

Thailand Equity Research

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Morning Brief

9 September 2009

Company

BECL (Buy) - Proceeds being set aside from new debentures to repay Bt3.9bn debenture next year

SEAFCO (Buy) - Gaining positive momentum

Strategy

Strategy - Be wary of a short-term correction

Where Fundamentals and Timing Converge

Fundamentally 'BUY' rated with technical stop loss & break out signals							Fundamentally 'SELL' rated with technical resistance & stop loss warnings					
#	Stock	Current Price	Fundamental Target	Technical Support			#	Stock	Current Price	Fundamental Target	Technical Resistance	
				Stop Loss	Upside target	Breakout if above					Resistance	Downside target
1	PTTEP	143.50	194.00	will update	158, 163	149						
2	DELTA	17.80	17.30	will update	18.3, 20.7	-						
3	TSTH	1.98	2.00	will update	2.08-2.10, 2.7	-						
4	PTTAR	25.25	22.70	19 (closing)	26.25, 28	-						
5	CENTEL	3.74	4.34	will update	4.24-4.26	4						

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable, but their accuracy, completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information known to us then, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice.

Report Summary

BECL (FP Bt23.90, Buy)

Proceeds being set aside from new debentures to repay Bt3.9bn debenture next year

- ▶ BECL's share price yesterday dropped by Bt0.7, more than the 1H09 DPS of Bt0.55 (XD yesterday). From the information that the company presented to analysts yesterday (at its Opportunity Day), we believe that its earnings outlook in 2H09 will be poorer than in 1H09 as a result of:
 - Higher operating expenses in 2H09 than in 1H09 due to rising impairment expense (maintenance has been delayed from 1H09 to 2H09 due to the introduction of new road-repair technology).
 - Interest expense will increase after the company issues Bt3.0bn of new debentures this week. BECL will not have to book a penalty fee for early repayment as we had expected, because it will wait until the beginning of August 2010 to repay its existing Bt3.9bn debenture.
- ▶ BECL believes that the cost of carrying these proceeds will be lower than the cost of the penalty fee (2%) as it will use the proceeds to invest in a mutual fund and expects the return from the investment of about 3.0-3.7% to offset the fee. We are concerned about this point as there is no guarantee on the return of this investment.
- ▶ We have revised upward our projection on 2009 net profit by 3.5% mainly due to better-than-expected traffic volume growth (from minus 3.8% to zero), but have revised down 2010 net profit by 2.3% from our previous forecast due to the higher interest expense. We cut our fair price slightly from Bt24.4 to Bt23.9, based on a DDM valuation for mid-2010.

For more details please see Company Focus

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SEAFCO (FP Bt4.70, Buy)

Gaining positive momentum

- ▶ Following an earnings upgrade, we raise our end-June 2010 fair value, based on 1.5x PBV, to Bt4.70. With a blended expected return of 18.9% (upside gain of 15.7% and dividend yield of 3.2%), we reiterate our Buy call.
- ▶ We raise our 2009-2011 earnings forecasts by 31%, 23% and 20%, respectively, to reflect SEAFCO's improving revenue outlook as well as growing economies of scale, which will directly benefit profitability.
- ▶ Although competition remains stiff, we believe SEAFCO should show a strong improvement in earnings, starting in 3Q09. This will be supported by a recovery in margin and revenue on its larger backlog.
- ▶ In addition, the beginning of work on several large government projects, especially the Purple Line mass transit route late this year, will fuel expectations of an improvement in margin from lower competition and boost trading sentiment in the stock on hopes of a strong earnings recovery.

