

# Monthly SET Strategy

## Downside risk still ahead in face of looming US fiscal cliff

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**Summary:** The global economy is likely to remain stuck in slow gear as the impact of Europe's sovereign debt crisis would continue to weigh on overall economic picture. Even though the latest batch of economic reports out of the US pointed to a better-than-expected recovery in the labor market, pressure has however continued to come from the looming threat of the so-called US 'fiscal cliff' pending the wave of decisions in Congress including how to handle expiration of all Bush-era tax cuts by the end of this year, automatic spending cuts set to take effect at the start of next year and the need to raise the debt ceiling. Fiscal cliff deadlines could pile more pressure on the US on concerns deadline miss may thrust the struggling US economy back into a recession.

Wild swings are likely to continue in the Thai stock market in Nov 2012. We believe the market may be more vulnerable to external factors than domestic issues and all eyes will also remain on debt problems in Greece and Spain as well as the results of the US presidential election and the looming US fiscal cliff. In our view, the downside risk seems to be a lot greater than the upside risk after the third-quarter earnings season winds down during the middle of the month but it seems to us that the market's downside may be tempered by end-of-year LTF/RMF buying as a large number of investors may look for any market weakness to buy LTF/RMF units to take advantage of personal income tax deductions after a sustained market rally almost throughout the year.

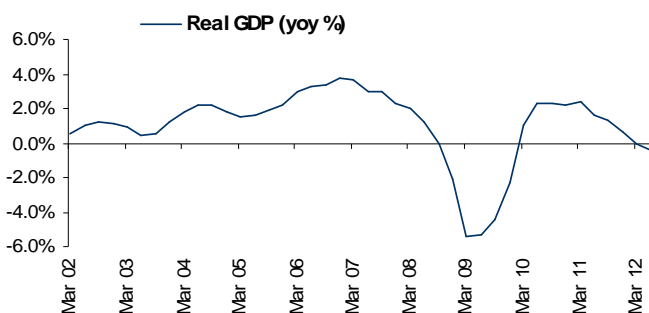
We peg resistance for the SET index at 1315, 1340 and support at 1270 for the month of Nov.

Our top picks for the month of Nov include HEMRAJ, ROBINS and TCAP.

### Global economy still at risk of slowdown

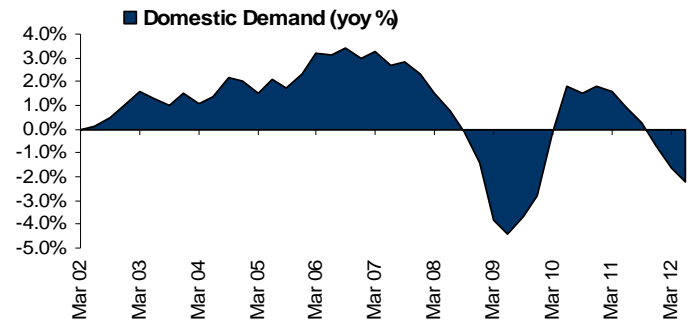
In the midst of European debt crisis, the slowdown in several major economies including the likes of Europe, US, Japan and China would heighten global macroeconomic risk. For this reason, key economic data out of several major economies still bears close watching.

