

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

The Thai Capital Fund: An Overview



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SECTOR – GENERAL INVESTING

(AAW507) **TWST:** Vijchu, would you start with an overview of SCB Asset Management.

Mr. Chantatab: I'd like to start with background of SCBAM. We are the number one in asset management company in Thailand, which has a full license from Thai SEC about 15 years ago to run an asset management business. SCBAM is 100% affiliate of Siam Commercial Bank PLC or "SCB". Our parent company is the second rank in term of banking stock market cap in the Stock Exchange of Thailand, and the third rank in term of asset size in banking business.

About SCBAM, right now we are the largest asset management firm in Thailand. We have almost 470 billion Thai baht in assets under management. We offer full range of product from fixed income fund, equity fund, retirement fund, provident fund, private fund, property fund and also investment in overseas. Around 75% of asset size is in a fixed income fund and the rest is in an equity fund. One of our open-end fixed income fund, called "SCBSFF", is the largest fixed income fund in Thailand with asset size around 168 billion Baht. About the equity fund, we also offer full range of products for investor as well. We have general open-end equity, index fund, flexible fund, small cap fund, and overseas equity fund. SCBAM also has product about retirement fund (RMF) and tax deductible equity fund, called "Long Term Equity Fund" or LTF. In LTF and RMF business we are the largest fund size, about 32 billion Baht or 33% market share of LTF and 22% market share of RMF. In provident fund and private fund business, we are among top five ranking, with asset size together is almost 71 billion Baht. SCBAM also has largest property fund in Thailand, which is CPNRF, total size of property funds under management is around 20 billion Baht.

TWST: Please tell us about the Thai Capital Fund, and its performance.

Mr. Chantatab: The Thai Capital Fund, by definition, is actually a country fund and also is a closed end non-diversified equity fund in term of market because it is dedicated to invest in Thailand. The fund is listed in the New York Exchange under the ticker TF. The fund objective is the long-term capital application through the well selective fundamental stock in Thai market, and the benchmark of the fund is the Stock Exchange of Thailand Index or "SET Index". The Fund intends to distribute, at least annually, substantially all of its investment company taxable income and net realized long-term capital gains, if any, in excess of net realized short-term capital losses. The Fund generally declares any dividends to be paid at the regular December quarterly meeting of its Board of Directors. The fund sponsor is Daiwa Securities Trust Co.

Basically we manage the Thai Capital Fund. One objective of the fund is to outperform the SET index. The majority of asset allocation focuses on good fundamental stock picking. We use selective strategy but the portfolio still diversifies base on SET weighting and limitation of the US SEC.

TWST: What is the political climate in Thailand like at this time?

Mr. Chantatab: Actually, political risk is pretty much a standard of emerging market for a long time. There is a major issue about Thai politic, which is about ex-Pm Taksin.

We believe the ex-PM Thaksin Shinawatra-Cambodia mess up was sparked after his many failed attempts at home to discredit Thai politics and bring down the government. Time is running out for him as the government's stability improves with every passing day. Also,

the government's ambitious stimulus package of nearly 5% of GDP a year over the next three years has just begun. The money has started to flow into the economy and a clearer impact should be seen from 1Q10, along with the impact of the global rebound that's leading to a V shaped recovery in Thailand in 2H09. The present government will gain much more of an upper hand once the stimulus spending kicks in and it'll have a much better chance of securing a larger House majority in a new election. Note that PM Abhisit Vejjajiva can pick the best time for his Democrat party to call an election so that's his wild card.

Anti-homeland moves are always a vote-loser, Thaksin's move is being seen by the public as unpatriotic while the government is being viewed very favorably. The red-yellow shirt conflict is a much more serious issue in domestic Thai politics than the Thailand-Cambodia one. Both the reds and the yellows love their country, so Thaksin's support base has been dealt a further blow. There has been a tripling in PM Abhisit's popularity (Abac Poll) after he recalled the Thai envoy to Phnom Penh and scrapped the energy joint development area MoU. Although we've never been concerned about his comeback, the pro-Thaksin Puea Thai party's new adviser Chavalit Yongchaiyudh has become a bit of a clown in Thai politics.

