

STRATEGY REPORT

Institutional role as a market driver

THAILAND | STRATEGY REPORT

26 May 2015

Even though the size of both domestic investment funds (DIFs) and foreign investment funds (FIFs) had started to stabilize since 4QFY14, the total value of DIFs however showed signs of declining due to a steady rise in the SET index's P/E ratio, which took much of the glitter off the Thai stock market as reflected by increasing institutional preference towards the launch of FIFs. In addition, lower return targets for the recently launched trigger funds also reflected an increase in short-term trading activities in the Thai stock market.

INVESTMENT IDEAS: Making short-term bets on heels of trigger fund IPOs to ride out volatile market

Since the start of the year, the Thai stock market had lacked support from serious foreign buying while the pace of institutional buying markedly slowed down in the absence of the boost from macroeconomic indicators, causing the recent market rebound to be only short-lived as much of the boost came largely from buying interest from long only trigger funds. Statistics showed trigger fund buying provided only a short-term boost to the market.

INVESTMENT STRATEGY

To ride out a volatile market, it is best to make short-term bets on the heels of the IPOs of the trigger funds with a size of more than 700mn, which statistically give a bigger boost to the market than other sizes of the funds.

During the recent correction where the SET index fell to a bottom of 1480 points on May 12, 2015, three trigger funds were launched worth a combined Bt1bn-Bt2bn. Statistics shows the Thai stock market normally gains by 1.6% on average after the IPOs of the trigger funds. On this basis, the recent launch of the funds may possibly drive the SET index higher to 1535 points, the level that could be used as a trigger point for short-term profit-taking. In our view, the 'sell on rallies and buy back on dips' could be the best trading strategy as long as the SET index could sustain above the key psychological level of 1500 points. If the SET index breaks above 1535 points, we believe the room for further upside would be limited to 1570 points or the +2SD of market return from the IPO of the funds.

Analysts

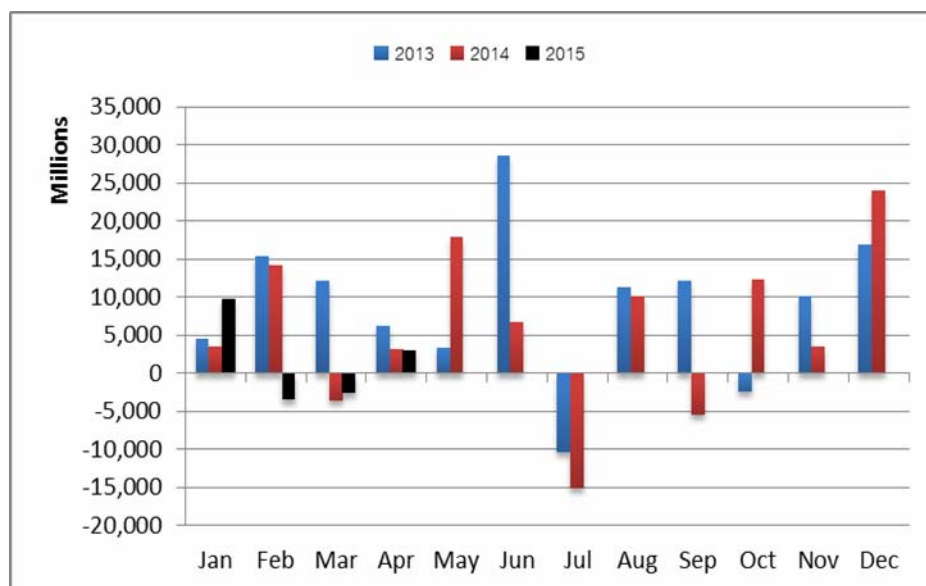
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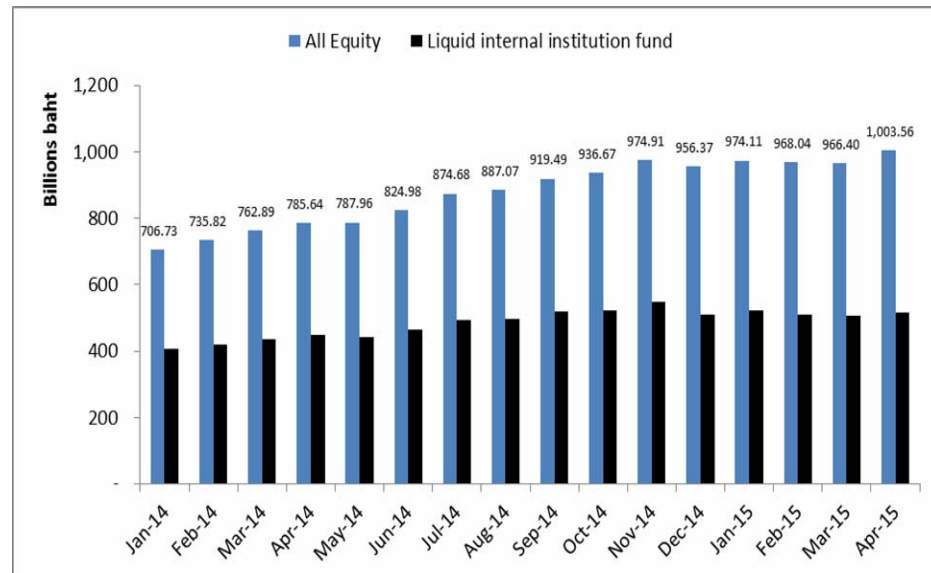
Figure 1: Net institutional trades



