UOBKayHian

Regional Morning Notes

Wednesday, 06 December 2023

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	36124.6	(0.2)	2.0	6.1	9.0
S&P 500	4567.2	(0.1)	0.3	4.8	19.0
FTSE 100	7489.8	(0.3)	0.5	1.0	0.5
AS30	7269.8	(0.9)	0.6	1.1	0.7
CSI 300	3394.3	(1.9)	(3.5)	(6.6)	(12.3)
FSSTI	3077.2	(0.2)	0.4	(3.3)	(5.4)
HSCEI	5609.6	(1.6)	(5.8)	(9.3)	(16.3)
HSI	16327.9	(1.9)	(5.9)	(9.1)	(17.5)
JCI	7100.9	0.1	0.8	3.2	3.7
KLCI	1449.5	(0.1)	0.1	(1.0)	(3.1)
KOSPI	2494.3	(0.8)	(1.1)	(0.3)	11.5
Nikkei 225	32775.8	(1.4)	(1.9)	0.2	25.6
SET	1383.5	0.2	(0.7)	(2.6)	(17.1)
TWSE	17328.0	(0.5)	(0.1)	4.1	22.6
BDI	3143	(6.1)	31.5	115.0	107.5
CPO (RM/mt)	3688	(0.9)	(1.4)	0.7	(8.9)
Brent Crude (US$/bbl)	77	(1.3)	(5.7)	(9.3)	(10.4)

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
Anta Sports	2020 HK	75.00	128.00	70.7
Bank Neo Commerce	BBYB IJ	364.00	390.00	7.1
Bumi Serpong	BSDE IJ	1,050.00	1,420.00	35.2
HM Sampoerna	HMSP IJ	930.00	1,300.00	39.8
My EG Services	MYEG MK	0.81	1.21	50.3
Yinson	YNS MK	2.48	3.75	51.2
OCBC	OCBC SP	12.60	17.35	37.7
CP ALL	CPALL TB	53.25	76.00	42.7
Indorama	IVL TB	25.25	30.00	18.8

KEY ASSUMPTIONS

GDP (% yoy)		2022	2023F	2024F
US		1.9	2.4	1.0
Euro Zone		3.5	0.5	0.6
Japan		0.9	1.5	1.0
Singapore		3.6	0.9	2.9
Malaysia		8.7	4.0	4.6
Thailand		2.6	2.3	3.6
Indonesia		5.3	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
Regional 1H2024 Strategy Conference	Malaysia	6 Dec	6 Dec

SECTOR UPDATE

Property – China

Home Prices In Tier 1 Cities Feel Greater Downward Pressure; Eyes On Policy Catalysts and Range Trading Opportunities

For 50 cities, new-home sales fell 20% yoy in Nov 23. For the 10 core cities, second-hand home sales surged 40% yoy. Sentiment of land auctions weakened further. We have a closer look at the Shanghai market, which has resilient demand but still faces growing downward pressure on property prices. Weakening of fundamentals and potential policy easing offer range trading opportunities. Top picks: CR Land (1109 HK) and Longfor (960HK). Maintain MARKET WEIGHT on the sector.

WHAT'S NEW

- China Real Estate Index System (CREIS) released sales data for 27 Nov-3 Dec 23 .
- More Shanghai new home projects start to offer discount to home buyers.

ESSENTIALS

- **New-home sales in 50 cities decreased 20% yoy in Nov 23.** According to CREIS, new-home sales volume in 50 major cities increased 21.2% wow and decreased 10.3% yoy during the fourth week of November (27 Nov-3 Dec 23). Sales volume in Tier 1 cities fell 4.9% wow and 9.6% yoy. Sales in Tier 2 cities went up 11.7% wow and dropped 9.8% yoy. Sales in Tier 3 and 4 cities rose 55.1% wow and tumbled 11.2% yoy. The average weekly sales of new homes in Nov 23 declined 11.5% mom and 19.9% yoy. Among Tier 1 & 2 cities, Hefei (-53%), Qingdao (-51%), Yinchuan (-44%), and Wuxi (-44%) were the top yoy new-home sales volume decliners.
- **Second-hand home sales in 10 core cities up 40% yoy in Nov 23.** According to WIND, weekly sales volume of second-hand homes in the 10 core cities during the fourth week of November (27 Nov-3 Dec 23) decreased 2.5% wow and increased 44.9% yoy. For the 10 core cities, average weekly sales of second-hand home in Nov 23 jumped 18.1% mom and 39.6% yoy. We attribute the strong recovery of second-hand home sales to: a) easing of mortgage and home purchase restrictions in Tier 2 cities, and b) deeper price cut offered by sellers.
- **Weakening sentiment of land markets in Tier 2 cities.** The land auction sentiment in Suzhou, Wuxi, Chengdu, Wuhan remained weak after removing the price ceiling for land sales. Only one land plot in Suzhou and one land plot in Chengdu were sold at 61% and 30% premium rate respectively, and the rest of land parcels were sold at reserve prices and acquired by local government financial vehicles. For Shanghai, the land auction diverged, with three land plots reaching price ceiling (10% premium rate) and four land plots were sold at reserve prices. The removal of price ceiling resulted in further divergence of sentiment among land plots.

RECENT LAND AUCTION SITUATION

	Transacted Plot	Plots sold at reserve price	Transacted Value (Rmb100m)	GFA (10,000 sqm)	Overall Land Premium Rate	Highest Land Premium Rate
Shanghai	8	4	148	75	5.9%	10.0%
Wuhan	4	4	34	66	0.0%	0.0%
Chengdu	5	4	32	41	12.0%	61.0%
Suzhou	6	5	75	28	9.8%	30.0%
Wuxi	6	6	56	34	0.0%	0.0%

Source: Media reports, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 05 Dec 23 (HKD)	Target Price (HK$)	Upside/(Downside) to TP (%)	Market Cap (HK$ m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (%)	Yield 2024F (%)
China Resources Land Ltd	1109 HK	BUY	27.00	47.16	74.7	192,535.4	6.4	5.6	0.6	0.6	5.8	6.6
China Overseas Land	688 HK	BUY	13.60	27.14	99.6	148,850.4	5.1	4.3	0.4	0.3	5.9	7.0
Longfor Properties	960 HK	BUY	12.86	17.68	37.5	84,770.0	3.7	4.1	0.4	0.4	8.1	7.4

Source: Bloomberg, UOB Kay Hian.

MARKET WEIGHT

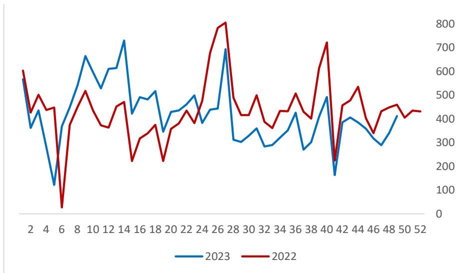
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
CR land	1109 HK	BUY	27.00	47.16
Longfor	960HK	BUY	12.86	17.68

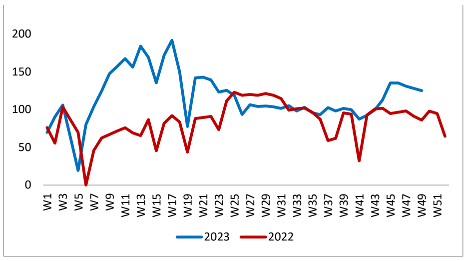
Source: UOB Kay Hian

NEW-HOME SALES IN 50 MAJOR CITIES



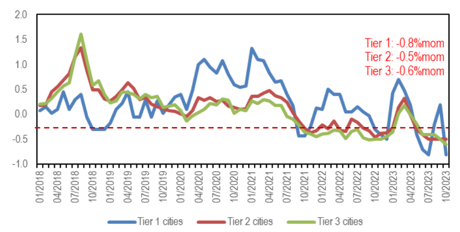
Source: CREIS, UOB Kay Hian

SECONDARY HOME SALES IN 10 MAJOR CITIES



Source: UOB Kay Hian

SECONDARY HOME PRICE IN 70 CITIES - MOM



Source: WIND, UOB Kay Hian

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- **A closer look at Shanghai market.** Despite relatively resilient demand, Shanghai is seeing weakening of buyers' sentiment, where: a) the subscription rate of new homes has been dropping; b) some SOEs started to offer 5-10% discount for new home projects; and c) besides price discount, developers also use various marketing measures to promote sales, eg cooperate with real estate agents (Lianjia, etc) to help home buyers sell their existing home, allowing homebuyers to pay down-payment only after selling the existing home, and promise unconditional refund if the existing home is not sold within a certain period. However, without a meaningful macro stimulus policy, we expect property prices in Tier 1 cities will face growing downward pressure, as: a) the number of secondary home listings is at a historically high level, and b) the effect of demand side policy easing is proved to be short-lived.

NEW HOME MARKET DISCOUNT IN HIGH TIER CITIES

Project Name	Region	Developer	Price discount	car park subsidies (Rmb mn)	Total discount	Other benefits
奉发·云邸	Fengxian	Local SOE	5%	/	5%	a) Developers help homebuyers to sell homes in hand, b) allow deferring of down-payment, and c) offer upgraded decoration
郎拾花语	Minhang	CRCC & Vanke	0%	0.45	3-6%	
松江万科	Songjiang	Vanke	4%	/	4%	
森蘭航薈名庭	Pudong	Local SOE	5%	0.20	8%	

Source: social media, UOB Kay Hian

ACTIONS

- **Maintain MARKET WEIGHT and eye on more policy catalysts.** The factors driving China's real estate industry are still mixed, ie with both weakening fundamentals and potential policy support. On the fundamental side, we expect property sales to further deteriorate in Dec 23, which may trigger a deeper price cut even in Tier 1 cities. On the policy front, considering growing downward pressure on property prices in Tier 1 cities, we do not rule out the possibility that the government will announce stronger-than-expected policy easing in 4Q23-1Q24. Key measures may include funding support for urban redevelopment and government housing projects. The combination of weakening fundamentals and growing policy support will offer range trading opportunities. We pick Longfor (960 HK) as it will be a key beneficiary of policy easing. For the sector, our top pick remains CR Land, as we expect it to report resilient earnings in FY23.

SECTOR UPDATE

Consumer – Indonesia

Rupiah Appreciation And Stable Raw Material Costs To Bode Well For 2024 NPAT

The rupiah is expected to appreciate to Rp14,500:US$1 by 3Q24. The rupiah appreciation should benefit consumer companies' margins as 75% of their costs are linked to the US dollar. JAKCONS tends to outperform whenever the rupiah is stable or appreciating, as the profitability of JAKCONS will improve when the rupiah appreciates. Raw material costs are expected to be stable in 2024, and any slight increase in cost should be easily passed through with a single-digit ASP hike. Maintain OVERWEIGHT. Our picks: CMRY, MYOR, ICBP and ACES.

WHAT'S NEW

- **Rupiah appreciation to benefit consumer sector…** Based on UOB Global Economic Research, the rupiah (Rp) is expected to strengthen against the US dollar (USD) from Rp15,400:US$1 in 4Q23 to Rp14,500:US$1 in 3Q24. Consumer companies will benefit from Rp appreciation as more than 75% of their cost structure is linked to USD. A lower USD will lower their input cost, which translates to potentially higher profit growth. We also conducted an analysis on the consumer sector and found that the consumer sector tends to decline when Rp depreciates sharply against USD but will appreciate when Rp is stable or appreciating. The recent underperformance was due to the COVID-19 pandemic and a spike in raw material prices.
- **…and boost NPAT growth of consumer companies.** A slight Rp depreciation does not significantly impact the consumer sector's earnings, as consumer companies can increase prices to pass on the pressure to their consumers.
- **Stabilisation of raw material prices in 2024.** After a steep decline in 2023, prices of commodities are likely to be flattish or rise slightly in 2024.
  - The forward price of wheat indicates it is likely to rise by 14.7% from US$5.75/bushel to US$6.58/bushel by Dec 24. Note that the average increase could be half of 14.7%, which is a 7.35% increase for 2024.
  - The forward price of polyethelyne indicates it is likely to stay flat (+0.5%) from US$1,110/tonne to US$1,116/tonne by Oct 24.
  - The forward price of skim milk indicates it is likely to rise by 17.8% from US$2,747/tonne to US$3,235/tonne by Dec 24. Note that the average increase could be half of the 17.8%, which is an 8.9% increase for 2024.

