

Opalesque Exclusive

August 2007

From Matthias Knab: Doug Barnett, fund manager of Thai Focused Equity Fund, says fundamentals in Thailand have actually improved markedly over the last 3 weeks while prices have dropped, creating a buying opportunity:

Nothing wrong with Thailand, only foreign investor's portfolios:

- The only reason that the Thai market has corrected is due to selling by foreign investors. Since 27 July, foreigners sold a net \$1.1 billion, selling every day except August 20.
- We believe this selling was brought on by problems, unrelated to Thailand, taking place in the foreign investor's portfolios, namely subprime/credit issues, over-crowding of highly leveraged quantitative hedge fund strategies and possibly margin calls by these investors' prime brokers, all of which have led to a de-leveraging process across most global portfolios.

Macro and political environment in Thailand has improved:

- Last Sunday, the draft constitution was approved in a referendum, paving the way to elections in December. In the last 7 elections, the SET index staged an average 15% rally in the 3 months preceding to the one month following the election, as politicians practice the art of money politics and some of that money flows into the stock market. We are now 4 months before the December elections.
- The Bank of Thailand continues to make a series of interest rate cuts, trying to stimulate the domestic economy and weaken the baht back in line with other Asian exporters. The current rate is now 3.25%. In addition, the US Fed has cut the discount rate, and will probably cut the Fed funds rate next month, boosting global liquidity (which always seems to wind up in emerging markets going through the roof).
- With the end of political turmoil in sight and domestic infrastructure projects finally moving forward, we expect the economy to do well this year and next.

Thailand still trades at attractive relative and absolute valuations with good earnings growth:

<u>Market</u>	<u>2007 P/E</u>	<u>EPS Growth 07/06</u>
Thailand – SET	12.55	24.7%
Korea – KOSPI	14.77	9.5%
Indonesia – JCI	15.40	20.5%
Malaysia – KLCI	15.47	0.5%
Singapore – STI	16.22	-20.2%
Taiwan – TWSE	16.24	24.8%
Phillippine – PCOMP	16.27	-14.2%
HK – HSI	16.73	-1.9%
Japan – TPX	18.05	11.6%
India - BSE500	18.19	4.3%
China – SHSZ300	42.26	22.6%

Stock specific fundamentals have also improved:

- Thoresen Thai Agencies dropped 10.7% while freight rates rose 14.5% quarter on quarter, and spot freight indexes rose 4 - 5.5% since July

27th. Pacific Basin (another bulk freight company listed in Hong Kong) announced taking a 5% stake (now the second biggest shareholder after your fund); our estimate of fleet NAV increased from 50 baht per share to 69 baht per share based on rising ship prices, and the listing of their oil and gas services subsidiary, Mermaid Maritime is likely in the very near future.

- Banpu Coal dropped 7.4% even with coal at \$70/ton vs \$54/ton 3 months ago.
- Bank of Ayuthaya warrants dropped 11.9% even with General Electric increasing its stake from 25% to 33% and injected their existing profitable auto leasing business into the company.

Thai Focused Equity Fund takes advantage of this irrational pricing:

"In these types of fire sales, not all stocks follow the market; some fall much less and others, much more.

We took advantage of this phenomenon on Aug 16th and 17th to sell some Delta Electronics (-5%), Thai Union Frozen (-7.6%) and Advanced Info (-17%, just announced a slow quarter). We took the proceeds and bought Thoresen Thai Agencies (-18.7%) and Bank of Ayutthaya warrants (-25.8%).

The worst is over, rebound under way:

Since the bottom on August 16, the market and our portfolio have bounced 8.9% and foreigners have been slight net buyers. For the month to date, we are down 7.5% (still much less than our July gain of 11.6%) vs the SET index loss of 9.6%."

Opalesque Note: Barnett's Thai Focused Equity Fund was launched in October 1997 and had 2003 its best year with 151.9% return. From January to July 2007 the fund returned 42.5%. According to fund documents, the strategy is "to find well-run Thai manufacturing companies that export most of their production for US dollar income and have low levels of leverage. In addition, we now have 40% of our portfolio invested in companies that are beneficiaries of stimulative government monetary policy." Since inception (October 21, 1997), the Thai Focused Equity Fund net asset value per share gained 551% in US dollars, versus the SET Index gain of 93% in US dollars.

In April this year, I had the chance to visit Doug and his team in his Bangkok office. Doug has been running Thai portfolios since January 1990 and is one of the most accomplished hedge fund managers in the South-East Asian region. Industry sources say investment legends **John Templeton** and **Julian Robertson** run their well-timed Thai allocations through Doug Barnett's fund.

Barnett pointed out already early this year that the Thai market will stage a substantial rebound. Apart from attractive PE and growth ratios of Thai companies, the coming election (December) will have a strong positive impact on the markets. Analyzing the previous seven elections, Barnett found an average 15% price move, driven by "monetary politics" which typically come with an election. (What he means is the "payment for votes"-system). Historically, the Thai retail participants have also driven markets and retail participation is expected to increase.

Barnett says he follows about 50 to 60 "great companies" which are listed on the Thai market, at any time "ten to fifteen" of them display attractive parameters. Open interest of the SET50 futures contract would be growing and offering a useful hedging mechanism.

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