

# Aberdeen New Thai Investment Trust

Specialist investor in Thailand

**Aberdeen New Thai Investment Trust (ANW) is the only investment trust listed on the London Stock Exchange with an exclusive focus on Thai equities. An experienced Bangkok-based team supports the trust's fundamental, bottom-up driven investment approach. Longer-term returns have slightly lagged the index, but volatility is also lower with a beta of 0.9 over five years. Following a largely liquidity-driven rally in 2016, the Thai equity market has returned to fundamentals, which is more favourable to ANW's approach. Trading at a discount to NAV (including income) of 16.3% and with a 2.0% dividend yield, investors looking for exposure to Thailand and its fast-growing neighbours may find ANW of interest.**

12 months ending	Share price (%)	NAV (%)	SET Index (%)	MSCI AC Asia ex-Japan (%)	MSCI World (%)
31/05/13	72.4	59.0	50.7	21.1	30.5
31/05/14	(27.2)	(24.6)	(21.8)	(2.8)	8.0
31/05/15	14.2	14.2	16.8	21.6	16.8
31/05/16	(5.9)	(6.7)	(2.7)	(13.2)	1.3
31/05/17	36.9	36.4	33.9	44.8	32.0

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

## Investment strategy: Long-term and quality focus

ANW's investment objective is to provide a high level of long-term, above-average capital growth through investment in equities in Thailand. It invests in high-quality, well-managed companies with strong balance sheets and cash flows.

Unconstrained by sector allocations, portfolio construction reflects high conviction in a relatively concentrated number of stocks, yet across a broad range of industries. The long-term approach is reflected in low portfolio turnover of around 10% pa. Gearing is permitted and used selectively, up to 15% of net asset value.

## Market outlook: Return to fundamentals

Abundant liquidity and a sharp recovery in the energy sector pushed Thai stock market total returns up 36.5% in ANW's financial year to end-February 2017, leaving valuations stretched relative to earnings expectations. The market has since refocused on fundamentals, which is more favourable to ANW. Meanwhile, the economy shows signs of positive momentum in consumption and exports while healthy public finances and infrastructure spending plans could also bode well for prospects over the next 12-18 months. A smooth transition of power to the Crown Prince following the passing of King Bhumibol augurs well for political stability while elections, pushed out until 2018, are expected to return a government sympathetic to maintaining the country's current business-friendly policies. Investors looking for high-quality exposure to Thailand through a specialist manager with a solid long-term track record may find this trust of interest.

## Valuation: Scope for discount to narrow

ANW's shares trade at a 16.3% discount to NAV (including income) and the board is committed to narrowing the fund's discount. Meanwhile, ANW has the highest yield among peers of 2.0%.

## Investment trusts

30 June 2017

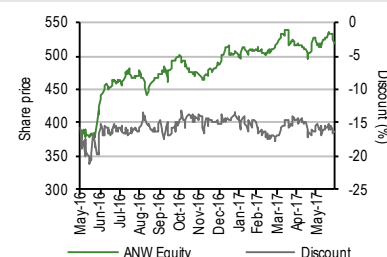
**Price** 519.5p  
**Market cap** £94m  
**AUM** £114.4m

NAV\* 612.4p  
Discount to NAV 15.2%  
NAV\*\* 621.0p  
Discount to NAV 16.3%

\*Excluding income. \*\*Including income. As at 22 June 2017.

Yield 2.0%  
Ordinary shares in issue 18.2m  
Code ANW  
Primary exchange LSE  
AIC sector Country Specialists: Asia Pacific  
Benchmark Stock Exchange of Thailand Index

## Share price/discount performance



## Three-year performance vs index



52-week high/low 538.0p 425.0p  
NAV\*\* high/low 636.6p 510.2p

\*\*Including income.

## Gearing

Gross\* 2.4%  
Net\* 0.8%

\*As at 31 May 2017.

