

MONTHLY STRATEGY: MAY 2013

Correction risks imminent after 11-month streak of gains

Research Department

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Summary

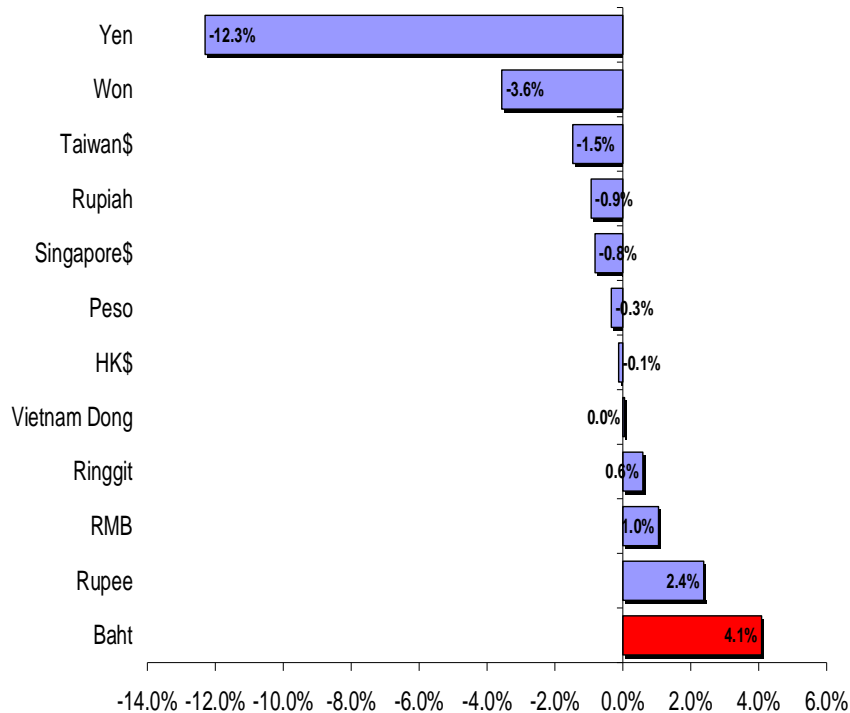
- First-quarter earnings plays should lend support to the market. There is potential for the composite SET index to rally towards 1620-1660 in the first half of the month but a host of uncertainties especially concerns about possible baht measures and domestic political worries may put a cap on potential gains and leave the market in a pullback mode after the end of the quarterly earnings reporting season.
- The SET index extended its streak of higher closes to 11 months, scoring its longest run of monthly gains in more than 23 years. In our view, an overextended market rally may leave the market vulnerable to the risk of correction.
- We peg support for the SET index at 1560 and resistance at 1620 for the month of May.
- In our view, a 'sell on rise, buy on dips' strategy makes sense for Thai stocks in the month of May. We advise investors to gradually book profits at resistance levels and buy back at 1560-point support level. Cut loss if the SET index breaks below 1550.
- Earnings plays will be a key investment theme for the month of May. Our recommended picks include BH, DELTA, KK, SIM and SPALI.

Key factors to watch in May 2013

- Baht measures: Even though the baht weakened to above 29 per US dollar, the unit continued to appreciate too far ahead of other regional currencies. The pressure will likely continue on the Bank of Thailand to take strong steps to curb the currency's persistent appreciation while the policy tussle between the government and the Bank of Thailand also fanned rumors about possible baht measures and the ouster of central bank governor to sweep through the market.
- Domestic political uncertainty: (i) the red-shirt UDD protest against the Constitution Court and (ii) the request for court injunction to halt the bidding for the government's Bt350bn water management scheme -- bid winners are scheduled to be announced early next month after qualified bidders submitted their bid proposals for water management projects to the water resource management and flood control committee on May 3.
- May 15-16: MSCI Equity Indices May 2013 Semi-Annual Index Review
- May 20: Thai 1Q13 GDP data: The consensus is calling for a 6% growth.
- May 29: Bank of Thailand's Monetary Policy Committee meeting amid pressure from the private sector and the Ministry of Finance to cut policy interest rate.

