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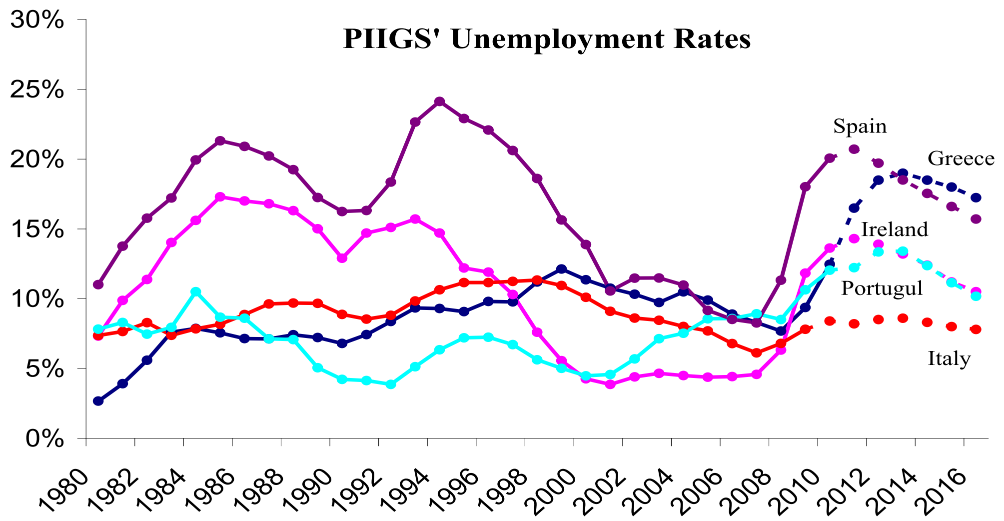
Global economic worries set to dampen appetite for risky assets further

Europe's sovereign debt crisis

- **Potential spillover effect to European banks and possibly spreading to the US and other countries**

Even though Greece is a small country in euro zone with GDP accounting for a mere 1.9% of euro-zone GDP and 0.5% of global GDP, according to IMF data as of 2010, the potential impact of its ongoing debt crisis appears to be much bigger than its country size because of lending to each other in euro-zone countries as well as the US. It is not surprising that a possible Greek debt default could potentially deal a heavy blow to banks in France and Germany and the contagion may possibly spread to the US and pose risks to other foreign banks lending to heavily indebted euro-zone countries such as Italy, Spain, Ireland and Portugal. Financial institutions that issue credit default swaps to euro-zone countries may also face contagion risk if there will be any debt default.

- **Stubbornly high unemployment rate, possibly leading to political and social turmoil**



The debt problems in several euro-zone countries have exerted pressure on the governments as there is a need for these heavily indebted euro-zone countries to receive bailout funds from the European Financial Stability Fund (EFSF) to avert debt default. To get bailout aid, the crisis-hit euro-zone countries must put austerity measures imposed by EU/IMF in place to cut spending and boost revenues. To achieve this end, austerity gamble will come at the expense of state welfare and public convenience. Harsher austerity measures could also possibly lead to public opposition to austerity and turn into social turmoil due to civil servant layoffs, pay cuts, extension of retirement age and tax hikes. The long-term impact from privatization plan could also raise some public ire as the stubbornly high unemployment rate could well fuel public anger against the governments.

US economy

- Fears of double-dip recession
  US economic growth remains anemic after the 2007 sub-prime crisis which turned into the financial crisis. Over the past 3-4 years, the US government and the Federal Reserve spent several trillions of US dollars to launch several stimulus measures including two rounds of quantitative easing (QE) to spur a sputtering economy, but the efforts failed to stimulate satisfactory economic growth as housing market remained in the doldrums and unemployment rate stayed high.

  Rising recession risk would spur risk aversion and exacerbate sentiment towards risky assets especially after the Federal Reserve said at its latest meeting that US economic growth was proving considerably weaker than expected and there was a need for the US central bank to maintain its monetary easing policy for at least two more years until mid-2013.

- Difficulty in implementation of stimulus plan due to political reasons and lack of confidence in Fed’s action
  The next US presidential election, which will be held in Nov 2012, is seen as one of the obstacles to the passage of US President Barack Obama’s proposed economic measures due to political reasons. There is also a crisis of confidence in Fed’s recent actions to stimulate the economy, making its efforts to revive US economic recovery even more difficult.

