



# Thailand

*M&A slows considerably in 2007, in spite of economic buoyancy*

## Current Environment

A decade ago, Thailand was attributed with triggering an Asian economic crisis. On the tenth anniversary of the 1997 financial crisis, foreign investors seem to have marked the occasion with a surge in buying, bidding up the Stock Exchange of Thailand (SET) and the Thai Baht to ten-year highs. The more recent history of political uncertainty and policy miscues early in the year seem to have weighed against the SET's performance, which on a price-equity ratio basis has lagged many in the region. Now, with the current government apparently standing by their commitment to hold elections by year's end, investors are starting to see new clarity in the country's political outlook. Authorities have tentatively set a November 25 date for the election, although some government officials have recently stated that polls could be delayed until early 2008 pending passage of the new constitution. But overall, political worries appear to be lower, which is a good sign, as several political parties begin to gear up for the election.

Investors seem to be focusing on Thailand's strong economic fundamentals. Despite the obstacles faced last year, such as high oil prices, increasing inflation and interest rates and political uncertainty, the Thai economy grew by 5 percent in 2006. In the first quarter of this year, the Thai economy grew by 4.3 percent, surpassing more moderate predictions of 4 percent, with annual growth expectations of 4-4.5 percent. The first-half economic growth was led by exports, which have been expanding at a record pace and account for nearly 70 percent of the country's GDP. Export growth for the year is projected at 14 percent to 15 percent, up from earlier estimates of 11 percent to 12 percent.

Inflation for the first six months of this year was 2.2 percent compared with the corresponding period in 2006. The six-month rate was considered relatively low compared with 5.9 percent year-on-year rate in the first half of 2006. The inflation rate as measured by the consumer price index decelerated for the first time in June after a sharp rise for three consecutive months to May. However, some feel that inflation is expected to pick up in the second half of the year due to increases to oil prices and economic growth.

Bond yields are expected to inch upwards in the second half of 2007 due to rising economic growth, inflation and an increase in government and corporate issues. Investors are expected to continue to focus on short-term instruments with maturities of less than one year, given the political uncertainty and interest rate trends.

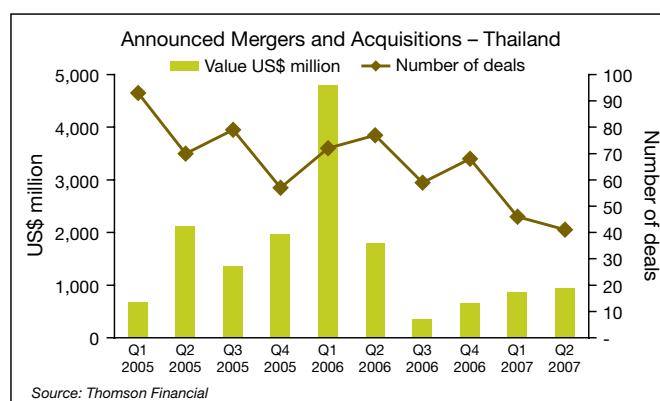
The Baht has gained some 5 percent against the US dollar this year after gains of approximately 15 percent last year. Economists say further pressure on the Baht is likely given heavy portfolio investments into the Thai stock market and the country's strong trade and current account surpluses.

The Bank of Thailand (BOT) has called for local manufacturers struggling with the stronger Baht to be patient as market forces would eventually lead to a correction in rates. Local industry continues to lament the stronger Baht affecting the country's export competitiveness, as other currencies in the region have appreciated less against the dollar than the Baht. Hardest hit are exporters dependent on local materials with small and medium-sized enterprises having the greatest difficulty in adjusting.

The SET index, which has gained over 19 percent since January, is now at its highest point since January 1997. Analysts note that sentiment has clearly improved, with the market driven by foreign investors. While second-quarter earnings are projected to remain relatively weak, most analysts expect significant gains in the second half and into 2008. Consensus index targets have increased to a range of 780 to 840 points for the year, with a high forecast of 900.

A Free Trade Agreement (FTA) with Japan, one of Thailand's biggest trading partners, was recently agreed; Japan is said to account for approximately 50 percent of FDI in Thailand. However, an FTA with the United States remains elusive as the US President's fast track authority to negotiate trade agreements has expired with little hope for a quick renewal. FTA's with China, India, and Australia, other important trading partners with Thailand, have already been implemented.

## Deal Activity



As is the case over the past few years, M&A activity in Thailand continues to be dominated by deals in the communication, energy and financial sectors. For the first half of 2007, announced deal values reached only US\$1.8 billion, sharply under the same period in 2006 of US\$6.6 billion which was dominated by the largest transaction in the history of Thailand at US\$4.2 billion. The number of deals is also lower, with 87 deals in the first half of 2007 vs. 149 deals in the first half of 2006.



