



Thailand

Tourism and manufacturing sectors hit hard



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Current Environment

The downturn in the global economy has inevitably impacted Thailand's economy. Contracting consumer demand in major trading partners has resulted in decreased production and increased levels of unemployment in the manufacturing sector. Also impacted by global conditions was the Thai tourism sector which has additionally been affected by the concern generated by the growing Influenza A (H1N1) pandemic, with Thailand itself reporting 9,000 cases to-date.

In addition to the global challenges that Thailand faces, it has a number of homegrown issues. Thailand's 27th Prime Minister, Mr Abhisit Vejjajiva, was voted in by members of parliament in December 2008. In addition to steering the Thai economy through the global financial crisis he also faces the challenge of tackling the ongoing domestic political unrest. Demonstrations by the pro-Thaksin opposition turned violent on 13 April, during the Thai New Year celebrations. Two were killed and 113, including police officers, were injured by the clashes. This impacted the prospects for Thai tourism, which was only just beginning to recover from the occupation of Bangkok's Suvarnabhumi airport in November 2008.

GDP declined to an annualised negative 7% in the first quarter of 2009 compared with positive GDP of 6% in the equivalent period in 2008. Although private investment and consumption have declined for much of the first half of 2009 there are signs that the pace is slackening. A good indicator of private consumption is the VAT collection levels. May 2009 VAT collection declined by an annualised 17% but this was an improvement on the previous month's decline of 22%.

The Thai government has attempted to stimulate domestic consumption through a number of initiatives as public expenditure increased by an annualised 27% by May 2009: a THB2,000 handout to low income earners, support to families through free primary and secondary education and free utilities, a moratorium on certain property transfer fees and reductions in others, and additional national holidays which together with tourism campaigns aimed at the domestic audience have attempted to encourage Thais to get out and spend.

The baht has performed strongly against the majority of regional currencies, appreciating against the US dollar over the period by some 2.3% compared to a basket of regional currencies which appreciated by only 0.2%. The comparative strength of the baht was primarily because of continued trade surpluses with the first five months of the year amounting to a cumulative US\$10 billion. The Bank of Thailand has aimed during this period to actively intervene to prevent any major volatility.

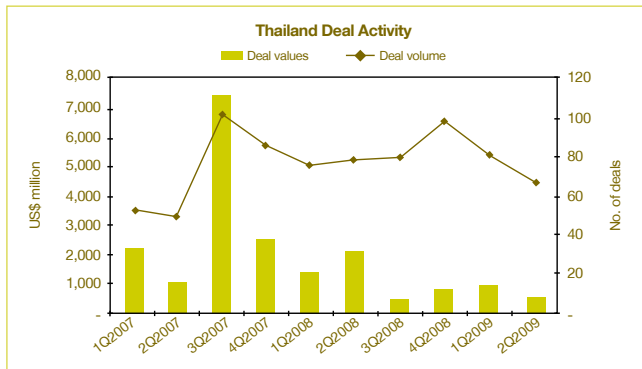
The SET over the first six months of 2009 rose by some 33% following a fall of 4% in January and February. This was despite a fall in the consumer confidence index by May 2009 to 64.3 down from 70.7 in December 2008. Net cash inflows from foreign investors of some THB20 billion for the first six months of 2009 following net outflows in January and February helped support the market whilst providing additional impetus to the appreciation of the baht.

Although foreign direct investment in the first half of 2009 was down to THB50 billion, a 33% drop in terms of number of projects or a 54% decline in terms of project value from the same period of the previous year, this represented an improvement on the preceding few months. There were 13 large projects approved which included a THB5,245-million seasonings manufacturing facility by Ajinomoto (Thailand), a THB944-million animal feed manufacturing plant by Nestle (Thailand) and a THB913-million haircare product manufacturing plant by P&G. Other projects were mainly in respect of industrial machinery and parts manufacturing.

* PwC SEAPEN Region comprises Malaysia, Thailand, Vietnam, Cambodia and Laos. Over 3,000 people across these five countries share knowledge, resources and experience to best serve clients' needs across the region.



Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2009.

