UOBKayHian

Regional Morning Notes

Friday, 15 September 2023

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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34907.1	1.0	1.2	(1.1)	5.3
S&P 500	4505.1	0.8	1.2	0.3	17.3
FTSE 100	7673.1	2.0	3.1	2.2	3.0
AS30	7382.7	0.5	0.1	(1.8)	2.2
CSI 300	3733.5	(0.1)	(0.7)	(2.9)	(3.6)
FSSTI	3249.5	1.0	0.7	0.5	(0.1)
HSCEI	6275.2	0.6	(2.0)	(1.4)	(6.4)
HSI	18047.9	0.2	(2.2)	(2.9)	(8.8)
JCI	6959.3	0.3	0.1	0.6	1.6
KLCI	1449.6	(0.3)	(0.7)	(0.7)	(3.1)
KOSPI	2572.9	1.5	1.0	0.1	15.0
Nikkei 225	33168.1	1.4	0.5	2.9	27.1
SET	1545.1	0.6	(0.3)	1.6	(7.4)
TWSE	16807.6	1.4	1.1	2.1	18.9
BDI	1340	3.9	17.4	14.9	(11.6)
CPO (RM/mt)	3644	(0.2)	(4.2)	(2.4)	(10.0)
Brent Crude (US$/bbl)	94	2.0	4.2	8.7	9.1

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	244.80	590.00	141.0
China Duty Free	601888 CH	105.45	138.00	30.9
Bank Neo Commerce	BBYB IJ	310.00	1,000.00	222.6
Bumi Serpong	BSDE IJ	1,060.00	1,420.00	34.0
HM Sampoerna	HMSP IJ	865.00	1,300.00	50.3
My EG Services	MYEG MK	0.79	1.18	50.3
Yinson	YNS MK	2.50	4.05	62.0
OCBC	OCBC SP	12.70	18.22	43.5
CP ALL	CPALL TB	64.00	78.00	21.9
Indorama	IVL TB	27.75	37.00	33.3

KEY ASSUMPTIONS

GDP (% yoy)		2022	2023F	2024F
US		2.1	0.8	1.2
Euro Zone		3.5	0.1	1.0
Japan		1.0	1.0	1.5
Singapore		3.6	0.7	3.0
Malaysia		8.7	4.4	4.6
Thailand		2.6	3.1	3.5
Indonesia		5.4	4.9	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
Virtual Analyst Marketing of S-Reits Sector	Singapore	21 Sep	21 Sep
Analyst Marketing on Malaysia Outlook and Technology Sector	Singapore	26 Sep	27 Sep
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct

SECTOR UPDATE

Automobile – China

Weekly: Passenger EV Retail Sales Up 40% yoy/9% mom, Beating Estimates

China's passenger EV retail sales grew 31% yoy/8.9% mom to 698,000 units in Aug 23, in line with estimates, and spiked by 40% yoy/9% mom to 172,000 units in 1-10 Sep 23, beating estimates. We keep our estimate on 2023 China's passenger EV sales at 8.5m units (+30% yoy). BYD saw accelerating pile-up of inventories from Jun 23 to Aug 23, as dealers stocked up on new models in anticipation of strong sales in Sep-Dec 23. Maintain UNDERWEIGHT. Top picks: BYD, CATL and Li Auto.

WHAT'S NEW

- **August passenger EV retail sales up 31% yoy/8.9% mom, in line; but wholesale shipment up only 25.6% yoy/8.3% mom, slightly below estimates.** According to China Passenger Car Association (CPCA), China's retail sales volume of passenger electric vehicles (EV) grew 31% yoy/8.9% mom to 698,000 units, in line with estimates. However, wholesale shipment of passenger EVs only grew 25.6% yoy/8.3% mom to 799,000 units, slightly below the preliminary number of 805,000 units.

- **Inventories drawn down in August.** In general, China's automobile industry saw a drawdown in channel inventories in August. Based on the wholesale shipment and retail sales figures from CPCA, the number of PV inventories in channel decreased by 13,000 units/157,000 units in Aug 23 and 8M23 respectively, representing 0.7%/1.2% of total retail sales volume during the periods. According to China Automobile Dealer Association (CADA), inventory-to-sales ratio at the dealer level fell from 1.7 months as of end-Jul 23 to 1.54 months as of end-Aug 23, albeit still above alert threshold of 1.5 months.

- **1-10 Sep 23 retail sales of passenger EVs grew 40% yoy/9% mom, beating estimates.** China's PV retail sales volume reached 439,000 units in 1-10 Sep 23, up 14% yoy and flat mom. The growth in PV retail sales was primarily driven by EVs. Passenger EV retail sales volume grew 40% yoy/9% mom to 172,000 units in 1-10 Sep 23, representing 39.2% of total PV retail sales volume during the period, up from 35.9% in the same period last month and 31.9% in the same period last year.

- **1-10 Sep 23 wholesale shipment of passenger EVs slowed due to destocking.** China's passenger EV wholesale shipment reached 172,000 units (+12% yoy/+13% mom), on a par with the retail sales volume. Taking into consideration export volume, the number of channel inventories should have decreased by 20,000-30,000 units in 1-10 Sep 23.

UNDERWEIGHT

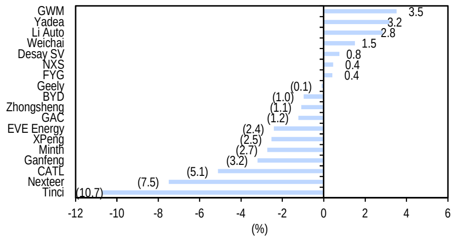
(Maintained)

TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	BUY	244.80	590.00
Li Auto	2015 HK	BUY	159.00	312.00
CATL	300750 CH	BUY	214.93	410.00

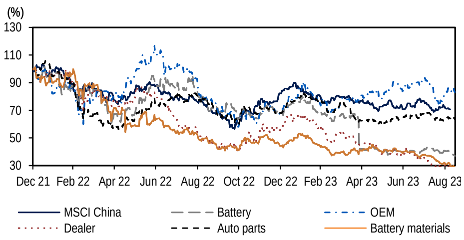
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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PEER COMPARISON

Company	Ticker	Rec	Price @ 14 Sep 23 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	ROE (%)	Net Gearing (Cash) (%)
BYD	1211 HK	BUY	244.80	590.00	141.0	90,882	27.2	17.2	4.9	3.9	19.6	(26.7)
Geely Automobile	175 HK	SELL	9.65	6.50	(32.6)	12,352	22.8	19.2	1.1	1.1	5.0	(26.9)
Great Wall Motors	2333 HK	SELL	9.70	5.20	(46.4)	10,862	21.4	21.6	1.1	1.1	5.3	(7.7)
Guangzhou Auto	2238 HK	SELL	4.01	3.20	(20.2)	5,321	8.2	9.9	0.3	0.3	4.1	(14.9)
Li Auto Inc	2015 HK	BUY	159.00	312.00	96.2	42,349	34.6	20.6	5.6	4.4	17.7	(103.0)
XPeng	9868 HK	SELL	71.25	18.00	(74.7)	16,894	Loss	Loss	4.7	7.0	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	10.78	16.00	48.4	11,899	10.1	8.7	1.6	1.4	11.0	(51.1)
Fuyao Glass	3606 HK	BUY	36.10	42.00	16.3	12,037	17.3	14.9	2.8	2.6	16.6	(18.3)
Desay SV	002920 CH	HOLD	138.04	135.00	(2.2)	10,533	52.3	39.7	10.0	8.4	20.8	0.5
Nexteer	1316 HK	SELL	4.57	2.70	(40.9)	1,466	13.9	15.1	0.7	0.7	5.4	(10.1)
Minth	425 HK	BUY	21.35	33.00	54.6	3,169	11.5	9.5	1.2	1.1	11.0	17.9
Ningbo Xusheng	603305 CH	BUY	22.36	36.00	61.0	2,048	24.0	19.3	3.3	2.8	16.9	(9.9)
CATL	300750 CH	BUY	214.93	410.00	90.8	71,931	22.2	14.4	4.7	3.7	21.9	(46.1)
EVE Energy	300014 CH	BUY	46.56	92.00	97.6	13,052	20.9	15.5	2.7	2.4	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	36.30	33.00	(9.1)	9,345	7.1	9.4	1.2	1.1	14.8	6.5
GEM	002340 CH	SELL	6.24	4.00	(35.9)	4,368	66.4	77.4	1.7	1.7	2.6	53.0
Tinci Materials	002709 CH	SELL	28.20	20.00	(29.1)	7,408	20.3	23.1	4.5	4.2	21.9	2.3
Zhongsheng Group	881 HK	SELL	22.75	14.00	(38.5)	7,010	8.7	9.9	1.0	1.0	13.0	38.8
Yadea Group	1585 HK	BUY	15.64	20.00	27.9	5,985	17.0	14.4	5.3	4.4	34.7	(139.1)

Source: Bloomberg, UOB Kay Hian

- **We keep our estimates on China's 2023 PV sales and passenger EV sales at 23.8m units (+1% yoy) and 8.5m units (+30% yoy) respectively, implying 36% EV penetration.** We expect China's EV sales to be driven by the country's supportive policies, plug-in hybrid electric vehicles (PHEV) continuously taking market share from ICE-cars, and burgeoning exports. Our estimated 8.5m units of China's 2023 passenger EV wholesale shipment comprises 7.5m units of domestic sales and 1m units of exports.

- **BYD saw accelerating inventory pile-up in Jul-Aug 23, as dealers stocked up in anticipation of strong sales in the high season during Sep-Dec 23.** BYD's wholesale shipment remained well above the summation of its retrial sales volume (as measured by insurance registrations) and export volume ytd. The combined number of retail sales and export volume of BYD (including Denza) remained at 230,000-250,000 in Jun-Aug 23, while wholesale shipment grew from 251,685 units in Jun 23 to 274,086 units in Aug 23. In 8M23, BYD recorded 1.78m units in wholesale shipment (+83% yoy), vs around 1.52m units in retail sales volume and 117,481 units in export volume during the period. That implies an increase of about 142,000 units in inventories in channel or 0.65 months of monthly retail sales volume.

  It seems that BYD's dealers stocked up (especially on new models such as Seal DM-i, Song L, Bao 5 and Yangwang U8) in anticipation of strong sales during the high season in Sep-Dec 23. We expect BYD's retail sales to catch up with wholesale shipment in Sep-Dec 23. We maintain our 2023-25 sales estimates for BYD at 3m units/4m units/5.2m units respectively.

- **China's power battery installation volume grew 25.8% yoy/8.3% mom to 34.9GWh; CATL's market share rebounded 2.5ppt mom to 44.3%, albeit still down 2.5ppt yoy.** Ytd, the largest player CATL has lost market share to Chinese power battery manufacturing peers like BYD. On the other hand, CATL is capturing market share from Korean battery manufacturers like LG Energy and Samsung SDI. Overall, CATL's global market share increased by 1.2ppt yoy to 36.6% in 7M23. BYD remained the second largest power battery manufacturer in China with market share spiking by 5.1ppt yoy and falling 2.0ppt mom to 27% in Aug 23, by virtue of the buoyant growth of its in-house EV production and growing external sales to Tesla and other OEMs.

- **China export topped record 408,000 units in August, up 32.1% yoy and 3.9% mom,** bringing 8M23 vehicle export to 2.941m units (+61.9% yoy). Since Aug 22, China has surpassed Japan as the largest vehicle exporting country. China's EV export grew 8.1% yoy and dropped 11.2% mom to 90,000 units in Aug 23 and doubled yoy to 727,000 units in 8M23. In 2023, China's vehicle exports will probably reach 4m-5m units, with new energy vehicles contributing significantly to export growth. These vehicles have already been sold in over 160 countries and regions, with countries along the "Belt and Road" accounting for nearly half of the export volume.

- **The EU starts anti-dumping probe on China-made EVs - we see limited impact on China's automobile industry for now.** The European Union (EU) announced yesterday that it had launched an anti-subsidy investigation into electric vehicles (EVs) from China, claiming that prices are artificially low due to huge state subsidies. We see the EU's dumping accusation against China-made cars is not valid, and even if the EU goes ahead with the restriction, the impact would be limited.

  For example, the BYD Atto 3 and Seal sell for Eur38,000 and Eur44,990 respectively, or roughly Rmb295,000 and Rmb350,000, in Europe, well above the two models' starting prices of Rmb139,800 and Rmb189,800 in China. The Chinese government has expressed objection to the EU's accusation and called for collaboration in the EV development.

  Chinese auto exports to Europe are currently still small, though their share in the European market has risen fast. The share of Chinese cars in the total European car market has risen from 0.1% in 2019 to 2.8% in the 7M23. The share of the market for pure battery electric cars spiked from 0.5% in 2019 to 8.2% in 7M23, selling 86,000 battery electric cars. However these 86,000 BEVs only accounted for 1.9% of China's total EV wholesale shipment of 4.53m units in 7M23. BYD, for example, only sold 2,492 EVs in Europe in 7M23, representing 0.16% of its total sales during the period.

UOBKH'S FORECASTS ON CHINA AUTO SALES

(m units)	2022	2023F	yoy % chg
EV	6.9	9.0	30.9
- PV	6.5	8.5	30.0
- CV	0.3	0.5	48.4
ICE-car	20.0	18.6	(6.9)
- PV	17.0	15.3	(10.1)
- CV	3.0	3.3	11.4
Total auto	26.9	27.6	2.8
- PV	23.6	23.8	1.0
- CV	3.3	3.8	15.2
EVs' share (%)			
PV	27.8	35.7	8.0
CV	10.2	13.2	2.9
Overall	25.6	32.6	7.0

Source: CAAM, CPCA, UOB Kay Hian

MONTHLY PV SALES IN CHINA (AUG 23)

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
Wholesale shipment					
EV	799	25.6	8.3	5,078	38.5
- BEV	551	11.8	11.1	3,564	24.3
- PHEV	248	73.4	2.5	1,514	89.3
ICE-car	1,438	(1.8)	8.6	10,294	(4.3)
Total	2,237	6.5	8.5	15,372	6.6
EV share (%)	*35.7*	*5.4*	*(0.1)*	*33.0*	*7.6*
Retail sales					
EV	698	31.0	8.9	4,441	*35.9*
- BEV	491	22.8	16.6	3,001	*19.7*
- PHEV	226	69.9	2.7	1,440	*89.5*
ICE-car	1,222	(8.9)	8.5	8,779	*(9.4)*
Total	1,920	2.5	8.7	13,220	*2.0*
EV share (%)	*36.4*	*7.9*	*0.1*	*33.6*	*8.4*
Export					
EV	79	2.9	(8.8)	651	108.7
ICE-car	251	43.3	12.4	1,651	59.2
Total	330	31.0	6.5	2,302	81.0
EVs' share (%)	*24.0*	*(6.6)*	*(4.0)*	*28.3*	*5.2*
Chg in inventories					
EV	22	(16.2)	113.7	7	n.a.
ICE-car	(35)	(31.8)	38.1	(164)	n.a.
Total	(13)	(48.0)	(13.3)	(157)	n.a.

