

## Thailand Equity Research

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Morning Brief

19 December 2011

### News

CPF (Buy) - Kittirat expects EU to lift ban on raw chicken imports next year

LPN (Outperform) - Nice response seen at three new projects but profit-taking likely

THAI (Outperform) - Cabin load factor in November fell to 61%

### Trend Spotting

Equity Fund Flow

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## News Comment

19 December 2011

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### CPF (Buy, FP Bt35)

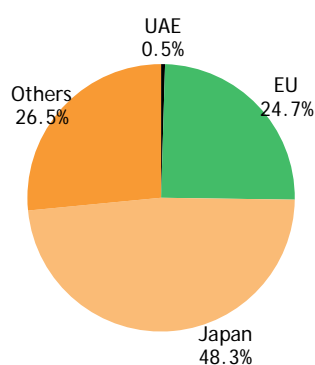
#### Kittirat expects EU to lift ban on raw chicken imports next year

- ▶ A local newspaper quoted Commerce Minister Kittirat Na-Ranong as saying that during talks between Thailand and the EU in Switzerland, the EU mentioned it is considering lifting its ban on imported raw chicken meat from Thailand and he expected good news next year. The EU banned Thai raw chicken meat imports in 2004 due to the bird flu outbreak.

#### KS Comments

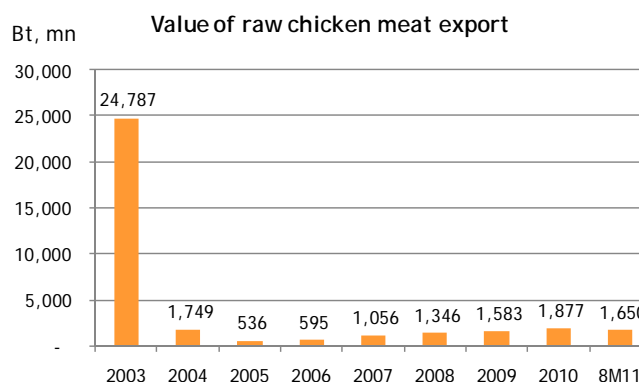
- ▶ This news is positive to Thai chicken exporters such as CPF.
- ▶ The total value of Thailand's raw chicken meat exports was Bt25bn in 2003 (before the bird flu outbreak), compared with an annual average of less than Bt2bn during 2004-2010.
- ▶ The EU accounted for 25% of total raw chicken meat exports in 2003. If Thailand can restart raw chicken meat exports to the EU, we expect to see earnings upgrades of CPF.
- ▶ We maintain a Buy rating on CPF with a DDM-based FP of Bt35. (Note that our new fair price after the acquisition of C.P. Pokphand Co., Ltd will be Bt39).

Figure 1: Breakdown of raw chicken meat exports in 2003



Source: Customs Dept

Figure 2: Raw chicken meat exports since 2003



Source: OAE, KS

## News Comment

19 December 2011

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### LPN (FP Bt12.50, Outperform)

#### Nice response seen at three new projects but profit-taking likely

##### More than half of the units at three latest projects sold

Based on our survey on 17 December, the official launch date of LPN's three newest condominium projects, all of the projects enjoyed a nice pre-sales response with more than half of the launched units being sold. We estimate about Bt1.6bn was added to LPN's backlog, lifting its 2011 pre-sales passed the company's target of Bt14bn to Bt15bn. Lumpini Mega City Bangna (Bt3.0bn), where two of five buildings were opened, should contribute Bt0.6bn, Lumpini Ville Naklea-Wongamart (Bt3.6bn), where one of three buildings was opened, should provide Bt0.5bn, while Lumpini CondoTown Lardprakao (Bt1.0bn), where all four buildings were opened, should add Bt0.5bn. This means about 60% of the launched units in the first two projects and 50% at the last project were booked at launch.

