

Monthly SET Strategy

Choppy in range of 1280 - 1360

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Summary: The global economy remains in a fragile state in the face of a slowdown in developed economies. Even though some US economic indicators pointed to signs of nascent recovery, uncertainty remains high especially the impact of the budget cuts and the expiration of the Bush tax cuts on the US economy. Even though exports are expected to be negatively impacted by global economic weakness, Thailand's economy should continue to grow at a healthy pace as it would get growth help from domestic demand and a low base of comparison a year ago hit by severe floods. The Bank of Thailand has forecast the economy will grow by 5.7% this year, marking a strong recovery from a 0.1% growth last year.

Elevated levels of volatility look set to be the name of the game in the Thai stock market in the month of Dec 2012 due largely to external factors especially US efforts to avert the looming fiscal cliff, which may probably wait until last-minute negotiations. For this reason, any fiscal cliff comments could bring more volatility to the market along the way while year-end window dressing and LTF/RMF buying before the end of the year would help limit the market's downside.

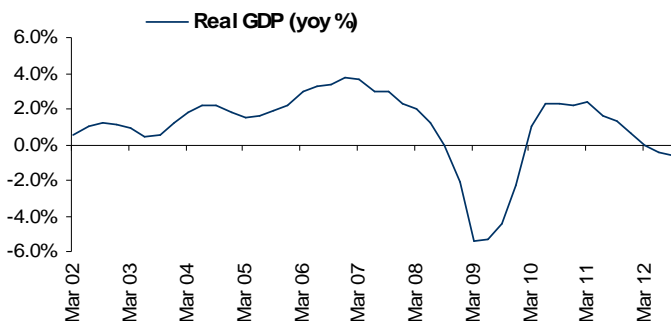
The SET index is likely to see choppy, range-bound trading in the month of Dec. We peg resistance for the SET index at 1340, 1360 and support at 1280 for the month of Dec.

Our top picks for the month of Dec include TCAP, THAI and TK.

Global economy still at risk of slowdown

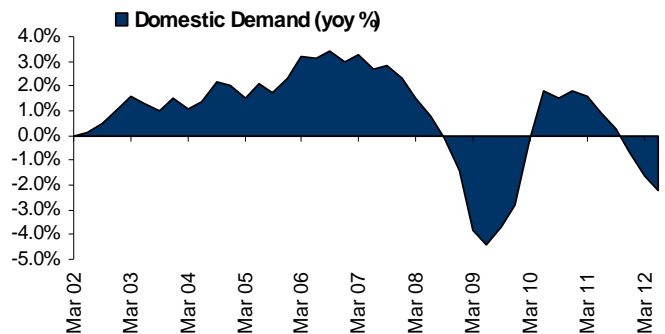
In the midst of European debt crisis, the slowdown in several major economies including the likes of Europe, US, Japan and China would heighten global macroeconomic risk. For this reason, key economic data out of several major economies still bears close watching.

Figure 1: Euro-zone economic contraction deepens to 0.6% in 3Q12 from 0.4% in 2Q12, marking second straight quarter of economic slowdown



