

# Member Reports

## Thailand

2010 Asia Securities Forum  
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Beijing, China





# **Thailand Capital Market Report 2009**

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

**Prepared for Presentation at  
The 15<sup>th</sup> Asia Securities Forum  
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Beijing, China**



## Acronyms and Abbreviations

<b>ASCO</b>	Association of Securities Companies
<b>BOT</b>	Bank of Thailand
<b>IOSCO</b>	International Organization of Securities Commissions
<b>MAI</b>	Market for Alternative Investment
<b>Repo</b>	Repurchase Agreement
<b>SBL</b>	Securities Borrowing and Lending
<b>SEC</b>	Securities and Exchange Commission
<b>SET</b>	Stock Exchange of Thailand
<b>TFEX</b>	Thailand Futures Exchange Public Co., Ltd.
<b>ThaiBMA</b>	Thai Bond Market Association
<b>VAT</b>	Value Added Tax
<b>WFE</b>	World Federal of Exchanges



## Review of the Economy, Capital Market and Securities Business in 2009

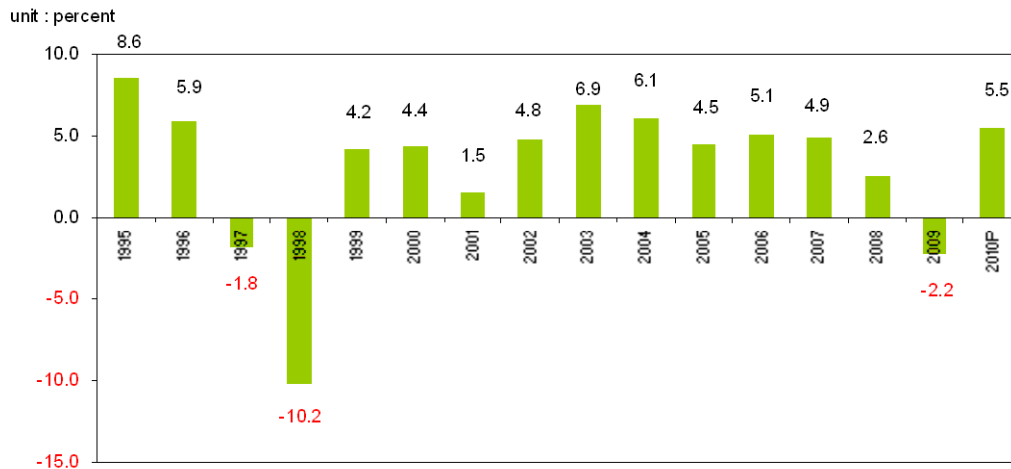
### The Thai economy

#### Economic growth

The Thai economy in 2009 saw a negative growth of -2.2%. The severe recession in the first three quarters resulted from the global economic crisis. The economy, however, returned to positive growth in the last quarter, mainly because of the accelerated government spending, as reflected by the government consumption which rose to 7.6%, from 4.6% of the previous year. Government investment returned to positive growth at a rate of 2.6%, increasing from the negative growth rate of -4.6% in the previous year. Besides, the faster-than-expected recovery of the economies of Thailand's major trading partners helped turn the volume of exports of goods and services in the last quarter to positive. Consequently, the decrease of the volume of exports of goods and services of the whole 2009 was -13.0%, smaller than earlier expected. The volume of imports of goods and services, meanwhile, shrank by -21.5% due to slow recovery of private spending, coupled with political instability and suspension of the Map Ta Phut investment projects. As a result, private investment in 2009 decreased by -12.7% and private consumption by -1.3%.

The Thai Economy in 2010 is expected to expand better within a range of 5.0-6.0%. The positive factors are attributed to the high economic growth of 12.0% per year during the first quarter of the year, coupled with the faster-than-expected recovery of the global economy, especially those in the Asian region. This leads to the rebound of growth of export volume of goods and services being projected within a range of 11.4-12.4%. Domestic spending, in addition, continues to recover. Private investment is projected to grow at a positive rate within a range of 11.4-12.4%, supported by higher purchase orders in the time of high capital utilization rate, especially in export-oriented industry such as motor vehicles, electronic parts, and electrical appliances. To be more specific, public capital expenditure under the "Stronger Thailand 2012" project would help public investment grow at the rate of 5.1% per year. In spite of the bright prospect of full recovery, the Thai economy still faces risks from public debt crisis in Europe that could dampen down the global economic recovery. This could play significant role to Thailand, given the high export dependence. On the domestic side, political uncertainty and drought could hinder the revival of private spending. As a result, it is still necessary for the public sector to revive and strengthen domestic spending to mitigate external risks, and to create the balance of the engine for economic growth from both domestic and external forces.

