Foreign Fund Flows: Is Capital Outflows About to Come to an End?

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- Foreign fund inflows into Thailand more than doubled from the latest round of total exit in 2008 but the inflow amount was far less than its peers Indonesia, the Philippines and India which saw six-to-seven-fold rise in capital inflows.
- The big question in the market is if capital flight from Thai equities is about to come to an end. The answer is: There remains plenty of room for further capital outflows but there is no reason for total exit from the market in view of economic outlook and corporate earnings growth prospects.
- The Thai economy remains on track to grow at a long-term CAGR of 5%.
- Thai stocks are not as expensive as thought given:
  - 2013 earnings growth forecast of 25%.
  - P/E ratio of 12.5x, a discount to historical average and regional mean.
  - Generous dividend yield of 3.64%.
- The SET index is likely to remain stuck in a bearish/sideways pattern within a trading range of 1300-1550 points over the next one to three months before resuming its ascent by the end of the year. We stick to our end-2013 SET index target of 1620 points, equivalent to a P/E ratio of 15x.

What is the news?

Fears of stimulus rollback by major central banks in the US, Japan and China triggered a massive position rebalancing by foreign investors. The question is now raised that 'Is foreign fund outflows about to come to an end?'

How do we view this?

In our view, there remains plenty of room for further capital outflows but there is no reason for total exit from the market like in 2008 in view of economic outlook and corporate earnings growth prospects.

Investment Actions?

The SET index is likely to remain stuck in a bearish/sideways pattern within a trading range of 1300-1550 points over the next one to three months before resuming its ascent by the end of the year. In our view, the 'sell the rallies, buy the dips' may be the best strategy for a bear/sideways market. The focus should be on fundamentally sound stocks with more than 20% upside potential from current trading levels and dividend yield in excess of 5%. Our recommended picks include KCAR, ASP, TISCO, CGS, KK, TKS, DELTA and QTC. Fundamental plays aside, we also advise investors to look for stocks which are expected to see short-cover buying on the market's rebound i.e. ROBINS, BIGC, QH, SCC, SCCC, TOP, BCP, RATCH, GLOW, JAS and PTTEP.

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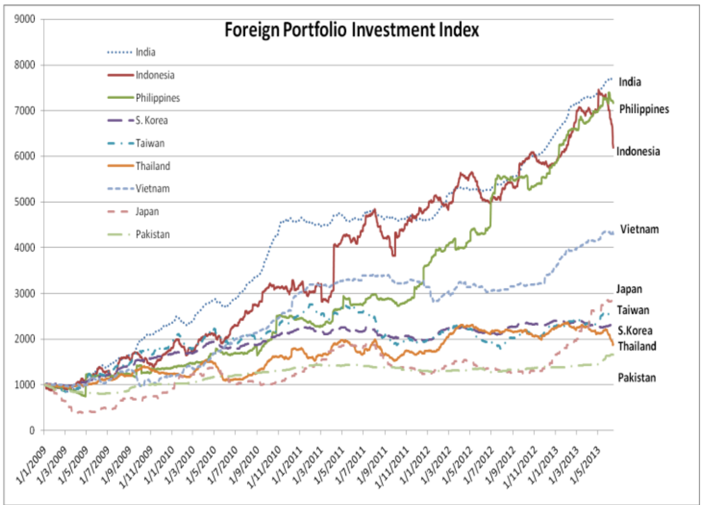
Foreign fund inflows into Thailand more than doubled from the latest round of total exit in 2008 but the inflow amount was far less than its peers Indonesia, the Philippines and India which saw six-to-seven-fold rise in capital inflows.

The forecast is based on assumptions that net foreign portfolio investment inflows to Asian equities resumed again at the start of 2009 after the latest round of total exit in 2008 in the wake of the US financial crisis. Note that the 1000-point level in 2009 is used as a base for calculation of net foreign portfolio investment index developed by PSR. It turns out that Indonesian, Philippine and Indian equities drew the biggest foreign capital inflows with more than six to seven-fold rises in net inflows from 2008. Thailand attracted less capital inflows relative to its peers. Fund inflows into Thai equities only more than doubled from 2008. Even if fund inflows to Thailand during 2009-2012 topped US$6bn, YTD outflows of more than US$1.6bn on portfolio rebalancing pushed net foreign portfolio investment inflows down to around US$4.5bn.

Figure 1: Net Foreign Portfolio Investment in Asia



Unit: Mil.USD

year	India	Indonesia	Philippines	S. Korea	Taiwan	Thailand	Vietnam	Japan	Pakistan
2008	-12,918.30	1,732.45	-1,135.29	-36,640.57	-16,363.82	-4,942.17	340.30	-66,817.10	-1,463.86
2009	17,639.21	1,383.00	419.57	24,658.51	15,616.89	1,136.79	70.63	-6,512.66	20.09
2010	29,320.84	2,389.81	1,223.86	19,799.89	9,577.24	2,687.34	617.21	22,925.94	531.98
2011	-511.80	2,949.64	1,329.38	-8,583.64	-9,073.78	-167.06	42.30	-323.37	-118.65
2012	24,547.66	1,702.86	2,547.79	15,068.60	4,907.18	2,504.01	153.79	27,732.91	125.69
2013	15,043.67	573.97	1,481.46	-6,303.73	2,390.48	-1,790.03	240.39	79,069.89	403.05

Source: Bloomberg

The big question is if capital flight from Thailand is about to come to an end. The answer is: There remains plenty of room for further capital outflows but there is no reason for total exit from the market in view of economic outlook and corporate earnings growth prospects.

