

Thailand

Dragged by politics

SET Current	:	735
SET 3/12 mths Target	:	700 / 759
Expected Return	:	-5%/+3%

- The SET performance is expected to be sluggish in 2Q06 from the political instability, which would continue to take a toll on the economic growth going forward.
- The catalyst for the market is the clearer picture in politics. Delay in mega infrastructure investments might lead to downward revision in the economic growth throughout the year.
- Our target SET Index is 759, pegged to 10.1x 2006 earnings. This is the 3-year average PE during 2003-2005. We foresee the weaker market in 2Q06 and recommend investors to go for defensives. Our top picks are Thai Oil and Hana Microelectronics.

Index	Close 20-Mar-06	Net chg 1 m	-1 m (%)	-3 m (%)	-6 m (%)	-12 m (%)	52 week High Low	
SET	741	(1.8)	(0.2)	4.4	14.0	8.8	764	631
SET 50	521	(3.4)	(0.6)	4.2	14.1	10.1	541	440
SET 100	1,136	(4.3)	(0.4)	4.6	14.7	na	1,176	957
SET Banks	281	(6.5)	(2.2)	6.2	23.8	19.5	295	220
SET Construction Materials	6,369	(40.0)	(0.6)	(1.5)	5.4	(12.6)	7,320	5,887
SET Communication	100	(2.4)	(2.3)	(4.0)	5.7	(0.1)	112	87
SET Energy	15,370	178.7	1.2	8.9	15.6	26.6	16,169	12,009
SET Electronics	782	15.3	2.0	8.2	14.1	17.7	791	588
SET Property	124	(1.2)	(1.0)	11.9	25.6	5.6	206	82
Transactions:	YTD			Mkt PE		EPS chg		
Volume (bn shares)	222		2005	10.1		3.1%		
Value (Btbn)	1,201		2006F	10.0		(2.1%)		
			2007F	9.8		1.8%		

MARKET REVIEW AND OUTLOOK

The Thai stock market surged strongly early this year, led by strong capital inflows that were supported by the market's attractive valuation. Foreign investors bought net Bt74.8bn worth of Thai shares in Jan 2006; YTD to mid-March 2006, the net buy position reached c. Bt90bn (US\$2.3bn). The SET Index peaked at 769.57 in late January, but weakened after due to concerns of the deteriorating political climate, with anti-Thaksin rallies getting larger and occurring more frequently. Prime Minister Thaksin Shinawatra, under pressure, dissolved the House of Representative on 24 Feb 2006 and called for a national election on 2 April; but this was insufficient to calm down the protestors who demanded that the premier step down. For the first time in Thai politics, the key opposition parties boycotted the election by not sending any representatives to the field, citing the loophole in the constitution law, which might lead to unfair treatment in election.

Going forward, the political situation is not expected to improve in the near to medium term for the following reasons: (i) The key opposition parties chose to play outside the game; (ii) There could be a re-election if the 500 seats are not filled after following the 2 April election. The election may also be postponed; (iii) There will be another election (probably in 2007) after amendments to the constitution as demanded by the opposition parties, and as proposed by Thai Rak Thai party. At this point, it should

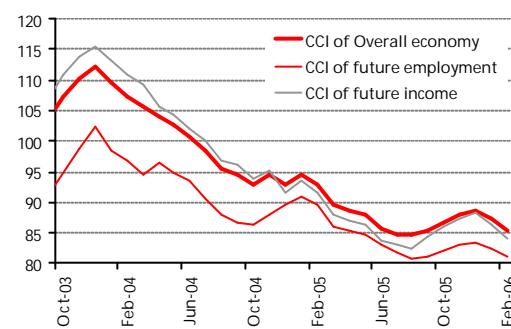
be fair to conclude that political stability might not return to normal levels in the next 12-18 months. Hence, the major driving force of the Thai economy, the government's planned Bt1.8 trillion investment over 5 years, could be delayed. Based on this, we believe the market will remain sluggish in 2Q06. Our Index target remains at 759, or an implied 10.1x 2006 PE (3-year average).

SENTIMENT: Deteriorating due to political concerns

Since late 4Q05 to early 2006, market sentiment had improved dramatically as investors considered the Thai market one of the prime laggard plays. Massive foreign capital inflows also helped to spur an early year rally. But political concerns led by the huge rallies by anti-Thaksin groups that called for a House dissolution, have resulted in sharp deterioration in the investment climate. This is well reflected by declining market activities - average daily turnover fell from from Bt32bn in Jan 2006 to Bt18.3bn in February and Bt12.9bn during the first half of March. Foreign investors became net sellers of - Bt3.2bn in the first half of Mar 2006, after heavy net buys of Bt74.8bn in January, and Bt19.1bn in February. The selling in March has started to worry domestic investors who believe it may lead to more selling.

On the economic front, the key economic indicators pointed to a weakening economy as well. 4Q05 GDP growth was disappointing, up by only 4.7% y-o-y, significantly slower than the 5.3% y-o-y growth registered in the previous quarter. There were several negative developments in 1Q06 that concerned investors, including: (i) surge in domestic fuel prices (diesel rose 10.4% and unleaded gasoline rose 4.3% from early Dec 2005); (ii) electricity prices increases by c.7%; (iii) lending rates have been raised 100bps since early Dec 2005. Moreover, the delay in mega project investment as a result of the House dissolution might lead to slower-than-expected economic growth this year. Sentiment should improve with better visibility of the political outlook, but this will not happen in the next few months.

Consumer Confidence Index



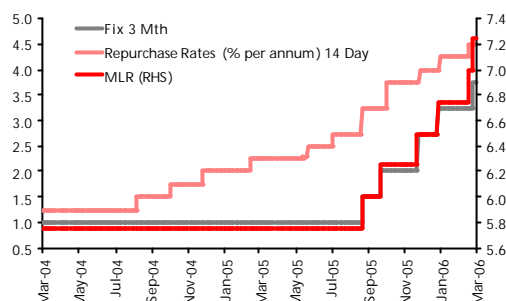
Source: Bloomberg

LIQUIDITY - Domestic interest rates skyrocketing

The Bank of Thailand raised its benchmark rate (14-day repurchase rate) by 25bps to 4.5% at its 8 March meeting. Inflation pressures and negative real interest rates were raised as concerns, including increasing risks of political developments and sluggish demand. DBS Bank raised its forecast for the policy rate to 4.75% by end 2Q06 from 4.50% previously. Meanwhile, commercial banks are busily raising their deposit and lending rates. In the last 12 months, Bangkok Bank, the largest private bank in Thailand, raised its key-lending rate by 150bps and fixed 3-month deposit by 275bps. Savings deposit rate, which apply to about half of the bank's total deposit, was unchanged at 0.75%. The uptrend in domestic interest rate is expected to extend into the near-term, particularly from commercial banks that have to compete with government securities, that are paying more attractive yields compared to the banks' fixed deposit rates.

