

THAILAND

Capital Market Report 2012

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

**Prepared for Presentation at
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Review of the Economy, Capital Market and Securities Business in 2012 and the 1st half of 2013

1. Executive Summary

The Thai economy in 2012 grew by 6.5%, an increase from the growth rate of 0.1% of the previous year (Figure 1), due to the recovery of domestic demands resulting from the government sector's economic stimulation measures and investments necessitated by the severe flooding in 2011. Exports grew at a lower rate than that of 2011, which was caused by the impact of the flooding on some export-oriented industries, the weakened foreign demands and the appreciation of Thai Baht. Imports of goods and services also grew at lower rates due to the slowdown of export-oriented production. Private consumption expenditure and private investment were major keys to economic growth, increased by 6.7% and 14.4%, respectively. Headline inflation in 2012 rose from 2011 by 3.0%, while unemployment remained low at 0.5%. For 2013, The National Economic and Social Development Board (NESDB) projects Thai GDP growth to be in a range of 3.8-4.3%, as exports is expected to pick up slowly in tandem with gradual improvements in the global economy.

Despite a number of several external uncertainties last year, the Stock Exchange of Thailand (SET) hit a new 17-year record high of 1,397.19 points on December 27, 2012. Average daily trading turnover reached the top ranking of ASEAN for the first time and the market capitalization set an all-time record high, surpassing the country's GDP for the first time in history. For derivative trading, the trading volume of the Thai Futures Exchange (TFEX) also reached a historic high, supported by rising trading of the SET50 Index Futures and the Single Stock Futures, which rose along with the Stock Exchange.

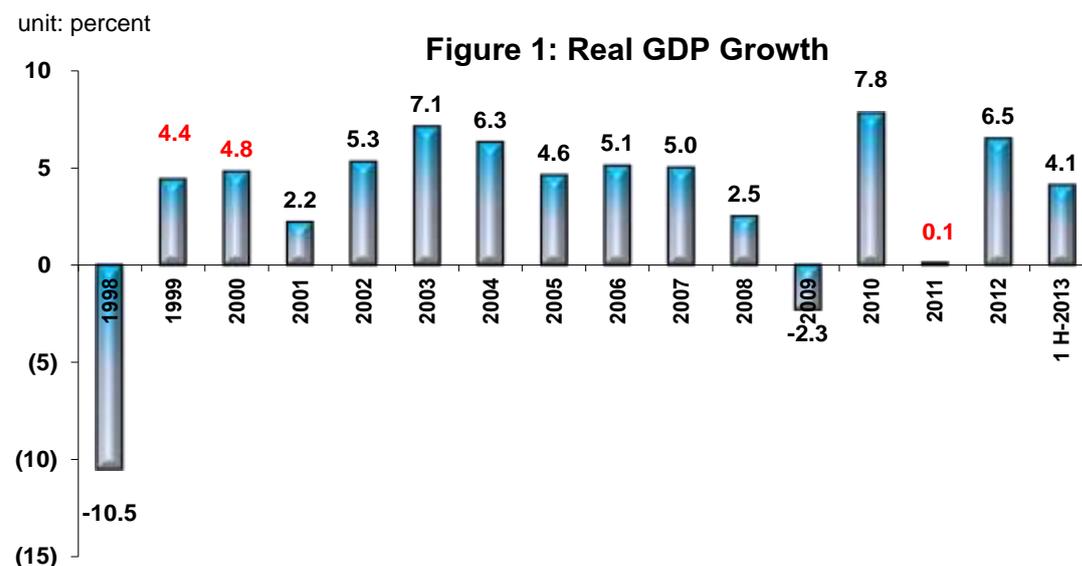
Beginning 1 January 2012, the two significant developments in securities business took effect; the liberalization of the licensing regime and liberalization of brokerage commission fees. Even though commission rates can now be fully negotiated and expected to be driven down further by more intense competition, 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 26.1% from 2011. In preparation for the ASEAN Economic Community (AEC) in 2015, many securities companies started their cross-border securities trading through the ASEAN Exchange Linkage and all integrated their systems with the new trading system, the SET Connect, which operates speedily and can accommodate large volumes of trading expected in the future.

2. The Thai economy

The Thai economy in 2012 grew by 6.5% (Figure 1), compared with just 0.1% in the previous year, boosted by the recovery of domestic demands after severe flooding in 2011. **Private consumption** contributed about half of total GDP growth, increased by 6.7% from 1.3% of the previous year. Consumption was stimulated by favorable employment condition as well as several government stimulus measures such as the nation-wide minimum wage hike to 300 Baht per day, the starting monthly salary of fresh university graduates to 15,000 Baht, the tax rebate to first-time buyers of domestically made cars, as well as the rice pledging schemes aimed at increasing farmers' income. **Private investment** increased at a rate of 14.4%, a marked rise from 7.2% in 2011, driven by the reconstruction of flood-damaged factories, houses, and other infrastructure as well as the replacement of capital equipment.

As regards government spending, the accelerated disbursements towards the end of FY 2012 and in the first quarter of FY 2013 resulted in an increase in **Public consumption** at an increasing rate of 7.5% per year, compared to 1.1% of 2011. **Public investment**, meanwhile, increased at a higher rate of 8.9%, compared to -8.7% of the previous year due to acceleration of disbursements of government capital budgets by the central and local administrations.

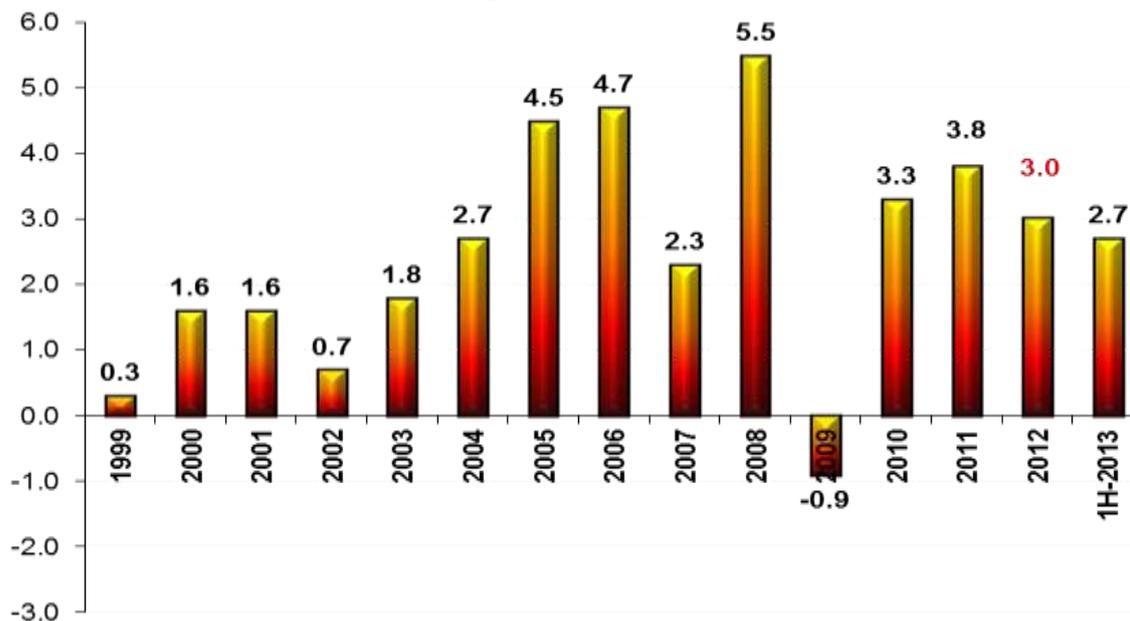
Nevertheless, external demand weakened last year. **Exports** grew at a lower rate than that of 2011, dropping from 14.3% to 3.2%, due to the weakened foreign demands in major markets and disruption to export-oriented manufacturing caused by the floods. **Imports** of goods and services also grew at lower rates from 24.9% to 7.8%, due to the slowdown of export-oriented production.