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**Aberdeen New Thai Investment Trust is a research client of Edison Investment Research Limited**

## Exhibit 1: Trust at a glance

### Investment objective and fund background

ANW's investment objective is to provide a high level of long-term, above-average capital growth through investment in Thailand. The trust's holdings comprise a concentrated portfolio of equities listed on the Stock Exchange of Thailand (SET). Constructed through bottom-up stock selection, ANW's portfolio is diversified across a broad range of industries, with exposures not linked to SET index allocations.

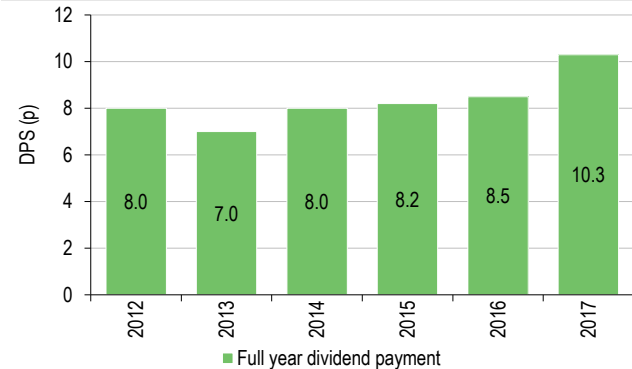
### Recent developments

- 26 May 2017: FY17 results to 28 February 2017. NAV total return + 26.5%; SET index total return +36.5%. The company declared a dividend of 10.3p per share.
- 28 June 2017: AGM. Hugh Young, non-independent director since inception, stepped down.
- 6 December 2016: Sarah MacAulay appointed to the board as independent, non-executive director.

Forthcoming		Capital structure		Fund details	
AGM	June 2018	Ongoing charges	1.4%	Group	AAM Asia
Interim results	October 2017	Net gearing	0.8%	Manager	Asian Equities Team
Year end	28 February	Annual mgmt fee	1.0%	Address	Bow Bells House, 1 Bread Street, London EC4M 9HH
Dividend paid	July	Performance fee	None	Phone	+44 (0)808 500 0040
Launch date	December 1989	Trust life	Indefinite	Website	<a href="http://www.newthai-trust.co.uk">www.newthai-trust.co.uk</a>
Continuation vote	No – see page 7	Loan facilities	£10m multi-currency facility		

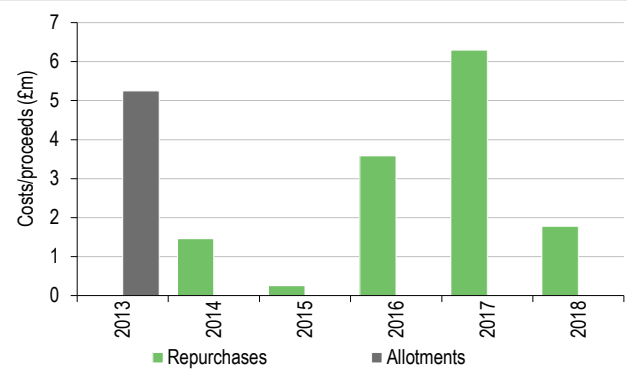
### Dividend policy and history (financial years)

Annual dividend paid in July. ANW targets capital growth rather than income and dividends may fluctuate depending on the level of income received.

