



South and Southeast Asia

Thailand

Court ruling on environmental issues in industrial projects might hinder improving investment climate



Gary Murphy
Deals Leader
PwC SEAPEN Region*

Current Environment

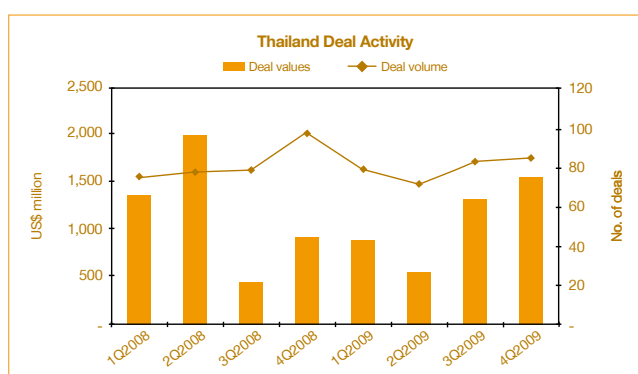
The Thai economy has begun to improve with positive signs being detected in the level of both exports and domestic consumption. The manufacturing sector expanded strongly as the number of sales orders increased in line with the improvement in the global and domestic economies. Similarly the tourism sector rebounded as the number of inbound tourists reached 1.2 million in December 2009, a 10.5% increase from December 2008. This improvement happened despite fears of an influenza epidemic in the first half of the year. Partly as a consequence of this turnaround in the tourism industry, Thailand's unemployment rate declined to 1.1% by the end of 2009 with international reserves being maintained at a high level of US\$154.1 billion, reflecting an increasingly stable economy by the fourth quarter of 2009.

Government spending, under its "Thai Khem Kaeng (Strong Thailand) 2012" scheme – a TH200 billion budget allocation for investment in public service projects covering 14 infrastructure areas, increased during the last quarter of the year. Private consumption continued to show signs of improvement reflected in inflation-adjusted value added tax (VAT) collections in October that contracted at a slower rate of -7.4% year-on-year compared to the contraction of -9.6% seen in September. The Thai baht has generally traded in line with other major Asian currencies, strengthening in the second half of 2009 as a recovery in the industrial sector in the US and Europe improved risk appetite. Given its small size, the Thai Stock Exchange (SET) remained quite volatile over the year although broadly following the improved trend in global stock markets. The SET index increased by 63.1% from 450.0 points to 773.7 points during the course of 2009. The consumer confidence index as at the end of December 2009 had risen to 70.4 from 69.1 in November 2009.

Foreign direct investment in the second half of 2009 was THB36 billion, down by 7.3% compared to the same period in the previous year. Foreign direct investment was primarily in the industrial sector particularly in respect of electronic appliances, with the largest investors being Japan, Switzerland and the US. In addition, government agencies have approved 264 projects, a 9.1% increase year-on-year. The approved projects were mainly in the Infrastructure (THB30.3 billion) and Agriculture sectors (THB8.2 billion).

Investor confidence was knocked back recently by an interim ruling by the Central Administrative Court instructing government agencies to suspend 76 industrial projects in the Map Ta Phut industrial zone and nearby areas. As a consequence, some investment plans have been suspended. Although the immediate short-term impact on the economy is likely to be limited within a small group of investors, there is, however, a wider concern regarding the potential longer term impact arising from the damage done to the overall investment climate and the uncertainty arising from the wait for a final ruling.

Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 31 December 2009.

M&A activity in Thailand in the second half of 2009 picked up from US\$1,471 million in the first half of 2009 to US\$2,463 million in the last six months, a 67% increase in deal value from the first half of 2009.

Transactions involving private equity houses remain low. The only announced deal was in respect of Navis Capital Partners acquiring Grampian Foods Siam Ltd., a producer and wholesaler of poultry products, from Grampian Country Food Group Ltd. through an LBO.

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In the energy sector, major players are exploring cross border acquisition opportunities to diversify their investment portfolios both in respect of geography and products. In particular, there is a trend away from conventional energy to alternative and renewable energy. In the hospitality sector, standalone hotels are seeking branding from chain hotel operators to expand their customer base. Large Thai-based multinational corporations continue to seek investments in the region.

Important deals in the financial services sector include:

Bank of Ayudhya Plc. (BAY) acquired the subsidiary assets of General Electric Capital International Holding Corp., a provider of financial services. The transaction included the entire share capital in each of General Card Services and Total Services Solutions. Concurrently, BAY planned to acquire the Thailand subsidiary assets of General Electric Capital Corp. and the subsidiary assets of Tesco Card Services Ltd. The three transactions had a combined value of THB13.7 billion (US\$403.8 million). Subsequently, BAY planned to acquire the entire share capital of CFG Services Co. Ltd. and the Thailand commercial loan portfolio of General Electric Co. (GE).

ACL Bank Plc. acquired a 24.7% stake in Finansa Syrus Plc., a Bangkok-based securities brokerage firm, for a total consideration of THB255.2 million (US\$7.5 million), in a privately negotiated transaction.