In 1Q06, massive capital continued to flow into the market. Apart from the heavy net buy position of over Bt90bn (US\$2.3bn) YTD to mid-March, there was massive money inflows related to the Shin Corp purchase by Temasek in late Jan 2006. This, together with the remaining Shin share tender in Feb - early March, drove the Baht to a one-year high of Bt38.5/US\$ from Bt41/US\$ at the end of last year. If the political tensions continue over the next few months, the Baht should be sluggish with a downside bias.

Domestic rates are rising



Source: Reuters, BoT

GROWTH and VALUATION - Recovery led by Banks and Energy stocks

4Q05 GDP growth was disappointing as the Thai economy absorbed the shock from the removal of petrol subsidy, as well as rising domestic interest rates. In fact, the major economic activities slowed during the latter half of 2005, despite improving service income from tourism. Full year GDP growth was 4.5% in 2005, decelerating from 6.2% growth in the previous year. For listed companies under DBSV coverage, which represent around 73% of the total market cap, EPS growth in 2005 was 3.1% y-o-y. Going forward, GDP growth this year should improve to 5.2%, but with rising risks of downward revision if the political gridlock cannot be solved soon. We project 2006 EPS to contract 2.0%, an improvement from the 4.0% contraction anticipated earlier. This is primarily led by improving prospects of companies in the Energy and Banking sectors.

Sector EPS Growth and PE Valuation

Sector	EPS Growth (%)			PE (x)		
	2005A	2006F	2007F	2005A	2006F	2007F
Banking	5.4	(6.5)	4.4	10.4	11.2	10.7
Construction Materials	(29.8)	(1.4)	8.8	9.7	9.1	8.4
Chemicals & Plastics	(44.2)	(16.6)	(13.6)	5.9	7.1	8.2
Commerce	2.2	17.5	10.8	16.8	14.3	12.9
Communications	(23.2)	21.8	13.2	16.5	13.5	12.0
Electrical Products & Computer	(20.3)	6.7	21.2	12.6	11.8	9.7
Electronics Components	11.1	(0.7)	6.1	10.3	9.8	9.2
Energy	32.8	5.1	(1.8)	9.2	8.7	8.9
Entertainment & Recreation	12.6	9.7	18.9	18.8	17.2	14.5
Finance & Securities	(20.1)	6.8	5.0	11.5	10.8	10.3
Foods & Beverages	7.7	17.2	12.1	15.5	13.1	11.7
Property Development	16.8	(6.0)	2.9	12.1	12.7	12.4
Transportation	25.9	(26.8)	(21.0)	3.0	4.2	5.3
Vehicles & Parts	(15.7)	20.3	11.8	11.5	9.6	8.6
Others	173.2	(17.1)	13.0	5.9	7.2	6.4
DBSV Universe	3.1	(2.1)	1.8	10.1	10.0	9.8

Source: DBS Vickers

INVESTMENT STRATEGY - Defensive stocks

We recommend investors go for defensive stocks in 2Q06 because there is a strong possibility the market may soften further. We believe the political situation should remain gloomy during the quarter; the planned 2 April 2006 election may be postponed and it is likely that a re-election may follow. Core holdings should be Bank Communication and Energy stocks. The Banking sector is expected to report impressive performance in 1Q06, led by improving net interest margin. Energy stocks should remain attractive due to the high oil prices. The Power sector should also be a good defensive play given their stable income stream derived from the power purchase agreements. We believe the Manufacturing sector may face cost pressures from higher electricity and fuel prices, and sharp increase in domestic interest rates. Construction Contractors and Building Materials stocks are also expected to experience negative sentiment, from the anticipated delay in the government's mega project investments.

SECTOR	REMARKS	STOCK SELECTION
Banks and Finance <i>Neutral</i>	Loan growth is expected to decelerate following the surge in key lending rates, and the increasing risk of a slowing economy arising from political instability. Fee income should continue to expand well, led by consumer related fees. Most of the large banks offer limited near term upside. Accumulate on price weakness.	SCB KBANK
Construction Materials <i>Neutral</i>	Oil prices remain high, and there will be an electricity rate hike . Mega projects investment are also facing delays, which is negative to the sector in the near to medium-term.	SCC DCC
Consumer <i>Underweight</i>	There is little room to play for consumer stocks, due to limited upside. Branch expansion remains the key growth driver.	IT
Communication <i>Overweight</i>	Earnings are expected to recover in 2006 after the price war last year. With our conservative forecast for flat ARPU, ADVANC and TAC remains attractive. We recommended selling SHIN under the general offer, at to 9 Mar 2006. But since the share price tumbled, we rate Bt49.25 from 2 Feb the stock a Hold.	ADVANC TAC
Electronics Components <i>Neutral</i>	The operations of Thai electronic stocks are turning around, in line with the global market. Major stocks have risen close to our fair value estimates. A strengthen Baht against the greenback might put pressures on the electronics sector.	HANA
Energy <i>Neutral</i>	The longer term outlook for the Thai Energy sector remains solid. M&A activities may heighten in 2006, particularly among PTT's subsidiaries. The Power sector is facing delays in bidding for the country's new capacity expansion.	TOP PTT
Entertainment <i>Underweight</i>	We recommend selective plays for the Thai Entertainment sector. MAJOR, the dominant player in the movie theatre business, should perform well. WORK is expected to post impressive results because of its popular game show business.	MAJOR WORK
Property Development <i>Overweight</i>	Delays in mega project investment will create negative sentiment for the construction contractors. However, CK is trading well below its fundamental value, which implies a good buying opportunity for long-term investment. Prospects for the office market remains bright, as reflected in declining vacancies and rising rents.	CK QH CPN

BUY Bt29.25 SET:734.51

Price Target : 1-year Bt34.32 (Prev Bt34.32)
Potential Catalyst: Strong 1Q06 results

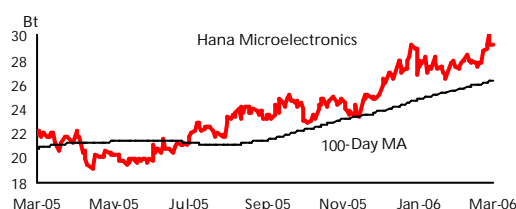
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FORECASTS AND VALUATION

FY Dec (Btm)	2004A	2005A	2006F	2007F
Turnover	11,054	12,136	14,717	15,966
EBITDA	2,775	2,650	3,177	3,429
Pretax Profit	2,087	2,200	2,644	2,808
Net Profit	1,853	2,062	2,400	2,499
EPS (Bt)	2.33	2.56	2.86	2.98
EPS Gth (%)	13.7	9.5	11.8	4.1
P/E (x)	12.5	11.4	10.2	9.8
P/Cash Flow (x)	8.9	9.2	7.9	7.3
EV/EBITDA (x)	7.4	7.7	6.1	5.3
DPS(Bt)	1.10	1.42	1.56	1.65
Div Yield (%)	3.8	4.8	5.3	5.7
ROE (%)	24.9	24.2	23.6	21.0
Net Gearing (%)	Cash	Cash	Cash	Cash
Book Value (Bt)	10.01	11.23	13.40	14.89
P/Book Value (x)	2.9	2.6	2.2	2.0

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs) 805
Mkt Cap (Btm/US\$m) 23,765 / 614

Major Shareholders
OMAC (HK) Limited 21.4
OMAC Co. Ltd 5.8
Free Float (%) 59.6
Avg Daily Vol ('000 shrs) 1,405

Earnings Rev : None

Consensus EPS: FY06: Bt2.85 ; FY07: Bt3.13

Variance vs Cons: FY06: +0.2% ; FY07: -4.9%

Sector: Electronics

Bloomberg/Reuters Code: HANA.BT / HANA.BK

Principal Business : HANA provides IC and PCB assembly & test services. The company also manufactures LCOS microdisplays.

