

THAILAND

Capital Market Report 2013

**The Association of Thai Securities Companies
(ASCO)**

**The 19th Asia Securities Forum
November 5 to 7, 2014
Bangkok, Thailand**

Review of the Economy, Capital Market and Securities Business in 2013 and the 1st half of 2014

1. Executive Summary

The Thai economy in 2013 grew by 2.9%, a sharp drop from the growth rate of 6.5% of the previous year, due to the slowdown of domestic demands from both the public and private sectors. Export quantity improved in line with better global economic conditions, but export value continued to decline as a result of the slump in export prices. Imports contracted along with the declining exports and the weakening domestic demand. Domestic spending in the private sector increased by 0.3% compared to 6.7% in 2012, due to the expiration of the excise tax refund measure for first-time car owners. Consumer confidence was also shaken by the political instability prevailing in the country. Private investment decreased by 2.8% per year, compared to the 14.4% increase in 2012. Government spending and public sector investment also increased in decreasing rates which were 4.1% and 1.3% respectively. Headline inflation in 2013 was at 2.2% which was the lowest rate in four years compared to 3.0% in previous year. For 2014, The National Economic and Social Development Board (NESDB) projects Thai GDP growth to be in a range of 1.5 – 2.0%. It is expected that the Thai economy will improve in the second half of 2014 from government spending, and an improvement in consumer confidence and business sentiment which will lead to a growth in expenditure and investment.

In 2013, the Stock Exchange of Thailand (SET) hit a new 20-year record high of 1,643.43 points in May 2013. The average daily turnover was recorded high at USD 1,638 million, increasing by 57.6% from 2012 and was the highest in ASEAN. It also represented the highest record since the establishment of exchange. For derivative trading, the average daily trading volume of the Thai Futures Exchange (TFEX) also reached a historical high at 68,017 contracts, supported by rising trading of the Single Stock Futures and the SET50 Index Futures, which rose along with the Stock Exchange.

Despite more challenged from the liberalization of the licensing regime and liberalization of brokerage commission fees, brokerage revenues from securities trading remained high as a result of new record high trading volume in both securities and derivatives markets. Thus, the securities industry reported an increase in net profit by 74.7% from 2012.

2. The Thai economy

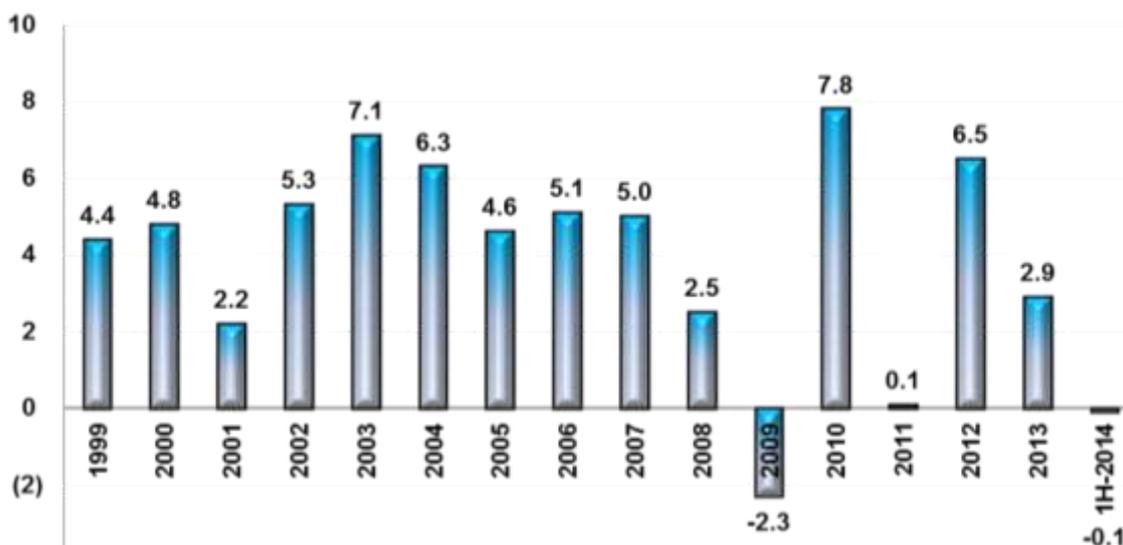
The Thai economy in 2013 grew by 2.9%, a sharp drop from the growth rate of 6.5% of the previous year (Figure 1), due to the slowdown of domestic demands from both the public and private sectors. Private investment also shrank. Exports quantity improved in line with better global economic conditions, but export value continued to decline as a result of the slump in export prices. Imports contracted along with the declining exports and the weakening domestic demand.

Domestic spending in the private sector increased by merely 0.3%, compared to 6.7% of the previous year. The number of cars sold dropped considerably from the previous year when the excise tax refund measure for first-time car owners was still effective. Consumer confidence was also shaken by the political instability prevailing in the country. Private investment decreased by 2.8% per annum, compared to the 14.4% increase in 2012. The decrease was also in importation of both equipment and machinery and private sector construction, compared to the same period of the previous year, during which there was a great deal of repair work for houses and factories following the major flooding.

As regards government spending, there was also a slowdown from 2012, with public sector consumption increasing at a rate of 4.9%, compared to 7.5% of the previous year; while public sector investment increased at 1.3%, compared to 8.9% per year. The decrease in public sector construction was due to the decrease of non-budget disbursements under the Thai Khem Kaeng Project, the Development Policy Loan (DPL) and the loan for the Water Management Project.

unit: percent

Figure 1: Real GDP Growth (%)

