

THAILAND

Capital Market Report 2018

The Association of Thai Securities Companies

(ASCO)

The 24th Asia Securities Forum

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Istanbul, Turkey

Review of the Economy, Capital Market and Securities Business in 2018 and the first 6 months of 2019

1. Executive Summary

The Thai economy grew at the fastest pace in 6 years in 2018, with GDP growth reaching 4.1%, up from 4.0% in 2017. The expansion was mainly driven by rising domestic demand as both private consumption and investment had reached a 6-year high, while public consumption and investment also increased from last year. Exports in US dollar term slowed down from the previous year due to the deceleration of export prices. The headline inflation ended with an increase of 1.1% year-over-year, from 0.7% in 2017. In 2018, the yearly average exchange rate was at 32.32 baht per US Dollar. The appreciation was in line with currencies of regional countries with strong economic fundamentals, such as Japan, South Korea, and Malaysia.

According to the National Economic and Social Development Board (NESDB), The Thai economy in 2019 is projected to expand by 2.7 – 3.2% driven mainly by (1) a favorable growth momentum of domestic demand both private consumption expenditure and private investment; (2) a gradual recovery of export conditions in the second half of the year; (3) key government stimulus measures; and (4) a low growth base for the second half of the year. Headline Inflation will lie in the range of 0.7- 1.2% and the average value of Thai Baht in 2019 is expected to be in the range of 30.7 – 31.7 Baht per US dollar.

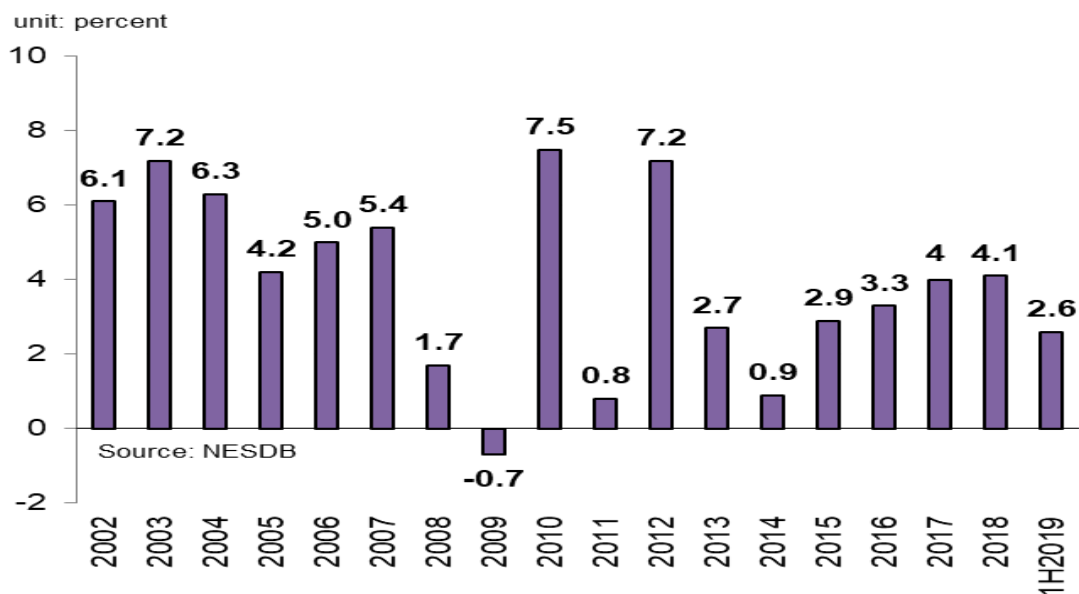
High global volatility such as trade war tension between the U.S. and China, contractual monetary policy from major central banks and fluctuation in global oil prices, all had pressured the SET Index in 2018 to finish at 1,563.88 points, a 10.8% decrease from the end of 2017. Nonetheless, Thai bourse still recorded the most liquid market in ASEAN since 2012. The combined turnover of the SET and the mai totaled USD437 billion in 2018, rising from 2017 by 14%, owing to a stronger Thai Baht against US Dollar, while total turnover in Thai Baht also rose by 15.6% from 2017. The average daily turnover was at USD1.78 billion in 2018, increasing by 14% from 2017. In 2018, the profit of securities companies in Thailand was USD266 million, a 2% decrease from USD271 million in 2017, due to falling revenues from securities brokerage fees and some fee incomes. On the other hand, total expenses increased in almost every category. As a result, ROE dropped slightly to 8.1% compared to 8.3% in the previous year.

2. The Thai Economy

2.1 Overview of Thai Economy in 2018

The Thai economy grew at the fastest pace in 6 years in 2018, with GDP growth reaching 4.1%, up from 4.0% in 2017. The expansion was mainly driven by rising domestic demand as both private consumption and investment had reached a 6-year high, while public consumption and investment also increased from last year. Private consumption grew, in line with the more broad-based expansion of overall income condition, low inflation and interest rates, and government measures to support low income group. Meanwhile, Private investment continued to rise, boosted by the acceleration of investment in machinery & equipment, together with the continual expansion of investment in construction. This was in accordance with the improvement of business sentiment and the progress of public infrastructure projects. Exports in US dollar term slowed down from the previous year due to the deceleration of export prices.

