UOBKayHian

Regional Morning Notes

Tuesday, 12 September 2023

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GREATER CHINA

Economics

Money Supply Page 2

New loans beat expectations, but yoy loans growth unchanged.

Sector

Beer Page 3

2Q23/1H23 results wrap-up: Sales to see modest pick-up in September.

Commodities Page 5

Weekly: Signs of economic stabilisation from improving CPI/credit data.

INDONESIA

Small/Mid Cap Highlights

Pertamina Geothermal Energy (PGEO IJ/NOT RATED/Rp1,170) Page 8

To become a 1GW geothermal company in the next two years.

MALAYSIA

Sector

Construction Page 11

1H23 results were mixed, with lower sector earnings. Anticipate stronger 2H23 earnings on higher productivity and lower building material costs. Maintain MARKET WEIGHT.

Plantation Page 13

MPOB Aug 23: Data is near-term bearish due to higher-than-expected end-inventory. This adjustment is healthy to stage for a better price recovery towards end-4Q23.

SINGAPORE

Update

CDL Hospitality Trusts (CDREIT SP/BUY/S$1.05Target: S$1.48) Page 15

Singapore and Europe leading the recovery.

THAILAND

Sector

Oil & Gas Page 18

Expect strong 3Q23 net profit for the refinery business.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34663.7	0.3	(0.5)	(1.8)	4.6
S&P 500	4487.5	0.7	(0.6)	0.5	16.9
FTSE 100	7496.9	0.2	0.6	(0.4)	0.6
AS30	7387.8	0.4	(1.8)	(2.2)	2.3
CSI 300	3767.5	0.7	(2.1)	(3.0)	(2.7)
FSSTI	3218.3	0.3	(0.6)	(2.3)	(1.0)
HSCEI	6298.7	(0.3)	(0.5)	(3.7)	(6.1)
HSI	18096.5	(0.6)	(1.6)	(5.1)	(8.5)
JCI	6963.4	0.6	(0.5)	1.2	1.6
KLCI	1455.0	0.0	(0.5)	(0.1)	(2.7)
KOSPI	2556.9	0.4	(1.1)	(1.3)	14.3
Nikkei 225	32467.8	(0.4)	(1.4)	(0.0)	24.4
SET	1540.9	(0.4)	(0.5)	0.4	(7.7)
TWSE	16433.0	(0.9)	(2.1)	(1.0)	16.2
BDI	1209	1.9	11.6	7.1	(20.2)
CPO (RM/mt)	3750	(0.1)	(3.9)	1.4	(7.4)
Brent Crude (US$/bbl)	91	(0.0)	1.8	4.4	5.5

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	247.80	590.00	138.1
China Duty Free	601888 CH	110.23	138.00	25.2
Bank Neo Commerce	BBYB IJ	330.00	1,000.00	203.0
Bumi Serpong	BSDE IJ	1,045.00	1,420.00	35.9
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	2.54	4.05	59.4
OCBC	OCBC SP	12.53	18.22	45.4
CP ALL	CPALL TB	64.00	78.00	21.9
Indorama	IVL TB	27.25	37.00	35.8

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
Palm Oil Webinar: Global Oilseeds and Vegoil Outlook	Singapore	12 Sep	12 Sep
Post-result Virtual Meeting with China Overseas Property Holdings Limited (2669 HK)	Hong Kong	14 Sep	14 Sep
Malaysia Marine and Heavy Engineering Holdings (MMHE MK) Investor Meeting	Kuala Lumpur	14 Sep	14 Sep
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	12 Oct

ECONOMICS – CHINA

Money Supply

New Loans Beat Expectations, But yoy Loans Growth Unchanged

M1 and M2 money supply growth was below consensus expectations in August, slowing to 2.2% yoy and 10.6% yoy respectively. Due to a high base for comparison, the better-than-expected new loans and new TSF had minimal impact on the yoy growth of outstanding loans and TSF. From a macro stand point, the credit impulse remains weak, and further monetary easing is needed.