China’s economy

Even though Asian and emerging economies led by China recently offered a ray of hope for the global economy, hopes are now fading after academics expressed concerns about China’s massive lending to large-scale projects to stimulate domestic consumption, which could possibly result in growing piles of bad debts. The results presented to the Chinese parliament by China’s chief state auditor in Jun 2011 showed that its local governments had chalked up about 10.7 trillion yuan of debt as of the end of 2010, equal to one-fourths of China’s 2010 GDP of 39.8 trillion yuan and warned that some local governments may face default risk. Ratings agency Moody’s Investors Service said China’s local government debt may be underestimated, potentially putting banks on the hook for deeper losses that could threaten their credit ratings. Meanwhile, China has also been reeling under rising inflationary pressure. China’s consumer price index (CPI) in Aug 2011 accelerated to 6.2%, prompting China’s central bank to raise interest rates for the fifth time since Oct 2010 and raise lenders’ required reserves several times, bringing the reserve requirement ratio for China’s biggest banks to a record high of up to 21.5%.

Thai economy

The Thai economy has continued to grow at a healthy pace though economic growth would moderate from 7.8% last year to 4% this year due to the impact of widespread flooding in several parts of the country and accelerating inflation. The Finance Ministry expects the Thai economy to grow between 3.8% and 4.3% this year. However, expectations remain that the economy will continue to grow at a satisfactory rate of 4.5% in 2012 but it could be partially impacted by looming threat of global economic slowdown. Domestic consumption and government’s economic stimulus measures would be the key engines of economic growth in 2012.

Thai stock market outlook for 4Q11 and investment strategy: Wild swings in store but downtrend still in place

Even though we believe Europe's sovereign debt crisis could push the Thai stock market into a major correction and the SET index could possibly correct towards 700 and 500 in a worst-case scenario, we think the market is unlikely to fall to that level in 4Q11 and sporadic bouts of rebound is possible around key psychological levels and when the market slips into oversold territory around 850 and 800 but any bounce may be capped around 950 and 990.

- **Downtrend still in place for the SET index**

  Europe's ongoing sovereign debt saga is very worrisome as the contagion may threaten to spill over to other euro-zone countries and unravel into a new financial crisis in Europe and the US. Europe's debt imbroglio plunged the MSCI World Index to a 15-month low and dragged the composite SET index down as much as 25% from the year's peak of 1144 to 850 within only two months. Even though a rapid correction has tipped the Thai stock market into oversold conditions, raising the possibility of a short-term rebound around 850 or 800, we believe it is unlikely to reverse the market's downtrend until Europe's sovereign debt crisis will come to an end. In our view, it will take a long while until confidence will return to the market.

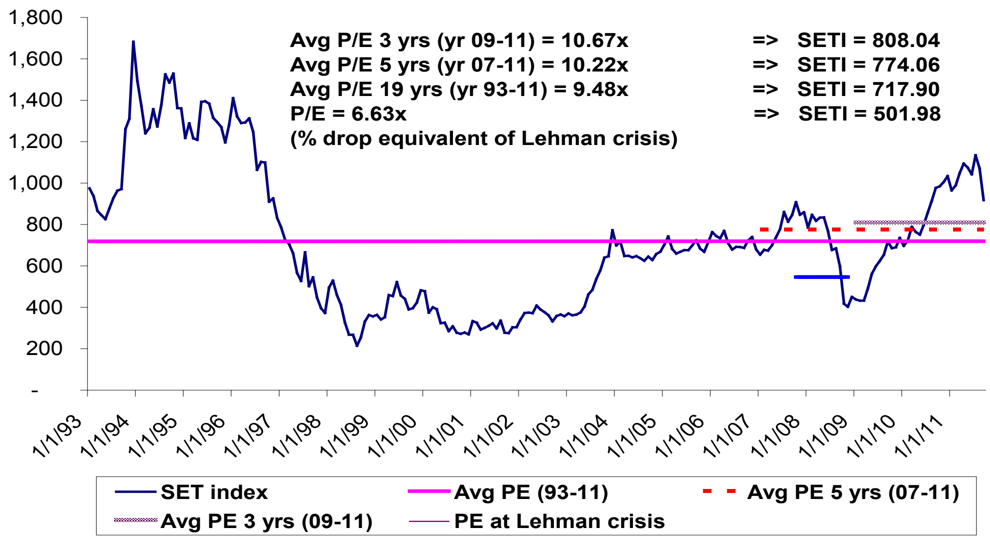
  In a worst-case scenario, we reckon that the SET index could possibly see a steep correction toward 700 and 500 but we believe it is unlikely to fall to that level in 4Q11 based on our comparison in terms of P/E average.

  Comparison in terms of P/E average

  Historical statistics showed the P/E ratio of the Thai stock market over the past 19 years averaged 9.48x. From a P/E ratio of 12.1x at end-3Q11, if the SET index pulls back further towards its P/E average, we reckon that the market could fall as much as to 720.

