals bring together a combination of cutting-edge strategic framework and real-world commercial practicality to help you tackle your business challenges and issues



Ian Thornhill

Partner
Head of Deal Advisory

T: +66 2677 2297
E: ithornhill@kpmg.co.th



Sukit Vongthavaravat

Partner
Head of Alliances

T: +66 2677 2350
E: sukkit@kpmg.co.th



Matt Crane

Partner
Deal Strategy & Value Creation

T: +66 2677 2154
E: mcrane1@kpmg.co.th



Stephan Ulrich

Manager
Turnaround & Restructuring

T: +66 2677 2748
E: sulrich1@kpmg.co.th



Jakkra Rattananukit

Manager
Turnaround & Restructuring

T: +66 2677 2730
E: jakkra@kpmg.co.th



Toungrat Pichitdej

Manager
Turnaround & Restructuring

T: +66 2677 2293
E: toungrat@kpmg.co.th

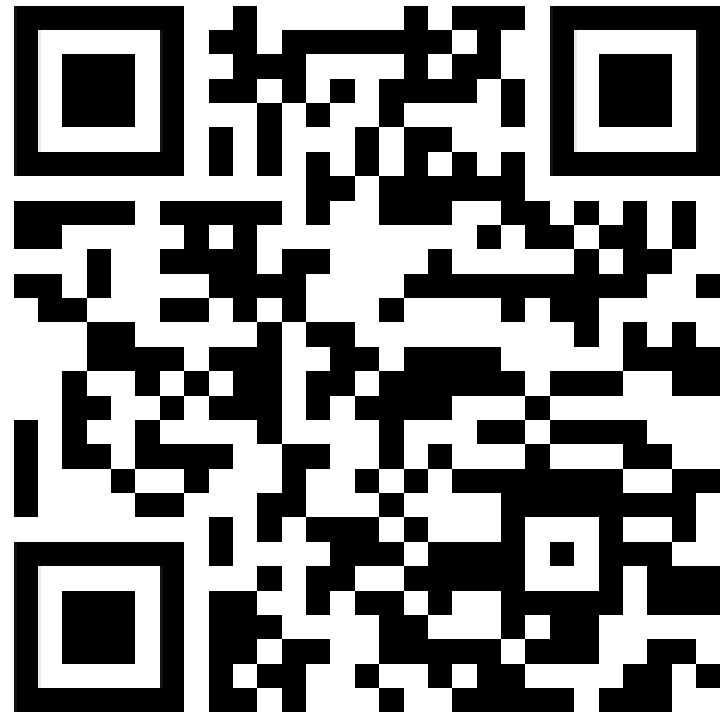


Vilawan Chumkaew

Manager
Value Creation

T: +66 2677 2785
E: vilawan@kpmg.co.th

Please provide us your feedback to improve our service.





KPMG in Thailand

48th-50th Floor, Empire Tower
1 South Sathorn Road
Bangkok 10120
T: +66 2677 2000



KPMG in Thailand



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