OUR VIEWS

- **M1 and M2 money supply growth slowed in August,** coming in at 2.2% yoy and 10.6% yoy, which are below Bloomberg consensus estimates of 2.4% yoy and 10.7% yoy respectively. The weaker M1 growth points to weak transactional demand for money, while the slowing M2 growth suggests that stronger bank loans growth is needed. That said, the new loans are better mom; loans to households saw a net increase of Rmb392b, while that to non-financial corporate rose to Rmb949b.

KEY MONETARY INDICATORS

(yoy % chg)	Aug 23	Consensus	Jul 23	Jun 23
M0 Money Supply	9.5	-	9.9	9.8
M1 Money Supply	2.2	2.4	2.3	3.1
M2 Money Supply	10.6	10.7	10.7	11.3
Outstanding Bank Loans	11.1	-	11.1	11.3
Outstanding Total Social Financing	9.0	-	8.9	9.0
New Bank Loans (Rmbt)	1.36	1.25	0.35	3.05
New Total Social Financing (Rmbt)	3.12	2.69	0.53	4.22

Source: Wind, PBOC, UOB Kay Hian

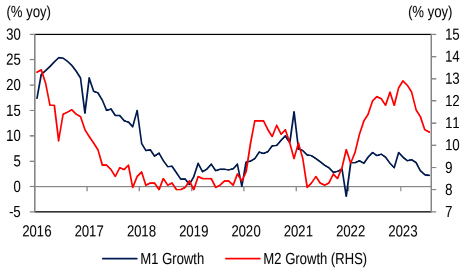
- Although new bank loans and new TSF at Rmb1.36t and Rmb3.12t respectively exceeded market expectations, the higher base for comparison led to outstanding loans growth and TSF growth of only 11.1% yoy and 9.0% yoy respectively, which are almost unchanged mom. From a macro standpoint, credit impulse remains weak and the economy would definitely benefit from stronger bank loans growth.

OUTSTANDING TSF

(yoy % chg)	Aug 23	Jul 23	Jun 23	2022
Renminbi Loans	10.9	11.0	11.2	10.9
Forex Loans	-16.8	-17.8	-18.9	-17.4
Entrusted Loans	2.4	4.0	4.1	3.4
Trust Loans	-2.9	-3.6	-5.1	-14.0
Bank Acceptances	-8.2	0.0	-2.8	-11.6
Corporate Bond	-0.2	-0.4	-0.4	3.6
Government Bond	11.5	10.1	10.1	13.4
Equity Issuance	10.2	10.6	11.4	12.4

