

## Pullback in the cards if funds flow out of market

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**Summary:** The overall global economy looked to be improving as economic readings out of major economies including the likes of the US and China pointed to a better-than-expected recovery in many parts of the economy after data showed China's economy rebounded in 4Q12 and new order PMI improved sequentially and US housing market recovery gained traction. However, the recovery remained fragile as US unemployment rate was still high around 8% and there were concerns over the potential impact of tax hikes since the start of the year and uncertainty about ongoing budget cut negotiations in Congress whether a deal could be reached before the Mar 1 deadline. In addition, the continued weakness in European economies and political uncertainty in many euro zone countries especially Spain and Italy could bring uncertainty back to the global economy.

More choppy sideways action could be in the cards for the Thai stock market in the month of Feb with a risk of short-term correction after a more than 16-month market rally without a serious correction and a lack of fresh positive triggers to sustain strong rally in addition to existing global liquidity glut.

The following are key factors to watch this month:

- (1) US: Uncertainty about negotiations on US budget cuts, and economic data, which supports the case for continued monetary, easing especially QE after a surge in benchmark 10-year US bond yields near 2% fuel fears of the potential impacts on the overall economy.
- (2) Euro-zone: Political uncertainty in Spain after increasing calls for PM Mariano Rajoy to resign over a corruption scandal and Italy's national election by the end of the month renewed worries about the euro zone debt crisis and the impact on the overall economy. All eyes should be on the European Central Bank (ECB) and the Bank of England (BOE)'s policy meetings on Feb 7.
- (3) Thailand:
  - Feb 18: 4Q12 GDP
  - Feb 20: The Bank of Thailand's Monetary Policy Committee meeting on interest rate policy amid the strength of the baht and red-hot loan growth in the industrial sector.

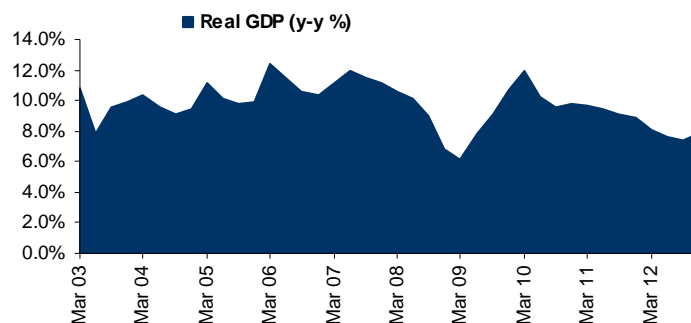
The composite SET index is likely to move in a choppy sideways mode with a risk of short-term correction this month. We peg resistance for the SET index at 1550, 1570 and support at 1470 for the month of Feb.

Our top picks for the month of Feb include MODERN, KCE and SF.

### Global economic recovery gains traction but still in fragile state

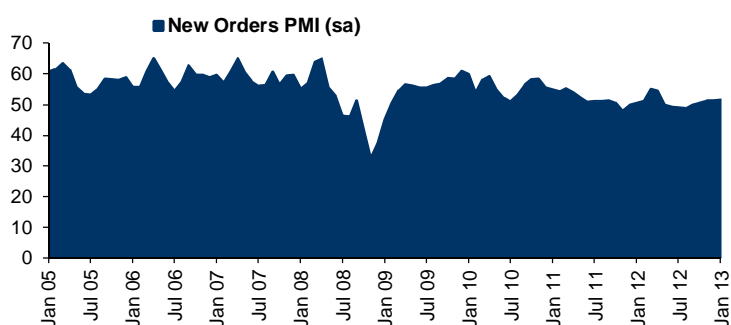
A close watch on key economic data out of several major economies remains necessary.

