

Thailand Update



Overview

- Domestic stocks were lacklustre in September, weighed down by a bloodless military coup which saw the ousting of prime minister Thaksin Shinawatra.
- Despite the political turmoil, new vehicle sales rose by 1.6% year-on-year in August, the first increase in six months, signalling that consumer confidence may be stabilising.
- Consumer groups submitted a petition to the Supreme Administrative Court asking for the nullification of two Royal Decrees that supported the privatisation of the oil and gas giant Petroleum Authority of Thailand in 2001, citing conflict of interest and monopolistic issues.

Headline News

Military seizes power

The military coup of September 19 saw the ousting of embattled prime minister Thaksin Shinawatra and the subsequent appointment of Surayud Chulanont, a respected former army chief and member of the Privy Council, as the country's next ruler. Pledging to put the pursuit of people's happiness above economic growth, the new premier will lead an interim administration until fresh elections next year. He faces the uphill task of instituting political reforms, while ending separatist insurgency in the long-troubled Muslim south, and restoring international confidence in the country. Thaksin, on the other hand, has quit as head of his Thai Rak Thai party, after scores of colleagues deserted the party.

While the coup represents a setback for democracy and extends the length of uncertainty for investment, we believe that little has changed at the fundamental level for Thai equities. Instead, we see the current market weakness as an opportunity to accumulate quality stocks at cheaper levels, given that earnings growth remains healthy, and the macroeconomic environment, favourable.

Economy displays resilience

Despite the turbulent politics, the economy stayed resilient: August monthly data showed new vehicle sales registering their first increase in six months, suggesting a recovery in consumer confidence; while exports continued to grow, boosting the country's current account surplus to its highest level in almost two years. Inflation, meanwhile, eased to an 18-month low in September, rising 2.7% from a year earlier, mainly due to a fall in fuel prices.

For the second half of 2006, we expect to see continued weakness on the domestic front, tempered by resilient exports and a revival in tourism.

Business environment remains favourable

The **Electricity Generating Authority of Thailand** won a US\$700m concession to jointly build and operate a power plant in Laos. Despite a slowdown in consumer spending and higher costs, **AEON Thana Sinsap** posted an 11% year-on-year rise in second-quarter net profits. Elsewhere, southern Thailand's Coca Cola bottler **Haad Thip** declared a 0.12-baht interim dividend.

Portfolio News

Over the month, we tidied up our small position in **Minor Corp** and topped up the **Electricity Generating Authority of Thailand**.

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