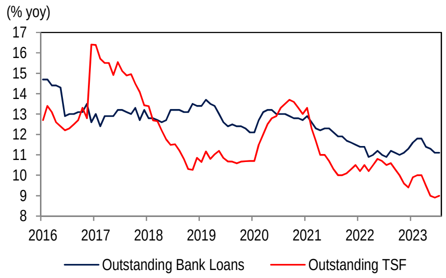
Source: Wind, PBOC, UOB Kay Hian

M1 AND M2 GROWTH



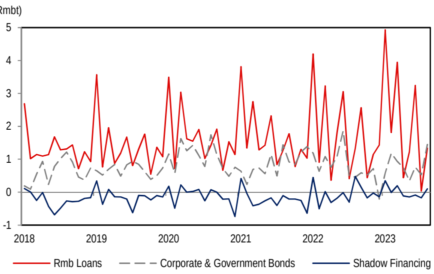
Source: PBOC, UOB Kay Hian

OUTSTANDING CREDIT GROWTH



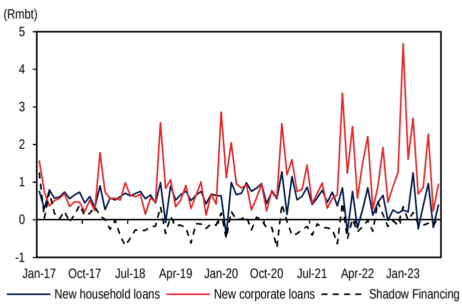
Source: PBOC, UOB Kay Hian

NEW TSF BREAKDOWN



Source: PBOC, UOB Kay Hian

NEW BANK LOANS BREAKDOWN



Source: PBOC, UOB Kay Hian

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SECTOR UPDATE

Beer – China

2Q23/1H23 Results Wrap-Up: Sales To See Modest Pick-up In September

Brewers reported solid 1H23 results for their China business, backed by mid-to-high single-digit percentage sales volume growth, ASP expansion and sequentially softer cost pressure. In the near term, we expect sales to pick up in Sep 23 thanks to the Golden Week and low base, though the recovery should be modest amid bad weather. In the medium to long term, we believe premiumisation will remain intact, and brewers' cost pressure will soften more in 2024. Upgrade to OVERWEIGHT.

WHAT'S NEW

- **Sales to pick up in September but modest.** Brewers saw mid-to-high single-digit percentage yoy sales volume growth in 1H23 for the China business, which benefitted from channels reopening. China Resources Beer (CRB)/Tsingtao Brewery (TB)/Chongqing Brewery (CBC)/Yanjing Brewery (YB)/Bud APAC (Bud) China region recorded 4%/6%/5%/6%/9% yoy sales volume growth, respectively. Sales momentum weakened during July-August, especially for CRB and TB, due to the high base effect and bad weathers. While we believe that sales momentum may pick up from September supported by the upcoming Golden Week and the low base effect, we foresee that consumption recovery may be modest, given the continuous bad weather headwinds. Based on our channel check, CRB recorded low single-digit percentage yoy sales volume growth mtd, even on a low base.

- **Premiumisation remained intact while divergence emerged.** We continued to see product upgrade and price hikes of the mid-to-high-end products in 1H23, leading to 4%/5%/2%/3%/6% of yoy ASP increase for CRB/TB/CBC/YB/Bud China region, respectively. While some may argue that the slow economic recovery in China may suppress the premiumisation of the beer sector, we insist that it will remain intact. In our view, premium beer is an affordable luxury for consumers, and even though some consumers traded down against the uncertain macro backdrop, they actually replaced the luxury spirits with more affordable ones, among which premium beers were good replacements for them, according to Bud's observations. However, we do think that divergence has emerged in the premium beer segment.

- In 1H23, sales volume of Heineken and Tsingtao Classic grew by about 60% and 16% yoy, respectively, while Wusu only delivered positive yoy growth in Xinjiang province. Looking ahead, we think brewers that: a) provide more product offerings for wider consumption scenarios, b) plan for higher investment and thus have stronger control on channels, especially on-trade channels, and c) have deeper penetration in areas where consumers have stronger spending power, such as Jiangsu, Zhejiang, Guangdong, Fujian provinces, etc., will outperform.

- **Expect cost pressure to soften more in 2024.** Per unit COGS of CRB/TB/CBC/YB/ Bud recorded -1%/+4%/+3%/+2%/+4% yoy changes in 1H23, with most players seeing cost pressure easing in 2Q23 (per unit COGS in 1Q23: CBC/YB/Bud: +6%/-3%/+5% yoy changes), given the gradual digestion of higher costs raw materials. Although we expect raw material cost pressure to continue to soften in 3Q23-4Q23, we think China's lift of anti-dumping and anti-subsidy tariffs on Australian barley that took effect since 5 Aug 23, will only be reflected in late-23/2024. Among the brewers under our coverage, TB and CRB will benefit from the lift of tariffs earlier than peers, in our view, as the two players will begin barley procurement in late-23.