**Figure 1: China GDP picks up to 7.9% in 4Q12 from 7.4%, the lowest in 14 quarters in 3Q12**



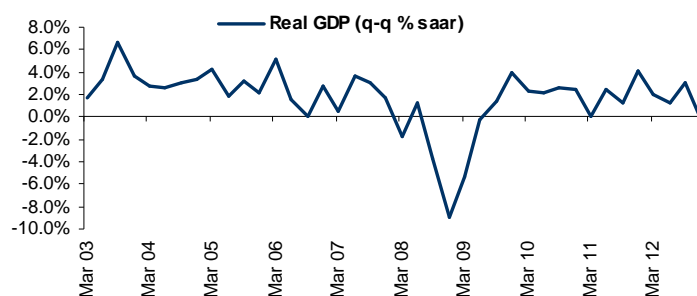
Source: Bloomberg

**Figure 2: China new orders PMI up for fifth straight month to 51.6**



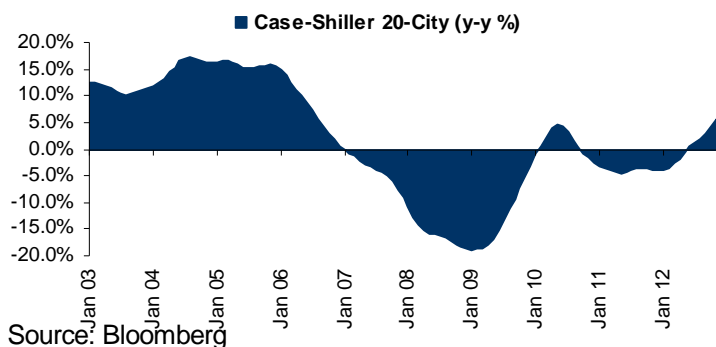
Source: Bloomberg

**Figure 3: US GDP shrinks by 0.1% in 4Q12, below market expectations**

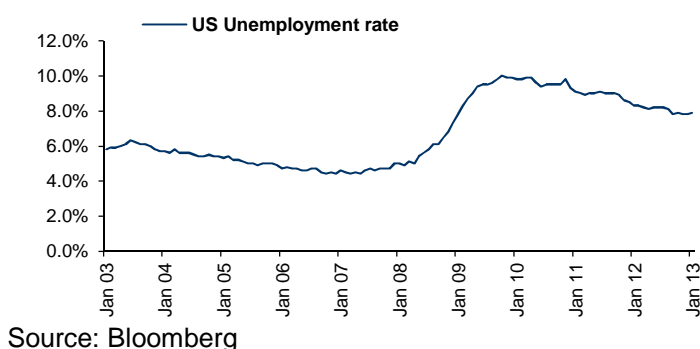


Source: Bloomberg

**Figure 4: US S&P/Case Shiller's home price index up for 6th month to 5.5% in Nov 2012**



**Figure 5: US unemployment rate still near 8%**



**Thai economy: Hope pinned on progress in large-scale investment projects, measures to stem baht's rise eyed**

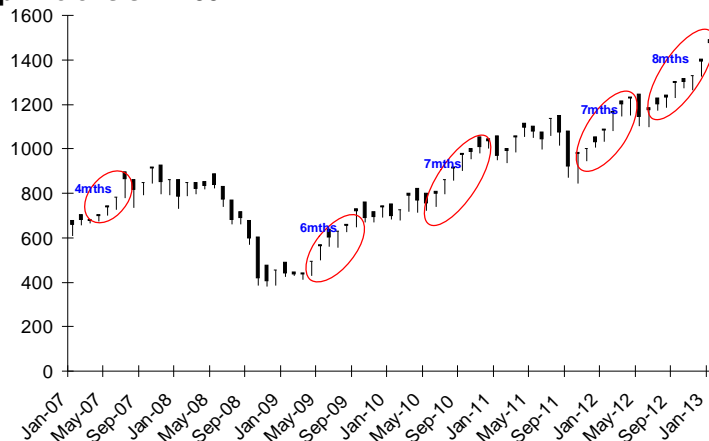
- Thai economic outlook  
The Thai economy is likely to keep growing at a healthy pace this year from last year. Domestic consumption and investment would be the key engines of growth. On this basis, progress in the government's large-scale investment projects still bears close monitoring.
  - (1) The bidding for the Bt350bn water management and flood prevention projects: In the latest developments, the Water Management and Flood Prevention Commission approved a list of qualified companies selected to bid for the water management projects and the bid winners are expected to be announced in Apr 2013.
  - (2) The Bt2.2trn infrastructure investment plan over the next seven years: Currently the government is pushing ahead with a draft bill to authorize new borrowing of up to Bt2.2trn to finance infrastructure programs.
  