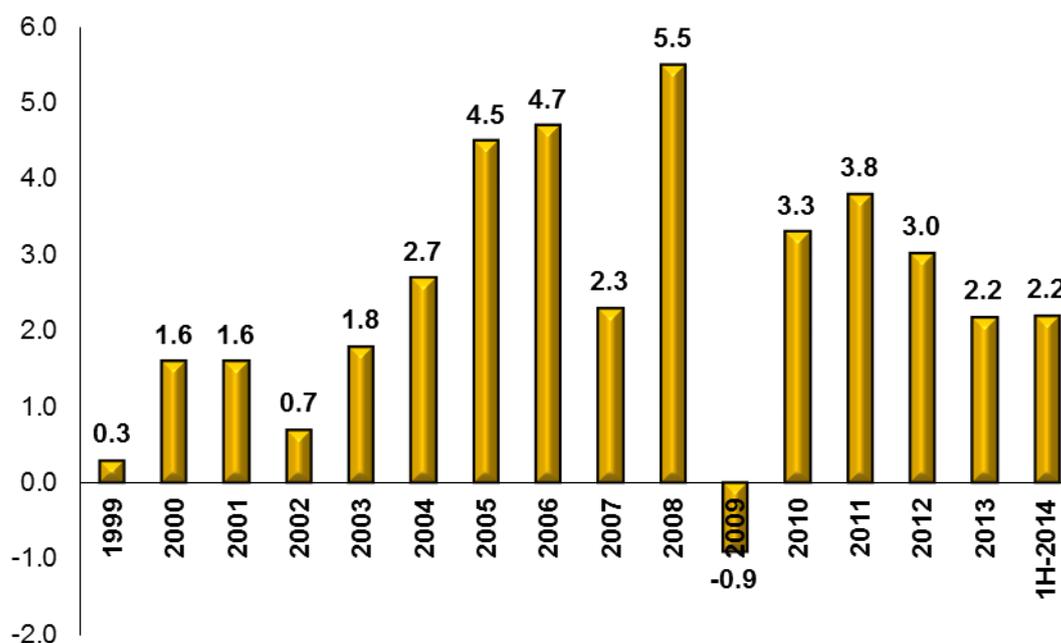


Source: NESDB

In terms of domestic economic stability, headline inflation in 2013 was at 2.2% compared to 3.0% in 2012 (Figure 2), which was the lowest rate in four years. The rate started to be low early in the year in line with the fall of the average price of fuel oil dictated by the world oil prices. Another reason was the falling prices of major agricultural commodities, such as rubber and palm oil, caused by weaker foreign demand.

unit: percent

Figure 2: Headline Inflation

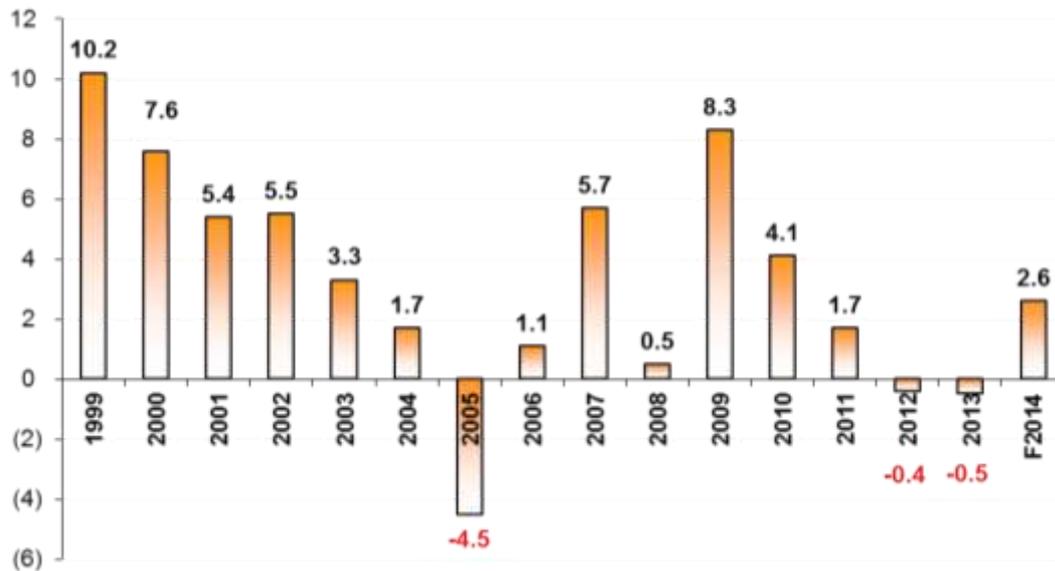


Source: NESDB

For external stability, the current account deficit in 2013 was greater than that of the previous year, amounting to US\$ -2.5 billion, or -0.5% of the GDP (Figure 3), despite the greater trade balance surplus at \$ 6.7 billion (Figure 4) due to acceleration of exports in the third and fourth quarters. However, net foreign factor income decreased significantly last year and increased the amount of current account deficit.

Figure 3: Current Account (% of GDP)

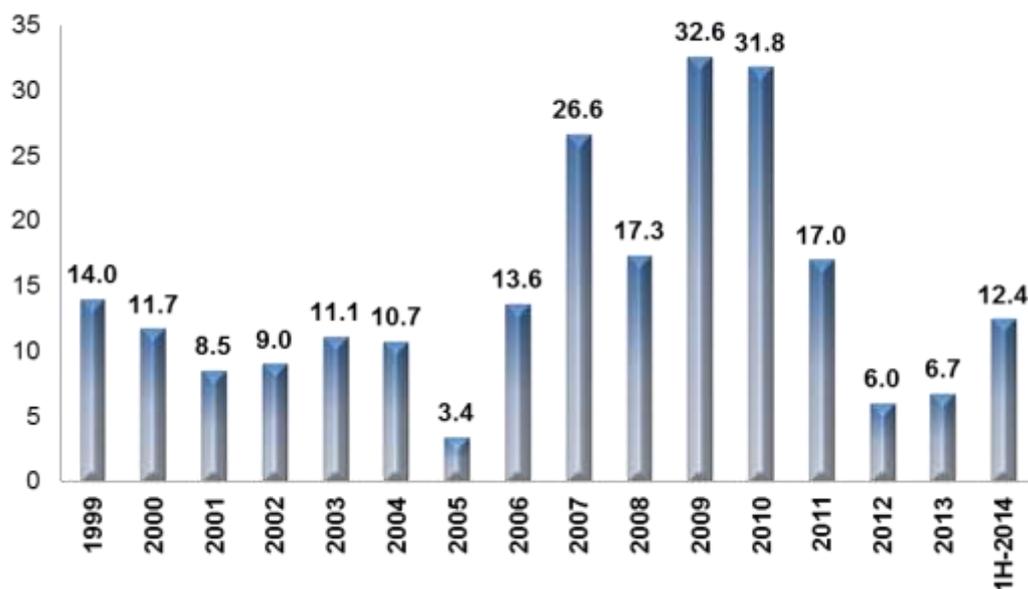
unit: percent



Source: NESDB

Figure 4: Trade Balance (Billion USD)

unit: USD Billion



Source: NESDB

In the first half of 2014, the Thai economy contracted by 0.1%. On the expenditure side, the economic expansion was mainly contributed by government expenditure, private consumption expenditure, and exports, while private investment declined. On the production side, the agricultural sector expanded while the manufacturing and construction sectors showed a smaller contraction. Nonetheless, hotels and restaurants continued to decline.

