

# Thailand

## Earnings Momentum on Global Recovery

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# Executive Summary

Thai market performed quite good after the subprime crisis. In Thai Bath term, the index dropped almost 50% in 2008 along with global decline. The rebound in 2009 was 63% return and followed by 40% return last year. Thai Bath also appreciated about 14% in past two years. Overall total compound return, include FX, was about 146% for Thai Market in two years. The reason behind was strong economic structure. Export growth was the main engine for last two years, while government spending also boosted up the expansion and domestic consumption. Even export growth expects to slow down this year, but still shows impressive number with double digits growth in 1Q. Private investment, which has low participated for GDP growth in last two years, starts to show some improvement, noticed by loan growth of the Banking sector in last two quarters. Last year soft commodities price rally also helps rural purchasing power, then will return as domestic consumption. For 2011, GDP growth is expected around 4-5%, which in line with the regional market, Asia Ex-Japan, leads by China and India.

Thai Stock Market, compare to regional market is slightly cheap (P/E 12x) with fair earnings growth (15-20%). Moderate dividend yield (4%) and also ROE (15%). Top liquidity sectors are energy sector and petrochemical sector, which benefits from oil price movement and super cycle of petrochemical price. Banking sector is very good health, low bad debt, high loan growth and fee base. Food and commerce sector are the good defensive base on domestic consumption and export, while industrial estate will benefit from private investment and foreign direct investment. 12-month index target is level of 1,200, which expect return around 14% from current level. Short term downside risk could be political issue, while medium term factor is inflation to concern.

# Thailand Economic Data

	Actual					2010	Forecast
	2009	1Q10	2Q10	3Q10	4Q10		2011
GDP Growth (%YOY)	-2.30	12.00	9.20	6.60	3.80	7.80	4.0-5.0
Head Line Inflation (%YOY)	-0.90	3.80	3.30	3.30	2.80	3.30	3.5-4.0
Core Inflation (%YOY)	0.30	0.40	0.90	1.20	1.20	1.00	1.5-2.0
Policy Rate (% p.a)	1.25	1.25	1.25	1.75	2.00	2.00	3.25
Thai Baht (Average)	34.30	32.90	32.40	31.60	30.00	31.70	29.80
Thai Baht (Year-End)	33.20	32.50	32.50	30.80	30.10	30.10	29.00

Source: Bank of Thailand and SCB EIC forecast

- **GDP in 1Q11 is 3%, beats consensus at 2.6%**
- **New forecast 2011 GDP by Bank of Thailand is 4.10%, revise up from 4.0%**
- **Export growth is expected at 20.4% for the year end, while Q1 number is record high at 30%**
- **Import is 24% in Q1, leads by raw material and capital goods.**
- **Headline Inflation is around 3.9% by the year end, while core inflation is 2.3%, by Bank of Thailand.**
- **Real investment is 7.3%, consists of private section around 8.5% and public section around 3.5%**
- **Consumption totally expand 3.6%, private consumption 3.7%, public consumption 3.2%**
- **Unemployment is low at 0.8%**

# Regional Data

	Real GDP growth (% yoy)						Headline inflation (% yoy)			
	2011E			2012E			2011E		2012E	
	Old	Current	Cons. (May)	Old	Current	Cons. (May)	Old	Current	Old	Current
China	10.0	9.4	9.3	9.5	9.2	8.9	4.3	4.7	3.0	3.0
Hong Kong	5.2	5.2	5.3	5.6	5.2	4.8	5.0	5.0	4.6	5.0
Taiwan	4.7	4.7	4.6	5.2	4.9	5.1	2.3	2.3	2.2	2.4
Korea	4.6	4.3	4.4	4.8	4.4	4.5	3.9	4.2	3.3	3.7
Indonesia	6.2	6.2	6.3	6.2	6.2	6.5	6.3	6.3	6.0	6.4
Malaysia	5.5	5.4	5.2	5.7	5.6	5.5	3.6	3.7	3.6	3.7
Philippines	5.2	5.2	5.1	5.7	5.5	5.3	5.0	5.0	4.8	5.0
Singapore	5.1	5.5	5.7	5.7	5.4	5.3	4.1	4.2	2.8	3.3
Thailand	4.2	3.8	4.2	5.0	4.2	4.9	3.9	4.1	3.5	3.8
India (FY basis)*	7.8	7.5	8.0	8.3	7.8	8.5	7.5	8.1	5.4	5.1
Australia	2.9	2.5	2.7	3.7	3.7	3.8	3.4	3.4	2.8	2.8
Japan	0.7	-0.2	0.0	2.3	2.6	2.8	-0.2	0.6	0.2	0.2
Euroland	2.0	2.1	1.7	1.9	1.9	1.7	2.2	2.6	1.7	1.9
US	2.9	2.7	2.7	3.8	3.2	3.2	2.5	3.0	1.5	1.7
Asia ex Japan	8.2	7.8	7.9	8.2	7.8	7.9	5.0	5.4	3.7	3.8
ASEAN-5	5.4	5.3	5.4	5.7	5.5	5.7	4.9	5.0	4.6	4.9
NIE-3	4.7	4.5	4.6	5.0	4.7	4.7	3.6	3.7	3.1	3.5