- Measures to stem baht's rise  
The Thai baht appreciated rapidly at the start of the year. The currency rose as much as 2.6% within one month from 30.58 to the US dollar at end-2012 to 29.80 to the US dollar at end-Jan 2013. The rapid strength of the baht raised concerns among exporters and the government, which led to a call for interest rate cuts to stem capital inflows in a bid to curb currency appreciation. However, we believe the Bank of Thailand may not be in a hurry to cut policy interest rate at its upcoming rate-setting meeting on Feb 20 as the central bank earlier expressed concerns about the elevated level of household debt and a bubble in some parts of the

property market and it will also wait to assess the impact of the government's daily minimum wage hike to Bt300 nationwide, which was enforced on Jan 1, 2013. We think the central bank may possibly take other measures to keep the baht from rising too fast rather than cut rates when it meets on Feb 20.

**Thai stock market outlook for Feb: More sideways action in store with risk of short-term correction**

- Thai stock market outlook  
The composite SET index broke the key 1,500-point barrier to a more than 18-year high and extended the streak of higher closes to eight straight months in Jan 2013 driven largely by global liquidity inflows into Asia. At the end-Jan closing level of 1474, there is remaining upside of less than 4% to the end-2013 SET index target of 1530 based on around 14.2x 2013 P/E.

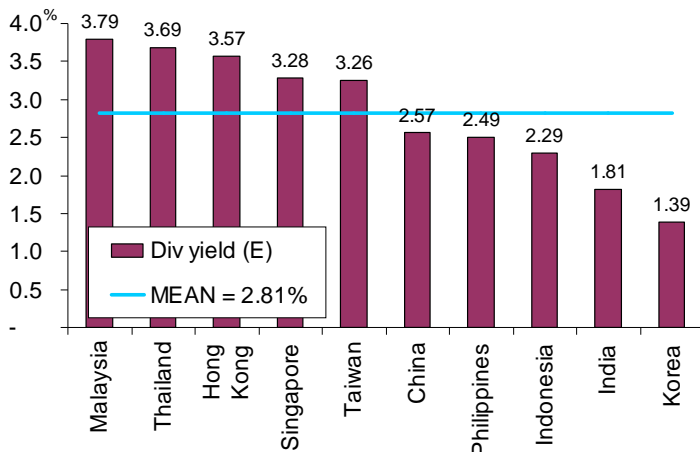
**Figure 6: SET index extends streak of higher closes to 8 straight months in Jan 2013, the longest since US sub-prime crisis in 2007**



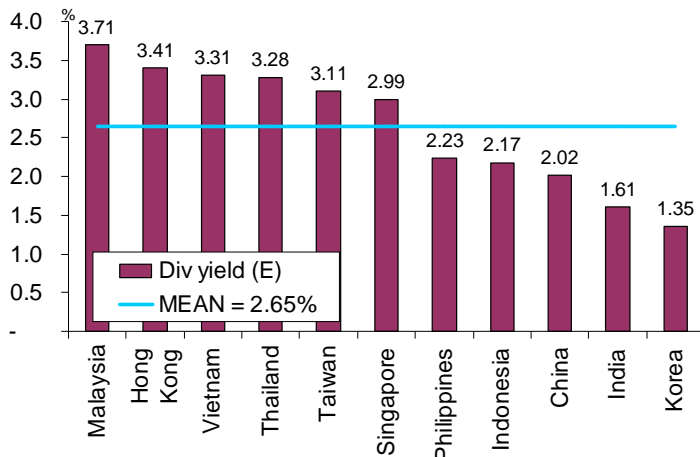
Regardless of fundamentals, the influx of capital inflows and the possible P/E re-rating to 14.5x and 15x could suggest the potential for the composite SET index to reach 1570 and 1620 points respectively.

In terms of market attractiveness compared to regional peers, the Thai stock market offers one of the best dividend yields in Asia but a two-month strong rally has now pushed its dividend yield lower though the figures remain above regional mean.

**Figure 7: Dividend yields in Asia over the past two months**



Source: Bloomberg, data as of early Dec 2012



Source: Bloomberg, data as of early Feb 2013

In view of market moving factors in the month of Feb, there remain a large number of uncertainties that could possibly drag the market into a correction or at least into a more sideways mode in the face of negotiations on US budget cuts, political uncertainty in Europe and efforts by the Bank of Thailand and the government to take more actions to stem the baht's rise.

For the month of Feb, we peg resistance for the composite SET index at 1550, 1570 and support at 1470.

- Investment strategy  
We believe selective plays will continue to do well in current market conditions as annual earnings season, which is normally followed by dividend announcements, will kick into full gear in Feb. For short-term trading ideas, we advise investors to look for good earnings or dividend plays.