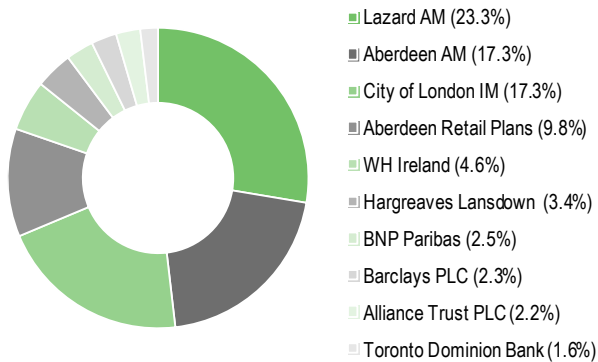


### Share buyback policy and history (financial years)

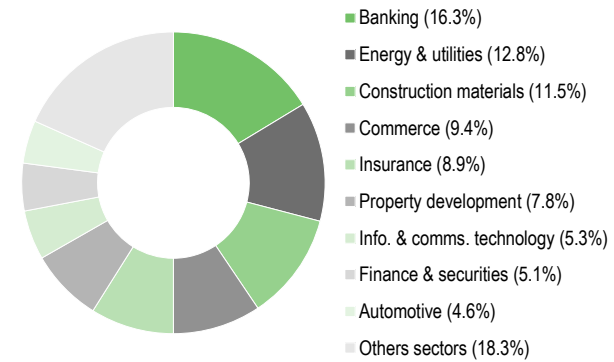
Renewed annually, the trust has authority to repurchase up to 14.99% and allot up to 10% of issued share capital.



### Shareholder base (as at 22 June 2017)



### Portfolio exposure by sector (excluding cash, as at 31 May 2017)



### Top 10 holdings (as at 31 May 2017)

Company	Sector	Portfolio weight %	
		31 May 2017	31 May 2016*
Siam Cement	Construction materials	5.7	6.1
Big C Supercenter	Commerce	5.5	5.3
Advanced Information	Telecoms	5.2	3.9
Bangkok Insurance	Insurance	4.9	5.1
Kasikornbank	Banking	4.6	5.1
Siam Commercial Bank	Banking	4.5	4.6
AEON Thana Sinsap	Finance & securities	4.1	3.4
Home Product Center	Commerce	3.7	4.1
Hana Microelectronics	Electronic components	3.5	N/A
Central Pattana Public	Property development	3.5	N/A
<b>Top 10 (% of holdings)</b>		<b>44.8</b>	<b>44.4</b>

Source: Aberdeen New Thai Investment Trust, Edison Investment Research, Bloomberg, Morningstar, Thomson. Note: \*N/A where not in May 2016 top 10.

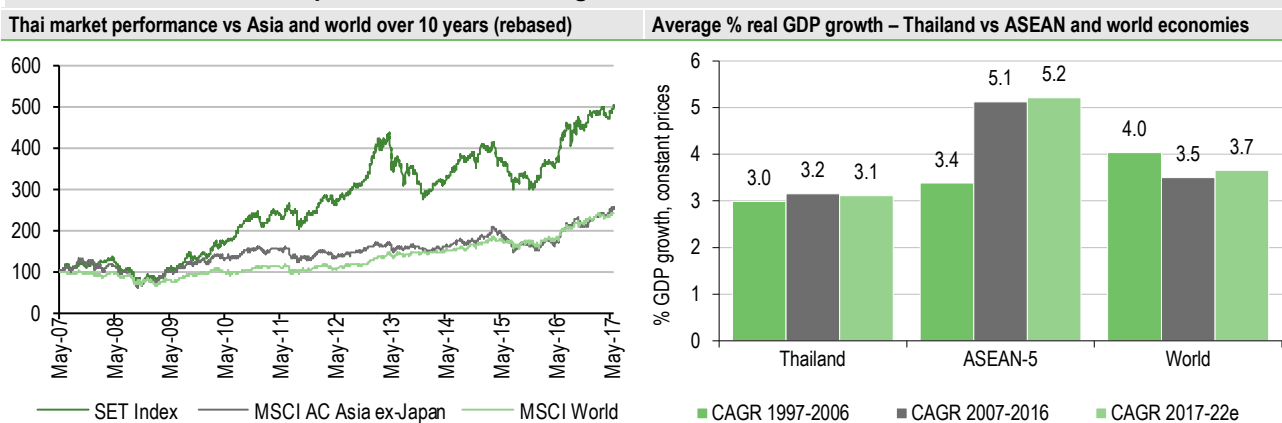
## Market outlook: Economic activity improving

Economic activity was subdued in the months following the passing of King Bhumibol in October 2016, after a reign of 70 years. The government declared a one-year period of official mourning for the public sector, although private businesses were not bound to this and were encouraged to continue to operate respectfully to help mitigate economic impact. Bhumibol will be succeeded by Crown Prince Maha Vajiralongkorn and his coronation will take place after the end of the mourning period in October 2017. Meanwhile, democratic elections originally planned for 2017 have now been delayed to 2018.

