



Thai Market Compass

MARKET STRATEGY | Thailand

Notes from marketing trip

- We find Singapore-based investors are NEUTRAL to O/W on the SET while Hong Kong-based investors are mostly U/W held back by valuations and political risk.
- Common question is what could bring the market down. With foreign investors still out of the market, it will be the movement of domestic liquidity among various asset classes within the country; right now equity remains the most lucrative.
- The strategy we presented focuses on 1H15 as we expect government spending to step up to revive the weakening economy. A good no. of investors are skeptical, judgment based on lack of concrete achievements in the past 5-6 months despite strong commitment. Still, our identified winning sectors - bank, ICT, autoparts, renewable energy and contractors - received fair hearing as well as our Top BUYs: KBANK, ADVANC, SAT, STEC, SPCG. Where we hear some dissent is on our U/W view on energy & petrochems.

The liquidity puzzle

Most of the 40 foreign funds we met on our marketing trip last week are now more accepting that the SET's resilience stems from flush domestic liquidity that has nowhere to go. The market rally has no decisive fundamental support yet even as we see earnings revision turning mildly positive, but the equity market remains the most viable asset class in Thailand. Lack of investment alternatives will keep the SET invested. As we approach the YE, deployment of LTF & RMF as well as window dressing could push the SET higher. If interest rates stay low (or go lower) we will have the "yield chasers" coming to the market in 1Q15, we believe. Invested funds struggle between lofty valuations and anemic growth; some are starting to scour the unloved sectors.

Government spending a must and the only driver

Stimulus, by way of rolling out the infrastructure plans faster and implementation of new initiatives such as the push towards Digital Economy and SME Support Program is now a must, we think. Falling prices amid weakening demand is a dangerous combination. We remain convinced that the junta government is committed to political reform and reviving economic growth. Thus, we expect action in 2015 and recommend investors to pick companies that could benefit from government spending. Our Top BUYs are KBANK, ADVANC, SAT, STEC and SPCG.

