Biggest Thai Brokerage Sees Small-Cap Stocks Bubble

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The biggest rally in Thailand's small-capitalization companies in more than a decade has propelled shares to bubble levels, according to the nation's largest brokerage.

Speculative buying has pushed some of the country's smallest stocks to prices unjustified by their earnings potential, Montree Sornpaisarn, the chief executive officer of Maybank Kim Eng Securities (Thailand) Pcl (MBKET), said in an interview in Bangkok. This year's 93 percent surge in the small-cap MAI Index has left the gauge valued at 4.3 times net assets, a record 89 percent premium over the benchmark SET Index.

Investor optimism toward smaller companies in Thailand's $442 billion stock market, Southeast Asia's third-largest, has been fueled by a military coup in May that ended six months of political turmoil and led to a resumption of state investment. The surge prompted the president of the small-cap exchange to caution investors against excessive speculation this month and led the securities regulator to speed up legislation designed to curb manipulation.

"Bubble share prices in several small-cap stocks are a serious concern because retail investors can lose so much when the market reverses," Montree said at his office on Sept. 19.

The MAI index closed at a record 690.55 on Sept. 15 and is heading for the biggest annual gain since 2003. It has outperformed the SET index (SET) by more than 70 percentage points this year. The MAI Index slipped 0.1 percent to 686.98 at the close in Bangkok today, compared with a 0.3 percent increase for the benchmark SET Index.

Unexplained Moves

While small-cap stocks are expensive, the nation's largest companies haven't yet reached levels that pose major risks to investors, according to Montree. The SET measure trades for 2.3 times net assets, down from a high of about 2.6 in May 2013, according to data compiled by Bloomberg.

The Stock Exchange of Thailand and its small-cap Market for Alternative Investment have sent requests for information to 17 companies this month, more than double the number in

August, after a surge in prices and volumes, according to exchange data. Thirteen of those stocks are listed on the MAI.

Among companies that received queries from the exchange, Cyberplanet Interactive Pcl (CYBER) surged 158 percent this month. The developer of video games said in a regulatory filing last week it offered 457 million new shares to a group of investors to raise funds for expansion. Dimet Siam Pcl (DIMET), a producer of paints and coatings that has rallied 236 percent this month, said on Sept. 12 it was unaware of any reason behind the rally.

‘Too Optimistic’

Shares of CCN-Tech Pcl (CCN), LDC Dental Pcl (LDC) and Rayong Wire Industries Pcl (RWI) jumped by the 200 percent limit on their first day of trading on the MAI this month.

“Most investors probably are too optimistic about small-cap companies’ earnings turnarounds after the political deadlock was removed,” Adithep Vanabriksha, the Bangkok-based chief investment officer at Aberdeen Asset Management Plc, which oversees about $551 billion globally, said by phone on Sept. 17. “Some stocks are traded at unimaginable prices even with a bullish growth outlook.”

The money manager’s Aberdeen Small Cap Fund (ABESMF) has delivered an average annual return of 29 percent in the past five years, making it the best performer among more than 200 equity funds domiciled in Thailand, data compiled by Bloomberg show.

Earnings at MAI-listed companies slumped 31 percent in the first half, according to a statement from the bourse on Aug. 20. The nation’s gross domestic product rose 0.9 percent in the three months through June from the previous quarter, when it shrank a revised 1.9 percent, according to government data.

Companies on the MAI, which began operations in 1999 to help small- and medium-sized firms raise money, have a median market capitalization of about 1.3 billion baht ($40 million), versus 4.5 billion baht for SET index companies, data compiled by Bloomberg show. About 96 percent of investors on the MAI are Thai individuals and the rest are domestic institutions.

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