The economy picked up in the first quarter of 2017, growing by 3.3% over a year earlier (2.5% Q416) and prospects continue to look positive, leading the Bank of Thailand to revise its full-year growth projections from 3.2% up to 3.4%. Consumer sentiment improved, particularly in rural areas where decent rainfall, following a couple of years of drought, boosted farming income. Meanwhile, exports have been accelerating due to a pick-up in China's economy and higher global commodity prices. A planned boost in infrastructure spending, including US\$20bn of projects scheduled to start this year, should also be supportive.

Challenges remain, however, including the high level of household debt, which at 80% of GDP could limit the strength of domestic consumption. Global developments will continue to be important given Thailand's open economy, with exports accounting for around 65% of GDP. China is its largest trading partner at around 13%, while China, Japan, the US and EU combined account for over 40% of total exports.

**Exhibit 2: Thailand market performance and GDP growth versus world**



Source: Thomson Datastream, IMF April 2017 World Economic Outlook, Edison Investment Research

Thailand's SET index has outpaced Asian and world markets over 10 years (Exhibit 2) and rose 33.9% in sterling terms in the 12 months to end-May 2017, compared with 44.8% for MSCI AC Asia ex-Japan and 32.0% for MSCI World. Currently trading at around 15x 2017 P/E against single-digit earnings growth expectations, valuations appear to have moved ahead of fundamentals in the near term. Over the medium and long term, Thailand may still prove an attractive market for investors, given improving economic momentum, healthy public and corporate balance sheets, and growth opportunities in neighbouring frontier markets.

## Fund profile: Managed for long-term capital growth

ANW was launched in December 1989 and is the only LSE-listed investment trust with an exclusive focus on Thailand. Its objective is to provide a high level of long-term, above-average capital growth through investment in Thailand. The investment approach is primarily bottom-up, with the manager

seeking high-quality companies where valuations do not reflect their long-term potential. Portfolio construction is driven by selection of high conviction stocks and is relatively unconstrained by index weights. As a result, portfolio performance can diverge materially from the benchmark SET index. The manager targets capital growth rather than income, although its focus on high-quality, cash-generative companies is reflected in relatively high revenue earnings, and ANW is differentiated from peers by its dividend yield. ANW is managed by the Asian equities team of Aberdeen Asset Management Asia (AAMAL). The Bangkok team has day-to-day management responsibility and is led by Thailand CIO, Adithep Vanabriksha (joined 2002). Oversight is provided by an investment committee which, in addition to the Bangkok team, includes senior members of the Singapore team.

## **The fund manager: Asian team, Bangkok presence**

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### **The managers' view: Back to fundamentals**

Following a strong market performance in FY16, largely driven by liquidity and a rebound in the energy sector, the managers see valuations as stretched, with fundamentals returning to the fore. Over US\$2bn of foreign capital inflows was invested in Thai equities last year, mainly from ETFs, which tend to buy larger index constituent stocks regardless of fundamentals. This indiscriminate behaviour has resulted in valuation discrepancies and an environment that is more favourable to the managers' bottom-up approach.

The economy continues to head in the right direction and a stronger H217 is expected, in part due to a low base caused by subdued economic activity in Q416 following the passing of King Bhumibol in October. The smooth transfer of power to the Crown Prince is reassuring from a stability perspective. Although elections have been delayed until 2018, the managers believe a new government is likely to continue with the current regime's business-friendly policies.

The recovery, however, is not broad based and continues to rely on tourism and public spending as key drivers. Improving rural incomes bode well for consumption over the longer term, while the end of the first-time car buyer scheme of 2012 could help to ease the burden on household balance sheets and stimulate demand for new cars. However, significant improvement could be limited by household debts at 80% and low wage growth outside rural areas.