Thai baht performance & measures

Performance of major Asian currencies against US dollar



Source: Bisnews, data as of Apr 30, 2013

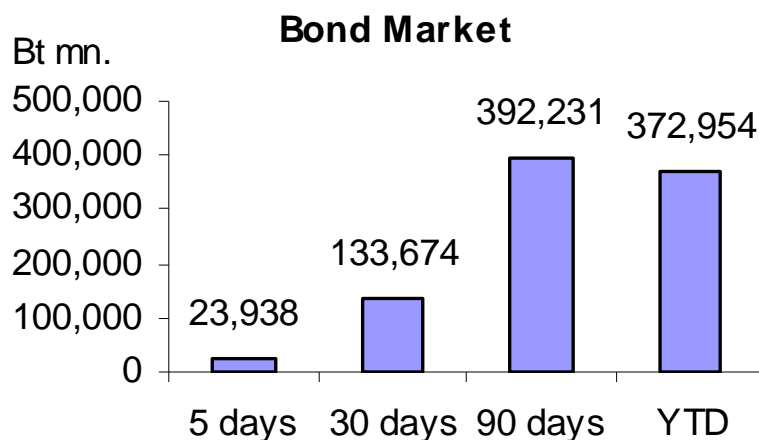
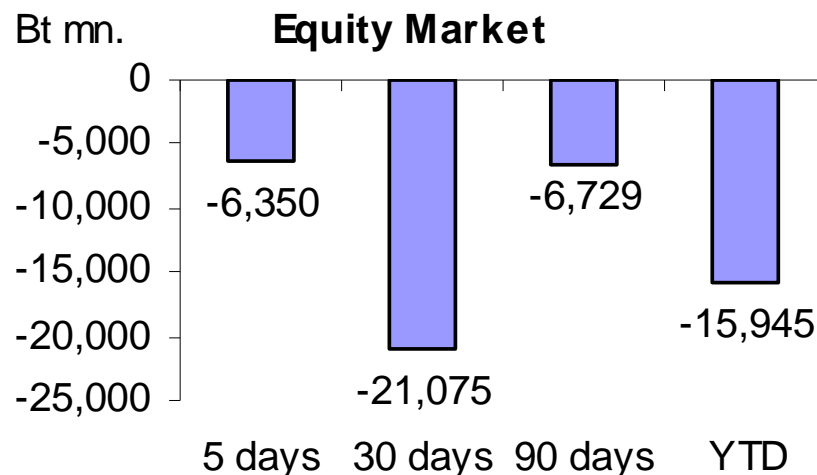
- The Federation of Thai Industries (FTI) has proposed to the Bank of Thailand the following five measures to tackle the strong baht: (1) establishment of emergency FX management mechanism, (2) switch from inflation targeting to FX rate targeting, (3) a 1% cut in policy interest rate to 1.75% from current 2.75%, (4) imposition of capital controls for at least three months and (5) Bank of Thailand's adjustment to the conditions on the purchase of inflation-linked government bonds.
- The Bank of Thailand said it is ready to take measures if necessary to tackle the baht. Soft measures will be first taken before resorting to draconian measures.
- Due to the outperformance of the baht against other regional currencies, the central bank may likely take any measures anytime soon to keep the currency from further appreciation though the unit weakened to above 29 per US dollar but it is likely to use tools to stem capital inflows into bond rather than capital market.

Qualified bidders for Bt350bn water management scheme

Flood Protection System		Value (Btmn)	Korea Water Resource	Thai Japan JV**	ITD Power China	Team Thailand JV** (CK,CNT)	Thai US JV (LOXLEY)	Summit SUT JV
Package A: Chao Praya River Basin								
A1	Dam	50,000						
A2	Area development	50,000						
A3	Area development	60,000						
A4	Shore improvement	7,000						
A5	Flood way, flood diversion channel	120,000						
A6	Flood warning system	3,000						
Package B: Other river basins								
B1	Dam	12,000						
B2	Area development	10,000						
B3	Shore improvement	10,000						
B4	Flood warning system	2,000						

** Dropping out of bidding

Foreign fund flow



- Net foreign outflows from Thai stocks picked up steam this year after several straight years of net inflows. Net foreign inflows into Thai shares nearly reached Bt200bn during 2009-2012. At end-Apr 2013, foreign net selling of Thai shares nearly hit Bt16bn.
- Foreign inflows into Thai bonds however continued unabated.