Sources: SETSMART, PST

The above figure shows net institutional trades during the period of Jan-Apr 2015 notably dropped to a mere Bt6.5bn from Bt17bn and Bt38bn in the same period of 2014 and 2013 respectively.

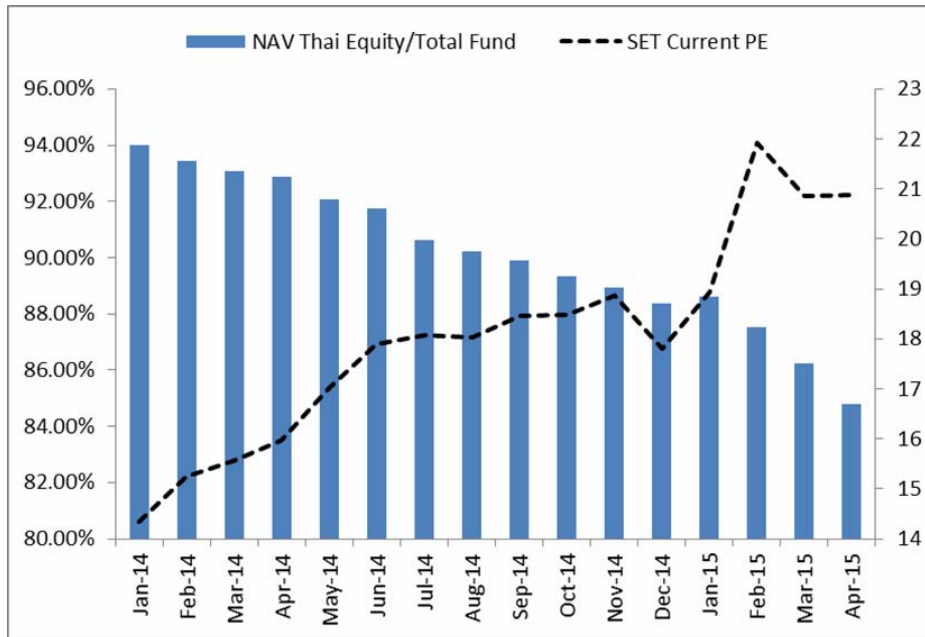
Figure 2: Value of DIFs, FIFs and highly liquid funds



Sources: AIMC, PST

The value of the funds had started to stabilize between Bt0.92mn-Bt1mn since 4QFY14 according to Figure 2, reflecting a slowdown in inflows into the funds after a sharp rise of more than Bt200bn in inflows since early 2014. The value of other funds, excluding LTFs, RMFs and FIFs held steady, pointing to the absence of fresh inflows into the market in the near term.

