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### **Thai elections: all change and no change**

- Thailand is to hold its first general election in seven years, bringing an end to the military dictatorship.
- All the candidates have a pro-business agenda, differentiating on personality rather than policies
- Thai economic growth remains robust, with plenty of opportunities among the consumer names in particular

Thailand is on the cusp of its first general election in seven years. While the exact date remains uncertain – the coronation of the new king must happen first – it is an historic moment, with the military dictatorship handing over power. Will the shift in power have an impact for investors in the region?

The Thai people have grown used to stability under the current regime and after their last experience, their expectations of a democratically-elected government may be low. The last government collapsed under charges of corruption. After Thai protestors blocked the streets, and businesses ground to a halt as a result, the military moved in to restore order. It has maintained this order ever since.

The dictatorship has presided over strong economic growth and no incoming politician looks likely to disrupt this status quo. All the emerging candidates have a pro-business agenda and recognise the importance of continued growth in the Thai economy. The differences are personality-led rather than policy-led. The economy stalled during the period of mourning for the late king (Bhumibol Adulyadej) from October 2016 to October 2017 and has only recently started to operate as normal. Politicians are keen to maintain that momentum.

In general, the economy is in good shape today. It grew 4.6% in 2018 and is set to grow 3.9 in 2019 (source: IMF 1.). Some tailwinds, such as the lingering debt from a misplaced car-buying incentive scheme, have finally been cleared and spending is picking up. Advertising spending around the election is helping. From this point of view, the future looked bright. Consumption is the main driver and is more resilient than a year ago.

However, Thai policymakers will need to bear in mind that this is a time when the global economy is slowing and key trading partners are weakening. Thailand is a diverse economy and not overly exposed to China and/or the US. Nevertheless, the trade war has the power to wound. Around 10% of Thai exports go directly to China, 10% to the US and 10% to the EU, all of which look increasingly vulnerable in the current climate. Nevertheless, the bulk of its exports go to its near-neighbours – Malaysia, Myanmar, Vietnam – and they all look robust.

Some may even be beneficiaries of the US/China trade war. Companies looking to manufacture cheaply are turning to Vietnam, for example, which is out of the political firing line. Thailand itself may benefit from a shift in supply chains. It can claim good expertise in the manufacture of high end electronic, car and mobile parts. Canon, Nikon and other big brand names all have production facilities in Thailand. From our point of view, there aren't many ways to get exposure to this trend within the listed sector today, but this is likely to develop with time.

In the meantime, the consumer economy chugs on and this is increasingly reflected in our portfolio positioning. We recently bought Osotspa, which makes energy drinks such as M-150 – a popular Red Bull equivalent for the Thai market. The Thai drinks industry is consolidating and we believe Osotspa may be a beneficiary. It is run by a team formerly of Unilever, which has turned the business around in recent years.

We also hold Mega Life Sciences. This is a vitamins and supplements business, selling directly to the consumer. It is a high margin business and the domestic market for wellness products is growing. It is also growing its business outside China – in Myanmar and Vietnam in particular. We also hold TOA Paint, which sells decorative paints. It is the market leader, with good brand recognition and the input costs are falling.

The coronation itself could create a new mood in Thailand. There will be three days of official events and plenty of consumer activity and entertainment. The elections will come after a suitable delay (there can be no campaigning near the coronation day itself). Certainly, the return to democracy is welcome for the Thai people, but investors should expect business as usual, with continued growth in the economy and buoyant consumer spending.

1. <https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019>

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