

All eyes on the MPC and Greek debt negotiations

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Last week, the 10 commercial banks that ASP analysed recorded a combined net profit of Bt52.3 billion, up 6.1 per cent quarter on quarter and 3.8 per cent year on year for the first three months of 2015. This result came as expected. Lower expenses were cited mainly for rise in net profit.

There's a sign of more loan-loss provisioning. In 1Q15, provisioning increased 22.6 per cent year on year and 30.4 per cent quarter on quarter to Bt25.8 billion. This reflects the Thai economic situation.

From next week to the middle of May, earnings performances of companies from the remaining industries will be gradually announced. ASP expects strong profitability of listed companies to help drive the SET Index in the next round. Listed companies, in 1Q15, should record no less than Bt200 billion in total, compared with Bt223 billion in 1Q14 (peak of the year) and Bt70 billion in 4Q14.

This week, we should monitor, aside from earnings performance, two more issues. The first is the meeting of the central bank's Monetary Policy

Committee on April 29. The MPC cut the policy rate from 2 to 1.75 per cent at its previous meeting. It is expected leave the rate unchanged this time. If the result comes out as expected, the SET Index will react negatively, but not much.

The other issue is Greece's negotiations with its creditors on its debt-repayment plan. The next repayment is 1.1 billion euros, due in early May. This time, the major creditor is the International Monetary Fund, and the euro zone will not extend the repayment period.

The outcome will be interesting, but it is difficult to see any positive result for stock markets. Overall, these two issues may be negative for the SET Index.

Focus on building up proper returns without too much risk. Pick stocks expected to see outstanding 1Q15 earnings performance and lower-than-fair-value prices.

Stock picks: SYNTEC (Syntec Construction, FV@Bt3.85), TASCO (Tipco Asphalt, FV@Bt15.20), MCS (M.C.S. Steel, FV@Bt9.10) and ERW (Erawan Group, FV@Bt6).

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The Stock Exchange of Thailand closed a bit below 1,550 points on Friday, indicating sentiment weakness. We believe that disappointing bank earnings and increased loan-loss provisioning should spread earnings concerns to other sectors as well.

It should be recalled that the earnings consensus for 2015 is optimistic at 40-per-cent year on year growth. For us, the optimistic view could easily turn pessimistic if aggregate earnings in the first quarter of 2015 represent less than about a quarter of total earnings forecasts for the whole year.

We think that good expectation of earnings in 1Q15 are so far not aligning with the macro-economy. Stripping out the banking, energy, and petrochemical sectors, aggregate earnings are estimated to expand 16 per cent year on year while aggregate core earnings are expected to advance 30 per cent, and macroeconomic readings indicate stagnant conditions, without growth.

Despite sluggish economic data in 1Q15, we believe the Monetary Policy Committee will hold the repo rate at its upcoming meeting as it waits to see the impact of the rate cut at its last meeting. Therefore, we maintain our bearish view on the Thai market's incoming week as forward PER over 2015 earnings remains expensive.

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The Stock Exchange of Thailand moved on a downward trend last week, pressured by commercial banks' earnings announcements. Most commercial banks reported steady or worse-than-expected performance. Some profit-taking has been seen in energy and petrochemical stocks after slower rises for crude-oil prices. The WTI price moved in a range of US\$55-\$58 per barrel.

The April 29 meeting of the central bank's Monetary Policy Committee is expected to see a rate cut to prop up the economy.

Although the market is concerned over risks from Greece's debt problem, such worries continue to ease, reflected by drops in 10-year bond yield. If Greece sees progress during the April 24 meeting, we expect markets to gain through appreciation of the euro and the US dollar. However, if there is still no conclusion, the point is the debt repayment to the International Monetary Fund due on May 12. We expect no change in the positive market environment before that time.

Pick selective stocks that have seen slight rises and those with clear performance recovery.

On April 29, if the MPC cuts the policy rate, that could be positive for stocks in the finance and property groups and those with high dividends like communications. If the MPC leaves the rate unchanged, purchases are expected in banking stocks, which have reacted negatively to the rate cut for a while.

Stock picks: ADVANC (Advanced Info Service), TISCO (Tisco Financial Group), SGP (Siamgas and Petrochemicals), TRT (Tirathai), AP, JSP (J.S.P. Property), SCC (Siam Cement), CPALL.

Technical picks: CNT (Christiani & Nielsen (Thai)), TASCO (Tipco Asphalt), CYBER (Cyberplanet Interactive), AJP (Asia Joint Panorama) (set stop loss if prices drop by 3-5 per cent).