## Real GDP Growth



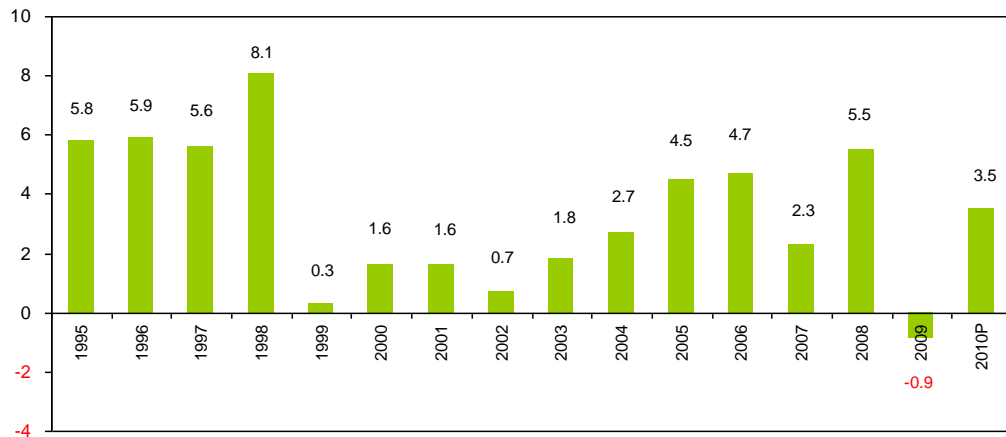
### Economic stability

As an indicator of domestic economic stability, the inflation rate in 2009 fell from 2008 to -0.9% per year due to the significant drop of oil prices from the 2008 levels and the five six-month measures of the government to lower the people's costs of living. In addition, unemployment returned to the normal rate of 1.6% of the labor force following the increase in employment induced by economic recovery in the second half of the year. For external stability, the country's current account surplus went up to 7.7% of GDP, as a result of the huge USD 19.4 billion surplus in the balance of trade as the value of imports decreased more than that of exports. In 2009, the value of imports dropped from a high base in the previous year by -24.9% per year while exports shrank by -13.9% per year.

Internal economic stability is expected to improve, with headline inflation in 2010 rises to 3.5% per year. This is due to global oil and agriculture prices which are expected to rise following the global economic recovery. Unemployment rate is expected to revert to the normal rate of 1.2% of total labor force. As for external stability, current account in 2010 is projected to record smaller surplus of USD 8.3 billion, or approximately 2.7% of GDP, due mainly to the higher growth of import value relative to export value. Import value is forecasted to grow at 36.6% per year or within a range of 35.0-38.2% per year from the fast domestic spending and import price in the global market. Meanwhile, export value is projected to expand at 22.5% per year or within a range of 21.5-23.5% per year, due to the revival of export volume and higher export price.

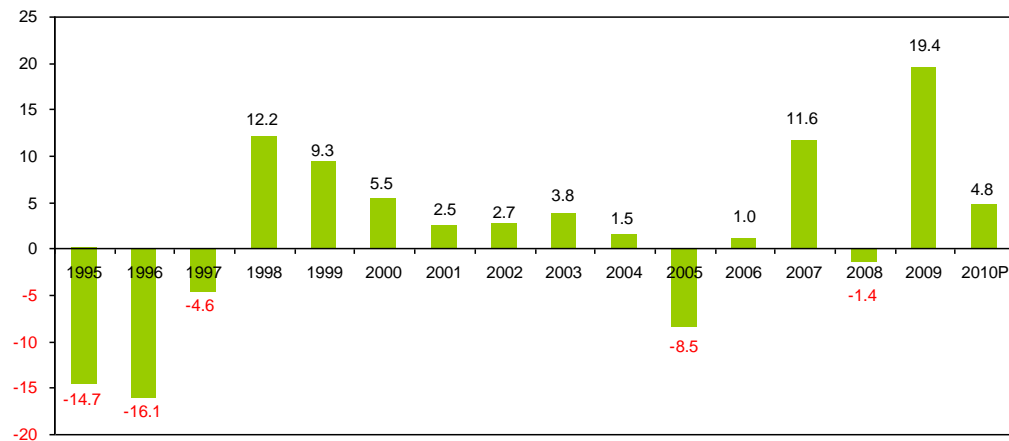
## Headline Inflation

unit : percent



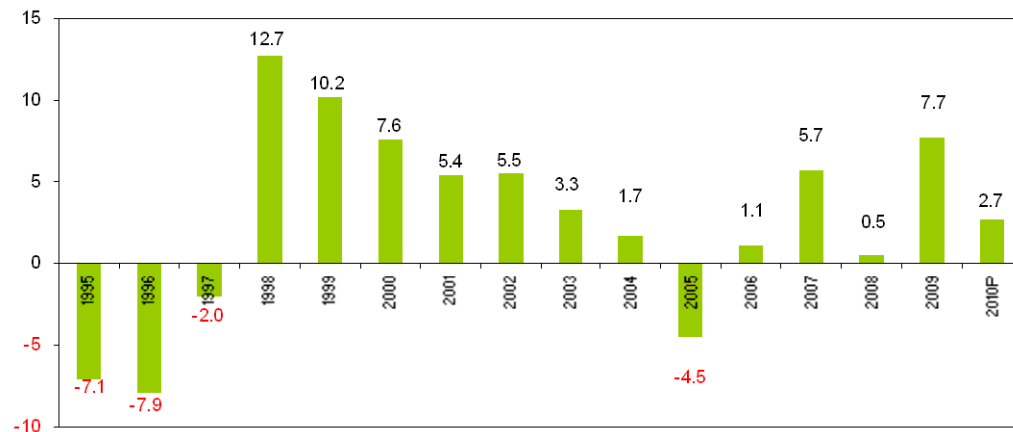
## Trade Balance

unit : US\$ billion



## Current Account (% of GDP)

unit : percent



### Fiscal and monetary measures

#### Major fiscal measures in 2009 were:

1. Announcement of the Approval of the allocation of loans secured under the Emergency Decree Empowering the Ministry of Finance to Borrow for Economic Rehabilitation and



Stability, B.E 2552, with a ceiling of 149,999.8371 million Baht to finance projects under the “Stronger Thailand 2012” Scheme.

