

Investing in Thai Equity

SORNCHAI SUNETA & SUCHAI SUTAPAK, SCB ASSET MANAGEMENT CO., LTD.



SORNCHAI SUNETA, CFA, is Senior Executive Vice President in the asset allocation and investment strategy group of SCB Asset Management Co., Ltd. He previously was Executive Vice President in the group in 2010 and Director of SCB's fixed income fund and government pension fund from 2004 to 2010. From 1999 to 2004, he was a Fund Manager with Bangkok Bank Public Company Limited, and from 1994 to 1999 he was a Fixed Income and Derivative Trader with TMB Bank's Hong Kong branch. Mr. Suneta

received an MBA in finance from the University of London and a BBA in banking and finance from Assumption University in Bangkok.



SUCHAI SUTAPAK is a Senior Vice President at SCB Asset Management Co., Ltd., investment management group and Fund Manager of the Thai Capital Fund. He joined SCB in June 2011. Previously, Mr. Sutapak was a Senior Fund Manager with Kasikorn Asset Management Co. Ltd. from 2009 to 2011, a Senior Fund Manager at Bualuang Securities Public Company Limited from 2008 to 2009, a Senior Fund Manager with American International Assurance from 2005 to 2008, and a Senior Fund Manager with MFC Asset

Management Public Company Limited from 2001 to 2005. Earlier in his career, he served as an Analyst at Kim Eng Securities Co. Ltd. and UBS Co. Ltd.

SECTOR — GENERAL INVESTING

(ACW502) TWST: Please start with a brief history and an overview of the company as well as the Thai Capital Fund.

Mr. Suneta: We are the second-largest asset management firm in Thailand and are 100% owned by Siam Commercial Bank, one of the biggest banks in Thailand as well. Currently, we manage roughly 600 million baht, or the equivalent to U.S. \$20 million. And the Thai Capital Fund itself is roughly around 1 billion baht or U.S. \$33 million. The Fund is an equity fund that invests only in the Thailand market.

TWST: How would you describe your philosophy or strategy for investing in general?

Mr. Suneta: Mainly we are applying an active approach. The objective of the Fund is to try to outperform the benchmark consistently. That is the main goal — to outperform the benchmark consistently. Normally, we will apply the ideas from the fund man-

agers, a team of fund managers who will contribute their views to the investment committees. We apply both the top down and bottom up to check and balance these views. Let's say we make a top down on the macro picture — how the country is going to be, the economy, the GDP, everything in general — and then we bottom up from the company perspective — how are the earnings of the company we are interested to invest in — and we cross check each other's view on that. We also apply risk control by avoiding concentration in any one stock or sector. Mainly we try to diversify.

TWST: You mentioned aiming to outperform the benchmark. Would you tell us a bit about the Fund's performance and what the benchmark is?

Mr. Sutapak: For this year, the Fund has underperformed the benchmark, the SET Index, by 8.8%. That's for the first nine months of this year.

Mr. Suneta: However, last year the Fund's performance

was 47.7%, while the benchmark was 40.6%, so we outperformed last year by 7%. Total return for the Fund since inception, from 2001 to now — so that will be 10 years — is 337.66%, while the benchmark is 237.15%. So since inception, we outperformed by roughly 100%.

TWST: In terms of your bottom-up analysis, what are the key criteria that you use to select stocks?

Mr. Suneta: One thing that we believe in is to pick up stocks that have financial strength and that have pretty good earnings growth, because we believe that the stock price would reflect the earnings momentum in the long term. So mainly that means a company that has very good earnings in the short term, medium term and long term. So we believe that this factor would drive their stock price eventually in the long term.

TWST: You said you look at the top down and the bottom up. In terms of the macro picture, what sectors do you find especially favorable right now?

Mr. Suneta: It would be the consumer play, the consumption play, because we all know that the global economy has some problems, like in the U.S., and they have some debt problems in Europe as well. Not only would Thailand be driven by domestic consumption mainly, looking forward, including the government policies, they try to drive the GDP by using stimulation of consumption within the country. Mainly we focus on two things: One is a domestic play, and another thing that we try to balance between the two by using a barbell strategy is that we play around some cyclical stories, which we believe are undervalued currently. So we play around energy and petrochem as well, because of their cheap valuation. So in conclusion, mainly we focus on domestic plays, together with the cyclical energy and petrochem.

TWST: Are there sectors that you are cautious about given the economic and investment market environment?

Mr. Suneta: It would be telecom here in Thailand, because the valuation is quite expensive so far, because clearly they have played around a 3G story for a while already. Their stock prices are fairly up so far. So in terms of valuation, it's quite expensive, a p/e of roughly 15 times. Another sector that we are cautious about is regarding the tourist sector, because clearly if you see from the fresh news, we are in a flooding situation currently, so we shy away from that for the time being.

TWST: Is tourism also impacted by the financial difficulties of other countries around the world, especially in Europe and here in the U.S.?

Mr. Suneta: Actually, if you look at the news, we are now in the flooding season. We got very heavy rain during the past one or two months. The water is flooding all over the middle part of

Thailand, so it would be difficult for tourists to book.