Figure 1: Real GDP Growth (unit: %YoY)

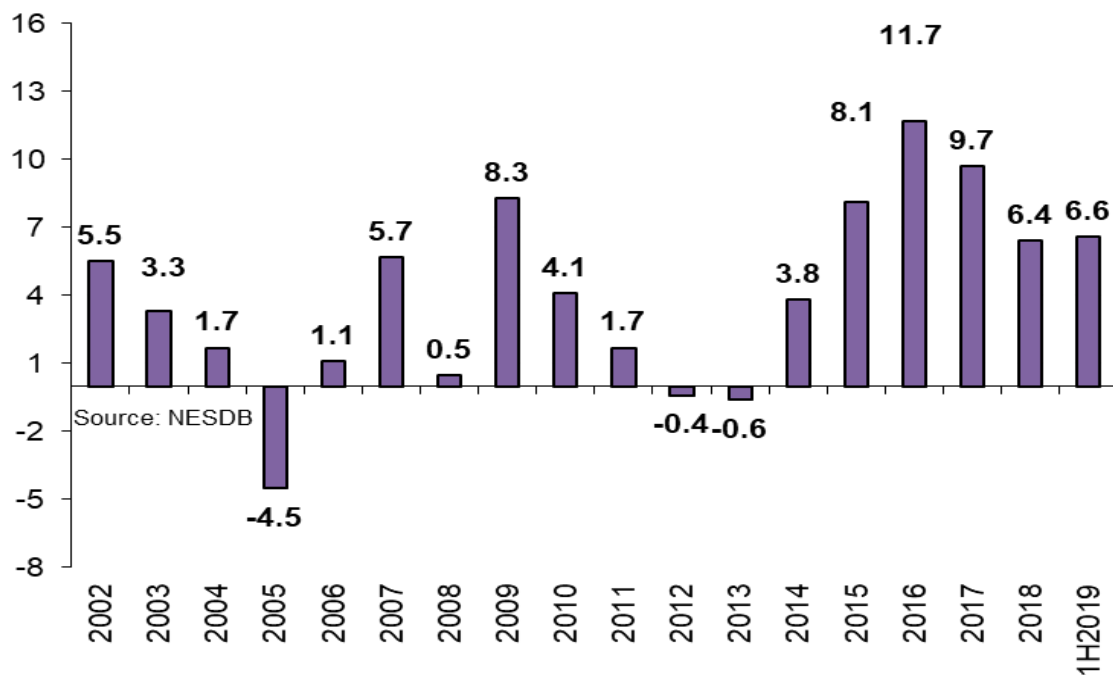


In 2018, Trade balance recorded a surplus of USD22.4 billion, lower than a surplus of USD32.6 billion in 2017. Export decreased in both export price and quantity. Export value of goods rose by 7.5%, fell from a 9.8% growth in 2017. In the meantime, import value of goods rose by 13.7%, compared with a 13.2% growth in the previous year, due to improvement of

domestic demand, private investment and higher import price, resulting to smaller trade surplus in 2018.

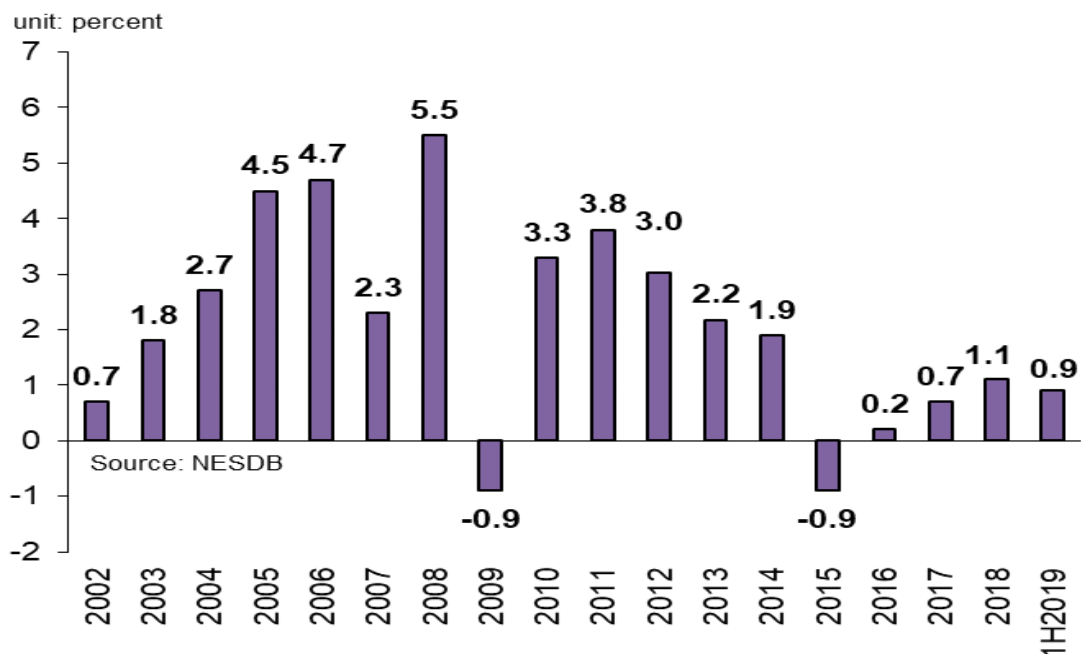
Current account registered a lower surplus than the same period last year. For external stability, the current account surplus in 2018 was USD32.4 billion, compared to USD44.1 billion in 2017. As a result of that, proportion of current account to GDP was 6.4% of the GDP (Figure 2), lower than 9.7% of GDP in 2017, as a result of smaller trade surplus.

Figure 2: Current Account to GDP (unit: percent to GDP)



On the stability front, headline inflation rose to a four-year high in 2018. The headline inflation ended with an increase of 1.1% year-over-year (Figure 3), from 0.7% in 2017, resulting from the increase in energy prices that affected the prices of goods and services related to energy, rising prices of certain key farm products and processed food, and higher domestic demand.

Figure 3: Headline Inflation (unit: %YoY)



International reserve level remains high. International reserve at the end of December 2018 stood at USD205.6 billion (excluding net forward position of USD33.7 billion), which was equal to 3.3 times of short-term foreign debt (at the end of December 2018) or 10.6 months of import value (the average of import value in the fourth quarter of 2018).