Note:

\* WPI for India.

For GDP forecasts, Australia forecasts were changed on May 19, 2011; Japan forecasts were changed on May 9, 2011; Euroland forecasts were changed on April 15, 2011; US forecasts were changed on May 6, 2011.

For inflation forecasts, Japan forecasts were changed on May 9, 2011; Euroland forecasts were changed on April 15, 2011; US forecasts were changed on May 6, 2011.

Source: Goldman Sachs Global ECS Research estimates.

## Regional Market in next 12-month

	Market	Index	Index level (May 20)	June 2012 index target			Total return		
				Target P/E	Index target	Price return (%)	Dividend yield (%)	12M GS FX rates (%)	12M Total return (%)
<b>Overweight</b>	China	HSCEI	12,948	12.0	15,800	22	4	0	25
	Taiwan	TWSE	8,837	14.0	10,600	20	5	5	29
<b>Market weight</b>	Korea	KOSPI	2,112	10.0	2,500	18	2	5	25
	Hong Kong	MXHK	12,219	15.0	14,000	15	4	0	18
	Singapore	FSSTI	3,169	14.0	3,700	17	4	5	26
	Thailand	SET	1,073	12.0	1,200	12	4	3	19
	Philippines	PCOMP	4,285	14.0	4,700	10	3	7	20
	Malaysia	FBMKLCI	1,541	15.0	1,870	21	4	6	32
	Indonesia	JCI	3,873	14.0	4,400	14	3	2	20
<b>Underweight</b>	Australia	AS51	4,732	12.4	5,425	15	5	-1	19
	Japan	TPX	828	15.7	970	17	2	-5	14
	India	NIFTY	5,486	14.0	6,100	11	2	-4	9
Asia Pacific ex Japan (USD)		MXAPJ	488	12.5	575	18	4	1	22
Asia ex Japan (USD)		MXASJ	575	12.5	690	20	3	2	23
Asia Pacific (USD)		MXAP	135	13.7	155	15	3	-1	18

Note: Regional index targets and price returns are in USD terms. Japan's target P/E is based on FY3/13E earnings estimates.

Source: Bloomberg, MSCI, Goldman Sachs Global ECS Research estimates.

# Sectors in Focus

## Energy

- High demand among Asian Countries, especially GRM of the refinery plant.
- High oil price, will benefit to inventory gain.

## Banking: 48% growth in Q1

- Strong loan growth, especially corporate loan
- Capacity utilization rate at 90%, the real sector is expected to expand.
- Consumer loan is also in the good shape.
- Fee base revenue still expand firmly.

## Petrochemical

- Ready capacity to benefit the super cycle of petrochemical price.
- Benefit from gas base petrochemical product.

# Sectors in Focus

## Commerce and Foods

- Mainly is domestic related, then less impact from global factor
- Good price of soft commodities, i.e rice and rubber, will increase purchasing power of rural area.

## Industrial Estate

- Expansion of the real sector
- Re-location of the Japanese Manufacturer.

## Contractors

- Continuing of the large project, such as hi-speed train, new sub-way line, expansion of the deep-sea port and also petrochemical complex.

