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## GREATER CHINA

### Strategy

#### Alpha Picks: October Conviction Calls

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We expect further downside pressure, so we add SELLS on Henlius and Xpeng to the list, on top of BUYs on Anta, Lenovo, PICC P&C and SHKP.

#### Small-Mid Cap Biweekly

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Major generative AI upgrades; Wondershare is the beneficiary.

## INDONESIA

### Strategy

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Our picks: BBNI, SMGR, NCKL, MAPI, CTRA, MYOR, AKRA and CMRY.

### Small/Mid Cap Highlights

#### Smartfren Telecom (FREN IJ/NOT RATED/Rp56)

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Expects revenue to improve on launch of new products.

## MALAYSIA

### Strategy

#### Alpha Picks: A Handful Of Events To Capitalise On

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Our Alpha Picks modestly outperformed the FBMKLCI in Sep 23. Oct 23 picks: BUY BURSA, HAPL, HUME, MAHB and My EG Services.

### Update

#### Pecca Group (PECCA MK/NOT RATED/RM1.19)

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Pecca's core business is in car seat cover leather, with a compelling OEM business. The positive outlook is driven by an acquisition, MOUs, certifications and aviation prospects.

## SINGAPORE

### Update

#### ComfortDelGro Corporation (CD SP/BUY/\$\$1.28/Target: \$\$1.61)

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Stronger tailwinds as rail fare increases.

## THAILAND

### Sector

#### Electronics

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3Q23 results preview: Earnings expected to improve but not immediately evident.

## KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33166.0	(0.8)	(1.3)	(4.8)	0.1
S&P 500	4258.9	(0.7)	(0.3)	(5.7)	10.9
FTSE 100	7495.8	(0.2)	(1.7)	0.4	0.6
AS30	7141.0	(1.3)	(1.3)	(5.1)	(1.1)
CSI 300	3689.5	(0.3)	0.5	(2.7)	(4.7)
FSSTI	3192.4	(0.5)	(0.7)	(1.4)	(1.8)
HSCEI	5949.2	(3.2)	(3.0)	(8.9)	(11.3)
HSI	17331.2	(2.7)	(2.2)	(8.0)	(12.4)
JCI	6940.9	(0.3)	(0.8)	(0.8)	1.3
KLCI	1420.0	0.1	(1.6)	(2.9)	(5.0)
KOSPI	2465.1	0.1	(3.7)	(3.1)	10.2
Nikkei 225	31237.9	(1.6)	(3.3)	(5.2)	19.7
SET	1447.3	(1.5)	(3.1)	(6.5)	(13.3)
TWSE	16454.3	(0.6)	0.0	(1.1)	16.4
BDI	1780	2.5	5.1	67.1	17.5
CPO (RM/mt)	3660	(0.8)	(0.5)	(6.2)	(9.6)
Brent Crude (US\$/bbl)	91	(0.1)	(3.6)	2.3	5.5

Source: Bloomberg

## TOP PICKS

	Ticker	CP (Icy)	TP (Icy)	Pot. +/- (%)
BUY				
BYD	1211 HK	238.60	590.00	147.3
China Duty Free	601888 CH	105.97	138.00	30.2
Bank Neo Commerce	BBYB IJ	320.00	390.00	21.9
Bumi Serpong	BSDE IJ	1,075.00	1,420.00	32.1
HM Sampoerna	HMSP IJ	860.00	1,300.00	51.2
My EG Services	MYEG MK	0.82	1.18	44.8
Yinson	YNS MK	2.37	3.75	58.2
OCBC	OCBC SP	12.80	18.22	42.3
CP ALL	CPALL TB	60.00	78.00	30.0
Indorama	IVL TB	25.00	37.00	48.0

## KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	2.0	1.0
Euro Zone	3.5	0.5	0.8
Japan	1.0	1.5	1.0
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.0	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

## CORPORATE EVENTS

	Venue	Begin	Close
Corporate Roadshow with United Overseas Bank (UOB SP)	Thailand	10 Oct	10 Oct
NDR with Galaxy Entertainment (27 HK)	Taiwan	10 Oct	12 Oct
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Investor Luncheon with Crystal International Group Limited (2232 HK)	Hong Kong	11 Oct	11 Oct
Analyst Marketing by Jonathan Koh on Singapore Bank and REITs	Thailand	11 Oct	12 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct
Post 3Q2023 Results Virtual Meeting with Keppel Pacific Oak US REIT (KORE:SP)	Singapore	19 Oct	19 Oct

## STRATEGY – GREATER CHINA

## Alpha Picks: October Conviction Calls

MSCI China and HSI fell 1.2% and 1.4% respectively in September as investors' sentiment was dampened by the weaker macro data and renewed property sector woes. Moreover, higher US bond yields and US dollar strength added to the downside pressure. For October, we expect further downside pressure, so we add SELLS on Henlius and Xpeng to the list, on top of BUYs on Anta, Lenovo, PICC P&C and SHKP.

## WHAT'S NEW

- **Review of September.** The MSCI China and HSI fell 1.2% and 1.4% respectively in September, bringing ytd declines to 8.9% and 10.0% respectively. Weaker macro data released during the month and the arrest of Evergrande's Chairman led to renewed concerns on the property sector, weighing on the broader market. The higher US interest rates and dollar strength were other negatives. In addition, Hong Kong developers (key index stocks) were dragged lower by the weak property sales momentum and higher mortgage rates.
- **October could see increased downside pressure,** as the per capita tourism spend during the first three days of the Golden Week is estimated to be down yoy. Moreover, the 3Q23 GDP data to be released later in the month is unlikely to provide upside surprises. We are adding Anta, Lenovo, PICC P&C and SHKP to our BUY list and also SELL calls on Henlius and Xpeng to our list.

## ACTION

- **Add Anta (2020 HK) to our BUY list** as we expect to see decent retail sales momentum in Golden Week and more positive messages after the investor days.
- **Add Lenovo (992 HK) to our BUY list** as we saw improvement in PC shipment and received some positive takeaways from company events and results.
- **Add PICC P&C (2328 HK) to our BUY list** due to its robust premium growth in August as well as its market-leading CoR.
- **Add SHKP (16 HK) to our BUY list** as we expect SHKP to be a beneficiary of policy easing in Hong Kong's property market.
- **Add Henlius (2696 HK) to our SELL list** as its liquidity and audit issues remain unsolved. We also believe that the recent anti-corruption campaign and potential regional GPO tenders on biosimilars may lead to slower revenue growth.
- **Add Xpeng (9868 HK) to our SELL list** as the price cut strategy may further squeeze its margin and the company is also under pressure to raise capital.
- **Take profit** on Inovance (300124 CH) and KE Holdings (2423 HK) from our BUY list.
- **Cut losses** on COPH (2669 HK), Ping An Insurance (2318 HK), and Sands China (1928 HK).
- **Maintain BUY** on Baidu (9888 HK), BYD (1211 HK), CATL (300750 CH), CR Land (1109 HK), Giordano (709 HK), Kuaishou (1024 HK), Moutai (600519 CH) and Trip.com (9961 HK).

## KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Anta	BUY	85.30	128.00	50.1
Baidu	BUY	129.40	192.00	48.4
BYD	BUY	238.60	590.00	147.3
CATL	BUY	203.03	410.00	101.9
CR Land	BUY	30.55	47.48	55.4
Giordano Intl	BUY	2.66	3.89	46.1
Henlius	SELL	9.99	9.00	(9.9)
Kuaishou	BUY	62.60	100.00	59.7
Lenovo	BUY	7.93	10.60	33.7
Moutai	BUY	1798.55	2,520.00	40.1
PICC P&C	BUY	9.89	11.00	11.2
SHKP	BUY	81.30	112.64	38.5
Trip.com	BUY	269.20	418.00	55.3
Xpeng	SELL	69.50	18.00	(74.1)

Source: UOB Kay Hian

## CHANGE IN SHARE PRICE

Company	Rec	Sep 23 (%)	To-Date* (%)
Baidu	BUY	-4.3	-12.8
BYD	BUY	-1.5	5.3
CATL	BUY	-14.2	-12.1
COPH	BUY	-5.1	-2.4
CR Land	BUY	-5.3	-13.1
Giordano Intl	BUY	-12.3	-12.3
Inovance	BUY	-2.6	8.2
KE Holdings	BUY	3.7	3.7
Kuaishou	BUY	-4.4	18.1
Moutai	BUY	-2.6	12.2
Ping An Insurance	BUY	-2.4	-18.8
Sands China	BUY	-9.6	-19.3
Trip.com	BUY	-9.8	-9.8
Hang Seng Index		-1.4	

\*Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

## PORTFOLIO RETURN

(%)	4Q22	2022	1Q23	2Q23	3Q23
HSI return	14.9	-15.5	3.1	-7.3	-5.9
Alpha Picks Return					
- Price-weighted	-9.7	-9.4	1.4	-5.5	-0.2
- Market cap-weighted	-1.9	-6.6	2.0	-8.6	-2.1
- Equal-weighted	1.5	-3.8	0.3	-5.9	-2.5

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.
- 3) Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

## ANALYST(S)

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## VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 3 Oct 23 (lcy)	Target Price (lcy)	Last Year End	PE 2023F (x)	PE 2024F (x)	PE 2025F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap. (LC\$m)	Price/ NTA ps (x)
<b>BUY</b>												
Anta	2020 HK	BUY	85.30	128.00	Dec 22	20.8	17.8	15.4	2.0	29.9	241,623	4.2
Baidu	9888 HK	BUY	129.40	192.00	Dec 22	13.7	13.0	11.7	0	7.0	361,903	1.3
BYD	1211 HK	BUY	238.60	590.00	Dec 22	27.7	17.5	12.3	0.7	19.6	722,064	6.4
CATL	300750 CH	BUY	203.03	410.00	Dec 22	21.0	13.6	9.6	1.0	21.9	892,267	5.5
CR Land	1109 HK	BUY	30.55	47.48	Dec 22	7.3	6.5	5.7	5.0	10.5	217,850	0.8
Giordano International	709 HK	BUY	2.66	3.89	Dec 22	11.2	10.0	8.9	12.0	16.6	4,288	1.2
Kuaishou	1024 HK	BUY	62.60	100.00	Dec 22	35.3	18.4	12.1	0	-8.8	272,569	5.5
Lenovo	992 HK	BUY	7.93	10.60	Mar 23	7.5	9.9	6.4	4.9	20.7	96,176	1.8
Moutai	600519 CH	BUY	1798.55	2,520.00	Dec 22	30.9	26.5	22.4	1.7	41.7	2,259,335	9.5
PICC P&C	2328 HK	BUY	9.89	11.00	Dec 22	6.2	5.5	4.9	5.6	13.6	219,981	1.0
SHKP	16 HK	BUY	81.30	112.64	Jun 23	9.2	8.9	8.0	5.4	4.2	235,590	0.4
Trip.com	9961 HK	BUY	269.20	418.00	Dec 22	17.6	15.4	13.0	0	5.1	173,944	1.4
<b>SELL</b>												
Henlius	2696 HK	SELL	9.99	9.00	Dec 22	11.1	8.3	6.2	0.0	16.6	5,652	-1.7
Xpeng	9868 HK	SELL	69.50	18.00	Dec 22	n.a	n.a	n.a	n.a	-43.3	120,451	4.5

Source: Bloomberg, UOB Kay Hian

## Anta – BUY (Stella Guo/Ng Jo Yee/Shirley Wang)

- Anta saw better sales momentum from August to early-September, thanks to back-to-school demand. Although Anta's management has not provided a clear forecast for retail sales in 3Q23, the company aims to meet its internal sales target, of which the company achieved only around 95% in August, and now pins its hopes on the Golden Week unleashing demand. We expect positive announcements from management at the upcoming investor day held on 17-18 Oct 23. We stay bullish on Anta given: a) the improving brand equity supported by high exposure of DTC, and b) the company's multi-brand strategy, which allows it to cater to customers' demands from different sporting segments and income groups.

## SHARE PRICE CATALYST

- Event: a) Better sales momentum during the Golden Week holiday, and b) more positive sentiment after Anta's investor day.
- Timeline: 4Q23.

## Baidu – BUY (Julia Pan/Ming San Soong)

- Looking to 2H23, Baidu's advertising revenue is guided to ramp up sequentially in 3Q23 and 4Q23. For 2H23, advertising revenue growth as compared to 2H21 is expected to surpass 3%. In 3Q23, Baidu Core's non-GAAP operating profit and non-GAAP operating margin are both expected to sustain positive yoy growth. In 2Q23, Baidu's core search revenue climbed 14% yoy to Rmb26.4b. Online marketing revenue growth continued to accelerate and increased 15% yoy compared to 6% in 1Q23, primarily contributed by macro recovery and continuous strong recovery in verticals with high offline exposure. In Jun 23, Baidu App's monthly active users reached 677m, up 8% yoy. Other revenue delivered 14% yoy growth in 2Q23, sustaining from 14.7% yoy in 1Q23, mainly due to the resilient AI-powered businesses and cloud business. AI Cloud delivered a decelerated growth of 13% yoy to Rmb4.8b, partially impacted by the delay in fee collection and cloud project completion. On 31 Aug 23, Baidu received approval to publicly launch its Ernie Bot which is supported by a large language model (LLM), and was among the first batch of eight companies to receive regulatory approval. On 16 Aug 23, Baidu updated its Ernie LLM 3.5 which is well-recognised by its cloud customers, AI developers and industry experts, as stated by the company. On 25 Sep 23, at the Global Sustainable Transportation Summit (2023), Baidu Intelligent Cloud showcased its intelligent traffic solution, ACE 3.0, based on a comprehensive reconstruction using large-scale models. ACE 3.0 leverages the powerful knowledge compression capabilities of large models to

aggregate and generalise the basic capabilities of vehicles, roads, cloud and maps. We maintain BUY on the company with a target price of HK\$192.00 as we remain optimistic on its significant progress in autonomous driving and first mover advantage to capture emerging AIGC-related opportunities in product and monetisation. The company is now trading at 13.3x 12-month PE, below its historical mean of 17.4x. Our target price implies 16.5x 2023F PE against 32% EPS CAGR over the next three years.

#### SHARE PRICE CATALYST

- Event: a) Market share expansion in the AI Cloud and Autonomous Driving (AD) segments, b) higher monetisation rates across all business units, and c) synergies between Baidu's core business and new initiatives.
- Timeline: 2H23.

#### BYD – BUY (Ken Lee)

- We expect BYD's 3Q23 core earnings to grow 31% yoy/15% qoq to Rmb7b in 3Q23. We expect sales and earnings to grow qoq in 3Q-4Q23 along with the sales ramp-up of the models launched in 2Q23; the debuts of new models in 2H23, including Seal DM-i, Song L, Denza N7/N8, Fang Cheng Bao 5, Yangwang U8/U9; and expansion in the overseas market. We maintain net profit forecasts for 2023-25 at Rmb23.81b/Rmb37.57b/Rmb53.36b respectively based on EV sales of 3m units/4m units/5.2m units. Maintain BUY with target price of HK\$590.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

#### SHARE PRICE CATALYST

- Event: a) Growth of monthly EV sales volume, and b) upbeat 3Q23 results.
- Timeline: 4Q23.

#### CATL – BUY (Ken Lee)

- We expect CATL's 3Q23 earnings to grow 22% yoy/13% qoq to Rmb11b. Long-term, we maintain 2023-25 core net profit forecasts at Rmb40.07b/Rmb63.33b/Rmb90.66b respectively, based on lithium-ion battery sales volume of 430GWh/628GWh/1.08TWh. The earnings growth will be driven by 30% CAGR in global EV sales volume and the launches of new products. CATL is launching multiple brand-new battery products since 2023, including Qilin Battery, Shenxing Battery, M3P battery, condensed battery and sodium-ion battery. Gross profit per wh will likely remain steady at Rmb0.16-0.17, based on the plunge in the prices of lithium carbonate and other battery materials and the ramp-up of the company's upstream projects. Maintain BUY with target price of Rmb410.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

#### SHARE PRICE CATALYST

- Event: a) Growth of monthly EV battery shipment, b) drop in lithium carbonate prices, and c) 3Q23 results.
- Timeline: 4Q23.

#### China Resources Land – BUY (Jieqi Liu/Damon Shen)

- In Aug 23/8M23, sales of new homes and second-hand homes in tier 1 cities have been picking up in Sep 23, thanks to stronger-than-expected policy easing. In the week of 18-24 Sep 23: a) the number of second-hand home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growths of 6%/4%/9%/0% respectively, and mom growths of 46%/30%/25%/14% respectively, and b) the number of new home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growths of 136%/139%/0%/8% and mom growths of 96%/40%/17%/-37% respectively.

We expect property market sales recovery to continue into Oct 23. With strong presence in tier 1 and tier 2 cities, we expect that China Resources Land (CR Land) will be a key beneficiary of this round of policy easing.