Source: CPCA

MONTHLY SALES BY OEM (AUG 23)

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
BYD	274,386	56.9	4.7	1,792,184	82.2
GAC	196,761	(9.7)	4.0	1,548,864	(2.5)
- EV	49,526	62.7	(0.8)	335,772	96.5
- Aion	45,026	66.6	0.0	299,268	99.0
Geely	152,626	24.5	10.5	984,805	14.6
- EV	47,299	26.1	15.3	246,202	37.4
- Zeekr	12,303	71.7	2.2	66,975	114.7
- Galaxy	11,117	n.a.	10.5	30,848	n.a.
GWM	114,096	29.3	4.6	742,239	4.7
- EV	26,301	119.8	(9.1)	148,316	71.4
Tesla	84,159	9.3	30.9	624,983	56.3
Li Auto	34,914	663.8	2.3	208,165	176.1
Nio	19,329	81.0	(5.5)	94,352	31.9
Leapmotor	14,190	13.3	(1.0)	72,982	(4.7)
XPeng	13,690	42.9	24.4	66,133	(26.6)
Neta	12,103	(24.4)	20.6	84,559	(9.3)

Source: CPCA

Last but not least, Chinese carmakers, eg BYD, Geely, have been planning to build plants in Europe to penetrate into the continent. This enables them to bypass the potential trade restrictions that will be imposed by the EU.

ACTIONS

- **Maintain UNDERWEIGHT on China's automobile sector, with a preference for the EV segment.** Based on the expected decline in China's ICE-car sales and intensifying price war in the ICE-car market, we maintain UNDERWEIGHT on China's automobile sector. However, based on the expected faster EV sales CAGR of 30% in 2023-25, we still like the EV segment. Given the declines in battery material prices due to increasing supply, we prefer the leading midstream and downstream EV plays with strong capabilities in cost control.

- **Our top BUYs include BYD (1211 HK/BUY/Target: HK$590.00), CATL (300750 CH/BUY/ Target: Rmb390.00) and Li Auto (2015 HK/BUY/Target: HK$246.00).** Our BUY calls are in order of preference: BYD, CATL, Li Auto, Yadea, Fuyao Glass, Minth, Ningbo Xusheng, EVE Energy, Weichai Power. Maintain SELL on Great Wall Motor, Guangzhou Auto, Nexteer, Ganfeng Lithium, GEM, Tinci Materials, and Zhongsheng.

CHINA PASSENGER EV SALES

('000 units)	2022	8M23	yoy % chg	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	yoy % chg	mom % chg
Industry													
Wholesales	6,488	5,078	38.5	389	496	617	607	678	761	738	799	25.6	8.3
Retail sales volume	5,765	4,441	35.9	331	440	543	527	581	666	641	698	31.0	8.9
Export volume	615	651	108.7	76	78	70	90	91	81	87	79	2.9	(8.8)
Chg in inventories	108	(14)	n.a.	(18)	(22)	4	(10)	6	14	10	22	(16.2)	113.7
BYD													
Wholesales	1,851	1,783	83.0	150	192	206	209	239	252	261	274	57.5	5.0
Retail sales volume	1,593	1,523	n.a.	124	147	194	178	216	233	211	220	n.a.	4.1
Export volume	56	117	702.4	10	15	13	15	10	11	18	25	391.4	37.7
Chg in inventories	202	142	n.a.	15	30	(1)	16	13	8	32	29	n.a.	(8.0)

Note: Change in inventories is estimated by subtracting retail sales volume and export volume from wholesale shipment.
Source: Bloomberg, UOB Kay Hian

WEEKLY PV SALES VOLUME IN CHINA

	------ Retail sales ------			-- Wholesale shipment --		
('000 units)	Total	EV	ICE	Total	EV	ICE
Sales volume						
1-10 Sep 23	439	172	267	460	172	288
yoy chg (%)	*14*	*40*	*2*	*9*	*12*	*7*
mom chg (%)	*-*	*9*	*(5)*	*13*	*13*	*13*

Source: CPCA

WEEKLY RETAIL SALES VOLUME BY BRAND

	14-20 Aug	21-27 Aug	28 Aug-3 Sep	4-10 Sep	mom % chg	wow % chg
BYD	48.3	51.7	50.8	45.9	3.1	(9.6)
Denza	2.4	2.3	2.5	2.5	(3.8)	-
Tesla	13.8	16.9	11.7	10.6	(23.2)	(9.4)
Li Auto	8.0	7.7	7.4	8.5	18.1	14.9
Aion	10.5	12.5	14.5	8.2	(18.0)	(43.4)
Wuling	7.1	7.8	8.9	7.5	15.4	(15.7)
VW	3.3	4.9	5.1	4.4	29.4	(13.7)
NIO	4.1	5.0	5.0	3.8	15.2	(24.0)
Changan	3.9	4.3	4.3	3.7	8.8	(14.0)
Deepal	3.3	2.9	3.2	2.9	-	(9.4)
Leapmotor	2.9	3.1	2.9	2.7	3.8	(6.9)
XPeng	3.2	3.3	3.1	2.5	(10.7)	(19.4)
Neta	2.0	2.3	3.3	1.7	(10.5)	(48.5)
Zeekr	1.5	3.1	3.1	1.8	5.9	(41.9)

Source: Dongchedi

CHINA EV BATTERY INSTALLATION VOLUME

	Aug 23	yoy % chg	mom % chg	8M23	yoy % chg
CATL	15.45	18.9	14.7	95.0	23.5
BYD	9.41	54.8	0.6	64.2	78.5
CALB	3.38	116.7	5.6	19.1	68.2
EVE	1.22	84.8	(7.6)	9.2	148.0
Gotion	1.24	(6.1)	(0.8)	8.5	7.0
Others	4.20	(18.3)	15.1	23.3	(11.0)
Total	34.90	25.8	8.3	219.3	35.3

Source: China Automotive Battery Innovation Alliance

SECTOR UPDATE

Healthcare – China

Easing Pressure From Anti-corruption Campaign, Long-term Growth Outlook Remains Intact

Most healthcare companies reported satisfactory 1H23 results while revising down revenue growth to factor in delays in some academic conferences and hospital procurement in 3Q23. As pressure from the anti-corruption campaign is easing, we believe sales activities of medical products will resume soon and that long-term growth outlook remains intact. We prefer companies with positive long-term outlooks and attractive valuations. Maintain OVERWEIGHT.

WHAT'S NEW

- Most healthcare companies reported satisfactory 1H23 results.
- Impact from anti-corruption campaign is a main concern for the industry growth outlook in 3Q23.
- China Daily news: NHC official: Anti-corruption campaign must not impact regular academic conferences, and more academic conferences to resume in September.

ESSENTIALS

- **Anti-corruption campaign has caused delays in hospital procurement.** Most healthcare companies have indicated that the heightened anti-corruption campaign will impact revenue growth in the short term but will be positive for long-term outlook as it promotes a healthy business environment by encouraging medical institutions and healthcare companies to adopt strict measures when carrying out future procurement and marketing activities. The campaign has resulted in delays in marketing activities of medical products previously scheduled in 3Q23. Newly-launched medical products, in particular, could face difficulties in marketing and academic promotion in the next few months. We believe this may lead to relatively slower yoy revenue growth or even a decrease for medical device and pharmaceutical companies in 3Q23.
- **NHC to correct campaign direction.** Market news indicated that National Health Commission (NHC) official, Mr Yanming Guo, has said that the anti-corruption campaign focuses on key minorities (ie, leading officials in administrative departments in the medical fields and public hospitals), and must not discourage medical staff from participating in regular academic conferences, and the scope of the centralised rectification work must not be expanded arbitrarily. NHC also noted that some of the conferences have resumed in Sep 23. We believe that the regular academic conferences will be back to normal which will support a strong momentum of revenue growth for healthcare products from 4Q23.

OVERWEIGHT

(Maintained)

TOP PICKS

Company	Rec	Share Price (LCY)	Target Price (LCY)
Aier Eye Hospital (300015 CH)	BUY	17.93	26.00
Mindray (300760 CH)	BUY	266.58	320.00
CSPC (1093 HK)	BUY	5.73	8.00
Innovent (1801 HK)	BUY	35.80	43.00
TUL (3933 HK)	BUY	7.48	8.50
Shineway (2877 HK)	BUY	7.10	10.00
Henlius (2696 HK)	SELL	11.86	9.00
MicroPort (853 HK)	SELL	12.54	9.50

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 14-Sep-23 (LCY)	Target Price (LCY)	Upside/ (Downside) to TP (%)	Market Cap (LCYm)	P/E 2023F (x)	P/E 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE 2023F (%)	Net Gearing 2023F (%)	EPS 2022 (LC)	EPS 2023F (LC)	EPS 2024F (LC)	CAGR 2-yrs (%)	PEG 2023F (x)
Aier Eye Hospital	300015 CH	BUY	17.93	26.00	45.0	167,258.4	43.1	34.6	7.8	6.8	26.2	20.9	18.3	(35.6)	0.3	0.4	0.5	28.6%	1.5
Shenzhen Mindray	300760 CH	BUY	266.58	320.00	20.0	323,212.6	28.7	24.0	8.8	7.6	24.4	20.2	32.7	(60.0)	7.9	9.3	11.1	18.9%	1.5
CSPC	1093 HK	BUY	5.73	8.00	39.6	68,205.4	9.9	8.8	1.9	1.7	6.4	5.7	20.5	(22.5)	0.5	0.5	0.6	9.4%	1.1
Sinopharm Group	1099 HK	BUY	21.40	30.00	40.2	66,782.0	6.5	6.0	0.8	0.8	4.9	4.5	13.4	47.6	2.7	3.1	3.3	10.5%	0.6
Sino Biopharmaceutical	1177 HK	HOLD	2.92	3.00	2.7	54,899.6	16.7	15.5	1.7	1.6	9.6	8.9	8.4	(0.2)	0.2	0.2	0.2	4.6%	3.6
Frontage	1521 HK	SELL	2.16	1.50	-30.6	4,447.0	20.0	15.4	1.6	1.5	16.4	12.5	6.1	7.9	0.02	0.01	0.02	2.9%	6.9
Innovent Biologics	1801 HK	BUY	35.80	43.00	20.1	55,159.1	n.a.	n.a.	4.1	3.5	n.a.	n.a.	n.a	18.8	(1.7)	(0.7)	(0.4)	-51.9%	n.a
Ping An Good Doctor	1833 HK	HOLD	18.84	18.00	-4.5	21,078.4	n.a.	n.a.	1.5	1.5	n.a.	n.a.	n.a	(25.4)	(0.5)	(0.5)	(0.3)	-28.4%	n.a
WuXi Biologics	2269 HK	HOLD	41.90	47.00	12.2	178,107.1	28.7	22.5	4.0	3.4	23.7	17.8	13.6	(11.8)	1.1	1.4	1.7	24.1%	1.2
WuXi AppTec	2359 HK	BUY	81.60	92.70	13.6	246,093.2	20.3	16.5	4.1	3.5	15.0	12.1	20.8	(4.6)	3.2	3.7	4.6	20.1%	1.0
Ali Health	241 HK	BUY	4.60	6.50	41.3	62,253.3	62.3	51.5	3.8	3.7	456.5	171.5	3.7	(79.0)	0.06	0.07	0.08	22.8%	2.7
Venus MedTech	2500 HK	HOLD	4.91	5.00	1.8	2,165.4	n.a.	n.a.	0.6	0.7	n.a.	66.3	n.a	(16.9)	(2.4)	(1.0)	(0.3)	-62.8%	n.a
Shanghai Henlius	2696 HK	SELL	11.86	9.00	-24.1	6,445.8	13.3	9.9	2.9	2.2	10.6	7.7	23.5	130.0	(1.3)	0.8	1.1	n.a	n.a
China Shineway	2877 HK	BUY	7.10	10.00	40.8	5,871.7	5.3	4.4	0.7	0.6	0.0	0.0	14.0	(78.0)	1.0	1.2	1.5	25.1%	0.2
Hansoh Pharma	3692 HK	BUY	10.04	13.00	29.5	59,570.8	20.4	16.8	2.2	2.0	13.0	10.9	11.4	(35.0)	0.44	0.46	0.56	12.8%	1.6
TUL	3933 HK	BUY	7.48	8.50	13.6	13,591.4	6.2	5.7	1.1	1.0	2.8	2.6	18.4	(33.5)	0.87	1.13	1.22	18.6%	0.3
MicroPort Scientific	853 HK	SELL	12.54	9.50	-24.2	22,994.5	n.a.	n.a.	2.5	2.4	n.a.	n.a.	n.a	(38.6)	(0.24)	(0.15)	(0.15)	-20.9%	n.a
Average							21.6	17.8	2.9	2.6	13.9	11.3	15.8					16.5%	1.9

Source: Bloomberg, UOB Kay Hian

- **GPO tenders on medical devices and drugs will continue to foster innovation.** The 9th round of drug group purchasing organisation (GPO) tenders is expected to kick start in Oct 23. There are 44 products (including 195 specifications) included in this round of tender programme. Led by Shandong Province, the purchasing alliance of 15 provinces has also released the "Centralised Procurement Document of Purchasing Alliance for Traditional Chinese Medicine Formula Granules (for consultation)" which requires over 40% price cuts on 200 types of TCM granules. Moreover, the volume-based procurement programmes on various medical consumables (including certain central nervous system (CNS) devices, in vitro diagnostics (IVD) reagents, and minimally invasive surgical products, etc) are also taking place in 2H23. We view the GPO policy as positive for promoting innovation in China.