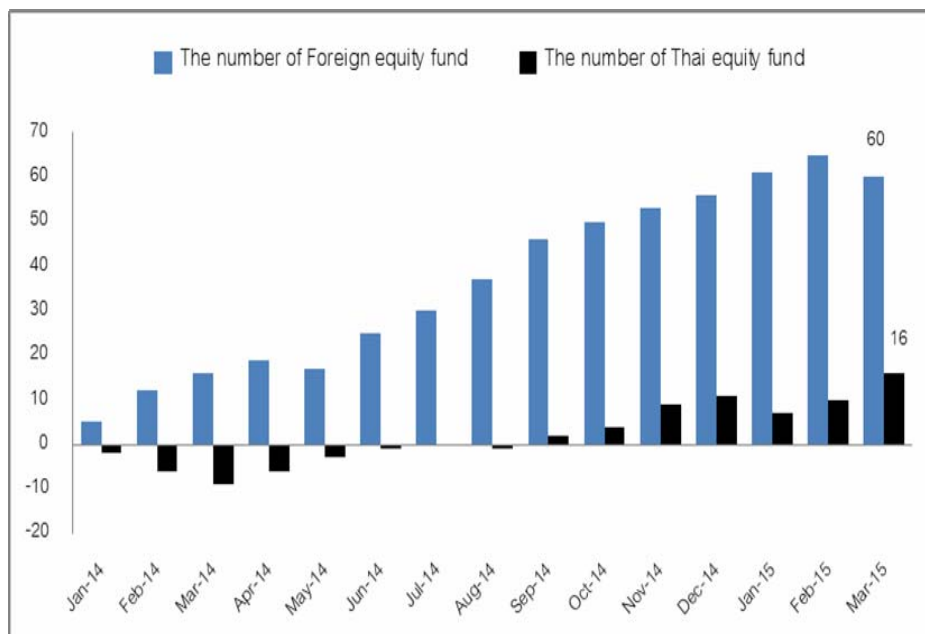
Figure 3: Value of DIFs to total funds vs. Thai stock market's P/E ratio



Sources: AIMC, PST

Since the start of the year, the value of DIFs had been on a steady decline, moving inversely to the Thai stock market's P/E ratio (based on 12-month trailing EPS) which rallied above 15x to hit its peak of 22x.

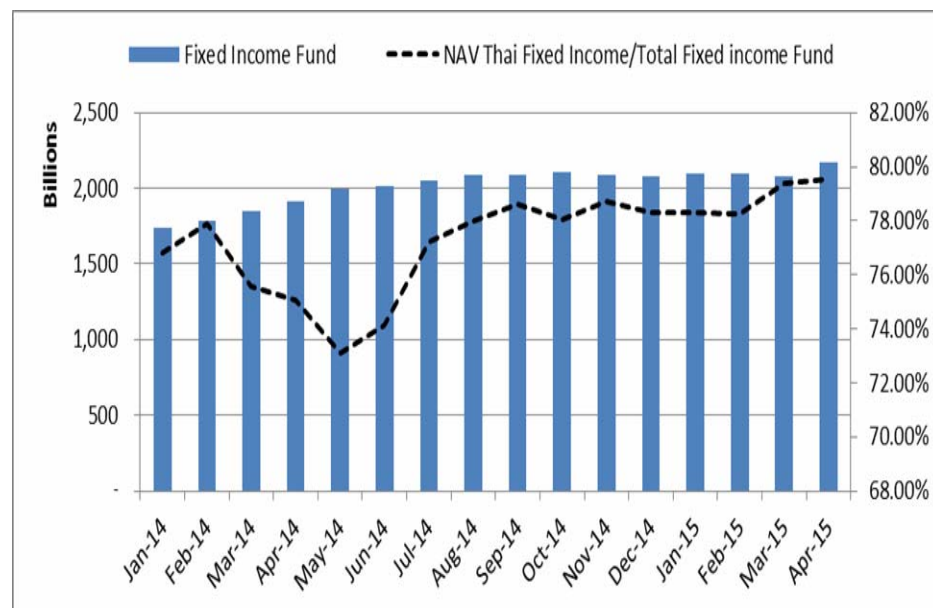
Figure 4: Number of DIFs and FIFs that have been launched and liquidated since early 2014



Sources: AIMC, PST

The Figure 4 shows the number of FIFs had risen steadily from early 2014 to Feb 2015 with an increase of more than 60 funds while the number of DIFs rose at a much slower pace than FIFs at 16, reflecting increasing institutional preference towards the launch of FIFs.

