

Overweight SET: 730.55

ANALYST

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Investment Strategy

Tough measures to curb baht appreciation

➤ The BOT will implement an unremunerated reserve requirement on short-term capital inflows (< 12 months), except those related to trade or repatriation of investments abroad by residents. The required reserve will be 30 percent of foreign currencies bought or exchanged.

➤ We view this is a tough measure, given (i) foreign investors would not be able to earn any financial benefit from the 30% reserve, and (ii) investors who repatriate their funds earlier than one year would be refunded only two-thirds of the amount.

➤ This measure will have a negative impact on short-term sentiment in the market. We expect to see selling pressure for over-owned big caps such as TISCO, LH, KBANK, BBL, BAY, AP, SPALI, BANPU, SCIB, KK, SCC, ITD, TRUE, KTB and SCB. However, the possible pullback will create an opportunity to buy cheap stocks. The beneficiaries of this measure will be exporters (e.g. CCET and CPF), while companies with huge foreign debts (e.g. AOT and THAI) are unlikely to make any forex loss in 4Q06 unless the baht weakens further beyond end-3Q06 rate of Bt37.55/US\$.

30% of reserve for short term capital inflows. The BOT yesterday announced that it would implement an unremunerated reserve requirement on short-term capital inflows effective today. Financial institutions are required to withhold 30 percent of foreign currencies bought or exchanged against the Thai baht, except those related to trade in goods and services, or repatriation of investments abroad by residents.

No yield for reserve! Financial institutions shall remit the required reserves, in the form of foreign currencies, to the BOT on the 7th of the subsequent month. The earnings received under this measure would be earmarked for public benefit. This implies that foreign investors would not be able to earn any financial benefit from the 30% reserve.

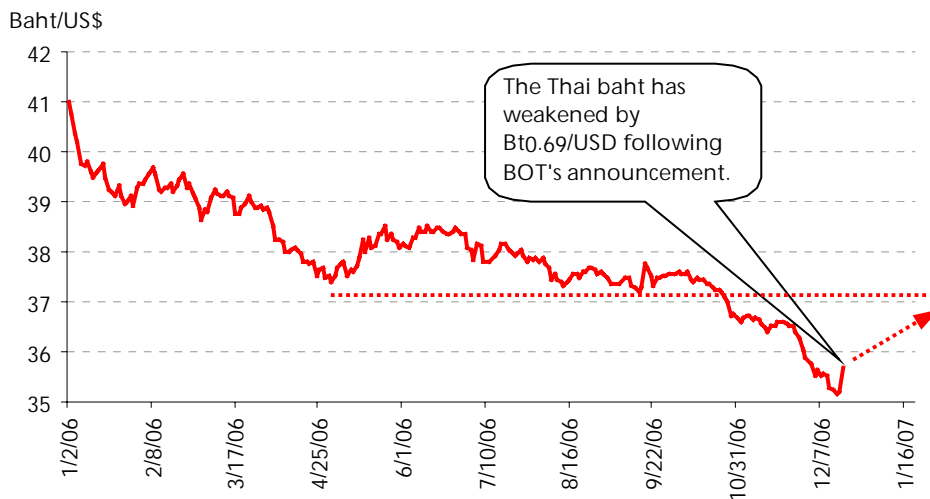
Only 2/3 of amount refundable within 12 months. Besides, investors who repatriate their funds earlier than one year would be refunded only two-thirds of the amount.

Measure working well in other countries. The BoT claims to regulate foreign short-term capital inflows, several countries have imposed the reserve requirement during critical times. And the BOT views that the present situation warrants the introduction of this measure to prevent speculative pressure on the Thai baht. Note that the BoT governor said the capital inflow rose from average of US\$300m per week in Nov-06 to US\$950m in the first week of Dec-06.

Tough measure. In our view, this measure is tough for two reasons. First, there is no interest on the reserve, which would reduce effective yields. Assuming 30% of the unremunerated reserve requirement will not generate any returns within 12 months, investors will receive only 3.5% effective interest rate from the investment i.e. 5.0% p.a. including the reserve. This will make the investment in financial instruments less attractive. Second, investors' inability to refund one-third of the investment amount within a 12-month investment horizon would substantially curtail the flexibility of capital movement. Nonetheless, the exporters/importers and FDI would not have any impact from this measure.