In terms of **domestic economic stability**, headline inflation in 2012 rose from 2011 by 3.0% (Figure 2) (Headline inflation in 2011 was 3.81% higher than 2010). This increase at a decreasing rate was due to the slowdown of raw food prices, particularly the meat, poultry and fishery products. Unemployment improved to 0.5% of the total labor force, in line with the economic conditions. For **external stability**, the current account surplus in 2012 dropped significantly from the previous year to USD 0.2 billion, or 0.5% of the GDP (Figure 3), due to the reduced amount of trade balance surplus (Figure 4).

unit : percent

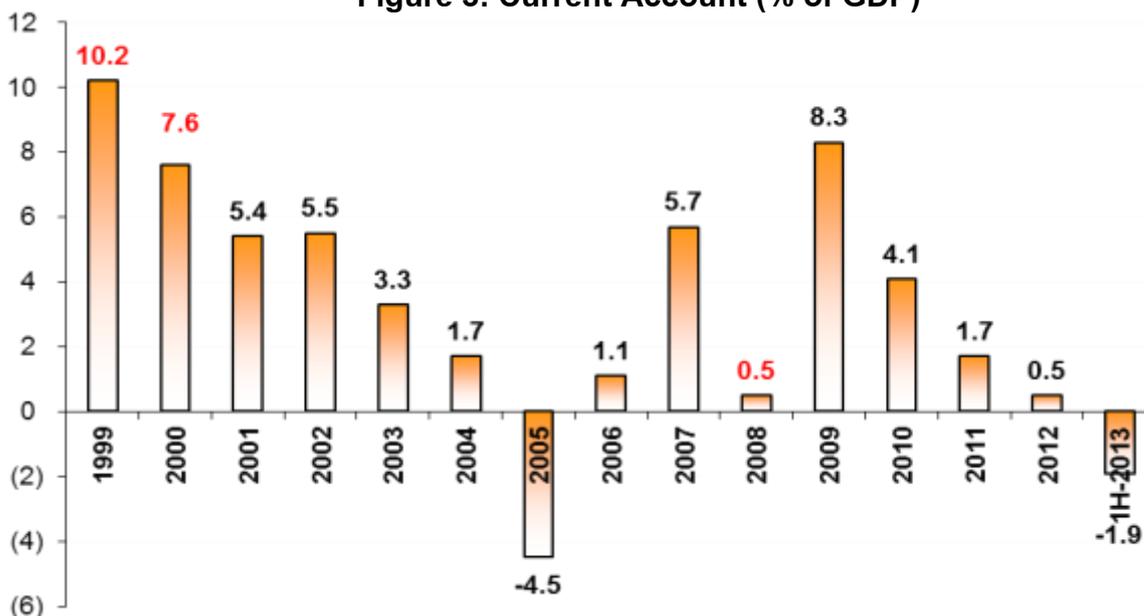
Figure 2: Headline Inflation



Source: NESDB

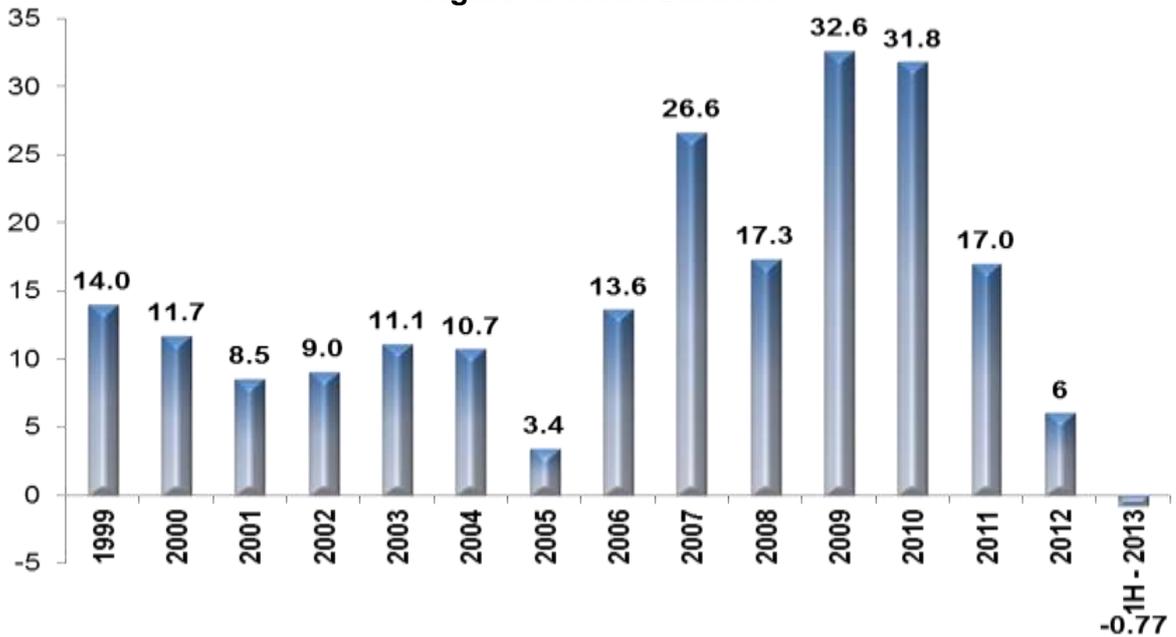
unit : percent

Figure 3: Current Account (% of GDP)



unit : US\$ billion

Figure 4: Trade Balance



Source: NESDB

The Thai economy expanded by 2.8% in the second quarter of this year, decelerated from 5.4% in the previous quarter, as a result of high base effect, a contraction in exports due to unfavorable global economic condition and the appreciation of Thai Baht, as well as a slowdown in domestic demand. As a result, the economy in the first half of 2013, expanded at a rate of 4.1%.