**Figure 1: Euro-zone economy in a contraction mode**



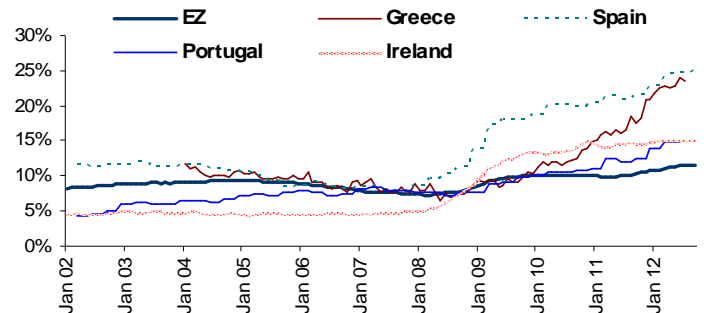
Source: Bloomberg

**Figure 2: Euro-zone domestic demand still in the doldrums**



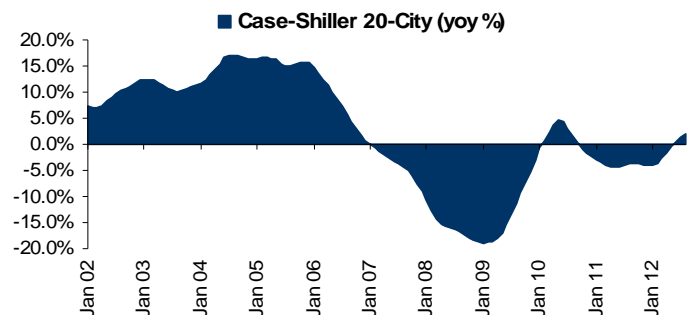
Source: Bloomberg

**Figure 3: PIIGS jobless rate still worrisome**



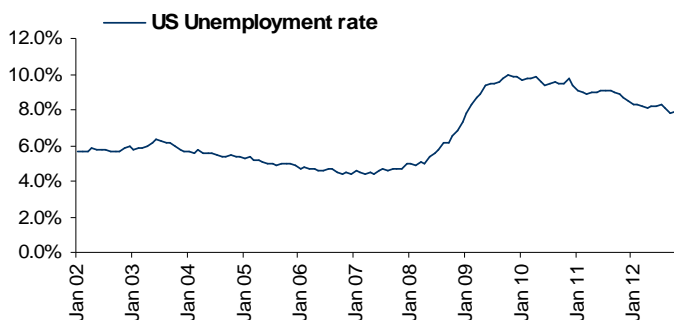
Source: Bloomberg

**Figure 4: US S&P/Case Shiller's home price index up for 3rd month**



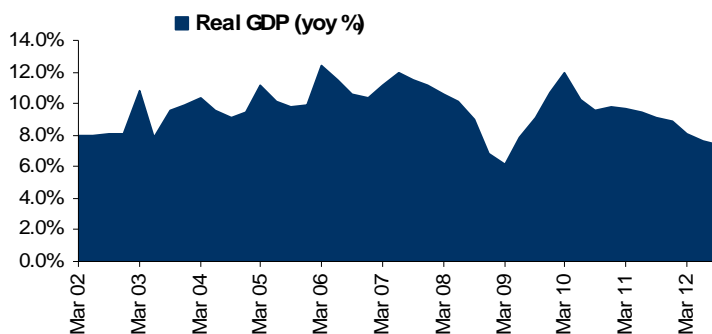
Source: Bloomberg

**Figure 5: US labor market shows signs of recovering with unemployment rate below 8% for 2nd straight month**



Source: Bloomberg

**Figure 6: China's economic growth slows to 7.4% in 3Q12 from 11.9% in 1Q12**



Source: Bloomberg

**Thai economy: BOT slashes 2013 GDP growth target to 4.6% from 5.0%**

- Thailand's 2013 GDP growth forecast cut to 4.6%  
The Bank of Thailand has cut its 2013 GDP growth forecast to 4.6% from its previous estimate of 5.0% set in Jul 2012 as deteriorating global economic conditions with a high degree of uncertainty would continue to be a significant threat that could cause Thailand's economic growth to surprise on the downside. European and US economies remain in the doldrums while the impact of a global economic slowdown on Asian economies appears to be bigger than previously estimated. The upside potential from government budget disbursements for water management projects may be delayed than previously anticipated.
- Inflation  
Inflationary pressure remains benign. The latest data showed Thailand's core consumer price inflation in Oct 2012 rose by 1.83% on year, taking average core inflation in the first 10 months of 2012 to 2.15%, well below the Bank of Thailand's inflation target range of 0.5%-3.0%.

Looking ahead into 2013, inflation is likely to be lower than previously estimated due to a more prominent impact of a global slowdown on the domestic economy and the government's oil price policy, giving the Bank of Thailand more ammunition to cut policy interest rates further if

necessary after it slashed its benchmark one-day R/P rate by 25 bps to 2.75% from 3.00% at its previous policy meeting. However, what remains to be seen is the potential impact of the nationwide daily minimum wage hike to Bt300 which will take effect next year.