The communication sector leads the deal list again this year with the largest transaction in the first half of 2007.

- In March 2007, Total Access Communication Pcl, Thailand's second-largest mobile-phone operator, issued approximately 847.7 million new shares to United Communication Industry Pcl shareholders and de-listed the company from the SET. Bangkok-based Total Access has subsequently successfully listed on the SET to become the first company to dual list in both Singapore and Thailand. The deal value was approximately US\$818.8 million
- Shin Satellite, the Thailand-listed media company, announced a proposal to sell 49 percent of the total issued shares in Sherington Investments to Asia Mobile Holdings for US\$200 million. After the proposed sale, Shin will remain a major shareholder of Sherington, holding the remaining 51 percent of issued shares

Important deals in the financial services sector include several deals in the banking sector:

- GE Capital International Holdings Corporation completed its acquisition of a 25.4 percent stake in Bank of Ayudhya, Thailand's sixth-largest bank, in January 2007 for THB 22.3 billion (US\$583.5 million). The acquisition is in line with GE Money's strategy of strengthening its position in the Thai financial market
- In the first quarter of 2007, Bank of Nova Scotia agreed to buy 25 percent of Thanachart Bank Pcl, the eighth-largest of Thailand's 14 banks, for US\$203 million, with the option to raise its stake to 49 percent by the end of this year
- Private equity firm TPG Newbridge is in the process of buying a larger stake in state-controlled Bankthai Pcl to gain more management control in Thailand's eighth-biggest commercial bank. TPG Newbridge and its partners will buy 31 percent of Bankthai, more than the 24.99 percent stake announced in August. It will hold the same stake in Bankthai as the BOT's Financial Institutional Development Fund as a result of the purchase

The energy sector continues to be strong. Notable deals include:

- In the second quarter of 2007, PTT Pcl, Thailand's largest energy company, announced that it will pay US\$275 million for ConocoPhillips's 147 gasoline stations in the country to tap rising motor-fuel demand in Southeast Asia's biggest automobile market
- CLP Holdings Ltd., the larger of Hong Kong's two power utilities, sold its 50 percent stake in Thailand's BLC Power Co. to Thailand's Electricity Generating Pcl for US\$121 million. BLC Power is building a 1,434 megawatt coal-fired power plant in Rayong, Thailand that is almost ready to commence operation. Banpu Pcl, Thailand's largest coal miner, owns the other 50 percent of BLC Power

Other deals worth mentioning include:

- Thai Tap Water Supply Co., Ltd, has agreed to acquire a 46.39 percent stake of Pathum Thani Water Co, Ltd, another Thailand based water utility company, for US\$134 million
- Sahaviriya Steel Industries Pcl agreed to purchase existing shares in Thai Cold Rolled Steel Sheet Pcl at a value of approximately US\$95 million from JFE Steel Corporation and Marubeni Corporation. After completion of the transaction, Sahaviriya Steel stakes will increase to 40.14 percent from 8.77 percent at present
- Posco, South Korea's top steelmaker and the world's third-largest steelmaker became the second-largest shareholder in Thainox Stainless Plc after agreeing to buy about 15 percent of Thailand's only stainless-steel producer for US\$56 million. Posco will supply 80 percent of Thainox's stainless hot-rolled coil steel needs, and help export Thainox' stainless cold-rolled coil steel
- F&N Dairies (Thailand), a wholly-owned subsidiary of Fraser & Neave Holdings Bhd, a Singapore-based company, has agreed to acquire Nestlé (Thai) and Nestlé Dairy (Thailand); the Thai based dairy product units of the Swiss conglomerate Nestle SA for US\$56 million. Under the agreement, F&N will also take control of Nestlé's canned milk as well as the chilled dairy and juice businesses in Thailand, giving it access to markets in Indochina

## Outlook

Although business communities remain concerned about the direction of economic policy, especially in terms of free trade agreements and rules for foreign shareholdings, the prospect of a new government and strong economic performance seem to have brought a renewed hope if not optimism.

Many have called on the government to strengthen investor confidence by clarifying the political situation and the proposed changes to the Foreign Business Act. This should include enhanced investment privileges to strengthen the country's attractiveness to foreign investors relative to competitors, including Vietnam, China, India and the Philippines.

Overall, a consensus is building, at least among foreign investors, that the local economy has nearly bottomed and that a domestic demand-driven cyclical upturn will follow general elections, which are planned to be held later this year.

For M&A, the number of deals has slowed considerably and our expectation remains that deals in Thailand will continue to be dominated by local activity – traditionally at low deal values – at least until the political situation is clarified.