

Thailand Market Strategy

Cambodia-Laos-Myanmar-Vietnam stocks

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- Today Credit Suisse economist Santitarn Sathirathai issued a report on Thailand's booming exports to nearby countries titled [Love Thy Neighbour](#). Here we analyse the significance of the boom for equities investors.
- Unfortunately, we can identify only a few stocks where Cambodia-Laos-Myanmar-Vietnam (CLMV) will move the needle. As Santitarn notes, exports are booming, but FDI from Thailand to CLMV remains low. Neither listed nor unlisted companies seem to be exploiting the opportunities that CLMV presents, likely due to a combination of legal barriers (Myanmar), small population (Laos), currency concerns (Vietnam) and poor transport links (all).
- We see CLMV as already significant for the economy and a few listed companies, but the broader stock market significance of CLMV remains limited. Even for the listed companies we identify here, CLMV contributes less than 10% of earnings.
- The three stocks that we think are benefiting the most from CLMV are CPF, AOT and BH. We like CPF the most on valuations and non-CLMV factors.

strong arrivals from emerging markets in general, but we note that the strong share price performance leaves the stock with just 10% potential upside to our target price.

Bumrungrad Hospital

BH has seen a surge in medical tourists from CLMV. CLMV patients now account for 7.5% of total revenues and 13% of foreign revenues. Revenue CAGR for CLMV in the past 5 years has been 15%. Myanmar contributes the biggest share at 5%. Growth for CLMV last year was 43% against 12% for the hospital as a whole and 18% for foreign patients.

Siam Cement

Siam Cement is expanding in CLMV, but the region will likely remain a small contributor for 3-5 years at least. As of Sep 12, CLMV accounted for 30% of SCC's assets—22% of which is Vietnam—but less than 10% of sales. SCC has a 1mnt cement plant in Cambodia and exports 2mnt of cement to Myanmar, compared with its current capacity of 24mnt. SCC plans to expand capacity by another 0.9mnt in Cambodia (in a 2.9mnt market) and build a cement plant in Myanmar pending completion of a foreign investment law. SCC is also considering investing in a petrochems JV in Vietnam. We estimate CLMV contributions to total earnings will likely stay well below 5% for the foreseeable future, especially if other parts of SCC's businesses recover. SCC's biggest ASEAN investments are targeted for Indonesia, not CLMV.

Valuation metrics

Company	Ticker	Rating	Price		Year ending	P/E (x)		P/B (x)
			Local	Target		FY12E	FY13E	
CPF	CPF.BK	O	35.50	46.50	12/11	11.3	11.6	3.3
AOT	AOT.BK	O	82.25	90.00	09/11	22.2	14.0	1.6
BH	BH.BK	N	75.25	80.00	12/11	26.3	21.9	6.2

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM

Source: Company data, Credit Suisse estimates

Limited options

Because CLMV remains a market in its infancy, there are still relatively few stocks under our coverage with significant exposure to the region. The most exposed are CPF, BH and AOT.

CP Food

CLMV is already significant for CPF. It now derives 12% of revenues from these countries, though the profit contribution is likely 9% or lower as its business there focuses on the less profitable feed and farm rather than food. Most of the contribution is from Vietnam, but CPF also has operations in Laos and Cambodia. It has no facilities in Myanmar and does not have any plans yet to expand there. CPF's CLMV operations focus on domestic markets and therefore benefit from underlying economic growth in the region. Because the CLMV meat market is less mature than Thailand's, we expect faster growth there for the company. Over the near and medium term, the Thailand business will remain the main share price driver, but CLMV is an increasingly significant component. We like CPF on valuations and on our expectation that meat prices, input prices or both will improve in 2013.

Airports of Thailand

AOT has seen rapid growth in arrivals from CLMV. Average growth in 2010-11, the first years CLMV arrival data are available for, was 25%. In 2009, CLMV accounted for just 7% of arrivals, but last year it contributed 8.5%. We expect CLMV to rise above 10% of total arrivals in the next 3-4 years. We retain our OUTPERFORM rating on AOT on

PTTEP

Contrary to popular belief, PTTEP does not offer good exposure to rising CLMV demand. Already about 20% of PTTEP's production is in Myanmar, but the gas is exported to Thailand. New investments in fields targeting the domestic Myanmar market are planned, and joint investment with Cambodia on fields offshore the latter is possible, but contributions from sales into CLMV markets will likely stay below 5% of total revenues for at least the next five years.

