

Pick laggard stocks with sound fundamentals

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The SET Index went up as the current price-to-earnings ratio (PER) is as high as 16.6 times. That's quite expensive, compared with this year's estimated EPS (earnings per share) growth of 7.7 per cent. Highly positive factors or a large amount of fund inflow with consecutive buys are needed to sustain or push up the SET Index.

However, it's difficult to find positive news right now. Externally, there are expectations that the European Central Bank will decide at its October 2 meeting to inject money into the economic system, and this might then flow into stock markets for speculation. That could be offset by the end of the US stimulus programme and likelihood of a rise in US benchmark interest rates in early 2015.

Internally, implementation of the Thai government's policy to boost the economy and its impact will be monitored from now on. There could be speculation in the stock market on industries that could benefit. This week, the government's stimulus package will be on watch.

In terms of fund flows, foreign investors are expected to make investments to drive the economy. During September (until the 25th), net foreign purchase of Thai stocks amounted to Bt23.4 billion. However, since early 2014, net foreign sales accounted for Bt1.46 billion.

ASP Research expects 1) amid the current environment, the mar-

ket PER is relatively high, 2) Thai economic growth in 2014 and 2015 will be less than the world average and 3) the global money supply will decline as most countries, excluding those in Europe and Japan, have been through their money injection programmes. More than that, some have decided to hike their benchmark interest rates. Given these three elements, it is not believed that foreign capital will move into the Stock Exchange of Thailand at a significant level.

The current mechanism and environment are highly different from those when foreign capital consistently poured into the Thai bourse for more than four years (early 2009 to mid-2013). In early 2009, the market PER was only 10 times, while economies in Thailand and Asian countries stood out, compared with the US and the Europe. Almost all countries, then, adopted money injection to boost the money supply.

This week, the SET Index is expected to see limited upside with higher risks to investment. Focus on laggard stocks with sound fundamentals, dividend payment and lower prices than 2014 fair value.

Our picks: RS (FV@Bt10), BTS (FV@Bt12), and TTCL (Toyo-Thai Corporation, FV@Bt37.46). However, investors have to be more cautious.

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Last week, the SET Index increased more than its regional

peers, but the world's other stock markets went down.

The SET Index gained support from net foreign purchase of Thai stocks and institutional investors' window dressing before edging up 0.9 per cent, and stayed above 1,600 points. There is still a positive picture for consistent rises and the index has a chance to test 1,620-1,650 points with a support level of 1,590.

This week, we expect the Stock Exchange of Thailand to see positive news from an announcement of a stimulus package.

Externally, the world's stock markets will keep an eye on the European Central Bank's October 2 meeting. Given recent economic figures, investors expect the ECB to announce more monetary easing and stimulus measures, and this could have a psychological impact on stock markets across the globe.

If the ECB introduces stimulus measures, the SET Index has a chance to test 1,620-1,650 points rapidly. If the ECB disappoints the markets without measures that satisfy investors, the SET Index is expected to drop to test 1,550 points in the next month. We overweight on the first case.

Speculate if the SET Index does not move below 1,590 points.

Stock picks: PTT, BCP (Bangchak Petroleum), ADVANC (Advanced Info Service), INTUCH (Intouch Holdings), EGCO (Electricity Generating), TICON (Ticon Industrial Connection), SCC (Siam Cement) and TCAP (Thanachart Capital).

Speculate on small caps in the subcontracting and securities groups.