2. The Project to Solve Household Informal Debt Problems designed to help people having informal debts to secure formal debts by offering easier access to sources of loans from financial institutions within the government’s network in order to lower the burden of interest of which rates are excessively high.

3. Raising the rates of oil excise taxes in order to promote energy conservation and the use of alternative energy from domestically grown plants which helps lessen dependence on imported oil. The excise tax rates were increased to 0.75 – 5.00 Baht per liter, depending on the fuel type.

4. The excise tax on the spa business was reduced from the rate of 10 % of the revenue from services to 0 % in order to increase the competition potential of spa business operators.

5. Tax measures to lower the costs of living and to support small and medium enterprise operators and community enterprises:

a. The lower limit of assessable income which is subject to 0.5 % tax rate was increased from 60,000 to 1,000,000 Baht.

b. The upper limit of assessable income of community enterprises eligible for tax exemption was increased from 1,200,000 to 1,800,000 Baht (for incomes of community enterprises earned in 2009-2010).

c. The criteria for venture capital investment in small and medium enterprises for tax rights and benefits were revised as follows:

- Extension of the deadline for registration of venture capital juristic persons with the SEC to December 31, 2011

- Lifting the condition that in the first year the venture Capital invest in small and medium enterprises in an amount not less than 20 % of the registered capital

- Exemption of income tax on capital gains which the venture capital receives from sales of the listed shares in the event a venture capital manages to have the shares of small and medium enterprises on the Stock Market.

6. A tax measure to support the real estate business: personal income tax deduction for a purchase of new property which has never been used in a maximum actual amount of not exceeding 300,000 Baht. However, ownership of the property had to be transferred within 2009.

7. A tax measure to stimulate tourism: companies and limited partnerships organizing seminars domestically are entitled to a deduction by twice the actual amount paid for rooms and seminar rooms in their tax calculation. The measure was applicable for expenses incurred during the 2009 accounting period.

8. A tax measure to support restructuring of non-performing loans of the private sector: tax was exempted and the fee for juristic act and right registration was reduced in cases of debt settlement and paying off debt by property transfer. This measure is for use in restructuring loans from financial institutions and other creditors from January 1 to December 31, 2009 in accordance with the criteria prescribed by the Bank of Thailand.

9. Tax measure to support reorganization: VAT, specific business tax and duty stamps are waived for business operators which are public companies or private limited companies on the value of the tax base, revenue or instruments made for or resulting from the transfer of part of the

business to each other and the juristic act and right registration fee was reduced on the condition that the transferor and the transferee complete the transfer of part of the business by December 31, 2009.

10. The credit measure for corporate income tax payment: a one-year credit term was granted for payment of the 2009 corporate income tax by small and medium enterprises, with a grace period of three months and at an interest rate of 4 % per annum, payable monthly. The measure was designed to alleviate the burden of small and medium enterprise operators and to enable the government to collect more corporate income tax.

11. Permitting eight foreign entities to issue Baht-denominated bonds or debentures in Thailand, in the amount not exceeding 4 billion Baht each or a total of 32 billion Baht.

### **Major monetary measures in 2009**

Major monetary measures taken in 2009 were relaxation of regulations on investment in securities abroad and derivatives transactions undertaken by institutional investors and persons in Thailand to further increase alternative channels for investment and risk management as well as to allow more flexibility in undertaking foreign currency transactions. The measures can be summarized as follows:

1. Increase the types of institutional investors by allowing juristic persons registered under Thai law with assets of at least 5,000 million Baht and whose principal businesses are in manufacturing, trading or services to invest in securities abroad by themselves not exceeding USD 50 million per entity. Previously, only the Government Pension Fund, the Social Security Fund, provident funds, mutual funds, securities companies, insurance companies, and specialized financial institutions established by specific law were allowed to do so.

2. Further allow institutional investors to engage in the following transactions to manage risks and enhance yields on investment:

2.1 Derivatives transactions which are linked to foreign variables such as exchange rates; interest rates; prices of debt instruments, equity instruments, commodities; and various indices. However, derivatives transactions related to exchange rates involving the Baht can only be transacted for hedging purposes.

2.2 Securities Borrowing and Lending (SBL)

2.3 Repurchase Agreement (Repo) and Reverse Repurchase Agreement (Reverse Repo)

3. Allow individuals and juristic persons with assets below 5,000 million Baht that require approval from the BOT to invest in securities abroad through securities companies or private funds to further invest in securities abroad and undertake financial transactions as follows:

3.1 Allow persons who invest through securities companies to invest in exchange traded derivatives for the purpose of hedging their investments in securities abroad.

3.2 Allow private funds to engage in derivatives transactions which are linked to foreign variables, SBL, Repo, or Reverse Repo, within the same scope as institutional investors.