# Avoid Sectors

## Property Developer

- Top line impacts from hesitate home buyer due to interest rate is on the rising trend. And also warning of Bank of Thailand, tries to discourage home buyer for speculation (buy for re-sell or rent).
- Bottom line impact from higher cost, due to high oil price.

## Exporter

- Auto maker and electronic component exporters are hurt from spare part interruption from Japan Quake
- About 15% of pick-up car exports to Middle East, which has political issue.
- Only foods exporter gain benefit from Japan quake

## Telecommunication

- Unclear of the 3G license bidding, which expect to delay until Q4 this year.
- Main growth is organic growth from data segment.

# Why Invest in Thai market

- First quarter earnings growth achieved at 28.9% YoY
- Earnings growth forecast in Bloomberg is about 9.25%, Expect to revise up very soon. Our house view is about 15-20%
- Current P/E is 13.7x and expected P/E is 12.54x, cheaper compare to regional market.
- Target index for 2<sup>nd</sup> half is 1,200 level for base case, while the best case is about 1,300 level.
- Down side risk is at 950 with cheap P/E 11x
- Compare to other regions, Asia Ex-Japan is still attractive. Foreign flow still continue to the regional market.

Markets	GS top-down		Consensus	
	2011	2012	2011	2012
Australia	14%	11%	14%	13%
China	17%	14%	20%	17%
Hong Kong	11%	13%	6%	14%
India	15%	16%	20%	18%
Indonesia	18%	15%	19%	16%
Korea	15%	10%	17%	14%
Malaysia	15%	12%	11%	12%
Philippines	10%	11%	9%	10%
Singapore	7%	10%	5%	10%
Taiwan	17%	10%	9%	20%
Thailand	12%	14%	15%	15%
<b>MXAPJ</b>	<b>15%</b>	<b>12%</b>	<b>15%</b>	<b>13%</b>

Note: Changes in forecasts are shaded.

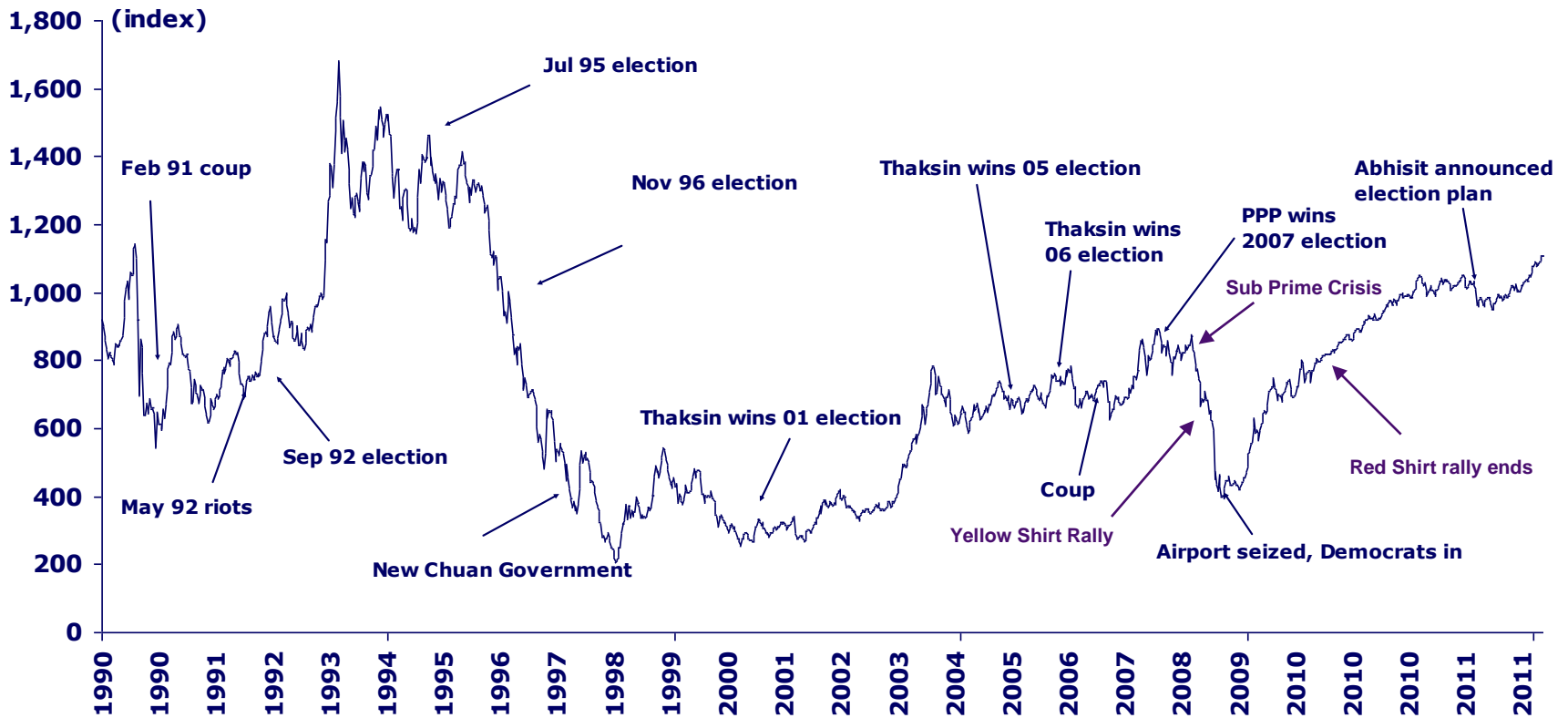
Hong Kong's consensus earnings growth numbers are shown as excluding Hutchison Whampoa's one-off gain. On a bottom line basis, the numbers are 16% and 1%.