The Thai economy in 2014 is likely to grow at a slower pace than previously projected. Due to the prolonged political disturbances in the first 5 months of 2014, the slow recovery of export sector, and the continual decline in car production and sales, the Thai economy thus experienced a contraction in the first half of 2014. In the latter half, it is expected that the Thai economy will grow at a faster pace, supported by the improved confidence and the return of government administration and budget disbursement to normal process. However, the economy is likely to perform below its full potential due to the following reasons: 1) the constraints on export expansion due to the slower-than-expected recovery of the global economy and the decline in export price, 2) the delay in tourism recovery and competition among global tourism market, which made some tourists changing their destinations, 3) the constraints on investment growth due to the low capacity utilization and the slow progress in investment promotion approval in the first half of 2014, and 4) the continual declining car production and sales from a high base in the previous year. Meanwhile, economic stability remained sound.

In 2014, the Thai economy is forecasted to grow by 1.5 – 2.0%. Export sector is expected to expand by 2.0% in export value in US dollars, and private consumption will grow by 0.8%, while total investment is estimated to decline by 2.0%. Headline inflation is expected to be in the range of 1.9 - 2.4 %, while current account will record a surplus of 2.6% of GDP.

Table 1: Major Economic Indicators

	2009	2010	2011	2012	2013	2014f
GDP growth (%)	-2.3	7.8	0.1	6.5	2.9	1.5 - 2.0
Investment (%)	-9.2	9.4	3.3	13.2	-2.0	-2.0
<i>Private(%)</i>	-13.1	13.8	7.2	14.4	-2.8	-2.9
<i>Public(%)</i>	2.7	-2.2	-8.7	8.9	1.3	1.0
Consumption(%)	0.1	4.8	1.3	6.8	1.1	1.3
<i>Private(%)</i>	-1.1	4.8	1.3	6.7	0.3	0.8
<i>Public(%)</i>	7.5	6.4	1.1	7.5	4.9	3.7
Export volume of goods & services (%)	-12.5	14.7	9.5	3.1	4.2	1.7
<i>Export value of goods (%)</i>	-14.0	28.4	14.3	3.1	-0.2	2.0
Import volume of goods & services (%)	-21.5	21.5	13.7	6.2	2.3	-3.1
<i>Import value of goods (%)</i>	-25.2	37.0	24.9	8.8	-0.5	-4.9
Trade balance (Bil. USD)	32.6	31.8	17.0	6.0	6.7	21.8
Current Account balance (Bil. USD)	21.9	13.2	5.9	-1.5	-2.5	9.9
Current Account to GDP (%)	8.3	4.1	1.7	-0.4	-0.5	2.6
CPI (%)	-0.9	3.3	3.8	3.0	2.2	1.9 - 2.4

f = forecast

Source: NESDB

3. Thai Capital market in 2013 and 1st half of 2014

3.1 Overview of the Stock Market

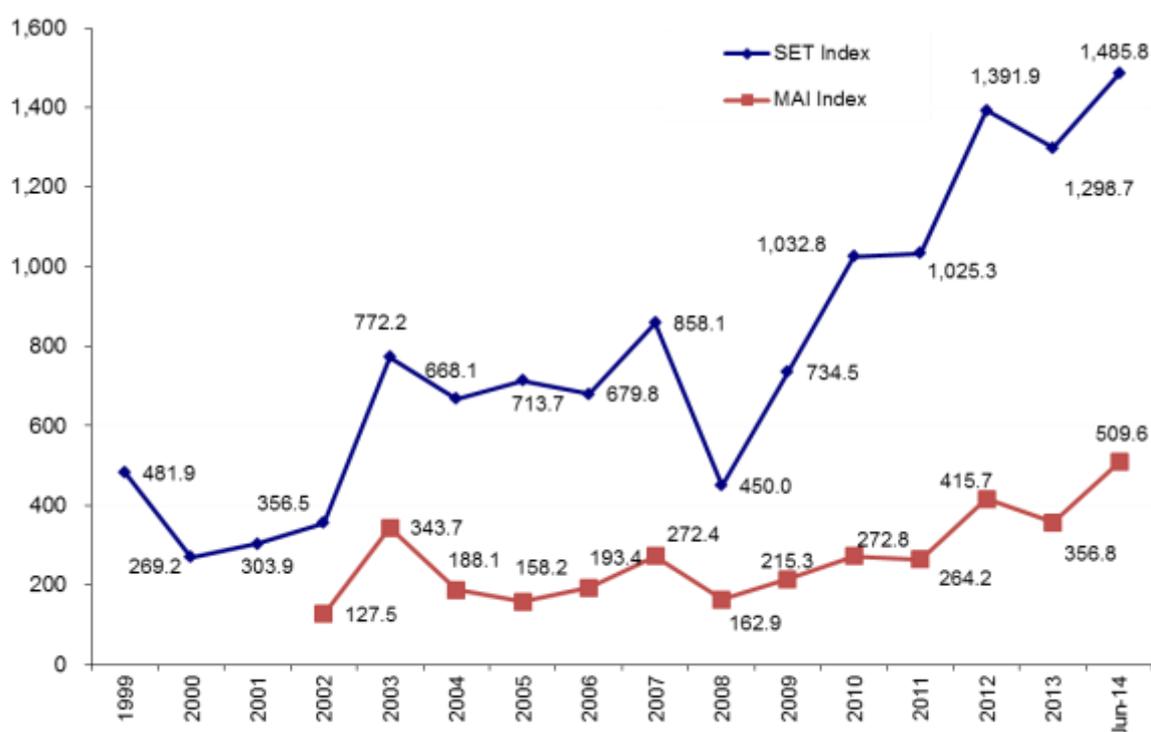
As at the end of 2013, **the SET index** closed at 1,298.71 points, reduced 6.7% from the end of 2012 (Figure 5). The lowest point of the index was at 1,275.76 points in August and the highest point at 1,643.43 points in May, which is the highest record in 20 years.