For 2013, Thai economy is expected to grow within the range of 3.8 – 4.3%. Exports are expected to expand by 7.4% this year as a result of a gradual recovery of global economy. Private and public consumption is projected to grow by 2.5 and 3.6%, respectively, while public investment is expected to grow by 13.8% due to accelerating government budget disbursement and the implementation of the investment projects under the royal decree on investment loan for water resource management and future development and financial bill for transport infrastructure development plan.

In the first half of 2013, headline inflation was at 2.7% and core inflation (excluding fresh food and energy) was at 1.2%. For 2013, Inflation is forecasted at 2.3 – 2.8%. Lower inflationary pressure is mainly caused by the projection of a slowdown in domestic demand and export and import prices. The current account surplus is expected to trim to 0.3% of GDP, or USD1.2 billion as trade balance is likely to register a smaller surplus of USD5.5 billion.

Table 1: Major Economic indicators

	2009	2010	2011	2012	2013f
GDP growth (%)	-2.3	7.8	0.1	6.5	3.8 - 4.3
Investment (%)	-9.2	9.4	3.3	13.2	6.0
<i>Private(%)</i>	-13.1	13.8	7.2	14.4	4.0
<i>Public(%)</i>	2.7	-2.2	-8.7	8.9	13.8
Consumption(%)	0.1	4.8	1.3	6.8	2.6
<i>Private(%)</i>	-1.1	4.8	1.3	6.7	2.5
<i>Public(%)</i>	7.5	6.4	1.1	7.5	3.6
Export volume of goods & services (%)	-12.5	14.7	9.5	3.1	7.4
<i>Export value of goods (%)</i>	-14.0	28.4	14.3	3.2	5.0
Import volume of goods & services (%)	-21.5	21.5	13.7	6.2	7.2
<i>Import value of goods (%)</i>	-25.2	37.0	24.9	7.8	6.5
Trade balance (Bil. USD)	32.6	31.8	17.0	6.0	5.5
Current Account balance (Bil. USD)	21.9	13.2	5.9	0.2	1.2
Current Account to GDP (%)	8.3	4.1	1.7	0.5	0.3
CPI (%)	-0.9	3.3	3.8	3.0	2.3 - 2.8

f = forecast

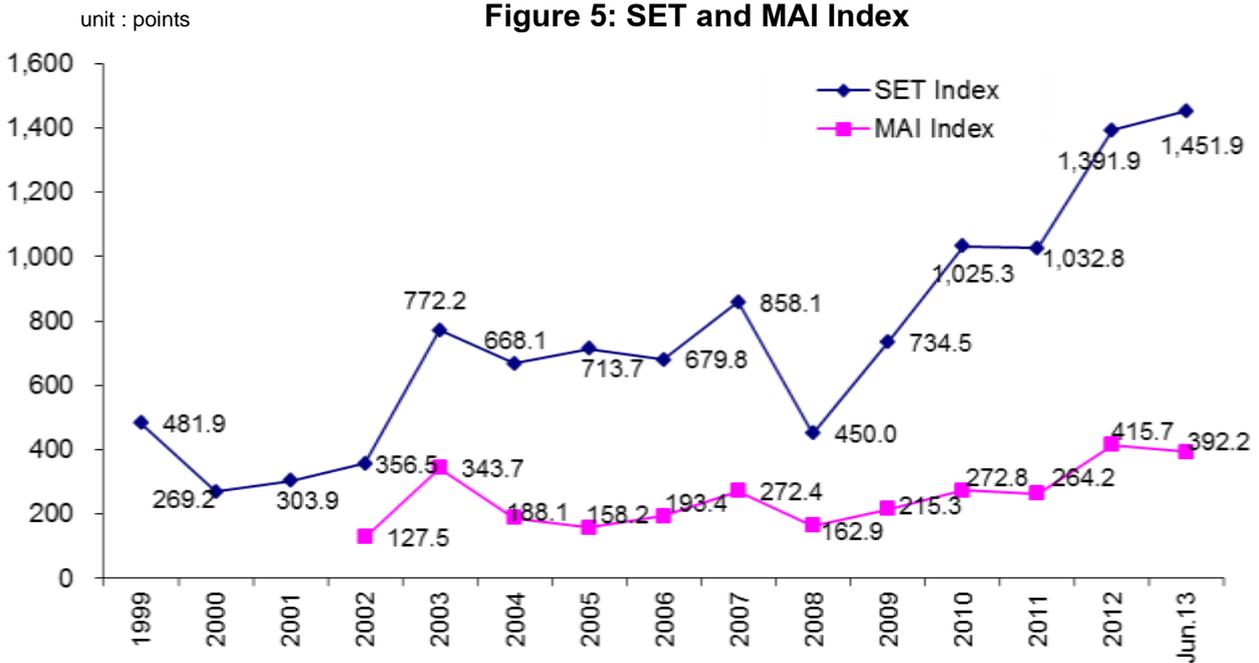
Source: NESDB

3. Thai Capital market in 2012 and 1st half of 2013

3.1 Overview of the Stock Market

As at the end of 2012, **the SET index** closed at 1,391.93 points, rallied 35.8% from the end of 2011 (Figure 5), the highest increase in Asia and the record level in 16 years and 10 months. The increase was attributed to the buying by foreign investors resulting from the higher financial liquidity in the global capital market and domestic economic recovery. The lowest point of the index was at 1,036.21 points in January and the highest point at 1,397.19 points in December. **The MAI index** closed at 415.68 points, increasing from the end of 2011 by 57.3%.

The SET Index at the end of June 2013 finished slightly higher at 1,451.90 points, increased 4.3% from the end of last year, as investors became more cautious due to expectation about the end of the Fed's Quantitative Easing policy. Nevertheless, the MAI index finished at 392.21 points, 5.6% lower from the end of 2012.