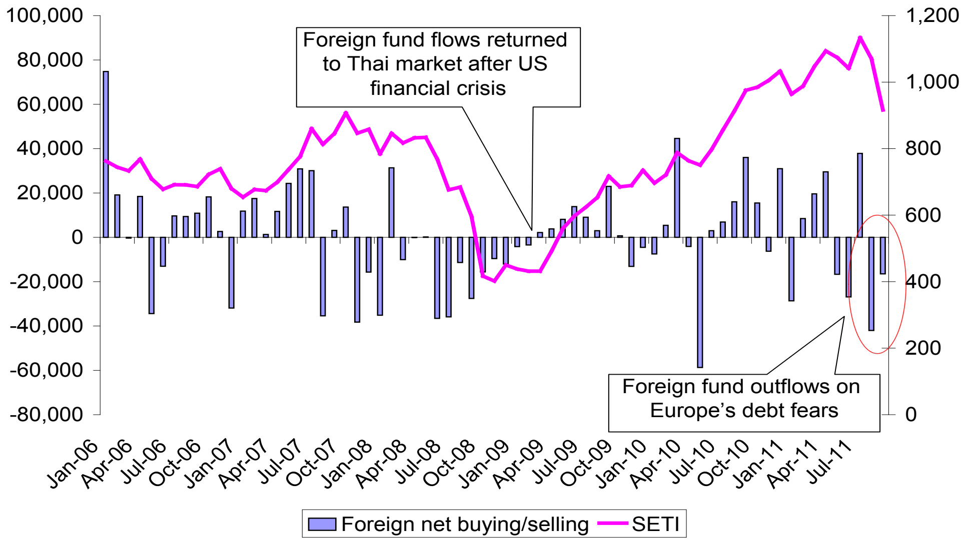
  Comparison with collapse of Lehman Brothers in terms of market correction

  If we compare with the collapse of Lehman Brothers, the SET index at that time fell from the pre-crisis level of 900 when the market's P/E ratio nearly reached 12x in early 4Q07 to the cycle's bottom of 400 within just a year with the market's P/E ratio plunging to 5.3x, representing the market's P/E correction of as much as 55%. In the current crisis, Europe's sovereign debt woes sent the Thai stock market into a tailspin in early Aug 2011 when the SET index traded around 1140 at a P/E of nearly 15x. If we juxtapose the previous market's P/E correction of 55% to the current crisis, we reckon that the SET index could possibly fall as much as to 500 at a P/E of 6.6x.



- **Eyes on foreign portfolio rebalancing**

  In a worst-case scenario, the collapse of European banks could spill over to other banks in the US and elsewhere. The odds are that the SET index will fall as much as to 700-500 on heavy foreign sell-offs. Foreign investors returned to the Thai stock market after the collapse of Lehman Brothers in early 2009 with net purchases of up to Bt150b before dumping Thai shares to the tune of Bt60b on fears of Europe's sovereign debt problems over the last two months. That means if Europe's debt situation worsens, foreign investors will have nearly Bt90b of Thai stocks on hand to sell.


Foreign fund flows returned to Thai market after US financial crisis
Foreign fund outflows on Europe's debt fears
100,000
80,000
60,000
40,000
20,000
0
-20,000
-40,000
-60,000
-80,000
1,200
1,000
800
600
400
200
0
Jan-06
Apr-06
Jul-06
Oct-06
Jan-07
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Jan-09
Apr-09
Jul-09
Oct-09
Jan-10
Apr-10
Jul-10
Oct-10
Jan-11
Apr-11
Jul-11
Foreign net buying/selling
SETI

Investment Strategy

Holding more cash may well prove to be the best short-term strategy and equity exposure should be limited to 25% of the trading portfolio until we see a clearer picture of Europe's debt solution. However, investors may look for an opportunity to accumulate shares for medium to long term investment on a gradual basis around 850, 800, 700 and 500. In addition, investors should also closely monitor progress in Europe's debt solution and US economic situation along the way as one of factors to make investment allocation decisions.

Investment themes

1. Net beneficiaries of government's corporate income tax cut, taking into account negative impact from the government's policies to raise the daily minimum wage to Bt300 and the starting monthly salary for university graduates to Bt15,000

Sector	Top picks
Banking	BBL, KBANK, KTB, SCB
Information and communication technology	ADVANC, AIT, DTAC, IT
Property development	AP, MK, PS, SCCC, SIRI, TTCL

2. Beneficiaries of post-flood repair and rehabilitation

Sector	Top picks
Property development	DCC, SCC, SCCC, STEC
Commerce	HMPRO

3. Year-end festivities theme

Sector	Top picks
Agribusiness	GFPT
Food & beverage	CPF, TUF, MINT
Banking	BAY, SCB
Automotive	SAT
Transportation & logistics	AOT
Tourism and recreation	CENTEL
Electronics components	SVI
Information and communication technology	ADVANC, DTAC