  We believe that consumer companies would be able to pass on these price increases as a 10% increase in raw material costs should be mitigated by a 5% ASP increase.
- **Consumption growth tends to rise during an election period.** However, purchasing power will remain weak as evidenced by the recent decline in retail sales index. Historical analysis indicates that GDP growth tends to accelerate two quarters before elections, indicating an election will result in an increase in purchasing power. Hence, we expect consumption growth to improve in 4Q23 and 1Q24.
- **Upside to profitability for some retailers.** Profitability of some retailers such as MAPI and AMRT has exceeded pre-pandemic profit levels. However, some retailers such as ACES have yet to see full recovery. The Consumer Confidence Index continues to rise. Spending on election should benefit middle to low segment retailers.
- **Picks:** BUY MYOR, CMRY, ICBP, ACES.

*Click **here** for Blue Top dated 05 Dec 23*

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Rp)	Target Price (Rp)
CMRY	BUY	3,590	4,800	35.2%
ICBP	BUY	10,525	14,800	41.0%
MYOR	BUY	2,520	3,200	29.0%
ACES	BUY	735	1,000	38.9%

Source: UOB Kay Hian

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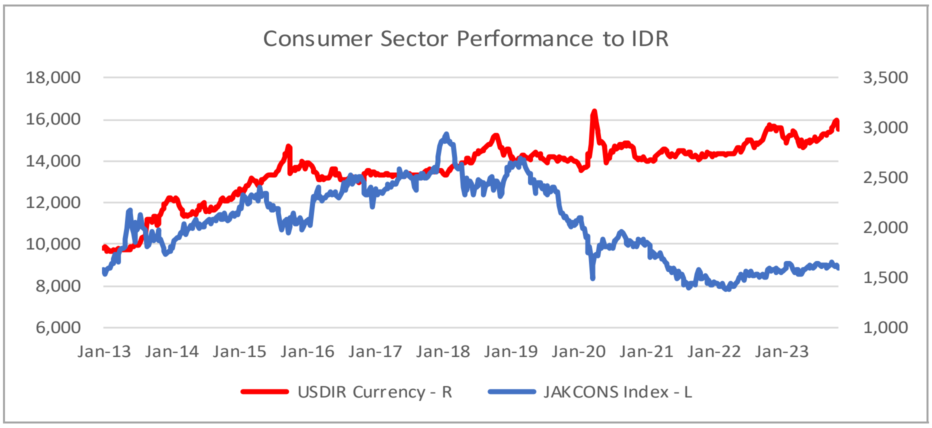
PEER COMPARISON

Company	Ticker	Rec	Price 4-Dec-23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US$m)	3M Avg Turnover (US$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	ROE 2024F (%)	Net Gearing (%)
Cisarua Mountain Dairy	CMRY	BUY	3,590	4,800	35.2%	1,817	0.5	23.0	18.5	4.6	3.9	21.3	(55.9)
Indofood CBP	ICBP	BUY	10,525	14,800	41.0%	7,897	3.5	13.5	12.6	2.9	2.5	13.0	52.4
Mayora Indah	MYOR	BUY	2,520	3,200	29.0%	3,576	1.1	19.7	18.0	3.8	3.4	16.4	17.1
Ace Hardware	ACES	BUY	735	1,000	38.9%	796	2.9	17.5	15.3	2.0	1.9	11.6	(24.0)

Source: Bloomberg, UOB Kay Hian

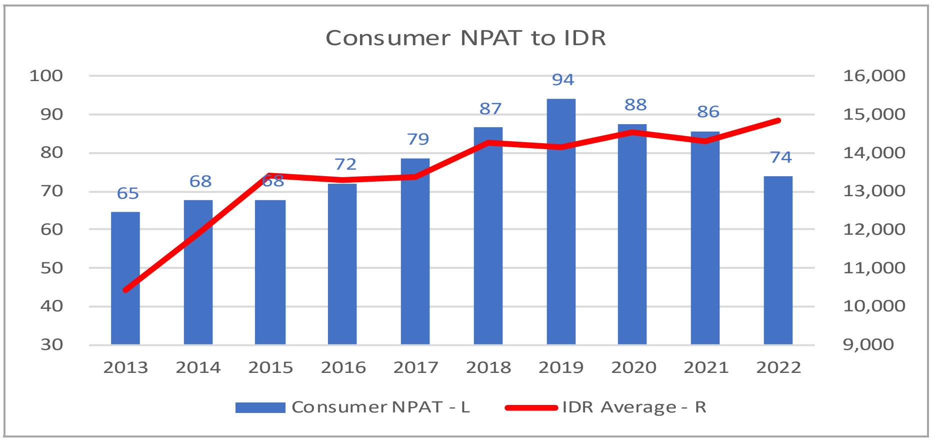
ESSENTIALS

JAKCONS PERFORMANCE TO RP MOVEMENT



Source: UOB Kay Hian

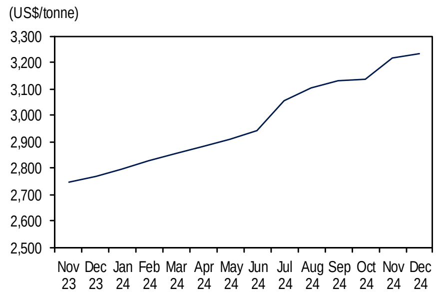
JAKCONS NPAT LEVEL TO RP MOVEMENT



Source: UOB Kay Hian

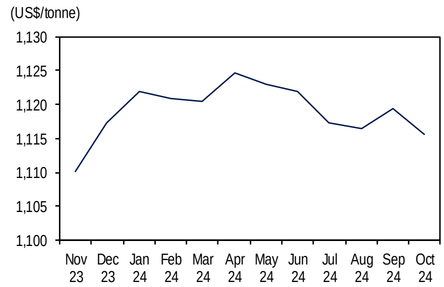
- **Maintain OVERWEIGHT on the consumer sector.** We foresee a decline in raw material costs, which will improve margins. We also expect a recovery in purchasing power, which will drive sales.
- **Cisarua Mountain Dairy (CMRY IJ): Maintain BUY and a target price of Rp4,800.** CMRY expects sales and NPAT to grow at a CAGR of 16.8% in 2022-25. 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. We maintain BUY and a target price of Rp4,800 based on a historical average PE of 25.8x applied to 2024 EPS.
- **Indofood CPI (ICBP IJ): Maintain BUY with a PE-based target price of Rp14,800.** ICBP is trading at 12.5x 2024F PE or below -1SD to the five-year PE average of 13.0x. Our target price is derived using the historical average of 17.6x PE applied to average of 2024 EPS. With 39.0% upside from the current level, we maintain BUY on ICBP with a target price of Rp14,800.
- **Mayora Indah (MYOR IJ): Maintain BUY with a target price of Rp3,200** derived using historical +0.5SD PE of 23.6x applied to 2024 EPS. MYOR is currently trading at 21x 2024F PE or at -1SD historical five-year PE. With 28.5% upside, we maintain BUY with a target price of Rp3,200.
- **Ace Hardware Indonesia (ACES IJ): Maintain BUY with a target price of Rp1,000** derived using historical average of 22.1x PE applied to average of 2023F and 2024F EPS. ACES is currently trading at attractive 16.1x 12-month forward PE, which is below historical -1SD PE of 17.4x.

FORWARD SKIM MILK PRICES



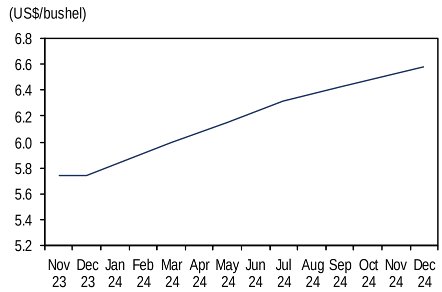
Source: Bloomberg

FORWARD POLYETHELENE PRICES



Source: Bloomberg, UOB Kay Hian

FORWARD WHEAT PRICES



Source: Bloomberg, UOB Kay Hian

EXPECTED NPAT GROWTH OF CONSUMER CO

NPAT (Rpb)	2022	2023F	2024F
ICBP	7,311	9,146	9,651
INDF	9,059	10,499	11,595
MYOR	1,657	2,368	2,788
ROTI	432	350	420
UNVR	5,365	5,244	5,986
CMRY	1,061	1,174	1,475
Total	24,885	28,781	31,915
NPAT Growth (%)			
ICBP	6.7	25.1	5.5
INDF	12.5	15.9	10.4
MYOR	44.3	42.9	17.7
ROTI	53.6	(18.9)	19.8
UNVR	(6.8)	(2.3)	14.2
CMRY	34.2	10.7	25.6
Total	8.8	15.7	10.9

Source: Bloomberg, UOB Kay Hian

SECTOR UPDATE

Consumer – Malaysia

No End In Sight Yet

Interest in the sector could remain lacklustre due to the reforms on subsidy rationalisation and already-tightened disposable spending. These headwinds far outweigh companies potentially benefitting from cheaper input costs, that have inched up against the strengthening US dollar. Despite the sector offering bargain valuations, the sector could underperform given the headwinds. We downgrade the sector to MARKET WEIGHT. Our top picks are F&N, Mr. DIY and Heineken.

WHAT'S NEW

- **Likely sector overhang from subsidy rationalisation.** The government policies most relevant to the sector are reforms surrounding subsidy rationalisation. Subsidies and social assistance are expected to be rationalised to RM58.1b in 2024 from RM81.0b in 2023. Removals of certain subsidies have been market related, such as chicken prices having fallen below the ceiling price imposed by the government. That said, the lion's share of rationalisation will be drawn from fuel subsidy, which should have more clarity after 1Q24. Implementation is expected for 2H24, disproportionately impacting the top 20% of income earners. This is likely to cast an overhang on the sector given the tightened purse strings, constricted disposable income, and potential spillover effect.

- **3Q23 results were slightly underwhelming but margins appear to have hit an inflection point.** 3Q23 sector earnings grew 15.4% yoy and 4.8% qoq (PBT earnings: 10.5% yoy, -3.1% qoq). This far outstripped top-line growth of 2.1% yoy and 1.0% qoq thanks to broadly improved margins posted by consumer staples companies such as Nestle, QL and F&N. Results were slightly underwhelming in relation to overall expectations. Top-line growth remained unconvincing due to the increasing cost of living and high-base effect from the EPF special withdrawals that particularly benefitted retailers in 2Q22 and spillover into 3Q22. Positively, margins appear to have reached an inflection point.

ACTION

- **Downgrade to MARKET WEIGHT with near-term headwinds in sight.** Sector valuations are trading at a depressed 21.0x, close to -1.5SD to its five-year mean. Against this backdrop, we expect earnings to grow by a decent 11.8% for 2024. However, as subsidy rationalisation details will only be made known from March onwards, this could further weigh on consumer and investor sentiments alike. Certain commodities prices have also strengthened recently, potentially limiting the desired recovery in gross margins. Furthermore, the sector is relatively defensive and is likely to relatively underperform in a risk-on environment. The sub-optimal relative returns and an overhang in sentiment appear to be reflected in the current depressed valuations. This confluence of factors underlines our tactical MARKET WEIGHT call for the sector.