4. Further relaxation allowing persons in Thailand to engage in derivatives transactions for foreign exchange hedging with domestic commercial banks as follows:

4.1 Using forecast value of goods and services within 1 year as underlying





4.2 Undertaking cross currency transactions

4.3 Unwinding of derivatives transactions in cases such as no delivery of foreign currencies under the derivatives contract valued below USD 20,000.

5. Allow persons in Thailand to engage in derivatives transactions, structured deposits or structured notes, whose returns are linked to foreign variables which are not related to exchange rates involving the Baht with domestic commercial banks in a wider scope, such as derivatives transactions that are linked to foreign interest rates; structured deposits or structured notes whose returns are linked to overseas stock market indices, or exchange rates not involving the Baht.

6. The policy interest rate was lowered in accordance with the resolution of the Monetary Policy Board. The rate of 2.75% per annum at the end of 2008 was reduced to 1.25% per annum at the end of 2009 and still maintain the same rate at the end of June 2010.

7. The Bank of Thailand ensured that the volatility of the bank was not too severe and did not pose an obstacle to adjustment by the private sector. During 2009, the central bank relied on swapping as a tool in managing the liquidity of the Baht in the financial system. The measure was taken as necessary with caution. The Baht was on an appreciating trend in 2009, with the Baht to USD exchange rate at the end of 2009 as announced by the Bank of Thailand being 33.359 Baht/1 USD, compared with 34,926 Baht/1 USD at the end of 2008. As of the end of June 2010, the Baht to USD exchange rate was 32.438 Baht/1 USD.

### **Capital market**

#### **Overview of the stock market**

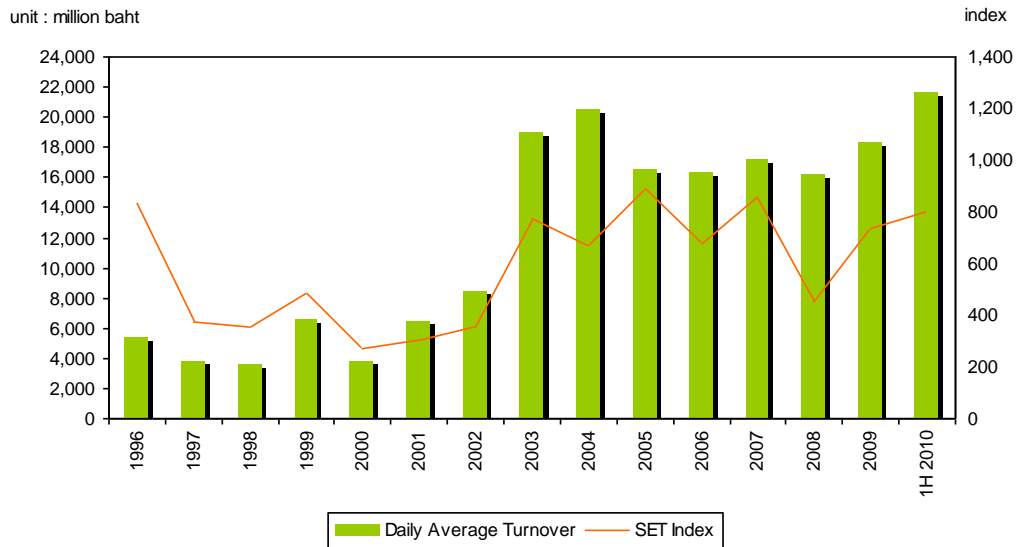
In 2009, a number of remarkable internal and external forces were taking place. There were internal factors — political uncertainty, the unfavorable court decision on Map Ta Phut, 3G licensing was put on hold — and external events, such as the Dubai World debt default. However, the Thai government's economic stimulus package has been broadly successful at returning the economy and the investment environment health.

At the end of 2009, the SET Index increased 63.25 % from the end of 2008, thanks to the recovery of the global and Thai economies. The Index closed at 734.54 points at the end of 2009. The lowest point was 411.27 in March and the highest point was 751.86 in October.

The MAI Index closed at 215.30 points, increasing by 32.14 % from the end of 2008.

The SET Index at the end of Jun 30, 2010 closed at 797.31, an increase of 62.77 points or 8.54% from the end of 2009.