TWST: Would you mind sharing some of your favorite stocks and investment picks?

Mr. Sutapak: We prefer the domestic stocks now. We own domestic stocks like **CPF, Charoen Pokphand Foods** (BAK:CPF), the **CPALL** (BAK:CPALL) and **Krung Thai Bank** (BAK:KTB), these are domestic plays. And also we have a barbell strategy for the petrochem and energy sectors. We own **PTTCH**, currently changed to **PTTGC**, and **TOP** (TOP.TB). These five stocks are around 2% to 3% over the market cap. These are the top five holdings for the Thai Capital Fund in terms of overweighting.

TWST: What do you see as the biggest challenges that the Fund faces right now?

Mr. Suneta: The global slowdown, because the global slowdown, including the debt crisis in Europe, has made the foreign investor try to withdraw their money out of Asian countries so far.

TWST: Broadly speaking, what do you consider to be the greatest opportunities for the Fund?

Mr. Suneta: Here are some stocks, as we mentioned earlier, some cyclical ones in Thailand with heavy pressure from the money outflow and it looks quite attractive. Currently, the valuation is really cheap, as I mentioned about the energy sector.

TWST: Are there any factors specific to Thailand, whether local economic trends or government policies, affecting your investment decisions?

Mr. Suneta: We have quite specific policies from the government. As you know, we just had elections a few months ago. The new government has tried to promote consumption, so their policy is focused on how to stimulate the consumer. They try to promote, let's say, the buying of the first car, first homebuyers, those kind of things, to make the

consumption more robust domestically. Another positive thing is that the government tried to reduce the corporate tax, which has already passed the law by the committees of the government, so it will take effect at the beginning of next year. It means that the corporates here will get better earnings, roughly around 10% to 20%, depending on the sector. Those are other key drivers of the Thai stocks so far. I believe that actually they can sustain some of the volatilities in the developed markets, like U.S. or Europe. If we talk about the global markets, we believe that the Thai market still can outperform the U.S. or Europe markets because of those factors that we have mentioned.

TWST: What is your outlook for the equity market in Thailand?

Mr. Suneta: Next year, we still see pretty moderate GDP growth, probably 4%, and the inflation outlook is going to be getting better compared to this year. This year's inflation is roughly

Highlights

Sornchai Suneta and Suchai Sutapak describe the investment philosophy and strategy of the Thai Capital Fund. Mr. Suneta and Mr. Sutapak are positive on the Thai consumer, energy and petrochemical sectors because of current valuations. Mr. Suneta and Mr. Sutapak give their outlook on Thailand's GDP growth, interest rate and rates of inflation in relation to the country's equity market for next year, and they say the Thai market may outperform the U.S. and European markets because of local government policies. Companies include: Charoen Pokphand Foods Public Co. Ltd. (BAK:CPF); CP All Public Company Limited (BAK:CPALL); Krung Thai Bank PCL (BAK:KTB) and Thai Oil Public Company Limited (BAK:TOP).

3.5%, but next year it's going to be slowing down. The interest rate outlook here already peaked, we believe, which should be good for the stock market next year. And corporate earnings have delivered very good numbers so far. This year up until the third quarter, everything is still pretty good. So we believe this trend will continue through the next year. Another thing here is the Thai baht currency. We believe that the currency is still strengthening compared to the U.S. dollar, as long as the U.S. still has slow growth. We believe, when everything gets better in terms of the sentiment globally, finally people will look at the valuation, and Thailand's valuation is pretty fair in terms of pricing, so the money is going to come back.

TWST: Is there anything you would like to discuss?

Mr. Suneta: The short-term factor for the Thai market is currently people will focus more on the flooding. But we believe that within a few months, when the situation gets better, we will have the opportunity to buy cheap stocks in some sectors, like electronics, that clearly got hit by the flooding itself. So we believe it may be a good time to look at some cheap stocks after everything settles down from the flooding.

TWST: Is there anything else you would like readers to know about your company and your Fund?

Mr. Suneta: Regarding the company, we are quite strong in terms of both domestic fixed income and equities. We are also the asset management company which has the biggest size in terms of equity investments. The shareholders are very committed to the

growth of the company as well. The area where we're going to focus more in Thailand for now is about the risky assets, to expand into other areas such as the alternative investments. I believe in the alternative investment in Thailand given the very good year so far despite the stock market.

TWST: Are the Thai Capital Fund's investors primarily domestic Thai investors, and how much interest do you see from other investors around the world?

Mr. Suneta: Currently, the major investor is the Thai investor. However, we've gotten more interest from the foreign investor as well to open up some specific mandates like private funds and others.

TWST: Thank you. (MN)

SORNCHAI SUNETA, CFA

Senior Executive Vice President

SUCHAI SUTAPAK

Senior Executive Vice President & Fund Manager

SCB Asset Management Co., Ltd.

21st-22nd SCB Park Plaza 3

19 Ratchadapisek Rd., Chatuchak

Bangkok 10900 Thailand

02 949 1500

02 949 1501 — FAX

www.scbam.com

e-mail: customerservice.scbam@scb.co.th