Stock picks and valuation

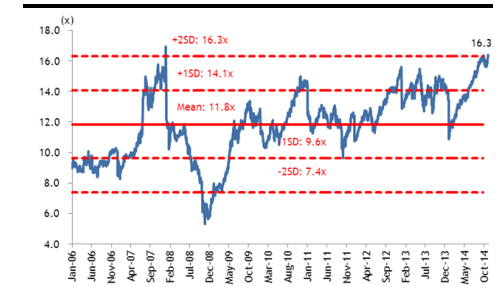
| Stock | Beta | Mkt cap (USDm) | Liquidity (USDm) | Price (local) | TP (local) | U/D Side (%) | NP Gr % | | | PER | | | P/B (x) | | | ROE | | | Div yield |
|-------------------------|------|----------------|------------------|---------------|------------|--------------|---------|--------|------|------|------|------|---------|------|-----|-----|-----|-----|-----------|
| | | | | | | | 14E | 15E | 14E | 15E | 14E | 15E | 14E | 15E | 14E | 15E | 14E | 15E | |
| Winning sectors | | | | | | | | | | | | | | | | | | | |
| Top Buy | | | | | | | | | | | | | | | | | | | |
| ADVANC | 1.1 | 21,391 | 38.2 | 233.0 | 320.0 | 37.3 | 1.4 | 17.4 | 18.8 | 16.0 | 14.3 | 13.2 | 75.9 | 82.0 | 5.2 | 6.1 | | | |
| KBANK | 1.1 | 17,367 | 31.9 | 235.0 | 265.0 | 12.8 | 13.9 | 8.0 | 11.9 | 11.1 | 2.2 | 1.9 | 19.4 | 18.8 | 1.7 | 1.8 | | | |
| SAT | 1.3 | 240 | 0.5 | 18.3 | 22.0 | 20.2 | (38.4) | 28.4 | 13.1 | 10.2 | 1.5 | 1.4 | 11.6 | 13.4 | 2.5 | 3.2 | | | |
| SPCG | 1.7 | 708 | 2.6 | 24.8 | 27.6 | 11.3 | 231.5 | 38.3 | 13.9 | 10.0 | 3.4 | 2.8 | 24.5 | 28.0 | 3.6 | 5.0 | | | |
| STEC | 1.7 | 1,224 | 10.3 | 26.0 | 31.0 | 19.2 | 4.4 | 2.8 | 26.3 | 25.7 | 4.7 | 4.2 | 19.0 | 17.9 | 1.5 | 1.6 | | | |
| Neutral sectors | | | | | | | | | | | | | | | | | | | |
| Top Picks | | | | | | | | | | | | | | | | | | | |
| BGH | 1.1 | 8,754 | 14.9 | 18.3 | 23.0 | 25.7 | 11.9 | 28.8 | 40.7 | 31.6 | 6.4 | 5.5 | 15.6 | 17.7 | 1.0 | 1.3 | | | |
| ERW | 1.4 | 343 | 1.7 | 4.5 | 6.0 | 33.9 | Loss | Profit | NM | 24.9 | 2.6 | 2.4 | (1.0) | 9.5 | 0.0 | 0.0 | | | |
| KCE | 0.9 | 715 | 2.2 | 41.0 | 49.5 | 20.7 | 54.0 | 10.2 | 12.7 | 11.5 | 4.3 | 3.4 | 33.6 | 29.9 | 2.8 | 3.1 | | | |
| LPN | 1.3 | 1,098 | 4.0 | 24.1 | 27.0 | 12.0 | 0.2 | 39.9 | 15.3 | 10.9 | 3.4 | 2.8 | 21.6 | 27.9 | 3.3 | 4.6 | | | |
| WHA | 1.7 | 1,064 | 3.2 | 35.8 | 47.0 | 31.5 | (10.9) | 24.6 | 26.5 | 21.3 | 7.2 | 5.9 | 27.2 | 28.1 | 1.9 | 2.5 | | | |
| Laggards sectors | | | | | | | | | | | | | | | | | | | |
| Top Sell | | | | | | | | | | | | | | | | | | | |
| PTTGC | 0.8 | 8,632 | 20.4 | 62.0 | 64.0 | 3.2 | (14.4) | 13.7 | 9.8 | 8.6 | 1.1 | 1.0 | 11.4 | 12.0 | 4.6 | 5.2 | | | |
| TOP | 0.8 | 2,851 | 5.4 | 45.3 | 50.0 | 10.5 | (60.9) | 101.8 | 22.7 | 11.3 | 1.0 | 1.0 | 4.5 | 8.6 | 2.9 | 4.4 | | | |

Source: Bloomberg, MKE-JSR calculations

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SET performs in 2014



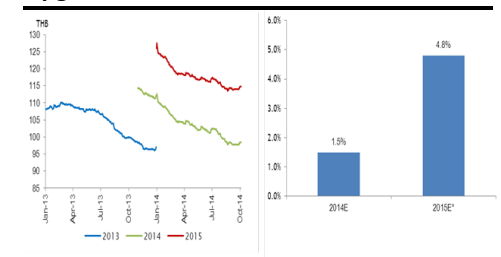
Date closing 7 Nov: SET = 1578.37 Source: Bloomberg

2015 multiples not as stretchy...

| | EPS 14 (LC) | %Chg YoY | EPS 15 (LC) | %Chg YoY | 15PE (x) | 15PB (x) | 15Div Yield |
|--------------|-------------|----------|-------------|----------|----------|----------|-------------|
| Thailand | 110 | 2% | 119 | 9% | 13.3 | 2.2 | 3.6% |
| Thailand MKE | 107 | 1% | 118 | 10% | 13.3 | 2.2 | 3.6% |
| Indonesia | 306 | 42% | 359 | 17% | 13.9 | 2.5 | 2.2% |
| MSCI x JP | 45 | 0% | 50 | 12% | 11.3 | 1.3 | 2.9% |
| Malaysia | 109 | 4% | 119 | 10% | 15.3 | 2.0 | 3.4% |
| Philippines | 355 | 4% | 410 | 16% | 17.6 | 2.6 | 2.1% |
| Singapore | 230 | 0% | 249 | 8% | 13.2 | 1.2 | 3.5% |