This is why Puea Thai has been unable to find a higher-profile personality to be its new leader. It's just too risky a career option. We do not see any ending sign of this issue in the near term but we believe that this issue will less impact to the market if the situation is prolonged.

shrink by -1.2% 2009F, mainly from recovery in farm income as prices of agricultural products rise, continuously decreasing unemployment rate, and subdue inflationary threat. However, political stability is the biggest concern to Thailand's economic condition ahead to impede the recovery in addition to the sluggish in global expansion.

For inflation, we believe that pressure pushing up the price level is still accommodative. The headline and core inflations are expected to inflate by 3.3% and 2.2%, respectively based on the average oil price assumption of US\$84/bbl. Thus, the appropriate policy rate for 2010F should be at 2.25% to balance between the economic growth and the price stability, and there is still possibility that the rate will touch 2.50% if recovery of global economy is stronger than our expectation. The timing for the first rate hike will likely occur in late 1Q10 or early of 2Q10, in consistent with the region. Meanwhile commercial banks' interest rate is expected to rise in smaller proportion than the policy rate, and the time of adjustment will be different depends on each bank's liquidity.

Looking forward, US Dollar depreciation will set Thai Baht direction, even the trade balance falls

from a surplus of US\$18.3bn in this year to US\$5.7bn for 2010F, we still foresee Thai baht to appreciate against the greenback and to be at Bt32.05/US\$ at the end of next year. For the next 12 months, the baht should swing in the range of Bt30-36.7/US\$ for a 95% confident level.

Highlights

Vijchu Chantatab says that the momentum recovery and earnings revisions taking place in Thailand right now should continue to support further rise in the Thai stock index. At current valuations, the stock market should remain attractive compared with other asset classes. The stimulus package of the Thai government is among the key drivers for the economic recovery in 2010. Since more than 90% of the money will be injected into the provincial areas, with 55% slated for infrastructure projects, companies in construction materials, property and banks are expected to benefit. The pace of global economic recovery should also drive the price of oil higher, which should benefit oil-related stocks. Higher oil price and cuts in production estimates of agricultural product prices would also be positive for soft commodities plays.

"The double-dip recovery of the Thai economy is unlikely; however, a gradual recovery GDP growth of 2.5% is expected in 2010, lower than market consensus of 3.0-3.5%. As the world economy is still fragile, we expect a gradually improving exports (+11.3%) and higher acceleration of import growths than that of the export (+22.5%) in 2010F, bringing net export to drag down the overall GDP growth by -2.8%"

TWST: How has the Thai economy been impacted by the global economic downturn?

Mr. Chantatab: The double-dip recovery of the Thai economy is unlikely; however, a gradual recovery GDP growth of 2.5% is expected in 2010, lower than market consensus of 3.0-3.5%. As the world economy is still fragile, we expect a gradually improving exports (+11.3%) and higher acceleration of import growths than that of the export (+22.5%) in 2010F, bringing net export to drag down the overall GDP growth by -2.8%. Domestic demand will be key stimulators that help pushing up the economy next year. Easing monetary and fiscal conditions will support well a growth of gross investment by 10.6%. The SP2 project is another catalyst to boost households and business sentiments. Private consumption is expected to strongly expand by 3.1% after expected to

The economic activities in 2011 will be driven by government investment spending, especially SP2 project, which will contribute to an expansion of consumption and investment by 3.9% and 8.4% respectively as well as push the GDP to expand by 4.5% in 2011F. We expect to see the continuous flows of government economic stimulus injection, as a result, cash balance both on-budget balance and off-budget balance, will still continue to be deficit about -3.5% of GDP from -6.6% in 2010F while policy rate is expected to be at 3.00% as economic expansion starts bring a rise in inflation. We foresee headline and core inflation to expand at 3.5% and 2.5%, respectively.

Overall, we still believe that Thailand is on the appropriate pace of the recovery from the global crisis last year.