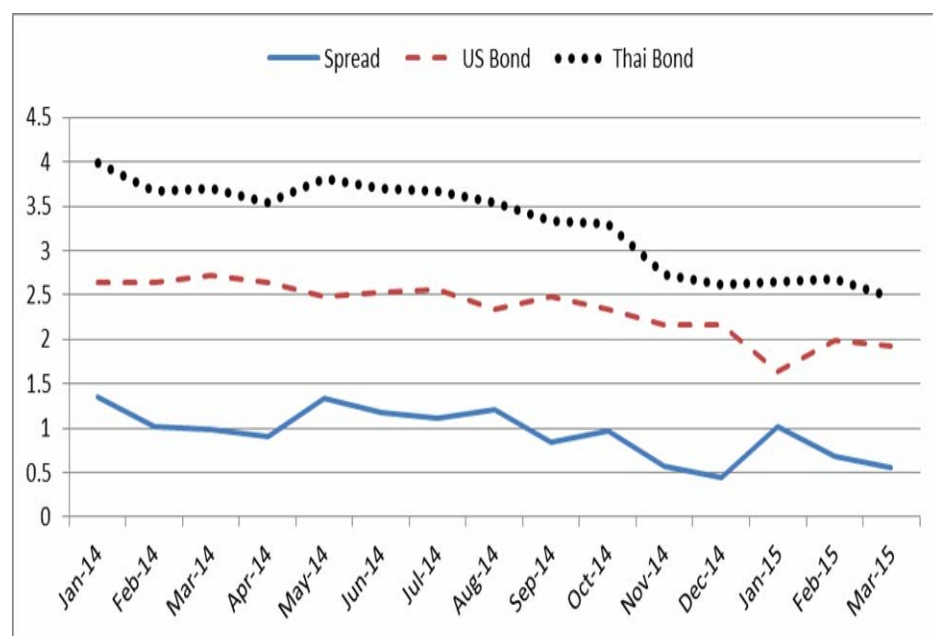
Figure 5: Total value of fixed income funds vs. total value of Thai bonds



Sources: AIMC, PST

The value of Thai fixed income funds remained on the rise to 80% of the total fund value of Bt3.17trn. Much of the increase came after the military coup in mid-2014 on clearer economic picture.

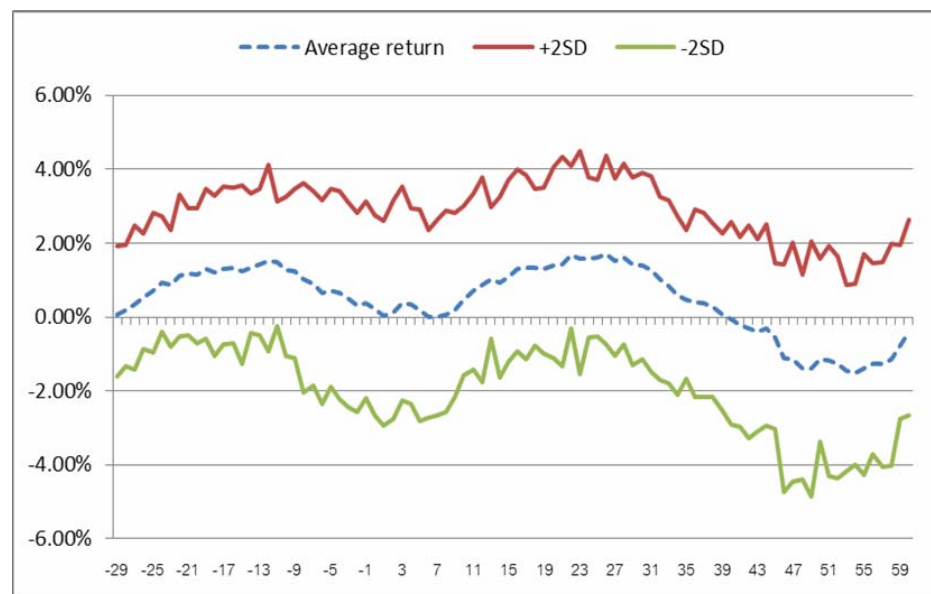
Figure 6: Benchmark 10-year yields on US and Thai bonds and spreads



Sources: Bloomberg, PST

The retreat in US and Thai bond yields and spreads may diminish the attractiveness of the Thai bond market especially after the Bank of Thailand slashed its policy interest rate two times by 25 bps each in Mar and Apr to the current level of 1.5%.