#### KS Comments

##### Good news already priced in, Downgrade to Outperform

Based on the recent strong pre-sales, we see LPN's current backlog order rising to nearly Bt15bn from Bt10.87bn at the end of 3Q11 (before cancellations in 4Q11, which have been normal at slightly below 10%). This suggests LPN's 2011 sales revenue target of Bt12bn is 100% secured while 80-85% of its 2012 sales revenue target of about Bt14bn is locked in already with Lumpini Mega City Bangna and Lumpini CondoTown Lardprakao scheduled to undergo the transfer process in 2012. Although we still like LPN's fundamentals in the long term given its strong balance sheet, high backlog order, conservative expansion plan and the upside gain from new townhouse products in 2012, we decided to downgrade our recommendation on the stock to Outperform from Buy. The recent rally in its share price of almost 15% in the past two weeks following the release of the launch plan for the projects has factored all the good news into the price, we believe. Therefore, we expect that profit-taking (selling on the fact) will be the key factor driving the share price in the near term. Also, we see no big positive catalyst to move the stock in the near future given that its 4Q11 earnings are expected to be very soft and no more large projects will be launched for the next few months. In addition, there is no upside gain from the latest closing price to our 2012 fair value of Bt12.5.

## News Comment

19 December 2011

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## THAI (FP Bt27.4, Outperform)

### Cabin load factor in November fell to 61%

- ▶ THAI reported last Friday that its cabin load factor in November 2011 was only 61%, down 15% YoY, as a result of the flooding. This lowered its YTD cabin load factor in the first 11 months of the year to 70.6%, down 3.9% YoY. Regional cabin load factor fell a significant 25.8% YoY to 56.3%. Meanwhile, its freight factor in 11M11 fell 8.8% YoY to 56.4%.

KBank is an underwriter for the public offering of THAI debentures. Investors should be aware that KS may have a conflict of interest that could affect the objectivity of this research report.

### KS Comments

- ▶ We have revised downward our projections for 2011 and 2012 net profit to reflect poorer-than-expected load factors in 4Q11 and in 1Q12 and have cut THAI's fair price from Bt30.5 to Bt27.4. We reiterate our Outperform rating as we believe the market has already incorporated this negative news (the lower cabin load factor) into the share price, and because at the current level the stock is trading at a FY2012 PBV of only 0.6x and at a 2012 PER of only 8.4x, which is lower than the regional average of 10.3x.
- ▶ Given the poor cabin-load-factor data for November (down to 61% as tourists delayed their travel plans due to concerns about the flooding) and YTD (down to 70.6%) while forward bookings indicate that December will also be weak at 70% (vs. 75.3% last year), we cut our expectations for THAI's 2011 cabin load factor from 72% to 70%. We also change our forecast for its 2011 net loss from Bt1.4bn to Bt6.8bn (consensus forecast a net loss of only Bt1.8bn).
- ▶ Forward bookings indicate that the cabin load factor in January 2012 should improve to 72-73%, but this will still be lower than the 77.8% it reported in January 2011 (high travelling season). We thus cut our forecast for 2012 cabin load factor from 73.6% to 70.8% (we also revise our projection to reflect a higher-than-expected personnel expense) and lower our forecast for 2012 net profit from Bt7.8bn to Bt5.5bn (consensus forecast of Bt5.9bn).
- ▶ We will need to keep an eye on THAI's expected performance next year (particularly management's ability to turn around its operation). We believe that its cabin load factor will gradually improve as the airline responds to this crisis by introducing more promotional programs (which may boost its number of passengers, but will lower its yield). The company has also cut its number of flights to Europe (or changed them to secondary markets) while increasing flights to North Asia (where there is less competition from Middle Eastern airlines and a higher yield than on European routes). THAI insists that next year's performance will not be hurt by the rising jet oil price as it was this year as its fuel surcharge and hedging will cover price increases. In addition, the hedging contract next year was done at a good price at USD110-115/bbl (vs. USD130/bbl at the beginning of this week).

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Figure 1: THAI's Monthly Operating Statistics - March 2011

	2011E	2012E	2012E	2011E	2012E	2012E
Load Factor (%)	66.8	68.7	70.0	67.5	69.4	70.8
Passenger LF (%)	69.5	70.8	72.2	72.2	73.6	75.0
Freight Load Factor (%)	56.1	57.7	59.4	57.6	59.3	61.0
RPK (mn.passenger-.kms)	54,952	58,799	62,915	57,346	61,361	65,656
% Growth on RPK	-1.3%	7.0%	7.0%	3.0%	7.0%	7.0%
Sales	176,999	201,751	219,175	189,091	207,786	224,789
Sales Growth	2.8%	14.0%	8.6%	9.8%	9.9%	8.2%
Core Profit	-3,374	5,486	7,236	2,669	7,734	8,083
Fx Gain (loss)	-3,325	45	0	-5,444	45	0
Net Profit	-6,774	5,532	7,236	-1,389	7,779	8,083
Consensus forecast	1,257	6,486	7,454	1,257	6,486	7,454
EPS	-3.10	2.53	3.31	-0.64	3.56	3.70
Core EPS	-1.55	2.51	3.31	1.22	3.54	3.70
BVPS	33.77	36.31	38.84	36.24	39.47	42.21