- **Remain cautiously positive on CRO/CRDMO service providers.** All three CRO/CDMO companies under our coverage have reported significantly slower revenue and earnings growth in 1H23. WuXi AppTec and WuXi Bio still see satisfactory non-COVID-19 revenue growth in 1H23. However, given intensifying market competition and weak market conditions, Frontage faced considerable challenges in maintaining growth momentum. We remain cautiously positive on the CRO/CDMO sector due to the slow recovery of biotech funding environment. According to HSBC Innovation Banking, investment in early-stage biotech fell 40% yoy in 1H23. In 1H23, investors put US$2b into 81 seed and Series A deals for biotech companies, well below each of the last three years. Venture investment in the biotech sector totalled US$10.6b over 320 deals, also significantly lower than previous years.

- **Accumulate stocks with positive long-term outlooks and attractive valuations.** As the NHC corrects the direction of the anti-corruption campaign, we believe academic promotional activities will resume and sales growth will also regain pace in 4Q23. The long-term outlook of the healthcare industry remains stable. Among the companies under our coverage, we prefer companies with positive outlooks in the long term and attractive valuations, such as Aier Eye Hospital (300015 CH), Mindray (300760 CH), Innovent (1801 HK), TUL (3933 HK), CSPC (1093 HK), and Shineway (2877 HK).

ACTION

- **Aier's (300015 CH) strong service demand continues to drive growth.** Aier Eye Hospital Group (Aier) achieved satisfactory results with over 32% yoy growth in both revenue and adjusted earnings in 1H23. According to management, although the relatively weak economic condition may have impacted the growth of certain high-end businesses to some extent, the company's market penetration strategy via acquisitions and steady organic growth will enable Aier to expand market reach and continue to support a brighter revenue growth outlook. We believe the strong service demand for eye care and Aier's business expansion strategies will continue to drive the company's growth in 2H23 and for the next few years.

- **Innovent (18001 HK) experienced robust progress in commercial portfolio expansion and R&D.** It expanded its commercial product portfolio from eight to 10 products and experienced robust pharmaceutical product revenue growth of over 35.0% in 2Q23 vs just 6.7% yoy in 1Q23. The robust product revenue growth was mainly due to: a) the continued diversification of product portfolio, and b) an enhanced commercial team and improved sales strategy. Its pipelines are also well on track. It submitted new drug applications (NDA) for one product, namely IBI-376 (PI3Kδ inhibitor, for relapsed or refractory follicular lymphoma (r/r FL) and has progressed seven assets in pivotal or registration trials, including IBI-362 (GLP-1R, for obesity), IBI-351 (KRAS inhibitor for NSCLC), IBI-344 (taletrectinib), IBI-126, IBI-112, IBI-311 and IBI-302 in 1H23. The robust and diversified pipeline of its over 30 innovative drug candidates will yield continuous R&D and commercial achievement in the longer term.

- **Mindray (300760 CH) reported steady results** with over 20% yoy growth for both revenue and earnings in 1H23, supported by accelerated domestic business expansion of 27.0% yoy. The company guided for slower revenue expansion in 3Q23 the anti-corruption campaign has led to 30-40% delays in purchase activities for medical equipment, especially for ultrasound & life information and support equipment. We anticipate the purchase activities for medical equipment will regain pace in the next few months given the rigid demand for medical products. We forecast Mindray to deliver relatively slower revenue growth at about 15% yoy in 2023 to reflect delays in hospital procurement activities in the 3Q23.

- **TUL (3933 HK) reported stronger-than-expected results** with revenue and adjusted net profit growth of 33.3% yoy and 104.0% yoy respectively in 1H23. Management expects possible ASP hikes to continue supporting strong momentum of bulk medicines in 2H23. Its insulin products and veterinary drugs will see stronger growth in the next few quarters. Pursuing sustainable growth, it continues to enrich its R&D pipeline covering diabetes drugs, internal secretion, autoimmune disease, ophthalmology and weight management, and has achieved smooth progress.

  Shineway (2877 HK) reported stronger-than-expected results with revenue and net earnings growing 32.1% and 48.4% yoy respectively in 1H23. It expects its TCM formula granules revenue growth to remain robust in 2H23. The company believes that the GPO tender will bring relatively mild price pressure to its TCM granules in Hebei and market expansion opportunities in other provinces. Moreover, its innovative TCM compound Sailuotong capsule is under phase III trials in China and Australia, and is expected to be launched in 2025. We expect revenue CAGR of 20.6% for Shineway in 2023-25, supported by strong TCM formula granules and injections business expansion.

RISKS

- Risks include: a) worse-than-expected risks in anti-corruption campaign; b) intensifying competition; c) possible failure in development of new products and market launches; and d) other policy risks, such as GPO/volume-based procurement (VBP) tenders, and medical insurance payment reform programmes, such as diagnosis-related group (DRG) and diagnosis-intervention packet (DIP).

VALUATION/RECOMMENDATION

- **Maintain OVERWEIGHT on China's healthcare sector.** We adjusted PE multiples or market risk premium to reflect significant policy risk from the anti-corruption campaign. Our top picks are Aier Eye Hospital (300015 CH), Mindray (300760 CH), CSPC (1093 HK), Innovent (1801 HK), TUL (3933 HK) and Shineway (2877 HK). Most of these stocks are trading at 0.5-2.2 SD below average forward PE, which is attractive in our view. Our top SELL picks are MicroPort (853 HK) and Henlius (2696 HK).

COMPANY UPDATE

Link REIT (823 HK)

Key DPU Drivers Remain Intact; Yield At Historical High

We had a con-call with Link REIT on 12 September. Key takeaways are：a) management remains upbeat on its Hong Kong retail portfolio; b) car parks are noteworthy growth drivers with 4-5% rental escalation; and c) acquisitions should be yield accretive. Its operations remain well on track. We lower FY24 DPU by 3.0% to factor in weaker China recovery. Maintain BUY. Target price: HK$50.70. Current yield of 6.8% offers a good entry point.

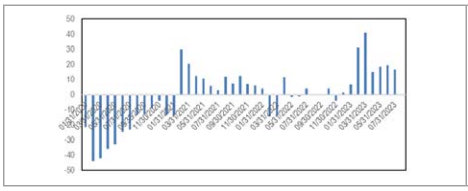
WHAT'S NEW

- We held a conference call with Link REIT on 12 September. The key takeaways are highlighted below.

STOCK IMPACT

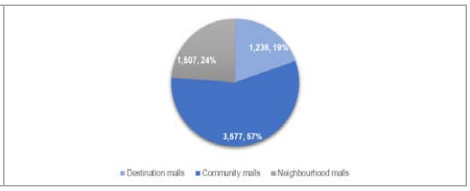
- **Hong Kong retail portfolio remains resilient.** According to government data, Hong Kong retail sales grew by 17.7% in 2Q23. Management stays upbeat on Link REIT's Hong Kong retail portfolio and reiterated its target of mid-to-high single-digit rental reversion, which is expected to be underpinned by a continuous upgrade of its tenant mix.

HONG KONG RETAIL SALES - YOY



Source: Bloomberg, UOB Kay Hian

BREAKDOWN OF HONG KONG RETAIL RENTALS



Source: Bloomberg, UOB Kay Hian

- **Car park business a noteworthy growth driver.** Hong Kong has been facing an undersupply of car parks. After consolidating the two car park/car service centres and godown buildings in Hung Hom and Chai Wan, revenue contribution from car parks rose to 19.5% in FY23. Hong Kong will continue to face an undersupply of car parks in the medium term, and management expects organic growth in car park income (+5.3% yoy in FY23) to be underpinned by an annual rental escalation of 4-5%.

- **Stay selective on new acquisitions.** Link REIT has HK$9b cash on hand, after paying down the HK$4b bank loan due in Apr 23. Management reiterated that acquisitions, if any, should be yield accretive. At the moment, the gap between bidding and asking price remains wide in its target markets (ie Australia and Singapore) while Australia is likely to start the repricing process sooner. The high interest rate on cash (>4%) will help to lower the opportunity cost of Link REIT.

KEY FINANCIALS

Year to 31 Mar (HK$m)	2022	2023	2024F	2025F	2026F
Net turnover	11,602	12,234	13,225	13,975	14,737
EBITDA	8,348	8,634	9,287	9,814	10,349
Operating profit	8,264	8,545	9,191	9,713	10,242
Net profit (rep./act.)	6,894	15,451	6,581	7,105	7,733
Net profit (adj.)	6,479	6,134	6,581	7,105	7,733
EPS (HK cent)	307.0	240.2	254.7	271.9	292.6
PE (x)	305.7	274.3	254.7	271.9	292.6
P/B (x)	12.1	15.5	14.6	13.7	12.7
EV/EBITDA (x)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	8.2	7.4	6.8	7.3	7.8
Net margin (%)	59.4	126.3	49.8	50.8	52.5
Net debt/(cash) to equity (%)	28.9	27.0	28.5	28.6	28.6
Interest cover (x)	9.2	5.2	5.2	5.8	7.0
ROE (%)	4.3	8.8	3.6	4.0	4.3
Consensus DPU (HK cent)	n.a.	n.a.	266.2	281.4	297.4
UOBKH/Consensus (x)	-	-	0.96	0.97	0.98

Source: MicroPort Scientific Corporation , Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$37.30
Target Price	HK$50.70
Upside	+35.9%
(Previous TP	*HK$58.68)*

COMPANY DESCRIPTION

Link REIT is the first REIT in Hong Kong and currently the largest in Asia in terms of market capitalisation. Spanning Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Sydney and London, its portfolio comprises mostly retail and office properties.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	823 HK
Shares issued (m):	2,553.8
Market cap (HK$m):	95,258.4
Market cap (US$m):	12,171.1
3-mth avg daily t'over (US$m):	34.4

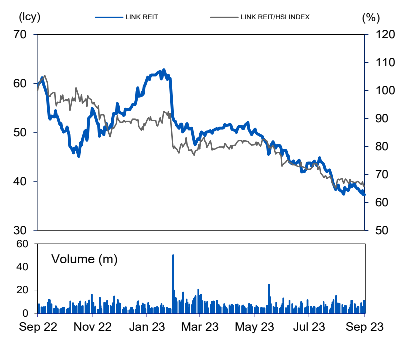
Price Performance (%)

52-week high/low HK$62.83/HK$37.30

1mth	3mth	6mth	1yr	YTD
(2.7)	(20.2)	(23.3)	(37.5)	(33.0)

Major Shareholders	%
-	-
-	-
-	-
FY24 NAV/Share (HK$)	69.25
FY24 Net Debt/Share (HK$)	19.74

PRICE CHART



Source: Bloomberg

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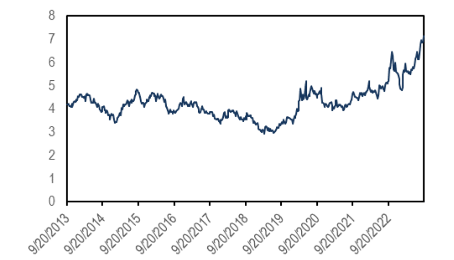
EARNINGS REVISION/RISK

- **Trim DPU forecast.** We slightly lower our assumption of rental reversion of Link REIT's China portfolio to reflect the impact of a weaker-than-expected recovery of the macro economy. Consequently, our FY24/FY25/FY26 DPU forecasts are lowered by 3.0%/2.4%/0.4% respectively to HK$2.547/HK$2.719/HK$2.926.

VALUATION/RECOMMENDATION

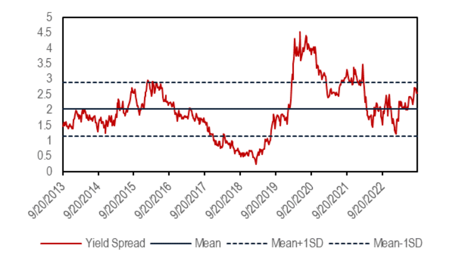
- **Maintain BUY with lower target price of HK$50.70.** We lower target price to HK$50.70 on higher risk premium. Our target price implies 5.0% FY24 dividend yield. Link REIT is currently trading at 6.8% FY23 dividend yield, which: a) hits a historical high; and b) implies 2.5% yield spread over 10-year US Government Bond yield. Its current price offers a good entry point. Looking forward, we see a higher possibility of re-rating LINK REIT, as in a challenging macro environment: a) its high exposure to community and neighbourhood malls makes it defensive; and b) companies with stable cash flow and earnings growth will attract more investor interest.

LINK REIT-1FY DPU YIELD (2013-23)



Source: Bloomberg, UOB Kay Hian

LINK REIT – 1FY DPU YIELD SPREAD OVER 10-YEAR US BOND YIELD



Source: Bloomberg, UOB Kay Hian

SHARE PRICE CATALYST

- Stronger-than-expected recovery of Hong Kong and China economies.
- China and Hong Kong governments introducing stimulus measures to boost consumption.