The MAI index closed at 356.80 points, decreasing from the end of 2012 by 14.2%.

The SET Index at the end of June 2014 finished higher at 1,487.75 points, increased 14.4% from the end of last year. Meanwhile, the MAI index finished at 509.61 points, 42.8% higher from the end of 2013.

Figure 5: SET and MAI Index

unit : points



Source: SET

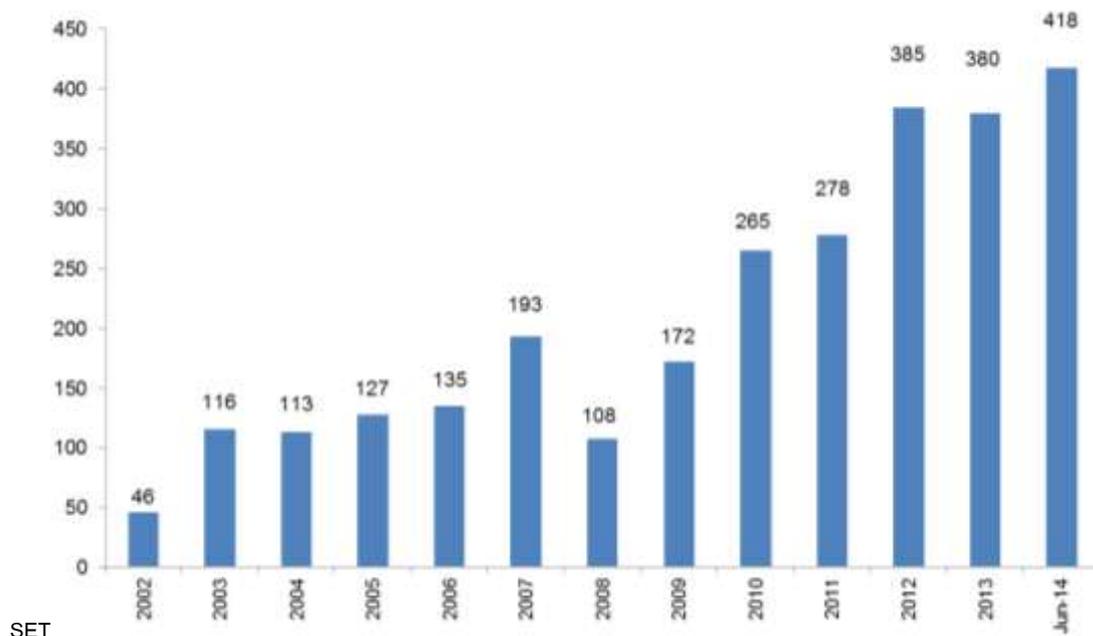
Market capitalization of SET and MAI combined at the end of 2013 totaled USD 380 billion (Figure 6), reducing by 1.3% from the end of 2012, in line with the trend of the indexes. At the end of June 2014, the Market capitalization rose to USD 418 billion following the rise of both the SET Index and MAI index.

The total numbers of listed companies in the SET at the end of 2013 and at the end of June 2014 were at 489 and 498, rose from 477 companies in 2012. For the MAI, the number of MAI listed companies at the end of 2013 and June 2014 stood at 95 and 98, increased from 81 companies in 2012. As a result, total number of listed companies in the SET and the MAI were at 584 and 596 at the end of 2013 and June 2014 (Figure 7).

Figure 6: Market Capitalization

unit: USD Billion

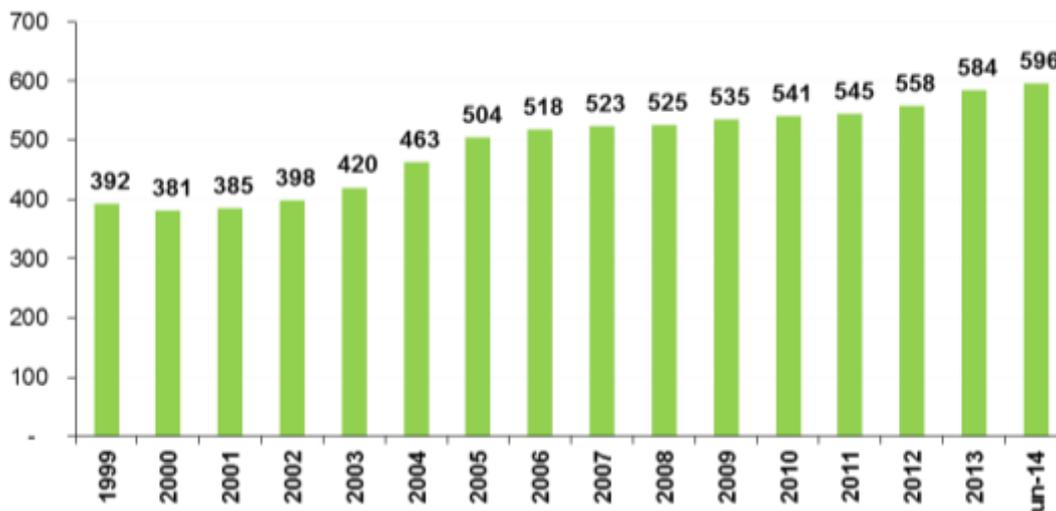
Source:



SET

Figure 7: No. of Listed Companies

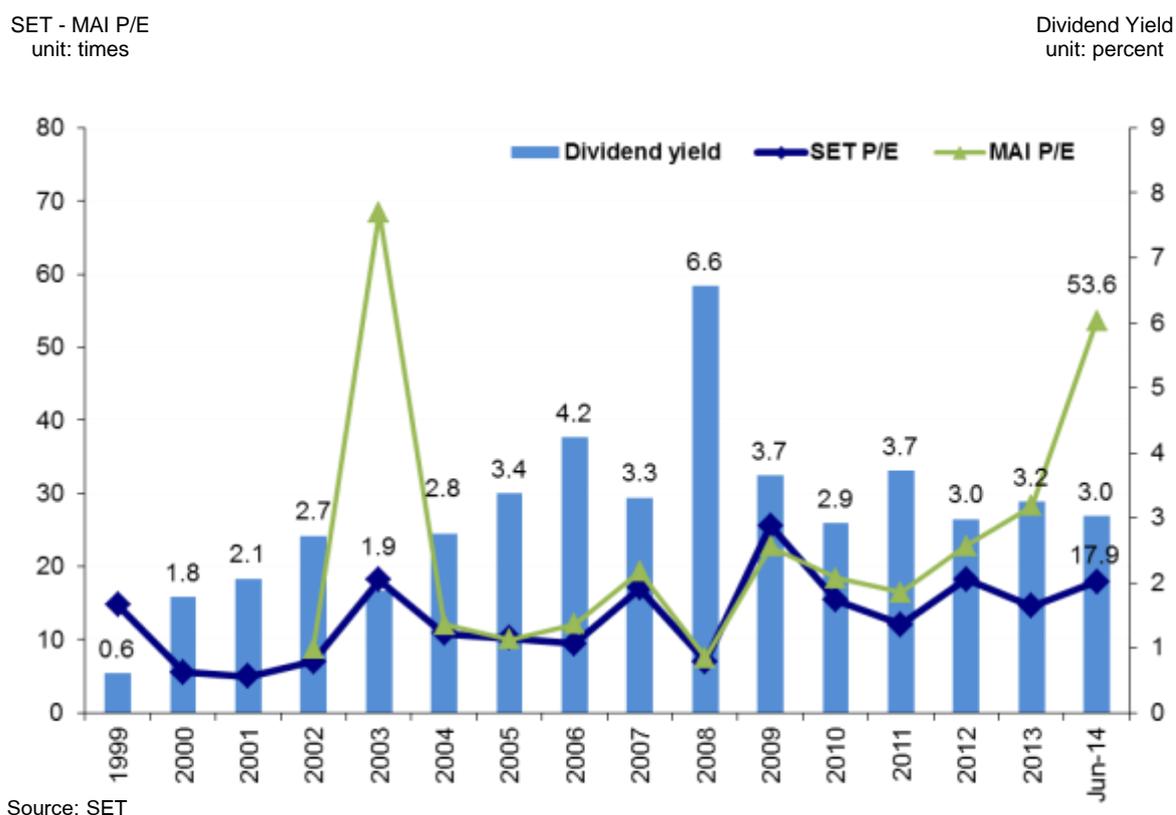
unit: companies



Source: SET

The P/E ratio of the SET at the end of 2013 fell from 18.25 times in 2012 to 14.60 times, but rose to 17.89 times at the end of June this year. The MAI P/E ratio increased from 22.8 times at the end of 2012 to 28.32 times (Figure 8) at the end of 2013, and then rose again to 53.64 times at the end of June 2014. Meanwhile, the dividend yield of the Thai bourse rose from 3.0% to 3.2% at the end of 2013, and decreased slightly to 3.0% at the end of June 2014.

Figure 8: SET - MAI P/E Ratio and Dividend Yield



The liquidity of SET and MAI were high compared with that of other stock markets in the region. In 2013, the combined turnover of the SET and the MAI totaled USD 401 billion, rising from 2012 by 57.6%. The average daily turnover was recorded high at USD 1,638 million in 2013, increasing by 57.6% from 2012 (Figure 9). It represented the highest record since the establishment of exchange and the highest in ASEAN.

However, during the first six months of this year, trading volumes of the SET and MAI totaled USD 132 billion with the average daily turnover fell to USD 1,091 million, decreased 45.5% from the same period of last year.

Figure 9: Average Daily Turnover

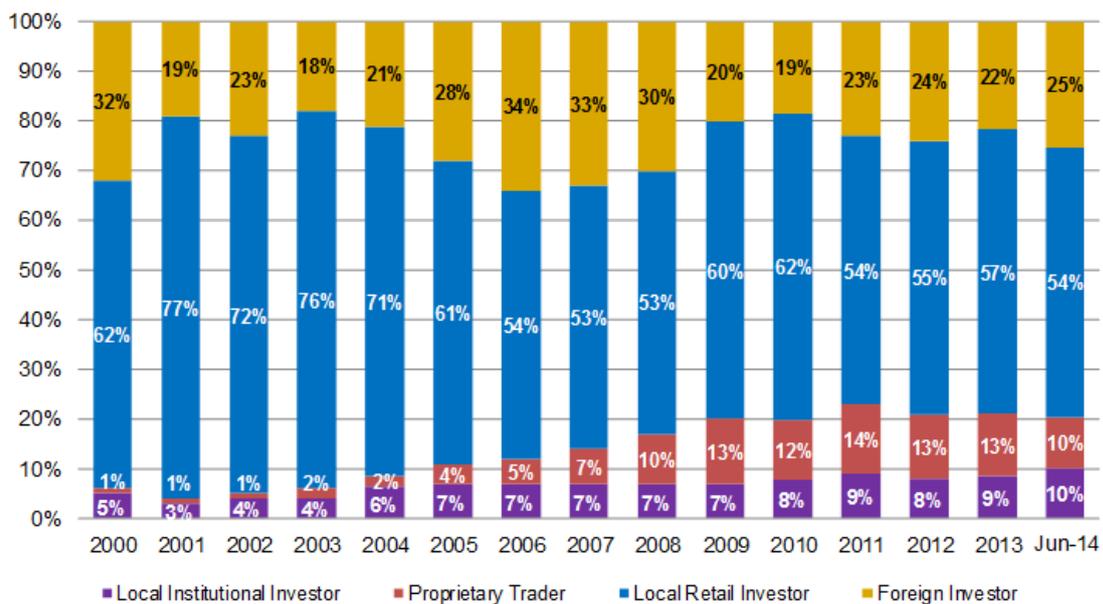
unit: USD Million



Source: SET

In 2013, 57.1% of **the total turnover** came from retail investors, increased from 55.0% in 2012 while proportion of foreign investors fell to 21.8% from 24.2%, proprietary traders and local institutional traders had a share of 12.6% and 8.5%, respectively (Figure 10). As of June 2014, the proportion of trading by retail and proprietary traders slowdown to 54.3% and 10.2%, while the proportion of foreign investors and institutional investors trading rose to 25.3% and 10.2%.