#### SHARE PRICE CATALYST

- Event: Stronger-than-expected sales recovery.
- Timeline: 4Q23.

#### Giordano International – BUY (Kate Luang)

- We believe online sales and the addition of franchise stores will fuel the growth in Mainland China in 2H23, and we see proactive franchise expansion in emerging markets as the key growth driver going forward. We also noticed positive development on the restructuring in Singapore, evidenced by positive sales growth yoy after the reform, vs a double-digit yoy sales decline in 1H23. We like Giordano given: a) its improving global brand image, thanks to continuous product upgrades, localised marketing strategies and ongoing store optimisation, b) competitive advantage from nimble supply chain management that continues to support strong cash flow generation, and c) generous dividend payout policy that offers attractive dividend yield. Maintain BUY with target price of HK\$3.89 based on 10-year DCF, implying 8.2% dividend yield in 2023 and 16.4x 2023F PE. Giordano is currently trading at 11.2x 2023F PE, 1SD below its pre-pandemic historical mean of 15.6x in 2014-18. We believe that Giordano's valuation has not fully captured its growth momentum in emerging markets and strong cash flow generating capabilities.

#### SHARE PRICE CATALYST

- Event: a) 3Q23 operating results to be released in mid-October, b) franchise expansion in Mainland China, especially from October, and c) store relocation to prime locations in Hong Kong.
- Timeline: 2H23.

#### Henlius – SELL (Carol Dou/ Sunny Chen)

- Henlius reported satisfactory 1H23 results with revenue growth of 93.9% yoy and adjusted net profit of Rmb230m. It believes its HANQUYOU and HANSIZHUANG will continue to support rapid revenue growth. However, we remain concerned on the company's liquidity and audit issues, and continue to see risks in its investment with AMTD. It had approximately Rmb759.2m in cash and bank balance as at 30 Jun 23, while its bank borrowings stood at Rmb3.9b at end-Jun 23. It spent around Rmb673.8m in R&D in 1H23 and may have to continue investing significantly in its differentiated R&D pipeline. The timeline on when necessary supporting documents from AMTD on Henlius' financial investment with AMTD can be obtained also remains unknown. Meanwhile, we expect the heightened anti-corruption campaign to slow its revenue growth in the short term, with delays in some marketing activities previously scheduled in 3Q23. Moreover, Henlius expects to see no national group purchasing organisation (GPO) tenders on biosimilars in the near term, and indicates it will actively seize market expansion opportunities offered by possible regional GPO tenders on adalimumab and bevacizumab. The potential regional GPO tenders on biosimilars could still place some pressure on its revenue growth and margins. Maintain SELL and DCF-based target price of HK\$9.00, assuming WACC of 11.4% and terminal growth rate of 3%.

#### SHARE PRICE CATALYST

- Event: a) Liquidity and audit issues remain unsolved, b) anti-corruption campaign may lead to slower-than-expected revenue growth in the next few months, and c) potential regional GPO tenders on biosimilars could depress its revenue growth and margins.
- Timeline: 2H23.

**Kuaishou – BUY (Julia Pan/ Ming San Soong)**

- Kuaishou Technology (Kuaishou) guided for a better-than-expected 3Q23 and full-year 2023 outlook. Looking to 3Q23, management guided for revenue to ramp up by high teens to twenties, with online marketing/live-streaming/other services forecasted to grow at about 21%/mid-single-digit/30% yoy respectively. The strong online marketing revenue is bolstered by solid brand advertising revenue recovery (10+% in 2Q23) and mid-thirties yoy growth in e-commerce GMV. Operating profit is expected to remain stable sequentially, while net profit was guided to be around Rmb2b, thanks to lower marketing expenses and continuously narrowing overseas losses. For full-year 2023, the company expects yoy revenue growth of 20% and non-GAAP net profit of Rmb7b-7.5b. On 21 Sep 23, Kuaishou organised Kuaishou Investor Day and elaborated on the company's sustainable growth strategy and core competitive strengths to ignite commercial imagination, leveraging Kuaishou's ecosystem advantages and industry prospects. In the ecosystem aspect, the "Stream Initiatives" were launched over the past year, facilitating the integration of influencer distribution and merchants self-broadcasting GMV data. On the supply side, improved product infrastructure and the further promotion of "Stream Initiatives" and support for small- and medium-sized merchants led to greater diversification in Kuaishou's e-commerce supply. In anticipation of the upcoming Singles' Day shopping festival, Kuaishou recently introduced "Fuyao Plan", which optimises mechanisms for anchor-based live streaming and helps merchants to collaborate effectively with influencers to stimulate GMV growth. Maintain BUY on the company with a target price of HK\$100.00. Our target price implies 3x 2023F PS. The company is currently trading at 2x 12-month forward EV/Sales (15.6x 2024F PE), below its historical mean of 4x. Maintain BUY on the company with a target price of HK\$100.00. Our target price implies 3x 2023F PS. The company is currently trading at 2x 12-month forward EV/Sales (15.6x 2024F PE), below its historical mean of 4x.

**SHARE PRICE CATALYST**

- Event: a) Higher monetisation rates across all categories, b) less competition from peers, positive government policies to stimulate consumption, and c) lifting of regulations on internet platforms.
- Timeline: 2H23.

**Moutai – BUY (Ng Jo Yee/Stella Guo/Shirley Wang)**

- The industry's expectation for baijiu retail sales growth weakened ahead of the Mid-Autumn Festival and National Day holidays. Despite that, we are confident on Moutai's full-year revenue growth target of 15% yoy and improving profitability with a net margin expansion of 0.5ppt yoy, driven by: a) rising sales volume of Moutai products from capacity expansion, b) product line extension (such as Moutai 24 Solar Term series and Moutai Chinese Zodiac series), and c) expansion in direct sales channels. The company has launched a series of online and offline events (such as tasting events) and also increased the availability of non-Moutai series products in the market. Furthermore, the innovative collaborations of Moutai Latte and Mao Xiaoling liquor-filled chocolate, targeting the younger generation, have been well-received by the market. Moutai stands out with its strong brand reputation and earnings visibility. Our DCF-based target price of Rmb2,520 implies 43.4x 2023F PE.

**SHARE PRICE CATALYST**

- Event: Strong 3Q23 results.
- Timeline: 4Q23.

**Lenovo – BUY (Johnny Yum)**

- We are expecting the market's interest on AI investment to pick up in the coming months, as multiple AI developers (Google, Meta, Tesla, NVIDIA, OpenAI) will host their annual AI



conference over Oct-Nov 23. We believe the key focuses of the coming events will be: a) the launch of new LLMs (such as Google's Gemini) and the development of new end-applications for AI. At the same time, we believe the market's interests on enterprise server providers such as Dell, HP and Lenovo will pick up, as NVIDIA's newly-launched L40S GPU is starting to gain momentum due to its competitive performance, as well as a much easier production ramp-up. For the PC business, we believe Lenovo is on track to conclude its inventory destocking in 3Q23, and its shipment growth had since recovered to positive territory in August, according to Digitimes Research. We are now expecting a sustained recovery in PC demand through 2024 driven by the replacement cycle of enterprise PCs. In the longer term, we expect the implementation of edge AI in personal PCs to bolster the demand for PCs in the next upcycle. Maintain BUY and target price of HK\$10.60, based on 8.5x FY2025F, on a par with its peers' (Dell and HP) average valuation.

#### SHARE PRICE CATALYST

- Event: a) Improvements in PC shipment, and b) positive takeaways from company events and results.
- Timeline: Oct-Dec 23.

#### PICC P&C – BUY (Greater China Research Team)

- In August, PICC Property & Casualty (PICC P&C) achieved a premium growth of 7.8% yoy, primarily driven by the recovery in auto insurance premium growth (5.7% yoy) and enhanced performance in non-auto premium growth (12.0% yoy). The companies are actively working to refine their business structure for more sustainable growth. They are achieving this by expanding the share of EV insurance within their auto segment and mitigating the long-term risks associated with their credit and liability insurance business. In terms of underwriting costs, PICC P&C outperformed its peers with just a marginal increase in combined ratio, CoR in 1H23 (+0.1ppt yoy vs Ping An P&C: +0.9ppt yoy, CPIC P&C: +0.6ppt yoy), thanks to its refined risk selection and pricing mechanism to stabilise its auto claim ratio against the backdrop of traffic growth after economic reopening. Despite there being few natural disasters in 3Q23, we believe the company is able to maintain its auto CoR under 97% and non-auto CoR under 100%. We continue to like PICC P&C due to: a) its market leading position with a 34.3% share of the China market, and b) its optimising business structure and strengthening risk control capabilities leading to a more sustainable CoR. Maintain BUY with a target price of HK\$11.00, pegging to 0.88x 2024F P/B, 0.5SD above its historical mean.

#### SHARE PRICE CATALYST

- Event: a) Robust auto insurance premium growth due to increasing auto sales volume in 2H23, b) better-than-expected CoR, and c) 3Q23 results.
- Timeline: 4Q23.

#### Sun Hung Kai Properties – BUY (Jieqi Liu/Damon Shen)

- On 27 Sep 23, Hong Kong Financial Secretary Paul Chan said, "We see that the current property market situation is different from that when we introduced the management measures. After all, different management measures have their goals and purposes in different scenarios. We will adopt a pragmatic attitude and continue our reviews". This is the first time Hong Kong government officials have given hints that they may ease cooling measures on the property market. Chan's latest comment concurs with XI's remarks on China's property industry in July's politburo meeting and reminds us of what happened in China's tier 1 cities afterwards. We think there is a high chance for the government to marginally lower stamp duty on property transaction for targeted groups. With a well-diversified land bank covering both luxury and mass market products, we expect Sun Hung Kai Properties (SHKP) to be key beneficiary of policy easing in Hong Kong.

#### SHARE PRICE CATALYST

- Event: Hong Kong Government announcing the easing of cooling measures on the property market.
- Timeline: 4Q23.

#### Trip.com – BUY (Julia Pan/Ming San Soong)

- Trip.com (TCOM) is well-positioned to benefit from strong pent-up demand for outbound travel and continuous domestic travel demand in 2H23 as evidenced by robust Mid-Autumn Festival and National Day pre-sales data. According to TCOM's data, domestic travel bookings for the National Day holiday has surged 88% wow and over 4x yoy. As of 13 Sep 23, flight bookings rose 5x yoy, while hotel bookings soared more than 8x yoy. TCOM's report indicates that overall outbound travel orders during the Golden Week jumped 20x yoy. The elevating consumer demand has led to higher booking prices, with the average domestic flight ticket prices for the Mid-Autumn and National Day holidays on the TCOM's platform further elevating 20% vs the summer holiday to Rmb1,293. According to TCOM's FlightAI data, the number of international passenger flights operated weekly has recovered to 52% of 2019's level, and the number of countries with open passenger flight routes has reached 90%, almost fully recovering to pre-pandemic levels. Outbound travel contributed 25-30% of TCOM's total revenue and about 40% of group EBIT before the pandemic. Therefore, the key share price driver for TCOM is still the outbound travel recovery after the border reopening. The current key concerns on TCOM remain the sustainability of its high profit growth after a normalised trajectory of travel demand over the next 12 months. However, as the company targets international travel to account for 50% revenue in the long run, we expect its revenue growth to remain solid at about 20% and profit margin to stabilise at 20-30% compared with the international players such as Booking.com and Expedia. For 2024, the full recovery in outbound travel will lift revenue growth to 15-20%, according to TCOM. The company also observed the divergent industry trends in per capita spending on its platform (grew 10% from pre-COVID-19 levels) due to increased frequency. We maintain BUY for the company with target price of HK\$418.00 (US\$56.00) implies 1.3x/1.1x 2023/24F PEG over the next three years, compared with 1.2x before the pandemic.

#### SHARE PRICE CATALYST

- Event: a) Continuous penetration of OTA platforms into domestic offline and lower-tier cities travel market, b) implementation of travel bubbles and c) capacity expansion of outbound flights.
- Timeline: 2H23.

#### XPeng – SELL (Ken Lee/Bella Lu)

- Though XPeng has seen delivery recovery since recent months, it is facing mounting earnings headwinds from stiffening price competition in China's premium EV market. Due to price cuts, XPeng's gross margin turned negative in 2Q23. The company is now cutting prices further. XPeng will launch the new G9 at Rmb263,900-359,900, 13-19% below the prices of the existing G9, by end-23. That will further squeeze XPeng's margins. Additionally, XPeng is under pressure to raise capital, as it is expected to register Rmb3b-4b in negative FCF every quarter, compared to the estimated net cash of not more than Rmb17b currently. We expect XPeng to incur net loss of Rmb13.14b/Rmb7.85b/Rmb6.17b in 2023/24/25 respectively based on sales volume of 140,000 units/200,000 units/230,000 units. Our target price of HK\$18.00 is based on DCF (WACC: 20.5%/terminal growth: 4%).

#### SHARE PRICE CATALYST

- Event: a) Price cuts, b) disappointing 3Q23 results, and c) fundraising.
- Timeline: 4Q23.



#### KEY CALLS

##### Major ChatGPT Upgrades

- On 27 Sep 23, OpenAI announced that ChatGPT has re-enabled the Browse with Bing feature to provide answers using the latest information instead of being limited to data available online before Sep 21. Currently, the feature is only available to premium subscribers of ChatGPT, but it will soon be open to all users.
- Open AI also unveiled DALL-E 3 recently, a text-to-image model built on DALL-E 2 and ChatGPT. When prompted with an idea, ChatGPT automatically generates tailored, detailed prompts for DALL-E 3 to bring the idea to life. Compared with previous systems, DALL-E 3 understands significantly more nuances and details, allowing users to easily translate ideas into exceptionally accurate images. DALL-E 3 will be available to ChatGPT Plus and enterprise customers in Oct 23.
- We see Wondershare (300624 CH) as a beneficiary of the recent upgrades in generative AI. Specialising in video creativity and graphics, the software development company can integrate AI technologies into its products and enable advanced features such as intelligent video editing and background noise cancelling.
- Wondershare has incorporated AI technologies into its products Filmora, PDFelement and Repairit to enhance the efficiency of video editing, summarise and proofread PDFs, and restore old photos effortlessly. More generative AI features in Filmora in 4Q23 are key points to watch out for.
- Catalyst: Nvidia AI Summit on 15-16 Oct 23; Google Gemini AI release in Dec 23.
- Risk: Slower-than-expected AI application in graphic and video editing.

#### UPDATES

##### Activation Group Holdings (9919 HK/NOT RATED/HK\$0.94)

- We attended the 2023 World Design Cities Conference (WDCC) on 28 Sep 23 in Shanghai, where Activation Group Holdings (AGH) was the main executive party responsible for venue design, content planning and conference operations.
- With the theme "Design Beyond Creativity", the 2023 WDCC gathered leading brands to create an innovative hub for showcasing new products. Design experts and entrepreneurs worldwide discussed how design enables global interconnection and how AI-generated content (AIGC) technology promotes high-quality development in the design industry.
- According to AGH's management, global luxury brands' marketing activities in 2023 have exceeded 2019 levels, especially for offline events. The company remains positive on the business environment in 2024, as it has sufficient projects in the pipeline for its experiential marketing segment.
- Catalyst: M&A for IP acquisition; positive reception to experiential marketing events and IP events.
- Valuation: Trading at 5.1x one-year forward PE, which is about 1SD below its historical mean of 12.5x.

Click [here](#) for Blue Top dated 3 Oct 23

#### AI SECTOR PEER COMPARISON

Ticker	Company	Market Cap (Rmbm)	Fwd PE (x)	Net Gearing (%)
300624 CH	Wondershare	13,708	90.6	(18.3)
688787 CH	Ruisheng Science Tech	5,248	70.0	(57.2)
300394 CH	Suzhou TFC Optical Communication	37,514	49.1	(57.3)
000034 CH	Digital China Group	18,487	12.7	214.5
600498 CH	Fiberhome Telecommunication	23,197	31.5	69.9
Average			50.8	30.3

Source: Bloomberg, Wind, UOB Kay Hian

#### DALL-E 3



Source: Open AI

#### DALL-E 3 DELIVERS SIGNIFICANT IMPROVEMENTS OVER DALL-E 2



Source: Open AI

#### WONDERSHARE'S PRODUCT APPLICATIONS

**Success Stories**  
See More >

<p>Microsoft Xbox Research Team</p> <p>Microsoft Xbox Research team uses Filmora for a large group user study.</p>	<p>Bose Automotive</p> <p>Bose Automotive reduces costs by 70% by replacing Adobe Acrobat with PDFelement.</p>	<p>Puma Turkey</p> <p>Puma Turkey uses EdrawMind to digitize internal processes and structure project brainstorming.</p>
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Source: Wondershare

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## STRATEGY – INDONESIA

### Alpha Picks: Potential Bull Market in 4Q23

Our portfolio performance was in line with that of the JCI in 3Q23, delivering a 4.1% return compared with the JCI's 4.2% return. Over the past 10 years, October and December have been the two strongest months of the year while November's monthly return has been flat. In anticipation of a bull market in 4Q23, we have added more exposure in our portfolio. We add AKRA, NCKL and CMRY and drop HMSP and BSDE. Our picks are: BBNI, SMGR, NCKL, MAPI, CTRA, MYOR, AKRA and CMRY.