- **F&N, Mr. DIY and Heineken as our top picks.** We have a preference for consumer staples and staple-like derived demand amid emerging headwinds for the sector. Top picks for the sector include F&N, Mr. DIY and Heineken. In addition, F&N is a tourism recovery beneficiary.

MARKET WEIGHT

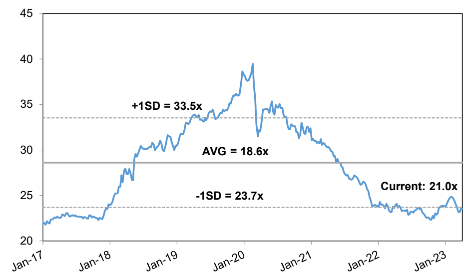
(Downgraded)

3Q23 RESULTS SNAPSHOT

Company	3Q23 (RMm)	yoy % chg	qoq % chg	Results
BAT	60.0	-20.0	25.0	Below
Carlsberg	78.3	2.5	-13.2	Below
Farm Fresh	12.2	-7.6	100.0	Below
F&N	134.6	37.3	1.7	Above
Heineken	87.3	-19.7	-3.5	Below
Mr. DIY	123.9	22.4	-17.6	In-line
MyNews	-2.2	46.7	-65.1	In-line
Nestle	133.7	18.7	-26.1	In-line
QL Resources	122.6	30.6	32.1	Above

Source: Bloomberg, UOB Kay Hian

SECTOR VALUATIONS



Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

Company	Tickers	Price 5 Dec (RM)	Rec	Target Price (RM)	Market Cap (RMm)	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY23F	Yield (%) FY23F	Yield (%) FY24F
MyNews	MNHB MK	0.51	SELL	0.43	383	82.8	26.1	1.6	0.2	0.7
Farm Fresh	FFB MK	1.35	SELL	1.00	2,527	45.4	22.1	3.7	0.6	1.1
British American Tobacco	ROTH MK	9.35	BUY	11.50	2,670	13.3	11.7	7.1	7.5	8.5
Carlsberg	CAB MK	18.96	BUY	24.35	5,797	18.6	17.5	32.6	4.8	5.1
Heineken (M)	HEIM MK	21.50	BUY	28.30	6,495	17.4	16.1	13.3	5.8	6.2
F&N Holdings	FNH MK	27.50	BUY	33.60	10,086	19.9	19.0	2.8	2.8	3.2
QL Resources	QLG MK	5.63	BUY	6.80	13,701	34.9	32.4	4.6	0.6	0.6
Mr DIY	MRDIY MK	1.55	BUY	2.10	14,635	25.7	21.8	8.5	1.9	2.3
Nestle	NESZ MK	113.90	BUY	146.00	26,710	38.8	34.9	40.4	2.4	2.7
Average					9,222.7	33.0	22.4	12.7	3.0	3.4

Source: Bloomberg, UOB Kay Hian

ESSENTIALS

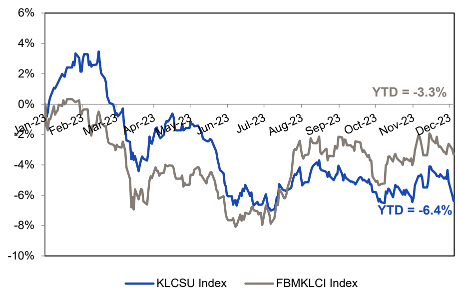
- **Ytd review.** Despite the FBMKLCI's lacklustre performance of -3.3% ytd, the KL Consumer Product Index has underperformed with a -6.4% ytd. Despite the defensive properties offered by consumer companies, the underperformance could be due to: a) increasing cost of living, curtailing discretionary spending, b) subsidy rationalisation reforms steering investors to the sidelines to await improved visibility, and c) pedestrian 4.3% earnings growth for 2023.

- **Limited margin downside but uncertainty creeps in.** Following unfavourable weather conditions, certain soft commodities prices have firmed up recently. Prices of sugar, cocoa and robusta are now +12.8%, +26.0% and +12.7% vs ytd averages. In contrast, wheat and corn prices are -15.4% and -18.1% vis-à-vis ytd averages. Meanwhile, crude oil, barley and aluminium prices are largely unchanged against their ytd averages. The trend vs 2022's average is largely similar as well. Over the next few quarters, margin downside is limited as companies have borne the full brunt of the multi-year commodities highs in 2022 and have correspondingly raised ASPs. However, the current uptrend of several soft commodities prices could cast some uncertainty over a margin recovery, thereby adding some uncertainty over earnings visibility that investors had highly yearned for.

- **Brewers' costs could ease in 2024.** Commodities prices appear to have firmed up in recent months. However, on average, they remain lower than when prices were hedged. Raw materials and packaging account for 15% of revenue, by our estimates. Given these economics, every 1% fall in input cost translates into 0.7% rise in earnings. The primary cost component for breweries' is excise duties, which account for about 45% of revenue (or 60% of COGS).

- **Anti-smoking Bill passed in the lower house of the Parliament.** The Control of Smoking Products for Public Health Bill 2023 (CoS Health Bill) has finally been passed in the lower house of the Parliament. The bill essentially applies similar traditional cigarette restrictions to vape products. This includes the ban on advertisements and the sale and purchase of vape products to minors. The generation end-game (GEG) element has been removed from the CoS Health Bill however. Initially, the GEG element looked to ban those born from 2007 onwards from smoking or purchasing smoking products. While the development is positive, there is minimal near-term impact as those aged 18-21 account for less than 3% of BAT's volume sales. The removal of GEG would have long-term implications for structural demand for smoking products. This could remove an overhang that has plagued BAT since GEG was mooted in Jul 22.

BURSA MALAYSIA CONSUMER PRODUCT INDEX VS FBMKLCI INDEX



Source: Bloomberg

COMMODITIES PRICES

	2022	YTD	YTD23 vs 2022	Current	Last close vs YTD	Key Companies
Sugar (US$/lb)	18.8	24.2	28.8	25.8	6.5	F&N, Power Root
Cocoa (US$/MT)	2460	3177	29.2	4271	34.4	Nestle
Robusta (US$/MT)	2103	2460	17.0	2546	3.5	Power Root, Nestle
Whole Milk Powder (US$/MT)	3870	2676	-30.9	2635	-1.5	F&N, Dutch Lady, Farm Fresh
CPO (RM/MT)	5134	3847	-25.1	3683	-4.3	Nestle, F&N, QL
Wheat (US$/MT)	903	647	-28.3	596	-7.9	Nestle, Kawan Food
Barley (INR/quintal)	2887	2131	-26.2	2145	0.6	Breweries
Aluminium (US$/MT)	2716	2292	-15.6	2182	-4.8	Breweries, F&N
Corn (USD/Bushel)	694	572	-17.7	461	-19.4	QL
Soybean (USD/Bushel)	1551	1423	-8.2	1309	-8.1	QL

Source: Bloomberg, Respective companies, UOB Kay Hian
As of 5 Dec 23

COMPANY UPDATE

MISC (MISC MK)

Addressing Sustainability Goals And Key ESG Shipping Trends

MISC not only updated investors on sustainability goals, it also addressed certain key net-zero transition issues that may impact the shipping industries. A potential future ESG regulation risk is on sulphur emissions. Ultimately, these developments will likely prolong the tight vessel supply situation in the crude and LNG tanker segments. Hence, MISC should be a net beneficiary of the ESG trends, yet share price has not adequately priced these in. Maintain BUY and target price of RM8.80.

WHAT'S NEW

- **Actively promoting and practising energy transition.** As Bursa's largest shipping stock and a key global tanker conglomerate worldwide, MISC is committed to its net-zero 2050 pathways, with a target of 50% reduction in greenhouse gas (GHG) intensity emissions by 2030 vs 2008 levels. To ensure the execution of its transition journey, MISC has set up a green business unit directly under its CEO's purview, has made various investments to champion greener fuel and ships usage, and made extensive disclosure on its Scope 1 & 2 emissions, as well as Scope 3 emissions estimates (based on five out of the 15 Scope 3 categories that meet the materiality definition). For the 2.8m-tonne equivalent of Scope 3 emissions that was disclosed in 2022, MISC said that about 1.2m tonnes were emitted from LNG segment, and 1m tonnes from petroleum.
- **Potential allocation of 38% capex for green and transition projects.** Effective 2023, MISC will avoid investing in new conventional projects. Effective 2030, MISC aims to commercialise only zero-emissions new and/or retrofitted vessels. One of the major investments that MISC is championing is the green ammonia vessels. Alongside PETCO Trading Labuan and PTT, MISC is developing several green ammonia VLCC and Aframax vessels (for 2025/26 deliveries) to test the market.
- **MISC is developing its own internal carbon pricing for future capital purposes.** Recently, Petronas' subsidiary Petronas CCS Ventures agreed to form a JV with MISC and Mitsui to invest in/monetise liquefied carbon dioxide (LCO2) carriers. This is a follow-through from the conceptual design of the LCO2 carriers by Petronas-Mitsui in Jun 23. Separately, MISC has a conceptual design approved for Floating Carbon Storage Unit (FCSU) only, and not for LCO2, and hence this JV partnership is positive.
- **Minor capex impact from EEXI/CII rules.** International Maritime Organisation (IMO) rules, ie Energy Efficiency Existing Ship Index (EEXI, effective Jan 23), and the carbon intensity indicator (CII) rating (effective Jan 24) will be fully felt as 2024 will be the first year for vessels above 5,000GT that attained an annual operating CII for their emissions performance in 2023. MISC had invested sufficiently in technology to ensure most of its ships are compliant with at least a "C" rating in the CII.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	10,672	13,867	14,455	15,010	15,029
EBITDA	3,898	5,132	5,056	5,254	5,268
Operating profit	1,948	3,102	2,800	2,836	2,708
Net profit (rep./act.)	1,831	1,823	2,285	2,339	2,328
Net profit (adj.)	1,319	2,214	2,285	2,339	2,328
EPS (sen)	29.6	49.6	51.2	52.4	52.2
PE (x)	24.4	14.5	14.1	13.7	13.8
P/B (x)	0.9	0.9	0.8	0.8	0.8
EV/EBITDA (x)	11.8	8.9	9.1	8.7	8.7
Dividend yield (%)	4.6	4.6	4.6	4.6	4.6
Net margin (%)	17.2	13.1	15.8	15.6	15.5
Net debt/(cash) to equity (%)	26.6	28.6	33.5	31.8	33.0
Interest cover (x)	9.3	7.9	7.4	6.6	6.9
ROE (%)	5.5	5.1	6.0	6.0	5.9
Consensus net profit	-	-	2,169	2,330	2,613
UOBKH/Consensus (x)	-	-	1.05	1.00	0.89

Source: MISC, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM7.20
Target Price	RM8.80
Upside	+22.2%

COMPANY DESCRIPTION

Shipping company.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MISC MK
Shares issued (m):	4,463.7
Market cap (RMm):	32,139.0
Market cap (US$m):	6,900.5
3-mth avg daily t'over (US$m):	2.8

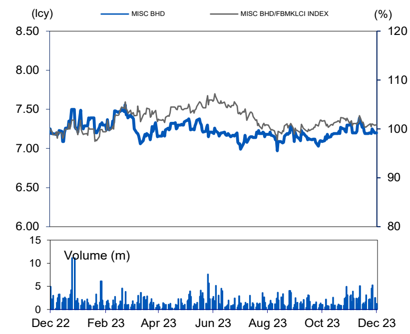
Price Performance (%)

52-week high/low RM7.56/RM6.97

1mth	3mth	6mth	1yr	YTD
(1.4)	(0.3)	(0.1)	(0.1)	(4.0)