Hana Microelec.

Our top pick in the electronics sector

HANA's outlook remains bright, especially for the IC assembly business, which should continue to grow at least through 1H06. Given this, a diversified revenue base and strong balance sheet with net cash of Bt3.3bn (Bt4.1 per share) at end-2005 and zero debt, HANA remains our top Buy in the electronics sector.

HANA is now trading at attractive 2006 EV/EBITDA of 6.3x, and offers 17.3% upside to our target price of Bt34.32 (12x 2006 PE) and generous 2006 dividend yield of 5.3%. **Maintain BUY.**

Demand remains strong at IC Assembly division in Ayudhya.

The Ayudhya plant's sales jumped 45% y-o-y in 4Q05 and 6.3% in FY05, as demand for semiconductor continued to rise since 3Q05. Prospects remain strong, and management is targeting double-digit growth for the Ayudhya plant in FY06. Demand remains strong, especially for the small chip packaging business that HANA is focusing on.

New Jia-Xing plant ramping up production. Although still operating at a loss, utilization rate at the new plant, which commenced IC assembly operations in Jun 2005, is picking up nicely. This is right at the time when semiconductors are staging a strong turnaround. HANA plans to bring in more machinery to increase capacity from about 1.0m units at end-2005 to 2.0m units by mid 2006, and up to 3m units by end 2006. The plant should reach break-even then.

Positive outlook for PCB assembly business. Sales at its microelectronics division had been growing steadily, and remain strong at both Lampoon and Shanghai. The main products driving growth include PCBA for touch pads for notebook computers, IPOD, hearing aids, 10 GHZ transmitter & receiver for 2G and 3G base stations, fibre optic cable connectors, RFID access control cards & readers, security devices to secure data transmission, and telecom infrastructure devices (low-cost localized mobile phones). According to management, almost 50% of the world's notebook computer touch pads are produced by HANA.

Expect strong 16.2% earnings growth in 2006. With key major divisions likely to continue to do well, HANA's earnings should grow 16.2% y-o-y to Bt2.4bn in 2006.

Income Statement (Btm)

FY Dec	2004A	2005A	2006F	2007F
Turnover	11,054	12,136	14,717	15,966
Gross Profit	2,610	2,726	3,290	3,475
SGA Expenses	(652)	(737)	(898)	(958)
Opg Profit	1,958	1,989	2,393	2,517
Associate Income	0	0	0	0
Other Income	106	161	174	191
Interest (Exp)/Inc	22	50	78	100
Pre-Tax Profit	2,087	2,200	2,644	2,808
Tax	(193)	(133)	(159)	(168)
FX and Ex-Items	(40)	(6)	(86)	(141)
Net Profit	1,853	2,062	2,400	2,499
Sales Growth %	30.8	9.8	21.3	8.5
Net Profit Gr %	14.8	11.2	16.4	4.1
Gross Mgn %	23.6	22.5	22.4	21.8
Opg Mgn %	17.7	16.4	16.3	15.8

Balance Sheet (Btm)

FY Dec	2004A	2005A	2006F	2007F
Fixed assets	3,456	4,121	4,610	4,669
Other LT Assets	2	3	3	3
Cash/ST Investments	2,791	3,289	4,528	5,501
Other Current Assets	3,257	3,944	4,730	5,126
Total Assets	9,506	11,357	13,871	15,298
ST Debt	0	0	0	0
Other Current Liabilities	1,558	2,301	2,627	2,800
LT Debt	0	0	0	0
Minority Interests	0	0	0	0
Shareholders' equity	7,948	9,055	11,243	12,499
Total Capital	9,506	11,357	13,871	15,299
Share Capital (m)	159	161	168	168
Net cash/(debt)	2,791	3,289	4,528	5,501
Working capital	4,489	4,932	6,631	7,827
Gearing (%)	Cash	Cash	Cash	Cash

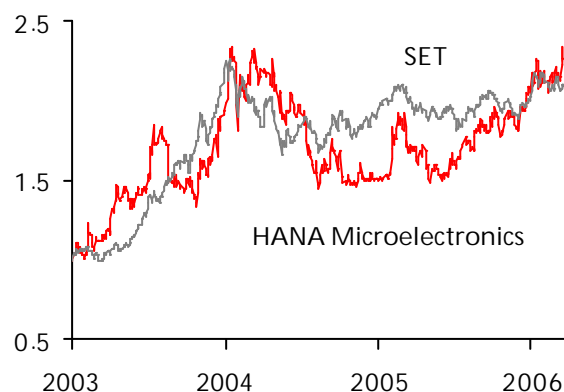
Interim Income Statement (Btm)

FY Dec	Mar-05	Jun-05	Sep-05	Dec-05
Turnover	2,449	2,846	3,434	3,407
EBITDA	518	636	761	637
Depr/Amort	130	213	130	213
Opg Profit	375	485	593	537
Associate Income	0	0	0	0
Other Income	30	34	37	59
Interest (Exp)/Inc	7	11	8	24
Pre-Tax Profit	412	530	638	620
Tax	(26)	(34)	(31)	(42)
FX and Ex-Items	23	(54)	12	14
Net Profit	409	442	619	591
Sales Growth %	(2.3)	2.6	15.5	21.7
Net Profit Gr %	(33.4)	(7.1)	15.6	48.5
EBITDA Mgn %	21.2	22.4	22.1	18.7
Opg Mgn %	15.3	17.0	17.3	15.8

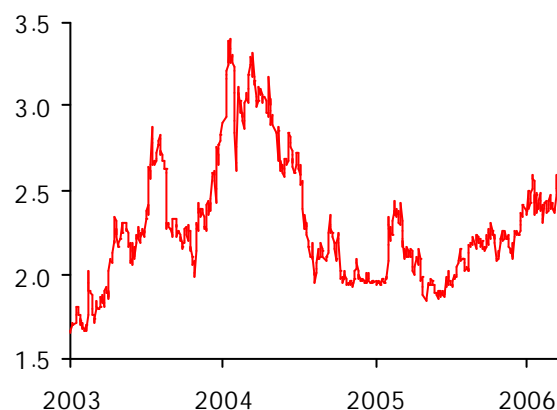
Segment Breakdown (Btm)