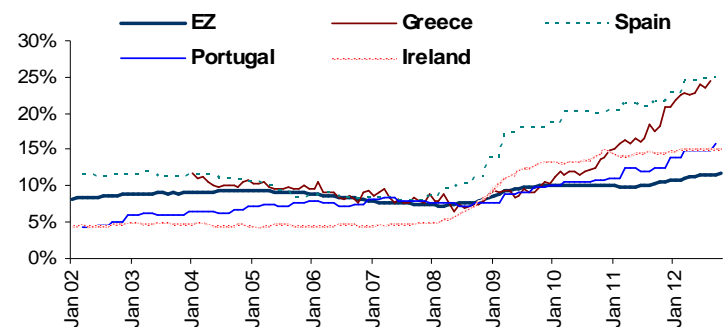
Source: Bloomberg

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



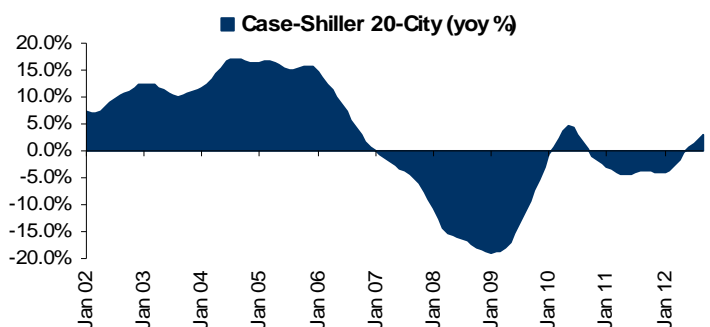
Source: Bloomberg

Figure 3: PIIGS jobless rate still worrisome



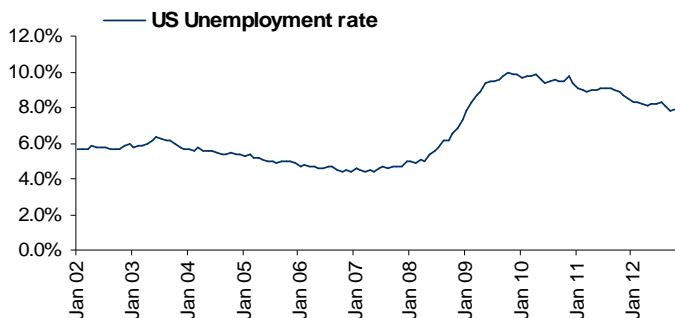
Source: Bloomberg

Figure 4: US S&P/Case Shiller's home price index up for 4th month to 3% in Sep



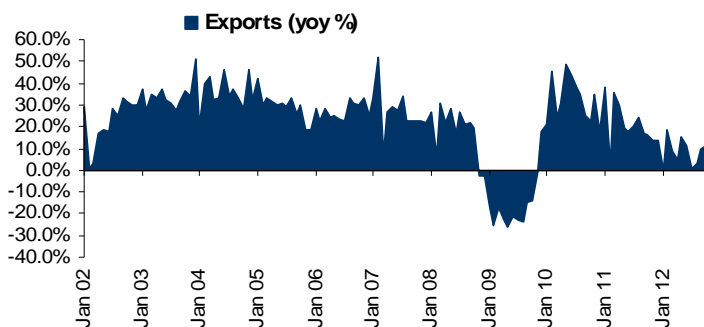
Source: Bloomberg

Figure 5: US unemployment rate below 8% for 2nd straight month



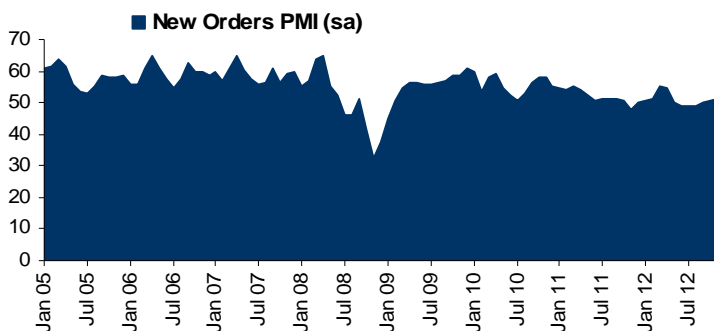
Source: Bloomberg

Figure 6: China's exports recover further to 11.6% in Oct after tumbling to a mere 1.0% in Jul



Source: Bloomberg

Figure 7: PMI new orders up for 3rd month to 51.2



Source: Bloomberg

Thai economy: Domestic demand still a key growth engine for economy

- Thailand's economy continued to feel the pinch of slowing exports as a result of a global economic slowdown. The latest data in Oct 2012 showed exports shrank 6.1% m-m but continued to grow at a healthy pace of 15.6% y-y because of a low base of comparison a year ago hit by the flood crisis. In the first 10 months of 2012, Thai exports in value terms rose by a mere 0.3% y-y to US\$191,861.5mn. However, domestic demand continued to be a key growth engine for the economy especially public and private

investments in urgent flood prevention projects and post-flood rehabilitation activities in industrial and household sectors as well as capacity additions in the auto industry to meet rising demand driven by the government's first-car tax rebate scheme and new model launches.

- **Inflation**
Thailand's annual headline inflation rate in Nov 2012 rose by 2.74% y-y as a result of higher agricultural, vegetable, fruit and fish prices as well as rising sky-train fares. In m-m terms, inflation however dropped 0.35% from Oct 2012 due to lower prices, marking the first decline in 11 months. For the first 11 months of 2012, average annual inflation rate was 2.96%.

Looking ahead into 2013, the potential impact from the implementation of the daily minimum wage hike to Bt300 nationwide, volatile energy prices and a new round of electricity tariff increase could pose threats to inflation against the backdrop of a global economic slowdown. The latest forecasts by two state agencies, the Bank of Thailand and the Ministry of Commerce put inflation at 2.8% and 3.0% respectively for 2013, slightly below what private research house Kasikorn Research Center (KRC) expects for 3.3%

Thai stock market outlook for Dec: Volatility set to rise on external developments

- **Thai stock market outlook**
The composite SET index rallied to a record high in 16^{1/2} years at 1324.04 points in late Nov 2012 but the odds of a short-term market correction remain in the face of uncertainties surrounding the market. In our view, external factors will likely set the tone for the market, especially Europe's sovereign debt crisis and the US fiscal cliff which could bring the highest degree of volatility to riskier asset classes as well as equities before the end of this year. In our view, any attempts to pull Greece and Spain out of the debt spiral or negotiations in US Congress to reach a deal before the end of the year to avert the fiscal cliff could raise the odds of a pullback in equities if there is no much progress as the market has expected.