AAV

In theory, Thai Air Asia should benefit from the surge in CLMV tourism along with AOT, but, in practice, AAV derives 60% of its revenues from domestic routes. We suspect that its overseas expansion will focus on China and other Air Asia hubs. We doubt that CLMV will have a significant impact on AAV over the next three years.

Non-rated stocks

Berli Jucker exports paper products and household goods to Myanmar and in the long term targets sale of food, personal care and household cleaning products. We do not cover the stock.

Companies Mentioned (Price as of 30 Oct 12)

Charoen Pokphand Foods Public (CPF.BK, Bt35.50, OUTPERFORM, TP Bt46.50)
 Airports of Thailand (AOT.BK, Bt82.25, OUTPERFORM, TP Bt90.00)
 Bumrungrad Hospital Pcl (BH.BK, Bt75.25, NEUTRAL, TP Bt80.00)
 Siam Cement (SCC.BK, Bt369.00, NEUTRAL, TP Bt363.00)
 PTT Exploration & Production (PTTE.BK, Bt166.00, UNDERPERFORM, TP Bt156.00)
 Asia Aviation (AAV.BK, Bt4.62, OUTPERFORM, TP Bt4.20)
 Berli Jucker Public Co Ltd. (BJC.BK, Bt63.00)

Disclosure Appendix

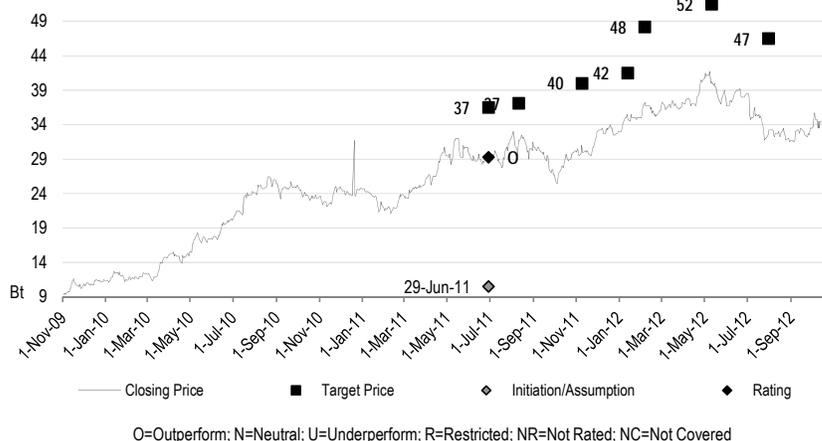
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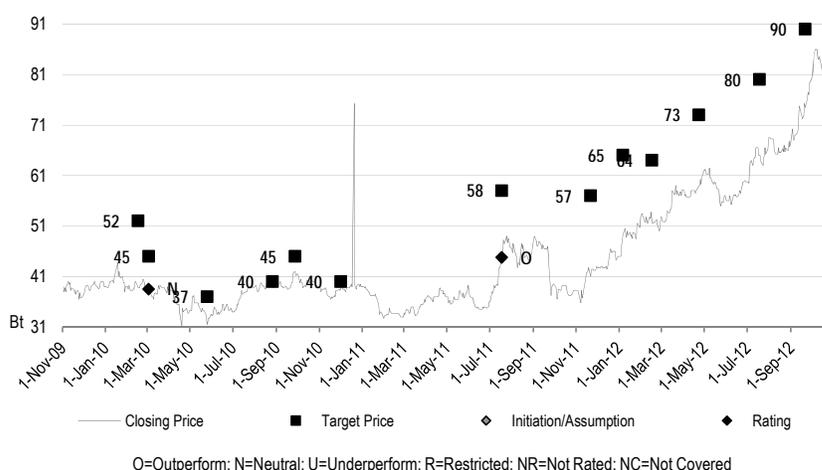
3-Year Price, Target Price and Rating Change History Chart for CPF.BK

CPF.BK	Closing Price	Target Price	Initiation/
Date	(Bt)	(Bt)	Rating Assumption
29-Jun-11	29.25	36.5	O X
11-Aug-11	31.75	37.1	
9-Nov-11	30	40	
13-Jan-12	34.75	41.5	
6-Feb-12	37.25	48.2	
11-May-12	40.25	51.5	
31-Jul-12	33.25	46.5	