PROFIT & LOSS

Year to 31 Mar (HK$m)	2023	2024F	2025F	2026F
Net turnover	12,234.0	13,224.6	13,975.1	14,737.4
EBITDA	8,633.6	9,286.8	9,813.9	10,349.2
Deprec. & amort.	88.6	95.7	101.2	106.7
EBIT	8,545.0	9,191.1	9,712.7	10,242.5
Total other non-operating income	9,317.0	0.0	0.0	0.0
Associate contributions	85.0	150.0	150.0	150.0
Net interest income/(expense)	(1,648.0)	(1,774.8)	(1,680.7)	(1,471.4)
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Minorities	158.0	150.0	150.0	150.0
Net profit	15,451.0	6,581.3	7,104.6	7,732.9

BALANCE SHEET

Year to 31 Mar (HK$m)	2023	2024F	2025F	2026F
Fixed assets	1,463.0	1,125.1	1,057.7	986.5
Other LT assets	246,622.0	237,642.3	239,642.3	241,642.3
Cash/ST investment	13,987.0	9,926.4	9,383.5	8,904.5
Other current assets	5,847.0	5,141.6	5,231.1	5,322.0
Total assets	267,919.0	253,835.4	255,314.6	256,855.4
ST debt	4,133.0	4,133.0	4,133.0	4,133.0
Other current liabilities	5,618.0	5,719.1	6,018.0	6,321.5
LT debt	60,780.0	56,780.0	56,780.0	56,780.0
Other LT liabilities	8,213.0	8,213.0	8,213.0	8,213.0
Shareholders' equity	188,940.0	178,905.2	180,235.6	181,622.9
Minority interest	120.0	(30.0)	(180.0)	(330.0)
Total liabilities & equity	267,919.0	253,835.4	255,314.6	256,855.4

CASH FLOW

Year to 31 Mar (HK$m)	2023	2024F	2025F	2026F
Operating	7,934.6	9,200.4	9,024.9	9,459.1
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Deprec. & amort.	88.6	95.7	101.2	106.7
Associates	n.a.	n.a.	n.a.	n.a.
Working capital changes	156.0	806.6	209.3	212.6
Non-cash items	(9,251.0)	92.0	79.0	85.5
Other operating cashflows	1,648.0	1,774.8	1,680.7	1,471.4
Investing	(923.5)	(674.8)	(765.3)	(679.6)
Capex (growth)	(29.5)	(31.9)	(33.7)	(35.6)
Investments	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	106.0	357.1	268.5	356.0
Financing	4,197.0	(12,586.3)	(8,802.5)	(9,258.5)
Distribution to unitholders	(6,360.0)	(6,454.3)	(6,853.3)	(7,431.2)
Issue of shares	12,049.0	0.0	0.0	0.0
Proceeds from borrowings	262.0	(4,000.0)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(1,754.0)	(2,132.0)	(1,949.2)	(1,827.4)
Net cash inflow (outflow)	11,208.1	(4,060.7)	(542.8)	(479.0)

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	70.6	70.2	70.2	70.2
Pre-tax margin	133.2	57.2	58.5	60.5
Net margin	126.3	49.8	50.8	52.5
ROA	6.3	2.5	2.8	3.0
ROE	8.8	3.6	4.0	4.3
Growth				
Turnover	5.4	8.1	5.7	5.5
EBITDA	3.4	7.6	5.7	5.5
Pre-tax profit	100.3	(53.6)	8.1	9.0
Net profit	124.1	(57.4)	8.0	8.8
Net profit (adj.)	(5.3)	7.3	8.0	8.8
EPU	(21.8)	6.1	6.7	7.6
Leverage				
Debt to total capital	25.6	25.4	25.3	25.1
Debt to equity	34.4	34.0	33.8	33.5
Net debt/(cash) to equity	27.0	28.5	28.6	28.6
Interest cover (x)	5.2	5.2	5.8	7.0

INITIATE COVERAGE

Cisarua Mountain Dairy (CMRY IJ)

Product Innovations And Sales Force Expansion To Drive Growth

CMRY is known for its innovative products. Aside from yogurt, CMRY is making a push into consumer products to drive growth. It will penetrate the milk market which is much larger than the yogurt market but is where CMRY has a market share of below 5%. It will expand general trade and grow its Miss Cimory sales force. CMRY guides 15% CAGR in revenue and NPAT from 2022 to 2025. CMRY trades at -2SD 12-month forward PE, which is attractive. Initiate coverage with a BUY and target price of Rp4,800.

- **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 was 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.
- **Distinctive products and offerings to drive sales and profit growth.** A unique characteristic of CMRY is its ability to introduce products that are considered the pioneer in their categories in the form of new flavours or new packagings. Below are some examples:
  a) In 2019, CMRY launched single serve ready-to-eat sausages under Kanzler Single.
  b) In 2020, CMRY launched innovative Cimory pouch products that proved to be a hit as consumer took to consuming yogurt directly from squeeze pouches.

Click here for Blue Top dated 14 Sep 23

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net turnover	4,096	6,378	7,481	8,850	10,437
EBITDA	1,067	1,345	1,531	1,907	2,167
Operating profit	1,007	1,256	1,439	1,811	2,069
Net profit (rep./act.)	790	1,061	1,174	1,475	1,688
Net profit (adj.)	790	1,061	1,174	1,475	1,688
EPS (Rp)	99.6	133.7	148.0	185.9	212.7
PE (x)	39.1	29.1	26.3	20.9	18.3
P/B (x)	6.6	5.9	4.8	3.9	3.2
EV/EBITDA (x)	26.7	21.2	18.6	14.9	13.1
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	19.3	16.6	15.7	16.7	16.2
Net debt/(cash) to equity (%)	(77.3)	(40.6)	(37.2)	(36.8)	(37.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	29.1	21.3	20.1	20.6	19.3
Consensus net profit	-	-	1,263	1,597	1,978
UOBKH/Consensus (x)	-	-	0.93	0.92	0.85

Source: Cisarua Mountain Dairy, Bloomberg, UOB Kay Hian

BUY

Share Price	Rp3,890
Target Price	Rp4,800
Upside	+23.4%

COMPANY DESCRIPTION

Cisarua Mountain Dairy manufactured and sell yogurt, milk and consumer products.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	CMRY IJ
Shares issued (m):	7,934.7
Market cap (Rpb):	30,865.9
Market cap (US$m):	2,010.2
3-mth avg daily t'over (US$m):	0.5

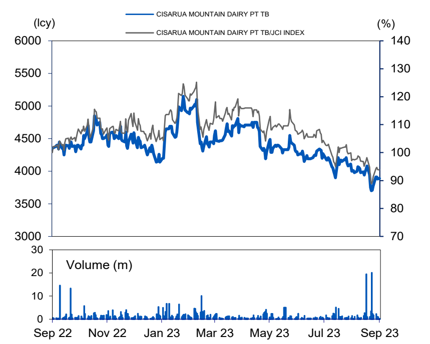
Price Performance (%)

52-week high/low Rp5,150/Rp3,700

1mth	3mth	6mth	1yr	YTD
(5.4)	(9.5)	(12.0)	(8.9)	(8.5)

Major Shareholders	%
Sutantio Bambang	53.55
Sutantio Farell Grandisuri	7.66
Sutantio Wenzel	7.18
Sutantio Axel	6.77
FY23 NAV/Share (Rp)	811
FY23 Net Cash/Share (Rp)	302

PRICE CHART



Source: Bloomberg

ANALYST(S)

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c) In 2021, CMRY launched single serve ready-to-eat meatballs under Kanzler Single.
d) In 2022, CMRY launched flavoured UHT milk, the first such product in Indonesia, sealing the company's status as a pioneer in the flavoured milk market.
e) In 2023, CMRY launched yogurt sticks at Rp2,500 per stick to cater to the middle- and low-income segments. The market had no such product prior to CMRY's launch.

- **Strong push into consumer products.** In 2019, CMRY ventured into consumer food products by offering ready-to-eat single serve sausages, and launched single serving meatballs in 2021. Other product offerings include chicken nuggets and egg products. In the US$167m chilled processed meat market, CMRY's single serve sausages and meatballs have a 9.7% share. In the US$641m frozen processed meat market, CMRY has a 3.7% share. CMRY's consumer food products are marketed under the Kanzler and Besto brands. 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 roll out new products and further penetrate the market via new outlets in modern and general trade.
- **Milk market offers CMRY growth opportunities as its market share is still small…** In 2019, CMRY entered the liquid milk market by introducing flavoured, UHT and fresh milk products. The liquid milk market is significantly larger than the yogurt market. The former had a combined market size of US$1,481m in 2020, more than 9x larger than the latter.
- CMRY has a small share of the liquid milk market and thus has upside potential. Currently, it has a 2.4%, 4.3% and <1.0% share of the flavoured milk, fresh white milk and UHT milk markets respectively. Going forward, CMRY intends to expand its share of the UHT milk market. Growth wise, the liquid milk market is expected to rise at a 13% CAGR from US$1,481m in 2020 to US$2,709m in 2025.
- **…and declining skim milk powder prices are poised to boost its margins.** CMRY's 2022 and 1H23 performance was negatively affected by rising skim milk powder prices with gross margin compressed by 634bp and 245bp yoy respectively. Fortunately, the spot price of skim milk powder has declined to Rp37.3m/tonne. The current spot price is lower than the 2022 average of Rp57.5m/tonne and 2021 average of Rp44.8m/tonne. If the current spot price of Rp37.3m/tonne persists until 2024, gross margin could return to the 2021 level of 48.2%. Currently we only forecast a 43% gross margin for 2024.
- **Largest domestic yogurt producer in a fast-growing market.** CMRY is the largest yogurt producer in Indonesia. In the spoonable yogurt market, CMRY has a 71.9% market share. The spoonable yogurt market is expected to grow at a 61% CAGR from US$22m in 2020 to US$234m by 2025. In the drinking yogurt market, CMRY has a 50.3% market share and the market is expected to grow at a 25% CAGR from 2020 to 2025.
- Strong growth in the Indonesian yogurt market is likely going forward as income rises. Take the example of China which experienced a 20.3% CAGR from 2010 to 2015 when GDP per capita rose from US$4,476 to US$7,298. Thus, Indonesia's yogurt market can be expected to expand, potentially rocketing from US$160m in 2020 to US$655m by 2025. We note that Indonesia's current GDP per capita is similar to China's level in 2010.

SKIM MILK POWDER PRICE

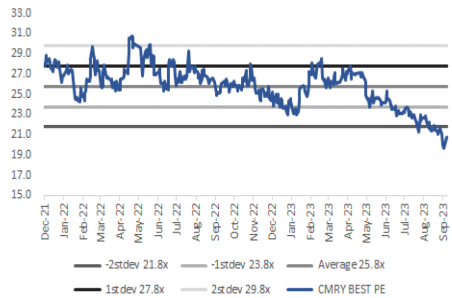
Source: Bloomberg, UOB Kay Hian

SENSITIVITY ANALYSIS

	EBIT		NPAT	
	2023F	2024F	2023F	2024F
ASP	26.0%	24.4%	25.2%	23.7%
Volume	10.9%	10.5%	10.6%	10.2%
Cost	-21.0%	-19.4%	-20.3%	-18.9%
Skim milk	-6.0%	-5.6%	-5.8%	-5.4%
Forex	-7.5%	-7.0%	-7.3%	-6.8%

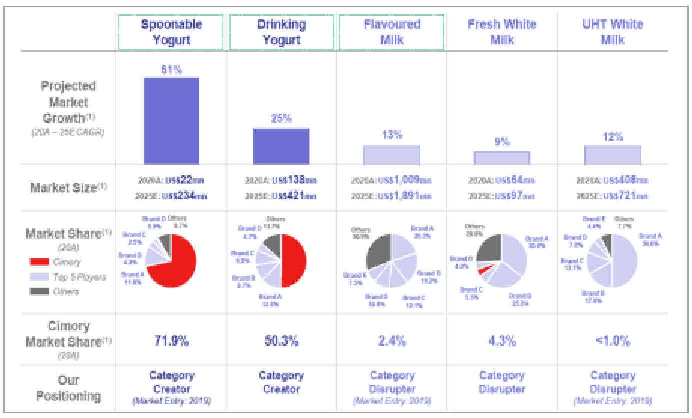
Source: Bloomberg, UOB Kay Hian

FORWARD PE BAND (2023)



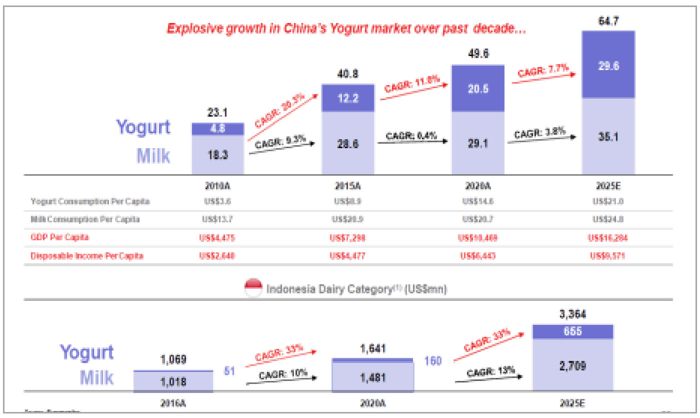
Source: Bloomberg, UOB Kay Hian

INDONESIA YOGURT AND MILK MARKET



Source: CMRY, UOB Kay Hian

STRONG GROWTH IN CHINA YOGURT MARKET



Source: CMRY, UOB Kay Hian

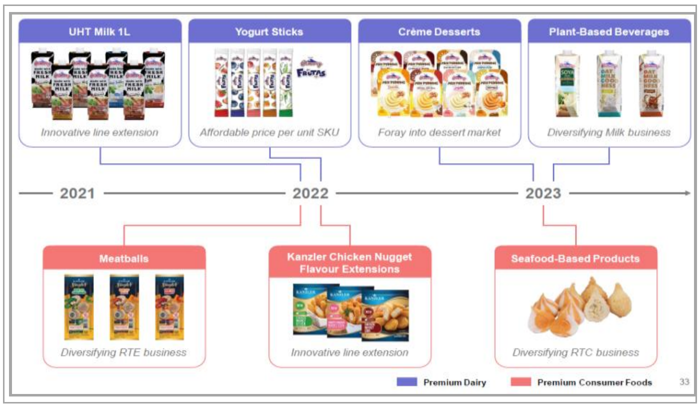
- A key differentiating competitive advantage of CMRY is its capability in product innovation. It is known for launching the highly-successful yogurt pouch and single serve ready-to-eat sausages and meatballs. Recently-launched innovative products include affordable yogurt sticks. In 2023, CMRY launched the Crème Dessert product line, plant-based beverages (oat and soya milk) and seafood-based consumer products. Going forward, we think CMRY will continue to launch new and innovative products that will act as the new drivers of sales and profit growth.