Figure 10: Investors Classified by Type



Source: SET

3.2 Overview of the derivatives market

During 2013, the volume of trading of the Thai Futures Exchange (TFEX) totaled 16.66 million contracts, or a daily average of 68,017 contracts, the highest since the establishment of the exchange, rising by 55.21% from 2012, which the daily average was 43,823 contracts. By underlying product category, the most traded was the Single stock Futures, which constituted 50.5% of the total trading volume, followed by the SET 50 Index Futures and the Gold Futures, which accounted for 34.1% and 13.3% respectively.

Domestic Retail investors were the largest group of derivatives players, representing 55.9% of the total trading, local institutions and foreign investors accounted for 36.7% and 7.4%. As of December 27, 2013, the Thai Futures Exchange had open interest of 340,778 contracts, representing an increase of 42.6% from 2012, and 87,693 derivatives trading accounts.

For the first six months of this year, the trading volume of the derivatives market were 11.35 million contracts, or a daily average of 93,424 contracts, rising 18.8% from the same period of 2013. The open interest jumped to 775,804 contracts. Trading volume gained from the trading of Single Stock Futures and SET50 Index Futures, while trading in Gold Futures slowdown following sentiments in the physical commodity market.

Table 2: Derivative Trading Volume by instruments

Type of Instruments	2008	2009	2010	2011	2012	2013	Jun-Jun 2014
50 Baht Gold Futures	-	311,591	792,960	1,817,483	1,045,370	551,887	124,627
10 Baht Gold Futures	-	-	178,463	2,171,795	2,597,235	1,655,381	620,467
Interest Rate Futures	-	-	41	429	27	-	-
Single Stock Futures	3,838	145,758	969,353	1,578,092	2,168,037	8,415,967	5,878,198
SET50 Index Futures	2,099,098	2,522,465	2,471,302	4,316,437	4,034,460	5,688,404	4,616,550
SET50 Index Options	45,684	95,504	107,317	107,993	54,057	65,409	33,144
Silver Futures	-	-	-	31,567	14,590	1,237	9
Brent Crude Oil Futures	-	-	-	3,320	147,823	46,496	17,435
USD Futures	-	-	-	-	396,138	239,345	63,472
Sector Futures	-	-	-	-	191	-	-
Total Trading Volume (contracts)	2,148,620	3,075,318	4,519,436	10,027,116	10,457,928	16,664,126	11,353,902

Source: TFEX

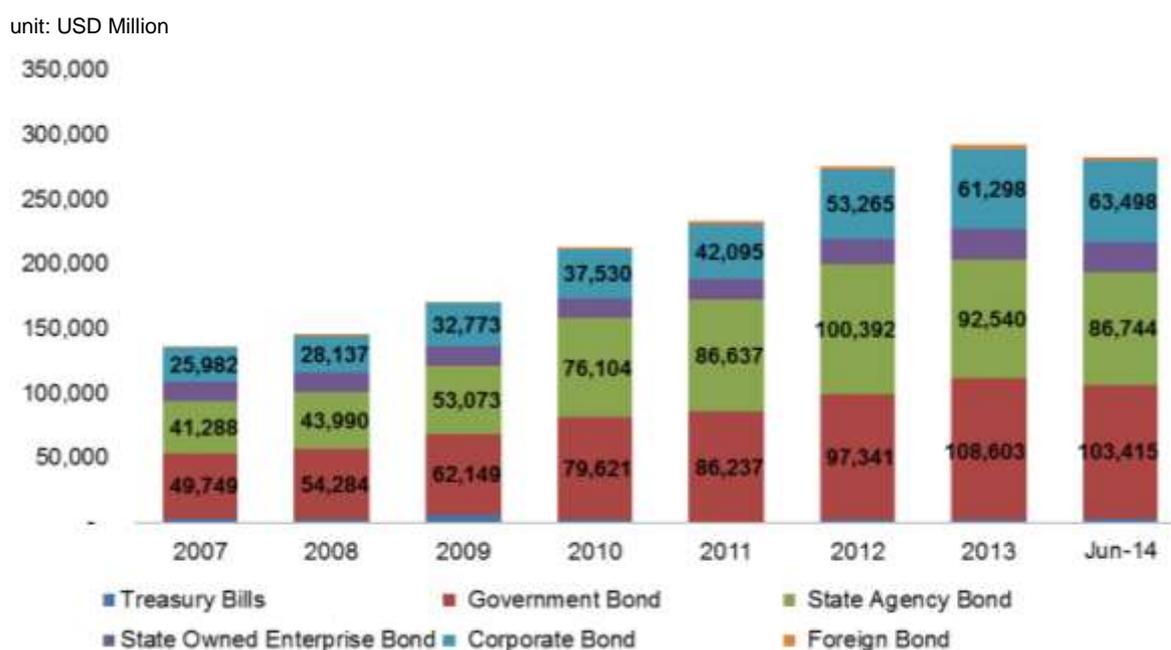
3.3 Overview of the bond market

In 2013, a total of USD 0.28 trillion of bonds was issued, representing a decrease of 15.4% from 2012. As at the end of 2013, the outstanding value of bonds registered with the Thai Bond Market Association was USD 0.29 trillion, increasing from 2012 by 6%. (Figure

11) Outright trading on the secondary market in 2013 totaled USD 0.68 trillion, which represented an increase of 6.8% from the corresponding period of 2012.

During the first half of 2014 a total of USD 0.13 trillion of primary market bonds was issued, decreased by 11.9% from the same period of last year. The outstanding value and outright trading of bonds registered with ThaiBMA was USD 0.28 trillion and USD 0.30 trillion, or an average trading of USD 2,498 million per day.