Public debt to GDP at less than 50% suggests the government has capacity to stimulate growth, and scheduled infrastructure plans should provide a boost. Thailand, however, has a history of infrastructure project delays due to red tape and bureaucracy, so there is reason to be cautious. Meanwhile, private sector spending has finally started to see some improvement. Companies have favoured investments in neighbouring markets of Cambodia, Laos and Myanmar, the so-called Greater Mekong Subregion (GMS). The managers believe this is a positive trend for Thai companies, bringing diversification and potentially enhanced earnings prospects. Currently, the effective exposures in the portfolio are small but could become significant in the years ahead. ANW represents a promising route to gain exposure to these markets as the Thai companies investing in these countries typically have established franchises, management depth, strong balance sheets and access to capital.

## **Asset allocation**

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### **Investment process: Bottom-up stock selection**

The managers' investment approach is primarily bottom-up and unconstrained by sector allocations. They seek to identify quality companies trading at valuations that do not reflect long-term prospects. The team includes four Bangkok-based investment managers, and conducts over

1,000 meetings with managements of Thai companies each year. No investment can be made without the team having first met management, and semi-annual meetings are held with portfolio companies.

The investment process concentrates on quality factors including business strategy, management, financial strength, ownership structure and corporate governance. Valuation analysis includes assessment of financial ratios relative to the overall market and peer group, taking into account a company's individual business prospects. Top-down factors are secondary considerations and, while the manager aims to construct a diversified portfolio, there are no formal restrictions on sector weightings. Exposure to any single stock is limited to 10% of net assets and gearing is used selectively, permitted up to 15% of net assets. Given the managers' long-term investment horizon, portfolio turnover is low, typically around 10% per annum.

## Current portfolio positioning

The portfolio consists of a relatively concentrated 39 stocks, broadly diversified across 15 sectors as at 31 May 2017 (Exhibit 3). With few stock- and sector-level constraints, there are meaningful divergences from the index. The portfolio is overweight insurance by 7.6pp and underweight energy & utilities and transportation & logistics by 6.8pp and 6.7pp respectively. These reflect the managers' fundamental long-term views on individual companies (for example, the portfolio's four insurance companies have strong franchises and are beneficiaries of consolidation, while poor governance among some energy and transportation sector stocks drives the manager to look elsewhere for opportunities). Sector exposures are little changed over the 12 months to end May 2017, with most movements reflecting share prices of underlying holdings. Property development exposure has increased from 6.8% to 7.7% with the introduction of Land and Houses, one of Thailand's leading property developers, which has a healthy yield of around 6%. Electronic components advanced from 2.9% to 3.5% of the portfolio over the year due to the appreciation of Hana Microelectronics. Similarly, strong performance from mall developer Central Pattana brought this stock into the trust's top 10 holdings.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)						
	Portfolio end-May 2017	Portfolio end-May 2016	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Banking	16.0	16.1	(0.1)	14.3	1.8	1.1
Energy & utilities	12.6	13.2	(0.6)	19.4	(6.8)	0.7
Construction materials	11.3	11.4	(0.1)	5.9	5.4	1.9
Commerce	9.2	9.4	(0.2)	9.8	(0.6)	0.9
Insurance	8.7	9.9	(1.2)	1.1	7.6	7.9
Property development	7.7	6.8	0.9	6.7	1.0	1.1
Info. & comms. technology	5.2	3.9	1.3	8.6	(3.4)	0.6
Finance & securities	5.0	4.7	0.3	2.1	2.9	2.4
Automotive	4.5	4.3	0.2	0.5	4.0	9.0
Media & publishing	3.8	4.7	(0.9)	1.5	2.3	2.5
Healthcare services	3.6	3.7	(0.1)	4.4	(0.8)	0.8
Electronic components	3.5	2.9	0.6	1.6	1.9	2.2
Food & beverages	3.4	3.5	(0.1)	6.4	(3.0)	0.5
Packaging	1.9	1.8	0.1	0.5	1.4	3.8
Property fund	1.8	2.3	(0.5)	2.6	(0.8)	0.7
Transportation & logistics	0.0	0.0	0.0	6.7	(6.7)	0.0
Other	0.0	0.0	0.0	8.0	(8.0)	0.0
Cash	1.8	1.4	0.4	0.0	1.8	N/A
	<b>100.0</b>	<b>100.0</b>		<b>100.0</b>		