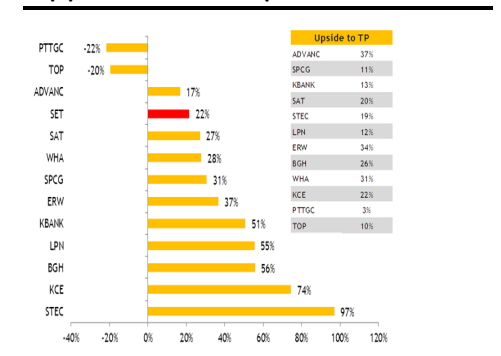
Date closing 7 Nov: SET = 1578.37 Source: Bloomberg

...as earnings revisions for 2015 tilts to upgrades



Source: Bloomberg

Top picks and their YTD performance



Feedback from the marketing trip

Little interest on the underpinnings of the weak economy

The story is probably well told. Some investors ask about the household debt not because it rose to 83.5% of GDP in 2Q14 from 82.8% in 1Q14 but more to see whether growth in auto loans have started to moderate. Auto loans ballooned due to the First Car Policy that was rolled out in the late 2011- after the major flooding of Central Thailand - and lasted until 2013.

Components of household debt: % change YoY

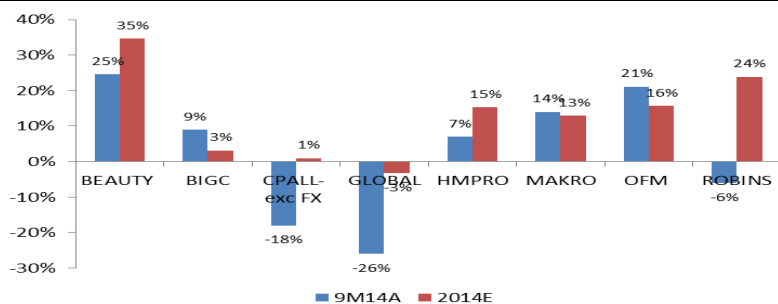


Source: BOT and NESDB

The surprising trend is that auto loans have been contracting for two quarters now. This encourages us to think the woes besetting the auto sector will be fading soon. Autoparts maker, SAT, one of our top buys is chosen as a potential indirect beneficiary of the government’s policy to enhance the efficiency of the farming sector. Normalization and then recovery of the passenger car and commercial vehicle market will not hurt its outlook.

What drove the household debt higher is the continued high growth in property/housing loans and credit card & other loans. Rising credit card loans amid slow consumption is more concerning, in our view, as it could be a reflection of increasing number of households living paycheck to paycheck. Our neutral stance on the commerce sector is widely endorsed but maybe that view is optimistic. We highlighted to investors how the sector lagged market’s growth expectations.

Commerce sector’s performance lagged full-year growth expectations

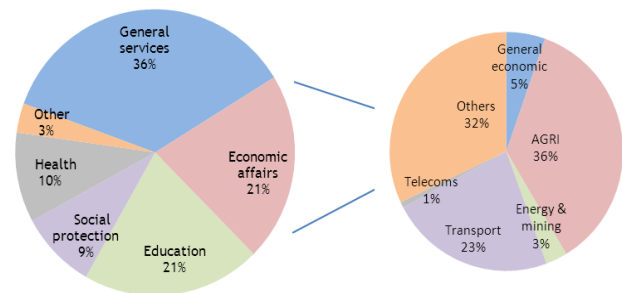


Sources: SET, MKE-ISR calculations

Many asked why implementation of initiatives is so slow?