For medium to long term investment horizon, we recommend investors accumulate shares on weakness towards 1470. Beneficiaries of mega construction projects and consumption stimulus measures will remain key investment themes to play this month.

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

**1. KCE**

**Target price: Bt12.10**

- In normalized terms, 4QCY12 earnings are expected to be better than 4QCY11 and 3QCY12 on rising sales and improving margins. The forecast assumes (i) 4QCY12 sales will be 7% higher than 3QCY12 at US\$56mn, (ii) 4QCY12 margin will be better than 3QCY12 as a result of a drop in scrap rate to a mere 4.8%, and (iii) KCE will book a FX gain and a gain from insurance claims. Overall on a net profit basis, we forecast KCE to report a 4QCY12 net profit of Bt197mn, up 297% y-y but down 76% q-q.
- We believe KCE will likely be one of SET-listed electronics firms that could see the strongest earnings recovery on a normalized basis this year helped by higher capacity utilization rates at KCE Tech and rising orders from new clients. We forecast KCE to deliver CY13 sales growth of 27% y-y to US\$250mn. The recovery in operating performance of KCE Tech should bring margins back on track. On this basis, we expect KCE to report a significant recovery in CY13 operating profit but net profit is however projected to drop 25% y-y to Bt524mn.
- Current valuation of 9.5x P/E looks undemanding relative to peers and earnings are expected to return to strong growth on a normalized basis this year. We rate KCE shares a 'BUY' with a target price of Bt12.10/share.

**2. MODERN**

**Target price: Bt9.20**

- We expect 4QCY12 revenue and net profit to be the highest of the year for MODERN at Bt907mn and Bt137mn respectively, reflecting delivery delays in residential and office furniture businesses due to the impact from flooding a year earlier.
- At end-CY12, MODERN had a backlog of around Bt2bn, of which 70% would be realized as revenue in CY13 thanks to the acceleration of the construction and ownership transfer for property projects and an increasing number of office buildings. Strong growth momentum is also set to continue at its subsidiaries, especially in healthcare product and medical equipment business.
- In y-y terms, earnings are expected to remain strong in 1HCY13 boosted by backlog and reflecting the lingering impact from flooding in 1HCY12. We forecast MODERN to achieve CY13 net profit growth of 20% to Bt492mn. The forecast is based on assumptions that (i) revenue will grow 12% y-y to Bt3,345mn, (ii) gross margin will pick up, (iii) administrative expenses will be more effectively controlled, and (iv) MODERN will benefit from further cut in corporate income tax rate to 20% from 23%.
- In our view, property developers' plans to launch a large number of new residential projects and develop new residential projects in other major provinces should allow MODERN to broaden its market reach in addition to Bangkok and its vicinities, a move that would bode well for sales in the long run.

- We forecast MODERN to pay a 2HCY12 dividend of Bt0.30/share, translating into an un-annualized yield of 3.77% and a CY13 dividend of Bt0.60/share, implying an annualized yield of 7.55%. We set a target price of Bt9.20/share for MODERN. The target is DDM-based.