#### WHAT'S NEW

- **Our portfolio performance was in line with the performance of the JCI in 3Q23; potential market rally in 4Q23.** The JCI rose by 4.2% in 3Q23 and on a market cap weighted basis, our portfolio was in line and delivered a 4.1% return. Considering that our portfolio outperformed in 1Q23 and 4Q23, our portfolio has outperformed the JCI in 9M23. Based on historical monthly return over the past 10 years, we view that in the next three months the market could perform strongly. The average 10-year return was 2.14% for October, -0.19% for November and 2.59% for December.
- **Our portfolio underperformed in Sep 23.** For Sep 23, our portfolio declined by an average of 4.9% compared with the JCI's 1.7% decline. The largest gain is recorded by BBNI (+11%). SMGR, HMSP and MYOR outperformed, declining by 7.0%, 3.2% and 4.2% respectively. The largest losers were CTRA (-12%), BSDE (-11.6%) and MAPI (-7.5%).
- **Add AKRA and NCKL to capitalise on rising oil prices and higher nickel volume.** We decide to add AKRA to our portfolio to capitalise on rising oil prices and AKRA's retail expansion. We also add NCKL as its production volume could accelerate from 2H23 onwards and the forward price curve of nickel is rising.
- **Add CMRY and drop HMSP and BSDE.** We decided to add CMRY on the back of recovery in sales in 3Q23 and lower skim milk powder cost which could benefit margin. CMRY has good growth prospects and an attractive valuation. We decided to drop HMSP from our portfolio as it could be a drag in a bull market. We also performed a stop-loss on BSDE as the stock has declined by more than 15% since its inclusion.

#### ANALYSTS' ALPHA\* PICKS

Analyst	Company	Rec	Performance*	Catalyst
Posmarito Pakpahan	Bank Negara Indonesia	BUY	8.9%	Loan growth to accelerate in 2H23.
Stevanus Juanda	Mitra Adiperkasa	BUY	55.9%	Earnings surprise on the upside. Over 15% EPS growth for the next two years.
Limartha Adhiputra	Ciputra Development	BUY	2.5%	Better 3Q23 marketing sales and NPAT achievement.
Limartha Adhiputra	Semen Indonesia	BUY	-7.4%	Potentially stronger sales volume, margin expansion and higher NPAT achievement in 2H23.
Stevanus Juanda	Mayora Indah	BUY	3.1%	Recovery in 3Q23 sales and raw material cost drop will expand margin in 2023.
Posmarito Pakpahan	AKR Corporindo	BUY	NA	Rising oil prices and retail gas station growth
Stevanus Juanda	Cisarua Mountain Dairy	BUY	NA	Sales recovery in 3Q23 and skim milk powder decline
Limartha Adhiputra	Trimegah Bangun Persadfa	BUY	NA	Production increase and potential higher nickel price
				Drop: HMSP, BSDE

\* Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation

# Share price change since stock was selected as Alpha Pick Source: UOB Kay Hian

#### VALUATION

Company	Ticker	Rec	Price 2-Oct-23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US\$m)	3M Avg Turnover (US\$m)	PE 2023F (x)	2024F (x)	P/B 2023F (x)	2024F (x)	ROE 2023F (%)	Div. Yield 2023F (%)	Net Gearing (%)
Bank Negara Indonesia	BBNI	BUY	10,300	11,200	8.7	12,365	17.7	8.9	7.7	1.2	1.1	15.1	(73.8)	(74)
Semen Indonesia	SMGR	BUY	6,475	9,200	42.1	2,824	4.5	14.2	12.7	1.0	0.9	7	17.5	0
Trimegah Bangun Persadfa	NCKL	BUY	1,070	1,190	11.2	4,345	4.2	11.4	8.5	2.6	2.0	36.4	50.2	15
Mitra Adi Perkasa	MAPI	BUY	1,870	2,500	33.7	1,997	2.6	13.3	11.0	3.1	2.5	26.4	15.4	15
Ciputra Development	CTRA	BUY	1,045	1,300	24.4	1,246	1.8	9.7	8.1	0.9	0.8	10.4	(0.6)	(1)
Mayora Indah	MYOR	BUY	2,530	3,200	26.5	3,640	1.3	23.9	20.3	3.8	3.4	18.7	17.1	(10)
AKR Corporindo	AKRA	BUY	1,515	1,840	21.5	1,957	3.8	10.9	11.3	2.5	2.3	24.1	(10.0)	(39.7)
Cisarua Mountain Dairy	CMRY	BUY	3,900	4,800	23.1	1,991	0.5	26.4	21.0	5.0	4.2	20.1	(55.9)	17.1

Source: Bloomberg, UOB Kay Hian

#### KEY RECOMMENDATIONS

Ticker	Rec	Price 2-Oct-23 (Rp)	Target Price (Rp)	Potential Upside (%)
BBNI	BUY	10,300	11,200	8.7
SMGR	BUY	6,475	9,200	42.1
NCKL	BUY	1,070	1,190	11.2
MAPI	BUY	1,870	2,500	33.7
CTRA	BUY	1,045	1,300	24.4
MYOR	BUY	2,530	3,200	26.5
AKRA	BUY	1,515	1,840	21.5
CMRY	BUY	3,900	4,800	23.1

Source: UOB Kay Hian

#### CHANGE IN SHARE PRICE

Company	Rec	Sep-23 (%)	To Date (%)
BBNI	BUY	11.0%	8.9%
SMGR	BUY	-7.0%	-7.4%
BSDE	BUY	-11.6%	-15.6%
MAPI	BUY	-7.5%	55.9%
CTRA	BUY	-12.0%	2.5%
HMSP	BUY	-3.2%	-8.1%
MYOR	BUY	-4.2%	3.1%
JCI		-1.7%	
USD-IDR X-RATE		-1.5%	

Source: UOB Kay Hian

#### PORTFOLIO RETURN

	2022	1Q23	2Q23	3Q23
JCI return	4.1%	-0.7%	-2.1%	4.2%
Alpha Picks Return				
Price-weighted	8.9%	-0.5%	-0.1%	4.8%
Market cap-weighted	9.7%	1.9%	-1.4%	4.1%
Equal-weighted	6.6%	-0.1%	-0.5%	0.3%

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting is based on the market cap at date of inclusion, a higher market cap will have a higher weighting.
- 3) Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

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### Trimegah Bangun Persada – BUY (Limartha Ahdiputra)

- **The largest listed pure-play nickel producer in Indonesia.** Trimegah Bangun Persada (NCKL) owns and operates nickel mines and smelters located in South Halmahera, Indonesia. NCKL also has subsidiary and associated nickel smelting operations located on Obi Island that produce ferronickel and mixed hydroxide precipitates (MHP) for export. We expect NCKL to be the largest pure-play nickel producer in Indonesia based on 2023 nickel production of 90,000 tonnes, compared to Vale Indonesia's (INCO) capacity of 70,000 tonnes.
- **Ferronickel sales expected to increase to 90,000 tonnes in 2023 and 120,000 tonnes in 2024.** We expect NCKL's ferronickel production to increase 65,000 tonnes in 2023 with Halmahera Jaya Ferronickel's (HJF) Phase 2 rotary kiln electric furnace (RKEF) starting production in 2Q23. With additional capacity from HJF's Phase 2 RKEF in 2Q23, we expect 2023 ferronickel production and sales of 90,000 tonnes, up 255%. We have incorporated 90,000 tonnes for 2023 production volume at an average cash cost of US\$11,510/tonne.
- **Expect 2023 and 2024 NPAT to come in at Rp5.9t (+27.2% yoy) and Rp7.9t (+33.7% yoy) respectively** as sales will continue to increase on ramped-up nickel production in 2023-24. We maintain our forecasts on NCKL's revenue, EBITDA and net profit as ferronickel production will increase. We maintain 2023 and 2024 average nickel prices at US\$22,785/tonne and US\$20,000/tonne respectively. As a result, NCKL's revenue for 2023 should be Rp23.5t, with Rp6.4t in EBITDA, which implies a 41.3% yoy growth, while 2024 revenue will be Rp26.6t with EBITDA of Rp9.2t.
- **Maintain BUY with a target price of Rp1,190** as we foresee higher EBITDA of Rp6.4t (+41.3%) in 2023 with sales of 24.1m wmt of ore and 90,000 tonnes of ferronickel in 2023. Our target price of Rp1,190 implies its average 2023F EV/EBITDA of 14.1x and average 2023F PE of 14.2x. We maintain BUY as the average nickel prices are expected to stay at a high level of US\$22,000-24,000/tonne in 2023 on the back of potentially higher nickel demand as China's economy reopens with higher usage of nickel in EV battery production in the future.

### SHARE PRICE CATALYST

- **Events:** a) Rise in production volume, and b) rise in nickel price.
- **Timeline:** Announcement of 3Q23 and 4Q23 production data and realisation of the rising forward curve in nickel price.

### AKR Corporindo – BUY (Posmarito Pakpahan)

- **71% hoh net profit growth in 2H23.** We expect AKR Corporindo (AKRA) to deliver a strong net profit growth of 71% hoh (+22% yoy) in 2H23 which will be driven by: a) 77ha land sales, b) 6-8% petroleum volume sales, and c) stable margin from petroleum business. We expect gross margin to improve to 10.2%, with JIPE contributing 30%.
- **77ha land sales in 2H23.** AKRA signed a binding agreement (CSPA) with Sihcuan Hebang Biotechnology (Hebang) in 3Q23 for a land purchase of 67ha to set up a petrochemical manufacturing plant in Java Integrated Industrial and Port Estate (JIPE). We expect the 67ha of land sales to be recognised as revenue in 4Q23.
- **Petroleum volume on track with margins sustained.** Supported by the mining activities and economy recovery, we expect petroleum volume to grow at 6-8% this year. In 2Q23, petroleum volume grew 4% qoq (+5% yoy) with a run rate of 240,000 kl per month. AKRA could sustain its high margin per litre at Rp800-900 per litre in 2H23 due to its extensive logistics networks and exposure to eastern Indonesia.
- **Retail volume growing as the number of stations rises.** Supported by an increasing number of petroleum stations in Jabotabek and East java, retail sales volumes surged 236% yoy in 1H23. The company plans to operate 50 gas stations by end-23 and 350

outlets by 2030. AKRA believes the increase in the number of gas stations to 350 outlets could boost the contribution of retail fuel to total volume to 15% in 2030.

- **Maintain BUY with a target price of Rp1,840.** We arrive at our target price: a) using DCF method to value its trading and distribution and other segments, and b) using discount to RNAV to value its industrial estate segment. We use WACC of 9.6% and terminal growth of 3% in our DCF valuation and 60% discount to JIPE's NAV with assumption of 519ha saleable landbank and ASP of US\$150/sqm. We adjust the value to 60% of AKRA's ownership in JIPE. Our target price of Rp1,840/share implies 13x 2023F PE. AKRA is trading at 10.9x forward PE, -1SD to its five-year historical forward PE mean.
- **Risks:** Adverse economic development, worsening geopolitical issues, lower-than-expected sales volume, decline in basic chemical prices, lower margin per litre, and a delay in JIPE's land sales accounting sales recognition.

#### SHARE PRICE CATALYST

- **Events:** a) Upward pressure for oil price in the short term, and b) land-sales booking in 4Q23.
- **Timeline:** Declining oil inventories in the coming months could put upward pressure on oil price in 2H23. Meanwhile, we expect the company to book 10ha in land sales in 3Q23 and 67ha in land sales in 4Q23.

#### Cisarua Mountain Dairy (Stevanus Juanda)

- **Product innovation to drive sales and profit growth.** Cisarua Mountain Dairy (CMRY) is known for its yogurt pouches and single serve ready-to-eat sausages and meatballs. It recently launched affordable yogurt sticks. This year, CMRY has launched the Crème Dessert product line, plant-based beverages and seafood-based products. New and innovative products will continue to be launched and will drive sales and profit growth.
- **Strong push into consumer products to drive growth.** In 1H23, CMRY experienced 50% yoy growth in its premium consumer food sales (chicken nuggets, sausages, meatballs, egg products, etc). Going forward, the strong growth is likely to persist as CMRY will continue to introduce new products and further penetrate the market via new outlets in modern and general trade. CMRY has a 9.7% share of the chilled processed meat market (worth US\$167m) and 3.7% share of the frozen processed meat market (US\$641m).
- **Milk market is large with room for growth.** Dairy products accounted for 55% of CMRY's total sales in 2022. In 1H23, yogurt sales were soft, while strong growth was recorded in the UHT milk segment. Yogurt has a much smaller market which could be worth US\$421m in 2025; CMRY already holds a market share of more than 50%. Flavoured milk, fresh white milk and UHT milk are expected to have a market size of US\$1,891m, US\$97m and US\$721m respectively in 2025. CMRY sees opportunities to grab more sales and market share in the milk market. It holds 2.4%, 4.3% and less than 1.0% of the flavoured milk, fresh white milk and UHT milk markets.
- **Largest domestic yogurt producer in fast-growing market.** CMRY has a 71.9% share of the spoonable yogurt market which is expected to grow at a 61% CAGR from US\$22m in 2020 to US\$234m by 2025. Domestic yogurt sales can be expected to surge from US\$160m in 2020 to US\$655m by 2025. In the drinking yogurt market, CMRY has a 50.3% share and the market is expected to grow at a 25% CAGR in 2020-25.
- **Maintain BUY and a target price of Rp4,800.** CMRY expects sales and NPAT to grow at a CAGR of above 15% from 2022 to 2025. This will likely be driven by: a) introduction of new products, b) further penetration into general trade by expanding the outlet network and installing cold chain distribution facilities, and c) expansion of the Miss Cimory sales force. CMRY's NPAT is likely to rise at a 16.8% CAGR over 2022-25. Maintain BUY with a target price of Rp4,800 based on a historical average PE of 25.8x applied to 2024 EPS.

#### SHARE PRICE CATALYST

- **Events:** Potential strong results from 3Q23 onwards.
- **Timeline:** 3Q23 results announcement at end-Oct 23.

#### Mayora Indah – BUY (Stevanus Juanda)

- **MYOR increased its product prices by 12-18% in 2022; gross margin to improve by 180-480bp yoy in 2023.** Mayora Indah (MYOR) stated that its product ASPs were increased by an average of 15% in 2022 and in the range of 12-18%. As raw material prices are normalising in 2023, MYOR will no longer increase its prices. However, the new and higher prices are likely to remain elevated, which will translate to gross margin improving from 22.2% in 2022 to 25-27% in 2023.
- **ASP increase should offset the recent rise in wheat and CPO prices.** Our sensitivity analysis indicates that every 5% ASP increase will result in NPAT rising by 51.3%; every 5% increase in wheat and CPO prices will cause 2023 NPAT to decline by 6.0% and 4.6% respectively. After increasing ASP by an average of 15% in 2023, we believe 2H23 gross margin could still expand but likely with a lower magnitude.
- **MYOR reported 2Q23 NPAT of Rp494b, rising 41.6% yoy on 594bp gross margin expansion.** The reported 2Q23 NPAT saw strong gross margin improvement of 594bp yoy as raw material prices normalised. Operating margin expanded by 299bp yoy and net margin expanded 261bp yoy. 1H23 NPAT came in at Rp1,219b, rising 86.6% yoy with 1H23 gross margin expanding 585bp yoy.
- **Advertising and promotional expense at 9-11% of sales; lower freight costs as container costs normalise.** MYOR's advertising expenses declined from Rp3.6t in 2021 (13% of sales) to Rp2.65t (8.6% of sales) in 2022. In 2023, MYOR will continue to maintain its advertising and promotion cost at 9-11% of sales. Freight costs rose 19.2% yoy in 2022, but are likely to decrease in 2023 as container costs have normalised and oil prices have declined.
- **2023 NPAT could rise 44.4% yoy to Rp2,593b.** Despite the potential slight pressure from the increase in wheat and CPO prices, we expect MYOR to record a strong yoy growth in NPAT in 2023. We have forecasted 34.8% yoy core NPAT growth in 2023. With 28.1% upside, we maintain BUY on MYOR with target price of Rp3,000.

#### SHARE PRICE CATALYST

- **Events:** Potential strong results from 3Q23 onwards.
- **Timeline:** 3Q23 results announcement at end-Oct 23.