PEER COMPARISON

Company	Ticker	Rec	Current Price (11 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)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE 2023F (%)
Tsingtao Brewery	168 HK	BUY	65.50	91.80	40.2	14,411.8	17.1	15.5	3.0	2.7	11.7	10.8	18.3
CR Beer	291 HK	BUY	44.85	66.70	48.7	18,575.4	26.3	22.5	4.5	3.9	18.0	14.7	17.9
Bud APAC	1876 HK	BUY	16.72	22.50	34.6	28,268.8	25.1	21.4	2.5	2.3	10.7	9.4	10.1
Chongqing Brewery	600132 CH	BUY	90.00	108.00	20.0	5,970.0	29.6	26.2	19.2	15.8	10.6	9.3	68.0
Yanjing Brewery	000729 CH	Not Rated	10.62	n.a.	n.a.	4,105.0	50.3	34.9	2.2	2.1	14.8	12.0	4.2

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

(Upgraded)

STOCK PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Tsingtao Brewery	168 HK	BUY	65.50	91.80
CR Beer	291 HK	BUY	44.85	66.70
Bud APAC	1876 HK	BUY	16.72	22.50
Chongqing Brewery	600132 CH	BUY	90.00	108.00
Yanjing Brewery	000729 CH	N.R.	10.62	n.a.
Zhujiang Brewery	002461 CH	N.R.	8.95	n.a.

Source: Bloomberg, UOB Kay Hian

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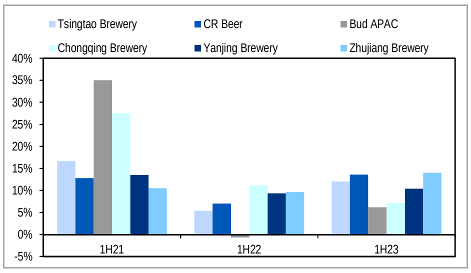
ACTION

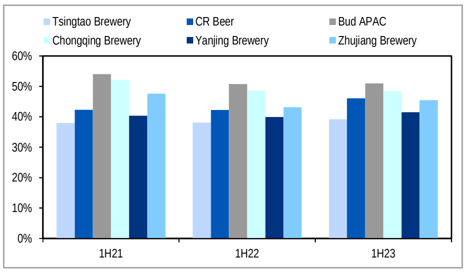
- **Pecking order: CRB>TB>CBC>Bud.** The current valuation of the beer sector is undemanding. Brewery players under our coverage are trading at 10-18x 2023F EV/EBITDA, 1.25-2SD below five-year average, and 17-30x 2023F PE, 0.5-1.75SD below five-year average. Our pecking order for the beer sector is: CRB>TB>CBC>Bud. We like CRB for its: a) mixed product offerings, b) strong channel expansion, and c) ability to grow fast in non-core markets.

REVENUE YOY GROWTH COMPARISON



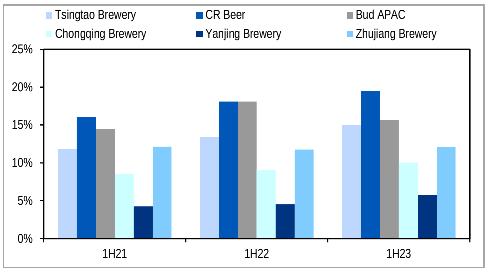
Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, Zhujiang Brewery, UOB Kay Hian

GROSS PROFIT MARGIN COMPARISON



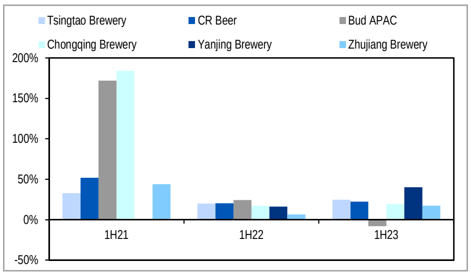
Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, Zhujiang Brewery, UOB Kay Hian

NET PROFIT MARGIN COMPARISON



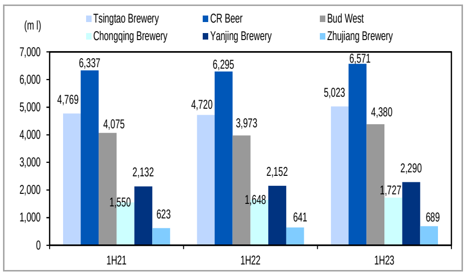
Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, Zhujiang Brewery, UOB Kay Hian