### 3. SF **Target price: Bt9**

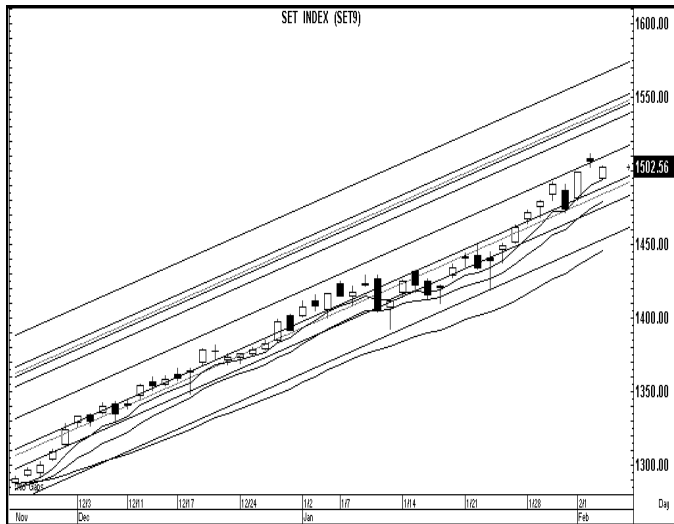
- SF is engaged in open-air shopping center development and management. Its project portfolio at end-2012 had total gross leasable area of 371,018 sqm including Mega Bangna, which was launched in early 2012. The average occupancy rate stood at 97%. Overall revenue stream is quite stable and rental rates will be raised by 5% annually. The large-scale investment project like Mega Bangna, which is expected to be concluded this year could serve as a key growth catalyst for SF in addition to its plan for other new project launches which will add about 30,000 sqm or 10% of total gross leasable area to its portfolio per annum.
- Earnings are expected to be exceptionally strong in CY12 boosted by an exceptional gain on fair value adjustment of the Mega Bangna project. Stripping out this ex-item, CY12 operating income from rental business is forecast to be 80% higher than CY11 driven by the Mega Bangna project. The growth momentum in operating profit is also set to continue in CY13 buoyed by full-year contribution from the Mega Bangna project, the absence of huge marketing expenses for the launch of the Mega Bangna and the likely 5% average increase in rental rates for other projects. We estimate SF will deliver a CY13 pre-exceptional profit of Bt538mn or Bt0.46 a share, up 23% y-y.
- In our view, SF is a big laggard. A lack of fresh catalysts has pushed its adjusted P/B and P/E multiples sharply lower than its peers CPN at 1.21x and 12x against 3.15x and 22x respectively. In our view, such a discount is unjustified though CPN is bigger in size than SF. We believe the new large-scale investment project to be announced this year could be a re-rating catalyst in store for SF. We set a CY13 target price of Bt9/share for SF. The target is based on 15x CY13 P/E and 1.5x CY13 P/B.

Sector	Investment weighting in Feb 2013 compared to 2012		Stock pick*	Investment thesis	Closing price as of Jan 31, 2013	2013				Mkt Cap as of Jan 31, 2013 (Btmn)
						FV (Bt)	P/E (x)	P/BV (x)	Div Yld (%)	
FOOD	Overweight	▲	CPF	Product price recovery would bode well for earnings.	35.50	37.25	18.02	2.58	2.8%	274,874
BANK	Overweight	---	TCAP	TCAP is a likely beneficiary of the government's first-car tax rebate scheme. For 1QCY13 and all of CY13, earnings growth would be driven by the divestment of the insurance business. Valuation remains cheap as TCAP is still trading at the sector's lowest P/E and P/B multiples.	38.75	47.00	5.13	0.99	3.4%	49,515
			BBL	Large-scale investment projects in both public and private sectors would be key drivers of loan growth for BBL, which has a proven expertise in large corporate finance.	209.00	235.00	11.21	1.38	3.5%	398,948
CONMAT	Overweight	---	SCC	Demand picks up on the back of a rebound in construction activity.	444.00	490.00	16.30	3.04	3.6%	532,800
			DRT		7.65	8.00	11.42	3.28	6.1%	7,941
HOME	Neutral	---	MODERN	4QCY12 results are expected to be the highest of the year and dividend is estimated to be Bt0.30/share for 2HCY12. Strong growth momentum is set to continue on the prospect of further expansion in property market.	8.05	9.20	11.84	2.03	7.5%	6,440
ENERG	Neutral	---	PTT	PTT has been a laggard relative to peers. Higher gas sales and PTTEP's gas sales volume growth target of more than 10% would be the main engines of earnings growth for PTT this year.	341.00	412.00	7.92	1.15	4.4%	973,998
PROP	Housing	Neutral	---	CY13 earnings growth outlook is largely priced into the stock price. Most of the stocks look overvalued amid concerns that FDI this year will be less than last year when FDI was driven by pent-up demand after floods. SF has been a big laggard compared to CPN and new large-scale investment project to be announced this year could be a re-rating catalyst in store for SF. Current P/B levels represent a big premium to historical averages for all construction contracts. Much of the good news is already priced in and profit taking is likely after the announcement of the bid results.	7.50	9.70	12.30	1.34	1.6%	8,774
	Industrial estate	Neutral	---							
	Shopping center development	Neutral	SF							
	Contractor	Neutral	---							
MEDIA	Neutral	---	TKS	TKS is a good laggard play and it has a pipeline of new projects pending contract signing.	7.05	9.30	6.84	1.43	6.5%	1,749
HEALTH	Neutral	---	BGH	Earnings would be driven by strong patient volume growth as well as organic and inorganic growth from existing hospitals and newly acquired hospitals in the future.	133.00	146.00	29.56	4.70	1.1%	205,546
COMM	Neutral	---	---	Much of the consumption growth appears to have already been baked into the stock price.						
TRANS	Neutral	---	---	Several stocks look fully valued.						
TOUR	Neutral	---	---	Price targets are under review.						
ETRON	Neutral	---	KCE	Earnings turnaround could be a re-rating catalyst for KCE.	10.40	19.20	10.61	1.53	3.8%	4,915
ICT	Neutral	---	THCOM	New clients in India and China and the absence of loss contribution from MFONE would be key drivers of earnings growth for THCOM.	23.30	27.10	23.30	1.66	1.7%	25,535

