December 2018

Monthly Commentary

Thailand update

- Thai equities fall in November led by the property and energy sectors
- Pre-election incentives boost domestic spending but foreign investors cautious
- Tourism gains spill over into healthcare sector

Market overview

The Thai equity market continued to fall in November. The property sector led the decline after the Bank of Thailand announced new mortgage regulations to curb speculation. It was followed by the energy sector, as oil prices tumbled. The retail sector, however, gained, benefiting from the government's measures to boost year-end spending.

Thailand's highly anticipated general election is set to take place by February next year, with the military government soon to lift the ban on political activities. With an air of uncertainty around the approaching elections, foreign investors seemed reluctant to return to the market after last month's massive sell-off.

Growth in exports, tourism signal rebound in GDP growth

Exports accelerated in October to 8.7%, signalling better GDP growth for the fourth-quarter. The gradual recovery in the tourism sector after it took a hit in August, was further supported by the government's introduction of visa-fee waivers for targeted countries for up to two months.

In line with this trend, medical tourism rose, supporting positive expectations in the sector. Our two holdings **Bangkok Dusit Medical Services** and **Bumrungrad Hospital** outperformed, while several smaller hospitals fell on profit-taking.

Advanced Info Service posted weaker earnings owing to higher network operating costs. Profits fell by 9% year-on-year, even as revenues rose. As the sector takes a breather from the recent spectrum license auctions, we should see a return to more rational competition.

TOA Paint reported a good third quarter, as profits rose 14% year-on-year. A recovery in sales growth and better product mix helped, although raw material costs and promotions continued to pressure margins.

What we've been busy with...

There were no portfolio moves in the portfolio for this month.

Thailand current account surplus narrowing but still buoyant

	2016	2017	2018 to 3Q
Trade balance	**8.9**	**7.5**	**4.2**
Oil	-3.8	-4.3	-5.5
Gold balance	0.3	-1.2	-1.6
Services	**5.9**	**6.3**	**6.1**
Freight transport	-2.6	-2.7	-2.7
Travel	9.6	10.2	10.2
Net income	**-4.7**	**-4.5**	**-5.0**
Net transfers	**1.7**	**1.7**	**1.6**
Current account (as % of GDP)	**11.7**	**11.0**	**6.9**

Source: CLSA, CEIC, November 2018

Looking ahead

With the GDP forecast to strengthen in the fourth quarter and pre-election incentives to boost domestic sentiment already in play, we are likely to see a buoyant equity market closing the year. Having said that, the ongoing trade dispute between the US and China could have knock-on effects on the region, and foreign investors remain watchful of domestic politics. We retain the view that the central bank will initiate at least one rate hike within the next three months, with no more than two in the next half a year. In our view, Thai equities remain resilient and we expect the country's stable currency and healthy foreign-exchange reserves to continue providing a bulwark against market volatility.

We hold the companies highlighted.

Asian Equity Team
Aberdeen Standard Investments

Aberdeen Standard Investments

For more information

Client Services Team
Tel: +65 6395 2701
Fax: +65 6632 2993

Aberdeen Standard Investments (Asia) Limited
21 Church Street
#01-01 Capital Square Two
Singapore 049480
Tel: +65 6395 2700
Fax: +65 6632 2998

aberdeenstandard.com.sg

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