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STRONG CONSUMPTION, INVESTMENT OUTLOOK BODE WELL

A BALLOON vendor waits for customers outside a market in Beijing. Improved economic indicators in China are helping to stabilise the global economy and should further boost stock markets this year.

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The Stock Exchange of Thailand (SET) Index rose 1.01 per cent from the beginning of the year to end at 1,405.99 points last Thursday, with a peak of 1,423.46 points on Wednesday, compared to 2.37 per cent for regional peers.

Property, auto and financial sectors have been most active. We have raised our SET Index target for 2013 to 1,524 points, implying a fiscal 2013 price-earnings ratio of 13.6 times, based on strong domestic consumption, new investment cycle, strong foreign direct investment inflows, solid tourism growth and China recovery plays in the Thai market.

Thailand ended 2012 with an inflation rate of 3.6 per cent year-on-year in December, bringing 2012's average inflation to 3.0 per cent.

We expect inflation to breach 4 per cent by the second quarter of 2013, before stabilising in the second half of 2013. The high inflation could be due to the minimum wage hike in the remaining 70 provinces (which is likely to be passed on to consumers) and the recovering external demand that translates into demand-pull pressures.

All these suggest that the rate-cut cycle is over, which prompted the Bank of Thailand to keep its policy rate at 2.75 per cent at the latest Monetary Policy Committee meeting on January 9. We have one 25-basis-point rate hike pencilled in for the fourth quarter of 2013.

Over the next two weeks, Thai banks will be announcing their results for the fourth quarter of 2012.

We expect Thai banks' earnings to be pressured by increased provisioning. Overall loan growth should be higher than our forecast of 14 per cent, given the strong push from the first-car buyer scheme.

The credit growth in the auto loan segment is expected to continue through to the first half of 2013.

Also, in the telecom sector, last week Cedar Holdings made an overnight placement of a 10.3 per cent stake in Shin Corp (INTUCH) at Bt63.25 a share, putting pressure on the share price of both INTUCH (-2.25 per cent) and ADVANC (-2.96 per cent) on the day of announcement.

However, we remain positive on INTUCH for its strong core earnings growth.

We remain overweight on banks, property and contractors.

Our top picks include Kasikornbank (KBANK), Shin Corporation (INTUCH), Siam Global House (GLOBAL), Pruksa Real Estate (PS), Asian Property Development (AP), Sansiri (SIRI), Bangkok Expressway (BECL), Minor International (MINT), CH Karnchang (CK), Jasmine International (JAS) and PTT Global Chemical (PTTGC).

KITPON PRIPISANKIT

Strategist
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The SET Index moved sideways up early last week after the US reported higher-than-expected employment figures for December, excluding the agriculture. Late last week, profit-taking in the property and banking stocks put pressure on the SET Index after the Monetary Policy Committee kept the policy rate unchanged at 2.75 per cent.

Foreign investors turned to become net sellers of Thai stocks for the first time after being net buyers for eight consecutive trading days.

The market turned to be concerned over the momentum of the global economic recovery after China's inflation in December accelerated significantly. This lessened positive aspects of the ECB chairman's expectation on this year's recovery for the euro zone.

We expect the Thai stock market to rise this week following the recovery of the energy sector, whose price-earnings ratio is lower than the market, after satisfactory reports of economic figures across the globe and signs of recovery. However, we are concerned on possibility of higher market volatility this week. Banking stocks have risks for their 2012 performance, which may not be much better than expected.

Only KTB is expected to show better-than-expected performance.

For this week's investment strategy, we suggest investors pick stocks with likely upward revision of earnings performance, and stocks with lower price-earnings ratio than the market's.

These stocks are PTT, PTTEP, PTTGC, SPALI, LH, TTA, ERW, KCE, GUNKUL, SOLAR and SINGER.

TISCO SECURITIES

Strong foreign inflows helped drive the market to new 16-year highs in the second week of 2013, with foreign investors net buyers of Bt5.3 billion of Thai stocks year to date.

However, the market was looking increasingly overbought and it was no surprise when it suffered its biggest one-day fall in six months last Thursday.

We believe last week's correction was overdue, given that the SET had gained about 150 points or nearly 12 per cent since mid-November.

We also remain positive on the market's prospects this year given favourable domestic macro conditions, further foreign inflows on the back of low global interest rates and an improvement in the US and Chinese economies.

Nonetheless, we anticipate a rise in volatility ahead of political wrangling next month over the US debt ceiling.

Note that Moody's has warned that the outcome of negotiations between Democrats and Republicans on the debt trajectory will determine whether the US' Aaa rating is returned to a stable outlook or downgraded to Aa1.

Our overweight rating on banks remains intact even though the sector now offers more measured upside after surging by 44 per cent in 2012.

In our opinion, KTB offers the best value at current levels but we also include SCB, KBANK and BAY as our top sector picks.

For the fourth quarter of 2012, we expect banks to record strong aggregate earnings growth of 76 per cent year-on-year but a decline of 21 per cent quarter-on-quarter.

In the consumer sector we have

revised up our 2012-14 earnings forecasts for CPALL by 3-6 per cent and upgraded our target price by 10 per cent to Bt49.50 to reflect its ambitious expansion plan and improving margin outlook.

We also advise investors to use recent share price weakness in telecom stocks to increase weightings in ADVANC and INTUCH (officially Shin Corp).

The latter fell to a six-week low last Thursday after an affiliate of Singapore investment fund Temasek sold 330 million shares (a 10 per cent stake) at a 5.6 per cent discount to the previous day's close.

The deal should improve liquidity and free float for a stock that currently offers 22 per cent upside to our target price of Bt80 as well as a generous dividend yield of nearly 8 per cent for fiscal 2013.

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We have seen significant drops in the TIP (Thailand, Indonesia and the Philippines) stock markets.

We expected these market drops partly due to a decline in attractiveness for valuations, compared with other Asian countries. At present the forward price-earning ratios of the three stock markets are about 24 per cent higher than those of the MSCI Asia excluding Japan, as the three stock markets jumped previously.

Importantly, we have seen more long positions, in a commercial way, for the US dollar in the past month.

Based on our study, it was found that more long positions mostly came as a negative factor for the SET Index and went up about one month ahead of the SET Index.

Given this, we expect foreign investors to continue to sell Thai stocks, which will pressure the SET Index next week.

The SET Index has relatively expensive valuations at present.

Its latest forward price-earnings ratio stayed at 13 times, coming close to plus one standard deviation from the average.

We see a SET Index of 1,360 points as attractive enough for investment.

Investment strategy: Based on the relatively high valuation of the current SET Index, stock selection is recommended to mitigate risks that may arise from market corrections.

We overweight industrial estate, property development and infrastructure groups.

Our 10 top picks for January are LH, BTS, MCOT, RS, STA, TTA, EGCO, SAMART, NUSA and CCP.