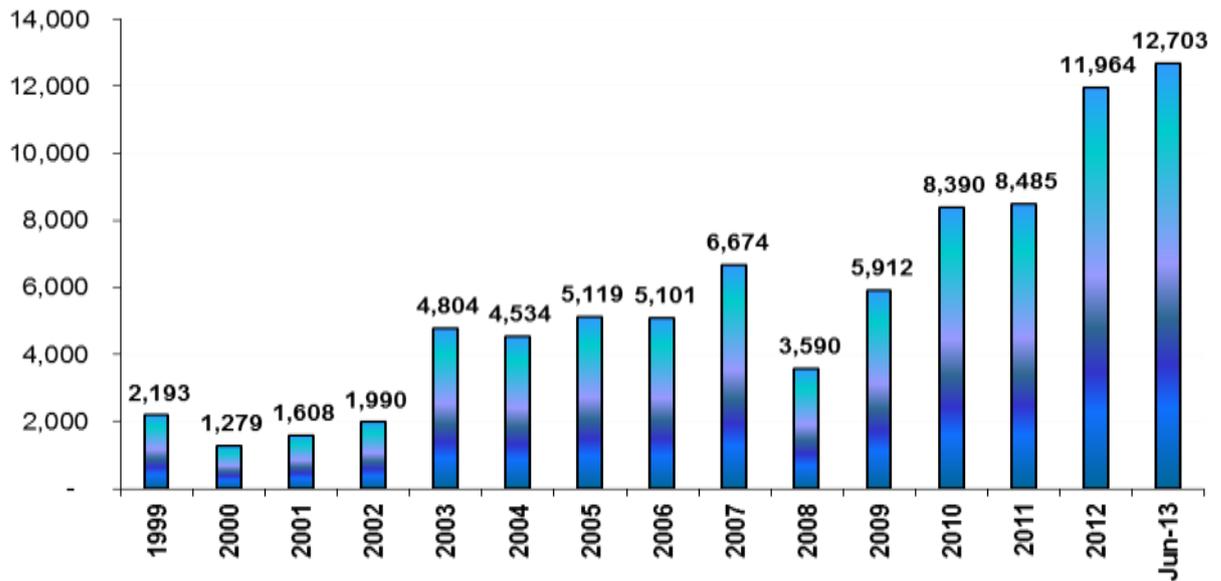
Source: SET

Market capitalization of SET and MAI combined at the end of 2012 totaled THB11,964 billion (Figure 6) - the highest since the establishment of the exchanges – rising by 41.0% from the end of 2011, in line with the rising trend of the indexes. At the end of June 2013, the Market capitalization rose to THB12,703 billion following the rise of the SET Index.

The total numbers of listed companies in the SET at the end of 2012 and at the end of June 2013 were at 477 and 482, rose from 472 companies in 2011. For the MAI, the number of MAI listed companies at the end of 2012 and June 2013 stood at 81 and 87, increased from 73 companies in 2011. As a result, total number of listed companies in the SET and the MAI were at 558 and 569 at the end of last year and June 2013 (Figure 7).

unit : Billion Bt.