TWST: Vijchu, what has been the Thai Capital Fund's performance over the last few years

Mr. Chantatab: SCBAM has managed The Thai capital Fund since 2002; most of annual return is out perform the benchmark. In 2002 index was up 17.32%, portfolio return was 28.07%. In 2003 index was up 116.60%, while portfolio return was 111.45% under by 5.15%. In 2004, index down 13.48%, portfolio down by 7.22% outperform 6.26%. In 2005, index up 6.83%, portfolio was up 8.42% out 1.59%. In 2006 Index was down 4.75%, portfolio return was up 4.29%, out perform by 9.04%. In 2007, portfolio up 27.55%, index was up 26.22%, out perform by 1.33%. In 2008, index was down 47.56%, while portfolio down by 41.54%, out perform by 6.02% and in 2009, year to date performance, portfolio return up 49.34%, while index up 55.66%, the portfolio return behind the benchmark 6.32%

Overall, since 12 November 2001 that we start taking care of this fund, portfolio generate return around 248.45%, while index was up around 157.74%, the portfolio still above the benchmark around 90.71%

TWST: Would you describe your stock selection process and the investment criteria you look for?

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Mr. Chantatab: For the stock selection process, SCBAM equity team is focus on value stock, but we also consider about the liquidity too. Thai Capital Fund holds good fundamental stock base on diversification platform. The fund has sector limit at 25% of its NAV, and also 15% of single limit in any company. We start the selection process by screen out the high and steady growth in each sector and then pick top five in each sector. We also look into the details of the fundamental such as quality of growth, management style, and pass record of corporate governance. After we finish with qualitative angle, we will back to digest in valuation such as P/E, growth adjusted P/E, price per book, debt service level, cash flow, and trading liquidity. For weighting assignment of each stock, we still hold market weight as our guideline, and then assign by deviate from SET index weight in order to capture the movement of the market. But for the pure selection of mid size stock, we might assign direct weighing for that kind of the stock. Over all, the fund will construct by 60% of good fundamental, moderate growth with high liquidity, and 40% of high growth, good valuation with moderate liquidity.

TWST: What are the sectors where you have the most weighting and can you give us some examples of your holdings in the Thai Capital Fund?

Mr. Chantatab: The top five sectors in the portfolio are banking sector, energy sector, commerce sector communication sector and media and publishing sector. Thai banking sector will be among the first group that gains benefit from recover of the economic crisis and also be the group that has marginal impact from the global crisis. Basically, most of the Thai bank has no portion of either CDS or CDO which has problem last year. Only two local banks those has a small portion of investment in CDS/CDO, and both of them were not in our

model. In most major markets, declining in property price impacts to financial sector, but it does not happen in Thailand, just because Thai developer learns from the past, crisis ten years ago. So that recently, Thai developers did not go for debt to expand their project. They use their own equity. Then Thai financial sector also has very few portions of lending to property sector too. Thus, Thai bank almost had no impact from the crisis in 2007- 2008. Only impact to Thai banking sector was negative loan growth and narrow marginal spread, but they can offset by increase fee base income.

For the energy sector, the largest sector in Thai market, almost 40% weight in index. Commodity plays are still the most favorite sector in Thai market, not only liquidity but also good fundamentals such as merging theme between refinery plant and recover of both global and local demand. The top holding is PTT, PTTEP and BANPU. PTT is the largest energy player in Thailand and so does PTTEP, subsidiary of PTT, which gain benefit from oil price linked earning from produce natural gas and also has contract to sell to parent company. BANPU is the major player in coal business. It has coal mining in Indonesia and also invests in power plant in Thailand and China.

Commercial sector, almost gets no impact from global crisis at all. Since this sector is domestic play. We hold this sector around 8% in the portfolio. The three stocks in this sector are BIGC, CPALL, and HMPRO. BIGC is Supercenter operates business in the form of “Hypermarket” or “Supercenter”, a modern retail business in both CBD area and provincial area. The target group is medium to low-end, so that impact from global also minimal. Moreover expansion to provincial area will help in term of growth while same store sales growth number is quite steady. CPALL is operator CP 7-11, which expand to very corner in the major city and town. It is pure individual consumption play because spending per customer is mostly all about food and beverage and it can not be any lower in any situation so that earning quality is very reliable. HMPRO operators in retail business in home improvement segment by selling goods and provide range of service in construction. Most of home buyer in Thailand is BIY, “Buy It Yourself”, this means that home owners will buy all major and high value of material for their contractor in both building new house and repair.