4. Defensive plays

Sector	Top picks
Commerce	CPALL, HMPRO
Healthcare	BGH, KH
Energy	TTW

5. High beta plays to bet on market rebound

Sector	Top picks
Agribusiness	STA (1.5)
Banking	KBANK (1.4)
Finance and securities	KGI (1.6)
Transportation and logistics	THAI (1.3)
Energy	BANPU (1.1), PTT (1.3), PTTAR (1.6), TOP (1.5)
Petrochemicals and chemicals	IVL (1.7)
Porperty development	AMATA (1.3), LH (1.1), SCC (1.2), STEC (1.2)

6. Stocks to avoid: Much of the pressure on the market has mainly continued to come from external factors. Whenever Europe's sovereign crisis and fears of US recession come back to haunt the market, we believe stocks with direct exposure to Europe and the US to a significant extent would be the main targets of selling. For this reason, stocks to avoid once the above concerns resurface include electronics, securities, air transportation, shipping and industrial estate counters.

Top picks and model portfolio

Sector	Investment Weighting		Top Picks
AGRI/FOOD	NT	11.0%	
		3.0%	KSL
		4.0%	TUF
		4.0%	GFPT
BANK	OW	18.0%	
		4.0%	BBL
		5.0%	KBANK
		5.0%	SCB
		4.0%	KTB
AUTO	OW	3.0%	SAT
PETRO	NT	8.0%	
		5.0%	PTTCH/PTTAR
		3.0%	IVL
CONMAT	OW	8.0%	
		4.0%	SCC
		4.0%	SCCC
PROP	OW	8.0%	
Residential		4.0%	AP
		4.0%	SIRI
ENERG	NT	22.0%	
Coal	OW	7.0%	BANPU
Oil	OW	5.0%	PTT
		5.0%	PTTEP
Refinery	NT	3.0%	TOP
Utility	NT	2.0%	TTW
COMM	NT	3.0%	HMPRO
HELTH	NT	2.0%	BGH
MEDIA	OW	5.0%	
		3.0%	AS
		2.0%	MAJOR
TOURISM	NT	2.0%	CENTEL
TRANS	NT	2.0%	AOT
ETRON	NT	1.0%	SVI
ICT	NT	7.0%	
		4.0%	ADVANC
		3.0%	DTAC
Total		100.0%	

*** Our picks in the model portfolio outperformed the broad market in 3Q11 (including interim dividends), down 10.7% against the overall market's decline of 12.0%. The biggest losers in the portfolio included SMT, IVL and PTTAR while ADVANC, SPALI and BGH were among the biggest gainers.

Strategy : Teerada Charnyingyong Ext.487

ADVANC:

- Demand for non-voice services is expected to grow 30% YoY this year. In 1H11, ADVANC, Thailand's top mobile phone operator achieved net profit growth of 25.97% YoY.
- The auction of long-awaited 3G-2100 MHz licenses is likely to take place in late 2012 or early 2013. The 3G licenses would allow mobile phone operators to reduce operating costs.
- We forecast ADVANC to deliver 2011 net profit of Bt24,263.77m, up 18.1% YoY. Our price target for ADVANC is Bt143/share.

AOT:

- Passenger and aircraft movements were on a steady rise. Thai airport operator AOT reported that passenger and aircraft movements through six airports under its management jumped 22.63% and 17.99% YoY to 11.22m and 74,055 takeoffs and landings respectively in the first two months of FY4Q11.
- The expiry of relief measures for airlines and tenants since Dec 2010 would get revenues back to normal.
- The threat of global recession amid Europe's sovereign debt crisis and fears of US double-dip recession is a worrisome factor as it may cut into international tourist arrivals. Our FY2012 price target for AOT is Bt46.25/share.

AP:

- Homebuilder AP reported that its SDH/TH presales reached Bt6.4b in 9M11, averaging Bt2.2b/quarter. Full-year SDH/TH presales target of Bt8.7b is also likely to be met, in our view. On the high-rise front, its portfolio of 19 condo projects worth a combined value of Bt45.8b had an average take-up rate of 75%. Its project portfolio is well diversified in terms of both SDH/TH and condo projects.
- Strong profit growth is a certainty for 2H11 as backlog covers nearly 100% of our 2H11 revenue target for AP. Looking ahead into 2011, there would be a backlog of over Bt7.6b to be realized as revenue, covering 45% of our 2012 revenue target for AP. To meet the target, the rest should come from 2012 SDH/TH presales, which are expected to grow by 10% to Bt9.5b. We are looking for 2012 EPS growth of 8% for AP.
- Operating performance is on target. At current levels, the stock is trading at 5-6x 2011-12 P/E and dividend yield of 6-7%. Our price target of Bt6.5/share for AP is based on 8x 2012 P/E.