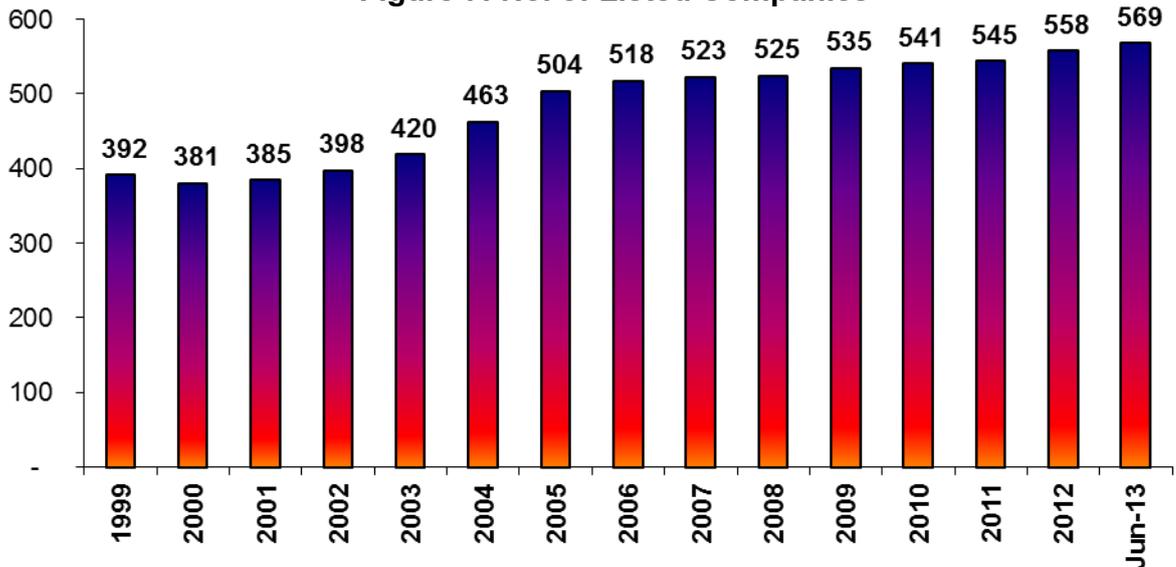
Figure 6: Market Capitalization



Source: SET

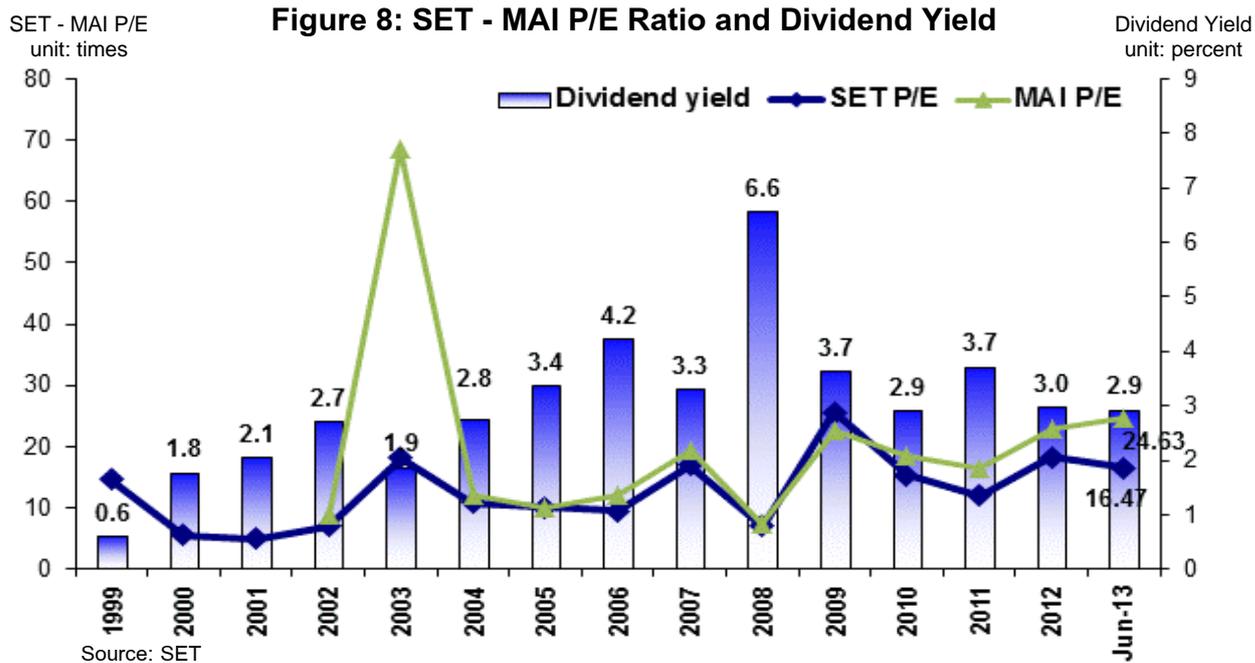
unit : companies

Figure 7: No. of Listed Companies



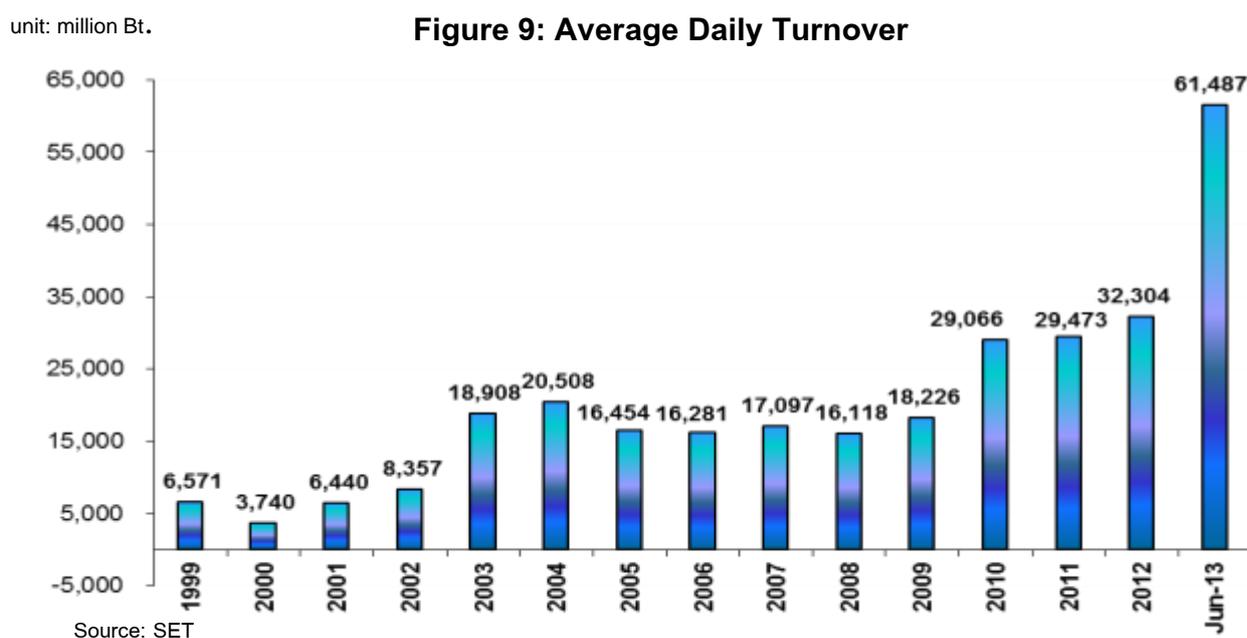
Source: SET

The P/E ratio of the SET at the end of 2012 rose from 12.07 times in 2011 to 18.25 times, but fell to 16.47 times at the end of June this year. The MAI P/E ratio increased from 16.4 times at the end of 2011 to 22.8 times (Figure 8) at the end of last year, and then rose again to 24.63 times at the end of June 2013. Meanwhile, the dividend yield of the Thai bourse fell from 3.7% to 3.0% at the end of 2012, and decreased slightly to 2.9% at the end of June 2013.



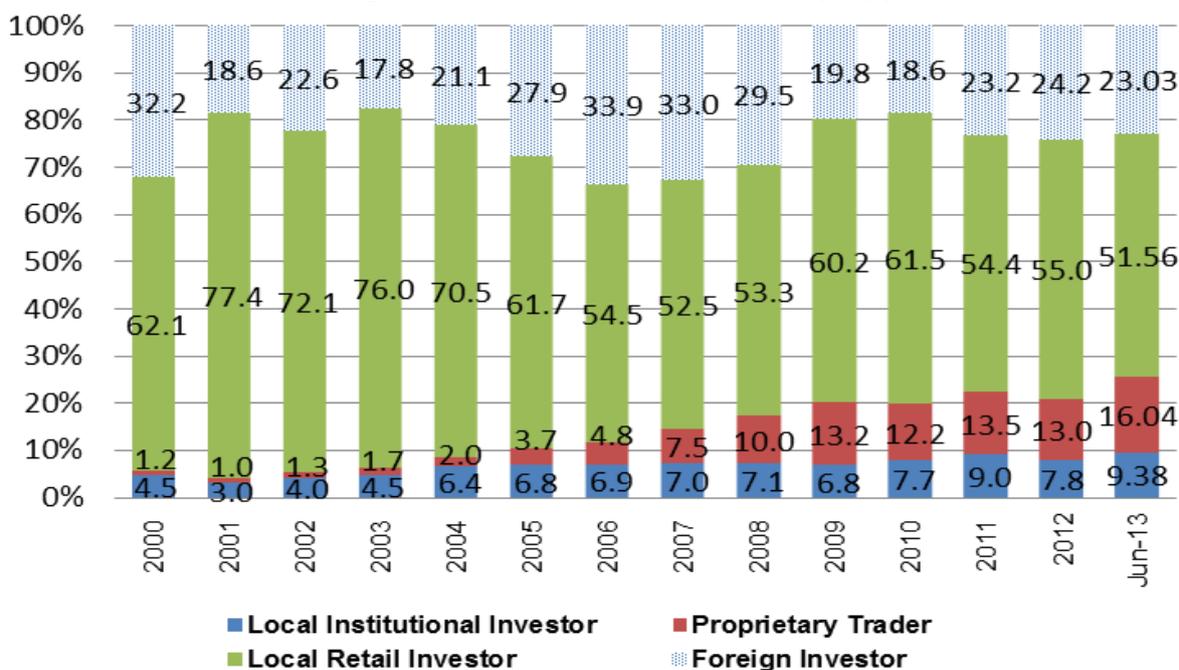
The liquidity of SET and MAI were high compared with that of other stock markets in the region. In 2012, the combined turnover of the SET and the MAI totaled THB7,915 billion, rising from 2011 by 10.1%. The average daily turnover was record high at 32,304.36 million Baht in 2012, increasing by 9.6% from 2011. (Figure 9) .

During the first six months of this year, trading volumes of the SET and MAI totaled THB7,439 billion with the average daily turnover surged to THB61,487 million.



In 2012, 55.0% of **the total turnover** came from retail investors, from 54.4% in 2011 while proportion of foreign investors increased to 24.2% from 23.2%, proprietary traders and local institutional traders had a share of 13.0% and 7.8%, respectively (Figure 10). As of June 2013, the proportion of trading by retail and foreign investors slowdown to 51.6% and 23.0%, while the proportion of proprietary traders and institutional investors trading rose to 16.0% and 9.3%.