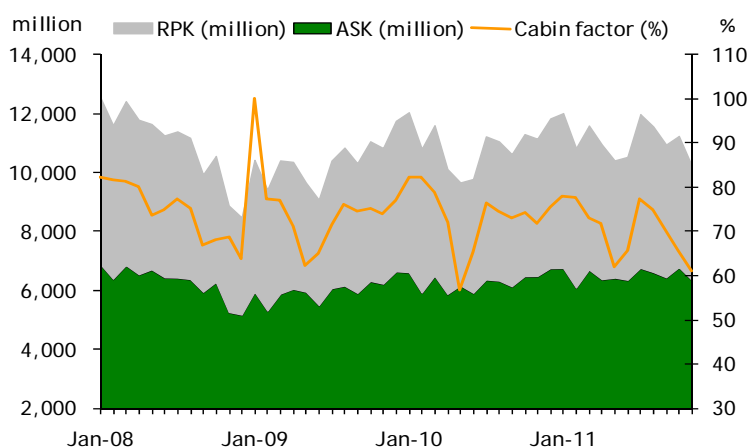
Source: KS

Figure 2: Company Earnings & Financials

YE Dec 31	2010	2011E	2012E	2013E
EBITDA (Btmn)	30,899	20,800	33,534	36,588
Core Profit (Btmn)	3,581	-3,374	5,486	7,236
Net Profit (Btmn)	15,350	-6,774	5,532	7,236
Net EPS (Bt)	7.0	-3.1	2.5	3.3
DPS (Bt)	1.3	0.0	1.0	1.3
Net EPS gr (%)	62.7	-144.1	181.7	30.8
ROE (%)	22.6	-8.7	7.2	8.8
Net D/E (x)	1.3	1.9	1.6	2.0
<b>Valuation</b>				
PER (x)	3.1	-6.9	8.5	6.5
Div Yield (%)	5.8	0.0	4.7	6.2
PBV (x)	0.6	0.6	0.6	0.6
EV/EBITDA (x)	5.0	8.9	5.3	5.8
<b>Relative to Consensus [(Company/Consensus)*100]</b>				
PER (x)	100	9	82	99
Div Yield (%)	100	0	134	131
PBV (x)	100	105	100	97
ROE (%)	100	9,743	115	110
<b>Relative to Industry [(Company/Industry)*100]</b>				
PER (x)	16	-44	98	87
Div Yield (%)	148	0	93	108
PBV (x)	93	102	100	98
ROE (%)	217	-558	99	114
Regional PER (x)	134	-10	95	107

Source: KS

Figure 3: THAI's cabin-load factor



Source: KS

Figure 4: THAI's Monthly Operating Statistics - March 2011

	Month			Year to Date		
	Nov-11	Nov-10	Change	Nov-11	Nov-10	Change
<b>Passenger</b>						
Passenger carried ('000)	1,344	1,569	-14.3%	16,774	16,466	1.9%
MASK (million available seat kms.)	6,357	6,491	-2.1%	71,726	68,844	4.2%
MRPK (million revenue passenger kms.)	3,878	4,663	-16.8%	50,634	50,591	0.1%
Cabin factor (%)	61.0	71.8	-15.1%	70.6	73.5	-3.9%
<b>Cabin factor by region (%)</b>						
- Domestic	75.2	67.4	11.6%	71.5	70.2	1.9%
- Regional	56.3	75.9	-25.8%	70.7	73.2	-3.4%
- Australia	59.8	62.2	-3.9%	66.8	64.7	3.2%
- Europe	65.3	72.6	-10.1%	72.1	78.0	-7.6%
- North Pacific	63.8	76.9	-17.0%	72.8	76.2	-4.5%
- Africa	55.0	58.0	0.0%	65.6	62.5	5.0%
<b>MRPK by region(million revenue passenger kms.)</b>						
- Domestic	274	260	5.5%	2838	2,740	3.6%
- Regional	1,366	1,910	-28.5%	19,889	19,591	1.5%
- Australia	501	553	-9.4%	6,781	6,531	3.8%
- Europe	1,538	1,730	-11.1%	19,042	19,815	-3.9%
- North Pacific	106	132	-19.8%	1,385	1,454	-4.8%
- Africa	35	52	-33.1%	533	340	57.1%
<b>Cargo</b>						
Freight carried (tons)	55,757	62,911	-11.4%	630,446	651,843	-3.3%
MADTK (million available dead ton kms.)	386	439	-12.1%	4508	4280	5.3%
MRFTK (million revenue freight ton kms.)	213	267	-20.2%	2543	2647	-3.9%
Freight factor (%)	55.2	60.7	-9.1%	56.4	61.8	-8.8%
<b>Total</b>						
Number of single flights	7,068	7,278	-2.9%	79,546	77,708	2.4%
MATK (million available ton kms.)	958	1,024	-6.4%	10,963	10479	4.6%
MRTK (million revenue ton kms.)	570	695	-18.0%	7,187	7281	-1.3%
Load factor (%)	59.5	67.9	-12.3%	65.6	69.5	-5.6%