AS:

- The positive earnings momentum is likely to continue in 2011. Earnings in 2H11 should get a boost from strong seasonal effects in the second half of the year and nine new game launches against seven new games released in 1H11.
- The recovery of subsidiaries in Singapore and Malaysia would continue to be a key growth driver for AS. M&A would be another strategy to boost growth.
- The investment in Indonesia is unlikely to yield positive results this year but it would be a main engine of growth for AS in 2012. If the investment in Vietnam is concluded, growth will be even higher. Our 2012 price target for AS is Bt18/share.

BANPU:

- Coal prices have currently softened somewhat but continued to stay at high levels. YTD coal prices averaged US$123.45/ton, up 24.67% YoY. The widely watched Australia Barlow Jonker (BJI) spot price, a gauge of spot thermal coal prices stood at US$122.65/ton in the week ending Sep 29, 2011.
- BANPU lately offered to take over Mongolia-focused Australian coal explorer Hunnu Coal Limited as part of its plan to tap growth potential in Mongolia coal market, close to key export markets such as China, the world's largest coal consumer. Note that BANPU already holds a 12% stake in Hunnu Coal and it would launch an all-cash tender offer to acquire all the outstanding shares of Hunnu Coal Limited that it does not already own.
- We forecast BANPU to deliver 2011 net profit of Bt13,368.80m. If after-tax gain of Bt6.3b from the divestment of Daning mine and FX gain are built into the forecast, full-year net profit should rise to Bt20,687m. Our 2011 price target for BANPU is Bt866/share.

BBL:

- BBL is Thailand's biggest lender by assets. Solid capital base and high NPL coverage ratio of up to 167% would put the bank in a strong position to weather economic volatility.
- We expect the bank to deliver 2011 profit of up to Bt28.20b, up 14.7% YoY though the bank booked a huge gain from the sale of its stake in smaller lender ACL Bank, now renamed as ICBCT to the Industrial and Commercial Bank of China (ICBC) a year ago.
- The prospects are positive for the bank on the back of the government's policy to promote private investment. Huge investment gains are expected if the bank sell its stake in premier hospital BH from conversion of convertible bonds.
- Our 2012 price target of Bt185/share for BBL is equivalent to a P/BV multiple of 1.3x based on ROE of 12.5% and long-term growth of 8.1%.

BGH:

- Revenue and earnings growth after consolidation of the recently acquired Phyathai and Paolo Memorial hospital groups (PPCL & PYT) reflected strong efficiency synergies from merger and acquisition (M&A) strategy. In 1H11, BGH earned a net profit of Bt2,222.07m, up a healthy 107.68% YoY. First-half core business net profit came in at Bt1,743m.
- Following consolidation of PPCL & PYT, the number of beds rose to 3,986 at end-2Q11 from 2,311 in 1Q11. The average bed utilization rate was 62%, suggesting there is plenty of room for revenue growth.
- We forecast BGH to achieve 2011 core business net profit of Bt3,578.35m, up a stellar 55.92% YoY. Note that exceptional gain of Bt479m from adjustment to the fair value of Phayathai hospital group is not yet built into the forecast. Looking ahead into 2012, we expect its net profit to rise further to Bt4,275.67m. Our 2012 price target for BGH is Bt77.50/share.

CENTEL:

- In 3Q11, hotel occupancy rate and food same store sales growth (SSSG) appear to have improved both YoY and QoQ. QTD revenue per available room (RevPar) jumped 37.3% YoY and 10.4% QoQ while QTD food SSSG was flat YoY but up 3.6% QoQ.
- Current hotel booking momentum remains strong. Asian tourist numbers are likely to grow at a healthy pace, offsetting a decline in European clients. In 1H11, the proportion of Asian tourists, which rose 8% YoY accounted for 33% of total clients.
- At Bt7.35/share, the stock sports 10.6x 2012 P/E, a big discount to its hotel peers, which trade above a P/E of 15x.
- Our 2011 price target of Bt12/share for CENTEL is DCF-based, assuming growth of 3% and WACC of 8.85%.

DTAC:

- DTAC, Thailand's second largest mobile phone operator by subscribers is expected to pay extra dividend of Bt3-Bt4/share after 3Q11 results announcement. Full-year dividend is estimated to be Bt8.11/share, representing a yield of 11.15%.
- Third-quarter low-season effect, network investment and marketing expenses for 3G 850 MHz launch are expected to drag DTAC's 3Q11 profit down 4.37% QoQ and 5.46% YoY.
- For the whole of 2011, we forecast DTAC to see profit growth of 10.2% YoY to Bt12,003m.

GFPT:

- We believe 2H11 earnings at GFPT, Thailand's second largest publicly traded poultry exporter would be better than 1H11 boosted by sales volume growth on the back of exports and feed sales.
- The threat of global recession is unlikely to bite into food export sales compared to other sectors as food is one of necessities for daily life. We forecast GFPT to deliver stellar earnings growth in 2012 helped by an expected return to profitability at its affiliate GFPT Nichirei (GFN).
- In P/E terms, the stock is the cheapest in the food export sector at a mere 6x P/E.