NET PROFIT YOY GROWTH COMPARISON



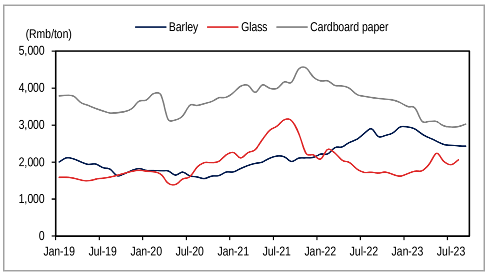
Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, Zhujiang Brewery, UOB Kay Hian

SALES VOLUME COMPARISON



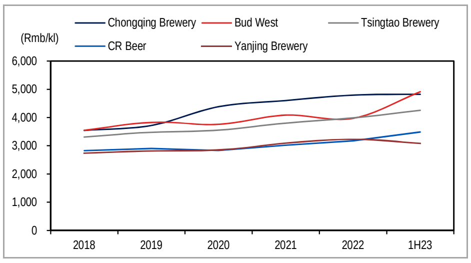
Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, Zhujiang Brewery, UOB Kay Hian

RAW MATERIAL COST TREND



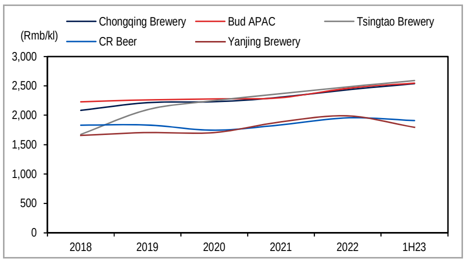
Source: Wind, UOB Kay Hian

ASP OF BEER COMPARISON



Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, UOB Kay Hian

COGS OF BEER COMPARISON



Source: Tsingtao Brewery, CR Beer, Bud APAC, Chongqing Brewery, Yanjing Brewery, UOB Kay Hian

SECTOR UPDATE

Commodities – China

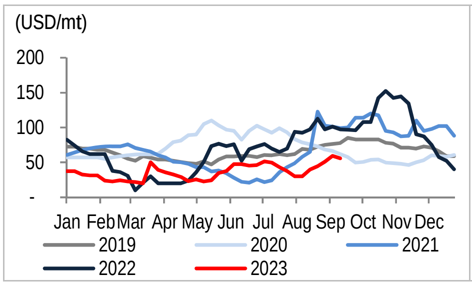
Weekly: Signs Of Economic Stabilisation From Improving CPI/Credit Data

Metal prices have been boosted by China's Aug 23 CPI figures which have returned to positive territory, paring some of the losses last week given the strength of the US dollar. Iron ore prices corrected last week as Chinese authorities stepped up intervention and warned futures brokers not to hype up iron ore prices. Steel production activities expand further as steel mills anticipate consumption to pick up further. Cement shipments continue to recover as weather conditions improve, but rising coal prices are eroding margins.

WHAT'S NEW

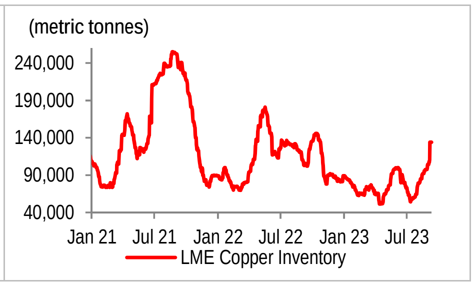
- **Metals (maintain MARKET WEIGHT):** Improving CPI and credit data bolstered confidence.
  - Copper prices rallied yesterday, boosted by China's improving Aug 23 CPI data at +0.1% yoy, returning to positive territory while the decline of PPI has also slowed to -3.0% yoy (Jul 23: -4.4% yoy). China's Aug 23's aggregate financing has also beat expectations at Rmb3,120b (consensus: Rmb2,690b), indicating improving credit demand after a series of steps was taken to stabilise the economy.
  - COMEX gold/LME copper three-month futures were down 1.2%/3.0% wow to US$1,925 per t oz/US$8,243 per mt, largely dragged by the strength in USD where USD index had hit the highest level last week since Mar 23. Market weighed on the possibility of the Fed maintaining interest rate at the current level for longer given the better-than-expected labour market (six-month low initial jobless claims) and ISM non-manufacturing PMI (54.5 vs consensus 52.5).
  - According to CME FedWatch Tool, the market has priced in 93.0% odds of the Fed maintaining interest rate at 5.25-5.50% in Sep 23 and 45.2% odds of cutting interest rate in May 24, deferring from the previously expected Mar 24.
  - The focus this week will be on the US' CPI data releasing on 13 September with consensus looking at +3.6% yoy.