Figure 11: Bond Outstanding



Source: ThaiBMA

3.4 Capital market developments

Major capital market developments in 2013 – June 2014 can be summarized as follows:

- **The Office of the Securities and Exchange Commission (SEC)**

1) The SEC streamlined the rules governing advertising and sales promotion for all business operators to set the same standards, particularly with regard to characteristics, return payment conditions and the risks involved of the products and services. The revised rules cover securities businesses, derivatives businesses as well as other businesses related to financial products and services. In addition, the business operators are required to comply with the SEC's approved advertising or sales promotion guidelines issued by

securities-related associations; that is, the Association of Thai Securities Companies, and the Association of Investment Management Companies.

2) To be consistent with the relaxation of the Bank of Thailand's regulation, the SEC allowed institutional and retail investors to invest in foreign securities and derivatives, including foreign currency debt instruments issued in the home countries with no limit for each investor. (Within the accumulative credit line US \$ 50 billion allotted to the Office of the SEC by the central bank. Institutional investors may apply for an allotment of US\$ 5 million each time and retail investors US \$ 500,000 each time. Additional requests are allowed.)

3) The SEC required business operators investing in securities or futures contracts as proprietary trading to have in place a management system and a risk management system to manage risks which may arise from such investing. The minimum requirement is to comply with the guidelines prescribed by the Association of Thai Securities Companies and approved by the Office of the SEC.

4) The SEC announced the ASEAN Disclosure Standards jointly with Malaysia and Singapore for convenience of securities issuers wishing to offer securities for sale in several ASEAN countries at the same time.

5) The SEC reached an agreement with Malaysia and Singapore regarding the ASEAN Collective Investment Scheme Framework which will facilitate cross border offering of units of mutual funds approved in the home country to general investors in the member countries through a more convenient and speedier approval process.

▪ **The Stock Exchange of Thailand (SET) and the Thailand Futures Exchange (TFEX)**

1) The SET has expanded the products to be used as underlying assets for derivative warrants (DW) from components of the SET 50 Index to those of the SET 100 Index with a market value of at least USD 0.33 billion to respond to investor needs and shortened the DW listing consideration period to three trading days.

2) The SET shortened the IPO time frame to trade on the exchange within three working days (down from four days) after the subscription date ends. The time shortened was in the capital increase registration time at the Ministry of Commerce; the securities

deposit procedures at broker members for transferring shares to client accounts and accepting common shares as registered securities.

3) The SET resolved to approve revisions to the corporate governance principles to be observed by Thai listed companies to be up-to-date and in line with the ASEAN Corporate Governance Scorecard (ASEAN CG Scorecard). The move was to prepare Thai listed companies for the ASEAN Economic Community (AEC) which will be established in 2015. Companies listed on the bourse are required to follow the revised principle from 2014 onwards.

4) The TFEX modified the size of SET 50 futures to be one – fifth of the existing one, called mini SET 50 Futures. This new size of SET 50 futures will increase liquidity to the product and reduce the capital outlay, as well as enabling more investors to participate. Moreover, The TFEX has expanded the underlying stocks of stock futures to include components of the SET 100 Index, increasing the number of underlying stocks.

5) The TFEX launched new derivatives trading and clearing system, operating smoothly on the same platform as the equities trading's SET CONNECT. With well-proven technology by Cinnober and developed by Korea Exchange, the new systems provide cross-asset class trading efficiently and could support multi-currency and multi-market trading.

▪ **The Association of Thai Securities Companies (ASCO)**

1) In preparation to become a full functioned SRO, ASCO continue to coordinate closely with the regulators in supervising and monitoring business conduct of members. ASCO had issued and reviewed the securities business code of ethics for ASCO members, along with several notifications and guidelines as followed;

- Operation procedure guidelines for securities subscription via investment consultants by a recorded call and via online, as an alternatives to filling in a subscription form.

- Criteria for granting technical analyst licenses and introducing broker agent license

- Criteria and procedures governing proprietary trading

- Criteria for setting the credit line for customers

2) In term of business and operation standard development, ASCO continue to work closely with members in order to develop the various areas of business, such as:

- Set up a working committee to provide information necessary for preparation of an operation handbook for compliance with FATCA

- Conduct an activity to expand the investor base to the provincial areas
- Revise the workflow of overseas investment in response to the relaxation of regulations of the Bank of Thailand
- Appoint several working groups to support business operation of member, e.g. working group on wealth management business model, E-business, bond, and Thai DR

3.5 Securities industry

At the end of June 2014, there were 40 securities companies with brokerage licenses. Of this total, 38 were SET members. As for the derivatives business, 44 companies were licensed as derivatives agents, while 42 companies were members of the Thailand Futures Exchange Plc. (TFEX).

▪ Performance

The total revenue of the securities industry in 2013 was USD 1,630 million, an increase of 42.2% from USD 1,146 million in 2012. Brokerage fees remained the main revenue of the securities business. In 2013, the brokerage revenues from securities trading (equities and derivatives) were USD 1,140 million or 70% of the total revenue, which was almost equivalent to a proportion of 69.3% of total revenue in 2012. (Table 3)

For the first half of 2014, proportion of brokerage revenue from securities trading decrease to 65.2%, followed by interest and dividend and gain on securities trading at 9.0% and 4.3% of total revenue.

Table 3: Revenue of Securities Industry

	2012	2013	1H-2014	
	(USD Million)	(USD Million)	(USD Million)	% of total revenue
Brokerage - Securities	726	1,066	337	60.6%
Brokerage - Derivatives	69	75	25	4.6%
Underwriting	36	53	12	2.2%
Financial Advisory	28	18	9	1.6%
Gains on Trading - Securities	42	-14	24	4.3%
Gains on Trading - Derivatives	30	148	11	1.9%
Interest and Dividend	85	102	50	9.0%
Others	132	183	88	15.7%
Total Revenue	1,146	1,630	557	100.0%

Source: SEC

The expenses of the securities industry in 2013 totaled USD 1,028 million, an increase of 29.9% from USD 791 million in 2012, with the major item being personnel expenses, which, in 2013, totaled USD 576 million, increasing by 32.5% from 2012 (Table 4). Personnel expenses were also the largest expenses for securities companies during the first six months of 2014, accounting for 52.8% of total expenses.