The Monetary Policy Committee (MPC) decided to raise the policy rate by 25 basis points in 2018. For Monetary policy in Thailand, the MPC decided to raise the policy rate by 0.25% from 1.5% to 1.75% per annum. The assessment was based on the continual expansion of the Thai economy owing to strong domestic demand and the need for reducing the risk of financial instability and building up policy space for the future monetary policy movement. Similarly, major economies continued to implement monetary policy normalization. The Federal Reserve (Fed) raised its policy rate to a range of 2.25 - 2.50% per annum in the meeting on 18th - 19th December 2018, which was the fourth increase in 2018. For regional economies, Indonesia and South Korea, for instance, increased their policy rates by 25 basis points to 6.00 and 1.75% per annum, respectively.

Thai Baht appreciating 4.7% against US Dollar in 2018, supported by current account surplus and net capital inflow in bond market. In 2018, the yearly average exchange rate

was at 32.32 baht per US Dollar. The appreciation was in line with currencies of regional countries with strong economic fundamentals, such as Japan, South Korea, and Malaysia. In addition, main supporting factors of Thai baht appreciation were a foreign inflow in Thai bond market and a surplus of current account.

2.2 Thai Economy in 1H2019 and Economic Projection for 2019

Thai economy grew by 2.6% at the first half of 2019. On expenditure side, the main supporting factors were expansions of private consumption, private investment, and government expenditure while export of goods declined. On production side, the agriculture and the manufacturing sectors declined, while the accommodation and food service activities and the transportation and storage sectors decelerated from the previous quarter. However, the construction and the electricity and gas sectors speeded up and the wholesale and retail trade sector continuously increased.

In August 2019, the MPC decided to decrease policy rate by 25 basis points to 1.50% per annum to support the weaker than expected economic growth. This was in line with other countries such as New Zealand, India, and the Philippines who decreased central bank policy rates by 50 basis points, 35 basis points, and 25 basis points, respectively.

The Thai economy in 2019 is projected to expand by 2.7 – 3.2% driven mainly by (1) a favorable growth momentum of domestic demand both private consumption expenditure and private investment; (2) a gradual recovery of export conditions in the second half of the year following the clearer adjustment of export and production sectors amid more intensified trade tensions; (3) key government stimulus measures; and (4) a low growth base for the second half of the year. In all, it is expected that export value will decline by 1.2% while private consumption expenditure and total investment will grow by 4.2 and 3.8%, respectively. Inflation will lie in the range of 0.7- 1.2% and the current account will register a smaller surplus of 5.9% to GDP. The average value of Thai Baht in 2019 is expected to be in the range of 30.7 – 31.7 Baht per US dollar, appreciated from 32.3 Baht per US dollar in 2018.

Table 1: Major Economic Indicators

	2014	2015	2016	2017	2018	2019f
GDP growth (%)	0.9	2.9	3.3	4.0	4.1	2.7-3.2
Investment (%)	-2.2	4.4	2.8	1.8	3.8	3.8
<i>Private(%)</i>	-0.8	-2.2	0.5	2.9	3.9	3.7
<i>Public(%)</i>	-7.1	29.3	9.5	-1.2	3.3	4.0
Private Consumption(%)	0.9	2.2	3.0	3.0	4.6	4.2
Public Consumption(%)	2.8	3.0	2.2	0.1	1.8	2.2
Export volume of goods & services (%)	0.2	0.7	2.8	5.4	4.2	-0.7
<i>Export value of goods (%)</i>	-0.3	-5.6	0.1	9.5	7.5	-1.2
Import volume of goods & services (%)	-5.3	0.0	-1.0	6.2	8.6	-0.5
<i>Import value of goods (%)</i>	-8.5	-10.6	-5.1	13.2	13.7	-1.6
Trade balance (Bil. USD)	24.6	26.8	36.5	32.6	22.4	23.0
Current Account balance (Bil. USD)	15.4	32.1	48.2	44.1	32.4	32.2
Current Account to GDP (%)	3.8	8.1	11.7	9.7	6.4	5.9
CPI (%)	1.9	-0.9	0.2	0.7	1.1	0.7-1.2

f = forecast

Source: NESDB

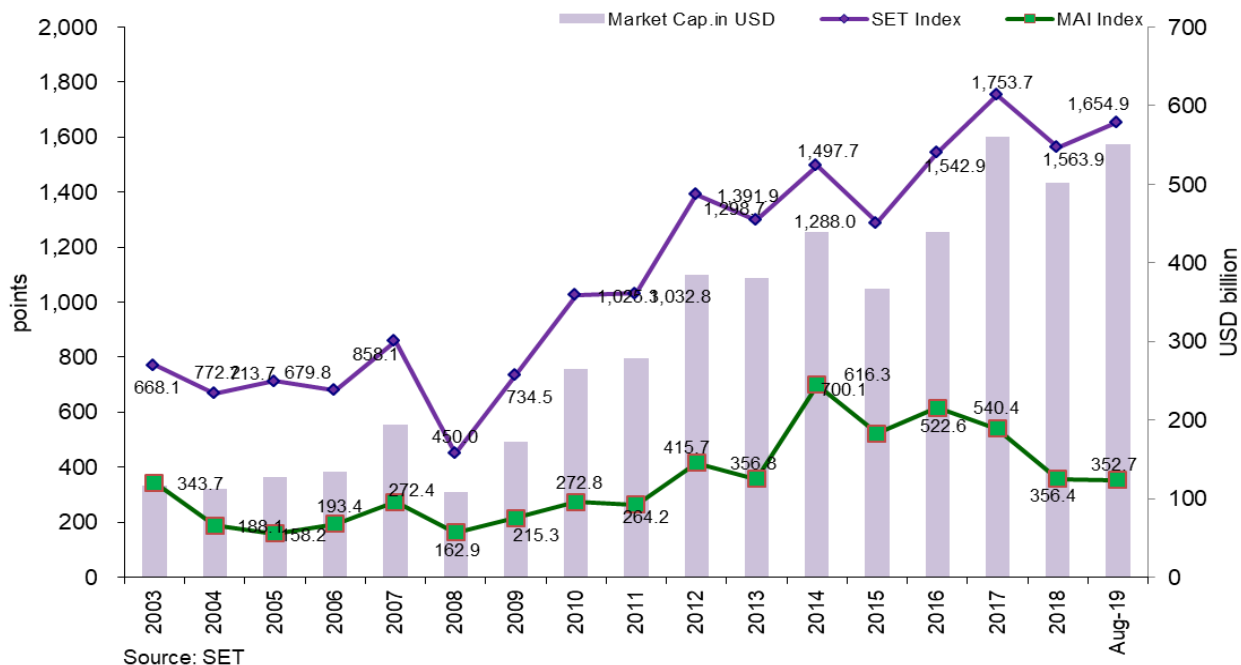
3. Thai Capital market in 2018 and first 8 months of 2019

