

VOICES

Thailand's Political Turmoil Helped Boost Note Sales, KGI Execs Say

Political events in Thailand, such as the military coup that displaced former Prime Minister **Yin-gluck Shinawatra**, are adding to stock volatility and thus helping to boost sales of structured notes in the Southeast Asian nation, according to executives at KGI Securities Co. **Lin Chih-hung**, who heads the equity derivatives division for the Taiwan-based brokerage, and **Jenvit Chinkulkitniwat**, who oversees equity derivatives for the company's Thailand unit, spoke to Regina Tan from Bangkok.

Q: Who are your clients and who do you sell most to?

Chinkulkitniwat: Thai investors and also institutional investors. We sell most to high-net-worth individuals.

Q: Can you give me an overview of the structured note market in Thailand?

Chinkulkitniwat: Structured notes were first allowed to be sold to high-net-worth individuals in 2009. Prior, they were only available to institutions. Local regulations treat structured notes as an over-the-counter product. Although it has been five years, the structured notes market is still new in Thailand. There are only a few players or issuers and most are local brokers.

Lin: At the moment, the structured note market in Thailand focuses mainly on high-yield notes such as equity-linked notes, where essentially a client sells a put option on the equity. Only stocks in Thailand's SET 50 Index are eligible as underlyings. You can do others, but subject to approval.

Normally, the selling point is, if a client wants to buy shares at a fixed price, instead of putting a limit order for a month, we can offer high-yield notes. If the share price is below the level the client wants, the client will automatically buy the shares. If they put a limit order, they won't get the yield.

Q: What are the yields like?

Chinkulkitniwat: For the past year, the annualized minimum on high-yield notes linked to Thai stocks was 20 percent and the maximum 60 percent.

Q: The yield is really high. Why is there

a difference between high-yield notes in Thailand, Taiwan and Hong Kong?

Lin: In Thailand, the main reason why yield can be much higher than in Taiwan or Hong Kong, almost double, is because the volatility of Thailand stocks is much higher. And we are talking about blue-chip stocks.

High-yield notes are a hedging product for us. In Thailand, we sell the warrants that price volatility at around 60 percent to 80 percent and we buy back volatility through high-yield notes at more than 50 percent volatility, which is pretty much impossible in Taiwan or Hong Kong, especially for blue-chip stocks. Normally in Taiwan, for blue-chip stocks, we're pretty much buying back volatility at 20 percent.

Q: What kind of structured notes do you offer in Thailand?

Chinkulkitniwat: Offerings include "high yield" equity-linked notes, principal-guaranteed notes and some others such as accumulators. (Accumulators mandate the holders periodically buy a certain amount of the underlying stocks at set prices, typically at discounts.)

Q: Given the current political situation in Thailand, what kind of underlying do you recommend to clients?

Chinkulkitniwat: Underlyings with the price under pressure by political news, but have strong fundamentals, such as Advanced Info Service Public Co. Ltd., PTT

PCL and Intouch Holdings PCL. [They] can produce very high-yield notes.

The most popular stocks are those from the energy and telecommunication sectors. Over the past few months, valuations are very good but prices are under pressure from political news. This makes structured notes attractive as the political news limits the upside of holding the stock, and downside is limited by strong fundamentals.

Q: You mentioned Thailand's political situation. Has that affected sales?

Chinkulkitniwat: Sales are more about the volatility. If the volatility is high, coupons of the equity-linked notes become high. If you look at the situation now, volatility for all the asset classes around the world is getting lower. Thailand is quite unique. We always have the political news. That creates more volatility.

Q: So the political situation in Thailand helps you sell more notes?

Chinkulkitniwat: Yes, you can say that.

Q: How have sales grown for KGI and the Thai market in general?

Chinkulkitniwat: Last year, KGI's sales grew more than 50 percent compared with 2012 because the yields on the notes are very high. For the entire market, it should be the same trend as there are only a few players.

This interview has been edited for length.

AT A GLANCE



Jenvit Chinkulkitniwat

Age: 34

Career: International Business Machines Corp., system engineer

Education: Chulalongkorn

University, Bangkok, bachelor's in engineering; University of Illinois at Urbana-Champaign, master's of science in finance

Family: Married with a daughter, 3.



Lin Chih-hung **Age:** 45

Career: Head of Asian equity derivatives analytics at Royal Bank of Scotland Group Plc.

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