FY Dec	2004A	2005A	2006F	2007F
PCBA (Lampoon)	3,542	4,126	4,426	4,747
PCBA (Shanghai)	1,389	2,063	2,459	2,637
LED/Opt (Bangkok)	1,680	1,456	1,447	1,410
ICA (Ayudhya)	4,111	4,369	4,991	5,352
HMT (Ohio)	332	121	72	78
Jia Xing plant		0	1,322	1,741
Total	11,054	12,136	14,717	15,966
Sales Breakdown				
PCBA (Lampoon)	32%	34%	30%	30%
PCBA (Shanghai)	13%	17%	17%	17%
LED/Opt (Bangkok)	15%	12%	10%	9%
ICA (Ayudhya)	37%	36%	34%	34%
HMT (Ohio)	3%	1%	0%	0%
Jia Xing plant		0%	9%	11%
Total	100%	100%	100%	100%

Valuation Graph : PE



Price Relative to Index



BUY Bt64.50 SET:734.51

Price Target : 1-year Bt83.00 (Prev Bt83.00)
Potential Catalyst: Sustained GRM and rising gasoline demand toward summery driving season

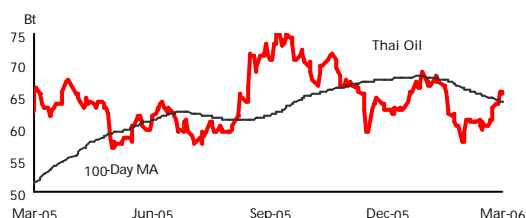
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FORECASTS AND VALUATION

FY Dec (Btm)	2004A	2005A	2006F	2007F
Turnover	184,801	249,111	221,651	248,483
EBITDA	25,494	29,003	28,687	33,161
Pretax Profit	17,748	22,535	21,350	25,289
Net Profit	15,073	18,753	17,280	20,588
Norm. Net Profit	14,306	16,735	16,904	20,300
EPS (Bt)	7.39	9.19	8.47	10.09
Norm. EPS (Bt)	7.01	8.20	8.29	9.95
Norm. EPS Gth (%)	482.8	17.0	1.0	20.1
PE (x)	8.7	7.0	7.6	6.4
Norm. PE (x)	9.2	7.9	7.8	6.5
P/ Cash Flow (x)	9.1	6.4	3.8	5.0
EV/EBITDA (x)	6.5	5.4	4.8	3.7
DPS (Bt)	1.80	3.50	3.50	4.00
Div Yield (%)	2.8	5.4	5.4	6.2
ROE (%)	37.1	33.3	25.3	25.7
Net Gearing (%)	69.6	38.2	9.9	cash
Book Value (Bt)	24.16	31.01	35.98	42.58
P/ Book Value (x)	2.7	2.1	1.8	1.5

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs)		2,040
Mkt Cap (Btm/US\$m)	131,580 /	3,400
Major Shareholders		
PTT		49.5
Credit Agricole Indosuez (Suisse) S.A		3.1
Free Float (%)		40.4
Avg Daily Vol ('000 shrs)		1,666

Earnings Rev : None

Consensus EPS: FY06: Bt8.49 ; FY07:Bt8.59

Variance vs Cons: FY06: -0.3% ; FY07+15.7%

Sector: Energy

Bloomberg/Reuters Code: TOP.BT / TOP.BK

Principal Business : Thailand's largest refinery with investments in energy related businesses, including power generation, petroleum transportation, and petrochemical and lube base oil production

Thai Oil

Healthy rebound in refining margin

Refining margins have bottomed out, and started to rebound, reaching US\$6-7/bbl recently. It should be sustainable at US\$5-7/bbl over the next few months, and increase further during the summer driving season. This should help to reverse negative sentiment towards TOP. Although FY06 earnings are expected to be flat, we project earnings to grow 20% in FY07, driven by expansion projects. TOP's higher than expected dividend payout for 2005 should indicate attractive dividend yield for 2006. The counter offers 27% upside to our target price of Bt83 (sum-of-parts).

Refining margins rebound. Refining margins had been weak since late 2005. Reuters's Singapore refining margin (Dubai crack) hit bottom, at below US\$2/bbl in late Jan 2006 and averaged US\$3.92/bbl and US\$3.52/bbl in Jan and Feb, respectively. But since the beginning of March, margins have started to rebound, to US\$6-7/bbl currently due to strong refined product prices relative to crude prices, and more scheduled plant shutdowns in the region. We expect the margin to sustain at US\$5-7/bbl over the next few months, in line with the past two year's average, and to increase further during the summer driving season.

FY07 earnings growth to be driven by capacity expansion.

We expect FY06 normalized net profit to be flat y-o-y, on the assumption that TOP's GRM would average US\$6.5/bbl in 2006 compared to US\$6.62/bbl in 2005. For 2007, we expect normalized net profit to rise 20%, driven mainly by a 23% refining capacity expansion to 270k bpd and TPX's capacity expansion to boost PX production capacity by 17% to 407k tpa. These projects are expected to be completed in mid-2007. TOP's power business is poised for long term growth as its current infrastructure is capable of accommodating an additional 2x700MW of generating capacity. We expect the new round of power bidding to start in mid-2007.

Potential for high dividend payout. TOP's Bt3.50 DPS for 2005 implies 40% payout ratio, which is significantly higher than the company's guideline of 25%. If we assume TOP maintains the 40% payout, this would imply attractive dividend yield of 5.4% for 2006. TOP's balance sheet remains strong with net gearing of 38% at end-2005, and should improve to 13% by end 2006.

Income Statement (Btm)

FY Dec	2004A	2005F	2006F	2007F
Turnover	184,801	249,111	221,651	248,483
EBITDA	25,494	29,003	28,687	33,161
Depr/Amor	(6,632)	(6,559)	(6,521)	(7,323)
Opg Profit	18,862	22,444	22,166	25,838
Assoc&Oth Inc/Exp	1,185	2,243	841	1,001
Interest (Exp)/Inc	(2,299)	(2,152)	(1,657)	(1,549)
Pre-Tax Profit	17,748	22,535	21,350	25,289
Tax	(2,967)	(3,406)	(3,614)	(4,346)
Minority Interest	(23)	(375)	(456)	(356)
Extraordinary Gain/Loss	315	-	-	-
Net Profit	15,073	18,753	17,280	20,588
Sales Growth %	26.6	34.8	(11.0)	12.1
Net Profit Gr %	123.3	17.0	1.0	20.1
EBITDA Mgn %	13.8	11.6	12.9	13.3
Opg Mgn %	10.2	9.0	10.0	10.4
Tax Rate %	16.7	15.1	16.9	17.2

Balance Sheet (Btm)