3.1 Overview of the Stock Market

The SET Index fell 10.8% YoY in 2018. High global volatility such as trade war tension between the U.S. and China, contractual monetary policy from major central banks and fluctuation in global oil prices, all had pressured **the SET Index** to finish at 1,563.88 points, a 10.8% decrease from the end of 2017 (Figure 4) with the lowest point of the index was at 1,546.62 points in December and the highest point at 1,852.51 points in February. On the contrary, **the mai Index** closed at 356.44 points, falling from the end of 2017 by 34%.

At the end of August 2019, the Thai bourse finished at 1,654.92 points, increasing 5.8% from the end of last year. Likewise, the mai Index finished at 352.72 points, contracting 1.0% from the end of 2018.

Figure 4: SET - mai Index and Market Capitalization

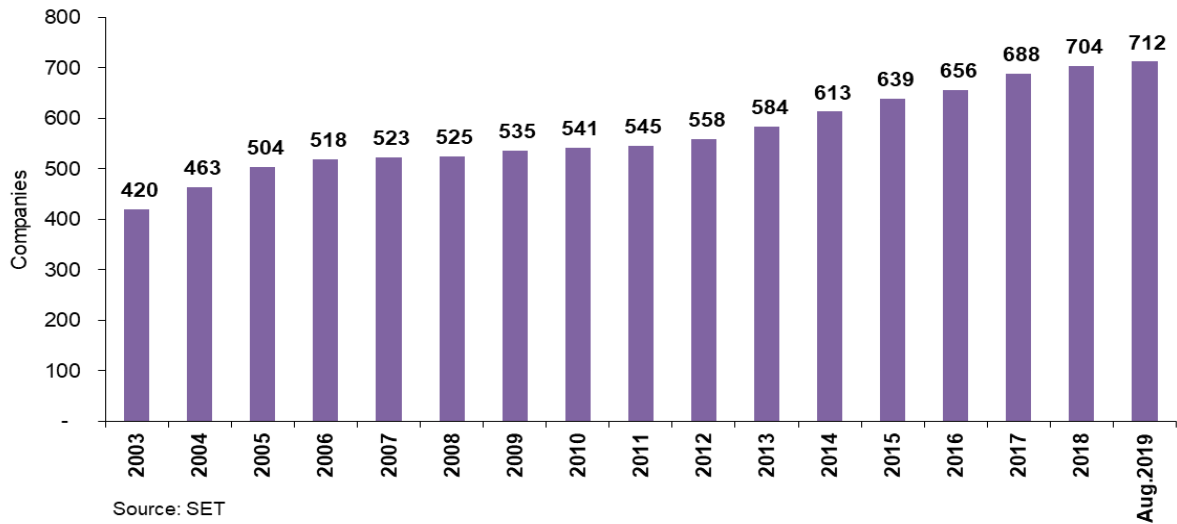


In 2018, new companies/securities listed on SET and mai raised capital totaling USD2.55 billion. Total 22 new companies/securities listed in 2018 raised a combined USD5.72 billion in term of market capitalization, consisted of 18 new listed companies' common stocks, 1 infrastructure fund and 3 REITs.

Market capitalization of SET and mai in US dollar dropped by 9.52% during 2018, in line with the indices movements. Market capitalization of SET and mai combined at the end of 2018 totaled USD500.3 billion (Figure 4), falling 9.52% from the end of 2017. However, at the end of August 2019, the Market capitalization rose to USD551 billion, an 9.8% increase from the end of 2018, following the rise of the SET Index.

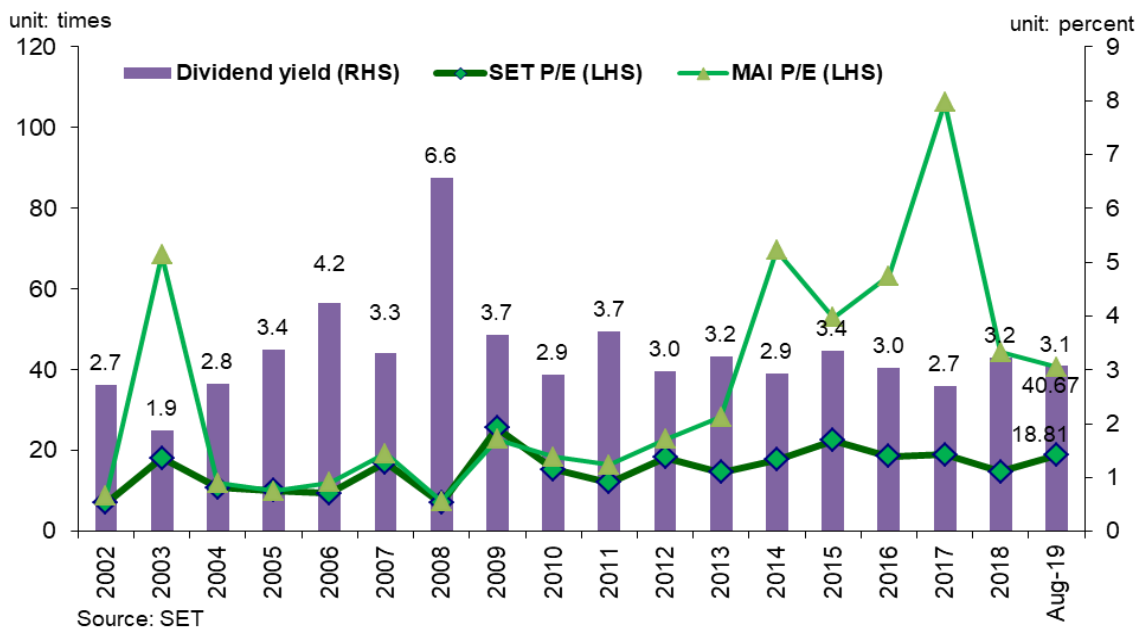
Total numbers of listed companies rose to 704 companies at the end of 2018. The numbers of listed companies in the SET at the end of 2018 and at the end of August 2019 were at 545 and 549, rose from 538 companies in 2017. For the mai, the number of mai listed companies at the end of 2018 and August 2019 stood at 159 and 163, increased from 150 companies in 2017. As a result, total number of listed companies in the SET and the mai were at 704 and 712 at the end of 2018 and August 2019 (Figure 5).