CMRY STRATEGY

		Short Term By FYE22	Medium To Long Term FY23 & Beyond
Products & Categories	Existing Products	Intensify digital marketing to increase awareness and penetration of existing product portfolio	Continue increasing market size and market share across categories
	New Products	New flavours for UHT Milk, enter 1L UHT Milk format, introduce Yogurt Sticks and RTE Meatballs	Entry into the dessert, plant-based beverage, and seafood-based product markets
Distribution & Footprint	Modern Trade	Improve service levels and secure listing for new SKUs	Optimize pricing and trading terms to improve profitability
	Miss Cimory	Add 1,300 MCM agents and 50 centres; add Cimory Pouch and Kanzler Singles to product mix	7,500 agents reaching 750,000 households per annum by FYE24; to digitize MCM operations
	General Trade	Add 40 distributor partners to reach an additional c. 25,000 outlets, introduce products suited to GT	Reach 150,000 GT outlets via c. 200 distributors by FYE24, including roll-out of 70,000 chillers
	Export	Commence exporting to Singapore and Malaysia; distribution agreements already signed	Continue evaluating other markets for export, increase export contributions to c. 5% of net sales
	E-Commerce	Continue channel growth in collaboration with Grab Kitchen platform	Develop online 3rd party agents through E-Commerce platforms
Production & Logistics	Production Capacity	Address immediate Cimory Pouch & UHT Milk market overhang with additional capacity by FYE22	Increase capacity of Premium Dairy and Premium Consumer Foods by 3.6x and 2.4x by FYE24
	Warehousing Capacity	Complete East Java DC, doubling our warehousing capacity	Complete West Java DC, reaching aggregate warehousing capacity to 35,000 pallet positions

Source: CMRY, UOB Kay Hian

CMRY NEW PRODUCTS



Source: CMRY, UOB Kay Hian

- **We expect 2023 and 2024 NPAT to rise 10.7% and 25.6% respectively with a three-year CAGR of 16.8%.** CMRY expects sales and NPAT to grow at a CAGR of above 15% in from 2022 to 2025. This will be driven by: a) introduction of new products, b) further penetration into general trade by expanding the outlet network from 109,827 outlets currently to 150,000 and by installing cold chain distribution facilities, and c) expansion of the Miss Cimory sales force from 4,332 employees currently to 7,500. We expect 2023 and 2024 NPAT to rise 10.7% yoy and 25.7% yoy respectively at a three-year CAGR of 16.8%.

VALUATION/RECOMMENDATION

- **Initiate coverage with BUY and a target price of Rp4,800.** CMRY expects sales and NPAT to grow at a CAGR of above 15% in 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 by 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. We initiate coverage on CMRY with a BUY and a target price of Rp4,800 based on a historical average PE of 25.8x applied to 2024 EPS.

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Net turnover	6,378	7,481	8,850	10,437
EBITDA	1,345	1,531	1,907	2,167
Deprec. & amort.	90	92	95	98
EBIT	1,256	1,439	1,811	2,069
Total other non-operating income	5.5	5.7	6.0	6.3
Net interest income/(expense)	72	42	49	61
Pre-tax profit	1,343	1,487	1,867	2,137
Tax	(282)	(312)	(392)	(449)
Minorities	0.0	0.1	0.1	0.1
Net profit	1,061	1,174	1,475	1,688
Net profit (adj.)	1,061	1,174	1,475	1,688

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Fixed assets	1,267	1,883	2,518	3,172
Other LT assets	931	1,053	1,158	1,274
Cash/ST investment	2,159	2,421	2,936	3,588
Other current assets	1,866	2,197	2,550	3,011
Total assets	6,223	7,554	9,163	11,045
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	916	1,066	1,192	1,378
LT debt	24	26	28	31
Other LT liabilities	26	28	31	34
Shareholders' equity	5,258	6,434	7,911	9,601
Minority interest	0.1	0.1	0.2	0.3
Total liabilities & equity	6,223	7,554	9,163	11,045

CASH FLOW

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Operating	486	1,518	1,935	2,190
Pre-tax profit	1,343	1,487	1,867	2,137
Tax	(282)	(312)	(392)	(449)
Deprec. & amort.	90	92	95	98
Associates	0.0	0.0	0.0	0.0
Working capital changes	(624)	(181)	(227)	(274)
Other operating cashflows	(40)	432	592	678
Investing	(1,475)	(668)	(681)	(692)
Capex (growth)	(729)	(714)	(735)	(758)
Investments	(809)	0.0	0.0	0.0
Proceeds from sale of assets	0.3	0.0	0.0	0.0
Others	62	46	54	66
Financing	(513)	(589)	(739)	(846)
Dividend payments	(500)	(587)	(737)	(844)
Proceeds from borrowings	(10)	2.4	2.6	2.8
Others/interest paid	(3.6)	(3.8)	(4.2)	(4.6)
Net cash inflow (outflow)	(1,503)	262	515	652
Beginning cash & cash equivalent	3,662	2,159	2,421	2,936
Ending cash & cash equivalent	2,159	2,421	2,936	3,588

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	21.1	20.5	21.5	20.8
Pre-tax margin	21.1	19.9	21.1	20.5
Net margin	16.6	15.7	16.7	16.2
ROA	17.9	17.0	17.6	16.7
ROE	21.3	20.1	20.6	19.3
Growth				
Turnover	55.7	17.3	18.3	17.9
EBITDA	26.0	13.8	24.5	13.7
Pre-tax profit	32.1	10.7	25.6	14.4
Net profit	34.2	10.7	25.6	14.4
Net profit (adj.)	34.2	10.7	25.6	14.4
EPS	34.2	10.7	25.6	14.4
Leverage				
Debt to total capital	0.4	0.4	0.4	0.3
Debt to equity	0.4	0.4	0.4	0.3
Net debt/(cash) to equity	(40.6)	(37.2)	(36.8)	(37.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

STRATEGY – MALAYSIA

Budget 2024 Preview: Births & Taxes

Budget 2024 is seen to be largely market-friendly by giving birth to new incentives eg for the New Industrial Master Plan (NIMP 2030) and Iskandar 2.0, although the budget would also spawn new sources of taxes and targeted subsidy mechanism. The pro-growth, pro-FDI and pro-ESG budget should also feature a narrow budget deficit, thus nurturing the ringgit's recovery. Key beneficiary sectors include E&E, property and construction, while gaming could be impacted.

WHAT'S NEW

- **A largely market-friendly budget.** Budget 2024 soundbites are expected to create positive market vibes by: a) promoting FDI (via looser MM2H requirements, and incentives for NIMP 2030 and Iskandar 2.0), b) promoting the ESG (particularly the green and social) agenda, and c) having improved fiscal discipline. Overall, we expect Budget 2024 to be supportive of UOB Economics Team's macro forecasts, in particular for GDP growth and the ringgit's recovery vs the greenback (see RHS table).
- **The biggest beneficiary sectors include E&E…** Recall that during the recent launch of NIMP 2030, the prime minister said that special incentives would be announced in Budget 2024. Being a catalyst for the creation/entrenchment of regional champions and new emerging industry clusters (EV, RE, AI etc.), NIMP 2030 should benefit the electrical and electronics (E&E) industry the most, which accounts for around 40% of the country's exports.
- **…and property.** Property companies with Johor developments are big beneficiaries of the various announced measures – the designation of special economic zones (including Forest City), and the loosening of the MM2H retirement scheme requirements. Besides Budget 2024, major boosters for the Iskandar 2.0 investment theme include the formation of cluster iconic developments along the Rapid Transit System alignment (opening in 2027). The construction and building material (cement segment) sectors would also benefit from the expected activation of several mega projects including MRT3.
- **However, a slew of new taxes could affect the casino sector, and throttle down consumption.** We expect the government to introduce a slew of indirect consumption taxes (ie luxury taxes) as well as a "measured" targeted subsidy mechanism for petrol that is designed not to hurt most income earners (taking cue from 2H23's electricity tariff adjustment which impacted only the top 1% of household consumers). New indirect taxes could affect the casino segment. Collectively, measures could collectively soften general consumption trends. Capital gains taxes (for non-listed companies) would be introduced and Budget 2024 could hint at the eventual implementation of GST.

ACTION

- **There could be upside to our end-23 FBMKLCI target of 1,540** (based on 15.6x 2023F PE or -0.50SD to the historical mean), as corporate earnings outlook improves in 2H23.
- **Our top picks are** Hume Cement, Inari Amertron IOI Corporation, Malaysia Airports, MrDIY, My EG Services NationGate Holdings and Yinson Berhad.

CURRENT FBMKLCI: 1,450
TARGET END-23 FBMKLCI: 1,540

FOCUS OF BUDGET 2024

- Pro-growth, pro-ESG
- Raising Malaysia's competitiveness
- Narrower fiscal deficit of 4.2%
- Optimised development expenditure and managed operating expenses
- Subsidy rationalisation

POSSIBLE MEASURES IN BUDGET 2024

- Introduction of many (mostly indirect) taxes:
  - Details on luxury tax and capital gains tax
  - Potential new progressive taxes eg. consumption tax (and overtures of future GST implementation)
  - The casino subsector may be most impacted
- Targeted subsidy mechanism
- Multi-tiered foreign worker levy
- Measures / Incentives supporting NIMP 2030
- Monitoring of development projects (reduce leakages)
- Targeted cash aid and higher salaries for civil servants

Source: UOB Global Economics & Markets Research, UOB Kay Hian

KEY ECONOMIC ASSUMPTIONS FOR 2024F

- GDP: 4.6% yoy (2023F: 4.4%)
- Fiscal Deficit: -4.2% (2023F: -4.9%)
- Policy Rate: 3.0% (2023F: 3.0%)
- Inflation (CPI): 2.8% (2023F: 2.8%)
- USDMYR: RM4.40 (2023F: RM4.55)

Source: UOB Global Economics & Markets Research

FEDERAL GOVERNMENT REVENUE

(RMb)	2022	2023F	2024F
Total Revenue	294.4	296.5	301.0
Operating Expenditure	292.7	294.2	298.5
Current Account Balance	1.7	2.3	2.5
Net Dev Expenditure	70.1	95.6	89.0
COVID-19 Fund	31.0	-	-
Overall Budget Balance	(99.5)	(93.3)	(86.5)
Deficit (% of GDP)	(5.6)	(4.9)	(4.2)

Source: BNM, MOF, UOB Global Economics & Markets Research

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STOCK PICKS

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)	Net Profit 2022 (RMm)	Net Profit 2023F (RMm)	Net Profit 2024F (RMm)	EPS 2022 (sen)	EPS 2023F (sen)	EPS 2024F (sen)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	Yield 2024F (%)	ROE 2024F (%)	Market Cap (US$m)	P/B 2024F (x)
Hume Cement	HUME MK	BUY	1.86	2.54	121.5	136.3	123.7	16.9	18.9	17.2	11.0	9.8	10.8	n.a	24	203.2	1.0
Inari Amertron	INRI MK	BUY	2.84	3.80	319.5	405.8	450.1	8.6	10.9	12.1	33.1	26.1	23.5	3.5	15.4	2,268.1	4.0
IOI Corporation	IOI MK	BUY	4.08	4.80	1,519.4	1,651.2	1,847.0	24.2	26.3	29.4	16.9	15.5	13.9	3.4	14.0	5,404.0	2.1
Malaysia Airports Holdings	MAHB MK	BUY	7.28	8.11	163.5	416.9	701.1	9.9	25.1	42.3	73.9	29.0	17.2	1.9	6.6	2,593.4	2.1
Mr D.I.Y. Group	MRDIY MK	BUY	1.49	2.15	472.9	583.1	685.8	5.0	6.2	7.3	29.7	24.1	20.5	1.9	36.6	3,003.0	8.0
My EG Services Bhd	MYEG MK	BUY	0.785	1.18	413.0	433.5	466.7	5.6	5.9	6.3	14.1	13.4	12.5	2.2	18.2	1,239.5	2.3
NationGate	NATGATE MK	BUY	1.34	1.83	85.3	76.2	151.6	4.1	3.7	7.3	32.7	36.2	18.4	n.a	19.8	593.8	3.3
Yinson	YNS MK	BUY	2.50	4.05	467.2	765.5	898.3	13.6	22.3	26.2	18.3	11.2	9.5	4.0	12.6	1,551.5	1.9