Major Shareholders	%
Petroliam Nasional Bhd	51.1
Employees Provident Fund	12.7
FY23 NAV/Share (RM)	8.57
FY23 Net Debt/Share (RM)	2.87

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **We understand only a few ships will be given CII ratings of D or E.** For context, it is compulsory for vessels with a D CII rating for three consecutive years, or an E rating, to have corrective plans to improve their emissions to bring the CII rating to at least a C. This means the ship will either have to sail slower, or be retrofitted with necessary emission reduction equipment, or be more efficient. Fortunately, out of 96 ships, only one LNG tanker is expected to be rated E (Aman Sendai). There are a few other LNG ships (steam turbine technology) and a few petroleum tankers that are expected to be rated D. The petroleum tankers will most likely be shuttle tankers given their size and technical specification.
- **Market conditions favour shippers, against the risk of contract penalty for high-emission vessels.** There were extensive questions from investors on the risks of adverse contract terms changes or penalties for MISC's vessels that are on long-term charters, but operational deliveries or business costs may be affected by the EEXI/CII rules. MISC explained that the situation today is that charterers (counterparties) are beginning to understand that everyone needs to play their part to reduce emissions.
- **We agree with MISC's view…** In the crude tanker markets, with long-term rates still stubbornly hovering at multi-year highs, it is clear that the tight vessel markets are pushing the bargaining power in the shippers' favour. Likewise for LNG carriers, with spot daily rates are now at US$160,000, and the Panama Canal's transit availability for LNG tankers being lesser than expected, there is industry talk that even the steam-turbined old LNG tankers will not be able to be phased away, to meet long-term LNG demand.
- **...not discounting future ESG regulatory risks.** A climate change scientist who is known as the "Godfather of Global Warming" sounded another warning - the sulfur dioxide (SOx) emissions cuts, which was too efficient especially from shipping industry, is actually causing acceleration in global warming. Please refer to appendix section for details. If the IMO rules change again based on this narrative, it may distort the future capex considerations and low-sulphur fuel opex of all ships. Fortunately, MISC has only six ships with scrubbers installed.
- **Maintain 2023-25 earnings forecasts.**

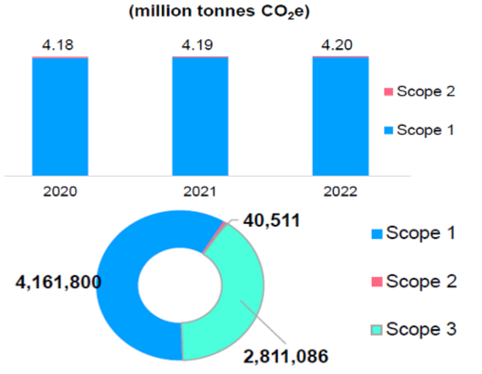
VALUATION/RECOMMENDATION

- **Maintain BUY with target price of RM8.80,** implying 17x 2024F PE (at +1SD of five-year average PE band). We believe MISC deserves to trade at the top end, due to strong EBITDA from an upcycle in petroleum earnings, followed by a step-up in long-term earnings base from Mero-3 (to compensate for the cyclical nature of tankers), and further contract wins.
- **Also, from a P/B perspective,** MISC appears to be trading at a discount to its pure crude tanker peers worldwide, which are trading at 4-5x forward PE but at high 1.3-1.4x P/B and this reflects the more persistent bullishness of the crude tanker upcycle. Hence, it is possible that markets have yet to digest the full impact of the LNG and crude tanker market opportunities.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• **Environmental**
- **Carbon (CO2) reduction.** Adding new vessels with LNG-dual/ammonia fuel to meet net-zero emission by 2050 (50% reduction of greenhouse gas by 2030).
- **Promoting circular economy via green ship recycling.** Aims to avoid wastage while disposing aged vessels that do not meet carbon reduction criteria.
• **Social**
- Diversity. >20 nationalities; >40% female proportion among onshore staff.
- Safety (HSE). Lost Time Injury Frequency (LTIF) remains low at 0.08 (2021: 0.15).
• **Governance**
- Achieved 5/5 rating (FTSE4Good) for governance & supply chain management.

MISC GROUP SCOPE 1,2,3 GHG EMISSIONS



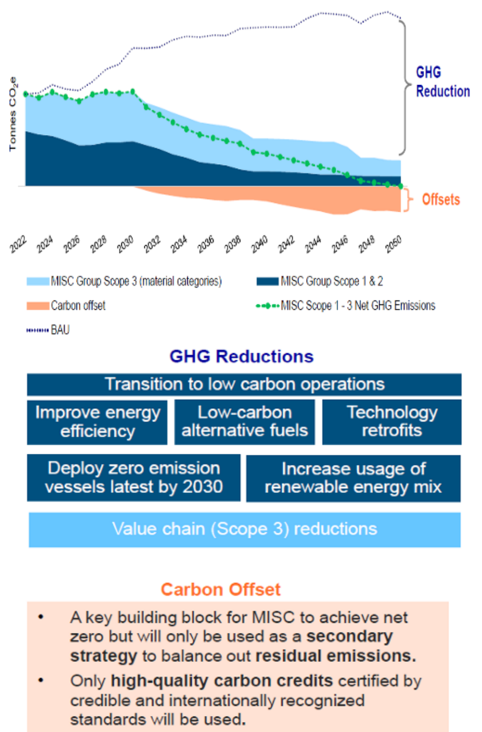
Source: MISC

MATERIAL SCOPE 3 CATEGORIES, OUT OF 15

Category	Scope
1	Purchased goods and services
3	Fuel and energy related activities
8	In-chartered vessels but MISC is operator
13	Offshore / FPSO assets
15	JV vessels with equity stake; without control

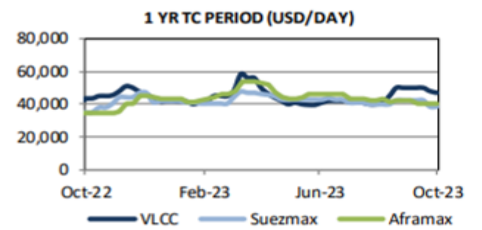
Source: MISC

MISC NET-ZERO PATHWAY



Source: MISC

CRUDE TANKER TCE EARNINGS (US$'000/DAY)



Source: BanCosta Weekly

APPENDIX : RECENT FINDINGS FROM A LEAD CLIMATE CHANGE SCIENTIST, DR JAMES HANSEN

- **Who is Dr James Hansen, who was nicknamed "The Godfather of Global Warming"?** Dr James Hansen was a NASA climate scientist most renowned for making the world's first high-profile message to the world on global warming via his testimony to the US Senate in 1988. Hence, he was nicknamed the Godfather of Global Warming for his early warnings

- **The "Godfather" is back with another warning.** In mid-23, Hansen sounded another warning that that the world was moving towards a "new climate frontier" with temperatures higher than at any point over the past million years, bringing impacts such as stronger storms, heatwaves and droughts. He found that the planet might breach the 1.5 degrees Celsius warming target by the end of 2030, and surpass the 2 degrees Celsius target by 2050. He said the record 2023 heatwaves that have roiled the US, Europe, China and elsewhere in recent weeks have heightened "a sense of disappointment that we scientists did not communicate more clearly and that we did not elect leaders capable of a more intelligent response". Since then until the United Nation's annual climate change conference, COP28 happening now in Dubai, James Hansen had been making a series of presentations.

- **Key differences between Hansen's model and other climate sensitivity models, including the model assumed by the United Nation's Intergovernmental Panel on Climate Change (IPCC).** Hansen's model findings are considered to be at the higher-end of the spectrum, as he touched on key issues which are still subject to scientific debates, because it is impossible to capture every commingling factors of the Earth System, including the behaviour of the El Nino/La Nina natural phenomena. Hansen's key issues are:

  a) **Energy imbalance.** The sun's energy being trapped by greenhouse gases (GHG) means more energy is being absorbed by the planet Earth, vs being reflected. This implies that if the Earth is absorbing more energy from the sun, the rate of global warming increases;

SOTP BREAKDOWN (AT RM4.3/US$)

Segments	Valuation	RM/share
LNG	DCF, 8.2% WACC	3.17
Petroleum	Earnings upgrade ; 1.1x to 1.2x P/B	2.95
MMHE (66.5%)	Based on RM0.70 TP	0.16
Gumusut	1x (no more cash flow discount)	1.65
Kikeh (51%)	1x P/B	0.18
FPSO Mero 3	JV DCF, lesser 10% discount	0.38
Other offshore	0.9x P/B	0.05
(-) Net debt	LNG (RM5b); others RM4b	(0.99)
(+) New contracts	Potential contracts; FPSO and LNG	1.25
SOTP	18x 2024F PE	8.80

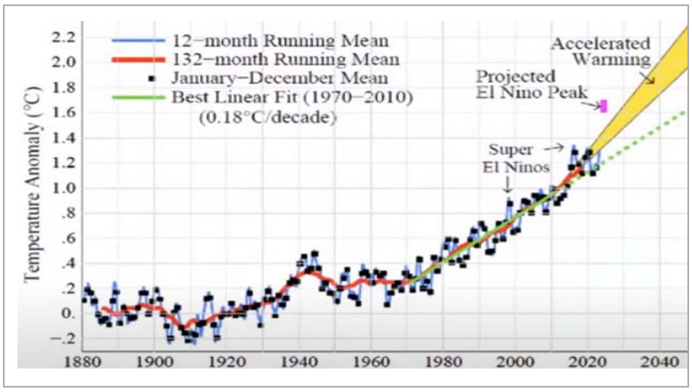
Source: Bloomberg, UOB Kay Hian

SEGMENT FORECASTS

(RMm)	2023F	2024F	2025F
Revenue	14,455.2	15,009.9	15,028.5
LNG	3,007.2	3,019.6	3,159.1
Petroleum	4,582.6	4,774.1	4,515.1
MMHE	2,230.0	2,815.0	3,020.0
Offshore	4,635.4	4,401.2	4,334.3
EBIT	2,799.8	2,836.0	2,708.0
LNG	1,383.3	1,419.2	1,453.2
Petroleum	939.3	947.4	775.4
MMHE	13.7	29.2	35.9
Offshore	463.5	440.1	443.5

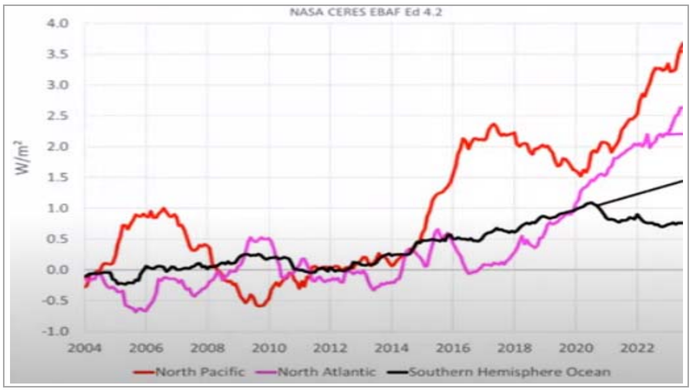
Source: Bloomberg, UOB Kay Hian

GLOBAL TEMPERATURES RELATIVE TO 1880-1920



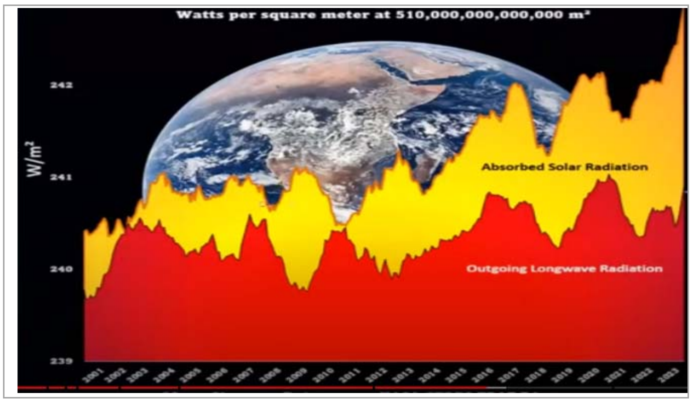
Source: Oxford Open Climate Change: Global warming in the pipeline, 2023 Edition