SET index extends streak of higher closes to 11 months



May historically a bad month for Thai stocks





- DELTA reported a 1QCY13 net profit of Bt1,215.73mn, up 70.4% y-y. The quarterly results came in 4.8% above our forecasts.
- In 1QCY13, the stellar profit growth was boosted by rising sales in telecom power system segment in the US, EMEA (EU, Middle East and Africa) and India and power supply segment on the back of higher demand from the networking business. Gross margin expanded to 27.0% and SG&A expenses were tightly controlled.
- Despite the strength of the baht, we stick to our view that full-year sales growth target of 5% y-y to US\$1,377mn will be achieved on higher sales of data center networking products. For the year, net margin may be narrower than last year, reflecting a reversal of inventory write-downs in CY12. We estimate CY13 earnings will be 4% lower than CY12 at Bt4,189mn.
- DELTA remains one of our top picks in electronics space. We set a target price of Bt43.50/share for DELTA.

Target price: Bt43.50

Short-term technical view: Support: Bt36.00
Resistance: Bt40.00-Bt42.00
Cut loss: Bt35.00

Bumrungrad Hospital - BH



Target price: Bt90.00

Short-term technical view: Support: Bt80.00
Resistance: Bt95.00
Cut loss: Bt78.00

- BH is forecast to report 1QCY13 profit growth of 53.8% q-q and 6.7% y-y on the back of a healthy rise in revenue from hospital operations helped by price hike as well as local and international patient volume growth.
- Under the plan to boost OPD and IPD capacity, BH will add (i) 80 new diagnostic rooms and one lab, covering five floors of Bumrungrad International Building, slated to begin operation this month, and (ii) add 58 new IPD beds on the 12th floor of the existing building, scheduled to begin operation in mid-CY14.
- In addition to the expansion of its hospital campus on Sukhumvit 1 Road, BH plans to build its second hospital campus as a mother and child center on New Petchaburi Road. BH will also remain on the prowl for more M&A deals.
- For all of CY13, we expect BH to deliver core business profit of Bt2,390mn, up 18.62% from Bt2,015mn in CY12. We call BH shares a 'BUY' with a CY13 target price of Bt90/share.

Samart I-Mobile - SIM



- SIM is expected to report stellar 1QCY13 results on brisk smart phone sales. Our forecast suggests SIM will post a 1QCY13 profit of Bt172mn, surpassing the full-year profit of Bt166mn in CY12, based on assumptions that 381,000 smart phone handsets will be sold in 1QCY13, up significantly from 1,838 handsets sold in 1QCY12.
- The 3G service rollout would spur demand for data services and would in turn boost demand for smart phones. SIM aims to sell 2.45mn smart phone handsets this year, nearly four times greater than 540,000 handsets sold last year.
- For all of CY13, we forecast SIM to deliver a net profit of Bt741mn, up a spectacular 347% y-y. We rate SIM shares an 'ACCUMULATE' with a target price of Bt4.82/share.