Source: Bloomberg, UOB Kay Hian

PRE-BUDGET 2024 EXPECTATIONS

Sector	Wishlist/Expected Measures In Budget 2023 & Impact
Macro/General	
General	Net Positive Impact. Budget 2024 is supportive of growth, FDI and the ESG agenda, while maintaining good fiscal discipline. The expected new levy and tax introductions and petrol subsidy reduction is not expected to significantly affect consumption. • A pro-growth green budget with a narrower fiscal deficit target of 4.2% • Focusing mainly on improving Malaysia's competitiveness on a global scale while improving quality of life for citizens • Furthering of the sustainability agenda with objectives aligned with the National Energy Transition Roadmap (NETR) • Targeted subsidy mechanism utilising a comprehensive household database to gauge eligibility • Increased basic development expenditure and monitoring of development projects to reduce spending leakages • Potential new progressive taxes eg consumption tax • Details on luxury tax and capital gains tax on unlisted entities proposed in the last budget • Progressive wage mechanism to help lift middle-income wages • Targeted cash aid and higher salaries for civil servants to tackle rising cost of living
Sector	Expectations
Automobile	The recent launch of NIMP 2030 aims to boost the sector's value-added and enhance the economic complexity of the supply chain including the EV ecosystem. In conjunction with the introduction of MITI's Global Leaders BEV programme, this is expected to have a positive influence, allowing EV manufacturers like Tesla and others brands to sell their products with the approved permits (AP) under the programme. Considering these developments, we anticipate that the government may introduce more incentives for both consumers and manufacturers on Budget 2024, thereby enhancing the overall EV ecosystem, not limited solely to consumer benefits.
Aviation	While we anticipate no significant aviation-related measures to be announced in the upcoming Budget 2024, we opine that the aerospace sub-segment may receive some attention given that it was highlighted as one of the high-impact sectors in the New Industrial Master Plan. This may potentially entail further clarity on the upcoming development of KLIA Aeropolis and Subang Airport Regeneration Plan, both of which feature sizeable expansions of the aerospace industry.
Banking	Additional SME guarantee loans by various Government agencies to encompass wider segments of SME rather than the previous Budget which primarily focused on: a) digitalisation, b) tourism, c) O&G, d) sustainable technology, and e) Agro-Food. Broadening the scope of financing will help to foster stronger economic growth and resilience across more industries, indirectly helping to fuel a more robust banking sector loans growth and asset quality. Extension of stamp duty exemption for instruments relating to restructuring and rescheduling of loan agreements by another two years First time Home ownership tax incentives which will help reduce cost of property acquisition particularly in the current environment of higher interest rate.
Construction	While we are likely to see development expenditure to continue trending higher, having seen the record-high RM95b sum in the revised Budget 2023, we believe key catalysts for the construction sector remain the rollout of mega projects for the likes of MRT3, HSR, Bayan Lepas LRT, etc. That said, we think Budget 2024 may provide more clarity on MRT3 in terms of the revised project costs and potentially project timelines. Meanwhile, the potential mention of HSR and Bayan Lepas LRT, although with low likelihood, may be positive surprises for the sector.
Consumer	Net Negative Impact on consumption. The government subsidised RM64.8b in 2022 across fuel, electricity, cooking oil and eggs & chicken. However, a recent reversal of policy to ultimately extend subsidy on eggs & chicken highlights the tough balancing act between keeping a lid on living costs and maintaining fiscal discipline. Therefore, we anticipate the extent of subsidy rationalisation reforms to be limited. We do not expect any excise duty hikes to cigarettes and breweries given the high level of illicits within the country.
Gaming	Potentially Negative Measures in the casino segment. Casino segment: Potentially negative. The government may introduce policies which fulfil the twin objectives of raising tax revenue and ensuring social safeguards similar to Singapore's structure. Nevertheless, we rule out further gaming tax hikes, given that Malaysia's gaming tax rate is one of the highest in the region. The gaming taxes were recently revised upwards in 2018. NFO segment: Neutral. Unlikely for the special draw days to be restored back to 22 days in 2024 (currently eight days) after it was recently revised down by the Prime Minister in Dec 22.
Healthcare	Positive measures expected - an increased allocation to the Ministry of Health. Budget 2023's allocation to the MoH represented a 12% yoy increase. We continue to expect a double-digit raised allocation as public healthcare spending approaches the 5% of GDP target.
Materials	Wishlist includes tax reliefs for decarbonisation efforts, particularly for OMH and PMetal, recognised as green producers. This aligns with the government's NETR, wherein Malaysia aims to achieve net-zero emissions by 2050.
Oil & Gas	Budget 2023 allowed funding as much as RM10b to support the sector's critical areas of investment, for example the issue of ageing offshore support vessels and the need to replenish by rebuilding >100 of those vessels. Funding that supports ESG and decarbonisation included The High Tech & Green Facility (HTGF) and Low Carbon Transition Facility (LCTF) were created to help smaller players and SMEs to adapt to the energy transition. While past national Budgets do not directly impact the sector as long as the role of Petronas exists, we expect Budget 2024 to at least maintain the said fundings, as the sector is facing greater difficulties to secure funding for fossil fuel projects. Without safeguarding contractors' funding needs will increase the likelihood of Petronas falling short of its 2025F local peak production of 2m bpd.
Plantation	Wishlist: If the government is implementing the multi-tier foreign worker levy system, the sector players would like to propose to change the dependency ratio ceiling multi-tier level levy to land- labour ratio multi-tier level levy structure. Given that the plantation sector is always a foreign labour-intensive industry, this would be better to enhance the productivity and encourage mechanisation.

Sector	Expectations
Property	Positive measures expected. Details to the announced revision (relaxation) of MM2H More incentives/policy/allocation for affordable homes (the last two budgets and Madani economy speech largely centred around affordable housing schemes). This should benefit affordable housing players like Lagenda Properties, Mah Sing, Matrix Concepts and Scientex Berhad More clarity on the revival of Forest City and the special economic zone in Johor
Technology	Positive measures expected. Expect more detailed incentives and roll outs (ie reinvestment allowance) related to E&E (ie IC designers, OSAT, SPE) and new emerging trends (EV, RE, AI) as stipulated in the recent NIMP 2030 plans.
Utilities	Wishlist includes tax reliefs for decarbonisation efforts. This is in line with the government's NETR – whereby Malaysia aims to be net-zero emission by 2050. New power plant projects will likely focus on large scale solar and potentially increase in capex for TNB's transmission and distribution asset in line with increase intermittency of the gridline. This will materialise from Regulatory Period 4 onwards. TNB is a key enable for NETR – both from generation of green energy to transmission of green energy to demand centre like green data centres.
Telco	Wishlist includes investment tax relieves, lower 5G wholesale fee and even fibre costs.
Others - Shipping	Past budget schemes for local maritime shipping were not enough to help the industry cope with COVID-19 issues and rejuvenate the fleet to greener ships. Hence, Anthony Loke has reactivated the National Shipping & Port Council this year, and the upcoming Budget is expected to expedite funding and plans to keep this logistics segment competitive. Trading plays: Shinyang, Harbour Link, etc yard players A more stable, long-term beneficiary will be MMHE, which is big in the marine repair segment. However, 2023's marine earnings will be below expectations due to rising competition from yards like Seatrium.

Source: UOB Kay Hian

COMPANY UPDATE

Duopharma Biotech (DBB MK)

Perfect Storm More Than Priced In

Duopharma is likely to face challenging headwinds for the remainder of 2023. A perfect storm stemming from a multitude of factors is likely to pare sales. Similarly, margins are due to be muted as well with high input cost, product mix and commencement of a new facility. That said, its valuations have plunged and appear to have more than priced in the earnings normalisation and downside risk. Maintain BUY and target price of RM1.71.

WHAT'S NEW

- **Sales rocked by a perfect storm.** Recall that 2Q23 sales contracted 7.8% yoy and 16.4% qoq. This is attributed to three factors. Firstly, consumer healthcare sales are contracting off a high base yoy, with 2Q22 purchases being induced by the pandemic.
- Secondly, sales were also dragged by public sector sales. Duopharma Biotech's (Duopharma) government contracts expired but without the government determining on its tenders, leaving existing suppliers such as Duopharma to conduct deliverables on a purchase order basis, at a slower pace. The outcome of government contract tenders should be determined by 4Q23. Government-approved products purchase list (APPL) contracts accounted for 25% of 1H23 sales.
- Lastly, Duopharma's government insulin contract continues to be disrupted, stemming from teething issues with its supplier. Duopharma foresees a normalisation of supply eventually but may not come to fruition over the near term. These headwinds are unlikely to dissipate for the rest of 2023.
- **Margins under pressure as well.** 2Q23's core margin declined to 7.5% from 2022's margin of 15.2%. Management indicated that margins are unlikely to improve over the remainder of 2H23 due to: a) higher electricity tariff rates and labour overtime cost kicking in, b) incremental cost associated with the commencement of its new K3 manufacturing facility, c) higher finance cost, and d) a decline in product mix (lower proportionate consumer healthcare sales).
- **Budget wishlist.** Management envisaged for purchases of supplements for personal healthcare to be tax exempted. Investing in primary healthcare such as improved lifestyles will help to reduce overall cost of care. Apart from that, management proposed to de-risk an offtake agreement by the government to future-proof vaccination supply in the future should a COVID-19-like pandemic reoccur. Lastly, allow for the capitalisation of R&D for pre-existing products and align patent expiry in Malaysia to global practices in order to evolve Malaysia into a clinical research hub for the region.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	639	697	696	767	822
EBITDA	119	129	133	173	189
Operating profit	87	93	94	131	144
Net profit (rep./act.)	66	70	74	99	110
Net profit (adj.)	66	106	74	99	110
EPS (sen)	6.8	11.0	7.7	10.3	11.4
PE (x)	16.8	10.4	15.0	11.2	10.1
P/B (x)	1.8	1.7	1.6	1.4	1.3
EV/EBITDA (x)	11.1	10.3	9.9	7.6	7.0
Dividend yield (%)	1.9	2.0	2.0	2.7	3.0
Net margin (%)	10.3	10.1	10.6	12.9	13.4
Net debt/(cash) to equity (%)	42.1	41.4	30.5	24.9	18.6
Interest cover (x)	20.6	16.0	17.6	25.5	32.7
ROE (%)	10.4	11.0	10.9	13.3	13.5
Consensus net profit	-	-	86	103	110
UOBKH/Consensus (x)	-	-	0.86	0.96	1.00

Source: Duopharma Biotech, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.14
Target Price	RM1.71
Upside	+48.4%

COMPANY DESCRIPTION

Duopharma is the leading pharmaceutical producer in Malaysia, with a fast growing export segment.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	DBB MK
Shares issued (m):	961.9
Market cap (RMm):	1,106.2
Market cap (US$m):	236.3
3-mth avg daily t'over (US$m):	0.3

Price Performance (%)

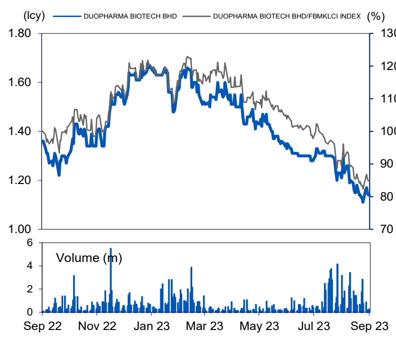
52-week high/low RM1.68/RM1.11

1mth	3mth	6mth	1yr	YTD
(6.5)	(14.2)	(23.8)	(17.9)	(28.6)

Major Shareholders	%
PNB	51.5
EPF	6.9
Billion Victory	2.5

FY23 NAV/Share (RM)	0.73
FY23 Net Debt/Share (RM)	0.22

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Limited forex risk.** Duopharma's US dollar forex exposure is largely limited to its government APPL contracts. Its terms have been set since 2017. Duopharma's government APPL contracts expired in Jun 23 and have been retendered for, with the outcome expected in 4Q23. Given Duopharma's ability to revise its terms in such a timely manner but with its export sales as a natural hedge, the company's 2023 earnings sensitivity to US$/RM is -0.3% for every 1.0% appreciation in the US dollar, based on our estimates.

EARNINGS REVISION/RISK

- **Earnings unchanged.** Key risks include single customer concentration (50% of Duopharma's sales are from the government) and the strengthening of the US dollar.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.71.** Our target price is based on a PE peg of 16.7x to 2024's earnings or its five-year pre-pandemic average mean PE. Duopharma's 2023's earnings are expected to contract due to its earnings moderating from the high base that was previously aided by the pandemic. However, earnings growth is expected to resume its normal course of growth beyond that. Coupled with that, Duopharma's current valuation trading close to its -1SD of its five-year mean offers deep value.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

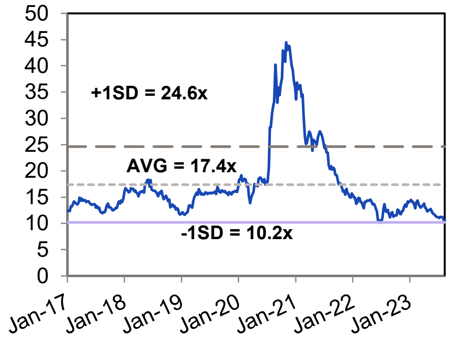
• **Environmental**
- **Energy management.** Duopharma aims to reduce its energy intensity by 5% every year.
• **Social**
- **Talent management.** Duopharma has been named one of the Best Companies to Work for in Malaysia by HR Asia for the fifth year running, and won the Most Attractive Graduate Employers to Work For award under Graduates' Choice Award 2020.
• **Governance**
- **Board balance and composition.** Six of its board members are independent directors, amounting to 67% of the board members, while 33% are female.

ASSUMPTIONS

	2023F	2024F	2025F
Revenue (RMm)	696.3	766.6	822.1
Growth yoy (%)	0%	10%	7%
Local gov. (RMm)	364.3	384.3	404.3
Growth yoy (%)		5%	5%
% of revenue	52%	50%	49%
Local private (RMm)	239.2	275.1	294.3
Growth yoy (%)		15%	7%
% of revenue	34%	36%	36%
Export (RMm)	92.8	107.2	123.5
Growth yoy (%)		15%	15%
% of revenue	13%	14%	15%
	2022F	2023F	2024F
PAT (RMm)	74.0	98.6	109.9
Growth yoy (%)	-30.3%	33.3%	11.5%
3-yr CAGR (%)	8.1%	14.5%	1.2%
Gross profit margin (%)	40.2%	39.5%	43.1%
PAT margin (%)	10.6%	12.9%	13.4%

Source: UOB Kay Hian

FIVE-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	697	696	767	822
EBITDA	129	133	173	189
Deprec. & amort.	36	39	42	45
EBIT	93	94	131	144
Total other non-operating income	0	1	1	1
Associate contributions	0	0	0	0
Net interest income/(expense)	(8)	(8)	(7)	(6)
Pre-tax profit	85	87	125	139
Tax	(15)	(13)	(26)	(29)
Net profit	70	74	99	110
Net profit (adj.)	106	74	99	110

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	580	607	635	660
Other LT assets	101	100	100	100
Cash/ST investment	158	208	226	255
Other current assets	381	355	378	403
Total assets	1,219	1,270	1,338	1,419
ST debt	134	129	124	119
Other current liabilities	127	131	136	144
LT debt	295	295	295	295
Other LT liabilities	8	8	8	8
Shareholders' equity	655	707	776	853
Total liabilities & equity	1,219	1,270	1,338	1,419

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	70	140	119	135
Pre-tax profit	121	87	125	139
Tax	(25)	(13)	(26)	(29)
Deprec. & amort.	36	39	42	45
Associates	0	0	0	0
Working capital changes	(59)	29	(19)	(17)
Other operating cashflows	(4)	(2)	(3)	(4)
Investing	(69)	(63)	(67)	(67)
Capex (growth)	(65)	(65)	(70)	(71)
Proceeds from sale of assets	0	0	0	0
Others	(4)	2	3	4
Financing	18	(27)	(35)	(38)
Dividend payments	(8)	(22)	(30)	(33)
Issue of shares	0	0	0	0
Proceeds from borrowings	86	0	0	0
Loan repayment	(59)	0	0	0
Others/interest paid	(1)	(5)	(5)	(5)
Net cash inflow (outflow)	19	50	18	30
Beginning cash & cash equivalent	138	158	208	226
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	158	208	226	255

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.5	19.1	22.6	23.0
Pre-tax margin	12.2	12.5	16.3	16.9
Net margin	10.1	10.6	12.9	13.4
ROA	5.9	5.9	7.6	8.0
ROE	11.0	10.9	13.3	13.5
Growth				
Turnover	9.0	(0.1)	10.1	7.2
EBITDA	8.2	3.2	30.0	9.5
Pre-tax profit	2.3	2.5	43.4	11.5
Net profit	6.8	5.5	33.3	11.5
Net profit (adj.)	61.6	(30.3)	33.3	11.5
EPS	61.6	(30.3)	33.3	11.5
Leverage				
Debt to total capital	39.6	37.5	35.0	32.7
Debt to equity	65.4	59.9	54.0	48.5
Net debt/(cash) to equity	41.4	30.5	24.9	18.6
Interest cover (x)	16.0	17.6	25.5	32.7

SECTOR UPDATE

REITs – Singapore

Focus On Enduring Investment Themes

Interest rates are near peak but likely to stay higher for longer. We focus on S-REITs with enduring investment themes and resilient balance sheets due to: a) normalisation of business and leisure travel: CLAS (Target: S$1.35) and FEHT (Target: S$0.75); b) AI expanding to mainstream applications: MINT (Target: S$2.89) and DCREIT (Target: US$0.73); and c) Singaporean companies' tightening hybrid working policies: CICT (Target: S$2.20) and KREIT (Target: S$1.12). Maintain OVERWEIGHT.

