



Thailand

External factors coupled with political unrest slows M&A activity in 2008

Current Environment

The year started optimistically with a revival of consumer and investor confidence following the December 2007 elections and the return of a democratically elected government to Thailand. But a recent renewal of political demonstrations and rumours of another coup has again alarmed investors and may prolong the political uncertainty in Thailand, one of Southeast Asia's largest economies.

Uncertainty has taken a toll on Thailand's economy. Thailand, like other countries, has been hit hard by the rising price of oil and other commodities. Concerned investors have reduced holdings in Thai shares, spurred on in part by worries about accelerating inflation, which is up sharply. Pressured by higher living costs, political disturbances and a new wave of anti-government protests, the new government has struggled to address these challenges. With the government's distraction from policy-making, some are calling on Thailand's private sector to play a more active role in driving the country's economy.

In spite of the bearish sentiment, a few economists believe growth of 6% remains possible for 2008 on the back of strong exports which are expected to grow at approximately 8%, versus an estimated 7% growth for 2007. The weakening currency may help the Thai economy to become more competitive. The economy has demonstrated resilience despite the domestic political uncertainty and global financial turmoil.

While demand from Thailand's key trading partners remains strong, particularly from Asia and the Middle East, export growth will benefit from a possible further depreciation of the Thai baht this year as well as a diversification into new markets resulting in less reliance on the US, Europe, and Japan markets.

However, economic growth expectations might be closer to 5% to 6%, compared to 4.8% in 2007, considering concerns in consumption and investment growth due to rising inflation and on-going political uncertainty. The government's economic stimulus package and state-supported mega projects are, however, expected to help the country's economic growth.

Inflation estimates for 2008 are now around 7.2%, an increase from earlier expectations of around 4.5% for the year and 2.3% for 2007, led by higher food and energy costs. Policy interest rates are now expected to increase by a full percentage point to 4.25% by the end of the year as a means to curb the rise in inflation. Analysts believe Thailand's economic fundamentals are strong enough to withstand higher rates and feel policy should focus on easing inflation in the second half of the year.

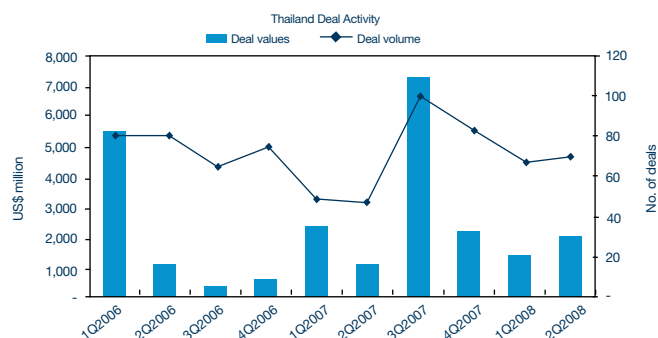
Foreign investment in Thailand has not progressed as many expected. Some believe this is partially due to government policies and are hoping the Thai government will re-evaluate its policies to reassure foreign investors. Contradictory statements have confused investors, particularly in the area of foreign ownership restrictions, leading them to hold back expansion plans. Some investors are asking the government to review corporate income tax and other investment conditions for foreign investors.

The Stock Exchange of Thailand ("SET") has recently announced a plan to double its market capitalisation to Bt12 trillion by 2013, with an expected 5% of capitalisation to come from listings by foreign companies. The SET is predicting that foreign investors will return to buy Thai stocks in the second half of this year after they sold a large portion of their investment portfolios during the first half of the year. Despite the sell-off, the SET index has dropped in a lower proportion compared to other markets in the region. In general, the fundamentals of the Thai bourse and listed companies appear to remain attractive for foreign investment. The SET reached a year-high of 875 points in mid-May, from 858 points at end 2007, to a close of 768 at 30 June, but has since slipped further at the time of writing. Optimists point to the low leverage ratios of Thai companies and the resilience of firms to cope with cost increases as positive factors going forward. The market could swing upward, assuming that local political concerns ease and inflation moderates.

The bond market has seen yields spike on expectations that the Bank of Thailand would be forced to tighten monetary policy in the second half to cope with rising inflation. Trading volume on the Thai Bond Market Association ("TBMA") remained high in the first half. The TBMA has undergone a key regulatory change, becoming a self-regulated organisation ("SRO") responsible for overseeing and monitoring market participants and trade.

While the Securities and Exchange Commission continues to hold ultimate responsibility for enforcement of market rules, the TBMA will have the authority to levy fines or even withdraw trading privileges from market participants violating the rules. The TBMA will be the first capital market organisation to participate in the SRO programme. Both the Association of Securities Companies, which represent local brokers, and the Association of Investment Management Companies, representing fund managers, are expected to upgrade to SROs within the next few years.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2008

M&A activity in Thailand in the first half of 2008 grew year-on-year in terms of the number of deals, but declined in terms of deal value. The value of deals in H1 2008 dropped to US\$2.8 billion (H1 2007: US\$3.3 billion).