Figure 5: Total number of listed companies



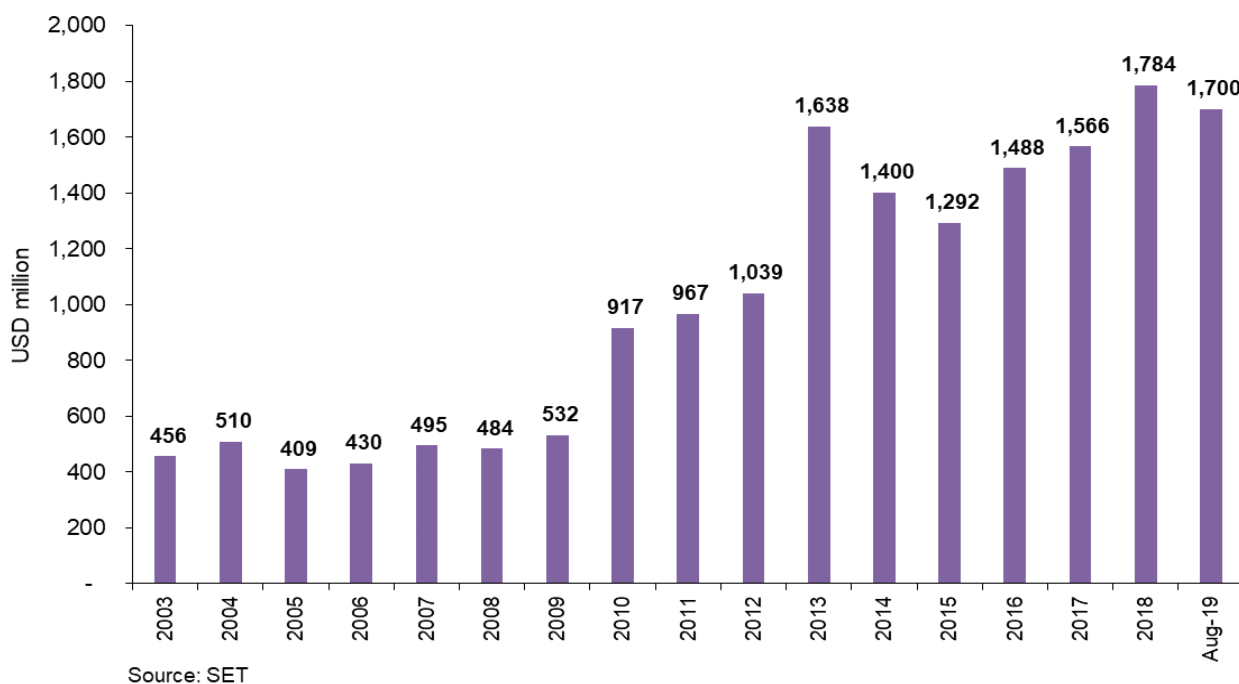
The SET P/E ratio edged lower to 14.75 in 2018. The P/E ratio of the SET at the end of 2018 fell from 19.06 times to 14.75 times, before rising back to 18.8 times at the end of August this year (Figure 6). On the other hand, the mai P/E ratio plunged from 106.13 times to 44.3 times at the end of 2018, and dropped further to 40.67 times in August 2019. Nonetheless, the dividend yield of the Thai bourse increased from 2.7% at the end of 2017 to 3.22% at the end of 2018, but falling to 3.07% at the end of August 2019.