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

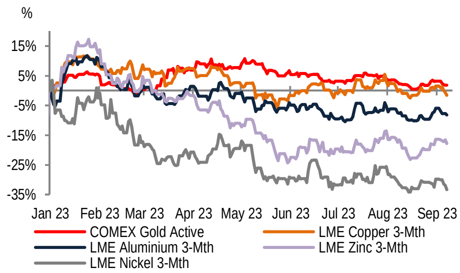
(Maintained)

SECTOR PICKS

Company	Rec	Target Price (HK$)	Share Price (HK$)
Anhui Conch	BUY	28.30	21.65

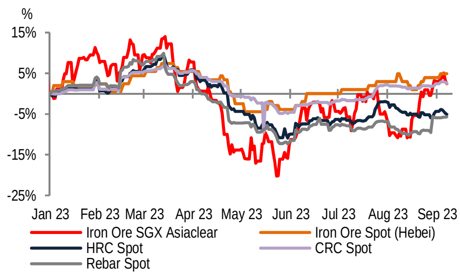
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

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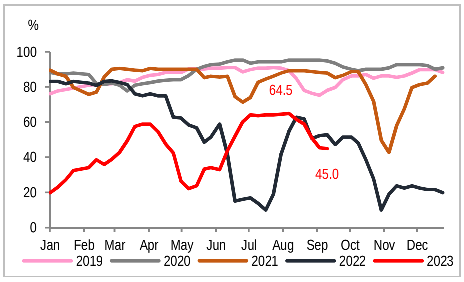
PEER COMPARISON

Company	Ticker	Rec	Price @ 11 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	21.65	28.30	30.7	139,051.9	9.0	8.3	0.6	0.5	8.2	7.3	6.4
Baosteel	600019 CH	BUY	6.21	7.10	14.3	138,248.3	13.3	9.9	0.7	0.7	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	2.39	3.10	29.7	16,689.2	8.8	6.9	0.3	0.3	7.2	5.9	3.8
Zijin Mining	2899 HK	BUY	12.78	15.00	17.4	360,682.2	13.5	11.5	2.9	2.5	10.8	9.5	23.7

Source: Bloomberg, UOB Kay Hian

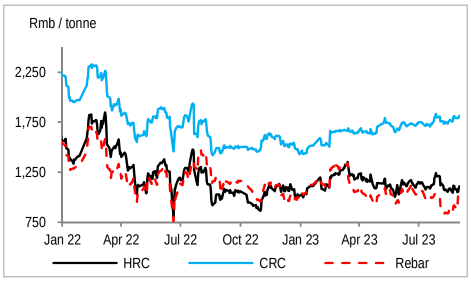
- **Steel (maintain UNDERWEIGHT):** Chinese authorities investigated irrational iron ore price movement.
  - **Iron ore prices corrected as authorities stepped up intervention.** On 7 August, National Development and Reform Commission and China Securities Regulatory Commission summoned iron ore futures brokers to discuss the recent iron ore price movement; participants were told not to hype up iron ore prices during the meeting. SGX iron ore closed at US$113.33 (-0.6% wow), but was still +14.1% mom. Domestic spot prices of rebar/hot-rolled coil steel (HRC)/cold-rolled coil steel (CRC) saw wow changes of +0.2%/-0.8%/+0.1%.