HMPRO:

- Positive sales catalysts are in store. Same store sales growth in 2H11 is expected to be better than 1H11 as interest rate up-cycle is likely to come near to an end and the new government's policies to reduce oil prices and raise the daily minimum wages and the starting monthly salary for new university graduates as well as property tax breaks would help spur purchasing power. The current flood crisis is also likely to spur demand for home improvement products after the flood recedes.
- HMPRO is back in an aggressive expansion mode with 8-10 store openings planned in Thailand for 2012, more than doubling from an average of four store additions per annum during the period of 2006-2010. The overseas expansion plan into Malaysia is also making progress with a plan to open one to two new stores.
- We set a 2012 pre-XD price target of Bt11.75/share and a post-XD price target of Bt10.30/share based on a P/E multiple of 25.50x.

IVL:

- On Sep 21, 2011, IVL acquired Wellman International's polyethylene terephthalate recycling and fiber business in Europe with annual output of 153,000 tons as part of its expansion drive.
- Its production capacity is expected to rise by 24.2% to 6.85m tons at end-2013. PET would account for the biggest proportion of total capacity at 52.55%.
- Earnings recovery is expected in 2H11 driven by a 38.1% HoH rise in output to 2.9m tons.
- At Bt24-Bt25, IVL sports 6.4x-6.7x 2012 P/E, a significant discount to its historical averages since listing at an IPO price of Bt18.52.
- Our 2012 price target of Bt59/share for IVL is DCF-based.

KBANK:

- In 8M11, the bank's net loans grew 10.1% YTD. Corporate loan growth had already exceeded full-year target. SME and retail loans are also expected to meet targets.
- The KT project is now 60% complete. Currently the bank is in the second phase of the KT project. The third phase of the project will begin in 2012 before the fourth phase of the project in 2013.
- The KT Transformation has started to give some boost to the bank's revenue and the positive impact is likely to increase gradually and help offset project expenses. Our 2012 price target of Bt174/share is based on a P/BV multiple of 2.3x, assuming ROE of 16.3% and long-term growth of 11.4%.

KTB:

- In 8M11, the bank's net loans rose a mere 3.8% YTD as loan repayments from public sector in Jul dragged the bank's loans down as much as 4.4% MoM, making the bank's full-year growth target of 10% quite challenging.
- We revise downwards our 2011 loan growth target for the bank to 8% after a meager loan growth in Aug. Over the rest of the year, the bank is expected to extend loans to the government's up to Bt300b rice pledging scheme run by the state-owned Bank for Agriculture and Agricultural Cooperatives (BAAC). NIM on funding of the rice pledging scheme would be relatively low.
- The government's policy to spur investment and consumption would be a key driver of loan growth for the bank in 2012. Our 2012 price target of Bt22.30/share is based on a P/BV multiple of 1.4x, assuming ROE of 15.0% and long-term growth of 9.0%.

KSL:

- Heavy commodity sell-off dragged KSL share prices sharply lower. Current valuation does not reflect strong earnings prospects for KSL in 2012 thanks to forward sales at high prices.
- The current flood situation is unlikely to cut into the country's sugarcane output as most flooded areas are not the biggest area of sugarcane plantation. Thailand's sugarcane output is expected to keep growing 6-7% YoY in 2012.
- At current levels, the stock sports a mere 10x P/E, the lowest since listing. In our view, valuation discount is too much from negative external factors but fundamentals remain largely unchanged.

MAJOR:

- We stick to our view that a strong lineup of money-making international and Thai movies would continue to be a key driver of growth for MAJOR. In 3Q11, there are three blockbuster movies that have already passed the Bt100m mark in ticket receipts.
- In 4Q11, there will be more new movies scheduled for release but the impact of widespread flooding in several parts of the country and post-flood repairs may cut into entertainment spending.
- Full-year earnings prospects remain upbeat but growth is likely to moderate in 2012 due to a weak lineup of movies. New branch additions and business expansion of its affiliates would be growth catalysts for MAJOR. Our 2012 price target for MAJOR is Bt16.80/share.

PTT:

- The government's policy to revamp the country's energy pricing structure would bode well for PTT in the long run. The retail price of NGV would be gradually raised by Bt0.50/kg/month until the end of 2012, totaling Bt6/kg. The price increases would get PTT's NGV business back into profit and boost our 2012 net profit outlook for PTT by 4-5%.
- There is a possibility that ex-refinery LPG prices will be raised, currently being capped at US$315/ton below actual costs of about US$400/ton.
- At Bt249/share, the stock's valuation looks cheap at 0.95x 2012 P/BV, a big discount to P/BV multiples of 1.70x-1.23x during the worst market conditions in 2008-09.
- Our 2012 price target of Bt396/share for PTT is equivalent to average P/BV of 1.51x based on trailing nine-year average minus 0.5 SD.