Figure 6: SET – mai P/E and Dividend Yield



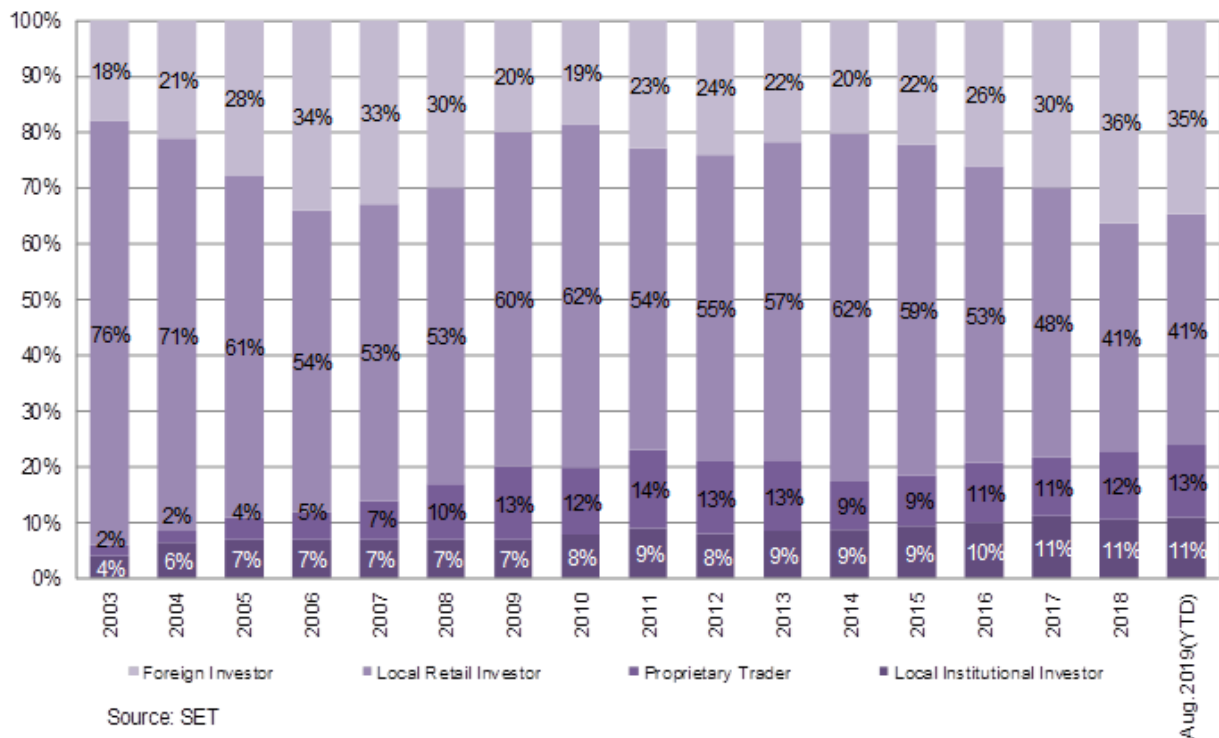
Thai bourse recorded the most liquid market in ASEAN since 2012. The combined turnover of the SET and the mai totaled USD437 billion in 2018, rising from 2017 by 14%, owing to a stronger Thai Baht against US Dollar, while total turnover in Thai Baht rose by 15.6% from 2017. The average daily turnover was at USD1.78 billion in 2018, increasing by 14% from 2017 (Figure 7). In addition, during the first eight months of this year, the average daily turnover was approximately USD1.7 billion.

Figure 7: Average daily Turnover



Local retail investors accounted for 41% of total turnover in 2018. The local retail investors still the most active investors in Thai bourse, accounted for 41% of the total turnover, but decreased from 48% in 2017 while proportion of foreign investors rose to 36% from 30%, proprietary traders had a share of 12% up from 11% and local institutional traders at 11% the same proportion as 2017 (Figure 8). As for 2019 until August, the proportion of trading by retail traders and local institutional traders stay the same at 41% and 11%, while the proportion of foreign investors fell to 35% and proprietary trading rose to 13% of total turnover.

Figure 8: Investors classified by type



3.2 Overview of the derivatives market

Trading volume in TFEX continued to increase to new record high in 2018. During 2018, the volume of trading of the Thai Futures Exchange (TFEX) surged to 104 million contracts, or a daily average of 426,213 contracts, the highest since the establishment of the exchange, rising by 31.5% from a year earlier. The significant increase in trading volume was from 1) SET 50 Index Futures 2) Single Stocks Futures and 3) 10 Baht Gold Futures, which have their trading volume increase by 61.0, 16.1 and 16.7 percent from 2017 respectively. The number of derivatives trading accounts also grew significantly reaching 168,506 accounts, up 15% from the previous year. By underlying product category, the most traded were the Single Stock Futures, contributing 53% of the total trading volume, the SET 50 Index Futures which constituted 41%, followed by the Gold Futures, which accounted for 4%. According to investor breakdown by trading volume, retail investors accounted for 51%, institutional investors at 36%, while foreign investors at 13%. At the end of 2018, the open interest fell by 13.2% from the previous year to 2,440,223 contracts.

For the first eight months of this year, the trading volume of the derivatives market were 66.6 million contracts, or a daily average of 411,585 contracts. The open interest was 3,137,389 contracts. Most of the trading volume gained came from the Single Stock Futures, the SET Index Futures and Gold Futures. Starting from April 2018, TFEX, jointly with Thailand Clearing House Co., Ltd. (TCH), allowed investors to pledge both cash and non-cash collateral (assets such as government bonds, Bank of Thailand bonds, and stocks) for margin requirement. This development will enhance flexibility and convenience for trading, as well as lowering costs.

On November 2018, TFEX had launched Gold Online Futures, a cash settled futures contract based on 99.5% purity gold bullion. TFEX's Gold Online Futures is denominated in Thai Baht with a multiplier of 300 and will be settled against LBMA gold price on the last trading day. According to that, it provides market participants as an effective way to gain exposure of global gold price movement without the corresponding risk of adverse exchange rate fluctuations.

Table 2: Derivative Trading Volume by instruments

Type of Instruments	2012	2013	2014	2015	2016	2017	2018	Aug.2019 (YTD)
Single Stock Futures	2,168,037	8,415,967	19,624,561	19,708,113	33,826,624	47,480,762	55,332,444	33,006,118
SET50 Index Futures	4,034,460	5,688,404	14,403,574	26,764,395	32,192,984	26,321,073	42,544,040	27,296,108
10 Baht Gold Futures	2,597,235	1,655,381	1,303,151	1,328,932	2,721,773	3,500,669	4,102,613	2,512,890
50 Baht Gold Futures	1,045,370	551,887	238,544	132,604	182,177	191,116	165,400	92,181
Gold Online	-	-	-	-	-	-	88,411	2,147,079
Deferred Precious Metal	-	-	-	-	-	57,770	106,443	21,746
Brent Crude Oil Futures	147,823	46,496	32,530	25,970	19,076	-	-	-
USD Futures	396,138	239,345	309,926	271,754	204,470	346,890	685,847	477,152
Rubber Futures	-	-	-	-	250	10,613	34,482	34,428
Sector Futures	191	-	-	-	-	-	-	-
Interest Rate Futures	27	-	-	-	-	-	-	-
SET50 Index Options	54,057	65,409	108,855	307,131	428,810	1,081,681	1,362,520	1,089,133
Total Trading Volume (contracts)	10,457,928	16,664,126	36,021,150	48,538,899	69,576,164	78,990,574	104,422,200	66,676,835