247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



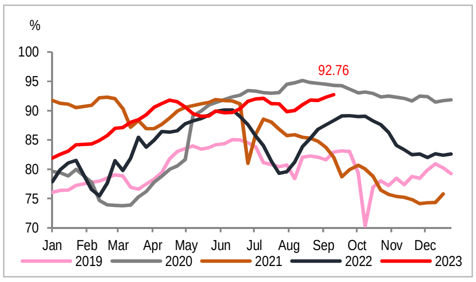
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

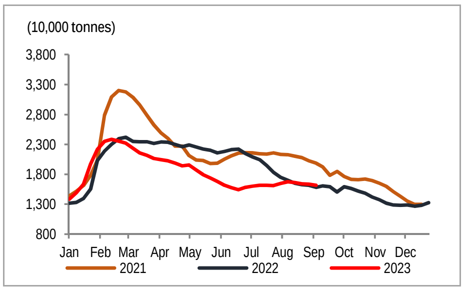
247 SAMPLED STEEL MILLS BLAST FURNACE UTILISATION RATIO



Source: Wind, UOB Kay Hian

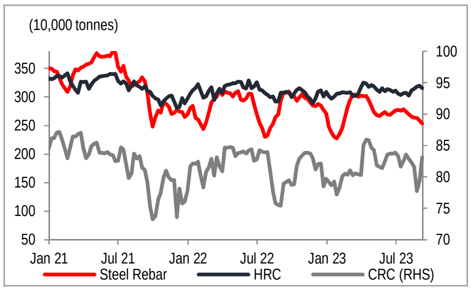
  - **Strong steel prices driving margin recovery.** The recent rebound in steel prices has helped support the margins of long products. Weekly average of HRC steel-raw materials spread was up 1.2% wow. Robust steel production continued dragging margins, and Mysteel's survey indicated that 45.0% of steel mills are currently profit-making (-0.45 ppt wow), dragged by the robust production activities.
  - **Ramping up production as peak consumption season is approaching.** The blast furnace capacity utilisation rate of 247 domestic steel mills has expanded again to 92.76% (+0.49ppt wow) while the weekly average daily molten iron production has also hit another record high of the year at 2.4824m tonnes (+0.5% wow). However, weekly output of five major steel products has slowed to 9.224m tonnes (-0.8% wow) this week.
  - **Inventory down for fourth consecutive week; apparent consumption picking up.** Overall steel inventory based on Mysteel's survey was down 1.37% wow to 16.16m tonnes (+2.0% yoy), down for the fourth consecutive week. Steel apparent consumption continued growing last week, up 1.2% wow to 9.449m tonnes, driven by the 5.2%/6.2% wow increase in consumption of rebar/CRC. However, rebar consumption was still 12.4% yoy lower whereas CRC/steel plate demand remained resilient at +7.6%/+7.2% yoy.

INVENTORY OF FIVE MAJOR STEEL PRODUCTS (TRADERS & STEEL MILLS)



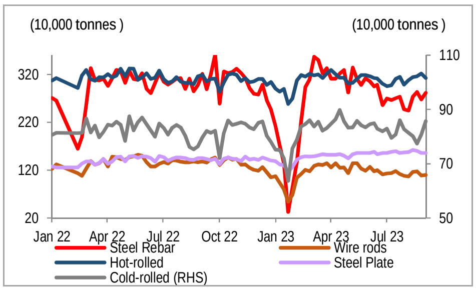
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION

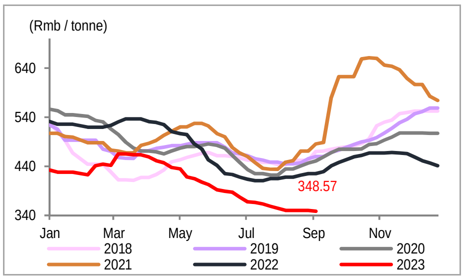


Source: Wind, UOB Kay Hian

- **Cement (maintain MARKET WEIGHT):** Shipment picking up as weather condition improves.
  - **Cement prices still finding footing.** National average PO42.5 cement prices (bulk) were last reported at Rmb353.50 per tonne, down 0.28% wow. Average cement prices for the eastern/central/southern regions saw changes of -0.41%/-1.0%/flat wow. Cement-coal spread has narrowed slightly to Rmb254.18 per tonne (-0.2% wow/-7.1% yoy), largely due to the rebound of Q5000 QHD thermal coal prices in recent weeks (+8.4% since mid-Aug