Source: KS

# Local Equity Fund Flow

19 December 2011

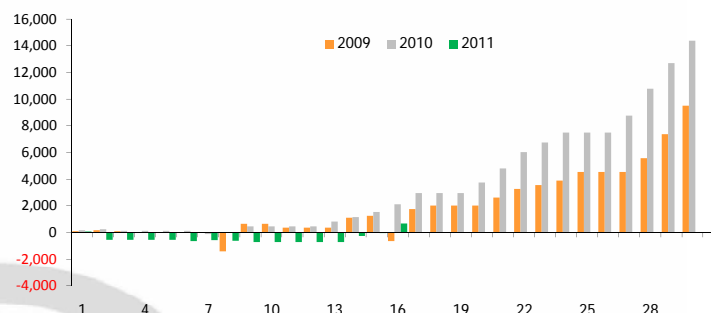
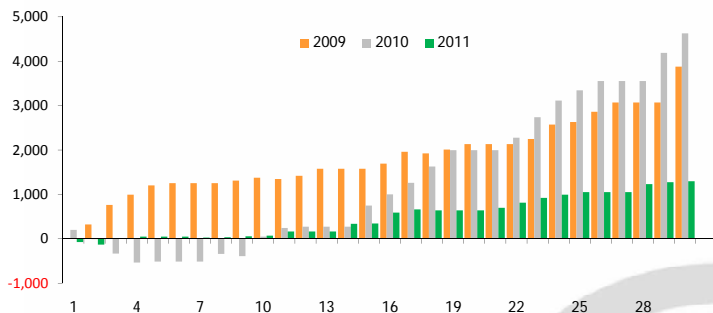
(Bt mn)	Primary flow				Primary cumulative		% YoY	
	-1W	-2W	-3W	-4W	MTD	YTD	MTD	YTD
Period (Mon - Fri)								
Net flow	1,381	(145)	(317)	414	678	8,803	-77%	505%
Total Asset Value *	213,004	211,370	211,474	203,821				

## PRIMARY MARKET MONEY FLOW

The net value of equity funds purchased (inflow) and redeemed (outflow) between investors and asset management companies. Estimate covers 80% of equity fund universe.

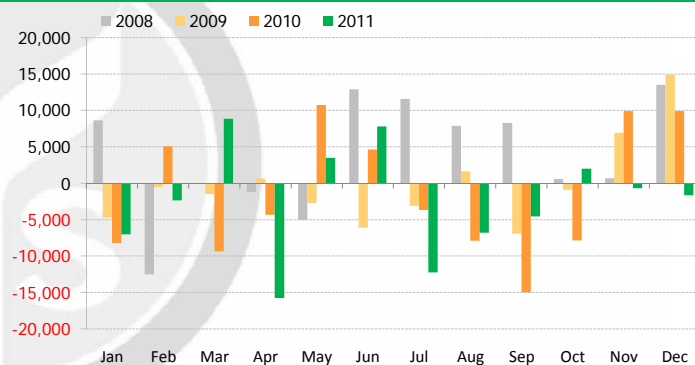
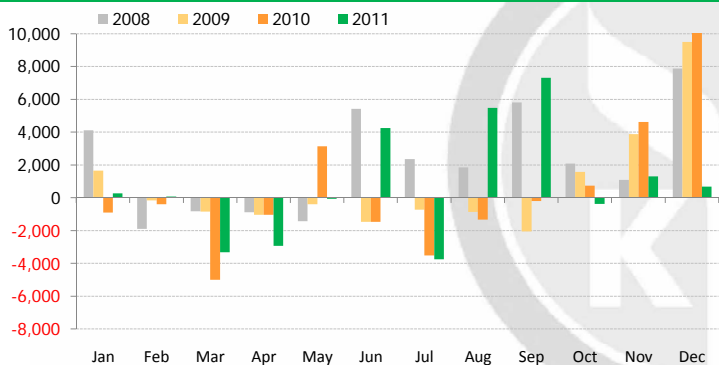
November