Target price: Bt4.82

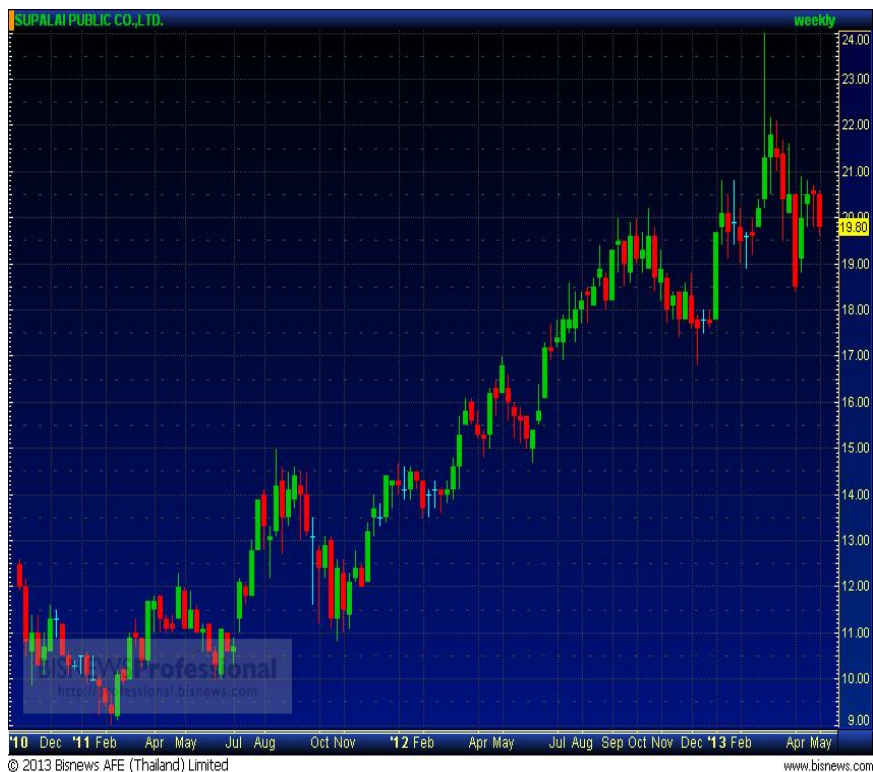
Short-term technical view: Support: Bt3.90
Resistance: Bt4.40, Bt4.90
Cut loss: Bt3.82



- KK's 2QCY13 net profit is expected to be better than the Bt1.1bn it achieved in 1QCY13 on the prospect of hire-purchase loan growth momentum and an estimated Bt400mn contribution from PHATRA's advisory and underwriting fees from the IPO of the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF).
- If the Bank of Thailand's Monetary Policy Committee slashes its policy interest rate at its next meeting, KK would stand to benefit from an immediate drop in costs of interests with a lag time for loan yields to drop as hire-purchase loans with fixed interest rates represent the largest component of its loan portfolio.
- Full-year synergies from the merger with PHATRA should lead KK to deliver net profit growth of 42% y-y to Bt4.8bn this year. KK is also the best dividend play in the banking space. Our forecast suggests KK will pay a CY13 dividend of Bt3.50/share, translating into a yield of roughly 5%. We rate KK shares an 'ACCUMULATE' with a target price of Bt77/share.

Target price: Bt77.00

Short-term technical view: Support: Bt65.50
Resistance: Bt76.00
Cut loss: Bt64.00



Target price: Bt25.00

Short-term technical view: Support: Bt18.70
Resistance: Bt22.00
Cut loss: Bt18.50

- Weak condo presales due to the launch of only new condo project dragged 1QCY13 total presales down 54% q-q and 11% y-y. In 1QCY13, SDH/TH presales came in strong at Bt2bn, putting SPALI on track to meet full-year target of Bt7bn. In our view, low-rise housing presales momentum appears strong while condo presales are likely to improve in the following quarters as the pace of new condo launches picks up.
- The latest backlog topped Bt37bn. Of the total backlog, up to Bt12.7bn and Bt12.2bn would be realized as revenue this year and next, covering 92% and 70% of our CY13-CY14 revenue targets for SPALI respectively. We expect SPALI to achieve CY13-CY14 revenue growth of 19% and 33% respectively. SPALI remains confident that it could maintain margins through selling price increases to pass through rising costs. We estimate SPALI to deliver CY13-CY14 profit growth of 20% and 28% y-y respectively. Based on the above presales figures, we forecast SPALI to report 1QCY13 profit growth of 79% y-y on the back of a 40% rise in quarterly revenue.
- In view of the prospects for strong growth momentum well into CY14, we think its current valuation of a mere 8x CY13 P/E compared to CY14 earnings growth estimate of 28% looks cheap. Rolling forward our valuation into CY14, we set a target price of Bt25/share for SPALI.