Figure 7: Trigger fund performance before and after IPO launch

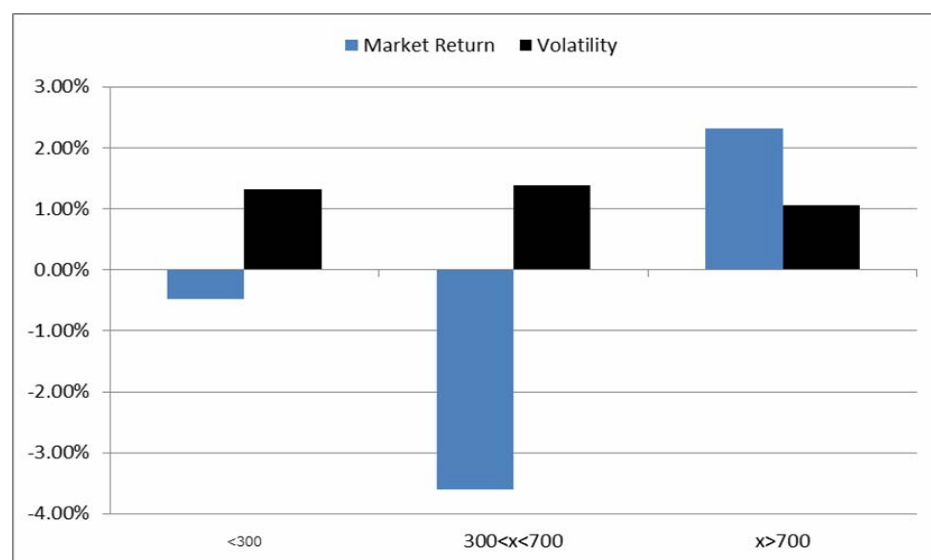


Sources: Morning Star, PST

Based on data of trigger funds during 2013-2014,

The IPOs of the trigger funds were normally launched after the recent market pullback and the funds could drive the Thai stock market up by an average of 1.6% and a maximum of 4% or +2SD in one month's time after the IPOs before the market later dropped below the level when the IPOs of the funds were launched by an average of 1.51% with a maximum of 4% or -2SD.

Figure 8: Grouping of trigger funds by size



Sources: Morning Star, PST

The Figure 8 shows trigger funds can be broken down into the following three groupings by size: (1) less than Bt300mn, (2) between Bt300mn-Bt700mn and (3) more than Bt700mn. Based on statistics, there is a 90% chance that trigger funds with a size of more than Bt700mn will generate significantly higher returns than other sizes of the funds at 2.32% amid little difference in volatility.

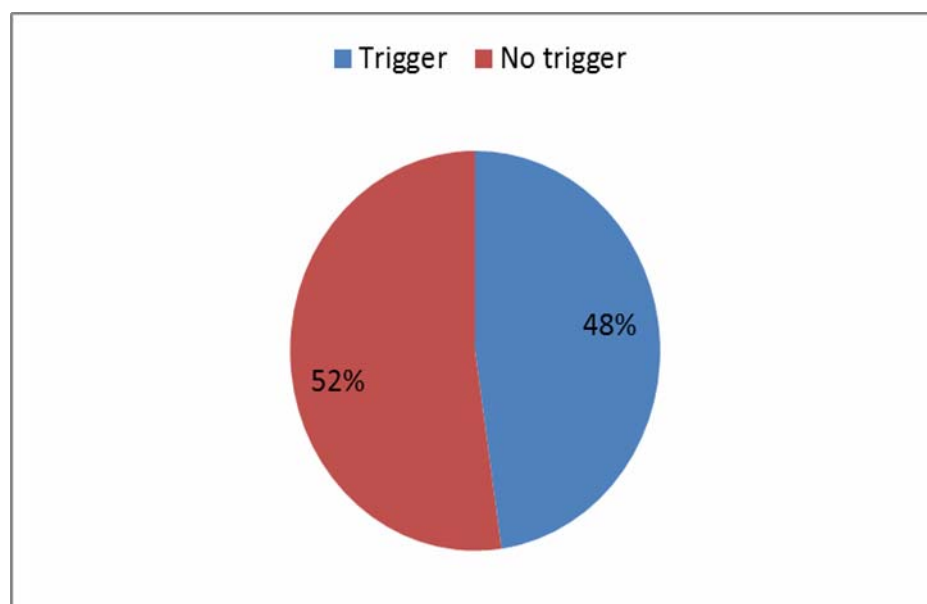
Figure 9: Average return of each trigger fund groupings after IPO