Return of SET Index	
2001	12.87%
2002	17.32%
2003	116.60%
2004	-13.48%
2005	6.83%
2006	-4.75%
2007	26.22%
2008	-47.56%
2009	63.25%
2010	40.60%

## Key Risk Factors

- Global volatility, from Euro debt crisis, and US turn around.
- Export interruption for auto maker and electronic components
- High oil price from situation in Middle East and North Africa
- Internal politic.... New election on July 3<sup>rd</sup>
  - More likely that nobody dominates the vote (more than half or 250 seats)
  - The majority parties should lead with 200 (+/- 10) seats, which share among The Democrat party (current government) and Pue Thai party (Dr. Taksin ex-PM)
  - New government will consist of majority party plus coalition parties.
  - Policy should be the same, pro-growth policy.

# Twenty years of Thai Market



# Foreign Fund Flow by Region

## Equity flows at a glance (US\$m)

	Mutual Funds Investing				Foreign Investing				
	4-week	13-week	YTD	2010	1-week	4-week	13-week	YTD	2010
Asia ex Japan	1,681	(2,834)	(5,325)	19,609	917	4,591	6,353	7,070	63,533
Developed Europe	1,051	4,267	7,730	(10,256)	-	-	-	-	-
EMEA	242	2,777	4,199	6,567	-	-	-	-	-
GEM	3,108	2,666	(2,583)	56,093	-	-	-	-	-
Japan	(58)	446	2,872	(840)	0	3,211	33,030	45,230	37,313
International	2,545	13,845	24,746	6,500	-	-	-	-	-
Latin America	(66)	(1,972)	(2,008)	1,842	-	-	-	-	-
Pacific	24	(677)	(794)	1,520	-	-	-	-	-
US	7,809	15,793	37,570	(5,403)	-	-	-	-	-
Australia	118	(224)	(485)	2,202	-	-	-	-	-
China	344	(628)	(2,009)	6,647	-	-	-	-	-
Hong Kong	320	(183)	(351)	2,049	-	-	-	-	-
India	(78)	(1,069)	(1,651)	3,248	(86)	(480)	1,876	1,060	28,840
Indonesia	28	(239)	(521)	1,174	36	378	564	297	2,305
Korea	506	497	782	2,008	(20)	1,569	1,641	1,198	19,099
Malaysia	23	(170)	(179)	452	-	-	-	-	-
New Zealand	3	16	22	76	-	-	-	-	-
Philippines	16	(10)	(19)	178	227	269	640	510	1,213
Singapore	55	(751)	(942)	748	-	-	-	-	-
Taiwan	186	(225)	(63)	809	697	2,448	(391)	3,023	9,402
Thailand	158	(219)	(481)	1,103	63	408	2,023	982	2,674

Source: Bloomberg, EPFR Global, Nomura International (HK) Ltd — Equity Quantitative Strategies

**Thank you**