Source: TFEX

3.3 Capital market developments

Major developments in 2018 – August 2019 can be summarized as follows:

1. The revisions and modifications of the Securities and Exchange Act B.E. 2535 (1992). The revised Act has taken effect on April 2019, aiming to enhance competitiveness of the capital market and the SEC's supervision over the Stock Exchange of Thailand (SET) in compliance with international standards, as well as to increase investor protection and establish the Capital Market Development Fund (CMDf). The revised Securities Law covers 6 areas as follows;

(1) Enhancing flexibility of securities business supervision: For example, repeal of the minimum requirement of paid-up registered capital of securities company, allowing the SEC Board to use discretionary power to prescribe required paid-up capital suitable for the business nature and risks instead. In addition, the SEC Board has the power to exempt certain business undertaking from being classified as securities business, etc.;

(2) Enhancing supervision of mutual fund management: Asset management company (AMC) shall have fiduciary duty to protect the interest of unitholders. In addition, the fund voting provisions have been revised to increase efficiency in practice whereby unitholders are entitled to seek the court's order to revoke the resolution found to be in contravention of the law or governing regulations;

(3) Enhancing supervision over the SET in line with international standards: The SET shall comply with the regulatory objectives and the operating rules of securities exchange. In issuing, revising or modifying its rules and regulations, the SET must conduct a hearing session with member securities companies, investors or stakeholders and such rules and regulations must be approved by the SEC Board;

(4) Enhancing competitiveness of the capital market: For example, the SET Board of Directors has the power to allow direct access for a person other than the SET's member to purchase or sell listed securities, grant additional exemption to members to trade listed securities outside the SET;

(5) Establishing the Capital Market Development Fund as a center to promote market development: The development function shall be separated from the exchange function to increase efficiency of the SET operation;

(6) Enhancing effectiveness, clarity and transparency of the SEC's operation: For example, the SEC strategic plan shall be consistent with the National Strategy, the National Economic and Social Development

2. The introduction of Distributed Ledger Technology (DLT) as a main Digital Infrastructure of Thai Capital Market. The SEC has launched a new program which aims to streamline the workflow and slash costs for relevant institutions by introducing Distributed Ledger Technology (DLT) into Thai capital market as a Digital Infrastructure. This program is in line with the government's policies to boost national economy and enhance national competitiveness.

DLT is a technology that automatically distributes information to network members when a transaction or transaction change occurs in the system, which will greatly reduce the time spent in each process. As there are many document management processes and procedures for various activities in the capital market, such as issuance and sale of securities, registration of customer information, and registration, purchase, settlement and delivery of securities, many allied agencies are involved to provide system development support for each process, including the SET, the Association of Thai Securities Companies (ASCO), the Association of Investment Management Companies (AIMC), the Thai Bond Market Association (ThaiBMA), etc.

3. New regulations to allow securities brokers and derivatives agents to provide “Program Trading service” and “Portfolio Advisory with execution service”. On April 2019, the SEC has issued rules allowing securities brokers and derivatives agents to provide two types of trading services of capital market products that respond to investors’ demands more efficiently, namely

(1) Program Trading service that automates trading order execution according to clients’ predetermined instructions as advised by securities brokers and;

(2) Portfolio Advisory with execution service (The securities analysis and investment advisory to design a portfolio advisory that shows each type of capital market products and investment proportion. Trading orders will be executed according to the selected portfolio advisory and will be monitored and rebalanced to maintain its relevance to clients’ predetermined instructions)

Both of the services (1) and (2) are exempted from the securities business license in the category of private fund management and the derivatives business license in the category of derivatives fund management because they are incidental to the core business of trading services. The new rules will become effective from 16 May 2019 onwards.

In any case, to provide any of the two services above, intermediaries have to make an agreement with their clients regarding portfolio advisory with execution or program trading including the trading conditions. A key operating system compatible for the undertaking of private fund management must also be established to ensure that intermediaries will be able to deliver standardized services. Interested investors may seek more information on portfolio advisory with execution and program trading services from participating securities companies.

4. The Issuance of regulations on debt crowdfunding. Crowdfunding in Thailand has generally been regulated by the Securities and Exchange Commission (SEC), but this only covered a narrow scope of crowdfunding activities, including offering newly-issued shares via “electronic systems or networks.” On May 2019, the SEC has issued regulations on debt crowdfunding in order to increase alternative fundraising methods for SMEs and startups.

- Regarding to the new regulations, an eligible fundraiser for the crowdfunding scheme must be a Thai company with a clear business plan, must have a minimum paid-up registered capital of THB 5 million, and their systems must be ready for use upon applying to the SEC for approval to operate. With respect to the financing limit, a SME or startup may raise capital from retail investors up to a maximum of THB20 million during the first 12 months and to a total of no more than THB40 million (equity and debt combined), throughout the whole project. The fundraiser is also required to report the offering results to the SEC.
- In order to manage risks and potential impacts on investors, the SEC impose an investment limit of THB100,000 per business (equity and debt combined) and the annual investment limit of THB1 million for each retail investor. There is no investment limit for non-retail investors (institutional investors, venture capital funds, private equity trusts and qualified investors).
- The crowdfunding must be conducted through a funding portal approved by the SEC. Funding portals play the important role of screening eligible companies and overseeing their information disclosure. To be eligible for a funding portal approval, an applicant must have the same qualifications and work systems required for equity crowdfunding and must also have a system for assessing credit worthiness and the risks of the debt fundraisers. According to the SEC, there are several companies interested in applying for an approval to operate a debt funding portal business.