Baht to depreciate to Bt36-37/US\$? Following the announcement, the baht depreciated by 2.0% from Bt35.2/US\$ on Friday, to close at Bt35.89/US\$ yesterday. The chairman of the Thai Export Import Bank was quoted as saying that baht should depreciate to Bt36-37/US\$.

Baht movement



Source: Reuters

Severe impact on SET in the short term, especially on big caps. In our view, the implementation of this measure will be negative on the Thai equity market. First, new funds which plan to invest in this country will reconsider their options, given (i) lower yields, and (ii) inflexible fund movement. Second, existing investors could be concerned the baht might depreciate because of less fund inflows, which may prompt them to sell or lock in profits made recently. This is especially true for big cap stocks that are over-owned by foreigners. These include TISCO (29.18% accumulative NVDR as % of total shares), LPN (27.66%), LH (23.46%) KBANK (22.75%), BBL (21.77%), BAY (18.25%), AP (15.38%), AH (15.12%), SPALI (15.03%), BANPU (14.74%), SCIB (14.59%), KK (12.14%), SCC (11.33%), TTA (10.8%), TCAP (9.45%), EGCOMP (9.33%), ITD (8.98%), TRUE (7.33%), BH (5.75%), KTB (5.54%), SCB (4.03%) and ADVANC (1.98%).

NVDR Outstanding Share (as of 18 Dec 06)

Symbol	Percent of Paid Up Capital	No. of Shares under NVDR	Paid Up Capital Shares
TISCO	29.18	157,949,134	541,277,120
LPN	27.66	408,110,989	1,475,698,768
LH	23.46	1,988,319,023	8,476,271,216
KBANK	22.75	541,863,533	2,382,147,733
BBL	21.77	415,542,982	1,908,842,894
SIRI	20.24	298,236,660	1,473,628,692
BAY	18.25	536,675,031	2,940,812,475
PDI	17.38	39,279,423	226,000,000
NOBLE	17.17	78,392,600	456,471,175

Market Focus

Thailand Strategy: Tough measure to curb baht appreciation

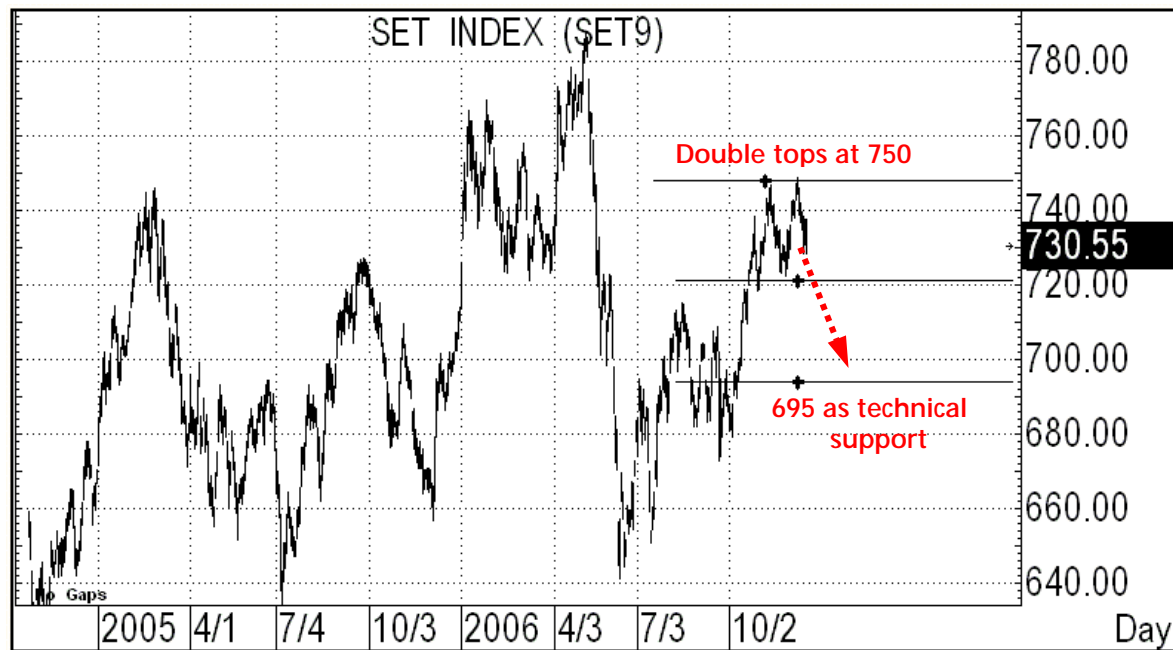
NVDR Outstanding Share (as of 18 Dec 06) (Cont.)