## SET Index and Turnover

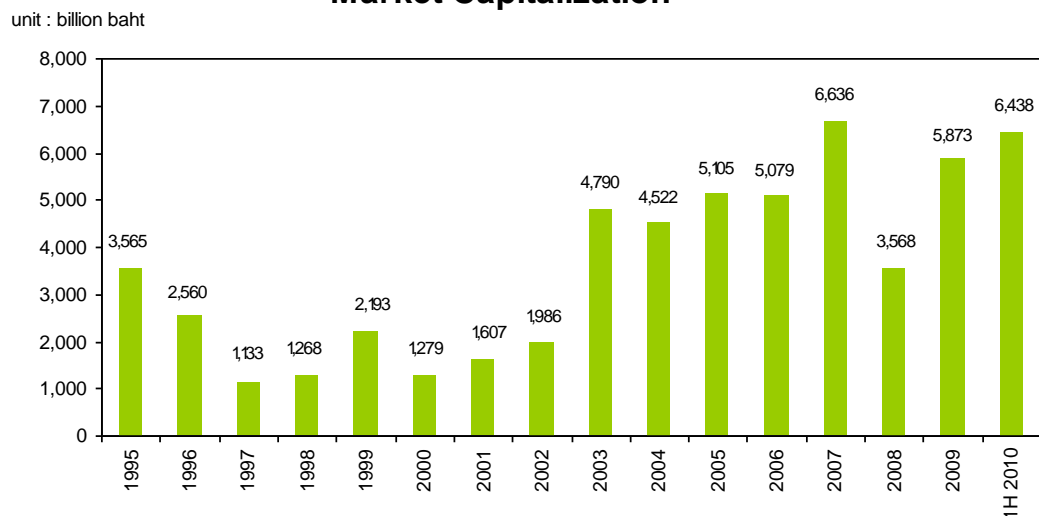


The total market capitalization of the SET at the end of 2009 stood at 5,873,101 million Baht, rising by 64.59 % from the end of 2008, due mainly to the increase of the SET Index. As at the end of June 2010, the total market capitalization of SET was 6,438,317 million baht, an increase of 565,216 million baht or 9.62% from the end of 2009.

During 2009, shares of six new companies were listed and eight delisted with the SET. For the first half of 2010, one new company was listed, bringing the total number of listed companies to 474 in the end of 2009 and 475 in the end of June 2010.

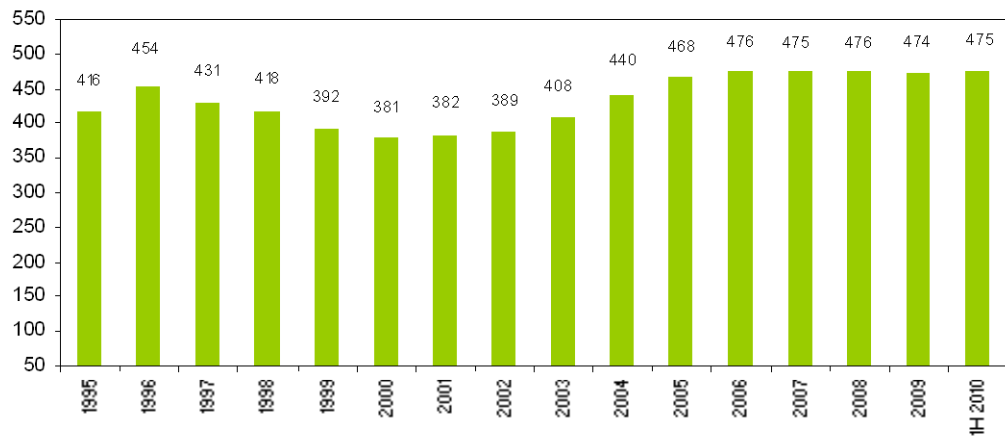
For the MAI, the number of listed companies at the end of 2009 and June 2010 were 60 and 62 respectively.

## Market Capitalization



## Number of Listed Companies

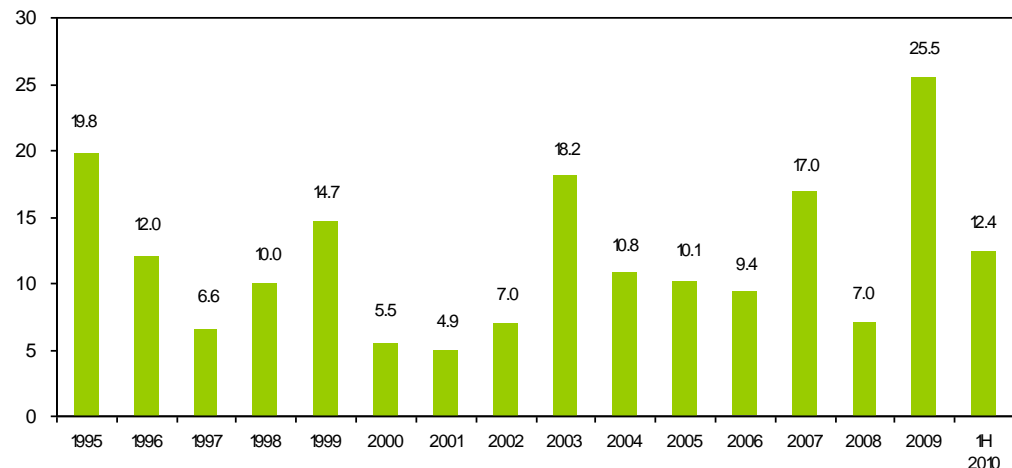
unit : companies



The higher SET Index resulted in the P/E ratio which increasing from 7.0 times in 2008 to 25.5 times in 2009. At the end of June 2010, P/E ratio was 12.4 times.