Figure 10: Investors Classified by Type



Source: SET

3.2 Overview of the derivatives market

During 2012, the volume of trading of the Thai Futures Exchange (TFEX) totaled 10.45 million contracts, or a daily average of 43,823 contracts, rising by 6.5% from 2011, which the daily average was 41,145 contracts. The main reason was the trading of the SET50 Index Futures and the Single Stock Futures, which rose along with the Stock Exchange. By underlying product category, the most traded was the SET50 Index Futures, which constituted 37.6% of the total trading volume, followed by the Gold Futures, the Single Stock Futures and the USD Futures, which accounted for 33.9%, 20.2% and 6.3%, respectively.

Domestic Retail investors were the largest group of derivatives players, representing 53.4% of the total trading, local institutions and foreign investors accounted for 38.9% and 7.7%.

As of December 28, 2012, the Thai Futures Exchange had open interest of 238,981 contracts, representing a huge increase of 323.3% from 2011, and 80,893 derivatives trading accounts. In terms of new products, the TFEX launched USD Futures, to be used as a risk management tool for entrepreneurs in June, and Sector Futures, tracking the movement of five major sectorial indices in October, with daily average trading volume at 2,751 contracts and 4 contracts, respectively. Moreover, the TFEX had modified three existing products-SET50 Futures, with two nearest monthly contracts added; SET50 Options, with shortened contract dates and an increased strike price interval (from 10 points to 25 points); and stock futures, with a revised settlement price calculation method that now uses volume weighted average prices, in order to provide more investment choices for investors.

For the first six months of this year, the trading volume of the derivatives market were 9.51million contracts, or a daily average of 78,656 contracts, rising 95.4% from the same period of 2012. The open interest jumped to 178,595 contracts. Trading volume gained from the trading of Single Stock Futures and SET50Index 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	Jan - Jun.2013
50 Baht Gold Futures	-	311,591	792,960	1,817,483	1,045,370	391,587
10 Baht Gold Futures	-	-	178,463	2,171,795	2,597,235	998,049
Interest Rate Futures	-	-	41	429	27	-
Single Stock Futures	3,838	145,758	969,353	1,578,092	2,168,037	4,930,768
SET50 Index Futures	2,099,098	2,522,465	2,471,302	4,316,437	4,034,460	2,979,816
SET50 Index Options	45,684	95,504	107,317	107,993	54,057	36,426
Silver Futures	-	-	-	31,567	14,590	1,182
Brent Crude Oil Futures	-	-	-	3,320	147,823	31,684
USD Futures	-	-	-	-	396,138	147,864
Sector Futures	-	-	-	-	191	-
Total Trading Volume (contracts)	2,148,620	3,075,318	4,519,436	10,027,116	10,457,928	9,517,376

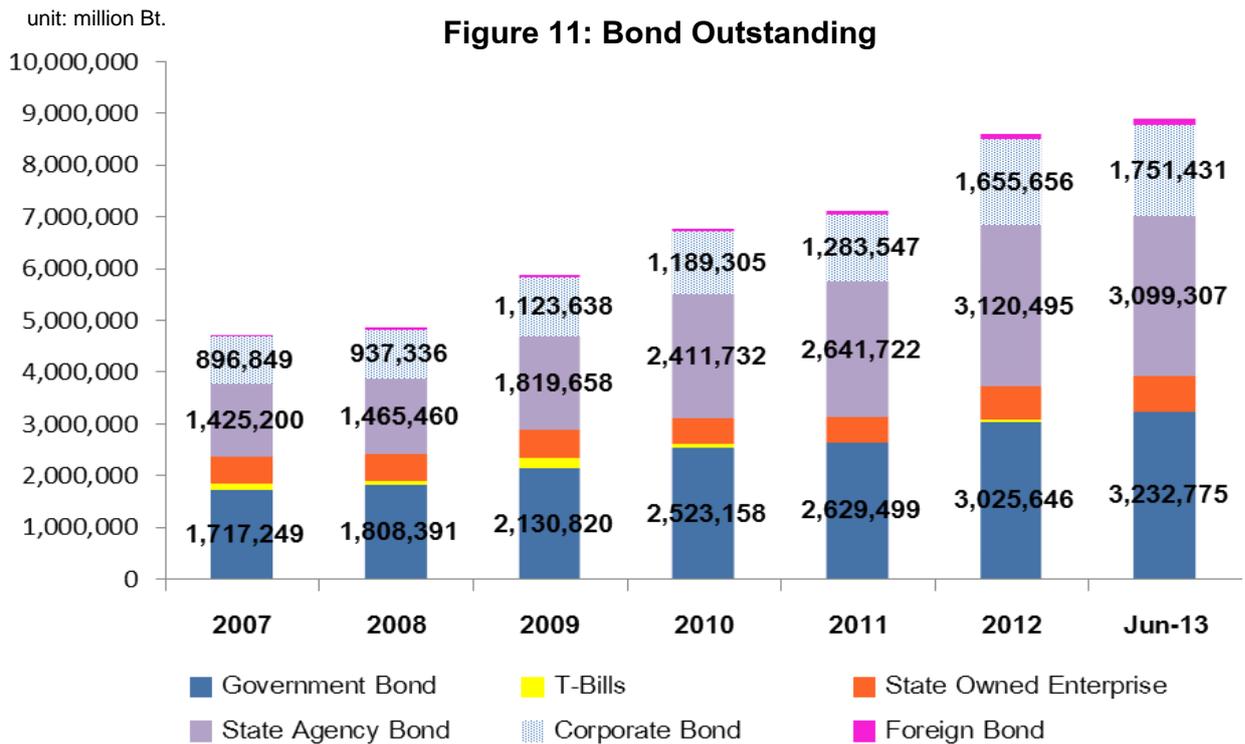
Source: TFEX

3.3 Overview of the bond market

In 2012, a total of 10.36 trillion Baht of domestic bonds was issued, representing a decrease of 18.4% from 2011, due to the decreases of state enterprise and foreign bonds. The outstanding value of Thai bonds increased. As at the end of 2012, the outstanding value of bonds registered with the Thai Bond Market Association was 8.58 trillion Baht, increasing from 2011 by 17.1%.

Outright trading on the secondary market in 2012 totaled 19.8 trillion Baht, or an average of 80,711 million Baht per day, which represented an increase of 12% from the corresponding period of 2011.

During the first half of 2013 a total of THB4.5 trillion of primary market bonds was issued, decreased by 18% from the same period of last year. The outstanding value and outright trading of bonds registered with ThaiBMA was THB8.87 trillion and THB11.95 trillion, or an average trading of THB98,781 million per day.