FY Dec	2004A	2005F	2006F	2007F
Fixed Assets	72,525	71,301	77,855	75,438
Other LT Assets	2,779	1,869	1,869	1,869
Cash/ST Investments	7,136	11,673	22,986	37,326
Other Current Assets	32,988	39,326	31,216	34,727
Total Assets	115,427	124,169	133,926	149,360
ST Debt	2,735	1,616	5,269	1,185
Other Current Liab	17,701	18,457	20,817	22,718
LT Debt	38,706	34,252	24,967	27,250
Shareholders's Equity	53,575	66,852	77,448	91,252
Total Capital	115,427	124,169	131,452	145,355
Share Capital (m)	2,040	2,040	2,040	2,040
Net Cash (Debt)	(34,305)	(24,195)	(7,250)	8,891
Working Capital	19,686	30,927	28,116	48,150
Gearing (%)	69.6	38.2	9.9	cash

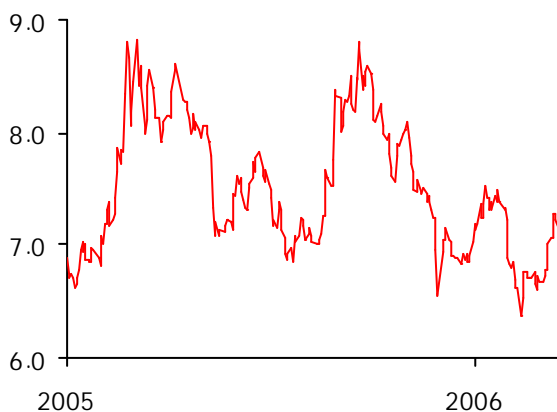
Interim Income Statement (Btm)

FY Dec	Mar-05	Jun-05	Sep-05	Dec-05
Turnover	47,942	63,366	70,723	67,081
EBITDA	6,338	8,126	9,737	4,802
Depr/Amor	(1,427)	(1,683)	(1,716)	(1,732)
Opg Profit	4,911	6,443	8,021	3,070
Assoc&Oth Inc/Exp	136	(1,627)	562	3,172
Interest (Exp)/Inc	(486)	(582)	(546)	(538)
Pre-Tax Profit	4,561	4,233	8,037	5,703
Tax	(982)	(676)	(1,499)	(249)
Minority Interest	112	(25)	(285)	(177)
Net Profit	3,691	3,532	6,254	5,277
Sales Growth %	(12.0)	32.2	11.6	(5.1)
Net Profit Gr %	(26.5)	(4.3)	77.1	(15.6)
EBITDA Mgn %	13.2	12.8	13.8	7.2
Opg Mgn %	10.2	10.2	11.3	4.6
Tax Rate %	21.5	16.0	18.6	4.4

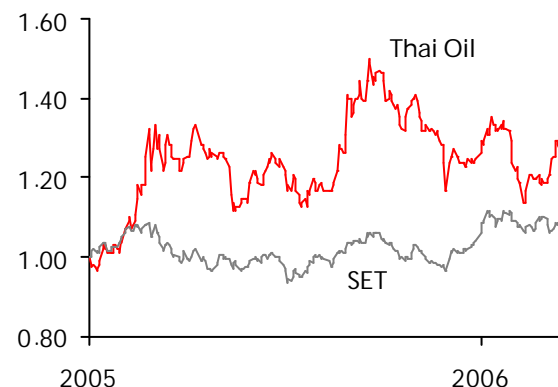
Segment Breakdown (Btm)

FY Dec	2004A	2005F	2006F	2007F
Turnover				
Refining	176,993	246,213	214,740	232,443
Power	7,281	11,149	11,220	11,220
Petrochemical (TPX)	2,219	32,127	34,359	46,968
Lube-Based Oil (TLB)	1,792	14,206	10,694	11,445
Oil&Chemical Transport	906	691	951	951
Inter-company	(4,390)	(55,275)	(50,313)	(54,545)
Consolidated	184,801	249,111	221,651	248,483
EBITDA				
Refining	23,623	20,357	18,897	20,920
Power	1,479	2,479	3,375	3,528
Petrochemical (TPX)	98	4,376	4,495	5,636
Lube-Based Oil (TLB)	1,259	1,767	1,782	1,908
Oil&Chemical Transport	(36)	82	165	173
Inter-company	(929)	(58)	(28)	996
Consolidated	25,494	29,003	28,687	33,161

Valuation Graph : PE



Price Relative to Index



Thailand

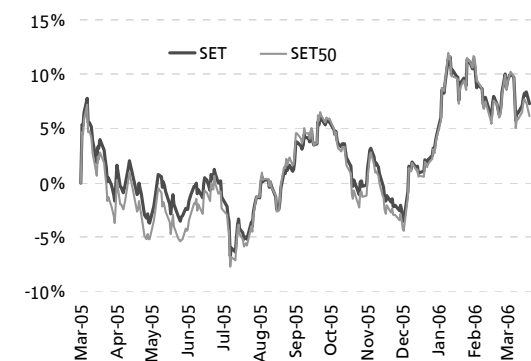
Small caps - Selective play

- DBSV Thailand small cap universe earnings is expected to grow 12% in 2006, against the forecast 1.3% earnings contraction for our large cap universe that will be led by Banks and Property.
- Our small cap universe is currently trading at 2006 PE of 11.1x and EV/EBITDA of 8.2x, compared to 9.8x and 6.5x respectively for the large caps. Despite its undemanding valuation compared with regional peers, messy Thai politics should cap potential upside in the market.
- For 2Q06, we highlight two stocks in the Electronics and Household sectors. We downgraded K.C.E. Electronics as we expect its 1Q06 to be very weak. We like Modernform Group, which offers high dividends.

Market Review

In 1Q06, the SET Index gained 2.9% while the SET50 Index rose 2.0%. The market was volatile with downside bias. The SET Index surged in the beginning of the year to reach its highest point at 769.59 (up 7.8% from YE05) on 26 January, while the SET 50 Index reached 544.01 (up 8.2% from YE05) on the same day. However, the market gave up most of its gain following concerns about Thailand's political situation, and rising domestic interest rates. In 1Q06, average daily turnover rose sharply to Bt22.2bn, up from Bt16.5bn in the previous quarter. But daily turnover had been declining on the monthly basis during the quarter, i.e. from Bt32.0bn in Jan 2006 to Bt18.3bn in Feb 2006, and to Bt12.9bn in Mar 2006. In 1Q06, foreign investors bought Bt90.4bn (US\$2.3bn) net Thai stocks, reversing the net sell of Bt2.0bn in the previous quarter. In 2005, foreign investors bought Bt118.5bn (US\$3.0bn) net Thai shares.