M&A activity in Thailand has remained sluggish in the first half of 2009 picking up from US\$1,254 million to US\$1,453 million, a 16% change, in deal value from the second half of 2008. Domestic transactions dominated M&A activities and were primarily the consequence of the restructuring of domestic business groups or their related parties. True Corporation bought back its telecom-related subsidiary from Charoen Pokphand Group, while Minor International acquired Minor Corp. The founding shareholders of Thai Beverage and Bangkok Mass Transit System increased their stakes in the companies.

In terms of private equity M&A, activity was distinctly low with only H&Q's exit after 10 years from its initial investment in electronic equipment manufacturer, SVI being reported.

In respect of outbound M&A activity, real estate companies are taking advantage of the global economic downturn to invest in undervalued projects. Among others, TCC acquired Hyatt Regency Adelaide in Australia while Minor International raised its stake in its hotel investment in Vietnam, Harbour View Co., Ltd Other large corporates, for instance, SCG, Dusit, PTT and Charoen Pokphand Group, are thought to be actively seeking overseas opportunities.

Important deals in the financial services sector include:

- Bank of Ayudhya PCL acquired the entire share capital of AIG Card (Thailand) Co. Ltd, a credit card services provider, from AIG Consumer Finance Group, a unit of American International Group Inc. Concurrently, Ayudha acquired a 99.5% interest in AIG Retail Bank PCL. The two transactions have a combined value of THB2,055 million.
- Engine Holding Asia Pte Ltd acquired a 48.63% stake in Group Lease PCL, a Bangkok-based provider of motorcycle financing services, from Engine Inc. for a total value of THB521 million.
- Nipponkoa Insurance Co. Ltd acquired a 10% stake in Navakij Insurance PCL, a non-life insurance services provider, from a group of shareholders for THB210 million.

Other notable deals include:

- MFG Solution raised its interest in SVI PCL, a Nonthaburi-based manufacturer of electronic equipment, to 69.45% from 9.08%, by acquiring a further 58.48% from Asia Pacific Electronics (BVI) Ltd, for THB1,228 million. MFG Solution is owned by SVI's management team.
- Pacific Harbor Advisors Pte Ltd acquired a 14.97% stake in Tanayong PCL, a real estate development firm, from Dubai Investment Group, for a total value of THB209 million.
- SMK Asia Ltd acquired a 6.96% stake in Rojana Industrial Park PCL, a real estate development firm, for a total value of THB183 million.
- Knight Pacific Fund Ltd and Somers (UK) each acquired a 7.86% stake in Malee Sampran PLC, a canned fruits producer and wholesaler from shareholders for an undisclosed amount.
- Energy Co. Ltd of Thailand acquired a 50.3% interest in the PRL 5 of Santos Ltd, an Adelaide-based oil and gas exploration and production company, for US\$20 million.



Outlook

Expectations for the remainder of 2009 are muted with the decline in GDP anticipated to slow or for slight growth to return leaving a full year forecast of an annual contraction in GDP in the range of -3.5% to -2.5%. Both exports and imports in goods and services will continue to shrink and private investment is anticipated to contract by around 12% as investment decisions are delayed. Headline inflation is likely to be around zero given falling crude oil prices and the continued appreciation of the baht.

It is anticipated that the government will continue to stimulate demand through income support measures for low income earners and continued tax concessions (for example, an extension on low property transfer fees for a further year). The government is however considering raising revenues through imposing taxes on alcohol and tobacco and through annual property taxes.

Despite the impact of external economic shocks and internal political conflict, many investors remain of the view that Thailand has long-term investment potential. Concessions granted by the Board of Investment and other investment-

related government agencies, coupled with a reasonably competitive infrastructure and efficient logistics systems still make Thailand attractive in many sectors. Consumer and retail, healthcare, energy, environmental projects, insurance/consumer financing and distressed assets are all potential areas that might drive M&A transactions.

However the political situation is one of the major risk factors that is giving many investors pause for thought at present. The last election was on 23 December 2007 which in theory means that the next election would not be required until December 2011. Many commentators are of the view that it is probable that the next election is likely to be called much earlier than this; possibly by the end of this year. A strong showing by Pheu Thai, the current successor to Thai Rak Thai is likely with the consequent potential for further conflict with the political elite. The tourism sector is thought to be particularly at risk given the effectiveness of previous disruptions in putting the authorities under both fiscal and political pressure. When combined with concerns over the depth of the global downturn and the impact of Influenza A (H1N1), it is likely that M&A activity will remain limited, with most deals being local and at lower values over the next few months. ■