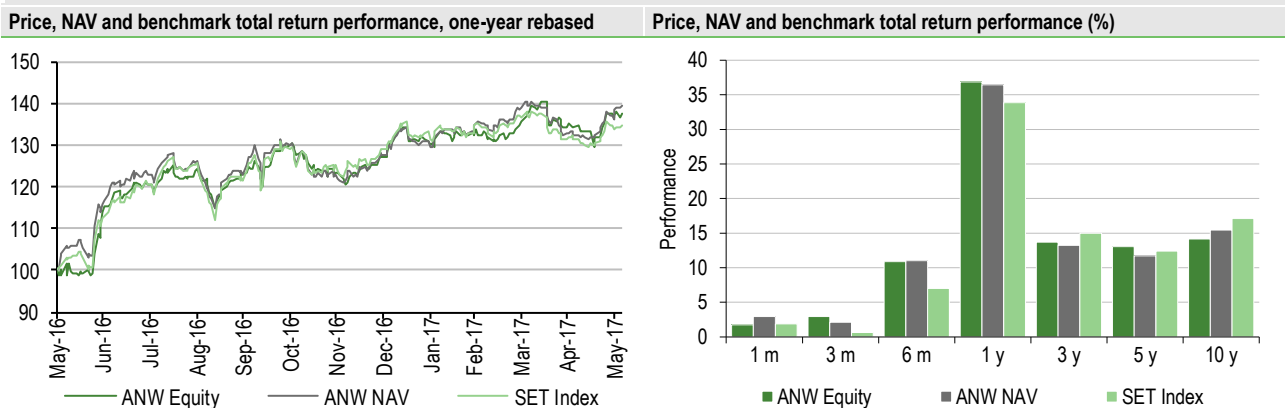
Source: Aberdeen New Thai Investment Trust, Edison Investment Research

## Performance: Strong absolute returns

ANW's NAV total return to end-May 2017 outperformed its SET index benchmark for three, six and 12 months but has lagged slightly over three, five and 10 years (Exhibit 5). Absolute returns have

been strong, with the trust generating 10% pa and 13% pa compound NAV total returns over five and 10 years respectively, largely reflecting the strong long-term performance of the Thai equity market. This has been achieved with a portfolio that, compared to its index, is less risky and volatile as measured by a beta of around 0.9 over three and five years. Also reflecting the relative performance of the Thai stock market, ANW's NAV total returns have outpaced the regional and world indices (MSCI Asia ex-Japan and MSCI World) over 10 years, although lagging over three and five years.

**Exhibit 4: Investment trust performance to 31 May 2017**



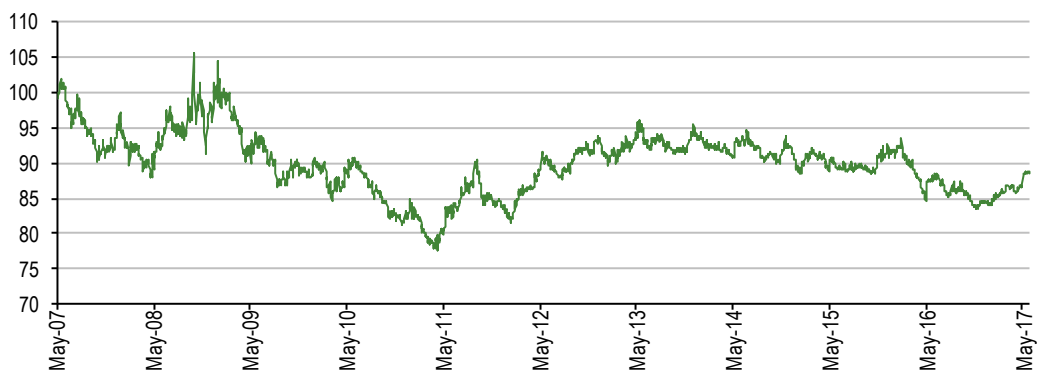
Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