Table 4: Expenses of Securities Industry

	2012	2013	1H-2014	
	(USD Million)	(USD Million)	(USD Million)	% of total expenses
Expenses on Borrowing	45	69	28	6.7%
Fee & Service Expenses	85	115	43	10.4%
Provision for Bad Debt / Doubtful Account	-5	1	0.3	0.1%
Personnel Expenses	435	576	218	52.8%
Premises & Equipment Expenses	109	120	60	14.5%
Other Expenses	123	146	64	15.5%
Total Expenses	791	1,028	413	100.0%

Source: SEC

Despite more challenges from the Liberalization of the licensing regime as well as brokerage commission fees in 2013, the securities industry reported an increase in net profit by 74.7% from USD 272 million in 2012 to USD 476 million. Nevertheless, net profit of securities companies for the first half of 2014 were USD 114 million, decreased 61.7% from the same period of last year, in line with the fall of average daily turnover.

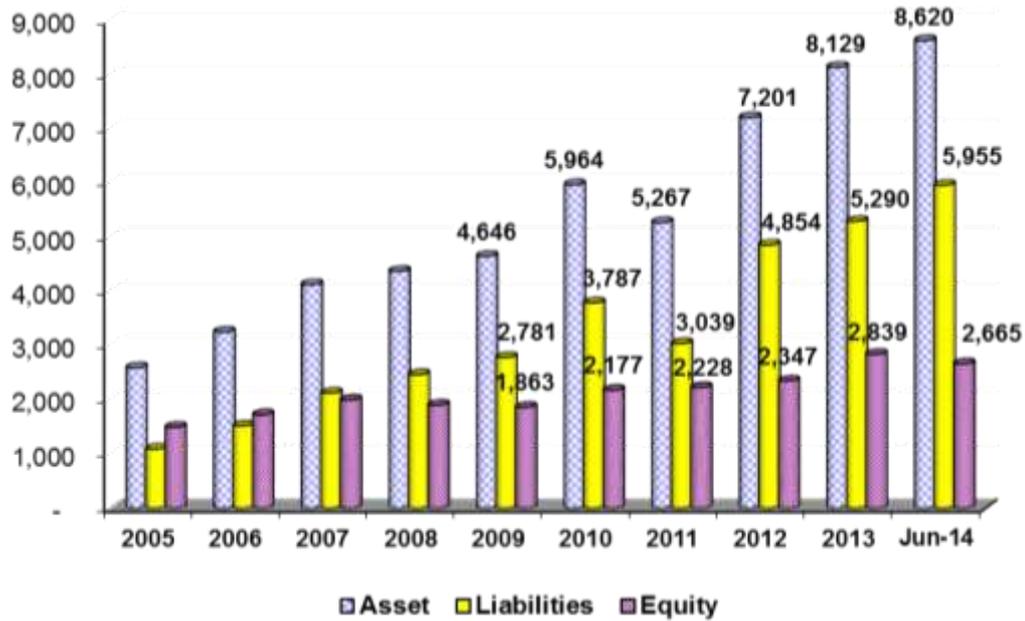
- **Financial position**

The total assets of the securities industry at the end of 2013 stood at USD 8,129 million, an increase of 12.9% from the end of 2012 when the corresponding figure was USD 7,201 million. The sources of funds at the end of 2013 comprised liabilities totaling USD 5,290 million and shareholders' equity of USD 2,839 million (Figure 13).

As of June 2014, total assets of securities companies rose by 6% from the end of 2013 to USD 8,620 million. Meanwhile, liabilities increased by 12.6% to USD 5,955 million and shareholders' equity decreased by 6.1% to USD 2,665 million.

Figure 13: Asset, Liabilities and Equity of Securities Industry

Unit: USD Million



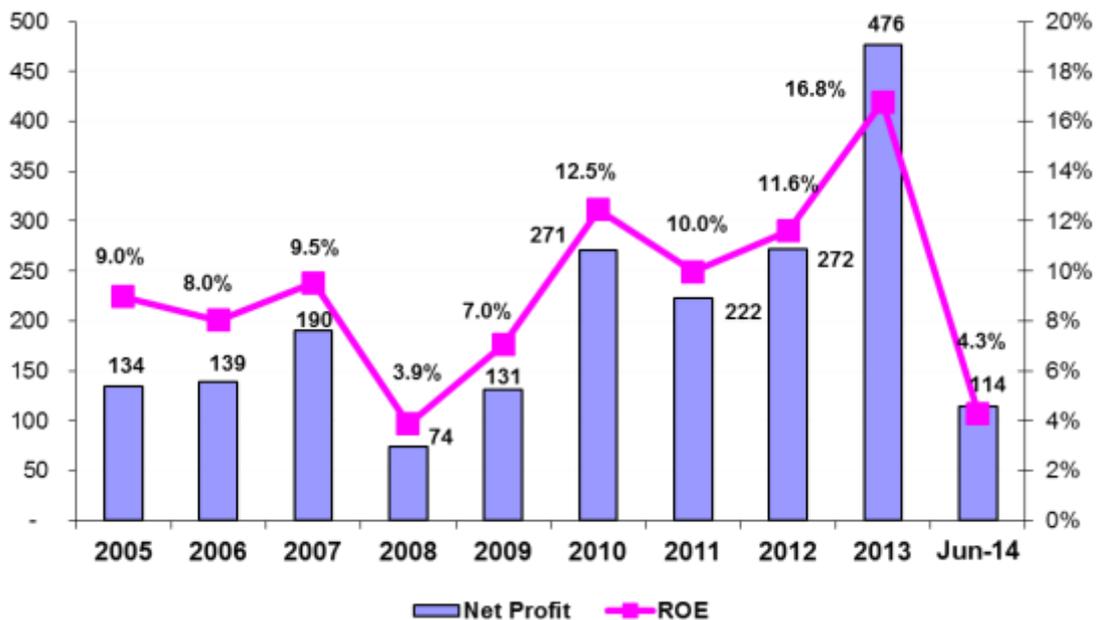
Source: SEC

▪ **Return on Equity**

The ROE of the securities industry in 2013 was 16.77%, increasing from 11.61% in 2012. Net Profit in 2013 was USD 476 million, increasing by 74.7% from 2012. However, dropping net profit at the first half of 2014, the ROE fell to 4.3% (Figure 14).

Figure 14: Net Profit and ROE of Securities Industry

Unit: USD Million



Source: SEC