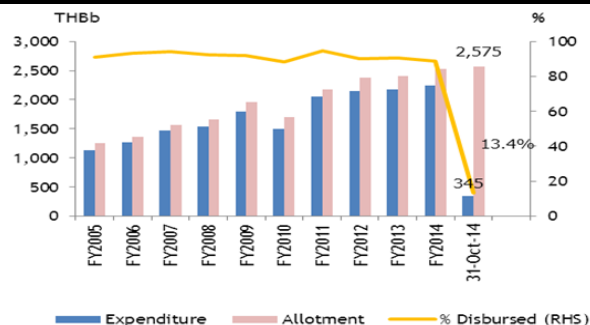
In the early days post-coup there was a sense of strong commitment to address the slowing economy dragged by the prolonged political conflict and paralyzed government. However, six months have passed and there is nothing visible yet, be it in deploying a higher proportion of the fiscal budget to stimulus measures to infrastructure bidding.

Government budget FY14/15 - 30% to be disbursed in 1Q



Source: Budget Bureau

... 13% has been disbursed as at the end of Oct



Source: Budget Bureau

We explained that the situation has more to do with the value platform that the junta government has embraced - No Corruption, High Transparency. This platform requires change of leadership in several government agencies and state enterprises. This takes time but we believe that new government machinery is nearly in place so we are expecting faster pace of implementation.

Programs announced in the early post-coup days

| THB bn | Gross Amount | Ex-fixed cost |
|--|--------------|---------------|
| Short term stimulus from carry over budgets and farm support | 365 | 365 |
| Infrastructure | | |
| Carry over from 4Q14 | 60 | 9 |
| Listed for 1H15 | 525 | 79 |
| Government budget - 30% disbursement 1Q FY14/15 | 771 | 193 |
| Total | 1,720 | 645 |
| As % of nominal GDP | 13.9% | 5.2% |

Source: Compiled from press, MKE-ISR estimates

Infrastructure projects listed for bidding in 1H15

| Projects Carried Over from 4Q14 | Description | Value (THBm) | Status |
|---|---|----------------|---------------------------------------|
| Double Track : Klong 19-Khaeng Khoi | Contract 1 : Double Track (Cha Choeng Sao - Wihan Daeng), Chord Lines | 10,184 | |
| | Contract 2 : Double Track (Wihan Daeng - Buu Yai Section), Railway Turner | 621 | |
| Suvarnabhumi Airport Phase 2 | Contract 1 : Extension on the west-side of the existing Passenger Terminal Building | 39,046 | |
| | Contract 2 : Construction of Midfield Satellite Terminal | 7,087 | |
| | Contract 3 : System design and construction of utilities | 2,565 | |
| Sub-Total | | 59,503 | |
| Targeted for Bidding in 1H15 | | | |
| Dual track | | 37,355 | Continuation since 2005 |
| Mass transit | BMA | | |
| - Dark green line | BMA | 58,590 | Continuation |
| - Pink line | BMA - 21km underground, 3km above ground | 56,691 | Continuation |
| - Orange line | BMA - 30.4km | 110,117 | Budget up from 2003 estimate THB73b |
| - Red line | BMA | 48,619 | Continuation |
| - Airport Link extension | BMA | 39,176 | Continuation |
| Motorway | | 28,440 | Continuation |
| - Bang Pa In to Korat (Nakhon Ratchasima) | 147 km to the northeast city of Korat | | |
| - Pattaya-Map Ta Phut | 55 km from the Industrial town | 84,600 | Budget up from 2003 estimate THB31.3b |
| Airport expansion | | 11,600 | Continuation |
| - Suvarnabhumi Remaining of Phase 2 | BMA | 13,805 | In AOT's pipeline since 2005 |
| - Don Muang | BMA | 7,000 | Continuation |
| Expressway | | 18,646 | Continuation |
| Water management | | | |
| - Dredging Chao Phraya River | Multiple points increase depth from up to 2m | 10,000 | From 2012 plan |
| Total Value | | 584,142 | |