#### Ciputra Development – BUY (Limartha Adhiputra)

- **Upgraded 2023 marketing sales target to Rp9.8t (+19% yoy).** Ciputra Development (CTRA) expects additional growth from all major locations including Medan and Makassar, with a larger contribution from Greater Jakarta and Greater Surabaya. In Jul 23, CTRA further expanded the landed residential portfolio by launching an additional cluster in CitraGarden Serpong. In Aug 23, CTRA had several new projects set to be launched, eg Citra City Sentul, CitraGarden Bintaro and CitraLand Sampali, along with new clusters within CitraLand Gama City Medan and CitraLand Tanjung Morawa. Joint operation and direct ownership projects will contribute 61% and 39% respectively of CTRA's 2023 marketing sales target of Rp9.8t.
- **2H23 marketing sales achievement could be higher than in 1H23 with more new products launched.** In Jul 23, CTRA launched a new cluster called Diandre in CitraGarden Serpong. This launch resulted in marketing sales of Rp356b, with a take-up rate of 75%. CTRA plans to launch Citra City Sentul and expects to generate Rp400b in its marketing sales. Another project in Greater Jakarta is CitraGarden Bintaro, which is



estimated to achieve marketing sales of Rp400b in the first phase. Three projects in Medan, CitraLand Sampali, CitraLand Gama City, and CitraLand Tanjung Morawa are expected to generate marketing sales of Rp450b, Rp130b and Rp120b respectively.

- **Expect 2023-24 net profit to grow 7.6% yoy to Rp2.0t and 19.6% yoy to Rp2.4t respectively.** 2023-24 revenue could grow on stronger development revenue growth. The high marketing sales in 2022 will translate into stronger development revenue for 2023-24. We expect 2023 revenue to grow 9.8% yoy to Rp10t, of which 78.7% will be development revenue and 21.3% will be recurring revenue. We forecast 2024 revenue at Rp10.8t (+8.2% yoy) with 78.5% contribution from development revenue and 21.5% contribution from recurring revenue.
- **Maintain BUY with a target price of Rp1,300.** This is derived from five-year +1SD discount to 2023 RNAV/share, or at a 66.5% discount to our RNAV. We think CTRA deserves an above-average valuation as it has well-diversified projects in and outside Java that can drive its marketing sales growth in 2023. CTRA is currently trading at near five-year mean discount to 2023 RNAV/share.

#### SHARE PRICE CATALYST

- **Events:** Better 3Q23 marketing sales and NPAT achievement.
- **Timeline:** 3Q23 marketing sales announcement in early-Oct 23.

#### Bank Negara Indonesia – BUY (Posmarito Pakpahan)

- **Fundamental improvement in credit risk.** In the last couple of quarters, Bank Negara Indonesia (BBNI) focused on de-risking its balance sheet which led to moderate loan growth compared to other big banks, but also resulted in improving credit risk. Risk-weighted asset (RWA) density credit risk for loan portfolio declined by 4.6% yoy to 74.7% in Jun 23, which also resulted in an improvement in CAR ratio. BBNI's provision coverage (NPL coverage: 309% and LaR coverage: 47%) is much higher than that in 2019 (NPL coverage: 134% and LaR coverage: 32.3%).
- **Higher CAR, plans to raise DPR to 50%.** Driven by solid earnings as well as improving credit risk, BBNI's tier 1 CAR increased to 19.8% in Jun 23, up from 17.4% in Dec 18. Meanwhile, total CAR stood at 21.6% in Jun 23, up from 18.5% in Dec 18. With improving CAR, BBNI plans to raise its dividend payout ratio (DPR) to 50% from last year's DPR of 40%. With the new DPR, BBNI offers >6% dividend yield at current price.
- **Expect a high single-digit hoh net profit growth in 2H23.** We estimate BBNI to book net profit of Rp11.3t in 2H23, growing 9.5% hoh which will lead to 18% yoy net profit growth in 2023. 2H23 earnings growth will be mainly driven by loan growth which management targets to grow by 7-9% this year. A ramp-up in government spending is expected to support loan growth in 2H23 as the government only spent about 40% of its allocated 2023 budget in 1H23. Furthermore, we expect the bank to book the delayed payment of Kedit Usaha Rakyat's (KUR) subsidy by the government in 2H23, amounting to Rp340b.
- **Maintain BUY with a target price of Rp11,200.** We arrive at 1.3x 2024F P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.8%, and long-term growth: 5%. BBNI is facing transformation by restructuring its loan portfolio and focusing on digitalisation on its front-end and back-end. Re-rating on valuation will be driven by continued ROAE improvement, for which management targets to reach 18% by 2025. BBNI's ROE has been trending up to 15.4% in 1H23 vs 2.6% in 2020, and is higher than 13.4% in 2019. BBNI is the cheapest stock among the Big Four banks, trading at 1.0x, close to average of its five-year historical P/B.
- **Risks:** Adverse economic development, worsening geopolitical issues and loan growth slowing down.



#### SHARE PRICE CATALYST

- **Events:** a) Cum-date stock split will be on 5 Oct 23, and b) 3Q23 results which could be published this month. We expect a recovery in loan growth. In Aug 23, bank-only loans grew 8.4% yoy, higher than a 6.9% yoy in Jul 23 and 4.7% yoy in Jun 23.
- **Timeline:** a) Cum-date BBN's stock split on 5 Oct 23, b) 3Q23 results which could be published this month.

#### Semen Indonesia – BUY (Limartha Adhiputra)

- **Cement demand continues to show an uptrend in 1H23.** We saw an improvement in cement demand growth during 1H23. The cement demand contraction improved to -1.1% yoy in Jun 23 from -6.7% yoy in May 23. In Jul 23, SMGR's cement sales volume indicated a positive growth and we expect the positive trend to continue in 2H23. SMGR expects more cement demand to come from infrastructure projects in Sumatra and IKN constructions in 2H23.
- **Margin will continue to expand in 2H23.** SMGR's 1H23 net profit margin improved slightly to 5.1% vs to 5.0% in 1H22. In 2H23, SMGR believes its profit margin could continue to expand as the positive growth trend in cement sales volume is improving with minimum risk from coal input cost. We expect SMGR to continue delivering a higher profit margin of 7.7% in 2023 as the risk of coal price fluctuations has been minimised by securing 100% of its coal supply at DMO prices.
- **Expect 2023 net profit to grow 30.9% yoy.** We maintain SMGR's 2023 revenue at Rp40.2t, up 10.5% yoy from Rp36.4t in 2022 with EBITDA expected to grow 14.5% yoy to Rp9.05t. 2023 NPAT is forecasted to grow 30.9% yoy to Rp3.1t vs Rp2.4t in 2022. We project 2023 sales volume to rise 11% yoy to 40.9m tonnes as SMGR has new strategies to tackle the fierce competition and oversupply conditions in the cement market.
- **Maintain BUY with a target price of Rp9,200.** We still believe SMGR can record higher NPAT and margin growth in 2023 as it has secured 100% of its coal at DMO prices. We base our target price on the stock's -0.5SD to its five-year 2023 forward EV/EBITDA of 7.9x. Currently, SMGR is trading at -1.5SD to its five-year EV/EBITDA, which is still very attractive.

#### SHARE PRICE CATALYST

- **Events:** Potentially stronger sales volume, margin expansion, and higher NPAT achievement in 2H23.
- **Timeline:** 3Q23 results announcement in end-Oct 23.

#### Mitra Adiperkasa – BUY (Stevanus Juanda)

- **Over 150 profitable and exclusive brands.** A key factor in Mitra Adiperkasa's (MAPI) success is its >150 exclusive brands that are profitable. This exclusivity creates barriers of entry to competitors as well as better margins. Only Nike, Sephora (60% of products), Puma and Adidas (which contributed about 4.7% of MAPI's sales) are non-exclusive brands. MAPI has worked hard to rationalise its brands portfolio over the past few years, and non-performing brands have been divested.
- **Key to higher margins lies in exclusive brands.** MAP Active's (MAPA) net margin of 9.0% is much higher than its regional peers' 4.5% and investors want to know if there is a risk of future margin erosion. MAPI stated that about 90% of its brands are exclusive to it in Indonesia, and only Nike, Adidas, Puma and Sephora are not exclusive. The exclusivity should translate to barriers of entry to competitors. MAPA's top five brands are Skechers, Converse, Reebok, New Balance and Nike, of which three are exclusive to MAPI.
- **Exclusivity of brands extended to regional markets.** A key competitive advantage of MAPI is the exclusivity of its brands in Indonesia which creates barriers of entry and better

margins earned compared with its regional peers. Fortunately, this exclusivity has also extended into its international operations such as Vietnam. In Vietnam, all Inditex Group (Zara, Massimo Dutti, Pull & Bear, etc), Birkenstock, Converse, Champion and Digimap brands are exclusive. In the Philippines, the exclusive brands are Converse, New Balance, Haddad, Airwalk, Hoka and Fitflop. In Singapore and Malaysia, JVs are formed with Converse and Reebok.

- **All business segments except department stores have recorded higher sales than pre-pandemic levels.** With the exception of department stores, all other business segments (fashion, sportswear, F&B and Digimap) have recorded sales higher than 2019's levels. This should be viewed positively as recovery in GDP growth will continue to support MAPI's sales going forward.
- **Maintain BUY with a target price of Rp2,500**, derived using historical average five-year PE applied to average 2023 and 2024 EPS. Given a 26.3% upside from the current level, we maintain BUY on MAPI.

#### SHARE PRICE CATALYST

- **Events:** Strong profit growth momentum from 3Q23 onwards and acquisition of new brands.
- **Timeline:** Announcement of results in 3Q23.

## SMALL/MID CAP HIGHLIGHTS

### Smartfren Telecom (FREN IJ)

Expects Revenue To Improve On Launch Of New Products

FREN expects 2H23 revenue to improve compared with 1H23 (+2% yoy), partly supported by the launch of new products in Apr and Jul 23. It also aims to raise its ARPU, upsell its products and expand its network. Its targeted increase in the number of base transceiver stations for 2023 implies 9-12% yoy growth. According to Bloomberg, FREN trades at 2023 EV/EBITDA of 8.8x, higher than its industry peers' for 2023-24 – Telkom Indonesia: 6.5x-6.3x, Indosat: 5.6x-5.1x, and XL Axiata: 4.2x-4.0x.

#### WHAT'S NEW

- **To improve revenue in 2H23.** Smartfren Telecom (FREN) estimates the following factors to support 2H23 revenue: a) additional revenue from the launch of new products in Apr and Jul 23, and b) implementation of targeted marketing expenses. It also experienced higher capacity from the completion the "refarming" (more efficient reallocation) process of its 10MHz spectrum on 2.3GHz band near end-Apr 23. The company booked revenue growth of 2% yoy in 1H23 (slower than +10% yoy in 1H22), partially due to the company's reorganisation activities and moderation effect (in data traffic) after the pandemic.
- **To grow BTS network by 9-12% yoy in 2023, including to outer Java.** FREN is expanding its service to outer Java areas. It already entered several areas, such as Gorontalo and South Sulawesi. The company targets to expand to Tier 2 and Tier 3 cities, aligning with the roadmap of the government's infrastructure development, such as Trans Sumatra and Bogor-Ciawi-Sukabumi (Bocimi) Toll Road, and other infrastructure projects in East Java. FREN aims to increase its number of base transceiver stations (BTS) to 47,000-48,000 (implying 9-12% yoy growth) in 2023.
- **To strengthen cooperation with fixed broadband (myRepublic) in 14 cities.** FREN plans to integrate its mobile product with the fixed broadband product from myRepublic (affiliated with FREN). The company sees opportunities in areas where: a) FREN's service is available, but MyRepublic has no presence yet, such as Subang, Jogjakarta, and other five cities in Java; and b) FREN and myRepublic already have presence in the area, but there is minimum competition, such as Makassar (South Sulawesi), Palembang (South Sumatra), Jambi (Sumatra) and other four cities in Java.
- **Potential merger with XL Axiata (EXCL).** Bloomberg reported on 5 September that Axiata Group and Sinar Mas Group have revived talks that might lead to a merger of their telecommunications (telco) operations in Indonesia and other options could include network sharing agreements and partnerships, according to unnamed sources. We await formal announcement regarding the potential merger and/or partnership between the two operators. For now, it is still uncertain whether there would be another M&A transaction in Indonesia's telco sector, in our view.

#### KEY FINANCIALS

Year to 31 Dec (Rpb)	2018	2019	2020	2021	2022
Net turnover	5,490	6,988	9,408	10,457	11,203
EBITDA	975	1,381	3,049	4,100	5,025
Operatin profit	(2,647)	(2,302)	(785)	247	623
Net profit (rep./act.)	(3,553)	(2,188)	(1,524)	(435)	1,064
Net profit (adj.)	(3,553)	(2,188)	(1,524)	(435)	1,064
EPS (Rp)	(16.4)	(9.6)	(4.9)	(1.5)	3.2
PE (x)	(3.4)	(5.8)	(11.4)	(38.0)	17.6
P/B (x)	0.8	1.0	1.2	1.4	1.2
EV/EBITDA (x)	44.3	31.2	14.2	10.5	8.6
Dividend yield (%)	0.0	0.0	0.0	0.0	NA
Net margin (%)	(64.7)	(31.3)	(16.2)	(4.2)	9.5
Net debt/(cash) to equity (%)	58.8	65.0	151.6	181.5	148.5
Interest cover (x)	(4.6)	(6.4)	(0.9)	0.3	0.6
ROE (%)	(32.8)	(17.4)	(12.1)	(3.5)	7.5
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: FREN, Bloomberg, UOB Kay Hian

## NOT RATED

Share Price	Rp56
Target Price	n.a.
Upside	n.a.

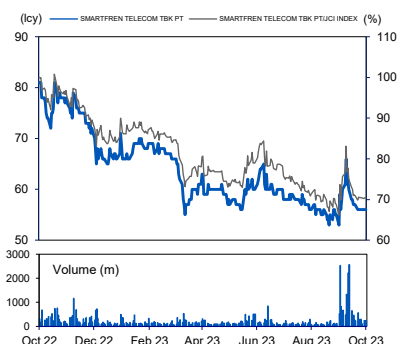
#### COMPANY DESCRIPTION

FREN is a telecommunication (telco) service provider in Indonesia with nationwide network and more than 43,000 BTS spread in over 285 cities in Indonesia. It is part of Sinarmas business group and claimed to be the only telco operator in Indonesia that fully operates on 4G.

#### STOCK DATA

GICS sector	Telecommunication				
Bloomberg ticker:	FREN IJ				
Shares issued (m):	335,388.1				
Market cap (Rpb):	18,781.7				
Market cap (US\$m):	1,203.7				
3-mth avg daily t'over (US\$m):	1.2				
Price Performance (%)					
52-week high/low	Rp84/Rp52				
1mth	3mth	6mth	1yr	YTD	
1.8	(6.7)	(11.1)	(30.0)	(15.2)	
<b>Major Shareholders</b>					
					%
Public (each holding below 5%)					37.8
PT Global Nusa Data					23.4
-					-
FY23 NAV/Share (Rp)					-
FY23 Net Debt/Share (Rp)					-

#### PRICE CHART



Source: Bloomberg

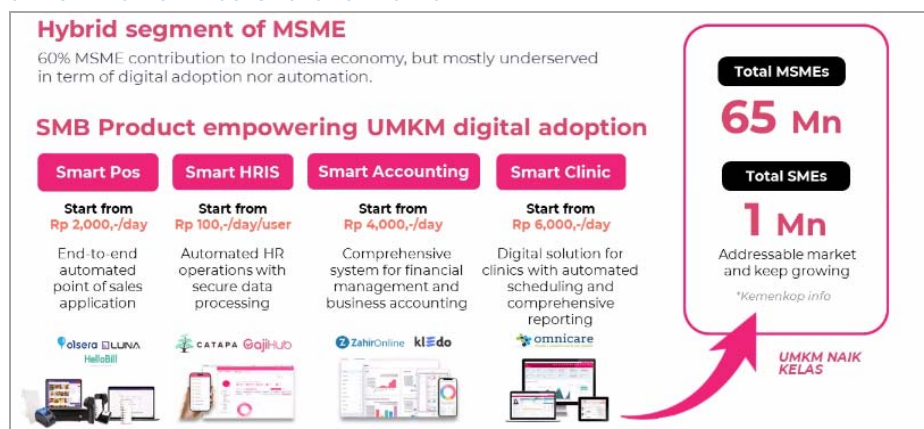
#### ANALYST(S)

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## STOCK IMPACT

- **Bundled marketing programme with MyRepublic.** FREN already received good responses from the trial phase with MyRepublic on several bundled marketing campaigns. As of mid-23, MyRepublic already expanded to nine new cities with a total coverage of 30 cities in Indonesia, according to Kontan.
- **Growth opportunities in micro, small, and medium enterprises (MSME) market for Smartfren Business (SMB).** SMB is a telco and information & communications technology (ICT) player which serves business needs. It offers digital solution products for MSMEs which is considered underserved in terms of digital adoption. In terms of connecting with MSMEs through community, FREN already has a community, named Smartfren Community, founded since 2015. One of Smartfren Community's programme is named "Teman Kreasi", developing 1,950 SMEs across 54 cities in Indonesia, according to Liputan 6 as of Nov 22.