At this juncture, the above figures may give an answer to the question as to whether capital flight from Thailand is about to come to an end. There remains plenty of room for further capital outflows but there is no reason for total exit from the market like in 2008 in view of economic outlook and corporate earnings growth prospects, in our opinion.

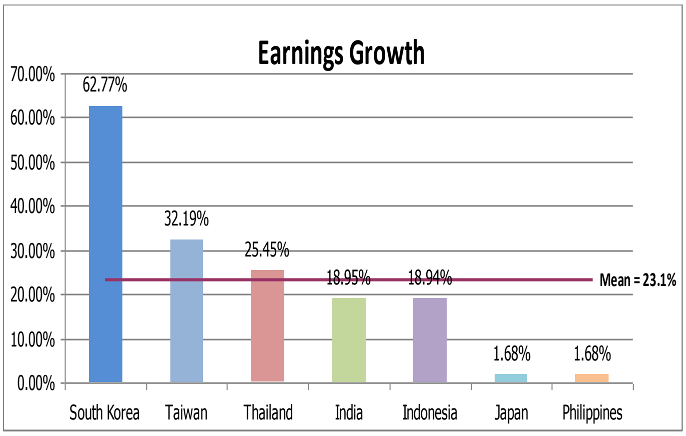
Thai economy still on track to grow at a long-term CAGR of 5%

In terms of economic outlook, growth in Thailand will likely continue to be driven by domestic demand through mega-infrastructure investments and domestic consumption. Despite some impact of a slowdown in exports, Thailand's economy remains on track to grow at a long-term CAGR of 5%. If the Federal Reserve scales back on its QE program as a result of confidence in the recovery of the US economy, we think it should help temper the slowdown in exports in the face of sluggish global economy. The upcoming launch of ASEAN Economic Community (AEC) in 2015 could also act as a potential catalyst for economic growth within the bloc including Thailand. The potential risk to the outlook for Thailand may be possible delays in mega investment projects, which could cause economic growth to miss the mark as a consequence of domestic political uncertainty and rising fiscal burden due to the government's mega investment projects and populist policies especially the controversial rice-pledging scheme.

Thai stocks not as expensive as thought

Earnings growth of Thai listed firms is expected to remain strong at 25.45% this year, outstripping its TIP peers like Indonesia and the Philippines, which are forecast to see earnings growth of 18.94% and 1.68% respectively. Thailand also offers the best dividend yield in Asia at as high as 3.64%, well above regional mean of a mere 2.28%. Valuation-wise, Thai stocks are trading at 2013 estimated P/E of around 12.5x, a discount to five-year trailing average of 13.7x and regional mean of 13.8x.

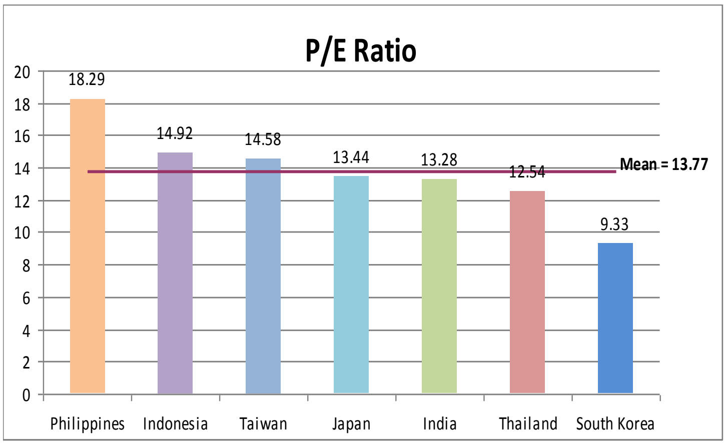
Figure 2: Corporate earnings growth in Asia



Earnings		Indonesia	Thailand	Philippines	Japan	South Korea	India	Taiwan
Date	Average	21.1%	18.1%	11.6%	11.6%	19.5%	5.9%	13.9%
CY2014 E	14.1%	18.8%	12.4%	11.2%	11.2%	18.4%	13.5%	13.4%
CY2013 E	23.1%	18.9%	25.5%	1.7%	1.7%	62.8%	19.0%	32.2%
CY2012	9.2%	0.4%	14.2%	20.5%	20.5%	0.2%	7.9%	0.6%
CY2011	-10.0%	18.2%	0.7%	-11.5%	-11.5%	-25.3%	-8.2%	-32.6%
CY2010	60.3%	43.3%	50.2%	52.5%	52.5%	77.8%	44.7%	100.9%
CY2009	48.0%	96.3%	44.8%	47.2%	47.2%	60.9%	-8.8%	48.3%
CY2008	-42.9%	-48.4%	-20.9%	-40.5%	-40.5%	-58.2%	-26.6%	-65.3%