Sector update & stock picks

Sector	Investment weighting		Stock pick	Investment thesis	FV (Bt)	2013**			Mkt Cap (Btmn)
						P/E (x)	P/BV (x)	Div Yld	
BANK	OW	---	KK	Financial advisory and underwriting fees from the IPO of the BTSGIF will serve as a key driver of 2Q13 profit growth.	77.00	12.18	1.65	4.96%	58,861
COMM	NT	---	SINGER	Stellar profit growth is expected in 1Q13 thanks to rising consumption on the back of the daily minimum wage hike.	31.90	20.31	4.85	1.96%	7,020
			BEAUTY	The accelerated branch expansion last year should provide a lift to the bottom-line profit this year.	25.50	31.28	5.36	1.93%	7,320
PETRO	UW	▼	PTTGC	1Q13 results are expected to be better than 4Q12 and 1Q12 on still-high levels of aromatics and olefins margins.	84.00	9.34	1.30	4.52%	329,146
ENERG	UW	▼	BCP	Profit contribution from the second phase of the solar power plant and additional gain from insurance claims would offset the impact of oil price and GRM weakness.	38.50	9.25	1.40	4.69%	49,913
AUTO	NT	▲	TKT	Earnings are expected to perform well in 1Q13 in line with industry conditions. TKT is also seen as a laggard relative to its peers.	5.20	8.47	1.53	4.77%	852
PROP	NT	---	CK	Infrastructure theme remains intact despite concerns over the possible suspension of the government's Bt350bn water management projects in the near term as there will remain other projects to be up for grabs. Due to current premium valuation, any weakness could present a buying opportunity.	25.01	7.35	3.06	5.45%	45,446
			SPALI	Property sector results are expected to be mixed in 1Q13. In y-y terms, SPALI, PS, QH and LH are forecast to deliver strong earnings growth in 1Q13.	25.00	10.62	2.45	3.76%	35,189
			SCC	Cement demand is expected to grow at a brisk pace of more than 10%. There is room for selling price increases. SCC is worth accumulating in view of the construction-related growth outlook and the nascent recovery of the petrochemical business.	490.00	17.70	3.28	3.39%	573,600
MEDIA	NT	---	BEC	1Q13 earnings growth is expected to be best-in-class among its peers.	68.50	23.51	14.79	4.10%	134,000
TRANS	NT	---	THAI	Operating profit is expected to fall slightly but huge FX gain should lead THAI to report strong net profit growth in 1Q13.	34.00	12.77	0.88	3.12%	64,392
HEALTH	NT	---	BH	The first quarter is the traditional high season for hospital operators.	86.30	25.08	6.46	1.99%	59,924
ETRON	NT	---	DELTA	1Q13 results are expected to be better than 1Q12 and 4Q12.	43.50	11.31	2.00	5.92%	47,401
ICT	NT	---	SIM	The 3G service rollout would boost demand for smart phones.	4.82	24.47	5.70	2.16%	18,050

** Based on closing price as of Apr 30, 2013.

Investment return calculation principles

Model portfolio performance in Apr 2013	<p>PSR portfolio at 1.18% vs. SET index at 2.36%</p> <ul style="list-style-type: none"> ▪ Top three gainers/outperformers MAJOR, THAI and PTTGC ▪ Top three losers/underperformers CPALL, TKT and SCC
Cumulative model portfolio performance for Feb-Apr 2013	PSR portfolio at 21.69% vs. SET index at 8.19%
Duration of holding period	1 month
Number of recommended stocks	10-15 stocks
Investment rating	'BUY' only
Calculation of investment returns	<ul style="list-style-type: none"> ▪ Buying and selling at the closing price of the month. ▪ Dividend is included in the calculation if the holding period for portfolio covers XD date.

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