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Infrastructure, tourism and consumption: the three themes driving Thailand's economy

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- The outcome of democratic elections and coronation has ensured 'business as usual' for the Thai economy
- The US/China trade war has had an impact, with expectations of 3-4% growth now downgraded to just below 3%
- There are a number of fast-growing structural trends in the Thai economy – notably infrastructure development, tourism and consumption

It has been a busy year in Thailand with the first democratic elections since the military coup of 2014. The country has also seen the coronation of a new King, Maha Vajiralongkorn, after a lengthy period of mourning. Both events passed without incident, enabling investors to focus on the significant themes playing out in the Thai economy – infrastructure development, tourism and consumption.

The March elections saw a military-led party returned to power with a small majority. They are business-friendly and look set to continue with policies designed to promote economic growth and to let Thai companies flourish. While neither the election nor the King's coronation have had a direct impact on the stock market, they ensure continuity and a smooth transition at a time when the country is facing a significant external threat from the US/China trade war.

These external problems have been the elephant in the room for the export-focused Thai economy. The impact has been a continued slowdown, with expectations of 3-4% growth now downgraded. 2019 growth is now expected to be just shy of 3%, with exports negative, comparable with other countries in the region.

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Nevertheless, with a trade surplus and current account surplus, the government is in a good position to stimulate the economy. One of the key ways it has chosen to spend its spare capital is on infrastructure spending. This has been a key theme for the stock market and for us in the Aberdeen New Thai Investment trust.

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The numbers are significant. There has been vast investment in the Eastern part of the country, equivalent to around 10% of Thailand's GDP. The spending has been focused on raising productivity and improving Thailand's knowledge base. The airports have been upgraded, alongside two major seaports. High speed rail has also been a focus.

Nevertheless, this is an area where investors need to tread carefully. We have seen some of the more high profile companies bid higher and higher, up to 80x earnings in one notable case. We have focused on 'under the radar' companies, such as Eastern Water, which is geared to this Eastern infrastructure expansion. This company supplies water across the region, supplying industrial parks, municipalities and some of the major holiday destinations.

One of the defining features of Thailand this year has been the strong currency, both relative to developed market currencies and emerging market currencies. It is one of the strongest regionally. The slowdown has made the Baht stronger, but fortunately, it hasn't dented tourism, which has proved another important theme in the portfolio.

Tourism spending is around 10-12% of the Thai economy and, as such, is a vital part of its growth. The country is expected to see steady growth in tourist arrivals of 3-4% a year, reaching almost 42 million visitors in 2020.

This is not just back-packers and sun-seekers; we are increasingly seeing the growth of medical tourists. One of the companies in our portfolio is Bangkok Dusit, one of the largest hospital networks around the country. It has 48 hospitals and serves several different consumer segments. It operates a hub and spoke model, whereby referrals from the 'spokes' go to specialists in the 'hub', particularly Bangkok for the most technical work. The majority of its customers (80%) pay by cash, rather than through insurance, which gives it a cash flow advantage.

The consumer story has long been important in Thailand. This is leading to growth in consumer finance, such as that provided by AEON Thana Sinsap. Consumer finance is a growing area and there is now mass market demand for consumer loans. The alternative is loan sharks, so bringing borrowing into the formal economy is welcome: the loan rates are relatively high, but less than a quarter of those in the informal economy.

Thailand also plays a role as a regional hub and many of the companies in our portfolio are exposed to fast-growing neighbours such as Cambodia, Laos and Vietnam. These countries are subject to similar trends as in Thailand, notably the growing consumer.

We hold Central Pattana, a shopping mall operator in the region. Its malls remain a destination; people visit as much for the experience as the shopping. The growth comes from expansion and upscaling, including new offices and hotels. The company has just opened in Malaysia.

Thai markets have echoed those across the globe in that cyclical companies have done badly – sectors such as energy and chemicals have been hard-hit by the trade tensions between the US and China. In this trust, we strive to find high quality companies that are around for the long-term, irrespective of geopolitical tensions. They have good margins and cash flow and are run by capable management teams. To our mind, these companies should provide resilience over the economic and political cycle.

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