Symbol	Percent of Paid Up Capital	No. of Shares under NVDR	Paid Up Capital Shares
AP	15.38	352,799,692	2,293,229,302
AH	15.12	36,289,516	240,000,000
CNS	15.08	10,808,200	71,682,300
SPALI	15.03	235,281,024	1,565,248,238
BANPU	14.74	40,068,988	271,747,855
SCIB	14.59	308,314,195	2,112,810,676
KK	12.14	62,496,984	514,748,416
SCC	11.33	135,904,444	1,200,000,000
TTA	10.79	69,440,391	643,684,422
TCAP	9.45	125,979,323	1,333,134,457
EGCOMP	9.33	49,108,615	526,465,000
ITD	8.98	376,691,963	4,193,678,180
TRUE	7.33	278,559,706	3,801,593,954
BH	5.75	41,841,169	727,825,372
KTB	5.54	619,291,424	11,179,749,000
SCB	4.03	76,273,325	1,893,599,877
ADVANC	1.98	58,582,794	2,953,546,816

Source: SET

Buying opportunity. In our view, the possible pullback in the SET should be an opportunity to buy stocks, especially for long-term investors because this measure has nothing to do with the fundamentals of the stocks or the market. Having said that, we do not recommend investors to rush in.

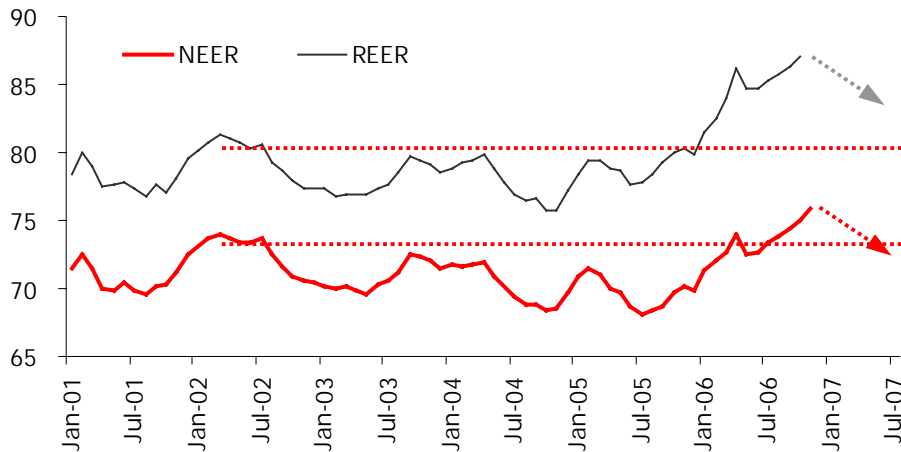
Technical analysis



Source: Reuters

Benefiting exporters. The BoT move is clearly an attempt to curb the strong appreciation of the baht, with the ultimate goal to maintain the country's competitiveness. This is seen in the **chart** below, where both NEER and REER have risen substantially since the beginning of 2006. In our view, the clear beneficiary of this measure is exporters. We reiterate our Buy rating for CCET and CPF.

Baht NEER and REER



Source: The BoT

Negative for companies with large huge foreign debt. Note that this measure will be negative for companies with huge foreign debts, including AOT and THAI. However, they are unlikely to make any forex loss in 4Q06 unless baht depreciates further beyond end-3Q06 closing exchange rate of Bt37.55/US\$.

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