

SET Index to be volatile until mid-June

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First-quarter growth in gross domestic product was announced at 3 per cent year on year, higher than expected, driven mostly by government investment. Government investment soared 37.8 per cent, given a low base in 1Q14 when the Thai political situation hit a dead end and public investment could not drive the economy.

Excluding the rise in the public investment in 1Q15, however, there remained no satisfactory sign of growth from other economic indicators. Based on this situation, two policies to drive the economy are expected.

According to the old practice, a policy-rate cut would be expected to stimulate household consumption and private investment. However, under the current circumstance, a rate cut would not help as it did before, given high household debt, low crop prices, and low consumer confidence. When consumption has not been stimulated, it's normal for private investment to slow down.

In the current climate, a policy-rate cut would have another result: Depreciation of the baht. The benefits of a rate cut would therefore fall to the export sector. In the current economic situation, a low rate remains necessary to stimulate the economy.

Thus, the research department expects the policy rate to be 1.25-1.00 per cent at the end of 2015. This means a rate cut of 25-50 basis points. The lower rate could be positive to the Stock Exchange of Thailand.

Two groups of stocks are attractive.

The first is stocks that gain when the baht depreciates. The main target is the export-oriented sector with electronic parts in particular. Stock pick: HANA (Hana Microelectronics).

The second group is high-dividend-yield stocks: TVO (Thai Vegetable Oil), ASK (Asia Sermkij Leasing) and INTUCH (Intouch Holdings). There could be a disadvantage, prompting capital not to flow back to the Thai stock market.

On June 10, the Bank of Thailand's Monetary Policy Committee will meet to decide on the policy-rate movement.

The government's investments in mega-projects are expected to start. This is another mechanism to drive economic expansion for the rest of this year. Implementation of the railway double-tracking project is anticipated soon. Two or three routes could be ready to open for bidding.

For the Skytrain, based on the data gathered, some routes like the Pink Line (Khae Rai-Min Buri) and the Yellow Line (Lat Prao-Samrong) are expected to see improved ratios of bidding to PPP net cost, prompting the private sector to invest in both construction and operations. The progress of this must be followed. This could lead to speculation in construction stocks. Select stocks with strong performance like CK (Ch Karnchang) for speculation.

Overall, the SET Index is believed to continue its corrections, with the upper range of no more than 1,520 points and the lower range of 1,480 points. This is because the Thai stock market's current

PER (price-to-earnings ratio) remains high at over 17.6 times while there are no positive fundamental factors and no support of capital movement.

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The Stock Exchange of Thailand lost 2.01 per cent month on month in May even though the Monetary Policy Committee (MPC) has reduced the repo rate twice, to 1.50 per cent, since January.

Domestic demand has remained weak and is inarguably reflected in the sliding core inflation rate for the last three months (even though the government vows that domestic demand is improving).

I'm not an academic economist but data in my hands indicate that earnings of listed companies have been slowing down since the second quarter of 2013 (despite Q115 expansion quarter on quarter). Profitability declines as corporates face increased marketing expenses, price cuts, and postponed business expansions.

Trading liquidity in the Thai stock market has gradually dried out to average daily turnover of Bt30 billion from Bt48 billion last year. From the perspective of high real interest rates right now, we do not expect more fresh money flushing into the stock market. Therefore, the SET is expected to trend down to 1,440 points while strong resistance is placed at 1,517.

Our stock picks are KBANK (Kasikornbank), KTB (Krung Thai Bank), TMB (TMB Bank), CBG (Carabao Group), CPF (Charoen Pokphand Foods), MINT (Minor International), and NYT (Namyong Terminal).

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We retain our view for market volatility during the first half of June, with opportunities for buys.

The Stock Exchange of Thailand went up during almost all of last week. Its movement was better than those of its regional peers and the global stock markets, despite the negative psychological impact from delayed assistance for Greece's debt problem.

Stocks in several groups, particularly related to domestic consumption, started to see limited downward risk, while trading at attractive valuations. Other positive factors were acceleration of the government's expenditures and more progress on local investment projects, supporting psychological speculation in construction and construction-material stocks. This led to a positive investment climate.

The MSCI World and MSCI EM stayed at 1.70-1.80 times, reflecting emerging-market stocks' opportunity for recovery and more attractiveness for short-term investment than those of developed markets. We expect downward risk for

the SET to be limited, and the market will likely be close to a change of its trend, following, first, the amount of index futures' short sales at 23,368 contracts on May 28. Although it was negative, statistically, we mostly found a high amount of short sales when the trend was about to change. Mostly, the stock market has remained steady or gone downward for three to 10 days before making a rebound.

Secondly, stocks in several groups went down to attractive valuation. Examples include the commercial banking group with its price drop to be traded at 3 times price to book value, the lower range of PBV in six years. Another one is the property group. Several stocks' prices went down to be traded at 8x PER, while their main risks could be factored in.

Other risks could depend on external

factors like maintaining the Organisation of the Petroleum Exporting Countries' production capacity on June 5 that may pressure crude-oil prices to go down, delay in Greek debt negotiations that may raise concerns for stocks across the globe, and rises of bond yields that pressure risky assets from higher risk premium in the short term.

Greece is due to repay 1.6 billion euros in debt to the International Monetary Fund in the June 5-19 period. Recently, Greece asked for a combination of its debts for one-time repayment in late June, giving more time for discussions with its creditors. However, this means the situation will remain vague. We expect the resolution in this round to be very last-minute, and this could pressure stocks and risky assets until the middle of this month.

Although global economic-growth forecasts may be revised down, the overall direction is regarded as a recovery. The Thai economy, in the latter half of June, is projected to start signalling a recovery. We forecast profit of TIP (Thailand, Indonesia and the Philippines) listed companies to move closer to the bottom. This could be a support factor for recoveries in stock markets of these countries in the coming periods.

Factors for monitoring: Agreement to assist Greece by the end of June and the meeting of the Bank of Thailand's Monetary Policy Committee on June 10.

The SET Index is expected to swing in a range of 1,490-1,520 points. A prolonged Greek debt problem could pressure the gauge to test 1,450 points within the first half of June.

Here is a major point to buy in this round

before expected recovery of Thai economic figures. We anticipate investors to start accumulating stocks at about 25 per cent in the first half of this month with banking and property stocks in particular. These stocks are beginning to see limited downward risks.

Overweight is suggested for late in the month, particularly if the SET Index falls below 1,450 points. Banking stocks may see drops in prices if the Monetary Policy Committee cuts the policy rate again. If it leaves the rate unchanged, banking stocks are expected to lead the stock market for recovery in the next round.

Stock picks: SIRI (Sansiri), SC (SC Asset), SPALI (Supalai), SCC (Siam Cement), TISCO (Tisco Financial Group), KTB (Krungthai Bank), PTT, JAS (Jasmine International), JASIF (Jasmine Broadband Internet Infrastructure Fund).

Technical, speculative picks: TIPCO (Tippo Foods), DCON, SUPER (Superblock), TPIPL (TPI Polene), TTA (Thoresen Thai Agencies) (set a stop loss if stock prices drop by 3-5 per cent).