Compared with H2 2007, both deal value and deal volume dropped sharply. Q3 2007 was an exceptional quarter with deal value of US\$7.4 billion. Over the last several years, Thailand has consistently seen deals in the financial services, communications and energy sectors. However, only the financial services sector has produced significant transitions so far in 2008. PTT, the listed Thai oil conglomerate, continues to explore opportunities abroad to diversify its investments, but no significant M&A activity was generated during the first half of 2008. Telecoms players appear to have stalled investment activities, stemming from unclear policies towards 3G licensing, looking instead to explore opportunities for partnerships or alliances, possibly resulting in future deals.

Some of the deals include:

- Bank Thai share acquisition by CIMB Group Sdn Bhd for an estimated Bt5.9 billion (US\$179 million): the Financial Institutions Development Fund ("FIDF") has entered into a share purchase agreement with CIMB Group Sdn Bhd, the second largest Malaysian bank, to sell its 42% stake in Bank Thai, the ninth largest Thai bank. CIMB is required to obtain approvals from all related authorities and wait for the amendment of the financial institution regulations regarding foreign shareholdings expected in 2008.
- Sales of non-performing loans of Siam Commercial Bank Plc ("SCB"): SCB sold a tranche of NPLs to Alfa Capital Asset Management and Morgan Stanley for an estimated Bt8 billion (US\$254 million) as an attempt to reduce its NPL portfolio to under 5% this year.
- Sales of non-performing loans of Sathorn Asset Management Co. Ltd: Bangkok Commercial Asset Management Co., Ltd ("BC") and Sukhumvit Asset Management Co., Ltd ("SA") acquired Bank Thai's Sathorn Asset Management Co., Ltd., an asset management service provider, for an estimated Bt3.9 billion (US\$122 million). BC and SA are 100% and 99.99% owned, respectively, by the FIDF.
- Amalgamation between Phatra Insurance plc and Muang Thai Insurance Co. Ltd: The two non-life insurance companies partially held by the Lamsam family have merged to compete in the insurance market. The merger has made the new company, Muang Thai Insurance plc, the seventh largest company in the market, holding 3% of market share with paid-up capital of Bt590 million.
- Acquisition of a 43.9% stake in Oishi Group plc. by Thai Beverage plc, the largest alcohol beverage player in Thailand, for Bt3 billion (US\$95 million). Oishi Group plc is a restaurant owner and also a manufacturer of food and beverage products. As part of its plan to diversify its investment portfolio, Thaibev is also planning to acquire a 67% interest in an energy drink producer and wholesaler with a possible transaction value of Bt3 billion (US\$95 million).
- Acquisition of Shell Autoserv (Thailand) Co., Ltd by Bridgestone Holdings (Thailand) Co. Ltd: Shell Autoserv owns 64 car maintenance service stores with sales of US\$40 million in 2007.
- Acquisition of a 78.52% stake in Advance Agro plc, the paper mills owner and operator, by Always Rich Holding Ltd, for over Bt16 billion (US\$550 million). AA was subsequently delisted from the SET.
- Acquisition of Thai-German Ceramic Industry plc. by its major shareholder Cementhai Ceramics Co. Ltd, who acquired a further 11.46% through a tender offer.
- Acquisition of Ramkhamhaeng Hospital plc ("RAM") by Bangkok Dusit Medical Services ("BGH") plc: BGH has acquired an additional 12.06% of shares in RAM for Bt2.2 billion, making it the major shareholder, with 38.24% of shares.

Outlook

The growth forecast is expected to be underpinned by growth in exports, even as consumption and investment have slowed in recent months. Some are optimistic about the Thai economy's prospects, viewing export growth and higher global commodity prices as benefiting the country going into 2009.

The government has tried to pursue pro-growth policies by adopting stimulus packages to boost consumption and the infrastructure megaprojects also could help draw new foreign capital to the country and spur growth in private investment. Some are playing down the risk of political uncertainties, even though the turmoil is known to weigh on the minds of foreign investors. If the government can address internal conflicts and fully support economic policy, it would help to build up foreign confidence and, in turn, stimulate investment growth.

Some believe it is not that Thailand is attracting less interest from foreign investors, but that investors are looking to faster growing countries in the region. Some feel that Thailand has an advantage in terms of infrastructure support and economic stability when compared with other countries.

For M&A, activity has shown signs of improving but deal values remain low. It is difficult to expect significant increases in activity or deal values until local politics begin to settle. Until then, we continue to expect that deals in Thailand will be dominated by local activity, traditionally at low deal values.