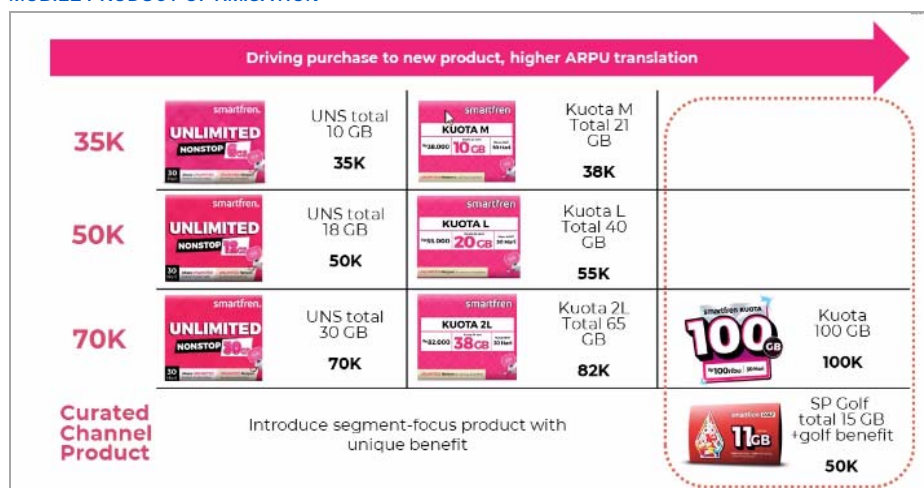
## SMB OFFERS DIGITAL SOLUTIONS FOR MSMEs' MARKET



Source: FREN

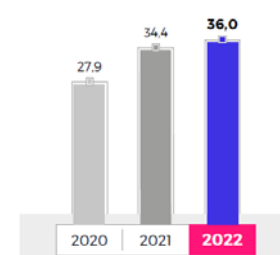
- **More than 50% of FREN's network is fiberised**, according to the company. Its big vendors include tower companies and fibre optic companies. One of FREN's vendors is its affiliated company named Mora Telematika Indonesia (MORA), of which 18% is owned by FREN. FREN mentioned that MORA's clients are not limited to FREN.
- **New mobile products' price is 9-17% higher than the existing "unlimited-internet" products.** FREN's new products provide attractive data quota of 21-65GB and priced at Rp35,000-70,000. The new products' price is 9-17% higher, but with lower data quota compared with its existing products of 10-30GB data packages with "unlimited" feature.

## MOBILE PRODUCT OPTIMISATION



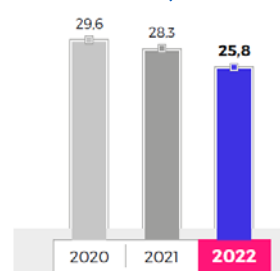
Source: FREN

## NUMBER OF SUBSCRIBERS (IN MILLIONS)



Source: FREN

## BLENDED ARPU (IN RP THOUSANDS)



Source: FREN

## FREN'S BTS DISTRIBUTION BY AREAS



Source: FREN

## MOBILE AND FIXED BROADBAND BUNDLED MARKETING PROGRAMME (FREN AND MY REPUBLIC)



Source: FREN

## AREAS WITH POTENTIAL SYNERGY FOR FREN AND MY REPUBLIC

Smartfren	MyRepublic	Competitor	Cities (sampling purpose)
✓	✗	✓	Subang, Yogyakarta, Gresik, Sidoarjo, Kediri, Sumedang, Purwakarta
✓	✓	✗	Garut, Jember, Makassar, Mojokerto, Palembang, Cibubur, Jambi

\*) Competitor refers to non-Government entities.

Source: FREN, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Net turnover	6,988	9,408	10,457	11,203
EBITDA	1,381	3,049	4,100	5,025
Deprec. & amort.	3,683	3,833	3,853	4,401
EBIT	(2,302)	(785)	247	623
Total other non-operating income	316	19	138	1,496
Associate contributions	1	2	3	4
Net interest income/(expense)	(353)	(832)	(951)	(1,043)
<b>Pre-tax profit</b>	<b>(2,339)</b>	<b>(1,597)</b>	<b>(566)</b>	<b>1,076</b>
Tax	151	74	131	(12)
Minorities	0	0	(0)	(0)
<b>Net profit</b>	<b>(2,188)</b>	<b>(1,524)</b>	<b>(435)</b>	<b>1,064</b>
Net profit (adj.)	(2,188)	(1,524)	(435)	1,064

**CASH FLOW**

Year to 31 Dec (Rpb)	2019	2020	2021	2022
<b>Operating</b>	<b>(59)</b>	<b>1,268</b>	<b>2,871</b>	<b>2,638</b>
Pre-tax profit	(2,339)	(1,597)	(566)	1,076
Tax	151	74	131	(12)
Deprec. & amort.	3,683	3,833	3,853	4,401
Working capital changes	1,134	206	NA	NA
Other operating cashflows	(2,688)	(1,248)	(546)	(2,828)
<b>Investing</b>	<b>(3,574)</b>	<b>(4,497)</b>	<b>(2,728)</b>	<b>(2,119)</b>
Capex (growth)	(1,276)	(1,346)	(957)	(1,236)
Investments	4	12	103	94
Others	(2,303)	(3,163)	(1,874)	(977)
<b>Financing</b>	<b>3,426</b>	<b>3,685</b>	<b>(336)</b>	<b>(690)</b>
Dividend payments	0	0	0	0
Issue of shares	2,485	1,130	697	2,028
Proceeds from borrowings	3,199	4,531	1,325	1,136
Loan repayment	(2,258)	(1,975)	(3,397)	(3,854)
Others/interest paid	NA	NA	1,038	0
<b>Net cash inflow (outflow)</b>	<b>(208)</b>	<b>456</b>	<b>(193)</b>	<b>(171)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>406</b>	<b>197</b>	<b>653</b>	<b>463</b>
Effect of forex rate changes and ..	0	0	2	16
<b>Ending cash &amp; cash equivalent</b>	<b>198</b>	<b>653</b>	<b>462</b>	<b>308</b>

**BALANCE SHEET**

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Fixed assets	19,894	29,673	33,292	34,422
Other LT assets	5,981	6,365	7,744	9,706
Cash/ST investment	197	654	463	308
Other current assets	1,578	1,992	1,859	2,057
<b>Total assets</b>	<b>27,650</b>	<b>38,684</b>	<b>43,358</b>	<b>46,492</b>
ST debt	1,035	2,978	3,725	3,722
Other current liabilities	5,084	5,440	5,878	4,937
LT debt	7,436	16,429	19,699	19,985
Other LT liabilities	1,359	1,471	1,402	2,089
Shareholders' equity	12,735	12,366	12,653	15,759
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>27,650</b>	<b>38,684</b>	<b>43,358</b>	<b>46,492</b>

**KEY METRICS**

Year to 31 Dec (%)	2019	2020	2021	2022
<b>Profitability</b>				
EBITDA margin	19.8	32.4	39.2	44.9
Pre-tax margin	(33.5)	(17.0)	(5.4)	9.6
Net margin	(31.3)	(16.2)	(4.2)	9.5
ROA	(8.3)	(4.6)	(1.1)	2.4
ROE	(17.4)	(12.1)	(3.5)	7.5
<b>Growth</b>				
Turnover	27.3	34.6	11.1	7.1
EBITDA	41.7	120.8	34.5	22.6
Pre-tax profit	28.8	31.7	64.5	NA
Net profit	(38.4)	(30.4)	(71.4)	(344.5)
Net profit (adj.)	(38.4)	(30.4)	(71.4)	(344.5)
EPS	41.5	48.7	70.0	NA
<b>Leverage</b>				
Debt to total capital	39.9	61.1	64.9	60.1
Debt to equity	66.5	156.9	185.1	150.4
Net debt/(cash) to equity	65.0	151.6	181.5	148.5
Interest cover (x)	(6.4)	(0.9)	0.3	0.6



## STRATEGY – MALAYSIA

## Alpha Picks: A Handful Of Events To Capitalise On

Our Alpha Picks outperformed the KLCI in September (-0.7% vs. -1.9%). October's picks are Bursa Malaysia (Bursa), Hap Seng Plantations (HAPL), Hume Cement Industries (Hume), Malaysia Airports Holdings (MAHB), and My EG Services (MYEG). Expected events in October should favour the blockchain, E&E and 'Iskandar 2.0' investment themes, although the Budget 2024 announcement could also affect selected consumer and gaming names. We drop MrDIY, VS Industry (VSI), and Yinson Holdings (Yinson).

## WHAT'S NEW

- Market review for Sep 23.** The FBMKLCI contracted 1.9% in September, dropping to 1,420 for the first time since its rally in July. The biggest loser within the KLCI subsectors was ports (-9%), while gaming (-1.8%), consumer (-1.1%) and banking (-1.0%) also posted negative returns. KLCI subsector winners included the oil and gas subsectors (excluding shipping), automobiles (+3.4%) and utilities (+3.2%). In the non-KLCI subsectors, the technology EMS segment (+6.9%) and property sector (+5.7%) were prominent outperformers, while the technology semiconductor segment was a prominent loser.
- September's Alpha Picks outperformed.** While still negative, September's portfolio outperformed the KLCI by posting lower losses of -0.7% (FBMKLCI: -1.9%). VSI (+6.3%) was our biggest winner while HAPL (+0.8%) and MYEG (+0.1%) also posted minor gains. Conversely, HUME (-5.2%), MAHB (-3.3%) and MrDIY (-2.6%) dragged the performance.
- Opportunities despite external headwinds.** Despite the external headwinds of the US Fed's 'higher-for-longer' indicative interest rate policy, we expect Malaysian equities to deliver upside in 4Q23, driven by the government's pro foreign investor policies (led by incentives that are tied to the New Industrial Master Plan 2030 and the Iskandar region).
- Prominent events for October include** Budget 2024, Conference of Rulers meeting (wherein the 17th Agong is expected to be named), and MYEG's Zetrix blockchain initiatives (Zetrix's Exchange Offering (IEO) and official launch of its certificate of origin (COO) authentication service alongside China Custom officials). Budget 2024 is expected to unveil or reinforce incentives for the manufacturing (particularly the technology) sector and Iskandar region, but would also feature new taxes and allude to petrol subsidy reductions that would selectively dampen sentiment in the consumer/gaming sectors.

## ACTION

- Oct 23 Alpha Picks: BUY Bursa, HAPL, Hume, MAHB, MYEG.** We remove VSI which has delivered impressive alpha returns, and also MrDIY and YINSON as they lack near-term catalysts. In addition, near-term sentiment for MrDIY would be subdued, judging by our gauge of a soft August sales in the retail industry, and the country's impending petrol subsidy reduction (which may dampen domestic consumption).
- Notable stocks which should outperform** include beneficiaries of Iskandar 2.0 (eg Ekovest Berhad, Sunway Berhad, YTL Corp) and E&E companies.

## ANALYSTS' TOP ALPHA\* PICKS

Analyst	Company	Rec	Performance*	Catalyst
Keith Wee	Bursa	BUY	(2.7)	Positive share price action driven by valuation re-rating and ADV momentum due to heightened global equity risk sentiment as the US interest rate cycle reaches its peak.
Jacquelyn Yow, Leow Huey Chuen	Hap Seng Plantations	BUY	(4.7)	Strong earnings sensitivity to rising CPO prices (driven by weather-related risks).
Malaysia Research Team	Hume Cement	BUY	(5.1)	Stronger demand and rising margins in the upcoming quarter. Trades at mid-single digit PE based on the latest quarter's annualised earnings.
Malaysia Research Team	Malaysia Airports Holdings	BUY	29.6	Poised for sequentially better quarterly earnings. Revision of new Operating Agreement (OA) in 2H23 is also an immediate re-rating catalyst.
Jack Goh Jack Lai	My EG Services	BUY	(12.2)	Zetrix blockchain's ongoing pilot phase of China's custom integration portal led to strong earnings in 2Q23.

\* Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation

\* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

## KEY RECOMMENDATIONS

Company	Rec	Share Price (RM)	Target Price (RM)	Upside to TP (%)
BURSA	BUY	6.80	7.85	15.4
HAPL	BUY	1.90	2.65	39.5
HUME	BUY	1.7	2.54	49.4
MAHB	BUY	7.21	8.11	12.5
MYEG	BUY	0.815	1.18	44.8

Source: UOB Kay Hian

## PORTFOLIO PERFORMANCE

Company	Rec	Sep 23 (%)	To-date* (%)
BURSA	BUY	(0.3)	(2.7)
HUME	BUY	(5.2)	(4.7)
HAPL	BUY	0.8	(5.1)
MAHB	BUY	(3.3)	29.6
Mr DIY	BUY	(2.6)	(8.5)
My EG	BUY	0.1	(12.2)
VSI	BUY	6.3	14.0
Yinson	BUY	(1.2)	17.5
FBMKLCI		(1.9)	

\* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

## PORTFOLIO RETURN

(%)	2022	1Q23	2Q23	3Q23
FBMKLCI Return	-4.6	-4.9	-3.2	5.9
<b>Alpha Picks Return</b>				
- Price-weighted	2.9	-3.6	-1.6	4.2
- Market Cap-weighted	-2.9	1.3	1.2	1.7
- Equal-weighted	-0.2	-1.1	1.2	4.3

Assumptions for the 3 methodologies:

1) Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.

2) Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.

3) Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

## ANALYST(S)

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### Bursa Malaysia – BUY (Keith Wee)

- **Market sentiment perking up as reflected by encouraging ADV recovery.** Bursa's ADV has been trending upwards from RM1.76b in 2Q23 to RM2.2b in Aug-Jul 23 on improving foreign net equity inflows, which is above its historical mean ADV of RM2.1b.
- **Risk-to-reward profile remains tilted to the upside.** Despite the recent share price performance, the stock is trading at 23.0x 2024F PE, in line with its historical mean. However, given the current positive market sentiment, which has previously led to a PE valuation increase ranging from +0.5SD to +2.0SD above its mean, we believe the current risk-to-reward profile favours the upside.
- **Increase ADV assumptions to RM2.15b and RM2.40b for 2023 and 2024 respectively.** We recently raised our ADV assumptions for 2023 and 2024 to RM2.15b and RM2.40b respectively from our previous assumptions of RM2.10b and RM2.30b. We expect 2H23 ADV to strengthen to RM2.35b vs 1H23's ADV of RM1.94b, and the momentum should be further sustained into 2024 (RM2.4b) as increasing global risk on equity market sentiment takes centre stage.
- **Maintain BUY with target price of RM7.85 (25.5x 2024F PE).** Our target price is pegged to +0.5SD to factor in the expected market upcycle on the back of peaking interest rate cycle in the US.

### SHARE PRICE CATALYST

- **Twin catalysts of ADV recovery and valuation re-rating.** We continue to expect positive price action underpinned by both valuation re-rating and ADV recovery into 2024 on the back of a more pronounced global equity risk-on sentiment as the US interest rate cycle peaks. Whenever Bursa's ADV exceeds its historical mean of RM2.1b, its valuations have risen above its mean PE of 23.0x. In 1H17, Bursa's valuation reached +0.5SD with an ADV of RM2.47b and even surpassed +1SD when ADV peaked at RM2.7b in 1H18.

### Hap Seng Plantations (HAPL) – BUY (Jacquelyn Yow, Leow Huey Chuen)

- **Leveraging on strong CPO prices.** Compared to other Malaysian plantation companies, HAPL's earnings show a higher sensitivity towards CPO prices as it sells all of its products at spot prices. The company's CPO ASP usually comes in higher than that of its Sabah peers due to its Roundtable Sustainability Palm Oil (RSPO) certification.
- **Maintain BUY with a target price of RM2.65** where we peg its valuation at 12x 2024F PE.

### SHARE PRICE CATALYST

- **CPO price uptrend.** We reckon CPO prices trend upwards during 3Q23-1H24. We expect palm oil output to fall below market expectations during this period due to the impact of extreme weather changes. Moreover, there is significant weather-related risk affecting other global oilseed crops, which could potentially lead to deviations in global vegetable oil and oilseed oil production.