Source: ThaiBMA

3.4 Capital market developments

Major capital market developments in 2012 – June 2013 can be summarized as follows:

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

1) Starting from January 2012, the two significant developments in securities business took effect;

- Liberalization of the licensing regime - before this year, newly established companies were prohibited from applying for a securities business license. Now, these companies are free to apply for a number of different licenses to operate in the industry. Moreover, existing securities companies will be given opportunities to make appropriate adjustments to their business structures. For example, the securities companies will be able to exercise their own judgments whether to operate every type of securities businesses within one entity or among separate subsidiaries depending on types of products or groups of customers.

- Liberalization of brokerage commission fees - the commission rate is expected to be driven down further by more intense competition.

2) As the lead of ASEAN Capital Markets Forum (ACMF)'s Working Group on Cross-border Offering of CIS (collective investment schemes) and Debt Securities, the SEC coordinated with ASEAN countries to promote cross-border offerings of securities in the ASEAN region. For instance, CIS permitted to be issued and offered to retail investors in a home country should be allowed for public offering in other ASEAN countries on the expedited basis; meanwhile, multijurisdictional offerings of securities can be done in compliance with the ASEAN Disclosure Standards.

3) The SEC approved revision on regulations to allow retail investor to make overseas investment in derivatives traded on foreign derivatives exchange without limiting investment objective, providing that the investment must be made through securities company. The service provider, therefore, is required to comply with rules and practices prescribed by the Association of Securities Companies with the SEC approval.

4) The SEC approved the regulation on listing rule that allowed the SET to use market capitalization of common shares worth more than THB5 billion as a criterion even without record of past operating performance in the early state of operation.

5) Adjustment of the criteria for initial public offering of shares of public companies limited which are holding companies, requiring such holding companies to hold more than 50% of shares with voting right of the subsidiaries operating the core business (whether incorporated domestically or overseas), compared to the 75% original requirement.

6) The SEC launched the regulations on establishment and management of infrastructure funds that can help reduce state budgetary and public debt burden while promoting roles of the private sector in operating and/or investing in the state-owned megaprojects in corresponding with the government policy. The SEC also approved the SET requirements on acceptance of investment units of infrastructure funds to be listed on the exchange to boost the fund's liquidity.

7) The SEC have approved regulations on establishment and management of Real Estate Investment Trust (REITs) to offer a new investment alternative, develop fund raising framework and investment in real estate to be in line with international practice and facilitate more flexibility for investment in real estate.

8) An AI (Accredited Investor) regime was established to provide fund raisers with more alternatives for their instrument issuance and to allow investors with appropriate risk profiles to have more investment choices. The products allowed to be offered for sale to AI's are unrated bonds and AI funds.

- **The Stock Exchange of Thailand (SET)**

1) The SET launched a new trading system – SET Connect – on September 3, 2012. Its strength lies in the capacity which can accommodate the expected market and business growth, in both trading volume and value. It can also support new financial products in a speedier manner and is capable of handling multi-currency trading through the “FIX Protocol” which allows more convenient linkage with other securities markets.

2) The SET announced its linkage with the Bursa Malaysia and Singapore Stock Exchange through the ASEAN Trading Link on October 15, 2012, allowing a single access point for investors. In addition, the stock exchanges in seven ASEAN countries announced the launch of an upgraded website www.aseanexchanges.org, where information related to ASEAN stock exchanges, share prices and analyses are consolidated at one place.

3) The SET introduced the Operations Master Plan (2012 – 2016) in order to strengthen its operations, covering trading operations, depository, registrar, and clearing and settlement services. In addition, the SET had signed agreement with the Korea Exchange (KRX) to develop clearing and settlement system for equities, derivatives, and fixed-income products traded on SET and TFEEX. The clearing system for derivatives market will be rolled out first in the fourth quarter of 2013, followed by that for securities and fixed-income products in the fourth quarter of 2014.

4) The SET and 16 financial institutions jointly signed an agreement to employ the service of the Thai Depository Portal, a system for electronic transmission of securities information and notifications of register book closing for interest and dividend payment

between financial institutions (acting as bond and fund registrars) and the TSD. It was developed for servicing bonds and funds kept in scripless form, based on straight-through processing (STP) for immediate transmission after the data entry.

5) A Derivatives Investor Protection Fund (DIPF) was established to protect Thai retail investors investing in the TFEX via a broker in cases where their assets are not returned to them in accordance with their right.

6) The TFEX had launched new products - USD Futures and Sector Futures in June and October, as well as modified three existing products- SET50 Futures, SET50 Options and Single stock futures to match the investor needs.

- **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 the securities business code of ethics for ASCO members, along with several notifications and guidelines as followed;

- Guidelines for paying compensation to investment consultants, branch managers and marketing team leaders, as well as the payment of Royalty Bonus.
- Guidelines for organizing sales promotion activities
- Guideline for investment in oversea securities and foreign bond
- Criteria for maintenance and improvement of the quality of securities analysts and securities analyses as guidelines for service quality maintenance.
- Staff dealing rules for member companies to use for prevention of insider trading and conflict of interest arising from employees' performance of their duties.

3.5 Securities industry

At the end of June 2013, 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 (all of the precious metal related agents had already granted full license from the SEC), while 41 companies were members of the Thailand Futures Exchange Plc (TFEX).

- **Performance**

The total revenue of the securities industry in 2012 was THB35,636 million, an increase of 6.58 % from THB33,435 million in 2011. Brokerage fees remained the main revenue of the securities business. In 2012, the brokerage revenues from securities trading (equities and derivatives) were THB24,700 million or 69.3% of the total revenue, which was lower than a proportion of 73.9 % of total revenue in 2011.

For the first half of 2013, proportion of brokerage revenue from securities trading slightly increase to 69.9%, followed by gains on securities trading and interest and dividend at 6.3% and 5.5% of total revenue (Table 3).

Table 3: Revenue of Securities Industry

	2011	2012	1H-2013	
	(mil. Baht)	(mil. Baht)	(mil. Baht)	% of total revenue
Brokerage – Equity	21,883	22,570	20,349	69.9%
Brokerage - Derivatives	2,818	2,130	1,287	4.4%
Underwriting	338	1,118	884	3.0%
Financial Advisory	977	855	224	0.8%
Gains on Equity Trading	-1,011	1,300	835	2.9%
Gains on Derivatives Trading	2,738	934	980	3.4%
Interest and Dividend	2,502	2,640	1,607	5.5%
Others	3,191	4,090	2,932	10.1%
Total Revenue	33,435	35,636	29,098	100.0%

Source: SEC

The expenses of the securities industry in 2012 totaled THB24,600 million, an increase of 4.65% from THB23,508 million in 2011, with the major item being personnel expenses, which, in 2012, totaled THB13,507 million, increasing by 1.76% from 2011 (Table 4). Personnel expenses were also the largest expenses for securities companies during the first six months of 2013, accounting for 58.4% of total expenses.