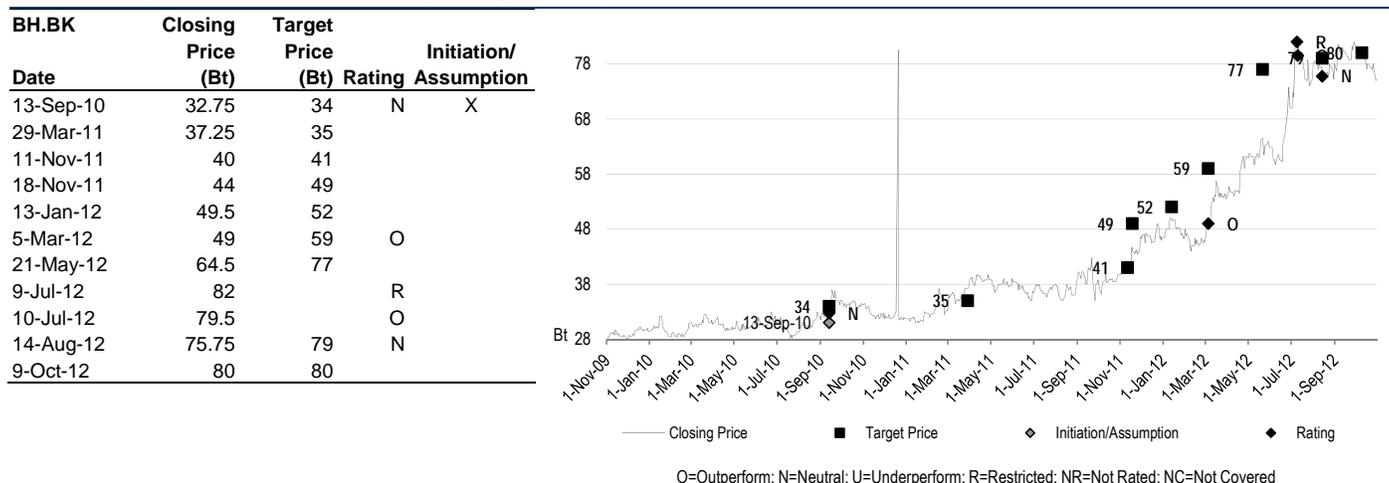


3-Year Price, Target Price and Rating Change History Chart for AOT.BK

AOT.BK	Closing Price	Target Price	Initiation/
Date	(Bt)	(Bt)	Rating Assumption
16-Feb-10	38.75	52	
3-Mar-10	38.5	45	N
25-May-10	31.5	37	
26-Aug-10	39	40	
27-Sep-10	42	45	
1-Dec-10	38.75	40	
18-Jul-11	44.75	58	O
21-Nov-11	41	57	
6-Jan-12	49.25	65	
16-Feb-12	52.25	64	
23-Apr-12	59	73	
18-Jul-12	65	80	
21-Sep-12	74.5	90	



3-Year Price, Target Price and Rating Change History Chart for BH.BK



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Price Target: (12 months) for (CPF.BK)

Method: Our target price of Bt46.50 for CPF is an appraised NAV based on 1) 15x PE on the core business (benchmark it on avg PE of regional food producers) and 2) an estimated value of its other investments (which is largely its stake in CPALL.BK).

Risks: Risks on our Bt46.5 target price are: (1) volatility in food prices, particularly grain and meat prices, (2) various form of agricultural related diseases, (3) weather pattern (which could damage crops) and (4) the success of its overseas operations.

Price Target: (12 months) for (AOT.BK)

Method: Our Bt90.00 target price for Airports of Thailand is based on DCF (discounted cash flow). We have assumed a 11.9% weighted average cost of capital (WACC), a 3.50% risk-free rate, an 9.75% risk premium, a 14.4% cost of equity and a 4.40% after-tax cost of debt.

Risks: The key risks to our Bt90.00 target price for Airports of Thailand are: 1) Policy reversal to adopt single airport model again 2) negative political development and 3) lower than expected passenger volume growth forecasts

Price Target: (12 months) for (BH.BK)

Method: Our 12-month target price for Bumrungrad Hospital of Bt80 is based upon a discounted cash flow (DCF) methodology, with a 9.02% WACC and 10.33% cost of equity.

Risks: Key upside risks to our Bt80 target price for Bumrungrad Hospital include: 1) higher than expected demand from medical tourists and 2) higher than expected EBITDA margin. Key downside risks include 1) Lower than expected demand from medical tourists and 2) higher than expected operating cost assumptions.

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