For more details please see Company Focus

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Strategy

9 September 2009

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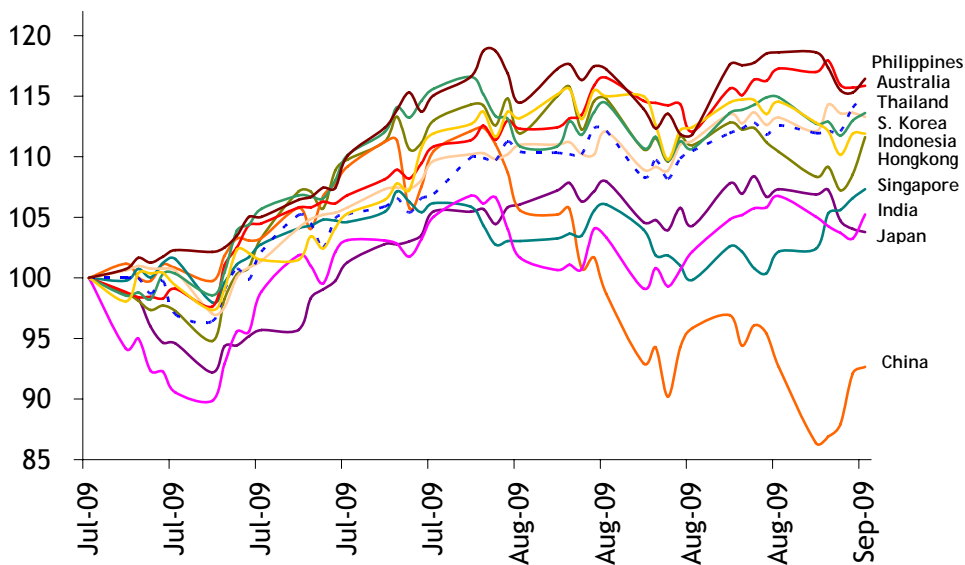
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Be wary of a short-term correction

At this point, investors might be wondering when the current bull rally is going to run out of steam. We have created a number of assumptions based on fundamental and quantitative approaches to investigate the possibility of a correction in September 09. After thoroughly analyzing a number of factors, we believe the SET will correct some time this September. As shown in Figure 1, the SET has outperformed its regional peers over the past 2 months. To be more precise, the SET began its latest rally when major regional markets like the Hang Seng and Nikkei consolidated in the middle of August. This indicates the SET is a laggard and implies that a near-term correction is possible.

Figure 1: The SET Index has outperformed its peers

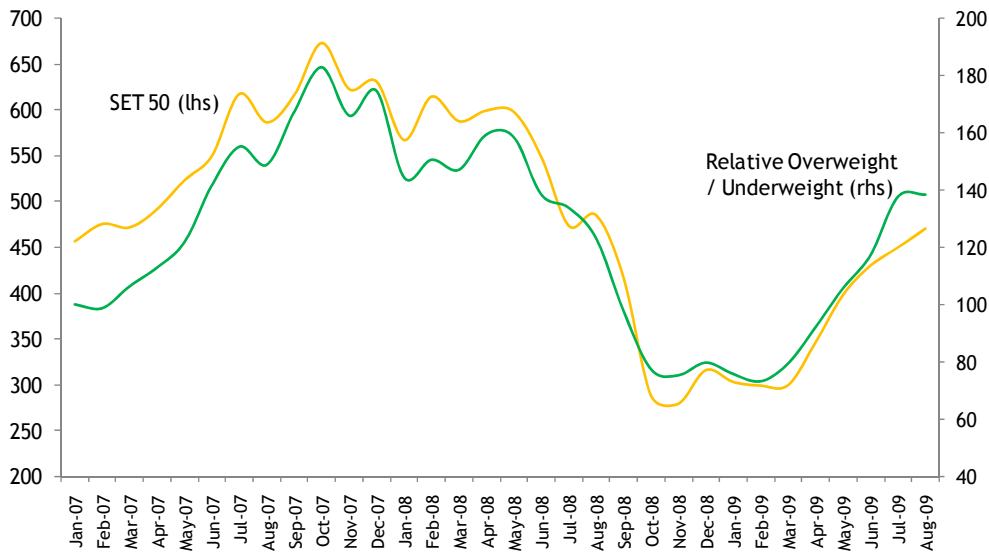


Source: Bloomberg

Aside from the recent performance of the SET, foreign investors are overweight in the Thai market. Figure 2 shows that during the global crisis foreign investors held more Thai stocks. Therefore we may now see foreign investors make adjustments towards a more regular weighting in the SET compared to its regional peers.