WHAT'S NEW

- **Who is the fairest of them all?** We assessed the resiliency of S-REITs' balance sheet based on the following five criteria:
  a) Aggregate leverage: FLT (divestment of Cross Street Exchange) and PGNREIT have the lowest aggregate leverage of 28.6% and 29.8% respectively. Conversely, SUN has the highest aggregate leverage of 42.6%.
  b) Adjusted interest coverage ratio (ICR): PREIT has the highest adjusted ICR of 13.8x (low cost of debt of 1.2%), followed by FLT at 8x. LREIT and SUN have the lowest adjusted ICR of about 2x.
  c) Weighted debt maturity: CICT has the longest weighted debt maturity of 4.3 years (MTN accounted for 50% of total borrowings). KDCREIT, MINT and MLT are also well supported by banks with weighted debt maturity of about 3.8 years. CDREIT and LREIT have the lowest weighted debt maturity of 2.1 years.
  d) Percentage of borrowings on fixed interest rates: PGNREIT has the highest proportion of borrowings on fixed interest rates at 85%, followed by CLAR and MLT at about 82%. CDREIT hedged the least at 48%.
  e) Percentage of borrowings due for refinancing in 2024: PGNREIT has the highest proportion of borrowings due for refinancing at 33.4%, followed by CDREIT at 32.4%. KDCREIT has the least refinancing at 4.1% for 2024.

BALANCED SCORE CARD TO ASSESS RESILIENCY OF S-REITS

Ranking	S-REIT	a) Aggregate Leverage	b) Adjusted ICR*	c) Weighted Debt Maturity	d) % Debt on Fixed Rates	e) % of Refinancing in 2024	Combined Scoring
1	KDCREIT	36.3	6.0	3.9	73.0	4.1	63
2	CLAR	36.7	4.1	3.3	81.5	13.1	62
3	MINT	38.2	4.4	3.7	78.0	13.4	60
4	PREIT	35.3	13.8	2.9	77.0	20.4	58
5	CLAS	38.6	4.3	3.6	80.0	19.2	55
6	MLT	39.5	3.3	3.8	82.0	14.0	54
7	CICT	40.4	3.3	4.3	78.0	15.3	51
8	FLT	28.6	8.0	2.2	75.4	26.6	45
9	PGNREIT	29.8	3.4	2.3	85.0	33.4	45
10	KREIT	39.2	3.0	2.9	76.0	21.8	35
11	FCT	40.2	3.9	2.5	63.0	17.1	34
12	MPACT	40.7	3.2	2.9	74.2	22.0	28
13	EREIT	39.4	2.5	2.6	74.8	26.2	27
14	LREIT	40.6	2.0	2.1	61.0	7.0	23
15	CDREIT	37.9	3.2	2.1	47.9	32.4	21
16	SUN	42.6	2.1	2.9	58.0	20.8	19

**Based on MAS Code on Collective Investment Schemes and 12M trailing financial performance. Adjusted for perpetual securities.*
Source: UOB Kay Hian

OVERWEIGHT

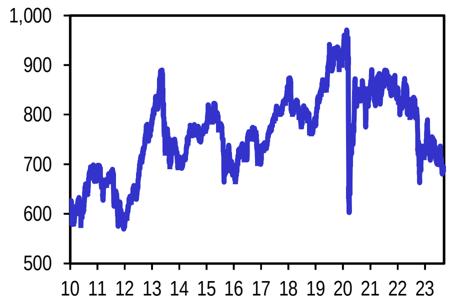
(Maintained)

TOP BUYS

Company	Rec	Share Price (S$)	Target Price (S$)
CICT	BUY	1.90	2.20
CLAR	BUY	2.80	3.30
CLAS	BUY	0.99	1.35
FLT	BUY	1.15	1.56
MINT	BUY	2.27	2.89

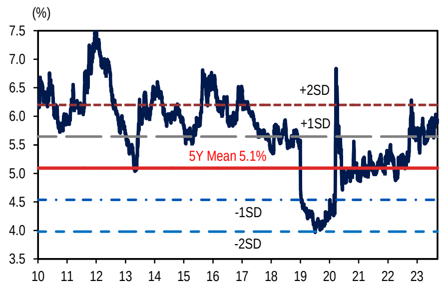
Source: UOB Kay Hian

FTSE ST ALL-SHARE REITS INDEX



Source: UOB Kay Hian

S-REIT DISTRIBUTION YIELD



Source: UOB Kay Hian

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PEER COMPARISON

Name	Ticker	Rec	Price 14 Sep 23	Target Price	Mkt Cap (US$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
CapLand Int Comm Trust	CICT SP	BUY	1.90	2.20	9,291	5.6	5.6	5.7	5.8	68.3	40.4	0.90
CapLand Ascendas	CLAR SP	BUY	2.80	3.30	9,033	5.6	5.5	5.5	5.6	64.3	36.7	1.20
CapLand Ascott	CLAS SP	BUY	0.99	1.35	2,721	5.8	5.7	6.3	6.4	74.5	38.6	0.86
Frasers L&C Trust	FLT SP	BUY	1.15	1.56	3,151	6.6	6.2	6.3	6.4	43.4	28.6	0.90
Mapletree Ind Trust	MINT SP	BUY	2.27	2.89	4,725	6.0	6.1	6.2	6.4	58.9	38.2	1.23

Source: Bloomberg, UOB Kay Hian

ESSENTIALS

- **Support of strong sponsor matters.** KDCREIT, CLAR and MINT are assessed to have the most resilient balance sheet, followed by PREIT, CLAS, MLT and CICT. Eight of the top 10 most resilient S-REITs have the backing of strong sponsors in Mapletree Investments, CapitaLand Investment, Frasers Property and Keppel Capital. The benefits of having a strong sponsor are:

  a) Sponsor imposes discipline and prudent culture and ensures that S-REIT adopts a conservative approach to capital management, and

  b) S-REITs are able to harness the strong relationship with banks within their respective real estate conglomerate.

ACTION

- **Monetary policy already in restrictive territory.** The Fed has tightened the monetary policy significantly after raising Fed Funds Rate by 5.25ppt over a span of 18 months. The pace of rate hike has also moderated from 75bp per meeting to 25bp in alternate meetings. Interest rates are already near peak and any further tweak to the Fed Funds Rate is expected to be marginal. The Fed is, however, likely to keep the elevated interest rates higher for longer to maintain downward pressure on inflation, which is seen as too high.

POLICY RATES

	Jun 23	3Q23F	4Q23F
SGD 3M SIBOR	3.74	3.50	3.20
SGD 3M Compounded SORA	3.65	3.86	4.03
USD Fed Funds Rate	5.25	5.50	5.50
EUR Refinancing Rate	4.00	4.25	4.25
GBP Repo Rate	4.50	5.00	5.00
AUD Official Cash Rate	4.10	4.35	4.35
JPY Policy Rate	-0.10	-0.10	-0.10

Source: UOB Global Economics & Markets Research

- **Maintain OVERWEIGHT.** Yield spread above 10-year government bond yield has improved 52bp yoy to 2.70% after S-REITs corrected 15.0% in 2022 and 4.3% in 8M23. Resiliency of balance sheets is of paramount importance as S-REITs weather a protracted period of elevated interest rates.

- **The trend is your friend.** We focus on enduring investment themes as the timing for rate cuts is difficult to predict:

  a) **Normalisation of business and leisure travel.** BUY hospitality REITs CLAS (Target: S$1.35) and FEHT (Target: S$0.75) as they benefit from pent-up demand for travel and the return of Chinese tourists.

  b) **AI expanding to mainstream applications.** BUY data centre REITs MINT (Target: S$2.89) and DCREIT (Target: US$0.73).

  a) **Singaporean companies' tightening of hybrid working policies.** BUY office REITs CICT (Target: S$2.20) and KREIT (Target: S$1.12) as offices in Singapore have high physical occupancy of 64%, compared with 50% for Europe and the US.

SECTOR CATALYSTS

- Hospitality, retail and office REITs benefitting from the reopening and easing of COVID-19 restrictions in Singapore and around the region.
- Limited new supply for logistics, office and retail segments in Singapore.

ASSUMPTION CHANGES

- We maintain our exiting DPU forecasts.

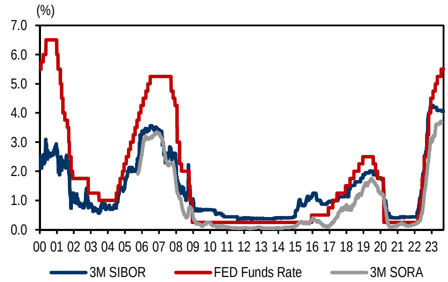
RISKS

- Interest rates staying at elevated levels for a prolonged period of time. Escalation of the Russia-Ukraine war beyond Ukraine.

S-REIT YIELD SPREAD

Source: Federal Reserve

FED FUNDS RATE VS THREE-MONTH SIBOR



Source: Bloomberg

10Y SINGAPORE GOVERNMENT BOND YIELD

Source: Bloomberg

PEER COMPARISON

Name	Ticker	Rec	Curr	Price 14 Sep 23	Target Price	Mkt Cap (US$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
HEALTHCARE													
First REIT	FIRT SP	NR	S$	0.225	n.a.	343	11.7	22.7	23.1	12.0	73.3	38.7	0.73
PLife REIT	PREIT SP	BUY	S$	3.76	4.49	1,672	3.8	3.7	3.7	3.8	57.3	35.3	1.62
HOSPITALITY													
CapLand Ascott	CLAS SP	BUY	S$	0.99	1.35	2,721	5.8	5.7	6.3	6.4	74.5	38.6	0.86
CDL HTrust	CDREIT SP	BUY	S$	1.05	1.48	960	5.4	5.8	6.6	6.7	64.3	37.9	0.74
Far East HTrust	FEHT SP	BUY	S$	0.625	0.75	919	5.2	6.1	6.4	5.9	40.9	32.0	0.69
Frasers HTrust	FHT SP	NR	S$	0.50	n.a.	708	3.3	4.6	5.2	6.2	57.2	35.3	0.78
INDUSTRIAL													
AIMS APAC REIT	AAREIT SP	NR	S$	1.33	n.a.	791	7.5	7.1	7.2	7.3	80.1	32.9	0.99
CapLand Ascendas	CLAR SP	BUY	S$	2.80	3.30	9,033	5.6	5.5	5.5	5.6	64.3	36.7	1.20
Digi Core REIT USD	DCREIT SP	BUY	US$	0.585	0.73	659	6.8	6.3	6.1	6.2	54.2	34.2	0.71
ESR-LOGOS REIT	EREIT SP	NR	S$	0.32	n.a.	1,779	9.5	8.9	8.9	8.9	74.6	39.4	0.93
Keppel DC REIT	KDCREIT SP	NR	S$	2.16	n.a.	2,731	4.7	4.6	4.9	5.1	60.6	36.3	1.55
Mapletree Ind Trust	MINT SP	BUY	S$	2.27	2.89	4,725	6.0	6.1	6.2	6.4	58.9	38.2	1.23
Mapletree Log Trust	MLT SP	BUY	S$	1.69	1.86	6,155	5.3	5.0	4.8	4.9	79.2	39.5	1.19
OFFICE													
Keppel REIT	KREIT SP	BUY	S$	0.88	1.12	2,438	6.7	6.5	6.6	6.6	73.2	39.2	0.66
RETAIL													
Frasers CT	FCT SP	BUY	S$	2.21	2.50	2,774	5.5	5.5	5.3	5.3	57.1	40.2	0.95
Lendlease REIT	LREIT SP	BUY	S$	0.55	0.89	947	8.5	8.4	8.4	8.6	84.9	40.6	0.70
Sasseur REIT	SASSR SP	BUY	S$	0.68	0.96	620	9.6	9.2	9.6	10.0	43.5	26.2	0.82
PARAGON REIT	PGNREIT SP	NR	S$	0.895	n.a.	1,864	6.1	5.6	5.9	6.0	49.7	29.8	0.99
Starhill Global	SGREIT SP	NR	S$	0.48	n.a.	796	7.9	8.1	8.3	8.5	63.6	36.7	0.66
DIVERSIFIED													
CapLand China Trust	CLCT SP	NR	S$	0.91	n.a.	1,123	8.3	8.7	9.3	9.6	87.8	40.2	0.68
CapLand Int Comm Trust	CICT SP	BUY	S$	1.90	2.20	9,291	5.6	5.6	5.7	5.8	68.3	40.4	0.90
Frasers L&C Trust	FLT SP	BUY	S$	1.15	1.56	3,151	6.6	6.2	6.3	6.4	43.4	28.6	0.90
Mapletree Pan Asia	MPACT SP	BUY	S$	1.49	1.90	5,744	6.4	6.2	6.3	6.4	74.7	40.7	0.85
OUE Comm REIT	OUECT SP	NR	S$	0.225	n.a.	906	9.4	8.0	8.0	8.4	72.7	39.1	0.38
Suntec REIT	SUN SP	HOLD	S$	1.21	1.37	2,573	7.3	6.4	6.3	6.4	70.5	42.6	0.57
INTERNATIONAL (US/EUROPE)													
Cromwell REIT EUR	CERT SP	NR	€	1.36	n.a.	821	12.6	11.8	12.1	12.5	82.9	41.5	0.59
Elite Comm REIT GBP	ELITE SP	NR	£	0.25	n.a.	147	19.6	14.7	15.1	15.9	90.9	46.0	0.48
IREIT Global	IREIT SP	NR	S$	0.39	n.a.	385	10.1	7.9	7.1	11.2	56.3	33.1	0.52
KepPacOak REIT USD	KORE SP	BUY	US$	0.220	0.50	230	26.4	22.8	17.7	18.1	69.2	38.4	0.27
Manulife REIT USD	MUST SP	BUY	US$	0.054	0.22	96	88.0	0.0	24.4	25.5	139.4	49.5	0.13
Prime US REIT USD	PRIME SP	BUY	US$	0.136	0.59	161	48.2	36.8	21.3	22.3	77.4	42.8	0.18
Utd Hampshire REIT USD	UHU SP	BUY	US$	0.44	0.76	253	13.4	11.5	12.3	12.4	74.3	42.0	0.60

Source: Bloomberg, UOB Kay Hian

COMPANY UPDATE

TISCO Financial Group (TISCO TB)

Expect Decent 3Q23 Results

We expect TISCO to post 3Q23 net profit of Bt1,752m (flat yoy, -6% qoq). The delinquency rate for the banking sector continues to deteriorate from unfavourable economic conditions. Thanks to TISCO's robust loan loss reserves, the bank should be able to keep its credit cost low. Valuation-wise, we believe the upside gains from price appreciation are limited as it trades close to the fair price. Maintain HOLD. Target price: Bt106.00.