Sources: Morning Star, PST

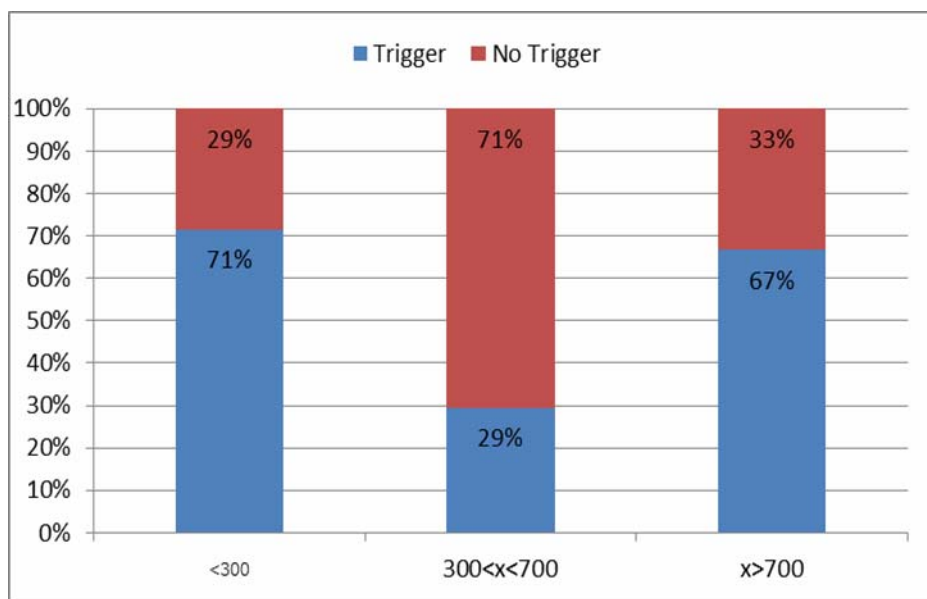
Statistics shows that trigger funds with a size of more than 700mn will deliver the best return among other sizes of the funds of around 3.41% in one month's time after the IPO, followed by those with a size of below Bt300mn at 1.95%. Fund liquidation will follow after the market run-up pushes the funds higher to hit return targets. During the liquidation of the funds, the returns of the funds with a size of (i) less than Bt300mn, (ii) between Bt300mn-Bt700mn and (iii) more than Bt700mn will be around -3.92%, -4.21% and -3.74% respectively on average.

Figure 10: Success rate of trigger funds



Sources: Morning Star, PST

Figure 11: Success rate of trigger funds by size of funds



Sources: Morning Star, PST

There is no big difference in the percentage of trigger funds that hit and fail to hit return targets among three groupings of the funds according to Figure 11. However, trigger funds with a size of less than Bt300mn and more than Bt700mn seem to have a higher success rate in hitting return targets.

In sum, institutions are showing signs of scaling back their role on the Thai stock market after emerging as strong buyers to replace foreign investors last year. This view is reflected by the fact that institutions have been engaged only in short-term trading activity since the start of the year after institutional buying sent the SET index higher by nearly 200 points from 1298.71 points to 1497.67 points last year. The launch of trigger funds of late also failed to push the market sharply higher while there is scope for a bigger market pullback after the IPO launch of the trigger funds. As things stand, the market looks set to go nowhere after a change in trading pattern. However, we believe economic recovery prospects and the de-rating in the market's P/E ratio on higher EPS may attract the interest of both institutional and foreign investors back to the Thai stock market again.

INVESTMENT STRATEGY

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Corporate Governance -2014



BAFS	BCP	BTS	CPN	EGCO	GRAMMY	HANA	INTUCH	IRPC	TOP
KBANK	KKP	KTB	MINT	PSL	PTT	PTTEP	PTTGC	SAMART	IVL
SAT	SC	SCB	SE-ED	SIM	SPALI	TISCO	TMB	THCOM	SAMTEL