### Hume Cement Industries (HUME) – BUY (Malaysia Research Team)

- **Strong earnings and margins ahead.** We expect Hume to record stronger earnings in 2024, supported by stronger demand and more construction activities on the back of improved foreign labour intake. We expect prices to remain elevated at >RM350/mt in FY24. With coal prices having retreated recently and ASPs remaining elevated, cement players should see better margins ahead.
- **Better utilisation rate with uptick in construction activities.** The industry is expected to grow this year with utilisation rates normalising as construction activities rebound with the acceleration of infrastructure projects and some affordable housing projects. This will lead to stronger demand and stable prices, which act as the primary drivers of

### KEY EVENTS IN JUNE 23

#### Corporate

- TNB announced it will be investing RM190b over the next six years for its grid infrastructure, of which 40% will be channelled towards energy transaction-related capex.
- ITMAX's subsidiary has secured a contract to provide video surveillance services to the Johor Bahru City Council worth RM105.3m.
- Tan Sri Lim Kang Hoo has proposed to undertake a reorganisation, rationalisation and merger involving Ekovest, IWC and IWH. Proposals include the merger of Ekovest and Knusford's construction businesses and merger of IWH and IWC's property assets.
- Dialog Group will build own and operate a specialty chemical plant worth RM374.8m in Gebeng, Pahang.
- MYEG said it is finalising the terms of its immigration services concession and has "temporarily" stopped accepting application on its portal since Sep 15 "until further notice".

#### Economics

- July IPI: 0.7% higher on higher mining and electricity output
- Aug exports: down 18.6% yoy, lower compared to 13.1% yoy in July
- 1H23 approved investments: RM132.6b, 60.3% of annual target
- Aug inflation: 2%, unchanged from July
- BNM maintains OPR at 3.0%.

#### Politics & Policy

- NIMP 2030 launched.

Source: Media reports

### SECTOR PERFORMANCE

Sector	----- Performance (%) -----	
	Sep	Ytd
Automobile	3.4	35.4
Aviation	(2.4)	19.1
Banking	(1.0)	0.3
Building Materials	(2.6)	(1.0)
Construction	1.3	24.1
Consumer	(1.1)	(10.0)
Exchange	(2.3)	5.4
Gaming	(1.8)	(3.2)
Glove Manufacturing	2.6	2.8
Healthcare	(0.8)	(1.9)
Insurance	(6.2)	4.0
Manufacturing	(1.9)	16.9
Media	(9.8)	(28.8)
Oil & Gas - Heavy Engineering	3.7	(12.7)
Oil & Gas - Asset Owners	1.8	2.7
Oil & Gas - Offshore Contractors	10.0	61.6
Oil & Gas - Shipping	(0.3)	(1.7)
Plantation	(0.9)	(2.6)
Port	(6.8)	(10.2)
Property	5.7	57.8
REITs	0.8	10.3
Technology - EMS	6.9	(1.6)
Technology - Semiconductor	(4.2)	5.3
Technology - Software	0.2	(4.3)
Telecommunications	1.4	3.5
Utilities	3.2	7.9

Source: Bloomberg, UOB Kay Hian

improvements in the earnings outlook. Long-term prospects still rest on key projects including MRT3, Pan Borneo Highway, ECRL, RTS and PSR.

- **Maintain BUY with a target price of RM2.54** based on 15x FY24F PE, lower than the industry's 2011-13 average 19x PE, prior to earnings disappointment in 2017 to reflect the positive outlook for the industry on the back of economic recovery.

#### SHARE PRICE CATALYST

- **Rising cement but falling coal prices.** Hume is poised to benefit from rising cement prices and falling coal costs (accounting for 52% of its COGS at floating basis). We favour Hume for its strong clinker capacity, and it is operating at a robust 75% utilisation rate compared with the industry average of 60%. In FY24, we anticipate improved results driven by: a) increased construction activity, b) higher cement prices, c) lower coal prices due to global decarbonisation, and d) effective cost-cutting measures.

#### Malaysia Airports Holdings – BUY (Malaysia Research Team)

- **Major beneficiary of Asia's restoration of flight capacities and Malaysia's tourism recovery.** Passenger traffic movement further recovered to 82.7% of 2019's levels in 1H23, and should significantly improve in 2H23 as regional flight capacities and frequencies have ramped up close to pre-pandemic levels.
- **Return of Chinese travellers,** which historically made up about 12% of Malaysia's pre-pandemic tourist arrivals, will largely boost MAHB's passenger traffic recovery and allow the group to further restore its pre-pandemic earnings dynamic.
- **New OA still being ironed out.** We expect the new Operating Agreement (OA), which introduces a cross-subsidisation model and establishment of the Airport Development Fund, to also allow an upward adjustment of airports' passenger service charge (PSC), which is well below the regional benchmark rate. A significantly higher PSC would be uplifting to MAHB's earnings.
- **Maintain BUY; palatable valuations on plate.** MAHB trades at attractive valuations of around 7x FY24 EV/EBITDA, well below its pre-pandemic five-year mean of 10x EV/EBITDA. Maintain BUY and an SOTP-based target price of RM8.11 (about 5% upside).

#### SHARE PRICE CATALYST

- Return of inbound tourists, particularly from China.
- Finalisation of new OA with more favourable terms, eg hike in PSC.

#### My EG Services – BUY (Jack Goh & Jack Lai)

- **China targets making full conversion to the blockchain trading platform mandatory by 2025.** My EG Services (MYEG) has rolled out the initial stages of its blockchain integration with Chinese customs via its Zetrix platform with the scope of the pilot project encompassing the issuance and authentication of the certificate of origin (COO), smart contract information verification and blockchain-based digital signing. We understand that China plans to fully host its customs services on its national blockchain by 2025 with the exporters from RCEP economic bloc nations and MYEG set to officially launch its Zetrix integration with China in 3Q23.
- **E-government services holding up well.** The official extensions of MYEG's concessions – JPJ (announced) and the immigration department (expected soon) – should provide a level of support for MYEG's core e-government segment in the near-to-medium term. Recall that the introduction of digital road tax renewal by JPJ did not significantly (c.5% volume reduction) affect MYEG in 1Q23 and immigration service contributions have remained relatively robust. For the latter, the eventual easing backlog of foreign worker matching services (currently still in the tens of thousands) should be offset by the heightened foreign worker renewal income.

- **Maintain BUY with an SOTP-based target price of RM1.18**, which implies 22x 2023F PE (-0.5SD below five-year mean).

### SHARE PRICE CATALYST

- The full launch of Zetrix's China's custom integration blockchain platform and eventual ICO of Zetrix.
- Listing of its various upstart investments locally and in China.

### VALUATIONS

Company	Ticker	Rec	Share Price	Target	Last	----- PE -----			Yield	ROE	Market	Price/
			3 Oct 23	Price	Year	2022	2023F	2024F	2023F	2023F	Cap	NTA
			(RM)	(RM)	End	(x)	(x)	(x)	(%)	(%)	(US\$m)	(x)
Bursa Malaysia	BURSA MK	BUY	6.80	7.85	Dec 22	24.3	24.1	22.1	3.9	28.9	1,165.1	6.9
Hap Seng Plantations	HAPL MK	BUY	1.90	2.65	Dec 22	6.9	12.2	8.7	4.9	6.3	321.7	0.8
Hume Cement*	HUME MK	BUY	1.70	2.54	Jun 23	10.1	9.0	9.9	n.a	24.0	183.1	1.0
Malaysia Airports Holdings	MAHB MK	BUY	7.21	8.11	Dec 22	73.2	28.7	17.1	1.9	6.6	2,547.1	2.0
My EG Services Bhd	MYEG MK	BUY	0.815	1.18	Dec 22	14.6	13.9	12.9	2.2	18.2	1,287.9	2.4

\*Figures for 2023, 2024F and 2025F shown due to FYE

Source: UOB Kay Hian

## COMPANY UPDATE

### Pecca Group (PECCA MK)

Fuelling Growth Across Seat Covers, Automobile, And Aviation Segments

Pecca is involved in supplying leather upholstery for car seat covers for which the OEM market contributed about 86% of its total revenue in Malaysia. Its positive outlook is bolstered by a recent acquisition, MOUs, and certification awards which enhance the company's prospects, including in aviation, to tap broad opportunities in the years ahead. Trading at 25.7x 2023 PE, it is trading at a significant premium, reflecting its growth potential in both the automobile and aviation segments.

#### INVESTMENT HIGHLIGHTS

- Thriving in Malaysia's automobile sector.** Pecca Group (Pecca) is poised to benefit from the growing Malaysian automobile industry, driven by the higher total industry volume (TIV) (ytd: +12%) and supported by healthy backlog orders. The Original Equipment Manufacturer (OEM) segment contributed 86% of total revenue and the remaining 14% is attributed to the pre-delivery inspection (PDI) and replacement equipment manufacturer (REM) markets. The company's brands coverage is diversified into the mass-market customers including both national and non-national brands such as Perodua, Proton, Toyota, Nissan, and Mitsubishi. Combining the positive momentum reflected in higher vehicle sales despite the absence of SST exemption and higher penetration on mass-market customers, we assume Pecca continues to benefit from the improved demand, coupled with a healthy plant utilisation rate of 85-90%, which positions it well to meet demand.
- Diverse growth initiatives and plans.** Other prospects appear promising, supported by its strategic initiatives and plans including the: a) completed acquisition of PT Gemilang Kencana (PT GMK) in May 23 to expand its presence in the Indonesian market, b) the expansion plan of its OEM segment to cover entry-level, mid-level, and luxury brands, c) facilitating growth of its REM business across Malaysia and globally in countries such as Europe, the US, Australia, New Zealand, Dubai and Singapore, and d) capturing of new opportunities including Tier-1 manufacturers and the EV market. While the Malaysian market currently accounts for over 90% of Pecca's overall existing sales, there is a significant growth potential in Indonesia, leveraging PT GMK's extensive partnership and number of population to impact vehicle demand.
- Aviation segment gearing up for growth.** The aviation segment is expected to improve in the years ahead, despite its current minimal revenue contribution of 0.3% in 2023. This can be attributed to the recent developments, including: a) the secured European Union Aviation Safety Agency (EASA) certification in Apr 23, and b) the MOUs with Aero Cabin Solutions SAS (ACS) and Global Component Asia (GCA). These initiatives will expand the customer base to a global scale, as the existing customer is currently only Malaysian registered aircraft and to grasp better pricing and margin for aircraft upholstery offerings as compared with the normal car seats.

#### KEY FINANCIALS

Year to 30 Jun (RMm)	2020	2021	2022	2023
Net turnover	104.6	144.8	164.4	221.3
EBITDA	12.3	29.7	32.5	50.8
Operating profit	8.5	25.0	27.4	44.9
Net profit (rep./act.)	8.4	19.2	22.9	35.4
Net profit (adj.)	8.4	19.2	22.9	35.4
EPS (sen)	4.6	10.5	3.1	4.7
PE (x)	19.7	38.5	22.2	21.4
P/B (x)	1.1	4.6	2.7	3.6
EV/EBITDA (x)	7.0	23.1	13.3	13.3
Dividend yield (%)	5.0	3.8	5.7	2.0
Net margin (%)	8.0	13.3	13.9	16.0
Net debt/(cash) to equity (%)	-50.4	-46.6	-40.9	-46.1
Interest cover (x)	4.8	26.9	31.4	21.2
ROE (%)	5.2	11.9	12.8	17.6
Consensus net profit	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-

Source: Pecca Group, Bloomberg, UOB Kay Hian

## NOT RATED

Share Price	RM1.19
Target Price	n.a.
Upside	n.a.

#### COMPANY DESCRIPTION

Pecca is involved in the styling, manufacturing, distribution and installation of leather upholstery for seat covers and trims and leather cut pieces to the automotive leather upholstery industry.

#### STOCK DATA

GICS sector	Auto Parts
Bloomberg ticker:	PECCA MK
Shares issued (m):	769.7
Market cap (RMm):	939
Market cap (US\$m):	200
3-mth avg daily t'over (US\$m):	0.2

#### Price Performance (%)

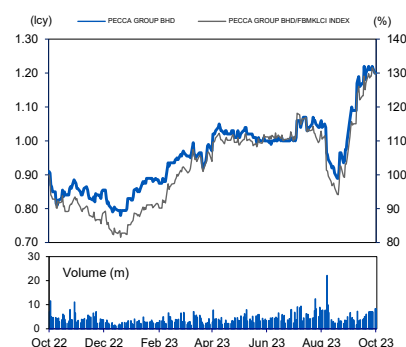
52-week high/low		RM1.24/RM0.77		
1mth	3mth	6mth	1yr	YTD
26.1	19.5	25.7	41.8	50.3

#### Major Shareholders

	%
MRZ Leather Holdings Sdn Bhd	48.5
Sam Yin Thing	6.7
Teoh Hwa Cheng	3.2

2023 NAV/Share (RM)	0.2
2023 Net Cash/Share (RM)	0.05

#### PRICE CHART



Source: Bloomberg

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## STOCK IMPACT

- **Strong ties to vehicle sales performance.** Pecca's product sales are closely linked to the performance of the vehicle sales of which currently, the TIV in Aug 23 (ytd: +12% yoy) showed strong numbers despite the absence of SST exemption, along with healthy booking orders. We gather that demand, new bookings, and backlog orders for certain brands remain robust, particularly Perodua, Toyota, and Proton, which collectively account for about 83% of Pecca's automobile revenue, with Toyota representing 13% and Proton 4%. Nissan and Mitsubishi each contribute 5% to the revenue. The A and B car segments are driving higher numbers due to their lower price points and affordability (ranging from RM30,000 to RM70,000), appealing to broad mass-market customers. We believe this could sustain Pecca's production volume and ensure stable sales.
- **Capacity expansion to support demand.** The group presently operates a single production facility located in Kepong, with a maximum capacity ranging from 20,000 to 24,000 sets/monthly. Notably, its production volume has experienced significant growth over the past six years, achieving six-year CAGR of 12% from 2015 to 2022. We gather that the current plant utilisation rate is operating at a robust 85-90%, driven by strong demand for car seat covers vis-à-vis increased demand for vehicles. Looking ahead, the group is set to double its production capacity by commencing new production in Serendah, scheduled to complete in 2Q25 that will elevate production capacity from 20,000 to 24,000 sets/monthly to 40,000 sets/monthly, reflecting the group's solid commitment to support demand.
- **Expanding market presence through acquisition.** The newly-acquired of 80% stake in PT GMK has provided an opportunity for the group to tap the Indonesian market, leveraging on the extensive market exposure in Indonesia. This move offers the advantage of leveraging PT GMK's existing customer base, which includes brands such as Toyota, Isuzu, and Suzuki. As a result of this acquisition, we anticipate that Pecca's earnings will see an accretion of 3-5% based on the 2022 performance.

## EARNINGS REVISION/RISK

- **None.**

## VALUATION

- **Not rated.** Trading at 25.7x 2023 PE (Pecca's five-year mean is 21.9x), Pecca is trading at a significant premium, reflecting its growth potential in both the automobile and aviation segments.