Communication sector, in Thailand, this sector is not consider as high growth or technology related anymore, but it consider as domestic play by domestic usage, which offer steady growth and high dividend yield for ADVANC. Moreover this sector will also have potential gain from investment 3G by next year. Media and Publishing, we focus on APRINT, which issues major magazine in Thailand

TWST: What is your risk management strategy?

Mr. Chantatab: Actually, The Thai Capital Fund is a pure Thai equity fund and the investor who holds this fund, also accepts this point. The fund involves with market risk and we will not try to deviate from market beta that much. Basically, after we construct portfolio model or

plan to change any holding in the portfolio. We also check the simulation of the portfolio in order to calculate portfolio beta and VAR. We focus on beta rather than VAR. We try managing beta of portfolio in a range of 1.05-1.1, which we believe that portfolio will not deviate too much from the benchmark. However, to control residual risk or specific risk of each individual company or stock that we hold in the model. We set up the checking value matrix to display of the basic fundamental of each stock in the table such as P/E, P/B, recent earnings, forecast earnings, expected

materials, Contractors, Auto hire purchase, Consumption, Property, Banks, are among sectors that will benefit the most from economic recovery next year, driven partly by government's stimulus. The pace of global economic recovery could also drive oil price higher. Oil-related stocks should also perform well along with the oil price. Higher oil price and cuts in production forecasts of agricultural products such as higher agricultural products' prices, would also be positive for soft commodities play.

"The momentum of economic recovery and earnings revision should continue to support further rise in the stock index. Forward P/E ratio for 2010 is only at average level, hence yet not expensive. Valuation could be rather excessive considering the uncertainties over momentum of economic recovery and domestic political situation. Further upsides would be supported by upward revision in earnings."

earnings growth and also target price. Whenever, each parameter of each stock deviate out of our pre-determined range, there will be a discussion among our fund managers and analysts to react on that stock. Moreover, if any stock under perform more than 20% relative to the benchmark, we also review the fundamental as well.

TWST: What is the climate like for investing in Thailand right now?

Mr. Chantatab: The momentum of economic recovery and earnings revision should continue to support further rise in the stock index. Forward P/E ratio for 2010 is only at average level, hence yet not expensive. Valuation could be rather excessive considering the uncertainties over momentum of economic recovery and domestic political situation. Further upsides would be supported by upward revision in earnings.

At current valuations, the stock market should remain attractive compared with other asset classes. Further weakening trend of US Dollar could also help support further rise in stock market in this region. When the market valuation is not at excessive level, the threat of market correction in the up-cycle of interest rate could be less severe. The market reaction to the upcoming hike in Fed Fund rate therefore depends on the level of market valuation a few months before the actual hike. The higher the market valuation, the deeper the correction can be. Recoup of losses after correction could be supported by cheaper valuation and continued pace of economic growth despite hikes in interest rates.

Based on our current EPS growth assumption of 14% for 2010, the forward PER of 12.3x or 1 standard deviation above average of 10.3x implied SET index at 812 points for 2010.

Stimulus package from the government is among key drivers for the economic recovery next year. The size of stimulus is quite big at 5% of GDP but not all projects may kick-start. Because more than 90% of the money will be injected into provincial area, 55% of which in infrastructure such as roads and water resources, companies that have exposure to those projects should benefit from this boost. Construction

Thai market forward PER for 2010F is currently at 25% discount to regional market compare to historical average of 28%. In the worsening domestic situation, the discount can be as wide as 40% while the good case scenario could lead to narrowing discount to 10-15%. The election may not happen until late next year or early 2011 at the earliest. The trigger point for the dissolution of parliament can come from a completion of constitutional amendment or solid censure debate against corruption cases of the current government. If these do not happen, the government can last full term.

The possible market risks are, a fast rise in interest rates, causing a slowdown in economic recovery or rising oil price causing costs to increase more than the economy can handle or premature House dissolution leading to a stumble in government spending.

Overall, Thai market has moderate upside gain while down side risk is quite limited. The market seems to be an expensive market but fundamental improve a lot, so that finally the market will not be that expensive compare to the regional market.

TWST: Thank you. (PS)

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