December



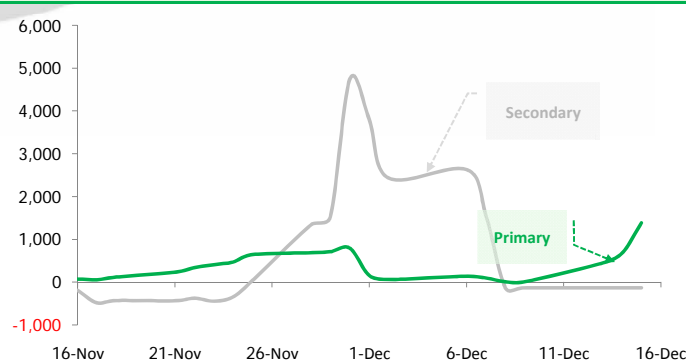
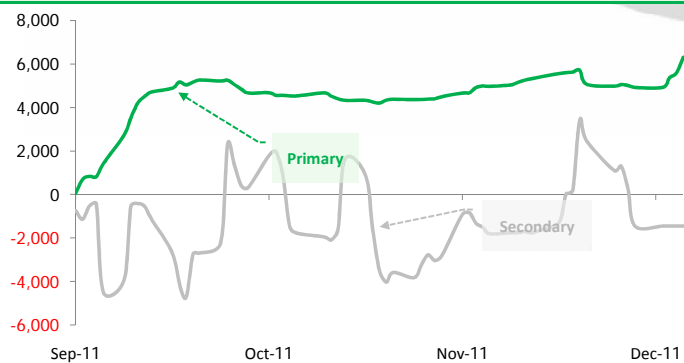
## MONTHLY AVERAGE OF PRIMARY MARKET FLOWS

## MONTHLY AVERAGE SECONDARY MARKET FLOWS (NET BUY/SELL)



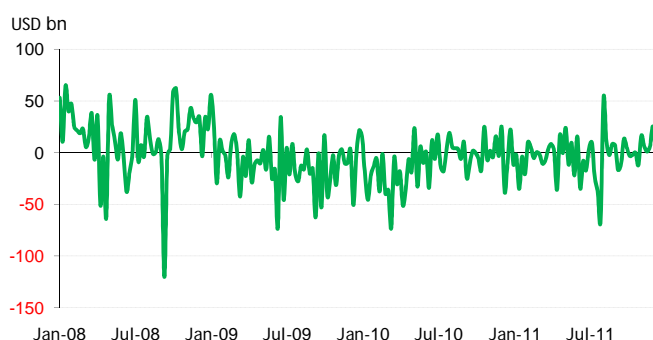
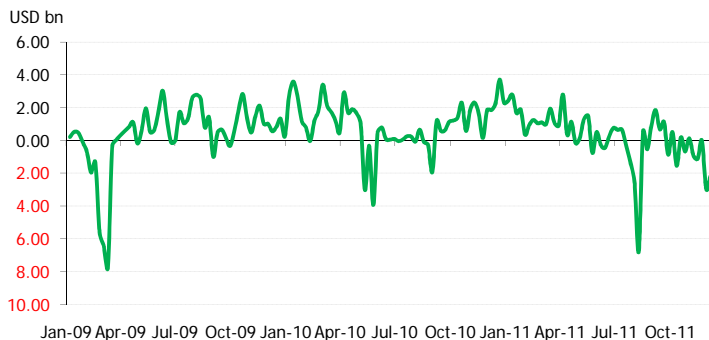
## PAST 90-DAY CUMULATIVE EQUITY FUND FLOWS

## PAST 30-DAY CUMULATIVE EQUITY FUND FLOWS



## US WEEKLY NET FLOWS INTO FOREIGN EQUITY FUNDS

## US WEEKLY NET FLOWS INTO/FROM MONEY MARKET FUNDS



Data as of 16th December 2011

Source : KS, SET, AIMC