Source: Bloomberg

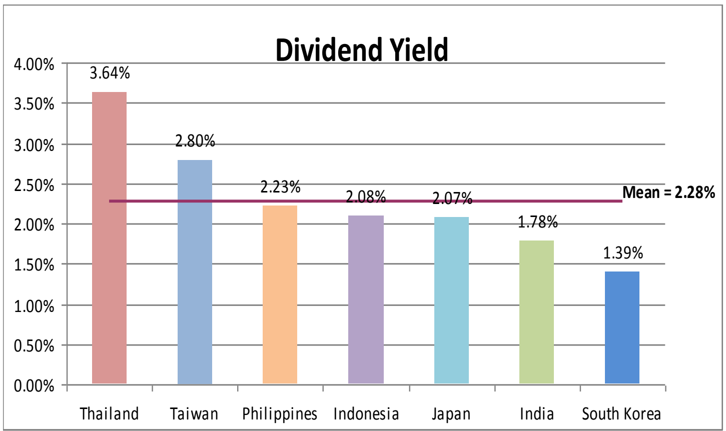
Figure 3: P/E ratios in Asian stock markets



Price/Earnings		Indonesia	Thailand	Philippines	Japan	South Korea	India	Taiwan
Date	Average	15.86	13.17	15.30	18.86	12.41	15.70	18.72
CY2014 E	12.10	12.56	11.15	16.45	12.11	7.87	11.70	12.85
CY2013 E	13.77	14.92	12.54	18.29	13.44	9.33	13.28	14.58
CY2012	17.21	16.74	16.20	18.08	18.00	15.09	15.84	20.50
CY2011	16.50	15.79	13.21	15.34	26.47	12.69	13.81	18.16
CY2010	15.39	18.30	14.06	13.12	15.17	10.96	19.99	16.13
CY2009	18.42	17.21	13.52	13.75		15.53	23.56	26.96
CY2008	16.57	15.51	11.53	12.08	27.97	15.36	11.69	21.85

Source: Bloomberg

Figure 4: Dividend yields in Asia



Dividend Yield		Indonesia	Thailand	Philippines	Japan	South Korea	India	Taiwan
Date	Average	2.31	4.17	3.21	2.22	1.50	1.56	4.00
CY2014 E	2.54	2.40	4.15	2.37	2.25	1.51	2.01	3.07
CY2013 E	2.28	2.08	3.64	2.23	2.07	1.39	1.78	2.80
CY2012	2.25	2.10	2.87	2.28	2.21	1.28	1.50	3.48
CY2011	2.85	2.12	4.04	3.21	2.55	1.54	1.62	4.85
CY2010	2.26	1.77	3.61	2.71	1.96	1.44	1.19	3.14
CY2009	2.19	1.81	3.47	3.51	1.79	1.38	0.96	2.38
CY2008	4.60	3.88	7.39	6.12	2.72	1.93	1.83	8.32

Source: Bloomberg

SET index likely to remain stuck in a bearish/sideways pattern within a trading range of 1300-1550 points over the next one to three months before resuming its ascent by the end of the year: End-2013 SET index target maintained at 1620 points

From our perspective, the SET index is likely to remain stuck in a bearish/sideways pattern within a trading range of 1300-1550 points over the next one to three months until greater clarity emerges about the timing and impact of the US Federal Reserve's QE exit, which is widely expected by many market participants to take place in Sep. In the near term, the pace of portfolio rebalancing by foreign investors is likely to slow down after a more than 300-point or 18% rout in the SET index from the year's peak of nearly 1650 points in late May 2013 to near 1350 points in mid-Jun, which represented 23.6% of Fibonacci retracement of the rally after the US financial crisis.

Figure 5: Correction in Thai stock market

In our view, a serious rebound is unlikely to come until 4Q12 in order for the market to fully digest the impact of the rollback of US stimulus and the recovery picture for the US economy, which would give a lift to global economic prospects. We stick to our end-2013 SET index target of 1620 points, equivalent to a P/E ratio of 15x. In our view, the 'sell the rallies, buy the dips' may be the best strategy for a bear/sideways market. The focus should be on fundamentally sound stocks with more than 20% upside potential from current trading levels and dividend yield in excess of 5%. Our recommended picks include KCAR, ASP, TISCO, CGS, KK, TKS, DELTA and QTC. Fundamental plays aside, we also advise investors to look for stocks which are expected to see short-cover buying on the market's rebound i.e. ROBINS, BIGC, QH, SCC, SCCC, TOP, BCP, RATCH, GLOW, JAS and PTTEP.

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