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Column: STOCK FOCUS: THAILAND'S TIME HAS COME AT LONG LAST

THAILAND'S TIME HAS COME AT LONG LAST

STOCK FOCUS

PIMPAKA NICHGAROON

The SET Index has been a rarity among financial markets around the world as it has yet to break its 23-year pre-Asian crisis peak set in 1995 of 1,760 points. Thailand, once touted as a potential fifth Asian Tiger after Taiwan, Singapore, Hong Kong/China and South Korea, has been stuck in the middle-income trap, treading a rocky road paved with lengthy and extreme political mishaps. The grim political situation has had a series of knock-on effects on the economy — leaving the country in a holding pattern at a time when it normally would have been moving to upgrade its economic structure.

After turning agricultural land into industrial estates for labour-intensive industries since the 1980s, then moving into electrical and electronic product assembly, shifting from underground oil and gas to basic petrochemicals, and building up a supply chain for auto production, Thailand has suffered a lost decade since the mid-2000s.

The lack of a consistent capital expenditure cycle for more than 10 years has resulted in economic growth falling to an abnormally sub-par average of 3.1% from 2010-17. And this, we believe, is the reason for underperforming export growth (just 9% year-on-year in the first eight months of 2017 versus 15% for regional peers) despite the current global turnaround. A GDP growth rate hovering around 3%, meanwhile, is supposed to be for a developed country and not an emerging economy such as Thailand's.

But that's enough about the troubles that have plagued Thailand. We believe the foundations have been built for a new dawn for the country's economy. And those brighter days are on course, in Thanachart's view, to bring the SET back up to break its pre-Asian crisis peak (1,760) for the first time in 23 years. Yes, after a decade in the doldrums, Thanachart is now calling for a bull market for Thailand with an expectation for the SET to reach 1,830 in 2018 and a lofty 2,000 in 2019.

What are the foundations that Thanachart has identified? The first is laws and regulations. We are not taking a view on whether they will be good or bad over the long term, but for the medium term — say in the next three to five years — we expect these new laws and regulations to result in highly stable politics beyond the upcoming election (potentially to be held in early 2019), during which there may be some loud political noise. But that's the key — we believe this will only be noise and nothing like the political disturbances and crises of the lost decade.

The second foundation is the economic roadmap that has already been rubber-stamped and which, because of the stable political outlook, looks set to be adhered to and implemented with great continuity for years to come. Two key mega-plans in the roadmap that are obvious to us are infrastructure spending (nearly 600 billion baht, or 4% of GDP in bid-out project value since 2015), which is multi-year in nature, and a shift in the economic structure toward being a higher value-added country via the Eastern Economic Corridor (EEC), which is also multi-year programme.

The third foundation is Thailand

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Inc's solid balance sheet (public debt is a modest 42% of GDP) with ample cash on hand at 20% of GDP (excess liquidity in the form of central bank bonds).

On top of that are naturally resilient cash inflows from the tourism industry which are helping to create a current account surplus of well over 10% of GDP. These strong foundations in terms of cash flow and the balance sheet lead us to believe that the targets on the economic roadmap, which has infrastructure spending and the EEC as parts of it, are not overly ambitious.

Summing up all the parts, Thanachart expects Thailand's GDP base to be lifted back up to its long-term potential growth level of above 4%. We estimate an average of 4.3% from 2018 to 2020 versus 3.1% between 2010 and 2017. Looking beyond 2020, our view is that GDP growth could well have a chance to accelerate to between 4.5% and 5% in peak construction years for megaprojects and the kick-starting of investments in the EEC.

In the upcoming bull market, what are the stocks investors should hold? Thanachart has been focusing on high-quality counters with good business models, and the stocks we identify in our portfolio are PTT, AOT, CPALL, CPN, BEAUTY, AMATA, KCE, EA, DTAC and KBANK.

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