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Hiding Out In Thailand

By Mark Thompson, AsiaWise
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A big bet on Thailand has helped the **GMO Emerging Markets Fund** soundly beat most other funds in the category so far this year. Arjun Divecha, manager of the fund, thinks Thailand will remain one of the safest emerging markets in the world in the months to come.

At the start of the summer, Thai stocks accounted for 7.3% of the huge \$900 million fund, which -- with its \$1 million minimum -- is for institutional investors. That is more than four times the weighting allocated to Thailand in the MSCI emerging markets index. The big bet on Thailand is one of the reasons the GMO emerging markets fund, which has lost about 5% this year to date, has trounced the MSCI index, which is down 19%.

GMO fund managers explained their affinity for Thailand in a report on the first half of the year. With economic reforms underway and a reviving domestic economy, Thailand was one of the "best places to hide" from global economic conditions that were likely to get worse before they got better, the June 30 report observed.

In an interview with AsiaWise this week, Divecha stood by that assessment of Thailand -- and his overweighting in the country. Thailand, Russia and South Africa are three emerging markets that he believes will fare best in the coming months, he says. "They are largely domestic growth or domestic recovery stories. Sure, they're all exporters but they're less dependent on exports to the U.S. than other countries."

Relative immunity from the war in Afghanistan is another of Thailand's virtues, adds Divecha. The same can't be said for Thailand's Southeast Asian neighbors with large Muslim populations.

Among Divecha's favorite stocks in Thailand are three small caps: **Land and Houses Public Co. Ltd.** and **Quality Houses Public Co. Ltd.**, both residential real estate developers, and **Thai Union Frozen Products Co. Ltd.**, the world's third largest tuna producer. The three companies have had banner years in the stock market. They have surged 174%, 58% and 60% respectively in the last year, and they've each notched impressive further gains in recent weeks.

The Thai market as a whole, on the other hand, has looked like anything but a safe haven in the weeks since September 11. Until that day, the Stock Exchange of Thailand had been one of the best performing markets in the world, up more than 25% since the start of the year. The market had gained new momentum after Prime Minister Thaksin Shinawatra was acquitted of corruption charges on August 3 but in the immediate aftermath of the terrorist attacks, the index tumbled 21% and has gained back just a couple of percentage points since.

Government economic planners have had to sharply scale back their economic growth target for this year from above 4% to 1.5-2% since September 11. But


Divecha said Thailand's long-term growth prospects remain intact and Thaksin's economic restructuring initiatives are on track.


Foreign money managers remain wary of Thaksin. He strikes some as distressingly unchastened by the fact that his acquittal in August came on a tenuous 8-7 majority of the Constitutional Court. Appearances of a conflict of interest didn't stop him from supporting a new law limiting foreign investment in the telecom sector, which conveniently will undercut would-be competitors of the **Shin Corp.**, the Thaksin family-controlled telecom conglomerate.


Still, the Thai government is better and more stable than many others in emerging markets, says Divecha. "We're not talking in absolute terms but in relative terms. Thailand is a relatively stable place right now."

The domestic economy was doing quite nicely back in the summer, GMO reported at the time. "We are seeing a very strong recovery in the property and automobile sectors as interest rate reductions are finally working their way through the system. The biggest property company, **Land and Houses**, will record their best revenue number in four years," GMO fund managers wrote.

Land and Houses and his two other small-cap Thai favorites remain good buys, despite their strong recent performance, because as is the case in other emerging markets, smaller stocks were ignored for so long, Divecha says. As GMO's June report noted, "Smaller stocks continue to have even more headroom after a decade of underperformance prior to last year's turn."

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