3.4 Securities industry

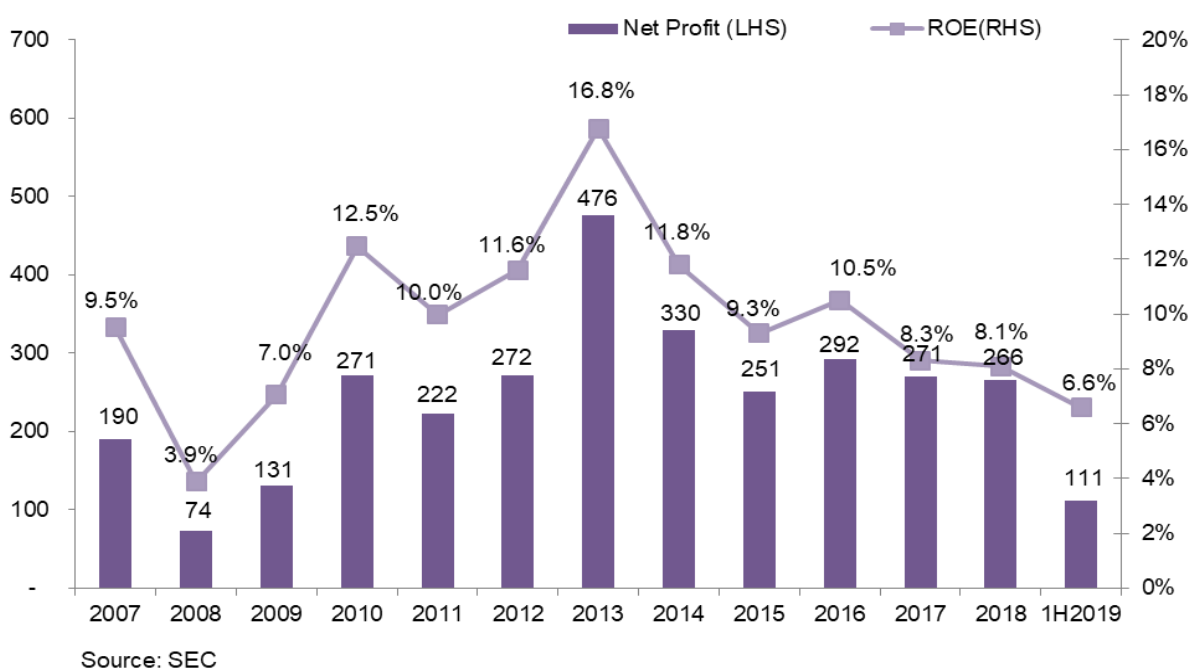
At the end of June 2019, there were 44 securities companies with brokerage licenses, 39 of them were SET members. As for the derivatives business, 44 companies were licensed as derivatives agents, and out of these, 40 companies were members of TFEX.

- **Performance**

Net profit of Thai securities companies dropped 2% in USD term in 2018. In 2018, the profit of securities companies in Thailand was USD266 million, a 2% decrease from USD271 million in 2017 (figure 9), due to falling revenues from securities brokerage fees and some fee incomes, for examples, underwriting and financial advisory fees. On the other hand, total expenses increased in almost every category, on the back of stronger THB, including personnel expenses, fee & services expenses, other expenses and expenses on borrowing.

For H1-2019, Thai securities industry's net profit plummeted to USD111 million, dropping 35% from H1-2018, due to falling brokerage fees (both securities and derivatives) as well as interest incomes and other incomes. As a result, ROE in H1-2019 plunged to 6.6% compared to 10.4% during H1-2018 and the 10-yr average level of 10.9%.

Figure 9: Net Profit and ROE of Securities Companies



Securities Brokerage fees remained the major revenue of the securities business in 2018 and 1H-2019, accounted for 44% of total revenue. The total revenue of the securities industry in 2018 was USD1,411 million, an increase 2% from USD1,385 million in 2017. (Table 3).

	2017 (USD mil)	2018		1H2019	
		(USD mil)	% of total revenue	(USD mil)	% of total revenue
Brokerage - Securities	758	736	52.2%	293	43.9%
Brokerage - Derivatives	74	98	6.9%	44	6.6%
Underwriting	62	48	3.4%	17	2.5%
Financial Advisory	37	28	2.0%	15	2.2%
Gains on Trading - Securities	96	-227	-16.1%	177	26.6%
Gains on Trading - Derivatives	35	346	24.5%	-66	-9.9%
Interest and Dividend	100	129	9.1%	70	10.5%
Interest on margin loans	111	119	8.4%	55	8.2%
Others	111	134	9.5%	63	9.4%
Total Revenue	1,385	1,411	100.0%	668	100.0%

Source: SEC

Personnel expense remained the largest expense for securities companies accounted for approximately 52% of total expenses in 2018 and 1H2019. The expenses of the securities industry in 2018 totaled USD 1,076 million, an increase of 3% from USD1,045 million in 2017, with the major item being personnel expenses, which totaled USD558 million, followed by other expenses and fee & service expenses (Table 4). All in all, the cost to income ratio rose to 0.76 from 0.75 in 2017.

	2017 (USD mil)	2018		1H2019	
		(USD mil)	% of total expense	(USD mil)	% of total expense
Expenses on Borrowing	77	84	7.8%	39	7.4%
Fee & Service Expenses	131	141	13.1%	70	13.3%
Provision for Bad Debt / Doubtful Account	10	3	0.3%	-1	-0.1%
Personnel Expenses	536	558	51.9%	273	51.6%
Other Expenses	291	290	26.9%	147	27.8%
Total Expenses	1,045	1,076	100.0%	529	100%

Source: SEC

▪ **Financial position**

Total assets of the securities industry in Thailand fell 10% in 2018 to USD11.3 billion.

The total assets of the securities industry at the end of 2018 stood at USD11,252 million, falling 10% from the end of 2017. The sources of funds comprised liabilities totaling USD7,988 million and shareholders' equity of USD3,264 million (Figure 10). As of June 2019, total assets of securities companies gained by 13% from the end of 2018 to USD12,768 million. Meanwhile, liabilities rose by 18% to USD9,401 million and shareholders' equity increased 3.2% to USD 3,367million.

Figure 10: Asset, Liabilities and Shareholders' equity