**SET index outlook for Feb 2013: 'Follow the Trend'**

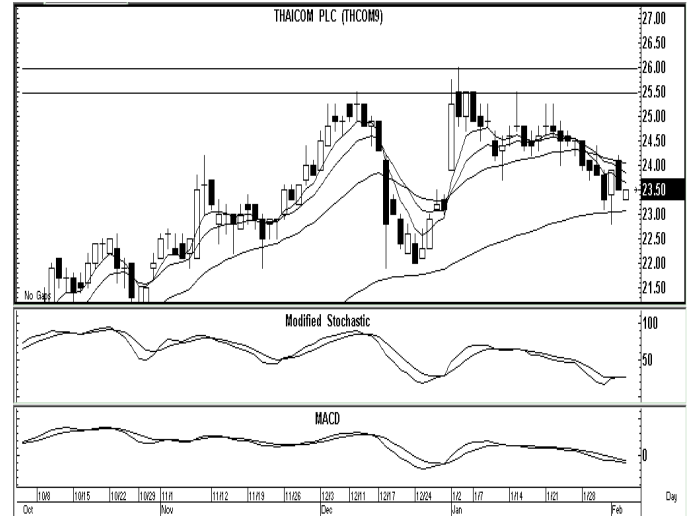
The composite SET index had continued its upward trek since the latest major correction in Oct-Nov 2012 though there were some short-term pauses or corrections in which the main index in many times found support at 5-day EMA line. Even though some steep correction brought the SET index down to 10-day EMA line, it however finally managed to bounce back. In this bullish market condition, supports and resistances may be no longer necessary but when the SET index will face another major correction will be a key factor to watch, in our view. We believe the 'follow the trend' may be the best trading strategy in current market conditions until there will be a warning signal of a correction, which will be flashed after the SET index breaks down below its 10-day EMA line.

For the month of Feb, 10-day EMA line, currently around 1470+ points will serve as a key support level until there is any trend reversal and key resistance levels are pegged at 1550 and 1570.



**THCOM: 'TRADING BUY'**

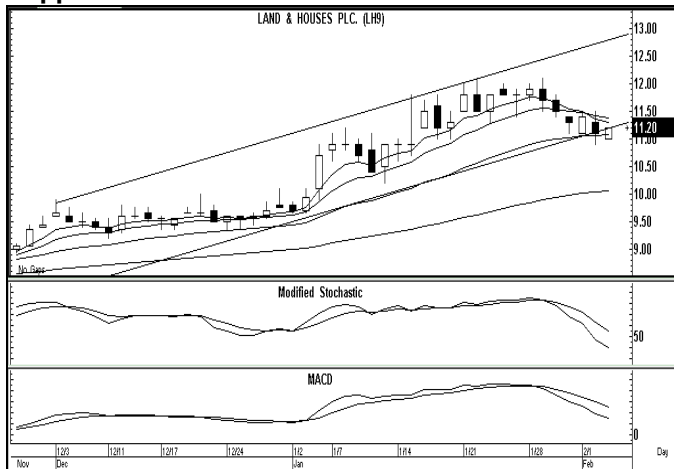
**Support: Bt23.00-Bt22.80 Resistance: Bt25.50-Bt26.00 Cut loss: Bt22.60**



Prices pulled back to a critical support level, which could be a trigger point for a rebound after a sharp pullback dragged prices down to 75-day EMA line and short-term indicators dropped to low levels though they had not yet entered into oversold territory. Based on historical trading data, there is potential for THCOM to rebound and the upside target is a retest of the previous high.

**LH: 'TRADING BUY'**

**Support: Bt10.70 Resistance: Bt13.00 Cut loss: Bt10.50**



Prices were in a pullback mode but weekly charts showed 25-day EMA line acted as a key support all the way and this support level could also be a trigger point for a rebound this time. We peg trend line resistance for the stock at Bt13.00.

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