**Exhibit 5: Share price and NAV total return performance, relative to indices (%)**

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to SET Index	(0.1)	2.3	3.6	2.2	(3.3)	2.9	(22.4)
NAV relative to SET Index	1.0	1.5	3.8	1.9	(4.5)	(2.9)	(13.2)
Price relative to MSCI AC Asia ex-Japan	(2.7)	(3.0)	(3.3)	(5.5)	(3.8)	2.6	53.2
NAV relative to MSCI AC Asia ex-Japan	(1.6)	(3.8)	(3.2)	(5.8)	(5.0)	(3.2)	71.4
Price relative to MSCI World	(0.7)	1.7	1.2	3.7	(5.9)	(16.2)	59.0
NAV relative to MSCI World	0.5	1.0	1.3	3.4	(7.0)	(20.9)	77.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-May 2017. Geometric calculation.

**Exhibit 6: NAV total return performance relative to benchmark over 10 years**



Source: Thomson Datastream, Edison Investment Research

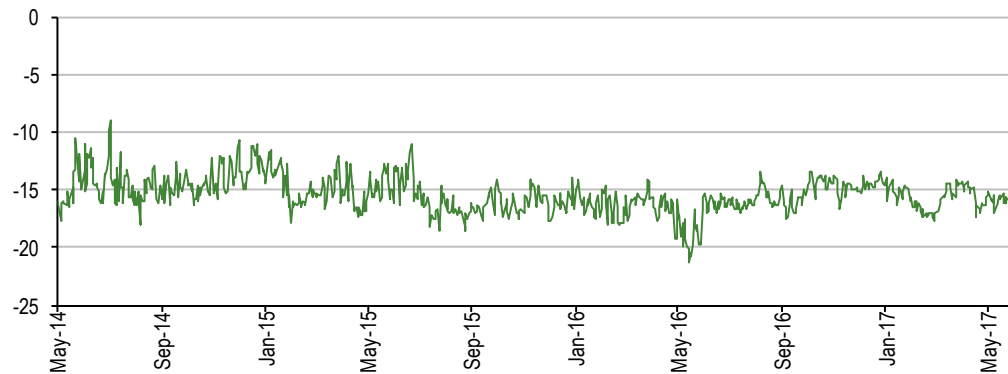
## Discount: Board committed to discount management

ANW's current share price represents a 16.3% discount to NAV (including income). This is slightly greater than the 10-year average of 15.3% but within the three-year range of around 10-20%, as shown in Exhibit 7. The company does not have a fixed life, although under its Articles of Association, if in the 12 weeks preceding the financial year end (end-February) the shares have traded at an average discount to NAV (including income) in excess of 15%, a special resolution to



wind up the company will be proposed at the following AGM. The board is committed to narrowing the discount to NAV through active promotion of the fund and also through share buybacks. As shown in Exhibit 1, during FY17 the company repurchased and cancelled 1.3m shares representing 7.2% of issued capital and further share buybacks have taken place in the current financial year.

**Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)**



Source: Thomson Datastream, Edison Investment Research

## Capital structure and fees

ANW has 18.2m shares in issue as at 22 June 2017. It has a three-year £10m multi-currency revolving loan facility, which runs to October 2018. As at end-May 2017, £2.7m had been drawn down. The terms of the facility include covenants to limit the borrowings of the company to 20% of adjusted net asset value and stipulate that the net asset value should not fall below £28m. The company has met both these covenant requirements during the loan facility period, as gross debt of £2.7m represents gross gearing of 2.4%, while net asset value stands at £113m.