SOLAR RADIATION ABSORBED BY EARTH, 48-MONTH MEAN



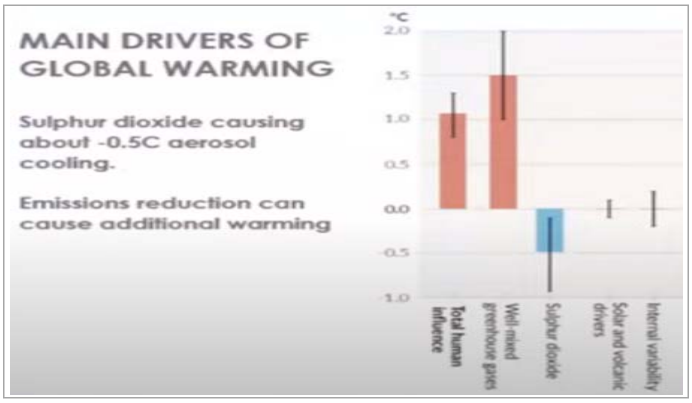
Source: NASA's Clouds and the Earth's Radiant Energy System (CERES) data

EARTH ENERGY IMBALANCE IN GRAPHICAL FORM



Source: Oxford Open Climate Change: Global warming in the pipeline, 2023 Edition

SULPHUR DIOXIDE HAD BEEN USED AS AEROSOL COOLING

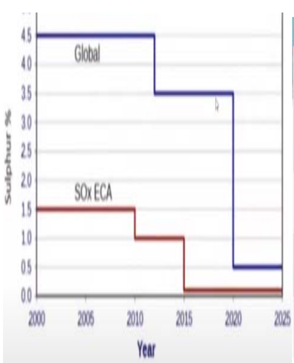


Source: Oxford Open Climate Change: Global warming in the pipeline, 2023 Edition

b) **Reduced aerosol cooling.** Aerosols are tiny particles of pollution which slightly cooled the planet and protected it from further warming. Hansen argued that aerosols are free parameters that were under-measured in relation to climate change, as they were more prominent in causing health risk or premature deaths worldwide. Hansen said that humanity "made their own bargain with the devil" in the past, by using aerosol cooling to reduce heatwaves and GHG warming. Then, humanity reduced health risks by cutting aerosol cooling. Today, Hansen said humanity is "paying its price for the bargain with the devil" as global warming is accelerating because of reduced aerosol cooling. Hansen predicts that current El Nino may reach +1.7 degrees Celsius simply due to reduced aerosol cooling

- **Sulphur dioxide (SOx) is one of the aerosol particles relevant to MISC's shipping industry,** due to IMO Sulphur Cap rules. The bunker fuel supply and availability landscape changed especially when IMO tightened the regulation by capping the global fuel sulphur limit at 0.50%, which was enforced from 1 Jan 20. In addition, certain ports in Emission Control Areas (ECA) enforced even stricter bunker conditions, of 0.10% fuel sulphur limit. Shippers have to use ultra or low Sulphur fuel (like ULSFO or VLSFO) to meet compliance, or install scrubbers if they wish to continue using the less expensive heavy fuel oil (HFO).
- **Globally as of 2022, only 13% of the dry bulk, container and tanker ships had scrubbers installed.** Even though they represented 29% of deadweight capacity, the adoption of scrubbers is low because the premium between low Sulphur fuels and HFO had not been wide enough to justify the payback period of installing the scrubbers as additional capex. The crude tanker fleet has the highest installation rate, at 32% of the ships or 38% of deadweight capacity with scrubbers installed. Still, in the long term, the use of scrubbers to cut SOx emissions should reduce as decarbonisation efforts will boost the viability of using alternative cleaner fuels. On MISC's 96 vessel fleet for both LNG and petroleum segments, only 6 ships have scrubbers installed (mostly on the VLCC fleet).

IMO – MARPOL ANNEX VI FUEL SULPHUR LIMITS AND ECA RULES



Area	Sulphur limit	Scrubbers
Global	0.50% (2020)	Local restrictions may apply for open-loop scrubbers
SECA	0.10%	Yes
EU	0.10% in all ports	Open-loop scrubbers restricted in some countries
China	0.50% in national waters (12 nm)	Certain restrictions apply for open-loop scrubbers
California	0.10% within 24 nm	No, only with research exemption

Source: International Maritime Organisation (IMO)

SHIPPING SOX GLOBAL EMISSIONS REDUCED MATERIALLY SINCE 2020

Source: CEDS

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	13,867	14,455	15,010	15,029
EBITDA	5,132	5,056	5,254	5,268
Deprec. & amort.	2,030	2,257	2,418	2,560
EBIT	3,102	2,800	2,836	2,708
Total other non-operating income	(551)	n.a.	n.a.	n.a.
Associate contributions	(25)	226	356	451
Net interest income/(expense)	(651)	(687)	(793)	(769)
Pre-tax profit	1,874	2,339	2,399	2,390
Tax	(39)	(49)	(50)	(50)
Minorities	(12)	(5)	(10)	(12)
Net profit	1,823	2,285	2,339	2,328
Net profit (adj.)	2,214	2,285	2,339	2,328

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	24,286	26,266	28,576	30,833
Other LT assets	25,634	24,545	22,615	21,973
Cash/ST investment	7,134	4,653	6,613	6,391
Other current assets	5,611	7,178	7,448	7,457
Total assets	62,665	62,641	65,252	66,654
ST debt	3,606	2,640	3,080	3,010
Other current liabilities	5,162	4,699	4,878	4,880
LT debt	14,256	14,844	15,960	16,562
Other LT liabilities	1,337	1,337	1,337	1,337
Shareholders' equity	37,459	38,271	39,137	39,992
Minority interest	846	850	860	872
Total liabilities & equity	62,665	62,641	65,252	66,654

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	2,994	2,918	4,491	5,218
Pre-tax profit	1,874	2,339	2,399	2,390
Tax	(2,138)	(2,138)	(763)	(50)
Other operating cashflows	3,258	2,718	2,855	2,877
Investing	(1,943)	(3,610)	(1,270)	(4,165)
Capex (growth)	(2,294)	(3,960)	(4,620)	(4,515)
Others	351	351	3,351	351
Financing	(1,992)	(1,790)	(1,262)	(1,276)
Others/interest paid	(1,992)	(1,790)	(1,262)	(1,276)
Net cash inflow (outflow)	(941)	(2,482)	1,959	(223)
Beginning cash & cash equivalent	7,952	7,134	4,653	6,613
Changes due to forex impact	123	1	1	1
Ending cash & cash equivalent	7,134	4,653	6,613	6,391

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	37.0	35.0	35.0	35.1
Pre-tax margin	13.5	16.2	16.0	15.9
Net margin	13.1	15.8	15.6	15.5
ROA	3.0	3.6	3.7	3.5
ROE	5.1	6.0	6.0	5.9
Growth				
Turnover	29.9	4.2	3.8	0.1
EBITDA	31.7	(1.5)	3.9	0.3
Pre-tax profit	5.6	24.8	2.6	(0.4)
Net profit	(0.5)	25.4	2.4	(0.5)
Net profit (adj.)	67.8	3.2	2.4	(0.5)
EPS	67.8	3.2	2.4	(0.5)
Leverage				
Debt to total capital	31.8	30.9	32.3	32.4
Debt to equity	47.7	45.7	48.6	48.9
Net debt/(cash) to equity	28.6	33.5	31.8	33.0
Interest cover (x)	7.9	7.4	6.6	6.9

COMPANY UPDATE

XL Holdings (XLH MK)

Climbing The Value Chain: New Upstream Ventures In Food Security

XL, historically involved in the trading of bird's nests and ornamental fish, has begun to diversify its business into food production and aquaculture. Recent earnings have uplifted its earlier acquisitions, and its newest venture into seaweed cultivation could prove to be earnings-accretive given a short gestation period. While its historical valuation appears stretched at 35.1x PE, the earnings-accretive restructuring could lead to an undemanding valuation should its new ventures succeed.

WHAT'S NEW

- **Expanding into a full upstream-downstream operation.** XL Holdings (XL), via a series of investments and acquisitions, is transitioning into an integrated food security player with both upstream and downstream exposure in the supply chain. Notable acquisitions include: a) the acquisition of Ergobumi, a local pineapple producer in May 22, b) the acquisition of frozen food delivery service Xtra Delivery (XDSB) in May 22, and c) its most recent venture into seaweed cultivation via investment into Waf Holdings (Waf) this year. While Waf is still in the early stages of setting up its seaweed cultivation platform in Semporna, management shared that it sees strategic value in developing the space given the relatively straightforward farming process and rising demand for seaweed raw materials.

- **A blue ocean in the local market…** Management stated that local seaweed farming remains mostly undeveloped in Malaysia, especially compared to regional peers (ie Philippines, Indonesia, China). Malaysia lacks large, centralised players within the space and XL is looking to become the first via this initial investment in Waf. Raw materials such as carrageenan and dried seaweed powder are widely used as food additives as well as in skincare and cosmetic products. The by-product from seaweed processing can also be used in animal feed production. Management shared that there is demand for these raw materials in the region. However, potential buyers are waiting to see if XL can consistently deliver the required quantities before entering any longer-term deals. There is also future potential for XL to venture into downstream processing of its seaweed products to capture higher value add business, which is aligned with the Sabah state government's industrialisation initiatives.

- **…while earlier acquisitions bear fruit.** Following the acquisition of Ergobumi and XDSB, the duo has become the largest contributors to the group's profits. Looking forward, XL is still cautiously optimistic; especially as food security and raw material prices continue to be a growing concern. XL still aims to integrate itself within the supply chain, leveraging its upstream and downstream presence to minimise the impact of heightened raw material prices on the rest of its operations.

KEY FINANCIALS

Year to 30 Apr (RMm)	2020	2021	2022	2023	2020
Net turnover	14	28	84	60	14
EBITDA	0	2	3	10	0
Operating profit	-1	1	1	5	-1
Net profit (rep./act.)	-1	0	0	5	-1
Net profit (adj.)	-1	0	0	5	-1
EPS (sen)	n.a.	0.01	0.00	0.02	n.a.
PE (x)	n.a.	137.1	771.0	35.1	n.a.
P/B (x)	0.6	0.6	0.6	0.9	0.6
EV/EBITDA (x)	n.a.	29.9	33.1	14.5	n.a.
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	n.a.	1.7	0.1	8.4	n.a.
Interest cover (x)	n.a.	39.5	39.0	35.8	n.a.
ROE (%)	n.a.	1.0	0.1	3.5	n.a.
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: XL Holdings, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	RM0.81
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

XL Holdings Berhad is an investment holding company which produces and trades agricultural produce, ornamental fish, bird nest and other products.