Other deals worth mentioning include:

The largest transaction for the second half of 2009 took place in October when Siritwana Co., Ltd. raised its stake to 34.9% from 18.5%, by acquiring a further 16.3% stake in Thai Beverage Plc., a Bangkok-based producer of alcoholic beverages, from Golden Capital (Singapore) Ltd., for a total consideration of THB25.1 billion (US\$754.1 million).

Tarnin Holding Co., Ltd. raised its stake to 29.1% from 0.03% by acquiring a further 29.1% stake in Don Muang Tollway Co., Ltd., a Bangkok-based owner and operator of tollway, for THB3.6 billion (US\$106.98 million).

UBG Energy Ltd of Malaysia, a wholly-owned unit of UBG Bhd., acquired the entire share capital of Pearl Thailand (Holdings) Ltd., an oil and gas exploration and production company, from Pearl Energy Ltd., a unit of United Arab Emirates state-owned Mubadala Development Co., for THB653.8 million (US\$19.2 million).

Mitsui Oil Exploration Co., Ltd. of Japan, a unit of Mitsui & Co. Ltd., and PTT Exploration and Production Plc., a 65.6%-owned unit of PTT Plc., acquired a 28.8% stake

in an oil and gas exploration and production project, Block G4/48 located in the Gulf of Thailand, wholly-owned by Chevron Corp.

Chaleo Yoovidhya, Thailand's richest person with a US\$4 billion net worth largely from his 49% stake in Red Bull energy drink, acquired a 40% stake in Piyavate Hospital Public Co., Ltd., a Bangkok-based owner and operator of hospitals, from Thonburi Hospital Plc.

Siam Piwat Co., Ltd., a wholly-owned unit of MBK Plc., raised its interest to 50% from 15.4%, by acquiring a further 34.6% stake in Paradise Park Co., Ltd., the owner and operator of a shopping center.

Outlook

The Thai economy performed better than expected in 2009. The overall contraction of GDP for the year was 2.8%, better than the previous estimate of 3.5% which was made in October 2008. This was mainly due to the 3.5% growth of GDP in the fourth quarter, which was a significant improvement on the contraction rates of 7.1%, 4.9% and 2.9% recorded earlier for the first, second and third quarters of 2009 respectively.

According to the Finance Ministry's latest forecast, growth is anticipated to continue. The Thai economy is forecast to grow 3% to 4% in 2010, with an inflation rate in the region of 2.5% to 3.5%. Total investment is projected to grow by 3.8%. The export sector is forecast to expand by 10%, following the recovery of Thailand's trading partners and rising product prices in the global market. Imports are anticipated to jump by 18.5% as spending within the country is likely to increase.

The key economic driving force for growth in 2010 is likely to be the government's spending through a number of stimulus packages, such as the Thai Khem Kaeng (with total investment budget of THB1.43 trillion), progress in infrastructure and the mass transit development project (i.e. recent invitation by Mass Rapid Transit Authority of Thailand to tender for the Mass Rapid Transit Blue line extension with a project value over THB52 billion), and other measures introduced to encourage consumer spending and stimulate demand. Other factors include private sector expenditure, rising prices for agricultural goods and higher employment. Greater liberalisation within AFTA, effective from 1 January 2010, is also anticipated to contribute to the growth of the economy.



Looking at the investment environment in 2010, certain positive trends are noted. Although inconsistency and lack of transparency characterised public policies and government procedures in 2009, lowering foreign investors' confidence levels and delaying certain investment decisions, most foreign investors still perceive Thailand as an interesting investment destination. Some evidence supporting this view can be found in the surge in investment value (by about 17.9% from 2008) of applications submitted to the Board of Investment Privileges in 2009. In addition, the results of 2009 Foreign Investor Confidence Survey Report by the Office of the Board of Investment were broadly positive, despite the unfavourable global economic climate and the political turmoil in Thailand. About 58.8% of investors would maintain their level of their investment in Thailand, whilst about 29.9% have plans to expand their business. These sentiments could also stimulate greater M&A activity in 2010.

Despite the positive outlook for GDP growth and high levels of Foreign Investor Confidence, the Thai economy

is still vulnerable to a number of risk factors including political uncertainty and government instability, unclear government policy, consistency and effectiveness of government economic stimulation, foreign exchange fluctuation, and the magnitude of the world economic recovery. The recent Map Ta Phut Industrial Estate episode, where the Administrative Court suspended permits for 76 projects on environmental grounds, has added to the concerns of foreign investors who are considering making investments in Thailand. The Director of the Fiscal Policy Office believes that this decision has the potential to reduce the level of GDP growth by approximately 0.5%.

Although M&A activity is showing signs of growth, it seems likely that activity will remain limited particularly for the first half of the first quarter in 2010. Building up foreign investor confidence level is one of the key challenges for the Thai government in attracting increased investment levels and consequently higher volumes of deals in the country. Investors are weighing up the implications and "awaiting the final ruling". ■