## EARNINGS IMPACT ON PT GMK ACQUISITION

(RMm)	Existing	PT GMK (80%)
2022 combined earnings	22.85	23.71
Earnings accretions		4%

Source: Pecca, UOB Kay Hian

## PRODUCTION PLANTS



Source: Pecca, UOB Kay Hian

## CUSTOMER PORTFOLIO

Production Stage	Customers (Malaysia & Indonesia via PT GMK)	Products segmentation
OEM (Development & production phase)	Perodua, Toyota, Mitsubishi, Proton, Nissan, Peugeot, Ford, Volkswagen, Isuzu, Suzuki and Tier-1 manufacturers	- Facelifts - New models
PDI (Pre-delivery phase)	Perodua, Nissan, Isuzu, Mitsubishi, Toyota and distributors	- Special editions - Optional accessory
REM (Aftermarket phase)	Suppliers & workshops	- Repairs/replacement - Customization

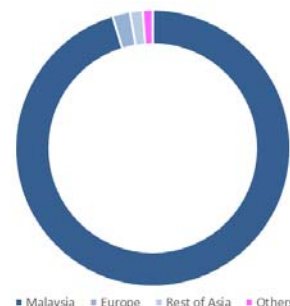
Source: Pecca, UOB Kay Hian

## REVENUE BREAKDOWN



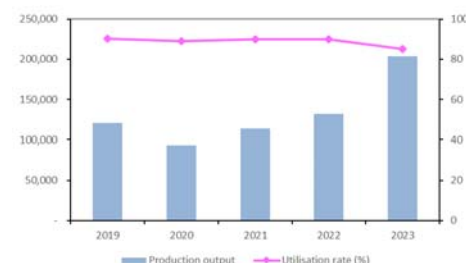
Source: Pecca, UOB Kay Hian

## GEOGRAPHICAL BREAKDOWN



Source: Pecca, UOB Kay Hian

## PRODUCTION OUTPUT AND UTILISATION RATE



Source: Pecca, UOB Kay Hian

**PROFIT & LOSS**

Year to 30 Jun (RMm)	2020	2021	2022	2023
Net turnover	104.6	144.8	164.4	221.3
EBITDA	12.3	29.7	32.5	50.8
Deprec. & amort.	3.6	4.6	4.6	4.9
EBIT	8.5	25.0	27.4	44.9
Associate contributions				
Net interest income/(expense)	2.5	1.1	1.0	2.4
Pre-tax profit	11.3	25.8	29.3	46.9
Tax	-3.0	-6.6	-6.4	-11.5
Minorities	-0.1	0.0	0.0	0.0
Net profit	8.4	19.2	22.9	35.4
Net profit (adj.)	8.4	19.2	22.9	35.4

**BALANCE SHEET**

Year to 30 Jun (RMm)	2020	2021	2022	2023
Fixed assets	49.0	51.2	58.0	67.3
Other LT assets	0	0	0	1
Cash/ST investment	78.4	78.1	86.8	111.2
Other current assets	43.8	65.6	79.2	85.0
<b>Total assets</b>	<b>171.6</b>	<b>195.4</b>	<b>224.4</b>	<b>264.1</b>
ST debt	0.0	0.2	3.5	7.4
Other current liabilities	11.0	22.1	19.4	31.3
LT debt	0.0	0.1	5.7	5.5
Other LT liabilities	5.3	5.9	0.3	1.2
Shareholders' equity	155.4	166.9	189.8	213.2
Minority interest	-0.1	-0.1	-0.1	0.4
<b>Total liabilities &amp; equity</b>	<b>171.6</b>	<b>195.4</b>	<b>224.4</b>	<b>264.1</b>

**CASH FLOW**

Year to 30 Jun (RMm)	2020	2021	2022	2023
Operating	2020	2021	2022	2023
Pre-tax profit	3.6	14.2	11.1	39.7
Tax	11.3	25.8	29.3	46.9
Deprec. & amort.	-3.0	-6.6	-6.4	-11.5
Associates	3.6	4.6	4.6	4.9
Working capital changes	0.0	0.0	0.0	0.0
Other operating cashflows	-9.0	-4.4	-7.7	-17.0
Investing	0.7	-5.2	-8.7	16.4
Capex (growth)	-2.3	-8.4	-11.6	-3.7
Investments	-2.4	-8.9	-11.6	-4.1
Proceeds from sale of assets	0	0	0	0
Others	0.0	0.5	0.0	0.3
Financing	-18.0	-7.8	8.2	-13.0
Dividend payments	-11.8	-2.8	0.0	-15.6
Loan repayment	-0.1	-0.1	8.3	2.3
Others/interest paid	-6.16	-4.85	-0.07	0.41
Net cash inflow (outflow)	-14.3	-0.3	8.7	25.4
Beginning cash & cash equivalent	92.8	78.4	78.1	86.8
Changes due to forex impact	0.1	0	0	0
Ending cash & cash equivalent	78.4	78.1	86.8	111.2

**KEY METRICS**

Year to 30 Jun (%)	2020	2021	2022	2023
Profitability				
EBITDA margin	11.8	20.5	19.8	22.9
Pre-tax margin	10.8	17.8	17.8	21.2
Net margin	8.0	13.3	13.9	16.0
ROA	4.6	10.5	10.9	14.5
ROE	5.2	11.9	12.8	17.6
Growth				
Turnover	-20.4	38.3	13.6	34.6
EBITDA	-42.0	141.1	9.6	56.2
Pre-tax profit	-48.9	127.8	13.5	60.3
Net profit	-49.5	129.3	18.8	54.9
Net profit (adj.)	-49.5	129.3	18.8	54.9
EPS	4.6	10.5	3.1	4.7
Leverage				
Debt to total capital	0.0	0.2	4.6	5.7
Debt to equity	0.0	0.2	4.9	6.0
Net debt/(cash) to equity	-50.4	-46.6	-40.9	-46.1
Interest cover (x)	4.8	26.9	31.4	21.2



## COMPANY UPDATE

### ComfortDelGro Corporation (CD SP)

Stronger Tailwinds As Rail Fare Increases

The PTC has recently announced a 7% increase in public transport fares starting from Dec 23. This will bring in additional revenue of S\$20.9m for CD's subsidiary, SBST, and contribute directly to bottom-line profits. While there is no change to CD's commission rate, we anticipate an upward revision in 4Q23 given the substantial gap with peers. In view of improving rail and taxi ridership and a decent 4.7% dividend yield, we maintain **BUY** with a higher target price of S\$1.61 (S\$1.56 previously).

#### WHAT'S NEW

- **No changes to taxi rental rebates and commission rates.** We understand that there have been no changes to both ComfortDelGro's (CD) 10% daily taxi rental rebate and the 5% online booking commission rate through its Zig app. As a recap, changes to the daily taxi rental rebate would be reviewed quarterly while the commission rate is reviewed monthly. We do not expect any near-term changes to the 10% daily taxi rental rebates given that CD's daily taxi rentals are almost double that of peers. However, CD's 5% online booking commission rate is considerably lower when compared to major competitors like Grab (20%) and GoJek (15%). We therefore expect potential upward revisions in 4Q23, closing in on CD's peers.
- **Leaving COVID-19 behind.** CD's rail ridership has recovered back to pre-pandemic levels, increasing 1.6% mom and 16.2% yoy respectively in Aug 23. This is in line with our expectations that rail ridership will surpass pre-pandemic levels in 3Q23. Additionally, per the Land Transport Authority (LTA), the average number of point-to-point (P2P) daily trips, via both street-hail and ride-hailing services, has risen by 3.6% mom and 5.5% yoy to 613,000 in Jul 23, the second-highest in the past two years (614,000 in Feb 23). As more employers roll back prevailing work-from-home arrangements and mandate a return-to-office policy, we expect both rail and taxi ridership to continue the upward momentum moving forward.
- **Higher fares yet again...** To combat rising inflationary pressures, bus and train fares in Singapore are expected to increase by up to 7.0% starting Dec 23, following the Public Transport Council's (PTC) annual fare review. Beating our expectations of a 3.0% increase, this is the joint highest fare increase since 2019 which saw a similar 7.0% fare increase. Despite being more than double of last year's 2.9% hike, the upcoming fare hike is only a portion of the maximum allowable fare adjustment of 22.6%. It is expected that the remaining 15.6% would be deferred to future annual fare review exercises and is unlikely to be expunged, according to Singapore's Acting Minister for Transport. This implies that we do expect additional higher fare adjustments in 2024-25.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	4,055	4,305	4,503
EBITDA	576	627	651	707	762
Operating profit	200	270	288	335	380
Net profit (rep./act.)	120	173	196	227	257
Net profit (adj.)	120	137	196	227	257
EPS (S\$ cent)	5.5	6.3	9.0	10.5	11.8
PE (x)	23.1	20.3	14.2	12.2	10.8
P/B (x)	1.0	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.3	4.0	3.8	3.5	3.3
Dividend yield (%)	3.3	6.6	4.7	5.5	5.9
Net margin (%)	3.4	4.6	4.8	5.3	5.7
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(27.1)	(30.6)	(35.0)
Interest cover (x)	51.0	47.2	31.8	34.6	52.1
ROE (%)	4.5	6.6	7.5	8.5	9.3
Consensus net profit	-	-	183	203	222
UOBKH/Consensus (x)	-	-	1.07	1.12	1.16

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.28
Target Price	S\$1.61
Upside	+25.9%
(Previous TP)	S\$1.56

#### COMPANY DESCRIPTION

ComfortDelGro is the world's second largest public listed passenger land transport company with a total fleet size of c43,000 vehicles. ComfortDelGro's businesses include bus, taxi, rail, car rental & leasing, automotive engineering and maintenance services.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,165.7
Market cap (S\$m):	2,772.1
Market cap (US\$m):	2,018.6
3-mth avg daily t'over (US\$m):	5.6

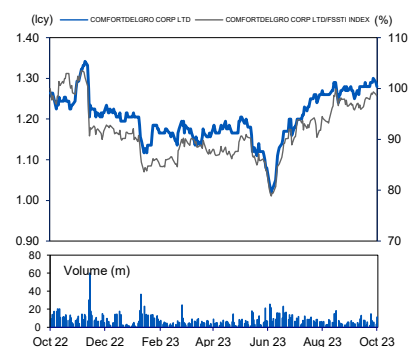
#### Price Performance (%)

52-week high/low			S\$1.34/S\$1.02	
1mth	3mth	6mth	1yr	YTD
0.8	8.5	8.9	1.3	6.2

#### Major Shareholders

	%
-	-
-	-
-	-
FY23 NAV/Share (S\$)	1.22
FY23 Net Cash/Share (S\$)	0.33

#### PRICE CHART



Source: Bloomberg

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- **... to boost public transport revenue.** According to the PTC, CD's 74.4%-owned subsidiary SBS Transit (SBST) is set to experience an S\$20.9m increase in annual revenue. Given that there are no incremental operating costs with the fare hike, we reckon that this would lead to higher margins for CD's public transport segment and flow straight to the bottom line. Based on our estimates, the upcoming 7% hike in rail fare would increase our 2024/25 net profit forecasts by 3-4%.

#### STOCK IMPACT

- **Upcoming potential catalysts.** Taxi segmental margins are expected to expand further with the upcoming platform fee starting 3Q23. As a recap, CD implemented a platform fee of S\$0.70 for every P2P online booking made through its Zig app from 1 Jul 23 onwards. Based on our estimates, this would imply an approximate S\$11m-12m hoh increase in revenue for 2H23, which would most likely flow down to taxi segmental operating profit, given no incremental operating costs. Thus, we expect 2H23 taxi core operating margin to expand by 2-3ppt hoh to 21-22%. Furthermore, we expect potential upward revisions for CD's 5% commission rate in 4Q23, given that it is considerably lower when compared to major competitors Grab (20%) and GoJek (15%). According to our estimates, a 1% increase in commission rate would raise our 2024 full-year taxi operating profit by 4-5%.

#### EARNINGS REVISION/RISK

- **We increase our 2024-25 PATMI estimates by 3-4%**, on the back of the upcoming rail fare adjustment. Our 2023/24/25 PATMI forecasts are S\$195.7m (unchanged), S\$226.9m (S\$219.1m previously) and S\$256.6m (S\$245.9m previously) respectively.

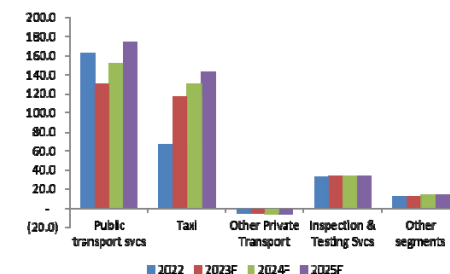
#### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher PE-based target price of S\$1.61 (S\$1.56 previously)**, pegged to the same 15x 2024F PE, CD's average long-term PE. The higher target price is largely due to our increased 2024 PATMI estimates.
- With improving fundamentals, a decent 4.7% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD would help support share price performance moving forward.

#### SHARE PRICE CATALYST

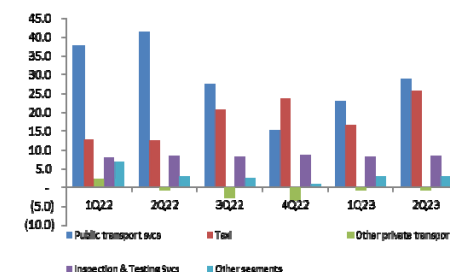
- Bus tender contract wins.
- Complete removal of taxi rental rebates.
- Earnings-accretive overseas acquisitions.
- Increase in taxi commission rates.

#### SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (\$m)



Source: UOB Kay Hian, CD

#### SEGMENTAL QUARTERLY OPERATING PROFIT (\$m)



Source: UOB Kay Hian, CD

#### HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

#### HISTORICAL FORWARD P/B RATIO



Source: UOB Kay Hian, Bloomberg

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	3,780.8	4,054.8	4,304.7	4,502.7
EBITDA	627.2	651.2	707.0	761.8
Deprec. & amort.	357.2	363.4	371.7	382.2
EBIT	270.0	287.8	335.3	379.7
Total other non-operating income	15.2	30.2	30.2	25.2
Associate contributions	0.8	0.8	0.8	0.8
Net interest income/(expense)	(13.3)	(20.5)	(20.5)	(14.6)
<b>Pre-tax profit</b>	<b>272.7</b>	<b>298.4</b>	<b>345.9</b>	<b>391.1</b>
Tax	(54.2)	(53.7)	(62.3)	(70.4)
Minorities	(45.4)	(48.9)	(56.7)	(64.1)
<b>Net profit</b>	<b>173.1</b>	<b>195.7</b>	<b>226.9</b>	<b>256.6</b>
Net profit (adj.)	136.8	195.7	226.9	256.6

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>602.3</b>	<b>508.6</b>	<b>605.1</b>	<b>647.7</b>
Pre-tax profit	272.7	298.4	345.9	391.1
Tax	(79.9)	(53.7)	(62.3)	(70.4)
Deprec. & amort.	357.2	363.4	371.7	382.2
Associates	0.0	0.0	0.0	0.0
Working capital changes	(71.6)	136.8	75.4	(71.2)
Non-cash items	(6.7)	(9.8)	(9.8)	(10.6)
Other operating cashflows	130.6	(226.5)	(115.8)	26.7
<b>Investing</b>	<b>(251.0)</b>	<b>(284.8)</b>	<b>(284.8)</b>	<b>(284.8)</b>
Capex (growth)	(302.4)	(300.0)	(300.0)	(300.0)
Investments	(42.1)	0.0	0.0	0.0
Proceeds from sale of assets	80.1	0.0	0.0	0.0
Others	13.4	15.2	15.2	15.2
<b>Financing</b>	<b>(274.7)</b>	<b>(184.0)</b>	<b>(205.7)</b>	<b>(210.7)</b>
Dividend payments	(171.3)	(163.6)	(185.2)	(196.1)
Issue of shares	(1.7)	0.0	0.0	0.0
Proceeds from borrowings	2,468.2	0.0	0.0	0.0
Loan repayment	(2,518.3)	0.0	0.0	0.0
Others/interest paid	(51.6)	(20.5)	(20.5)	(14.6)
<b>Net cash inflow (outflow)</b>	<b>76.6</b>	<b>39.8</b>	<b>114.6</b>	<b>152.2</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>919.1</b>	<b>967.0</b>	<b>1,006.8</b>	<b>1,121.4</b>
Changes due to forex impact	(28.7)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>967.0</b>	<b>1,006.8</b>	<b>1,121.4</b>	<b>1,273.7</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,038.4	1,975.0	1,903.2	1,821.1
Other LT assets	1,017.7	1,032.7	1,047.7	1,057.7
Cash/ST investment	967.0	1,006.8	1,121.4	1,273.7
Other current assets	677.7	726.3	769.6	803.7
<b>Total assets</b>	<b>4,700.8</b>	<b>4,740.8</b>	<b>4,842.0</b>	<b>4,956.1</b>
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	972.9	975.7	965.2
LT debt	265.4	265.4	265.4	265.4
Other LT liabilities	395.2	395.2	395.2	395.2
Shareholders' equity	2,568.9	2,634.6	2,709.7	2,803.7
Minority interest	430.5	445.9	469.2	499.8
<b>Total liabilities &amp; equity</b>	<b>4,700.8</b>	<b>4,740.8</b>	<b>4,842.0</b>	<b>4,956.1</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	16.6	16.1	16.4	16.9
Pre-tax margin	7.2	7.4	8.0	8.7
Net margin	4.6	4.8	5.3	5.7
ROA	3.6	4.1	4.7	5.2
ROE	6.6	7.5	8.5	9.3
<b>Growth</b>				
Turnover	7.9	7.2	6.2	4.6
EBITDA	8.9	3.8	8.6	7.8
Pre-tax profit	40.1	9.4	15.9	13.1
Net profit	44.4	13.1	15.9	13.1
Net profit (adj.)	14.1	43.1	15.9	13.1
EPS	14.1	43.1	15.9	13.1
<b>Leverage</b>				
Debt to total capital	8.9	8.7	8.4	8.1
Debt to equity	11.4	11.1	10.8	10.4
Net debt/(cash) to equity	(26.3)	(27.1)	(30.6)	(35.0)
Interest cover (x)	47.2	31.8	34.6	52.1

## SECTOR UPDATE

### Electronics – Thailand

Earnings Expected To Improve But Not Immediately Evident

We anticipate 3Q23 earnings for electronic stocks to reach Bt6.3b, reflecting a 9% yoy increase driven by HANA and DELTA, with a 6% qoq increase due to all stocks. Revenues are expected to come in at Bt57.8b in 3Q23, increasing 14% yoy and 10% qoq thanks to the peak season, new production capacity, greater number of days for operation and currency effect. However, we maintain MARKET WEIGHT as a robust recovery may not be immediately evident until at least 2H23 and 1H24.