STOCK DATA

GICS sector	Agricultural Producers
Bloomberg ticker:	XLH MK
Shares issued (m):	251.8
Market cap (RMm):	204.0
Market cap (US$m):	43.9
3-mth avg daily t'over (US$m):	0.9

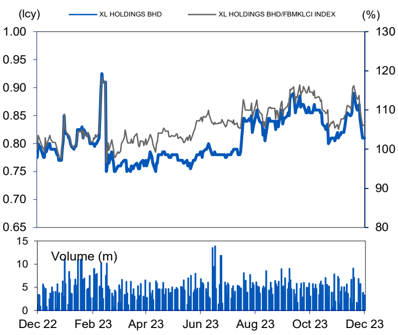
Price Performance (%)

52-week high/low RM0.925/RM0.74

1mth	3mth	6mth	1yr	YTD
7.5	2.4	11.7	16.2	8.9

Major Shareholders	%
Ng Min Lin	18.8
Chiau Beng Teik	4.7
Chiau Haw Choon	4.4
2023 NAV/Share (RM)	0.6
2023 Net Debt/Share (RM)	0.0

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Developing Waf as a regional player.** XL intends to develop Waf into a regional platform for seaweed production, both investing in the company as well as providing a RM15.0m loan to the group. XL's current plan is to develop 11,300 hectares of land across Semporna into not just a seaweed farm, but also an aggregator for other small local players. XL intends to connect smaller players to large customers who require raw materials in bulk via aggregating the harvest of these smaller players in its collection platforms. It also plans to establsh a contract farming program, enabling locals to leverage its infrastructure to begin farming, which XL will benefit from. Management has guided that larger, more consistent harvests enable better pricing and more recurring sales, especially given the lack of large players locally. Management has also guided that beyond the initial RM15.0m (planned to be utilised within three years), Waf may explore acquiring more land to further develop its business in the region. However, it may require further investment and will depend on the group's performance at the end of the three-year period.

- **Further appetite for acquisitions.** While XL currently has no concrete plans, management has guided that it is continuously exploring further opportunities for acquisitions. Currently, the intention is to further integrate XL into the supply chain, strengthening its presence downstream and potentially expanding into ready-to-cook and ready-to-eat meals. Additionally, XL also plans to further strengthen the upstream presence of its existing investments, developing them into a one-stop solution for potential customers.

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Non-rated.** While its historical PE of 35.1x is demanding, the earnings upside from its acquisitions could bring down valuations to a more palatable level. However, this may require a gestation period for its more early-stage projects.

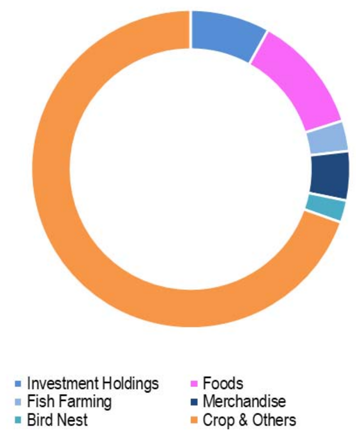
CORPORATE STRUCTURE

Company/Subsidiary	Ownership (%)	Primary Business
Ergobumi	100	Agriculture: cultivation of pineapples
Xtra Delivery	51	Logistics: frozen food delivery
Samajutera*	25	Investment holdings: 70% stake in Waf Holdings
Waf Holdings*		Aquaculture: cultivation of seaweed

**proposed*

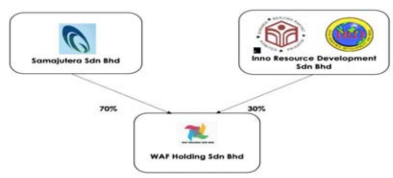
Source: XL Holdings, Bursa, UOB Kay Hian

SEGMENTAL EARNINGS



Source: Bursa, XL Holdings

WAF HOLDINGS OWNERSHIP



Source: Samajutera Holdings

PROFIT & LOSS

Year to 30 Apr (RMm)	2020	2021	2022	2023
Net turnover	**14.1**	**27.8**	**84.2**	**59.9**
EBITDA	-0.1	1.6	2.7	10.4
Deprec. & amort.	0.8	1.0	1.9	4.9
EBIT	-0.9	0.6	0.8	5.5
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	0.2	0.0	0.1	0.3
Pre-tax profit	**-0.7**	**0.7**	**0.8**	**5.5**
Tax	-0.1	-0.2	-0.7	-0.4
Minorities	0.0	0.0	0.0	-0.2
Net profit	-0.8	0.5	0.1	5.2
Net profit (adj.)	**-0.8**	**0.5**	**0.1**	**5.0**

BALANCE SHEET

Year to 30 Apr (RMm)	2020	2021	2022	2023
Fixed assets	36.4	35.5	53.0	89.2
Other LT assets	1.3	1.5	1.9	13.7
Cash/ST investment	4.2	2.9	18.8	5.0
Other current assets	3.8	4.6	10.9	26.4
Total assets	**48.1**	**48.9**	**105.0**	**154.9**
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	1.0	1.6	14.5	4.2
LT debt	0.3	0.1	6.5	5.5
Other LT liabilities	1.0	1.6	14.5	4.7
Shareholders' equity	46.8	47.3	84.0	144.9
Minority interest	0.0	0.0	0.0	-0.2
Total liabilities & equity	**48.1**	**48.9**	**105.0**	**154.9**

CASH FLOW

Year to 30 Apr (RMm)	2020	2021	2022	2023
Operating	**-1.3**	**-1.2**	**-8.7**	**-22.9**
Pre-tax profit	-0.7	0.7	0.8	-9.0
Tax	-0.1	-0.2	-0.7	-1.0
Deprec. & amort.	0.8	1.0	1.9	5.6
Associates	0.0	0.0	0.0	0.0
Working capital changes	-1.3	-2.8	-11.2	23.7
Investing	**-0.7**	**-0.1**	**-11.9**	**-43.7**
Capex (growth)	-0.7	-0.1	-10.8	-14.4
Investments	0.0	0.0	-1.1	-30.2
Proceeds from sale of assets	0.0	0.0	0.0	0.9
Others	0.0	0.0	0.0	0.0
Financing	-0.2	-0.1	35.4	53.0
Dividend payments	0.0	0.0	0.0	0.0
Loan repayment	-0.2	-0.2	-1.0	-1.6
Others/interest paid	-0.1	0.1	36.4	54.6
Net cash inflow (outflow)	**-2.2**	**-1.3**	**14.8**	**-13.7**
Beginning cash & cash equivalent	**6.4**	**4.2**	**2.9**	**17.7**
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	**4.2**	**2.9**	**17.7**	**4.0**

KEY METRICS

Year to 30 Apr (%)	2020	2021	2022	2023
Profitability				
EBITDA margin	-0.5	5.7	3.2	17.3
Pre-tax margin	-4.9	2.5	0.9	9.2
Net margin	-5.8	1.7	0.1	8.4
ROA	-1.7	1.0	0.1	3.2
ROE	-1.7	1.0	0.1	3.5
Growth				
Turnover	8.5	97.9	202.6	-28.9
EBITDA	-78.8	-2357.1	72.8	280.6
Pre-tax profit	-9.2	-200.0	10.1	623.7
Net profit	-11.2	-159.5	-74.5	4258.3
Net profit (adj.)	-9.0	-158.0	-76.6	4463.6
EPS	-9.0	-158.0	-82.2	2093.8
Leverage				
Debt to total capital	0.0	0.0	0.1	0.0
Debt to equity	0.0	0.0	0.1	0.0
Net debt/(cash) to equity	(0.08)	(0.05)	(0.13)	0.02
Interest cover (x)	-0.4	39.5	39.0	35.8

COMPANY UPDATE

ComfortDelGro Corporation (CD SP)

1H24 Conviction Pick: Expect A Strong Finish To 2023

CD's public transport segment is set to benefit from the upcoming 7% increase in public transport fares from Dec 23, coupled with ongoing UK bus contract renewals and cost indexation. While there is no change to CD's taxi commission rate for Dec 23, we anticipate an upward revision in 2024 given the substantial gap from peers. In view of CD's favourable tailwinds and a decent 4.6% dividend yield, we maintain BUY with the same target price of S$1.69.

WHAT'S NEW

- **No changes to taxi rental rebates and commission rates.** We understand that there have been no changes to ComfortDelgro's (CD) 10% daily taxi rental rebate and the 5% online booking commission rate through its Zig app for Dec 23. 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 much lower when compared with major competitors like Grab and GoJek. We thus expect potential upward revisions in 2024, closing in on CD's peers.

- **Stable ridership and taxi demand.** CD's rail ridership remained steady at 98% of pre-COVID-19 levels (2019), increasing 0.2% mom and 11.8% yoy respectively in Oct 23. 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, remains elevated at 618,000 trips, just 7,000 trips short of the two-year peak in Apr 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 into 2024.

- **Impending higher public transport fares.** As a recap, bus and train fares in Singapore are set to increase by up to 7.0% starting 23 Dec 23, following the Public Transport Council's (PTC) annual fare review. 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, implying further fare adjustments in 2024-25. According to the PTC, CD's 74.4%-owned subsidiary, SBS Transit, 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 fare hike would increase CD's 2024-25 overall net profit by around S$10m. We have already incorporated the increase in net profit in our previous update.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,503	3,781	3,902	4,054	4,161
EBITDA	576	627	636	729	785
Operating profit	200	270	272	357	403
Net profit (rep./act.)	120	173	183	238	270
Net profit (adj.)	120	137	183	238	270
EPS (S$ cent)	5.5	6.3	8.4	11.0	12.5
PE (x)	23.5	20.6	15.4	11.8	10.4
P/B (x)	1.1	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.4	4.1	4.0	3.5	3.3
Dividend yield (%)	3.2	6.5	4.6	6.2	6.9
Net margin (%)	3.4	4.6	4.7	5.9	6.5
Net debt/(cash) to equity (%)	(21.6)	(26.3)	(26.8)	(30.2)	(34.5)
Interest cover (x)	51.0	47.2	36.3	41.6	53.7
ROE (%)	4.5	6.6	7.0	9.0	9.9
Consensus net profit	-	-	176	212	235
UOBKH/Consensus (x)	-	-	1.04	1.12	1.15

Source: ComfortDelGro Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$1.30
Target Price	S$1.69
Upside	+30.3%

COMPANY DESCRIPTION

ComfortDelGro is the world's second largest public listed passenger land transport company with a total fleet size of around 43,000 vehicles. ComfortDelGro's businesses include bus, taxi, rail, car rental & leasing, automotive engineering, maintenance services.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CD SP
Shares issued (m):	2,165.7
Market cap (S$m):	2,815.4
Market cap (US$m):	2,103.3
3-mth avg daily t'over (US$m):	5.7

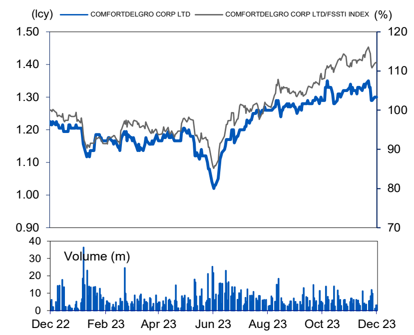
Price Performance (%)

52-week high/low S$1.35/S$1.02

1mth	3mth	6mth	1yr	YTD
(1.5)	2.4	25.0	5.3	7.9

Major Shareholders	%
-	-
FY23 NAV/Share (S$)	1.21
FY23 Net Cash/Share (S$)	0.32

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Public transport: Margin expansion to continue into 1H24.** As a recap, CD's 3Q23 revenue (+3.4% yoy, +3.9% qoq) and core operating profit (+19.6% yoy, +13.8% qoq) outperformed, aided by improving rail ridership in Singapore and UK bus contract renewals and cost indexation coming through. This led to 3Q23 core operating margins expanding by 0.3ppt qoq and 0.6ppt yoy to 4.3%. With 30% of CD's UK bus contracts expected to undergo cost indexation within the next two quarters, we reckon that this margin expansion would likely continue into 4Q23/1H24, boosting segmental profitability. Also, given increasingly rational competition post-COVID-19 in the UK, 10% of CD's UK bus contracts were renewed at healthier margins and we expect the same for upcoming contract renewals. Back home, the upcoming 7% fare increase is also expected to boost segmental profitability as mentioned earlier. Therefore, we estimate 2023 segmental annual revenue and core operating profit at S$2,973m (+3.0% yoy) and S$122m (stable yoy) respectively, driven by a strong 4Q23. For 4Q23, we expect segmental revenue (+6.1% yoy, +5.3% qoq) and core operating profit (+142.5% yoy, +12.8% qoq) to surge higher, backed by favourable tailwinds.