ANW pays a management fee to AAMAL of 1.0% pa and there is no performance fee. For the year to February 2017, the ongoing charges were 1.4%.

## Dividend policy and record

ANW pays an annual dividend each July relating to the previous financial year. Although the company's objective is capital growth rather than income, the trust has historically paid out almost all its revenue earnings and achieved consistent dividend growth over a long period of time. For FY17, the board declared a dividend of 10.30p, a significant increase on the 8.50p paid in 2016, which largely reflects currency translation gains in sterling terms. Future dividends will be dependent on the level of income received from portfolio investments and may fluctuate; however, the manager's approach to buy high-quality, cash-generative companies helps support dividend prospects.

## Peer group comparison

Exhibit 8 shows a comparison of ANW against a peer group of Asia Pacific country specialist closed-end funds but, as ANW is the only Thailand-focused fund, return differentials are heavily influenced by the performances of individual markets rather than managers' performances. Although one of the smaller funds, ANW's ongoing charge is among the lowest in the group, while its yield is the highest (among only four funds paying dividends). ANW's discount to NAV is among the deepest against peers.

**Exhibit 8: AIC Country Specialists: Asia Pacific peer group as at 28 June 2017\***

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Aberdeen New Thai	94.4	23.7	43.6	79.2	323.5	(15.1)	1.4	No	101	2.0
Barramundi Limited	75.9	5.9	25.0	40.9	58.2	(8.9)	1.99	Yes	100	0.0
Fidelity China Special Situations	1,159.0	40.9	117.8	229.8		(12.1)	1.16	Yes	126	1.2
India Capital Growth	105.9	37.2	88.1	166.6	(1.0)	(14.9)	1.79	No	100	0.0
JPMorgan Chinese	182.3	45.7	68.4	117.2	168.4	(11.9)	1.44	No	106	0.6
JPMorgan Indian	761.2	21.8	73.4	119.8	126.6	(8.2)	1.22	No	108	0.0
India Capital Growth	105.9	37.2	88.1	166.6	(1.0)	(14.9)	1.79	No	100	0.0
VietNam Holding	171.6	12.0	99.3	173.6	102.6	(18.8)	2.85	Yes	100	0.0
VinaCapital Vietnam Opp Fund	581.8	32.6	92.5	140.6	125.2	(20.1)	2.07	Yes	100	0.0
Weiss Korea Opportunity	168.1	38.5	49.1			(1.6)	1.80	No	100	1.9
<b>Simple average</b>	<b>340.6</b>	<b>29.6</b>	<b>74.5</b>	<b>137.1</b>	<b>112.8</b>	<b>(12.7)</b>	<b>1.75</b>		<b>104</b>	<b>0.6</b>
<b>Rank</b>	<b>9</b>	<b>7</b>	<b>9</b>	<b>8</b>	<b>1</b>	<b>8</b>	<b>8</b>		<b>4</b>	<b>1</b>

Source: Morningstar, Edison Investment Research. Note: \*Performance data to 27 June 2017 TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## The board

The board consists of four members, all of whom are non-executive and independent. Hugh Young stepped down as non-independent director at the recent June AGM. He had served on the trust's board for 27 years since its inception and there are no current plans to replace him.

- Sarah MacAulay joined the board in December 2016, bringing 20 years of Asian investment experience as a fund manager, including the management and marketing of Thai equity portfolios with Kleinwort Benson, Eagle Star and Baring Asset Management (Asia). She is also a director of JPMorgan Income & Capital Trust.
- Nicholas Smith (appointed director March 2013, chairman June 2013) is a director of JPMorgan European Smaller Companies Trust and Schroder AsiaPacific Fund.
- Clare Dobie (appointed December 2013, senior independent director June 2016) is a director of Alliance Trust, F&C Capital Income Trust and Schroder UK Mid Cap Fund.
- Andy Pomfret (appointed September 2014) is chairman of Miton UK MicroCap Trust and a director of ICG Enterprise Trust.

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