

Asset Pricing in Energy Sector : the Evidence from Stock Exchange of Thailand

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Abstract

The research is "Asset Pricing in Energy Sector : The Evidence from Stock Exchange of Thailand" by having the objectives of the study are to compare between return/risk of the security in energy sector and stock market and also to compare between expected return and required rate of return of the security in energy sector based on Capital Asset Pricing Model (CAPM). Research Methods do collect the secondary data since start using SET 100 Index (3/5/2006) until 18/12/2006 which is collected from the report of purchasing the security in the Stock Exchange of Thailand (SET) and treasury bills from the Bank of Thailand (BOT). Next, several formulas are used for calculating rate of return, risk, beta coefficient, and required rate of return based on CAPM.

The result regards that some securities in energy sector have their return as same direction as the stock market while some of them have their return opposite with the stock market which may lead from the fluctuation in the structural of business. Furthermore, the study is displayed both return and risk will adjust their fluctuations as following the economy situation, the government policy, the fluctuation of oil price in the world market, the structural of business, company's operation, etc. Therefore, investment on the security in energy sector requires high return should also consider about risk as well because some returns are not specific with high risk which may result in either high or low, however, risk could be recognized from standard deviation or/and beta coefficient. The securities in energy sector have positive beta coefficient which most of them (about 2 of 3 or 67%) have their beta coefficients less than 1 or interprets that the security in energy sector is "defensive stock" - appropriates for investors who expect to get a benefit in long term investment. Unfortunately, some of the securities in energy sector still have high level of unsystematic risk compared with systematic risk hence investment should be well diversified to eliminate the unsystematic risk and afterwards consider about fundamental analysis, technical analysis, overall economy situation, and others to be engaged decision-making more accuracy and efficiency. This research is recommended that there are many risk factors facing companies such as market risk, bankruptcy risk, currency risk, etc. Actually, the CAPM uses only

one factor to describe aggregate risk. Additional factors allow more specific attribution of the risks to which a company is exposed in order to have better predictive capability. The study about asset pricing is not only used the CAPM but also could be analyzed with more accuracy by developing with other theories, such as Arbitrage Pricing Theory (APT), and Fama-French 3 Factors (F-3-F).

Keywords : *Asset Pricing, Energy Sector, Return, Risk, Beta coefficient, CAPM*