Sources: Compiled from Press

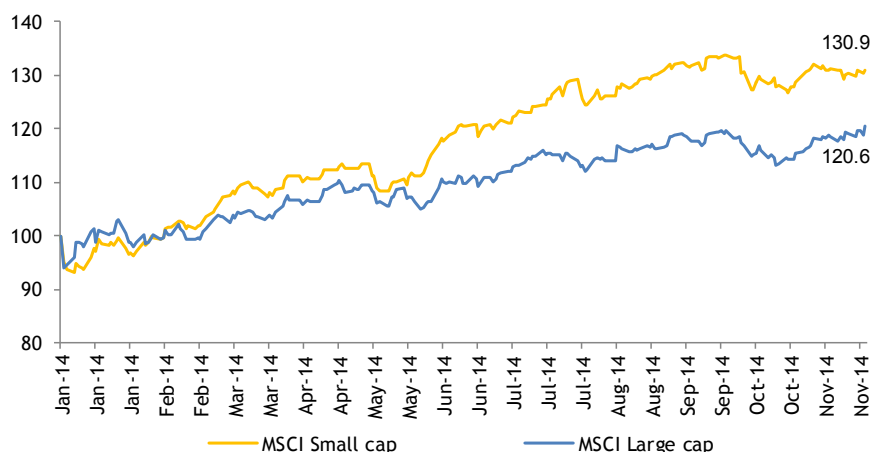
Election - keeping the faith

The junta government initially promised there will be an election sometime in 3Q15. Recently there was noise that the Martial law will remain in place for longer and the election postponed. We maintain our base-case scenario that an election will happen as initially promised - in 3Q15.

Will the index go higher?

This was the most difficult question. We believe the SET will close higher as investors' mood is likely to remain positive anticipating positive announcements relating to the various government initiatives. In addition, we will have LTF and RMF funds deployed nearing YE as well as the normal window dressing to support the index. As mutual funds tend to invest in large cap stocks, BigCaps could move higher relative to SmallCaps. In addition, the SmallCap sector is under some pressure because of a regulatory move by the Stock Exchange Authority trying to cool down high speculative activities.

Small caps outperformed large caps - based on MSCI



Source: Bloomberg

Company/industry specific issues

- 1) Increasing cases of leveraged acquisitions could be a sign of a frothy market. CPALL's high premium offer for Siam Makro shares is now to be followed by ROJNA increasing its stake in Ticon Industrial Connections to 49% and WHA acquiring Hemaraj Land and Development. We believe these are just a few cases and far from the norm. Bangkok Dusit Medical Services (BGH) turned away from buying the listed, Bangkok-based, single campus hospitals because valuation was too high.
- 2) Why so negative on energy & petrochemicals? Because we do not believe that listed energy companies and petrochemicals have inherent strength that can make them overcome the falling crude oil prices. These entities are just processors with products that are mainly commodity grade. Although it looks like olefin is strong and that aromatics recovered in 3Q14 - these product groups will

succumb to lower benchmark prices in a matter of time. That has always been the case before when the price slump lasted more than two quarters.

- 3) We sense a strong interest in PTT as a beneficiary of energy reform. We argue that after having taken the first step to adjust the gas prices, the government will step back before making the next move. This has been the way the government has operated in the past. So the benefit that PTT is supposed to get upon full liberalization of prices will be long in coming.
- 4) Is the weak yen going to be an issue for FDI in Thailand? At these levels we do not think so as we believe that the “resource” argument of the Japanese FDI is more powerful than currency. That said, we recognize that Thailand is no longer the only Japanese FDI destination in the ASEAN region as the domestic economies of bigger countries - by population - such as Indonesia, Philippines and Vietnam appear ready to enter the next stage of their development. We still argue, though, that Thailand still possesses many attributes that make it a viable production hub for exports destined to the Asia Pacific market.

The year ahead, play the policy

Stock picks and valuations

| Stock | Beta | Mkt cap (USDm) | Liquidity (USDm) | Price (local) | TP (local) | U/D Side (%) | NP Gr % 14E 15E | PER 14E 15E | P/B (x) 14E 15E | ROE 14E 15E | Div yield 14E 15E | | |
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Closing price 7 November Source: Company, SET, KELIVE, MKE-ISR

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