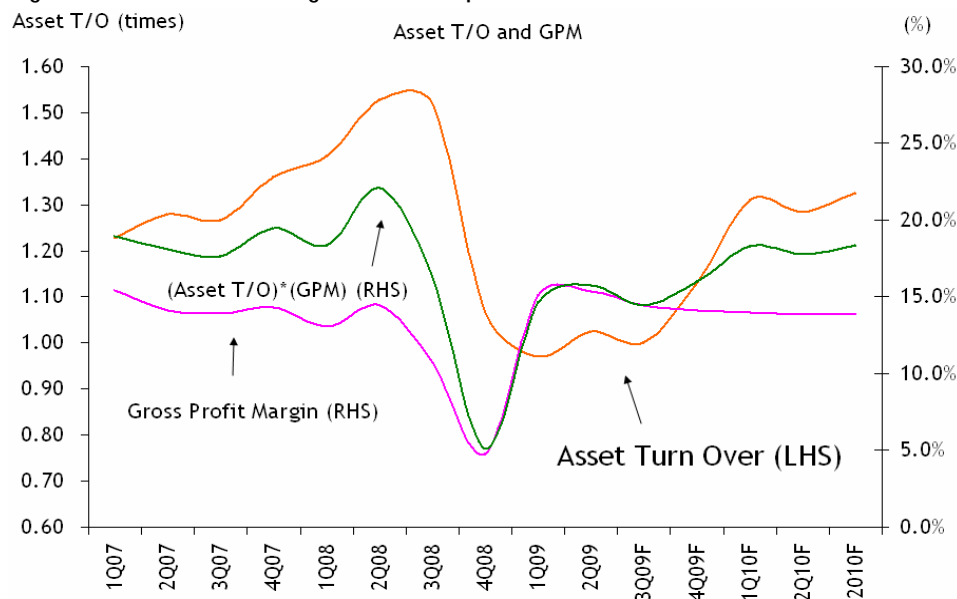
Figure 2: Foreign investors are overweight in the SET



Source: SET, KS

As the SET is driven mainly by earnings momentum, a blip in earnings growth in 3Q09 should weigh down the market. As we noted previously, corporate profit is determined by asset turnover and gross profit margin. The product of the two is the company's estimated earnings momentum. As asset turnover is highly correlated to GDP growth and we expect to see a slight GDP improvement in 3Q09, we expect asset turnover of the SET to grow in 3Q09 as well. However with rising commodity prices and production costs, we also expect the gross profit margins of listed companies to decline as they come under pressure from rising oil prices. Based on the 3Q09 GDP and oil price assumptions provided by KResearch, we estimate that net earnings in 3Q09 will slightly drop compared to those in 2Q09 since a decline in gross profit margin has a higher effect than improving asset turnover (i.e. production cost has more impact on margin than sales). Thus we expect investors to realize the actual earnings in the near term and the SET should see a correction some time before earnings are reported.

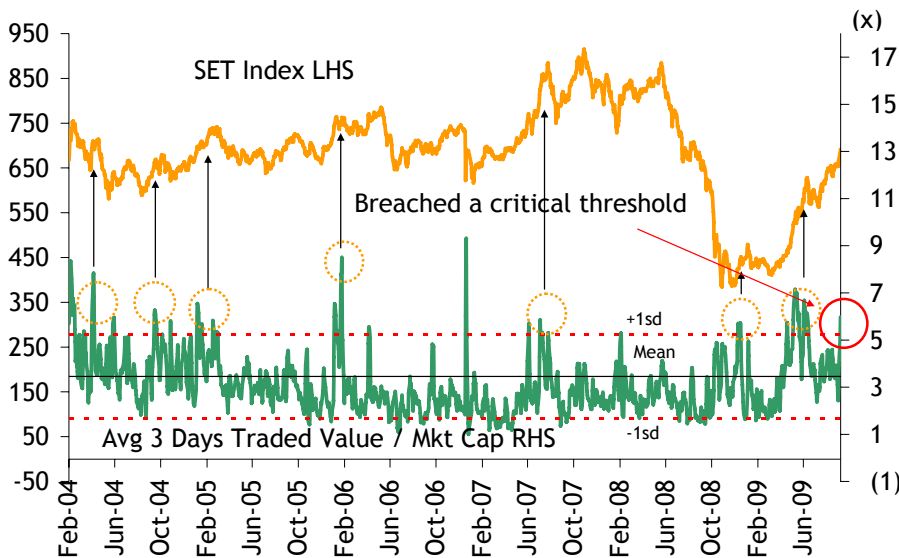
Figure 3: Estimated earnings of SET as a product of asset turnover and GPM