## Market PER

unit : times

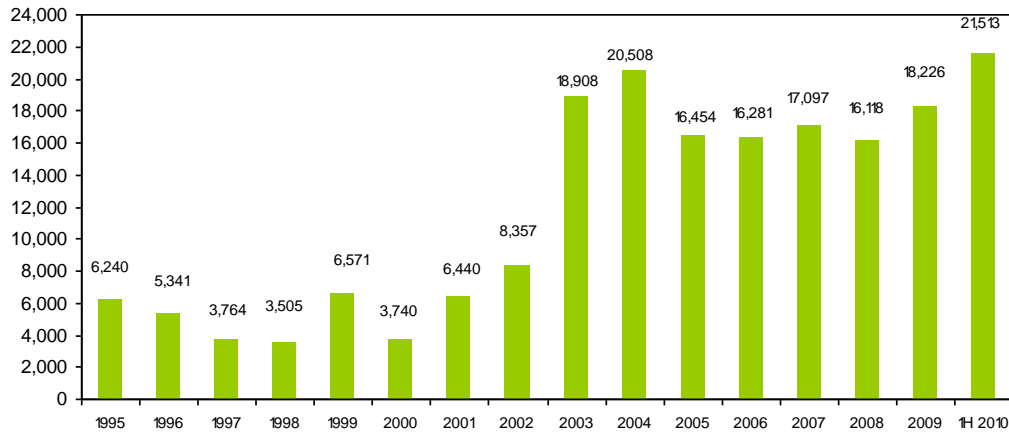


The trading volume in 2009 was the highest in the five-year period from 2005. The combined trading volumes of SET and MAI totaled 4,428,979 million Baht, rising by 11.25 % from 2008 and the daily average turnover was 18,226 million Baht, rising from 2008 by 13.08 %.

During the first half of 2010, the combined trading volumes of SET and MAI totaled 2,530,014 million baht and the average daily turnover was 21,513 million baht.

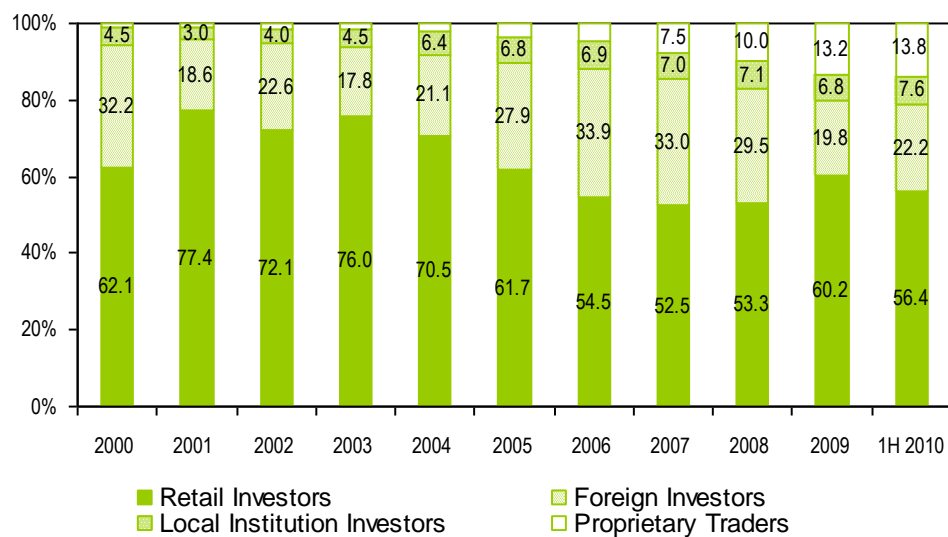
## Average Daily Turnover

unit : million baht



In terms of investor categories, in 2009, trading by retail investors accounted for 61% of the total trading volume; the proportions of trading by foreign investors, proprietary trading and local institutional investors accounted for 19%, 13% and 7%, respectively. For the first half of 2010, the proportion of retail investors, foreign investors, proprietary trading and local institution investors accounted for 56%, 22%, 14% and 8%, respectively.

## Proportion of Trading classified by Type of Investors



### Overview of the derivatives market

During 2009, the trading value of the derivatives market totaled 1,334 million Baht, or a daily average of 5,589 million Baht. In terms of volume, 3.07 million contracts were traded - or 12,771 contracts per day, an increase of 4.52 % from 2008 when the average daily turnover was 8,837 contracts. Approximately 21 % were traded through the Internet.

The underlying product most traded was the SET 50 Index Futures, which accounted for 84 % of the total trading volume.

As of December 30, 2009, the Thailand Futures Exchange (TFEX) had open interest of 28,281 contracts and 29,647 derivative trading accounts, representing an increase of 86.5 % from 2008.



Two types of products were added by the Derivatives Market in 2009; namely, gold futures, of which trading commenced in February, and 11 single stock futures were launched as additional underlying products in June.

During the first half of 2010, the trading value of the derivatives market totaled 997,342 million Baht, or a daily average of 8,513 million Baht. The derivatives market had open interest of 38,780 contracts at the end of June 2010.

### **Overview of the bond market**

In 2009, a total of 10.88 trillion Baht of primary market domestic bonds was issued, a drop of 3.19 % from the 2008 amount. As of December 30, 2009, the outstanding value of bonds registered with the Thai Bond Market Association (ThaiBMA) was 5.87 trillion Baht, increasing from 2008 by 20.89 %.

Outright trading in the secondary market in 2009 totaled 14.54 trillion, or an average of 59,855 million Baht per day, which represented a decrease of 16.24 % from 2008.

For the first half of 2010, 5.15 trillion Baht of primary market bonds was issued. As at the end of June 2010, the outstanding value of bonds registered with ThaiBMA was 6.42 trillion Baht, or an average of 63,001 million Baht per day.