**Thai stock market outlook for Nov: Downside risk still ahead in face of looming US fiscal cliff**

- Thai stock market outlook  
Wild swings are likely to continue in the Thai stock market in Nov 2012. We believe the market may be more vulnerable to external factors than domestic issues. The following will be key factors to watch in the month of Nov:
  - (1) Europe's debt crisis especially a new round of belt-tightening cuts in Greece, which are subject to approval from international creditors in order for Athens to receive the next tranche of bailout money and Spain's official request for financial aid.
  - (2) US presidential election results and looming US fiscal cliff: If Barack Obama wins re-election as US president to a second four-year term, no material changes in economic and foreign policies are anticipated and investors are likely to turn their attention to Congress's year-end 'fiscal cliff' deadlines before all Bush-era tax cuts will expire before the end of the year and the first segment of US\$1.2trn in automatic spending cuts across domestic and military programs are due to kick in from 2013 as part of a 10-year deficit reduction deal agreed to by lawmakers. In addition to the expiration of tax cuts and automatic spending cuts, a deadlock in US debt ceiling increase negotiations would be another source of concern as the US government is expected to reach the US\$16.4trn debt limit close to the end of this year. In our view, all these factors could bring an element of uncertainty to the market from a tug-of-war in Congress. Given that the Democrats currently have less seats than the Republicans in the US House of Representatives and have slightly more seats in the Senate than the Republicans, the situation will get even worse if Republican challenger Mitt Romney scores election victory.
  - (3) Local politics: The no-confidence debate against the Yingluck-led government will take place on Nov 25-26 with the voting on Nov 27. The Senate's general debate against the Yingluck cabinet will be held without voting before or after the Lower House's censure motion. In our view, the no-confidence motion is unlikely to undermine stability of the current government and there are no signs yet in sight that ongoing political rallies by several groups will be prolonged as in the previous protests. For this reason, we believe domestic political worries could only add a degree of unnecessary noise to the market along the way.
  - (4) The Bank of Thailand's last policy meeting of the year on Nov 28: We believe the Bank of Thailand's Monetary Policy Committee may not be in hurry to cut policy interest rates further at the upcoming meeting after its 25-bps rate cut at the previous meeting caught the market by surprise as loan growth remains healthy. The odds of another 25-bps rate cut at the upcoming meeting however remain if the global economic picture looks much worse than previously thought.

In our view, the downside risk seems to be a lot greater than the upside risk after the third-quarter earnings season winds down during the middle of the month but it seems to us that the market's downside may be tempered by end-of-year LTF/RMF buying as a large number of investors may look for any market weakness to buy LTF/RMF units to take advantage of personal income tax deductions after a sustained market rally almost throughout the year.

We peg resistance for the SET index at 1315, 1340 and support at 1270 for the month of Nov 2012.

- Investment strategy

Mid-to-small cap plays seem to be in season in anticipation that the market will see a downward technical correction before resuming its bullish course. Investors should look for good earnings plays with strong growth momentum likely to continue in 4QCY12 driven by end-of-year consumption and spending binge.

## 1. HEMRAJ

**Target price: Bt3.40**

- Earnings growth is expected to be exceptionally strong in 3QCY12 compared to 3QCY11 on the back of an estimated rise in revenue from industrial land sales Bt1bn from Bt728mn and a profit from affiliates thanks to the commercial operation of the 600-MW GHECO ONE power plant against a loss in 3QCY11. We forecast HEMRAJ to report a 3QCY12 profit of Bt423mn, up significantly from Bt154mn in 3QCY11.
- Even though industrial estate business may be poised for a slowdown in the face of global economic uncertainty, we believe well-diversified sources of revenues including water sales in industrial estates and power plant business should help limit the impact.
- Looking ahead into CY13, we expect its profit to grow as much as 180% y-y driven by (i) an estimated profit of Bt1bn from affiliates thanks to the full-year operation of the GHECO ONE power plant and (ii) a backlog of industrial land sales to be carried forward to CY13. In 9MCY12, industrial land sales jumped 46% y-y. Note that HEMRAJ normally earns an estimated Bt1bn in average annual profit from core industrial estate business.
- Our target price for HEMRAJ is Bt3.40/share. At current levels, there is enough room for trading on expectations of strong 3QCY12 results and favorable growth prospects next year

## 2. ROBINS

**Target price: Bt70**

- ROBINS is expected to report a 3QCY12 net profit of Bt387mn, up 3.9% y-y but down 18.4% q-q.
- We believe the weak profit growth would only be temporary due chiefly to (i) third quarter low season effect, prompting ROBINS to launch price cutting promotions, which would in turn put pressure on gross margin: In 3QCY12, we assume gross margin will be down q-q but up a marginal 0.12% y-y and (ii) pre-operating expenses for new branch openings.
- Earnings are likely to return to strong growth in 4QCY12 as the fourth quarter is traditionally the high season for

retail business and growth would also be driven by a low base of comparison in 4QCY11 hit by severe floods.

- In our view, any share price weakness on 3QCY12 earnings concerns will provide a buying opportunity. Rolling forward our valuation to CY13, we set a target price of Bt70/share for ROBINS.