Even though we give more weight to external factors, internal factors are also important. More attention should be paid to the domestic political factor especially the protests of both government supporters and opponents during the Constitution Day, considered to be the symbol of democracy in Thailand. We see the downside target for the SET index before the end of the year at 1280 points. At current levels, the downside risk appears limited as LTF/RMF buying before the end of the year to take advantage of personal income tax deductions and year-end window dressing by institutional investors should help limit the market's decline to a certain extent. We set an end-2012 target for the SET index at 1340, 1360 points.

There could be the potential for a rebound in Thai stocks before the end of the month driven by the following key catalysts:

- (1) Hopes of more liquidity inflows driven by further economic stimulus measures from central banks around the globe into risky assets especially in Asia, which is on a far better economic footing than developed countries in Europe and the US;
- (2) Expectations that earnings of listed companies will continue to grow in double digits in CY13; and
- (3) The attractiveness of the Thai stock market in terms of dividend yield, the highest in Asia.

We peg resistance for the SET index at 1340, 1360 and support at 1280 for the month of Dec 2012.

- Investment strategy

The strategy is to be selective in stocks. For short-term trading ideals, we advise investors to play the year-end consumption and spending theme. For long-term investment, we believe domestic plays will remain one of the key investment themes for next year with focus on beneficiaries of mega construction projects and consumption stimulus measures as well as high dividend plays.

Top picks for the month of Dec 2012

1. TCAP

Target price: Bt46.70

- In 9MCY12, TCAP made a profit of Bt4.14bn. TCAP also set aside Bt300mn in 3QCY12 as a 100% provision against loan to SSI, leaving it with no more exposure to the troubled SSI. For all of CY12, we expect TCAP to achieve a net profit of Bt5.19bn, up 3.8% y-y.
- TBANK sold its 100% stake in its life insurance subsidiary Thanachart Life Assurance (TLIFE) to Prudential for Bt17.50bn in Nov 2012. The transaction is slated to be completed in 1QCY13. Even though TCAP is expected to book a Bt5.01mn after-tax gain on the sale of TLIFE, the divestment will also result in an estimated lost profit contribution of Bt1.20bn a year from TLIFE. However the impact is unlikely to be felt in CY13 as it could be offset by the above ex-gain. It is expected to take one to two years before TCAP could generate enough revenue to make up for the lost profit contribution from TLIFE. Benefits from the divestment include (1) an exclusive bancassurance partnership with Prudential: As part of the deal, Prudential would sign a 15-year exclusive bancassurance agreement with TBANK. Prudential is one of the UK's largest life insurers, offering a wide variety of insurance products, and (2) a stronger capital base: TBANK's tier-1 capital would increase by 2% to 11% with total CAR of 16%, putting it in a better position to pursue a more aggressive growth plan.
- Looking ahead into CY13, we expect its net profit before exceptional items to fall 18.0% y-y to Bt4.26bn. If the above ex-gain on the sale of TLIFE is built into the forecast, CY13 net profit is projected to rise by as much as 78.5% y-y to Bt9.27bn. Our CY13 target price of Bt46.70/share for TCAP is based on a P/B of 1.2x.

2. THAI

Target price: Bt34

- Even though THAI reported 3QCY12 net profit drop of 28.48% y-y to Bt1,750.06mn, the decline was due chiefly to a decrease in exceptional items. On a pure operating basis, the quarterly profit marked a turnaround from a year-ago loss.

- Traditionally the fourth quarter is the high season for air travel which will continue well into the first quarter. Thanks to the absence of flooding impacts and fourth-quarter high season, the airline's average cabin factor in 4QCY12 to date sharply improved to 64.99%. In Oct 2012, the airline's cabin factor stood at 73.5% and bookings in Nov and Dec 2012 were 77% and 73% respectively.
- Bookings for Japan, which has the highest margin stood at 86% in Nov 2012 and bookings for Europe showed signs of improving in Dec 2012 and Jan 2013. A 24% hike in fuel surcharge should drive passenger yield further higher. THAI has hedged 85% of its fuel requirements in 4QCY12. Overall 4QCY12 would be much better than 4QCY11 for THAI, in our view. Our CY13 target price for THAI is Bt34/share based on EV/EBITDA multiple of 4.5x.