### **Capital market measures**

Major capital market measures in 2009 in brief were as follows:

1. Announcement of the implementation of ASEAN and Plus Standards by Thailand, Malaysia, Indonesia and Singapore for multi-jurisdictional offerings of securities in ASEAN. The standards have been applicable for bonds since March 31, 2009, and for shares since December 1, 2009.
2. Announcement of the adjustment of the brokerage fees for the buying or selling of listed securities on a sliding scale basis, effective from January 1, 2010 to December 31, 2011.
3. Allowing foreign issuers to list on the Thai stock market, provided that applicants list on a foreign stock market which is a member of the World Federation of Exchanges (WFE) and have a home exchange whose regulator is a member of the International Organization of Securities Commissions (IOSCO).
4. Allowing Thai investors to invest more overseas. The Bank of Thailand approved a maximum total overseas investment amount of USD 30,000 million. The central bank also allows a maximum amount of USD 50 million for gold futures market makers to trade futures contracts which have gold or gold ETF as the underlying assets in foreign exchanges. The measure is aimed at helping market makers operate effectively.
5. Allowing securities companies and investors to trade futures contracts on foreign futures exchanges to manage risks resulting from investment in foreign securities.
6. Revision of the criteria and qualifications as regards securities investor contacts and derivatives investor contacts to allow greater flexibility for securities investor contacts to seek approval for acting as a derivatives investor contacts.
7. Allowing gold traders to seek approval to become a selling agent in the gold futures business.



8. Issuance of regulations governing application for undertaking trust business, defining trust certificates as securities. Types of transactions in the capital market eligible for trust creation were also specified to be in line with the Trust for the Transactions in Capital Market Act B.E. 2550. This measure will serve as a tool in developing new products.

9. More types of investment assets in which mutual and private funds can invest were added; namely, the inflation index and the investment strategy index. Also, funds are allowed to undertake credit derivatives transactions to enhance their risk management capability.

10. Revision of regulations governing the offering of bonds through private placement to institutional and high net worth investors to support convenient and speedy capital mobilization of businesses.

11. Adjustment of the ceiling and floor price criteria for listed securities to reduce stock price volatility and investors' risks:

- For securities traded on the main board, of which prices are lower than 0.10 Baht, the movement was limited to no more than 30% of the closing level of the previous day, decreasing from original limit of 100%,
- For securities traded on the foreign board, of which prices are lower than 0.10 Baht, the movement limit was reduced from 100 to 60%.

12. Revision of regulations to support algorithmic trading. Restrictions on the categories of order transmissions were relaxed to facilitate institutional investors' trading and to lower transaction costs.

13. Revision of the criteria for derivatives trading through the Internet. The maximum number of contracts per order was changed:

- For SET 50 Index futures, maximum 100 contracts per order,
- For SET 50 Index Options and stock futures, maximum 500 contracts per order.

## Securities industry

In 2009, all securities companies have had to adjust themselves and adapt to intensifying competition. They have strived to boost incomes from alternative channels in anticipation of the liberalization of the industry and ensuing lower brokerage commissions. Brokerage commissions are to be incrementally cut in 2010 -2011 and in 2012 will be freely negotiable. New business alliances have been sought. Moreover, in case where securities companies have banks as major shareholders, efforts have been made to build group synergies. The securities companies with a focus on general individual investors mainly adopted strategies to enhance the quality of information services and securities analysis and the use of internet trading transactions.

At the end of 2009, there were 41 securities companies with brokerage licenses. Of this total, 39 were SET members. As for the derivatives business, 41 companies were licensed as derivatives agents and were members of the Thailand Futures Exchange (TFEX), 36 of which are general members and other 5 are gold related agents.

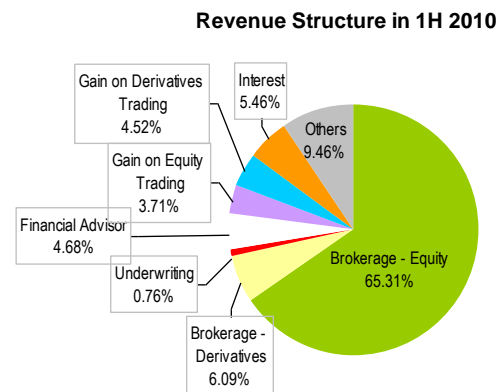
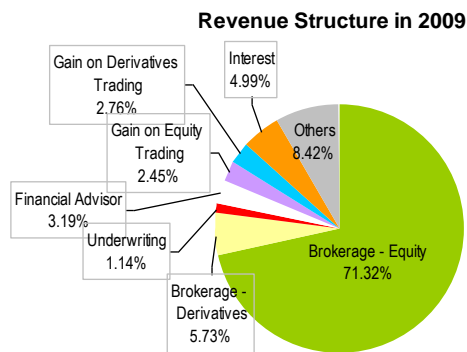
## **Performance**

The total revenue of the securities industry in 2009 was 24,486 million Baht, an increase of 1.06% from 24,228 million Baht in 2008. Brokerage fees remained the main revenue of the securities business. In 2009 and 2008, the brokerage revenues from securities trading were 17,463 and 17,118 million Baht or 68 and 71% of the total revenue respectively.

For the first half of 2010, revenue of securities companies were 12,510 million Baht. Brokerage fees were still remained the major source of incomes.