3Q23 RESULTS PREVIEW

Year to 31 Dec (Btm)	3Q23F	2Q23	3Q22	qoq chg (%)	yoy chg (%)
Total gross loans	231,551	230,494	213,188	0.5	8.6
Net interest income	3,201	3,420	3,221	(6.4)	(0.6)
Non-interest income	1,266	1,289	1,221	(1.8)	3.7
Loan loss provision	(135)	(63)	(119)	114.6	14.1
Non-Interest expenses	(2,164)	(2,378)	(2,155)	(9.0)	0.4
Pre-provision operating profit	2,302	2,366	2,323	(2.7)	(0.9)
Net income	1,752	1,854	1,771	(5.5)	(1.1)
EPS (Bt)	2.19	2.32	2.21	(5.5)	(1.1)
Ratio (%)					
NPL ratio (%)	2.4	2.2	2.1		
Loan loss coverage ratio (%)	207	224	248		
Net interest margin (NIM %)	4.9	5.0	5.2		
Credit cost (bp)	28	11	23		
Cost to income (%)	49	50	49		
Common equity tier 1 (CET1) ratio (%)	17.8	19.5	20.2		

Source: TISCO, UOB Kay Hian

WHAT'S NEW

- **Expect 3Q23 net profit to be flat yoy and decline qoq.** We expect TISCO Financial Group (TISCO) to report a 3Q23 net profit of Bt1,752m, flat yoy and dropping 6% qoq. Given the sluggish economic recovery, asset quality will likely weaken. However, the bank should be able to keep its credit cost in 3Q23 at a low level thanks to its large pool of loan loss reserves. Incidentally, we expect TISCO's NIM to decline slightly, owing to the repricing in its term deposits.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	12,460	12,734	12,876	14,132	15,454
Non-interest income	6,369	5,607	5,984	6,892	7,460
Net profit (rep./act.)	6,781	7,222	7,355	8,099	8,661
Net profit (adj.)	6,781	7,222	7,355	8,099	8,661
EPS (Bt)	8.5	9.0	9.2	10.1	10.8
PE (x)	11.8	11.1	10.9	9.9	9.2
P/B (x)	1.9	1.9	1.8	1.7	1.7
Dividend yield (%)	6.3	7.1	7.2	8.1	8.9
Net int margin (%)	4.8	5.0	4.7	4.8	4.9
Cost/income (%)	44.0	47.1	46.8	46.9	46.7
Loan loss cover (%)	236.7	258.8	198.0	167.0	150.0
Consensus net profit	-	-	7,431	7,747	8,223
UOBKH/Consensus (x)	-	-	0.99	1.05	1.05

Source: TISCO Financial Group, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt100.00
Target Price	Bt106.00
Upside	+6.0%

COMPANY DESCRIPTION

A small bank with roughly 2% of the credit market. The bank's strong focus is on auto HP lending, which accounts for 64% of its loan book.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	TISCO TB
Shares issued (m):	800.6
Market cap (Btm):	80,064.6
Market cap (US$m):	2,238.9
3-mth avg daily t'over (US$m):	8.4

Price Performance (%)

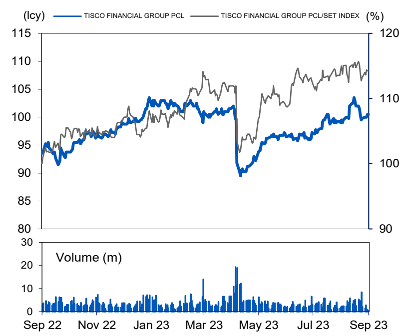
52-week high/low Bt103.50/Bt89.50

1mth	3mth	6mth	1yr	YTD
0.8	2.8	0.0	6.7	0.8

Major Shareholders	%
NVDR	13.9
CDIB & Partners Investment Holding	10.0
State Street Bank EU	5.8

FY23 NAV/Share (Bt)	55.48
FY23 CAR Tier-1 (%)	18.06

PRICE CHART



Source: Bloomberg

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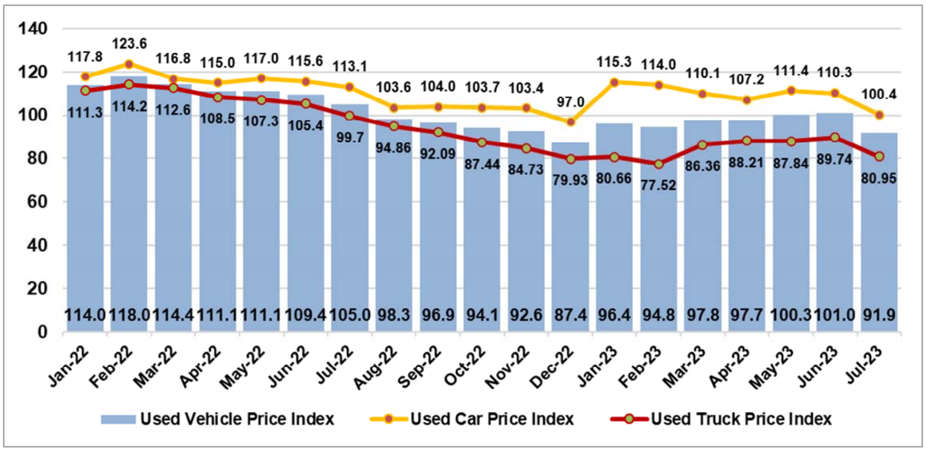
STOCK IMPACT

- **Strong 3Q23 loan growth despite weak new car sales.** The number of new car sales in Thailand continued to decline in Jul 23, falling 9% both yoy and mom. The Federation of Thai Industries (FTI) revealed that the muted new car sales was due to tightening in credit approval from financial institutions and rising funding costs from the rate hike cycle. Despite weak car sales, TISCO showed an impressive net loan growth in Aug 23, up 11% yoy and 1% qoq, as the bank has channeled its loans towards high-yield loans (eg auto-title loans, used vehicles hire-purchased) and corporate lending.
- **Credit cost to rise qoq but should stay at a low level.** Given the slower-than-expected economic recovery and rising interest rates, we believe TISCO's NPL ratio will rise 20bp qoq to 2.4% in 3Q23. Also, the Used Vehicle Price Index (UVPI) fell sharply from 101pt in Jun 23 to 92pt in Jul 23, which should widen losses from selling repossessed cars for the bank. Hence, we expect TISCO's credit cost to rise qoq. Nevertheless, the company has a large pool of loan loss reserves, as evidenced by the outstandingly high loan loss coverage ratio of 224%, which should keep credit costs in 3Q23 at a low level at 28bp.
- **Enhanced yield should mitigate the impacts of ongoing increases in funding costs.** Based on our channel check with the bank, funding cost continues to increase in 3Q23, and the management expects it to rise until 2Q24. Therefore, we expect TISCO's funding cost to rise from 1.8% in 2Q23 to 2.0% in 3Q23. On the bright side, the bank's strategy to ramp up its loan mix towards high-yield loans has been successful, and it should partially offset the negative impacts of the elevated cost of funds. We expect TISCO's NIM to fall 10bp qoq to 4.9% in 3Q23.

USED VEHICLE PRICE INDEX



Source: Bank of Thailand, UOB Kay Hian

EARNINGS REVISION/RISK

- No earnings revision.

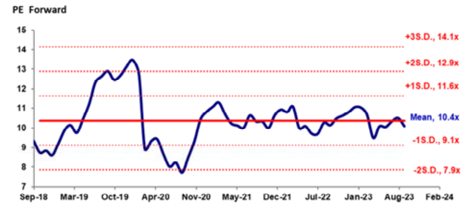
VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of Bt106.00,** based on the Gordon Growth Method (cost of equity: 12.0%, long-term growth rate: 2.0%). Our target price implies 1.9x 2023F P/B, equivalent to +1SD to its five-year mean.

SHARE PRICE CATALYST

- Normalisation in policy rate hike.

PE BAND

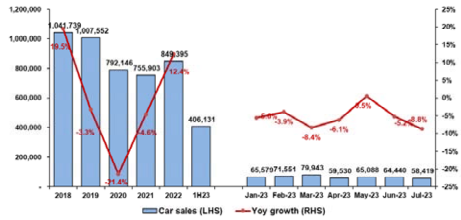


Source: TISCO, UOB Kay Hian

P/B BAND

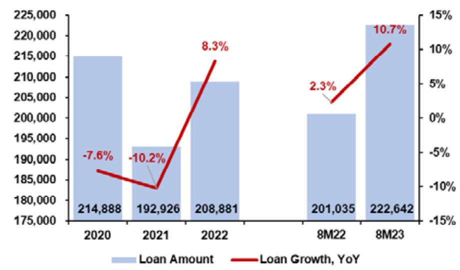
Source: TISCO, UOB Kay Hian

CAR SALES



Source: Bloomberg, UOB Kay Hian

TISCO NET LOANS



Source: TISCO, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Interest income	14,904	16,802	18,913	20,630
Interest expense	(2,171)	(3,927)	(4,781)	(5,175)
Net interest income	12,734	12,876	14,132	15,454
Fees & commissions	5,081	5,454	6,223	6,745
Other income	526	530	669	715
Non-interest income	5,607	5,984	6,892	7,460
Total income	18,341	18,859	21,024	22,914
Staff costs	(6,107)	(6,115)	(6,940)	(7,546)
Other operating expense	(2,523)	(2,712)	(2,921)	(3,164)
Pre-provision profit	9,711	10,032	11,163	12,204
Loan loss provision	(723)	(780)	(1,039)	(1,377)
Pre-tax profit	8,988	9,252	10,124	10,827
Tax	(1,766)	(1,897)	(2,025)	(2,165)
Minorities	0	0	(1)	(1)
Net profit	7,222	7,355	8,099	8,661
Net profit (adj.)	7,222	7,355	8,099	8,661

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Cash with central bank	1,005	1,184	1,275	1,371
Govt treasury bills & securities	3,990	10,654	11,474	12,341
Interbank loans	40,272	36,697	39,520	42,508
Customer loans	208,881	227,647	246,782	266,312
Investment securities	2,172	2,368	2,550	2,742
Derivative receivables	147	0	0	0
Associates & JVs	873	873	873	873
Fixed assets (incl. prop.)	2,820	2,564	2,309	2,144
Other assets	5,253	5,945	6,273	6,620
Total assets	265,414	287,932	311,056	334,912
Interbank deposits	6,195	9,470	10,199	10,970
Customer deposits	188,266	194,141	209,075	224,883
Derivative payables	0	0	0	0
Debt equivalents	15,757	26,041	31,113	36,052
Other liabilities	12,405	13,859	14,623	15,433
Total liabilities	222,623	243,511	265,010	287,338
Shareholders' funds	42,788	44,417	46,041	47,569
Minority interest - accumulated	3	4	4	5
Total equity & liabilities	265,414	287,931	311,056	334,912

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	19.6	18.1	17.9	17.2
Total CAR	23.3	21.4	21.2	20.4
Total assets/equity (x)	6.2	6.5	6.8	7.0
Tangible assets/tangible common equity (x)	6.3	6.6	6.9	7.2
Asset Quality				
NPL ratio	2.1	2.3	2.3	2.3
Loan loss coverage	258.8	198.0	167.0	150.0
Loan loss reserve/gross loans	5.4	4.6	3.9	3.5
Increase in NPLs	(7.7)	19.2	8.4	8.5
Credit cost (bp)	34.3	34.2	42.3	52.0
Liquidity				
Loan/deposit ratio	111.0	117.3	118.0	118.4
Liquid assets/short-term liabilities	23.2	23.8	23.8	23.8
Liquid assets/total assets	17.1	16.9	16.8	16.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	2.2	1.1	9.8	9.4
Fees & commissions, yoy chg	(9.4)	7.3	14.1	8.4
Pre-provision profit, yoy chg	(7.9)	3.3	11.3	9.3
Net profit, yoy chg	6.5	1.8	10.1	6.9
Net profit (adj.), yoy chg	6.5	1.8	10.1	6.9
Customer loans, yoy chg	8.3	9.0	8.4	7.9
Profitability				
Net interest margin	5.0	4.7	4.8	4.9
Cost/income ratio	47.1	46.8	46.9	46.7
Adjusted ROA	2.8	2.7	2.7	2.7
Reported ROE	17.2	16.9	17.9	18.5
Adjusted ROE	17.2	16.9	17.9	18.5
Valuation				
P/BV (x)	1.9	1.8	1.7	1.7
P/NTA (x)	1.9	1.8	1.8	1.7
Adjusted P/E (x)	11.1	10.9	9.9	9.2
Dividend Yield	7.1	7.2	8.1	8.9
Payout ratio	79.3	77.9	79.9	82.4

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