PTTAR/PTTCH (PTTGC):

- PTTAR and PTTCH boards set October 10, 2011 for the last trading day for PTTAR and PTTCH. Shares of both PTTAR and PTTCH will later be suspended from trading for a period of eight business days. The joint shareholder meeting of both PTTAR and PTTCH will be held on Oct 18, 2011. Shares of the new merged company PTT Global Chemical (PTTGC) are expected to begin trading on Oct 21 or 25, 2011.
- Existing shareholders of PTTAR and PTTCH are entitled to allocation of shares in PTTGC at a ratio of (i) 0.501296791 share of PTTGC for every one PTTAR share or (ii) 1.980122323 shares of PTTGC for every one PTTCH share. If the above share allocation results in a fraction of share that is greater or equal to 0.5 share of PTTGC, such fraction will be rounded up to a whole share. Fraction that is less than 0.5 share will be disregarded and PTTGC will compensate shareholders in cash. The compensation will be determined based on the price per share of PTTGC calculated from the weighted average market capitalization of PTTAR and PTTCH as of the last trading day prior to the suspension of trading.
- We set a 2012 price target of Bt100/share for PTTGC, equivalent to a P/BV multiple of 2x. We recommend buying shares of PTTCH and PTTAR to swap for shares of PTTGC at a ratio of 1.98 shares of PTTGC for every one PTTCH share and 0.50 shares of PTTGC for every one PTTAR share.

PTTEP:

- In 1H11, PTTEP made a net profit of Bt22.15b, up 2.4% HoH. The positive earnings momentum is likely to carry into 2H11 on the back of selling price increases in Yadana and Yetagun in 3Q11 and MTDJA in 4Q11 and new capacity from Vietnam 16-1 in Aug and the Arthit North project in Nov 2011.
- PTTEP is on an E&P acquisition prowl in Southeast Asia, Australia and the US, largely taking ROE into account. Currently PTTEP is exploring several financing options such debt leveraging, dividend policy revision, asset spin-offs, hybrid instruments, perpetual bonds or equity issue to strengthen its balance sheet before making acquisitions if opportunity arises.
- Our 2011 price target for PTTEP is Bt225/share.

SAT:

- The recovery of the auto industry from Japan's Mar 11 catastrophe would bode well for SAT's earnings. In addition, the bottom-line should get a boost from new pickup truck model launches and Motor Expo, which would help spur demand.
- In addition to focus on pickup truck parts, Thailand's product champion, SAT has also received eco-car orders from several automakers except Toyota and a steady flow of orders from Kubota should help lift its overall earnings performance.
- SAT is a high-beta play on Thai auto parts suppliers, suggesting that share prices will rapidly recover if the market goes back into an uptrend. Our 2012 price target of Bt28.50/share for SAT is based on a P/E multiple of 11x, which offers plenty of upside from current trading levels.

SCB:

- SCB is expected to deliver healthy profit growth of 55.4% YoY in 2011 boosted by an accounting gain of up to Bt5.10b from additional acquisition of SCB Life shares and loan growth target of 15-18%.
- Strong profit growth momentum is set to continue well into 2012 due partly to the bank's aggressive business expansion. Earnings are expected to reach level similar to 2011 when profit would be boosted by ex-gain.
- Fee income should follow loan growth higher. We are upbeat on the bank's prospects. Our 2012 price target of Bt160/share is based on a P/BV multiple of 2.6x, assuming ROE of 18.0% and long-term growth of 9.9%.

SCC:

- Even though SCC is Thailand's biggest industrial conglomerate with petrochemical business contributing up to 60% of total profits, cement/building materials and paper businesses are less volatile than petrochemical business and help diversify risks. At least in the next 1-2 years, SCC should benefit from construction of the government's infrastructure projects. Risks are also lower than in pure petrochemical play.
- We stick to our view for improving profit cycle for SCC in the next 1-2 years as the petrochemical business would bottom out, and construction and government's policy to stimulate spending would support cement and paper businesses. The recent acquisition in 2H11 would also be another engine of growth for SCC.
- In our view, SCC is a good long-term play. Current share price weakness in line with broad market leaves plenty of upside to our price target of Bt410/share for SCC.

SCCC:

- SCCC is pure cement play. Cement demand growth is very likely to be strong in 2012 boosted by demand from post-flood reconstruction and construction of the government's infrastructure projects. Demand growth is expected to exceed 5% from below 5%.
- Even though profit is likely to soften in 2H11 due to low season effects and the impact of widespread flooding, we believe demand should pick up on post-flood reconstruction after the floods recede. We expect a profit comeback in 2012. Thanks to light debt load, its financial risk is low.
- Current valuation of 13-11x 2011-12 P/E represents a discount to historical averages of 16-17x. Our price target for SCCC is Bt294/share.