Consumer Confidence Index



Source: Bisnews

Among the highly traded sectors, Banks gained 6.0% q-o-q as investors remained upbeat about improving prospects after the Bank of Thailand relaxed rules on capital; Communication lost 10.9% q-o-q, led by ADVANC (-13.0% q-o-q) and Shin Corp (-12.4% q-o-q) following the Temasek takeover of Shin Corp. The Energy sector rose 7.9% along with the recent surge in oil prices. Property stocks rose 10.2% due to cheap valuation and improving prospects despite rising domestic interest rates.

Growth and Valuations

Our small cap universe (market cap <Bt15.0bn) comprises 73 companies with a total market cap of Bt409bn, or 8% of the SET market cap. Our large cap universe comprises 39 companies with a total market cap of Bt3,457bn, or 65% of the SET market cap. Our small caps universe EPS is estimated to expand by 12.3%, while our large cap universe EPS is expected to contract by 1.3%, led by lower profits from Banks, Property, and Construction material. However, generally, prospects for most of the major sectors should be better. The Communication sector's revised EPS growth of 21.8% (previously +10.5% in 2006) reflects the heavy losses in True Corp in 2005.

Going forward, we believe there is a high risk of downward earnings revisions in the midst of mounting political pressures, which could take a toll on overall economic growth. Without any scope for upward revisions, the Thai market is unlikely to trade above its historical average PE range. In terms of valuation, our small cap universe is currently trading at 2006 PE of 11.1x and EV/EBITDA of 8.2x, compared to 9.8x and 6.5x respectively for the large caps. But valuations for both the small and large caps are undemanding relative to regional peers.

Key Valuation Comparison

	Large Caps				Small Caps			
	2004A	2005A	2006F	2007F	2004A	2005A	2006F	2007F
EPS Growth (%)	43.1	6.9	(1.3)	0.3	45.9	(20.9)	12.2	10.8
PER (x)	10.8	9.8	9.8	9.6	10.0	12.8	11.1	10.0
EV/EBITDA (x)	8.4	7.1	6.5	6.0	9.8	10.2	8.2	6.9
ROE (%)	26.1	24.6	21.8	19.9	17.3	12.6	13.6	14.2

Source: DBS vickers

Strategy And Stock Picks

For 2Q06, we highlight two stocks in the Electronics and Household sectors that are expected to outperform their peers over the next 6-12 months. K.C.E. Electronics offers a turnaround play in the electronics sector. Modernform Group has a solid business, strong balance sheet, and offers high dividend yield. The opening of the new Bangkok International Airport should be its near-term earnings catalyst.

K.C.E. Electronics (KCE TB): We expect KCE's 1Q06 results to be very weak, with losses of Bt46m, due to rising material costs and strong Baht that should result in plunging margins and FX losses. Over the longer-term, if the Baht remains stable at current levels, earnings should recover from 2Q06 onwards as demand remains strong and reject rates are under control. We cut our FY06 forecasts by 16% to reflect the anticipated poor 1Q06 results. With near-term earnings likely to be very weak, we downgrade our rating to HOLD from Buy.

Modernform Group (MODERN TB): Modernform Group should continue to benefit from the growing office and residential property market. In the near-term, the opening of the new Bangkok International Airport should support demand for office furniture. Nonetheless, FY06 sales are expected to contract due to the de-consolidation of its 48%-owned subsidiary, Thai Plaspac (TPAC) after the latter was listed. Modernform Group has strong and prudent management. Given its generous prospective dividend yield of over 8% and net cash position, we have a BUY rating for Modernform Group, with a target price of Bt48, based on 12x 2006 PE.

HOLD Bt5.65 SET:734.51

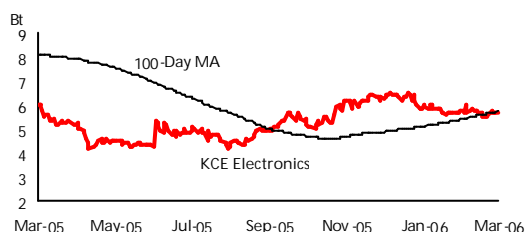
Price Target : 1-year Bt6.27 (Prev Bt7.45)

ANALYST

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FORECASTS AND VALUATION

FY Dec (Btm)	2004A	2005A	2006F	2007F
Turnover	5,713	6,668	7,390	7,472
EBITDA	686	744	958	995
Pretax Profit	124	6	195	233
Net Profit	241	1	195	233
EPS (Bt)	0.77	0.00	0.63	0.75
EPS Gth (%)	-19.5	-99.4	n.m.	n.m.
P/E (x)	7.3	n.m.	9.0	7.6
P/Cash Flow (x)	-9.5	4.0	2.6	2.4
EV/EBITDA (x)	9.7	9.0	6.5	5.7
DPS(Bt)	0.10	-	0.09	0.11
Div Yield (%)	1.8	-	1.7	2.0
ROE (%)	11.2	0.1	8.4	9.2
Net Gearing (%)	204.2	204.0	167.7	137.3
Book Value (Bt)	7.25	7.16	7.79	8.44
P/Book Value (x)	0.8	0.8	0.7	0.7

SHARE PRICE CHART

AT A GLANCE

Issued Capital (m shrs)		315
Mkt Cap (Btm/US\$m)	1,779 /	46
Major Shareholders		
Mr. Jesda Lertnantapanya		6.4
Clearstream Nominees		3.9
Free Float (%)		69.5
Avg Daily Vol ('000 shrs)		3,697

Earnings Rev : FY06: -16% ; FY07-7%

Consensus EPS: FY06: Bt0.83 ; FY07:Bt0.92

Variance vs Cons: FY06: -24.3% ; FY07-18.3%

Sector: Electronics

Bloomberg/Reuters Code: KCE.BT / KCE.BK

Principal Business : KCE manufactures double-sided and multi-layered printed circuit boards (PCBs). It also produces its own laminate, a major raw material for PCB production.

K.C.E. Electronics

Expect weak 1Q06 results

We expect KCE's 1Q06 results to be very weak, with losses of Bt46m, due to rising material costs and strong Baht that should result in plunging margins and FX losses.

Over the longer-term, if the Baht remains stable at current levels, earnings should recover from 2Q06 onwards as demand remains strong and reject rates are under control. We cut our FY06 forecasts by 16% to reflect the anticipated poor 1Q06 results.

With near-term earnings likely to be very weak, we downgraded our rating to HOLD from Buy on 22 March. The stock now offers 11% upside to our lowered target price of Bt6.27, based on 2006 PE of 10x.

Strong Baht will eat into margins. The Thai baht strengthened sharply against the greenback and the Euro in 1Q06, which should negatively affect KCE's 1Q06 results. Although 65% of its costs are in USD and should have come down, there will be a time lag as KCE has high-cost inventory in its books. This should lead to a sharp drop in gross margin in 1Q06. In addition, we estimate that KCE will have forex loss of about Bt24m at end-1Q06

Rising raw material costs. KCE has seen raw material, especially laminate, prices rise 5-7% YTD. But its average selling price remained unchanged in 1Q06. KCE has plans to pass on some of the higher costs through price increases, but this will also take some time to materialize, at least one quarter.