AAV	ACAP	ADVANC	ANAN	AOT	ASIMAR	ASK	ASP	BANPU	BAY
BBL	BECL	BIGC	BKI	BLA	BMCL	BROOK	CENTEL	CFRESH	CIMBT
CK	CNT	CPF	CSL	DELTA	DRT	DTAC	DTC	EASTW	EE
ERW	GBX	GC	GFPT	GUNKUL	HEMRAJ	HMPRO	ICC	KCE	KSL
LANNA	LH	LHBANK	LOXLEY	LPN	MACO	MC	MCOT	NBC	NCH
NINE	NKI	NMG	NSI	OCC	OFM	PAP	PE	PG	PHOL
PJW	PM	PPS	PR	PRANDA	PS	PT	QH	RATCH	ROBINS
RS	S & J	SAMCO	SCC	SINGER	SIS	SITHAI	SNC	SNP	SPI
SSF	SSI	SSSC	STA	SVI	TCAP	TF	THAI	THANI	TSTE
TIP	TIPCO	TK	TKT	TNITY	TNL	TOG	TRC	TRUE	
TSTH	TTA	TTW	TVO	UAC	VGI	VNT	WACOAL		



2S	AF	AH	AHC	AIT	AJ	AKP	AKR	AMANAHA	AMARIN
AMATA	AP	APCO	APCS	AQUA	ARIP	AS	ASIA	AYUD	BEAUTY
BEC	BFIT	BH	BJC	BJCHI	BOL	BTNC	BWG	CCET	CGD
CGS	CHOW	CI	CKP	CM	CMR	CSC	CSP	CSS	DCC
DEMCO	DNA	EA	ESSO	FE	FORTH	FPI	GENCO	GL	GLOBAL
GLOW	GOLD	HOTPOT	HTC	HTECH	HYDRO	IFS	IHL	INET	IRC
IRCP	ITD	KBS	KGI	KKC	KTC	L&E	LRH	LST	MAJOR
MAKRO	MATCH	MBK	MBKET	MEGA	MFC	MFEC	MJD	MODERN	MONO
MOONG	MPG	MTI	NC	NTV	NUSA	NWR	NYT	OGC	OISHI
PACE	PATO	PB	PDI	PICO	PPM	PPP	PREB	PRG	PRIN
PTG	QLT	QTC	RCL	SABINA	SALEE	SCBLIF	SCCC	SCG	SEAFCO
SEAOIL	SFP	SIAM	SIRI	SKR	SMG	SMK	SMPC	SMT	SOLAR
SPC	SPCG	SPPT	SST	STANLY	STEC	STPI	SUC	SWC	SYMC
SYNEX	SYNTEC	TASCO	TBSP	TEAM	TFD	TFI	THANA	THIP	THREL
TIC	TICON	TIW	TKS	TLUXE	TMI	TMT	TNDT	TPC	TPCORP
TRT	TRU	TSC	TTCL	TUF	TVD	TWFP	UMI	UP	UPF
UPOIC	UT	UV	UWC	VIH	WAVE	WHA	WIN	WINNER	YUASA
ZMICO									

Results Presentation

Score Range

< 50%
50-59%
60-60%
70-79%
80-89%
90-100%

Number of Logo

No logo given



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Name	Sector Name	Sector Index
Agro & Food Industry[AGRO]	Agribusiness	AGRI
	Food & Beverage	FOOD
Consumer Products[CONSUMP]	Fashion	FASHION
	Home & Office Products	HOME
	Personal Products & Pharmaceuticals	PERSON
Financials [FINCIAL]	Banking	BANK
	Finance & Securities	FIN
	Insurance	INSUR
Industrials [INDUS]	Automotive	AUTO
	Industrial Materials & Machinery	IMM
	Packaging	PKG
	Paper & Printing Materials	PAPER
	Petrochemicals & Chemicals	PETRO
	Steel	STEEL
Property & Construction[PROPCON]	Construction Materials	CONMAT
	Construction Services	CONS
	Property Development	PROP
	Property Fund & REITs	PF&REIT
Resources [RESOURC]	Energy & Utilities	ENERG
	Mining	MINE
Services [SERVICE]	Commerce	COMM
	Media & Publishing	MEDIA
	Health Care Services	HEALTH
	Tourism & Leisure	TOURISM
	Professional Services	PROF
	Transportation & Logistics	TRANS
Technology [TECH]	Electronic Components	ETRON
	Information & Communication Technology	ICT

PSR Rating System

Capital Gain	Recommendation
> +10%	Buy
0% to + 10%	Neutral
< 0%	Sell

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Naree Apisawaittakan	Securities Investment Analyst #17971	662 635 1700#484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment Analyst #17970	662 635 1700#483	Transportation, Media & Publishing
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