3. TK

Target price: Bt19.20

- In 9MCY12, TK made a net profit of Bt509.77mn, up a meager 2.5% due to the impact of flood-related provisions. Earnings are however expected to be strong in 4QCY12 as the fourth quarter is traditionally the high season for motorcycle sales in Thailand. For all of CY12, we expect TK to achieve new record high earnings of Bt711.38mn, up 13.9% y-y. Based on the above earnings estimates, we also forecast TCAP to pay a 2HCY12 dividend of Bt0.34/share but there is scope for a dividend upside surprise as CY12 marks its 40th anniversary.
- Management has guided that overseas expansion plan will likely be concluded in early CY13. TK eyes Vietnam and Indonesia as possible targets for expansion. We expect TK to deliver a CY13 net profit of Bt787.41mn, up 10.7% y-y based on assumptions that loan portfolio growth will normalize and there will be no exceptional provisions. Our CY13 target price of Bt19.20/share for TK is DDM-based.
- TK is one of the nine additions to the MSCI Small Cap Indices, making the stock more attractive to foreign investors.

Sector	Investment weighting in Dec compared to Nov 2012		Stock pick*	Investment thesis	CY13				Mkt Cap as of Nov 30, 2012 (Btmn)
					FV (Bt)	P/E (x)	P/BV (x)	Div Yld (%)	
FOOD	Neutral	---	CPF	Peak tourism season and high season for exports	38.00	16.13	2.39	3.2%	253,581
BANK	Overweight	---	SCB	Beneficiary of year-end consumer spending spree	201.00	13.37	2.33	2.8%	551,482
			BBL	Beneficiary of private-sector investments due to huge share of corporate loans	235.00	9.71	1.21	4.0%	349,318
			TCAP	Car hire-purchase business seen as one of beneficiaries of Thailand International Motor Expo 2012	46.70	4.93	0.92	3.6%	45,682
FIN	Neutral	---	TK	Strong motorcycle sales outlook for 4Q	19.20	11.36	1.98	4.4%	8,700
AUTO	Neutral	---	AH	29th Thailand International Motor Expo + continued industry growth outlook for CY13	24.50	7.50	1.04	4.0%	4,621
ENERG	Neutral	---	BCP	Normalization of production + insurance claims for flood damages + increasing proportion of revenue from solar farm business	32.50	7.29	1.11	4.9%	39,242
PROP	Neutral	---	AP	Strong 4QCY12 earnings outlook + laggard play	9.60	8.19	1.68	4.6%	25,195
TRANS	Neutral	---	THAI	Peak tourism season + recovery in cabin factor from last year's floods especially for highest-margin Japan	34.00	9.48	0.68	4.2%	47,803
COMM	Neutral	---	BIGC	Beneficiaries of year-end festive spending	210.00	22.91	4.53	1.5%	160,875
			ROBINS		70.00	25.64	5.51	1.8%	67,195
ICT	Neutral	---	DTAC	Court's rejection of 3G petition filed by Office of Ombudsman	103.00	16.68	5.77	6.0%	207,775

* Model portfolio performance in Nov 2012

PSR portfolio Top three gainers/outperformers included BCP, TK and BGH.SET index Top three losers/underperformers included THAI, TCAP and KTC.

Cumulative model portfolio performance for Apr-Nov 2012

PSR portfolio SET index

SET index outlook for Dec 2012: Happy New High

A surprisingly strong rally with heavy trading volume took the SET index to a new high of 1328.27 on the last trading day of last month and lifted it back to an uptrend. For the month of Dec 2012, we see the upside target for the SET index at 1340 and 1360. We believe the target is likely to be breached in view of the index's current bullishness and seen as a good trigger point to take profits ahead of the long Christmas and New Year holiday break. Support is seen at 1280.



Top picks for the month of Dec 2012

THAI: 'TRADING BUY'

Support: 21.40 Resistance: Bt23.50-Bt23.70 Cut loss: Bt21.00



The stock resumed its upward trek as a recovery signal emerged on both daily and weekly charts after it hit a low of Bt20.50 in Nov 2012. A buy signal from MACD would also set the stage for the stock to retest the previous resistance level around Bt23.50-Bt23.70.

AMATA: 'TRADING BUY'

Support: Bt15.10-Bt15.20 Resistance: Bt17.20 Cut loss: Bt14.90



The stock shaped a rounding bottom which calls for further recovery after it was finished with its base-building and the support also came from indicators which gradually recovered slowly but looked stable. By our estimate, the stock is expected to complete its pattern around Bt17+.

MIDA: 'TRADING BUY'

Support: Bt1.09 Resistance: Bt1.30 Cut loss: Bt1.08



The stock price appears to have already bottomed out and is now showing signs of reversal with potential to head for new multi-year highs. Over the past two months, the stock drifted sideways for the most part though it was in a correction phase. Indicators are now flashing buy signals, seen as a safe entry point to buy the stock.

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