Plans to issue up to Bt500m convertible debentures.

The notes will have a maturity of not more than 3 years. It can be converted in ordinary shares at a conversion price of not less than 110% of the average weighted closing price of the share on the SET for 15 business days prior to setting the conversion price or the book-building. The proceeds would be used to refinance KCE Technology's loans. If all the notes are converted, the new share issue would make up not more than 21.25% of the enlarged paid-up capital.

Long-term outlook still positive. Demand remains strong, utilization rates are rising and reject rates are under control. If the Baht remains stable at current levels, we expect KCE to recover from 2Q06 onwards. Based on our forecasts, earnings should jump from Bt1m in FY05 to Bt195m in FY06 and Bt233m in FY07.

Income Statement (Btm)

FY Dec	2004A	2005A	2006F	2007F
Turnover	5,713	6,668	7,390	7,472
EBITDA	686	744	958	995
Depr/Amort	420	508	533	544
Opg Profit	188	157	347	374
Other Income	79	79	78	78
Interest (Exp)/Inc	(117)	(182)	(186)	(175)
Pre-Tax Profit	149	54	239	277
Tax	(14)	(14)	(12)	(14)
Minority Interest	(11)	(34)	(32)	(30)
FX and Ex-Items	117	(4)	-	-
Net Profit	241	1	195	233
Sales Growth %	15.0	16.7	10.8	1.1
Net Profit Gr %	(19.5)	(99.4)	n.m.	19.1
EBITDA Mgn %	12.0	11.2	13.0	13.3
Opg Mgn %	3.3	2.4	4.7	5.0

Balance Sheet (Btm)

FY Dec	2004A	2005A	2006F	2007F
Fixed assets	5,433	5,274	4,970	4,688
Other LT Assets	44	64	82	100
Cash/ST Investments	148	173	173	173
Other Current Assets	3,065	3,362	3,659	3,686
Total Assets	8,690	8,873	8,884	8,647
ST Debt	3,016	3,537	3,784	4,043
Other Current Liabilities	1,253	1,405	1,678	1,685
LT Debt	2,025	1,531	794	57
Minority Interests	158	190	222	252
Shareholders' equity	2,239	2,210	2,405	2,609
Total Capital	8,690	8,873	8,884	8,647
Share Capital (m)	315	315	315	315
Net cash/(debt)	(4,893)	(4,895)	(4,406)	(3,928)
Working capital	(1,056)	(1,407)	(1,630)	(1,869)
Gearing (%)	204	204	168	137

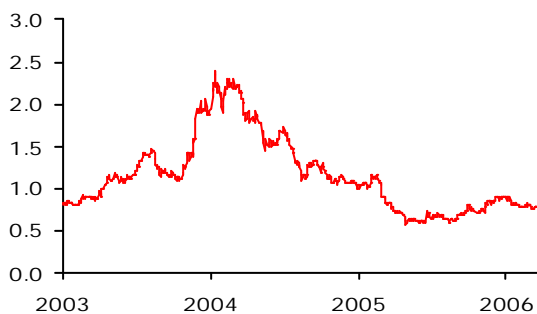
Interim Income Statement (Btm)

FY Dec	Mar-05	Jun-05	Sep-05	Dec-05
Turnover	1,394	1,636	1,869	1,770
EBITDA	39	129	282	(32)
Depr/Amort	130	133	120	(201)
Opg Profit	(107)	(23)	140	146
Other Income	16	19	21	23
Interest (Exp)/Inc	(38)	(43)	(47)	(54)
Pre-Tax Profit	(129)	(47)	115	115
Tax	(1)	-	(0)	(13)
Minority Interests	(0)	(8)	(12)	(14)
FX and Ex-Items	(7)	(4)	1	5
Net Profit	(137)	(58)	104	93
Sales Growth %	9.3	12.7	20.8	23.0
Net Profit Gr %	(418.0)	(205.6)	6.8	104.9
EBITDA Mgn %	2.8	7.9	15.1	(1.8)
Opg Mgn %	(7.6)	(1.4)	7.5	8.2

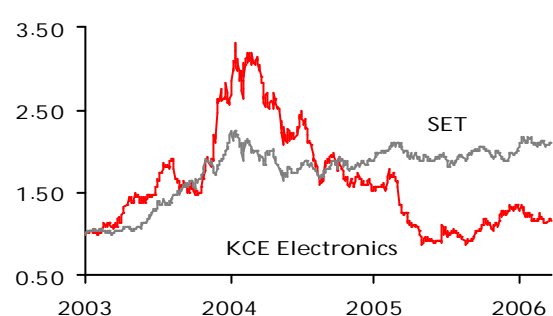
Segment Breakdown (Btm)

FY Dec	2004A	2005A	2006F	2007F
Automotive	1,714	2,000	2,217	2,242
CEM	1,543	1,800	1,995	2,018
Computer	457	533	591	598
Consumers	1,086	1,267	1,404	1,420
Network	229	267	296	299
Others	686	800	887	897
Total	5,713	6,668	7,390	7,472
Automotive	30%	30%	30%	30%
CEM	27%	27%	27%	27%
Computer	8%	8%	8%	8%
Consumers	19%	19%	19%	19%
Network	4%	4%	4%	4%
Others	12%	12%	12%	12%
Total	100%	100%	100%	100%

Valuation Graph : PBV



Price Relative to Index



BUY Bt38.75 SET:734.51

Price Target : 1-year Bt48.00 (Prev Bt48.00)
Potential Catalyst: High dividend yield

ANALYST

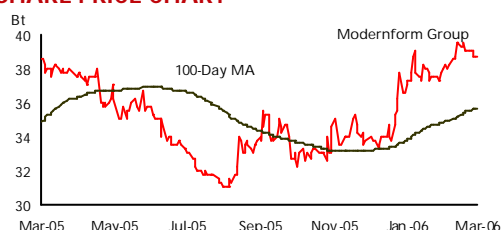
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FORECASTS AND VALUATION

FY Dec (Btm)	2004A	2005A	2006F	2007F
Turnover	2,782	3,026	2,829	3,112
Operating profit	252	338	351	416
EBITDA	397	475	493	564
Net profit (Btm)	279	322	361	402
EPS (Bt) *	3.49	4.01	4.01	4.47
EPS growth*	37.4	15.1	0.0	11.4
P/E (X)*	11.1	9.7	9.7	8.7
P/Cash Flow (X)	4.6	3.9	4.1	3.6
EV/EBITDA (X)*	8.6	6.8	7.0	6.0
DPS (Bt)	2.75	3.00	3.25	3.50
Div Yield (%)	7.1	7.7	8.4	9.0
Net Gearing (%)	15.0	6.7	Cash	Cash
ROE (%)	13.9	15.5	16.3	17.0
ROA	10.0	11.0	12.8	14.3
Book Value (Bt)	25.56	26.36	25.73	26.95
P/Book Value (X)*	1.5	1.5	1.5	1.4

*Fully Diluted of Warrant & ESOP

SHARE PRICE CHART



AT A GLANCE

Issued Capital (m shrs)		81
Mkt Cap (Btm/US\$m)	3,123 /	81
Major Shareholders		
Mellon Bank, N.A.		9.4
Thai NVDR		8.9
Free Float (%)		55.6
Avg Daily Vol ('000 shrs)		39

Earnings Rev : None

Consensus EPS: FY06: Bt4.24 ; FY07:Bt4.50

Variance vs Cons: FY06: -5.4% ; FY07-0.7%

Sector: Household Goods

Bloomberg/Reuters Code: MODERN.BT / MODE.BK

Principal Business : Furniture manufacturer and packaging.