## 3. TCAP

**Target price: Bt45.20**

- TBANK is expected to book a Bt5.01mn after-tax gain on the sale of its wholly-owned life insurance subsidiary Thanachart Life Assurance to Prudential for Bt17.50bn in 1QCY13, giving it enough capital to fund more aggressive business expansion. As part of the deal, Prudential Life would also sign a 15-year partnership with TBANK for a bancassurance arrangement to ensure its insurance products are distributing through TBANK's branches to its customers.
- Growth momentum in core hire-purchase business is expected to continue in 4QCY12 driven by the government's first-car tax rebate scheme and Thailand International Motor Expo 2012 before the end of the year. Cost savings following restructuring of its branch network and relocation of subsidiaries to the group's premises could help offset the impact from the buildup of loan-loss reserves to bring it on par with the industry's average.
- We set a CY13 target price of Bt45.20/share for TCAP. Note that the gain on the divestment of its life insurance unit is not yet built into the forecast.

## Sector Update and Stock Picks

9 November 2012

Thailand Equities Research

Sector	Investment weighting in Nov compared to Oct 2012		Stock pick*	Investment thesis	CY13				Mkt Cap as of Oct 31, 2012 (Btmn)
					FV (Bt)	P/E (x)	P/BV (x)	Div Yld (%)	
AGRI/FOOD	Neutral	---	DELTA	3QCY12 results expected to be strong	32.00	9.98	1.53	5.3%	36,486
BANK	Overweight	---	TCAP	More aggressive expansion ahead after huge gain from sale of insurance unit	45.20	6.68	0.98	4.7%	47,279
			TISCO	Potential beneficiary of year-end Motor Expo 2012	53.75	7.66	1.58	5.2%	32,573
FIN (Consumer Finance)	Neutral	---	TK	4QCY12 results expected to be robust due to high season	17.90	11.04	1.87	4.5%	8,100
			KTC	Strong earnings recovery expected in 3QCY12 and momentum set to continue into 4QCY12 on festive season spending	--- Under Review ---				7,026
AUTO	Neutral	---	SAT	3QCY12 results expected to hit new highs	33.00	9.42	2.11	3.7%	9,603
ENERG	Neutral	---	BCP	4QCY12 results seen strongest in the sector	32.50	6.71	1.02	5.3%	36,144
PROP	Neutral	---	HEMRAJ	3QCY12 results expected to be strong and earnings growth likely to double in CY13, valuation more attractive after recent share price correction	3.40	11.21	2.18	3.5%	30,474
TRANS	Neutral	---	THAI	Earnings poised for recovery heading into high season	34.00	9.51	0.71	4.2%	50,422
HEALTH	Neutral	---	BGH	3QCY12 results expected to hit new record high	122.00	26.23	2.92	1.2%	164,591
COMM	Neutral	---	ROBINS	Earnings recovery expected in 4QCY12, valuation more attractive after recent steep falls in share prices on expectations of 3QCY12 earnings weakness	70.00	25.74	5.53	1.7%	67,473

\* Model portfolio performance in Oct 2012

PSR portfolio  Top three gainers/outperformers included GL, MAKRO and RML.  
 SET index  Top three losers/underperformers included INTUCH, TISCO and KBANK.

Cumulative model portfolio performance for Apr-Oct 2012

PSR portfolio   
 SET index



**SET index outlook for Nov 2012: Next upside target seen at 1340 if 1315 barrier taken out**

Last month the SET index corrected toward the 1270 support level and the rebound also failed to break above the previous resistance at 1315, shaping up a triple top pattern on the charts which suggests the potential for a steep correction but the trend line support should provide support. Under this circumstance, the SET index is expected to hold above 1270 in the month of Nov. A breakout above 1315 will raise the scope for the SET index to set new highs around 1340.



**Top picks for the month of Nov 2012**

**BBL: 'TRADING BUY'**

Support: Bt174.50 Resistance: Bt195.00, Bt210.00 Cut loss: Bt173.00



The stock found support at 75-week EMA line near trend line support. The RSI recovered, strengthening the view that this level could be a strong support level and a rebound is likely at least towards Bt195, the previous correction trigger point.

**BH: 'TRADING BUY'**

Support: Bt75.00-Bt73.50 Resistance: Bt88.00-Bt90.00 Cut loss: Bt75.00



In previous corrections, the stock hardly pulled back towards 25-week EMA line. If the stock touches this level, it would be an influential support level as it could be a trigger point for a rebound in the stock price to hit new highs. This time, a rebound is likely as indicators are gradually recovering. There is also potential for the stock to make new highs again.

**HOTPOT: 'TRADING BUY'**

Support: Bt5.10 Resistance: Bt5.75, Bt6.30 Cut loss: Bt5.00



Even though the stock has just been listed on the market, it could manage to trade in an uptrend channel. The stock is also likely to stay in an uptrend channel as indicators are starting to flash a new round of buy signals after a brief correction towards support level.

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