- **Taxi: Potential catalyst.** 3Q23 taxi quarterly revenue inched higher (+3.3% yoy, +4.8% qoq) while core operating profit surged to S$28.5m (+38.3% yoy, +10.5% qoq). Despite 3Q23 taxi booking volumes being roughly the same qoq at 8.1m, the rate of cancellation was higher due to stiffer domestic competition, ultimately dragging down CD's overall commission on completed jobs and offsetting the platform fees. Moving forward, in our view, we reckon that there would be potential upward revisions to CD's 5% online commission rate in 2024, closing in on CD's peers which would help boost segmental margins. Based on our estimates, every 1% increase to CD's online commission rate would raise our 2024 annual taxi core operating profit by around 4-5% and our 2024 overall annual net profit estimates by 2-3%. We estimate 2024 taxi annual revenue and core operating profit of S$578m (+4.2% yoy) and S$104m (+49.5% yoy) respectively, driven by the recently implemented platform fees and lower daily rental rebates. Like the public transport segment, we also expect 4Q23 taxi revenue (+6.9% yoy, +3.2% qoq) and core operating profit (+38.3% yoy, +10.5% qoq) to surge higher as well.

EARNINGS REVISION/RISK

- **We make insignificant tweaks to our PATMI forecasts.** Our new 2023/24/25 PATMI forecasts are S$182.8m (S$183.4m previously), S$238.4m (S$238.2m previously) and S$270.3m (S$271.9m previously) respectively.

VALUATION/RECOMMENDATION

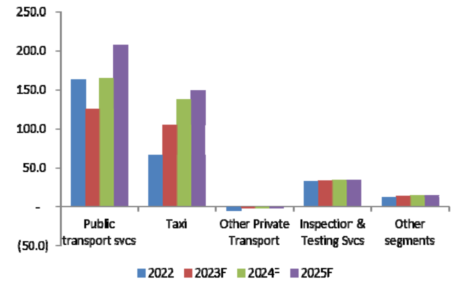
- **Maintain BUY with the same PE-based target price of S$1.69,** pegged to the same 15x 2024F PE, CD's average long-term PE.

- With improving fundamentals, a decent 4.6% 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 for 4Q23/1Q24 would help support share price performance in 1H24.

SHARE PRICE CATALYST

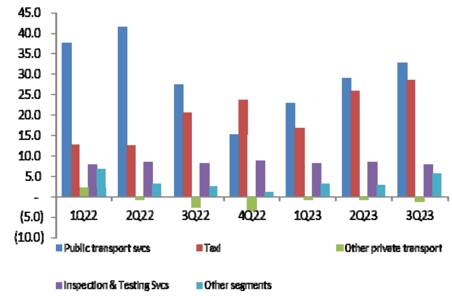
- Bus tender contract wins.
- Complete removal of taxi rental rebates.
- Earnings-accretive overseas acquisitions.
- Increase in taxi commission rates.

SEGMENTAL ANNUAL OPERATING PROFIT FORECASTS (S$M)



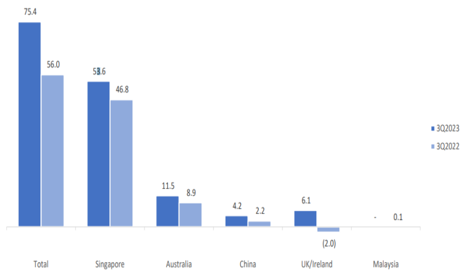
Source: UOB Kay Hian, CD

SEGMENTAL QUARTERLY OPERATING PROFIT (S$M)



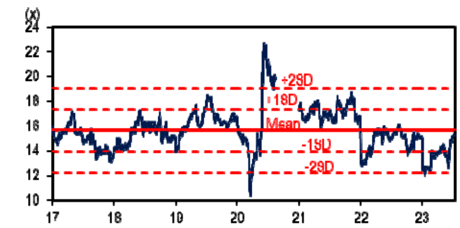
Source: UOB Kay Hian, CD

GEOGRAPHICAL OPERATING PROFIT FOR 3Q23/3Q22 (S$M)



Source: UOB Kay Hian, CD

HISTORICAL FORWARD PE RATIO



Source: UOB Kay Hian, Bloomberg

PROFIT & LOSS

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Net turnover	3,780.8	3,902.4	4,053.7	4,160.7
EBITDA	627.2	635.7	728.6	784.8
Deprec. & amort.	357.2	363.4	371.7	382.2
EBIT	270.0	272.2	356.9	402.7
Total other non-operating income	15.2	23.2	23.2	23.2
Associate contributions	0.8	0.8	0.8	0.8
Net interest income/(expense)	(13.3)	(17.5)	(17.5)	(14.6)
Pre-tax profit	272.7	278.7	363.4	412.1
Tax	(54.2)	(50.2)	(65.4)	(74.2)
Minorities	(45.4)	(45.7)	(59.6)	(67.6)
Net profit	173.1	182.8	238.4	270.3
Net profit (adj.)	136.8	182.8	238.4	270.3

BALANCE SHEET

Year to 31 Dec (S$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	1,025.7	1,033.7	1,041.7
Cash/ST investment	967.0	995.8	1,103.3	1,243.8
Other current assets	677.7	699.5	723.8	741.4
Total assets	4,700.8	4,695.9	4,764.1	4,848.0
ST debt	26.8	26.8	26.8	26.8
Other current liabilities	1,014.0	944.1	921.2	895.8
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	2,621.7	2,686.7	2,761.9
Minority interest	430.5	442.7	468.8	502.9
Total liabilities & equity	4,700.8	4,695.9	4,764.1	4,848.0

CASH FLOW

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Operating	602.3	494.7	616.7	668.5
Pre-tax profit	272.7	278.7	363.4	412.1
Tax	(79.9)	(50.2)	(65.4)	(74.2)
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	73.5	(79.9)
Non-cash items	(6.7)	(5.7)	(5.7)	(8.6)
Other operating cashflows	130.6	(228.4)	(120.7)	36.9
Investing	(251.0)	(284.8)	(284.8)	(284.8)
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
Financing	(274.7)	(181.1)	(224.4)	(243.2)
Dividend payments	(171.3)	(163.6)	(206.9)	(228.6)
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)	(17.5)	(17.5)	(14.6)
Net cash inflow (outflow)	76.6	28.8	107.5	140.5
Beginning cash & cash equivalent	919.1	967.0	995.8	1,103.3
Changes due to forex impact	(28.7)	0.0	0.0	0.0
Ending cash & cash equivalent	967.0	995.8	1,103.3	1,243.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.6	16.3	18.0	18.9
Pre-tax margin	7.2	7.1	9.0	9.9
Net margin	4.6	4.7	5.9	6.5
ROA	3.6	3.9	5.0	5.6
ROE	6.6	7.0	9.0	9.9
Growth				
Turnover	7.9	3.2	3.9	2.6
EBITDA	8.9	1.4	14.6	7.7
Pre-tax profit	40.1	2.2	30.4	13.4
Net profit	44.4	5.6	30.4	13.4
Net profit (adj.)	14.1	33.7	30.4	13.4
EPS	14.1	33.7	30.4	13.4
Leverage				
Debt to total capital	8.9	8.7	8.5	8.2
Debt to equity	11.4	11.1	10.9	10.6
Net debt/(cash) to equity	(26.3)	(26.8)	(30.2)	(34.5)
Interest cover (x)	47.2	36.3	41.6	53.7

STRATEGY – THAILAND

Alpha Picks: Dec 23 Portfolio

Our Alpha Picks performed slightly better than the market (2.4% vs 0.0%) in Nov 23. In November, the global stock market broadly celebrated a relief rally from the US economic data set up that supported lower inflation and a halt in interest rate, while the SET index remained unchanged at +0.01% given pressure on specific big caps. For Dec 23, our picks are ADVANC, BDMS, CPALL, EA, EGCO, MAJOR, SCB and TU.

WHAT'S NEW

- **Portfolio outperformed the market in October.** The portfolio outperformed the market (2.4% vs 0.0%) in October. The strongest performers were TU (9.7%) and OR (9.3%), while the worst performers were CPALL (-6.3%) and BDMS (-0.9%).
- **SET Index maintained in November.** The SET Index rebounded in the first week of November, from a heavy decline of -6.09% last month due to the pressure from rising bond yield and the Israel-Hamas conflict. As the interest rate hike situation gained more clarity, US 10-year bond yield declined to <4.30% from over 4.80% in the beginning of November. The SET Index rallied in the first week, before absorbing the pressure from disappointing earnings from big caps and disappointing GDP in 3Q23.
- **Packaging industry plays improved in November while big caps declined.** The packaging, property and REITs, petrochemical, professional services, finance sectors improved in November. The insurance, transportation, healthcare, electronics and banking sectors declined, especially big caps in those sectors such as AOT (-10.86%).
- **Positive factors ahead for SET Index.** The SET Index might respond positively to a) the FOMC meeting on 13 Dec 23 in the US, b) government stimuli and policies such as debt aid and power tariff reduction, and c) the introduction of Thailand ESG (TESG) fund on 1 Dec 2023 with the aim to help stabilise the index. While we expect to see a recovery in the last quarter of the year as it is the high season.
- **Strategy: Focus on strong cash flow and high dividend yield.** Given the current economic condition, our portfolio will stick to stocks with strong fundamentals and cash flow that provide attractive yield, and stocks with earnings that have bottomed out.

ACTION

- **Take profit from OR.** With expanding domestic demand in 2024, OR is still exposed to the uncertainty of government policies and entry of new operators. The marketing margin for OR remains under pressure from the government as it perceives that the business selling price does not reflect the global market price and is trying to lower the cost of living by reducing prices.
- **Add ADVANC and EGCO.** To cope with uncertainties in the global economy, we are adding more defensive exposure to our portfolio. For ADVANC, we believe acquiring Triple Three Broadband would provide synergy upsides. For EGCO, we believe its valuation is undemanding with 7.5x PER and expected dividend yield of 5.3%.

ANALYSTS' TOP ALPHA PICKS*

Analyst	Company	Rec	Performance	Catalyst
Kampon Akaravarinchai	ADVANC	BUY		Continued growth momentum in 4Q23.
Kitpon Praipaisarnkit	BDMS	BUY	(1.9)	Impressive outlook in 3Q23 and benefit from international patients
Kampon Akaravarinchai	CPALL	BUY	(16.1)	Domestic consumption recovery due to more foreign tourists and the election.
Kasemsun Koonara	EA	BUY	6.0	Continued growth momentum in 4Q23.
Arsit Pamaranon	EGCO	BUY		Continued growth momentum in 4Q23.
Tanaporn Visaruthaphong/ Thachasorn Jutagon	MAJOR	BUY	(1.9)	Continued growth momentum in 4Q23.
Tanaporn Visaruthaphong / Thanawat Thangchadakorn	SCB	BUY	(4.6)	Brighter economic outlook and improvement in asset quality.
Kampon Akaravarinchai	TU	BUY	1.4	Core profit expected to improve qoq.
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	OR	HOLD	(9.1)	Dropped.