Table 4: Expenses of Securities Industry

	2011 (mil. Baht)	2012 (mil. Baht)	1H-2013	
			(mil. Baht)	% of total expenses
Expenses on Borrowing	1,053	1,390	1,108	6.3%
Fee & Services Expenses	2,510	2,657	2,008	11.5%
Provision for Bad Debts & Doubtful A/C	65	-170	-19	-0.1%
Personnel Expenses	13,273	13,507	10,218	58.4%
Premises & Equipment Expenses	3,137	3,382	1,803	10.3%
Other Expenses	3,469	3,835	2,376	13.6%
Total Expenses	23,508	24,600	17,494	100.0%

Source: SEC

Despite more challenges from the Liberalization of the licensing regime as well as brokerage commission fees in 2012, the securities industry reported an increase in net profit by 26.1% from THB6,720 million in 2011 to THB8,470 million. For the first half of 2013, net profit of securities companies were THB9,164 million, increased 148.5% from the same period of last year.

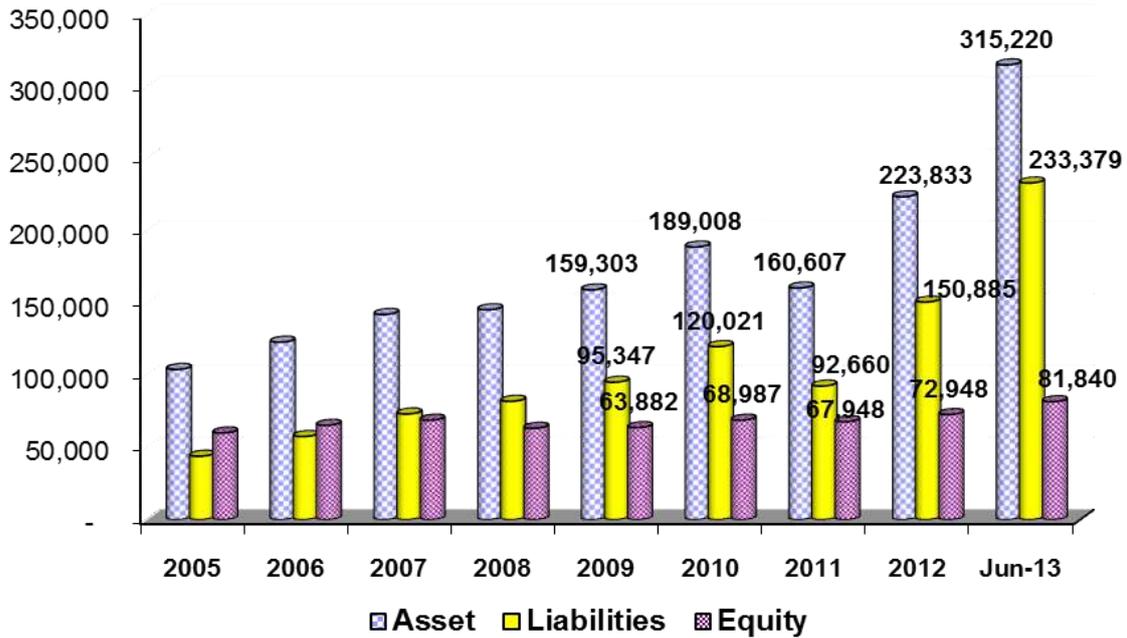
- **Financial position**

The total assets of the securities industry at the end of 2011 stood at THB160,607 million, a decrease of 15% from the end of 2010 when the corresponding figure was THB189,008 million. The sources of funds at the end of 2011 comprised liabilities totaling THB92,660 million and shareholders' equity of THB67,948 million (Figure 13).

As of June 2012, total assets of securities companies rose by 25.7% from the end of 2011 to THB201,961 million. Meanwhile, liabilities surged by 43.5% to THB132,990 million and shareholders' equity increased slightly by 1.5% to THB68,971 million.

Figure13: Asset, Liabilities and Equity of Securities Industry

Unit: million Baht



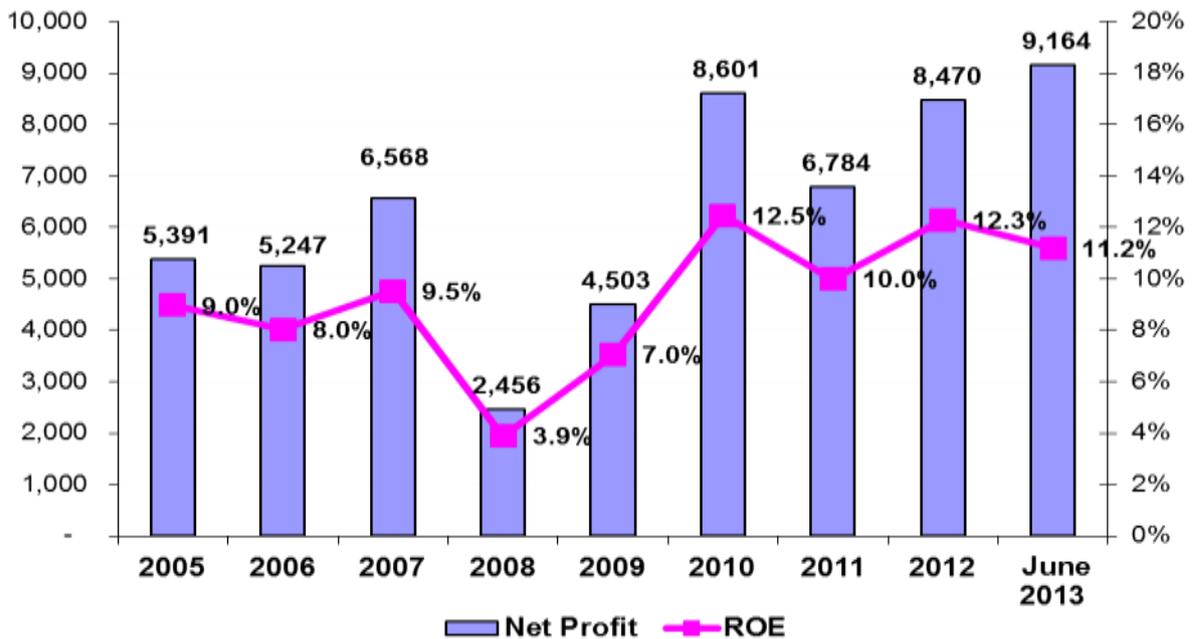
Source: SEC

- **Return on Equity**

The ROE of the securities industry in 2012 was 12.3%, increasing from 10.0% in 2011. Despite, rising net profit at the first half of 2013, the ROE fell to 11.2% (Figure 14).

Figure 14: Net Profit and ROE of Securities Industry

Unit: million Baht



Source: SEC