## **Revenue of *Securities* Industry**

	2008		2009		1 <sup>st</sup> half 2010	
	Mil. Baht	%	Mil. Baht	%	Mil. Baht	%
Brokerage – Equity	17,118	70.65%	17,463	71.32%	8,171	65.31%
Brokerage - Derivatives	1,011	4.17%	1,403	5.73%	762	6.09%
Underwriting	425	1.76%	279	1.14%	95	0.76%
Financial Advisory	564	2.33%	782	3.19%	586	4.68%
Gains on Equity Trading	(123)	(0.51%)	599	2.45%	464	3.71%
Gains on Derivatives Trading	901	3.72%	676	2.76%	566	4.53%
Interest and Dividend	2,084	8.60%	1,222	4.99%	684	5.46%
Others	2,247	9.28%	2,062	8.42%	1,183	9.46%
<b>Total Revenue</b>	<b>24,227</b>	<b>100.00%</b>	<b>24,486</b>	<b>100.00%</b>	<b>12,510</b>	<b>100.00%</b>



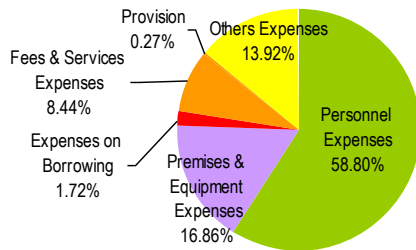
The expenses of the securities industry in 2009 totaled 18,420 million Baht, a drop of 8.02% from 20,026 million Baht in 2008, with the major item being personnel expenses, which in 2009, totaled 10,830 million Baht, slightly increasing from 9,630 million Baht in 2008. For the first half of 2010, total expenses of securities companies were 9,333 million Baht.

### Expenses of Securities Industry

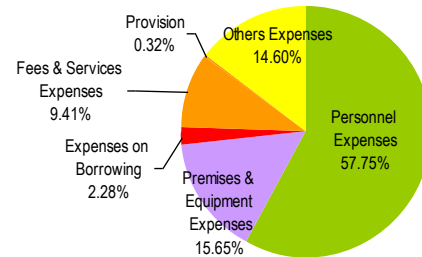
	2008		2009		1 <sup>st</sup> half 2010	
	Mil. Baht	%	Mil. Baht	%	Mil. Baht	%
Expenses on Borrowing	549	2.74%	317	1.72%	213	2.28%
Fee & Services Expenses	1,629	8.14%	1,554	8.44%	878	9.41%
Provision for Bad Debts & Doubtful A/C	2,432	12.14%	49	0.27%	30	0.33%
Personnel Expenses	9,630	48.09%	10,830	58.80%	5,390	57.75%
Premises & Equipment Expenses	3,201	15.98%	3,105	16.86%	1,460	15.64%
Other Expenses	2,585	12.91%	2,564	13.92%	1,362	14.59%
<b>Total Expenses</b>	<b>20,026</b>	<b>100.00%</b>	<b>18,420</b>	<b>100.00%</b>	<b>9,333</b>	<b>100.00%</b>



**Expenses Structure in 2009**



**Expenses Structure in 1H 2010**



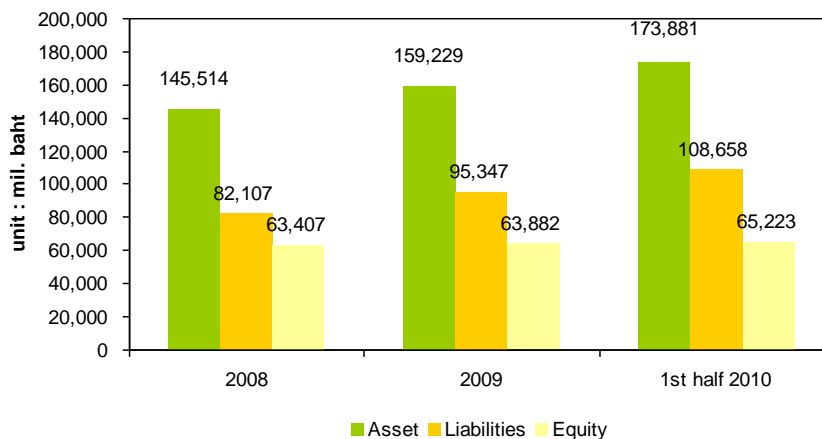
In 2009, the securities industry recorded net profit of 4,503 million Baht, an increase of 83.35 from 2,456 million Baht in 2008. For the first half of 2010, net profit of securities companies were 2,323 million baht.

### Financial position

The total assets of the securities industry at the end of 2009 stood at 159,229 million Baht, an increase of 9.42 % from the end of 2008 when the corresponding figure was 145,514 million Baht. The sources of funds at the end of 2009 comprised liabilities totaling 95,347 million Baht and shareholders equity of 63,882 million Baht.

As at the end of June 2010, total assets of securities companies were 173,881 million Baht, an increase of 9.20% from the end of 2009. Liabilities and shareholders' equity were 108,658 million Baht and 65,223 million Baht respectively.

**Asset, Liabilities and Equity of Securities Industry**



## Return on Equity

The ROE of the securities industry in 2009 was 7.05 %, increasing from 3.87% in 2008. ROE for the first half of 2009 (not annualized) recorded at the rate of 3.56%

### Net Profit and ROE of Securities Industry