Modernform Group

Solid business with high dividend yield

Modernform should continue to benefit from the booming office and residential property market. In the near-term, the opening of the new Bangkok International Airport should support demand for office furniture. Falling vacancies and rising rents are evidence of an expanding office market in the longer term. The residential furniture market should also continue to grow, as projects launched in the last 1-2 years are completed and buyers start to move in. However, FY06 sales should contract following the de-consolidation of 48%-owned subsidiary, Thai Plaspac (TPAC) after the latter was listed. Modernform has strong and prudent management. With its generous prospective dividend yield of over 8% and a net cash position, we have a **BUY** rating for Modernform Group, with a target price of Bt48, based on 12x 2006 PE.

Record quarterly Bt106m net profit in 4Q05. Net profit for the quarter rose 29% y-o-y and 13% q-o-q, while sales grew 10% y-o-y and 2% q-o-q, due to its annual sale in Aug-Sep 2005. Despite sales growth being below our expectation, gross margin was better than expected.

Prospects remain bright in 2006. Currently, Modernform has Bt300m work on hand. Demand for office and residential furniture remains strong. Demand for office furniture should be supported by the commencement of the new airport by mid-2006, and growing demand for office space, represented by falling vacancies and rising rents. For residential furniture, more developers are giving away furniture to promote property sales. Additionally, projects launched in the last 1-2 years are being completed and buyers are moving in. We expect furniture sales to grow 12% in FY06.

Solid balance sheet. Net gearing was only 6.7% in 2005, down from 15% in 2004. We expect the company to turn net cash in 2006. Cash flow from operation was also healthy at Bt341m in 2005, with EBITDA of Bt475m in the same year.

High dividends. MODERN announced Bt1.75 DPS for 2H05 (XD 8 May, payment on 22 May). It paid Bt1.25/share for 1H05. Full year FY05 DPS should be Bt3.0 (75% payout), or 8.1% yield. Prospective dividend is estimated at Bt3.25/share for 2006 and Bt3.50/share for 2007, yielding 8.4% and 9.0% respectively.

Income Statement (Btm)

FY Dec	2004A	2005A	2006F	2007F
Turnover	2,782	3,026	2,829	3,112
EBITDA	397	475	493	564
Depr/Amort	145	137	142	147
Operating Profit	252	338	351	416
Asso & Others Inc	136	127	149	159
Net Interest Exp	(14)	(15)	(7)	(1)
Pre-Tax Profit	374	450	492	574
Tax	(91)	(113)	(131)	(172)
Minority Interest	(4)	(15)	-	-
Net Profit	279	322	361	402
Sales Growth (%)	28.9%	8.8%	-6.5%	10.0%
Net Profit Gr (%)	37.4%	15.4%	12.2%	11.4%
EBITDA Margin (%)	14.3%	15.7%	17.4%	18.1%
Opg Mgn (%)	9.1%	11.2%	12.4%	13.4%
Tax Rate (%)	24.3%	25.1%	26.6%	30.0%

Balance Sheet (Btm)

FY Dec	2004A	2005A	2006F	2007F
Fixed Assets	1,170	930	879	828
Other LT Assets	419	553	570	601
Cash/ST Investments	57	91	60	81
Other Current Assets	1,302	1,310	1,247	1,364
Total Assets	2,948	2,884	2,756	2,874
ST Debts	306	231	15	-
Other Current Liabilities	478	502	422	445
LT Debts	58	-	-	-
Minority Interest	61	4	4	4
Shareholders' Equity	2,045	2,114	2,315	2,425
Total Capital	2,948	2,853	2,756	2,874
Share Capital	800	802	900	900
Net Cash (Debt)	(307)	(141)	45	81
Working Capital	575	667	870	1,000
Net Gearing (%)	15.0%	6.7%	Cash	Cash

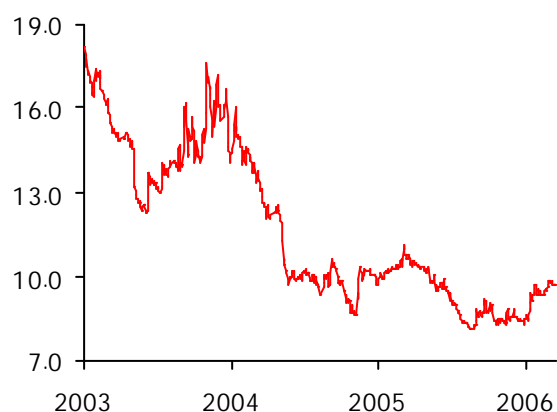
Interim Income Statement (Btm)

FY Dec	Mar-05	Jun-05	Sep-05	Dec-05
Turnover	704	655	823	843
EBITDA	46	85	134	156
Depr/Amort	35	35	36	31
Operating Profit	61	50	101	126
Asso & Others Inc	29	39	32	27
Net Interest Exp.	(4)	(4)	(4)	(3)
Pre-Tax Profit	86	85	129	150
Tax	(21)	(20)	(31)	(41)
Minority Interest & Extra Items	(3)	(4)	(5)	(3)
Net Profit	62	61	94	106
Sales Growth (%)	14.3%	-2.0%	12.8%	9.9%
Net Profit Gr (%)	5.5%	-6.0%	26.8%	28.8%
EBITDA Margin (%)	8.7%	7.6%	16.7%	18.5%
Opg Mgn (%)	8.7%	7.6%	12.3%	14.9%
Tax Rate (%)	24.5%	24.1%	23.9%	27.1%

Segment Breakdown (Btm)

FY Dec	2004A	2005F	2006F	2007F
Revenue Breakdown				
-Office - Domestic	31%	32%	39%	39%
-Office - Export	3%	3%	4%	4%
Residential	24%	25%	30%	30%
Accessories	12%	13%	16%	16%
Total Furniture Sales	79%	81%	99%	99%
Thai Plaspac	21%	19%	0%	0%
Tower	3%	3%	3%	3%
D?cor Metall	1%	1%	0%	0%
Elimination	-4%	-3%	-2%	-2%
Total Sales Value	100%	100%	100%	100%

Valuation Graph : PE



Price Relative to Index