#### WHAT'S NEW

- 3Q23 earnings of all stocks poised for growth.** We expect the combined 3Q23 earnings of electronic stocks under our coverage to come in at Bt6.3b (+9% yoy, +6% qoq). Earnings on a yoy basis will be supported by Hana Microelectronics (HANA) with 65% yoy growth and Delta Electronics (DELTA) with 19% yoy growth. For KCE Electronics (KCE) and SVI, earnings on a yoy basis are expected to recover yet we expect earnings to drop by 31% and 51% respectively. On a qoq basis, earnings of all stocks are anticipated to improve with KCE (+20% qoq), HANA (+8% qoq), SVI (+7% qoq) and DELTA (+5% qoq) due to robust revenue from recovery of demand, seasonal effect and higher gross margin from Baht depreciation.
- Expect robust revenue in 3Q23.** We expect sales of all electronic stocks under our coverage to come in at Bt57.8b in 3Q23, increasing 14% yoy, driven by DELTA, with a 10% qoq increase driven by all stocks. DELTA is the main driver of the sector's sales, with revenue growth of 27% yoy and 11% qoq expected in 3Q23 due to the consistent improvement of electric vehicle (EV) related products. For other stocks, qoq revenue should rise as well, such as KCE with 13%, SVI with 9%, and HANA with 5% thanks to the peak season, new production capacity, greater number of days for operation, and currency effect.
- Expect expansion of gross margin driven by currency effect and lower raw material prices.** We foresee gross margin of all electronic stocks to improve on a qoq basis, chiefly underpinned by the depreciation of the Baht and subdued raw material prices. In 3Q23, the Baht to US Dollar ratio should be around Bt35.1/US\$ from Bt34.5/US\$ in 2Q23. Our currency sensitivity analysis suggests that a 1% depreciation in the Baht will have positive impact on our coverage by the following quantum: HANA by 4.5%, KCE by 2.4%, SVI by 2.1%, and DELTA by 1.4%. In terms of lower raw material prices, we expect gross margin to be supported by this factor as well. For example, copper price and gross margin of all electronic stocks have negative correlation of about 45%. This could imply that if copper price drops, gross margin of the sector will improve.
- New capacity expansion will consistently support revenue related to EV in 3Q23 and beyond.** Due to strong growth of the EV market, many Thai electronic companies are increasing revenue proportion on EV related products. DELTA's revenue proportion on EV related products is approximately 25%, while KCE's is around 20-30%, riding on the proportion of High Density Interconnect (HDI). Regarding the growth of the EV market, many Thai electronic companies have resumed the expansion of production capacity. DELTA's management has revealed a 20% increase of capacity production in EV related products in 2H23. KCE has already increased laser drills in Jul 23 and Aug 23.

#### PEER COMPARISON

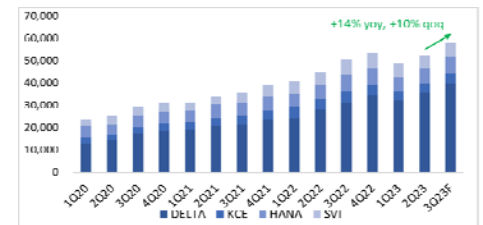
Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	PE 2022F	PE 2023F	PE 2024F	EPS CAGR 2022-24F (%)	PEG 2023F	P/B 2023F	Yield 2023F (%)	ROE 2023F (%)
Delta Electronics	DELTA TB	SELL	87.00	70.00	(19.5)	3,012	7.1	62.1	52.2	(63.2)	(0.7)	16.4	0.5	28.9
Hana Microelectronics	HANA TB	HOLD	61.00	62.00	1.6	1,363	23.4	21.8	17.5	15.5	3.0	2.1	1.8	9.4
KCE Electronics	KCE TB	HOLD	55.50	47.00	(15.3)	1,820	28.1	37.3	31.0	(4.7)	(1.5)	4.4	0.3	12.2
SVI	SVI TB	HOLD	8.05	8.80	9.3	485	9.8	15.0	11.7	(8.6)	(0.4)	2.3	1.3	16.6
Sector						6,680	16.3	43.7	36.4			9.2	0.8	19.5

Source: Bloomberg, UOB Kay Hian

## MARKET WEIGHT

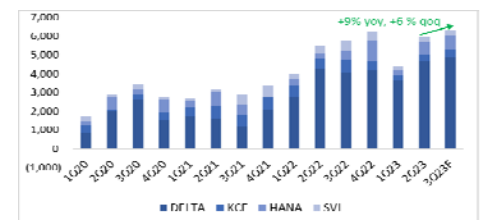
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#### SECTOR QUARTERLY REVENUE



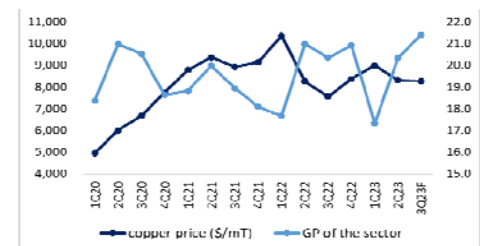
Source: Respective Companies, UOB Kay Hian

#### SECTOR QUARTERLY NET PROFIT



Source: Respective Companies, UOB Kay Hian

#### COPPER PRICE VS GP OF THE SECTOR



Source: Respective Companies, UOB Kay Hian

#### SEASONALEFFECT OF REVENUE

	Revenue 2015-2022			
	Q1	Q2	Q3	Q4
DELTA	23%	24%	26%	27%
HANA	23%	24%	26%	26%
KCE	25%	24%	25%	25%
SVI	21%	25%	26%	27%
Total	23%	24%	26%	27%

Source: Respective Companies, UOB Kay Hian

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#### ASSISTANT ANALYST

**Thachasorn Jutaganon**

• **Both combustion and electric vehicle prices plummeting consistently.** Looking beyond 3Q23, we expect the demand of automotive segments to increase, riding on reduction in combustion and electric vehicle prices. According to Kelley Blue Book data, a California-based vehicle valuation and automotive research company, the average transaction prices (ATP) for new cars remained stable at \$48,451 in Aug 23, showing no significant change compared to the previous month. When compared to the prices from the same period last year, there has been an increase of just \$42. According to iSeeCars, an online automotive search engine and research website, the prices of EVs experienced a substantial drop, declining by nearly 30% between Jun 22 and Jun 23. Also, new EV prices also decreased by almost 20% from their peak of \$66,390 during the same period. This is pressured by increased competition within the sector and higher inventory levels that could have oversupply pushing prices back down. Regarding this, we believe returning demand of automotive segment will support revenue of Thai electronics sector.

### EARNINGS OUTLOOK

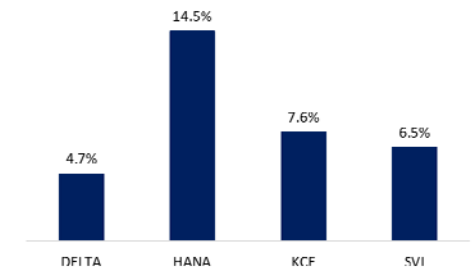
• **DELTA: Anticipate earnings to be firm yoy and qoq.** We anticipate DELTA to report 3Q23 earnings of Bt4.8b, up 19% yoy and 5% qoq, mainly buoyed by solid revenue and higher gross margin. Revenue is projected to experience a significant 27% yoy and 11% qoq increase to reach Bt40.0b, primarily supported by seasonal effect, the strong performance of EV products and currency effect. Excluding forex movement, top-line should come in at US\$1.1b (+34% yoy and +12% qoq). Gross margin is forecasted to improve 1.1ppt yoy and 1.0ppt qoq to 24.4% due to product mix and fewer issues regarding inventory management.

• **KCE: Earnings should drop qoq but improve strongly yoy.** We expect KCE to post 3Q23 net profit of Bt450m (-31% yoy, +20% qoq). Earnings should drop yoy, mainly due to slower-than-expected recovery of revenue and pressure from high base of gross margin. Meanwhile, earnings should see some improvement qoq thanks to higher revenue and enhanced gross margin. Revenue is projected to reach Bt4.4b (-5% yoy, +13 qoq). The yoy earnings should decline less due to better inventory rebalancing. Furthermore, qoq earnings are foreseen to grow impressively due to: a) recovery of demand from the automotive segment as car prices drop, b) seasonal effect, c) more production capacity from Jul-Aug 23, and d) benefit from currency exchange. In terms of gross margin, we expect KCE to report gross margin of 21.8%, decreasing 2.5ppt yoy due to lower revenue, but increasing 2.7ppt qoq thanks to lower raw material prices, Baht depreciation and higher sales.

• **HANA: Earnings to skyrocket yoy and grow moderately qoq.** We expect HANA to report 3Q23 net profit of Bt689m. Earnings should improve 65% yoy as HANA booked forex losses of Bt384m in 3Q22. Excluding this item, core profit should still drop by 14% yoy. On a qoq basis, earnings should consistently increase by 8% due to higher revenue and stronger gross margin. We predict top-line of Bt7.3b, flattening yoy due to high base in 3Q22 from benefit of currency exchange, but up 5% yoy due to better inventory management, recovery of automotive segment from lower car prices and Baht depreciation. Considering the currency effect, sales in US dollar terms are estimated to reach US\$207m (+5% yoy, +6% qoq). Gross margin is forecasted to be 15.6%, stabilising yoy due to slow recovery of demand from China, but slightly improving 0.6ppt qoq thanks to currency effect, higher sales and lower raw material costs.

• **SVI: Continuously soft yoy but better qoq.** We project SVI's net profit to come in at Bt302m (-50% yoy, +7% qoq) in 3Q23. Earnings are expected to suffer on a yoy basis due to softer revenue, contracted gross margin and the high base from forex gains of Bt105m in 3Q22. Stripping out this item, earnings should drop roughly 40%. Meanwhile, earnings should increase qoq due to higher revenue and gross margin. We expect SVI to post sales of Bt6.2b (-11% yoy, +9% qoq). Sales should drop yoy in specific segments, notably in industrial control related to bitcoin mining and the communication network related to security cameras. In contrast, sales should increase on a qoq basis due to the destocking situation improving from 2Q23 and seasonal effect. Gross margin should be 8.8% (-1.1ppt yoy, flat qoq) due to the high base in 3Q22 with SVI passing on the cost of raw materials.

### CURRENCY EFFECT



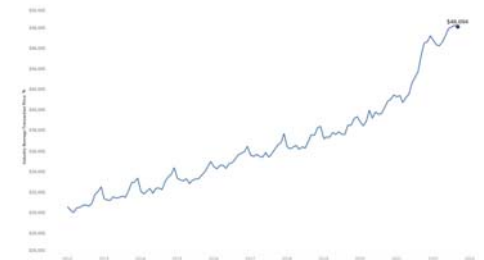
Source: Respective Companies, UOB Kay Hian

### WORLDWIDE SEMICONDUCTOR REVENUE



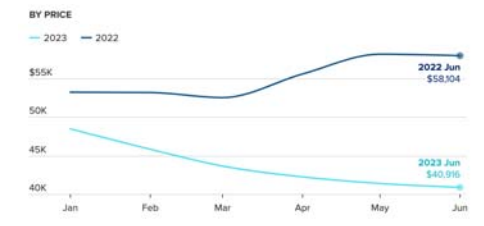
Source: SIA, UOB Kay Hian

### NEW-VEHICLE AVERAGE TRANSACTION PRICE



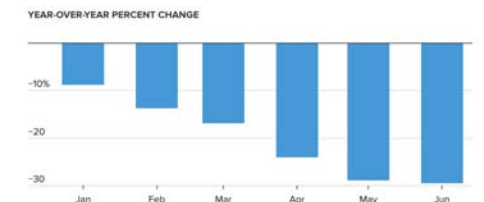
Source: Kelly Blue Book

### AVERAGE PRICE FOR USED EV IN THE U.S.



Source: iSeeCars

### YOY PERCENTAGE CHANGE OF USED EV



Source: iSeeCars



### 3Q23 RESULTS PREVIEW

	3Q23F	3Q22	2Q23	yoy (%)	qoq (%)
Revenue (Btm)					
DELTA	39,921	31,324	35,840	27.4	11.4
KCE	4,386	4,634	3,898	(5.3)	12.5
HANA	7,280	7,545	6,910	(3.5)	5.4
SVI	6,221	7,015	5,695	(11.3)	9.2
Total	57,808	50,518	52,343	14.4	10.4
Net profit (Btm)					
DELTA	4,882	4,110	4,668	18.8	4.6
KCE	450	655	376	(31.4)	19.5
HANA	689	417	635	65.4	8.5
SVI	302	598	281	(49.6)	7.2
Total	6,323	5,780	5,961	9.4	6.1
Gross margin (%)					
DELTA	24.4	23.3	23.4	1.1	1.0
KCE	21.8	24.3	19.1	(2.5)	2.7
HANA	15.6	15.5	15.0	0.1	0.6
SVI	8.8	9.9	8.7	(1.1)	0.1
Total	21.4	20.4	20.3	1.1	1.1
SG&A-to-revenue (%)					
DELTA	8.6	8.3	7.9	0.3	0.7
KCE	12.2	11.3	10.7	0.9	1.5
HANA	7.6	5.4	5.7	2.2	1.9
SVI	3.6	2.5	3.8	1.1	(0.2)
Total	8.2	7.3	7.4	0.9	0.8

Source: DELTA, KCE, HANA, SVI, UOB Kay Hian

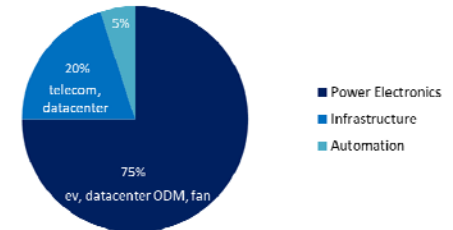
### ACTION

- **Maintain MARKET WEIGHT on electronics sector.** Although we believe the worst has already passed, and share prices have already absorbed a significant portion of the headwinds, we still have a neutral perspective on the Thai electronics sector as we believe a robust recovery may not be immediately evident in 2H23 and 1H24 and we anticipate a gradual improvement in the outlook with the easing of many headwinds. We expect the outstanding recovery outlook to be seen in 2H24.

### VALUATION

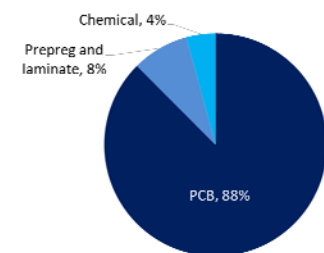
- **DELTA: Maintain SELL with a target price of Bt70.00.** Our target price is based on 50x 2023F PE and pegged at +1SD to its five-year mean PE. Despite our expectation of strong earnings growth of DELTA in 2023-24, we are still conservative on DELTA as we believe DELTA's valuation is too high compared to DELTA Taiwan and with this earnings growth, we do not think that this valuation is justified. Moreover, the share price of DELTA has dropped around 20% after the announcement of the placement of DELTA Taiwan, but the share price is still far high from our target price. Therefore, we maintain SELL on DELTA.
- **KCE: Maintain HOLD with a target price of Bt47.00.** Our valuation is based on 26x 2024F PE and pegged to its five-year mean PE. We believe KCE's cloudy outlook has reached the bottom and expect 2024 earnings to grow. However, we recommend HOLD as we are still cautious on KCE's outlook due to the unclear recovery outlooks of semiconductors. Moreover, we do expect an outstanding earnings outlook for KCE in 4Q23, compared to its peers.
- **HANA: Maintain HOLD with a target price of Bt62.00** based on 18x 2024F PE and pegged to its five-year mean PE. Due to downward adjustment of Power Master business, we believe the outlook of HANA is not impressive in the near term. Moreover, we believe the recovery of demand in China would not be solid yet. Note that HANA's proportion of sales from China is more than 10%.
- **SVI: Maintain HOLD with a target price of Bt8.00** based on 13x 2024F PE and pegged to its five-year mean PE. We believe diversification of SVI's products would underpin revenue in 2024. However, we maintain HOLD on SVI due to the concern on fluctuation of gross margin as SVI's gross margin is very sensitive to currency direction.

### DELTA REVENUE BREAKDOWN



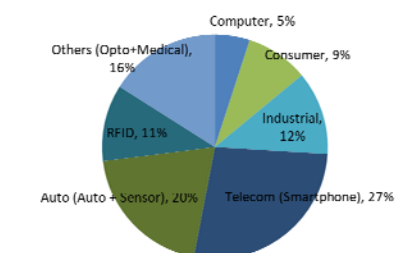
Source: DELTA, UOB Kay Hian

### KCE REVENUE BREAKDOWN



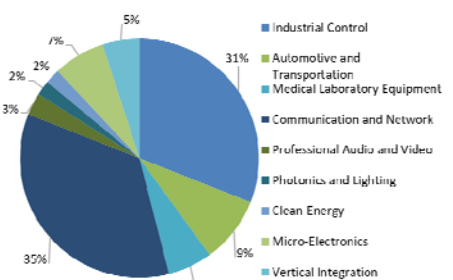
Source: KCE, UOB Kay Hian

### HANA REVENUE BREAKDOWN



Source: HANA, UOB Kay Hian

### SVI REVENUE BREAKDOWN



Source: SVI, UOB Kay Hian



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