SIRI:

- Homebuilder SIRI generated SDH/TH presales of Bt11.2b in the first 8.5 months of 2011, covering 67% of our 2011 pre-sales target of Bt1.7b for SIRI. In our view, SDH/TH presales are likely to meet full-year target. On the high-rise front, its condo project portfolio had an average take-up rate of 72%.
- Our 2H11 revenue target for SIRI is fully secured by backlog. We are looking for 2011 profit of Bt1.5b for SIRI, down from a year ago. However, backlog to be realized as revenue in 2012 covers more than 53% of our 2012 revenue target of Bt23.2b for SIRI, representing a growth of 26% YoY. In our view, we believe it is not difficult for SIRI to meet 2012 revenue target if we assume SDH/TH presales growth of 10% to Bt19b. We forecast SIRI to deliver 2012 profit growth of 27%. EPS is also expected to grow by 10% in 2012. The warrants are also built into the forecast.
- Better growth prospects lie ahead for SIRI. Current P/E levels are low at a mere 5x, below historical averages of 6-7x. Our price target for SIRI is Bt6.40/share. Note that SVI will change its par value from Bt4.28 to Bt1.07, effective Oct 10, 2011. We also set a new price target of Bt1.60/share for SIRI after par value reduction.

SVI:

- Even though the electronics sector would be hit by the threat of global recession, we believe SVI would feel less impact than its peers from the prospect of economic slowdown given Scandinavia accounts for more than 50% of its client base and sales largely focus on industrial and niche market segments.
- SVI is expected to report upbeat earnings results in 3Q11, bucking weak earnings prospects for its peers thanks to brisk sales from new clients and a weaker baht, which would improve margins.
- The steady expansion of client base would be a key driver of earnings growth for SVI. Over the past several years, sales grew at a CAGR of 25%. SVI is our top pick in the electronics space.

TTW:

- TTW's tap water sales volume improved after Municipality Waterworks of Samutsakorn faced the problems of water sources for tap water production since Sep 2011, a factor that would continue to bode well for TTW for a while.
- TTW reported that it sold 65.40 million cubic meters (MCM) of treated water in 3Q11, up 1.96% YoY. On this basis, we expect TTW to achieve 3Q11 revenue growth of 4.07%. We also forecast TTW to post 3Q11 net profit growth of 8.32% YoY to Bt551.14m.
- The government's corporate income tax cut would be positive for TTW while the impact from the government's policy to raise the daily minimum wage and the monthly starting salary for university graduates appears limited. However, TTW is expected to feel the pinch of the flooding in 4Q11. Our 2012 price target for TTW is Bt6.80/share.

TUF:

- We expect TUF's 3Q11 earnings to be flat QoQ but sharply up YoY following consolidation of MW Brands (MWB).
- Orders remain at normal levels and do not feel the impact from the threat of global recession as food is one of necessities for daily life.
- TUF is expected to realize synergies from the acquisition of MWB in terms of operating improvement and wider market reach in Europe.

Technical View

SET Index: Choppy downtrend

On weekly charts, the SET index reversed to a downtrend after RSI flashed a negative divergence in the medium term and after the main index rallied to a new high near 1150, its long-term major resistance level before pulling back towards momentum support around 850, its medium-term uptrend channel support.

For this reason, we believe volatility will reign supreme in 4Q11. There are three possibilities for the SET index:

(1) The SET index may make its way back to a new high of around 1150 but it must establish a clear trend or break above resistance around 1000. A breakout above this level will signal a reversal to uptrend in an uptrend channel on both weekly and monthly charts.

(2) The SET index may extend its downward move with the possibility of further pullback toward 550, its long-term support line.

(3) The SET index may trade sideways within support and resistance boundaries of 800-950.

For investment strategy, we advise investors to play ‘wait and see’ until a clear trend emerges.

SET50: Downtrend

The SET50 traded in the same direction as the SET index. The SET50 reversed from uptrend to downtrend after the RSI formed a negative divergence at the highs of the third wave and after the SET50 hit a key resistance around 800 and pulled back sharply to stay above its 200-day weekly EMA line, the first momentum uptrend channel support.

For this reason, we believe volatility will reign supreme in 4Q11. There are three possibilities for the SET50 in the same way as the SET index. For investment strategy, we advise investors to play ‘wait and see.’

S50_CON: Dead cross signals downtrend

The medium to long term trend is on the downside. The S50_CON broke below support around 700 and the dead cross occurred. Resistance for the S50_CON is seen at 650-700 and support at 570-500. For investment strategy, we advise investors to play ‘wait and see’ but there is still room for short-term trading in range with a ‘sell on rallies, buy on dips’ strategy.

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Results Presentation

Score Range	Number of Logo
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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