

Gradually buy stocks with sound fundamentals

Therdsak Thaveeteeratham
Executive Vice President – Research Department
Asia Plus Securities

Listed companies' third-quarter earnings were disappointing. Combined net profit was low at Bt25 billion in the quarter, compared with an average of Bt220 billion for each of the two previous quarters, mainly because of the SSI (Sahaviriya Steel Industries) problem and drops in the prices of oil and some commodities.

All those affected had to set aside more provisions. As a result, combined net profit for the first nine months of 2015 was only Bt467 billion. However, this was already priced in, based on price movements of relevant stocks such as KTB (Krungthai Bank), SCB (Siam Commercial Bank), TISCO (Tisco Financial Group), SSI and PTT.

In 4Q15, no pressure is expected for listed companies' combined net profit like that seen in 3Q15. Combined net profit is estimated at Bt232 billion, likely taking the whole-year figure to Bt708 billion.

EPS (earnings per share) is forecast at Bt75.59 this year, down from last year's Bt76.72.

This is the second year that the profit base has dropped. In 2013, EPS was Bt91.59.

In 2016, combined net profit is projected at more than Bt200 billion per quarter on the expected economic recovery. There could be very low market downside risks, given the low price of Dubai crude oil at US\$40 per barrel. Commercial banks will also see no signs of large enterprises' credit problems.

Initially, listed companies' EPS is expected at Bt97-Bt98 in 2016, lower than the previous estimate of Bt101.92.

Investor groups' purchases have also set the direction of the SET Index. Since late October, the proprietary trading group net-sold Thai stocks worth nearly Bt9 billion and foreign investors net-sold more than Bt18 billion. However, the selling spree is expected to ease in line with their low stock holdings.

Local institutional investors are expected to net-buy stocks with LTFs/RMFs (long-term equity funds/retirement mutual funds). About 60 per cent of a full year's stock purchase usually takes place in November and December.

The SET Index is believed to have bottomed out for this year and about to rebound. Its 2016 target is a PER (price-to-earnings ratio) of 16 times and 1,552-1,568 points with expected market return of around 12 per cent. This could attract long-term investment to flow back into the Stock Exchange of Thailand.

Long-term investment strategy: Gradually purchase stocks with strong fundamentals in key industries. Stock picks: SCC (Siam Cement), PTT, KBANK (Kasikornbank), AOT (Airports of Thailand) and IRPC.

Short-term trading: Select stocks with positive trends. Stock picks: MCS (M.C.S. Steel), BJCHI (BJC Heavy Industries), KCE (KCE Electronics), PLANB (Plan B Media) and ASK (Asia Sermkij Leasing).

Chaiyaporn Nompitakcharoen
Head of Individual Client Research Group
Bualuang Securities

The SET Index ended last week at 1,392, up 10 points (0.7 per cent) week on week, driven by domestic investors while the market temporarily eased concerns about the Thai economy, as third-quarter growth in gross domestic product was better than the market anticipation.

We anticipate that the market is likely to face a downside risk in the near term for the following reasons.

First, even though investors may ignore the decline in the most recent corporate earnings, we see this as a substantial risk. Some might believe that high liquidity will be able to hold asset prices against a temporary decline in economic value. Our view runs contrary to this.

A decline in corporate earnings is attributable to trouble in the economic structure as whole, and the Thai economy is struggling to expand against a burgeoning downturn cycle. Therefore, downside risk is still pending in the market.

Second, we take the view that a play on easing monetary policy by ignoring earnings, dividends and valuation will not work well this time given that low interest rates do not favour economic expansion. Market behaviour in 2015 suggests to us that any stock play on either story or on expectation of earnings delivery will fail to perform well. That, in turn, will indirectly inflate stock prices into a bubble in the future.

Prakit Sirivattanaket
Vice President
Kasikorn Securities

Last week, despite pressure from the Paris terror attacks, the SET Index reacted negatively only in the morning session of Monday, November 16. After that, it gradually rebounded from 1,369 to 1,394 points later in the week.

The industries with specific positive factors gained throughout last week. The tourism group benefited from its high season, with price rises seen by hotel operators like MINT (Minor International), CENTEL (Central Plaza Hotel) and ERW (Erawan Group), airport operator AOT (Airports of Thailand), and airline BA (Bangkok Airways). The finance group gained from likely earnings improvement from now to 2016.

However, last week's narrow market movements reflected the lack of support factors and pressure. Mostly, investment changed hands among local groups in the stock market and the SET Index was able to stay above 1,390 points. Markets still hope for new investments from LTFs (long-term equity funds) to move up the SET Index late in the year.

Switching among investor groups could be an opportunity to find good returns (if the right groups are selected). We expect target investor groups to be finance – SAWAD (Srisawad Power 1979), MTL (Muangthai Leasing) – and tourism – MINT, CENTEL, ERW, AOT and BA. These two groups continue to be invested in a cycle.

Capital is expected to move into the property group – SPALI (Supalai), LH (Land and Houses); hospitals – BDMS (Bangkok Dusit Medical Services); construction – CK (Ch Karnchang); and food – CPF (Charoen Pokphand Foods). The energy and banking groups have low downside risks.

Late last week, an interesting issue was Finance Minister Apisak Tantivorawong saying his ministry planned to propose the setting up of a Bt100-billion Thailand Future Fund (infrastructure fund). The planned proceeds would be used to finance a number of infrastructure projects. The planned fund would be allowed to seek returns from other investments like capital or debt instruments, while awaiting each project's approval.

The planned fund, if approved by the Cabinet, is expected to win confidence for state investment and economic growth will be higher. This could stimulate capital markets next year and drive the SET Index to test its target of 1,600 points.