Source: KS, KR

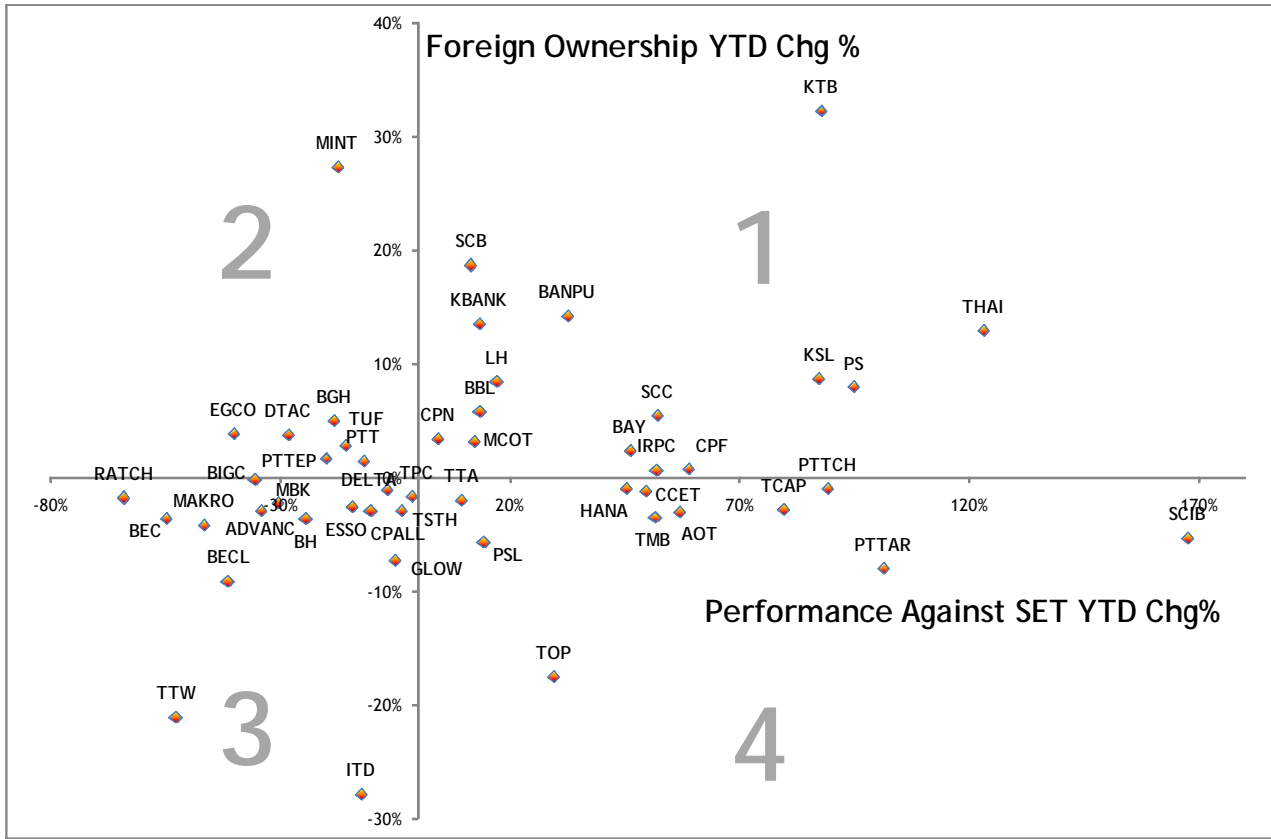
Lastly, in order to time a correction during the bull phase precisely, we have to observe the uptrend pattern whenever a traded value is at its peak. To do this, we created an indicator (green line), calculated by using a 3-day average of the traded value divided by the SET Index's market capitalization. Then we inserted a +1 and -1 standard deviation into this indicator in an attempt to create a threshold. After that, we traced back to see if there was a hidden pattern between the SET Index (yellow line) and this indicator during uptrend periods. As shown in Figure 4, the results produced a very interesting pattern. Every time the indicator breached the +1 standard deviation (red line) upward, indicating a peak of a traded value during the previous 3 days, the SET Index would always eventually correct itself. Therefore, today, if the traded value is very high again, this will increase the possibility that the SET Index is reaching an over-bought condition, and a short-term correction is likely to occur.

Figure 4: The SET Index and 3-day average of traded value/market capitalization



Though we see a likely SET correction in the third quarter, we do not expect the downturn to be significant; we expect the market to retreat only 5-8%. However, we believe there are stocks that will outperform their peers when the correction comes. As Figure 5 illustrates, the stocks that are going to outperform will be those whose foreign ownerships are minimal and which have underperformed during the past 8 months. In sum, we believe stocks lying in quadrant 3 and near the origin will outperform when the market corrects. Our top picks during this correction period include PTT, PTTEP, BEC, ADVANC, BH, GLOW, TSTH, and BBL.

Figure 5: Scatter plot between Foreign Ownership YTD Chg% and Performance against SET YTD Chg%



Source: KS, SET