** Denotes a timeframe of 1-3 months and not UOBKH'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	Share Price 30 Nov 23 (Bt)	Target Price (Bt)	Upside/ (Downside) to TP (%)
ADVANC	218.00	262.00	20.18
BDMS	26.25	33.00	25.71
CPALL	52.00	76.00	46.15
EA	44.50	73.00	64.04
EGCO	129.00	200.00	55.04
MAJOR	15.20	18.00	18.42
SCB	99.25	124.00	24.94
TU	14.70	17.40	18.37

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Nov 23	To-date*
	(%)	(%)
BDMS	(0.9)	(1.9)
CPALL	(5.9)	(16.1)
EA	6.0	6.0
MAJOR	-	(1.9)
OR	8.7	(9.1)
SCB	0.8	(4.6)
TU	8.9	1.4
SET Index	(0.1)	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURNS

(%)	2022	1Q23	2Q23	3Q23
SET return	0.7	(3.6)	(6.6)	(2.1)
Alpha Picks Return				
- Price-weighted	4.1	2.2	(1.2)	(1.1)
-Market cap-weighted	4.4	0.8	(0.1)	(1.4)
- Equal-weighted	2.7	0.3	(5.5)	(2.3)

Assumptions for the three 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

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ADVANC (Kampon Akaravarinchai)

- **Resilient earnings outlook.** We expect ADVANC to deliver both yoy and qoq earnings growth in 4Q23 on the back of the high season from travelling and data consumption demand.
- **Strengthen core business outlook.** We expect ADVANC's core business in fixed broadband and mobile network operators to be more resilient in the long term. This will be on the back of: a) less competition after the M&A of TRUE-DTAC, and b) the acquisition of 3BB which will make ADVANC the no.1 FBB provider in Thailand. These should be the key growth drivers for ADVANC in short to medium term.
- **Riding new wave of growth with global innovations.** We foresee the new s-curve of growth opportunities for ADVANC such as the rolling out of data centres in Thailand, virtual banking, and tech collaboration with global companies.
- **Strong core business operation with high dividend yield.** ADVANC offers a high dividend yield with 3.5-4% per year.

Share Price Catalyst

- Continued growth in 4Q23.

EGCO (Arsit Pamaranont)

- **Healthy earnings outlook for 4Q23-2024.** Despite the lull season, we believe EGCO's core profit will remain healthy at Bt1.3b in 4Q23, thanks to high power demand from overseas power plants in winter. Additionally, we believe EGCO's SPP project should benefit from lower gas costs in 4Q23 despite a lower fuel adjustment charge (FT). Looking ahead, substantial earnings growth is anticipated in 2024. We expect a strong contribution from three gas-fired power plants in the US. Preliminary estimations suggest that these three power plants are poised to make a noteworthy contribution, projected at Bt600m-800m/year, accounting for 6-8% of 2024's core profit and beyond.
- **Balance sheet remains healthy.** EGCO has a strong balance sheet with debt-to-equity ratio of only 1.1x as at end-3Q23. EGCO also holds about Bt37.5b in cash, which is enough to acquire projects and provide potential upside.
- **Maintain BUY with a target price of Bt200.00,** based on DCF valuation. We are still positive on EGCO for its 5.3% dividend yield. We also believe its share price has already priced in the negative news.

Share Price Catalyst

- Continued growth in 4Q23.

BDMS (Kochakorn Sutaruksanon)

- BDMS is a group of leading private hospitals with a nationwide network offering world-class medical treatment to both local and international patients with new greenfield projects, M&A and digitalisation of healthcare services as key long-term growth drivers.
- We are bullish on BDMS in 3Q23, with earnings expected to set a new quarterly record as 3Q is the high season for Middle Eastern patients. The continuous recovery in the number of international arrivals will also benefit BDMS in the wellness segment (BDMS Wellness Clinic) as well as Mövenpick BDMS Wellness Resort, which is well-prepared for increasing arrivals. In addition, BDMS is also one of the beneficiaries of the new policy by Beijing's government to cover expenses for assisted reproduction technology from 1 Jul 23, including in-vitro fertilisation (IVF). However, we are cautious on the normalisation of pent-up demand from patients.
- **Maintain BUY with a target price of Bt33.00,** based on DCF methodology (WACC: 7.3%, terminal growth 3.6%). We favour BDMS due to its earnings resilience in 2Q23, which is the off-season, and the possibility of record-high quarterly earnings in 3Q23. In addition, BDMS has the least downside risk among its peers due to its diversification of

patient bases. The target price corresponds to 39x 2023F PE and 37x 2024F PE, respectively, close to -1SD of its five-year pre-COVID-19 historical average.

Share Price Catalyst

- Event: Strong growth of the wellness industry and support from the Thai government to promote Thailand as a medical hub, synergies created with BDMS' hospital network and the digital healthcare ecosystem, better-than-expected recovery in the number of international patients, and accretive M&A deals.
- Timeline: 2H23.

CPALL (Kampon Akaravarinchai)

- CP All (CPALL) is the operator of Thai 7-Eleven stores, controlling more than 50% of the convenience store market in Thailand.
- We are still positive on 2H23 earnings growth momentum. We expect 2H23 earnings to continue improving yoy, driven by the strong top-line growth from both the convenience store and wholesale businesses. Also, the pressure from higher electricity costs is expected to be lower on a yoy basis. MAKRO was already refinancing all of the short-term USD loans with THB loans in Apr 23. Therefore, we believe that the interest expenses have already peaked in 1H23. Overall, 2023 earnings should grow by 25% yoy, driven by the aforementioned factors.
- **Maintain BUY with a target price of Bt78.00.** Our target price is pegged to 42x 2023F PE or 1SD above its 10-year historical mean. We believe CPALL will be one of the biggest beneficiaries of the resumption in tourist arrivals and better consumption in suburban areas. The overhang on MAKRO's cost of funds in US dollar-debt is also gradually easing, and management guided that all of its US dollar-denominated loans will be converted to Thai baht by 2023. Although we expect consensus to revise down its earnings forecast for CPALL, we like the company's long-term growth outlook and believe that this is a good accumulation opportunity.

Share Price Catalyst

- Event: Better-than-expected gross profit margin improvement in 2Q23 and lower SGA-to-sales following the lower FT rate.
- Timeline: 2H23.

EA (Tanaporn Visaruthaphong, Kasemsun Koonnara)

- EA and its subsidiaries operate three businesses: biodiesel, renewable power plants, battery and electric vehicles.
- We maintain a positive view on EA's earnings, which are expected to hit a new record high in 2023. EA is expected to see minor impact from the cut in FT rate, at 1-2% of our 2023 earnings assumption. Negative operating cash flow is likely to continue till 4Q23 but should improve from 1Q24 onwards. 3Q23 earnings are expected to rise yoy and qoq.
- **Maintain BUY with a target price of Bt81.00.** We value EA's renewable power plant business at Bt40.10/share, based on DCF. The cash flow is discounted to 2023. We value the biodiesel business at Bt1.00/share, assuming 20x 2023F PE. In addition, the battery and EV business is valued at Bt39.60/share.

Share Price Catalyst

- Timeline: 4Q23.

MAJOR (Tanaporn Visaruthaphong/ Thachasorn Jutaganon)

- Major Cineplex Group (MAJOR) is a cinema operator with related businesses like bowling, karaoke, rentals, cinema media and film distribution.

- **Anticipating sustained growth in 3Q23 admission revenue through strong box office performance.** We expect sustained growth in admission revenue for 2023, building on the momentum generated by upcoming blockbuster releases in 3Q23. Notable titles like Aquaman and the Lost Kingdom, Mission: Impossible - Dead Reckoning Part One, The Marvels, Barbie, Oppenheimer and Thai movie named Long Live Love are poised to drive this recovery. Looking ahead to 4Q23, earnings outlook might slightly drop qoq due to off-season movies.
- **Maintain BUY** with a lower target price of Bt18.00 (previous: Bt23.00). We roll over our valuation to 2024 and de-rate valuation from mean PE to -1SD PE to reflect earnings that might be softer than in 1H23 due to off-season movies. Our target price is based on 13x 2024F PE and -1SD to its five-year PE mean. We still like MAJOR due to many blockbuster movies in 3Q23. The stock is also less impacted by advertising expenditure compared to other players in the media industry.

Share Price Catalyst

- Event: More blockbuster movies, growth in cinema advertising income, recovery in the economy that could accelerate consumer spending, and a higher GDP.
- Timeline: 2H23.

TU (Kampon Akaravarinchai)

- TU manufactures and exports frozen and canned seafood, including canned food, frozen food and snacks. It is also involved in pet food, value-added products and animal feed.
- **We expect TU's 4Q23 earnings to see a qoq recovery,** as its US and EU customers are restocking inventory, which will benefit TU's top-line. Also, we expect to see a gross margin recovery following higher ASPs and lower raw material costs. Overall, we still maintain our forecast of 2023 net profit declining by 32% yoy, mainly pressured by weak operations in 1H23. For 2024, we estimate a net profit growth of 22.5% yoy, driven by higher ASPs, a decline in costs, and a recovery in the pet food business.
- **Maintain BUY with a target price of Bt17.40.** We peg the forward PE target to TU's five-year mean of its latest PE band, which is equivalent to 14.5x. Our target price is based on 2024's EPS. We expect TU's earnings momentum to improve on a qoq basis in 2H23 and 2024 following lower raw material costs and sales recovery.

Share Price Catalyst

- Event: Stronger-than-expected 2H23 earnings recovery momentum, and b) a significant improvement in TU's profitability from lower raw material costs.
- Timeline: 2H23 and 2024.

SCB (Thanawat Thangchadakorn)

- NIM will expand until it peaks in 4Q23. SCB foresees that policy interest will remain steady in 2024. In addition, SCB's management estimates that net interest margin will peak in 4Q23 and decline gradually due to rising funding costs.
- **Credit cost has peaked.** In 3Q23, SCB prepared for: a) 15-20% of retail customers in stage 1 of the comprehensive debt structuring (CDR) blue scheme undergoing downward stage migration in the next 12-24 months, and b) BOT raising the credit card minimum repayment amount from 5% to 8%. The company said credit costs peaked in 2Q23 at 201bp. We believe SCB's credit cost would remain high as the bank is likely to increase its loan loss coverage (LLC) ratio from the current level, as there are still many headwinds that could trigger a deterioration in asset quality in the future.
- **Maintain BUY with a target price of Bt124.00.** Our valuation is based on the Gordon Growth Model (cost of equity: 11%, long-term growth: 2%). SCB trades at 8.7x 2023F PE, almost -1SD to its five-year mean, and at 0.8x 2023F P/B, approximately its five-year mean. Based on the upside to the share price, we recommend to BUY on weakness.

Share Price Catalyst

- Improving asset quality and brighter economic outlook.

VALUATION

Company	Ticker	Rec.	Last Price 30 Nov 23 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	EPS Growth 2023F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Advanced Info Service	ADVANC TB	BUY	218.00	262.00	20.18	17,995	24.9	22.1	20.2	12.8	1.7	7.0	3.5	33.0
Bangkok Dusit Medical Services	BDMS TB	BUY	26.25	33.00	25.71	11,578	33.1	30.8	29.2	7.3	4.2	4.4	2.3	14.1
CP All	CPALL TB	BUY	52.00	76.00	46.15	12,965	35.2	28.0	23.2	25.5	1.1	4.2	1.8	5.6
Energy Absolute	EA TB	BUY	44.50	73.00	64.04	4,607	21.8	20.6	21.4	6.1	3.4	3.6	0.7	18.0
Electricity Generating	EGCO TB	BUY	129.00	200.00	55.04	1,885	25.3	7.7	8.1	230.4	0.0	0.5	5.2	7.2
Major Cineplex Group	MAJOR TB	BUY	15.20	18.00	18.42	377	53.9	15.2	11.9	255.9	0.1	2.1	6.6	12.4
SCB X	SCB TB	BUY	99.25	124.00	24.94	9,275	8.9	8.3	7.7	8.3	1.0	0.7	6.4	8.6
Thai Union Group	TU TB	BUY	14.70	17.40	18.37	1,899	9.8	15.1	11.9	(34.7)	(0.4)	0.9	3.7	5.3

Source: UOB Kay Hian

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