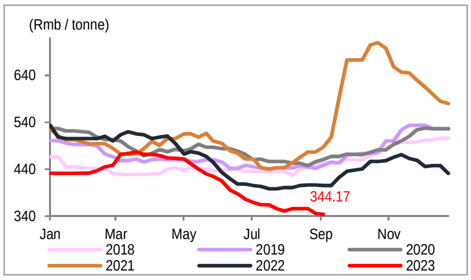
23).

AVERAGE CEMENT PRICES – EAST



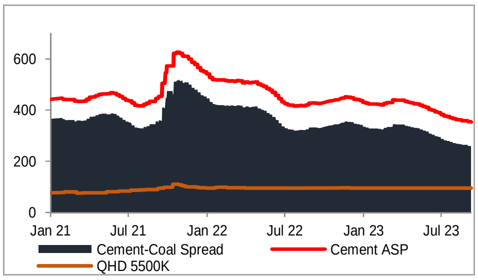
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH



Source: CEIC, UOB Kay Hian

CEMENT-COAL SPREAD

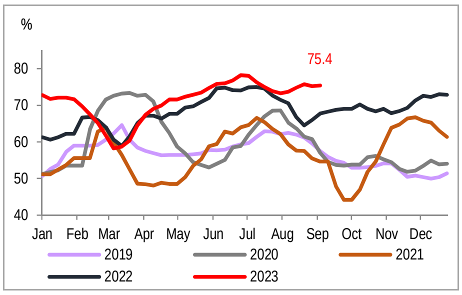


Source: CEIC, Wind, UOB Kay Hian

- **Shipment recovered by 3% wow; southern region demand dragged by typhoon.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 30 Aug-5 Sep 23 was 5.7315m tonnes (+3.0% wow, -28.1% yoy). By region, the eastern/central/southern regions' shipment volume was +0.66%/+9.49%/-2.67% wow (-36.20%/-28.57%/-37.01% yoy) respectively. Shipment for infrastructure projects was 2.22m tonnes (+3.26% wow/-8.26% yoy), remaining as the key demand pillar.

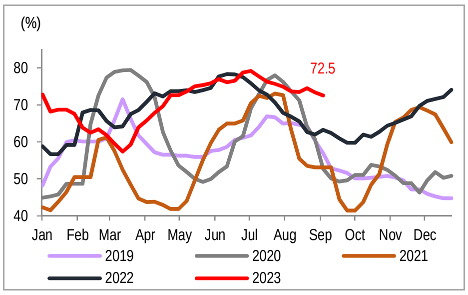
- **Rising inventory pressure amid recovering output.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation rebounded to 56.8% last week (+4.48ppt wow). National average cement storage capacity ratio was up 0.1ppt wow to 75.4%. Inventory level for central-south China regions, particularly Fujian and Guangdong, was up 0.7ppt to 77.4% as demand was deterred by typhoons.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



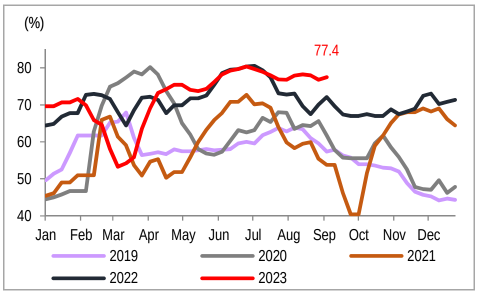
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

ESSENTIALS

- **We maintain MARKET WEIGHT on the cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves. However, construction progress of infrastructure projects would largely still hinge on the pace of local government special purpose bond (LGSB) issuance, of which the utilisation of annual quota was slower than the previous year. Local governments were asked to complete the issuance by end-Sep 23 and fund disbursement should be completed by end-Oct 23; infrastructure projects' constructions should gain traction by then.

- **We maintain UNDERWEIGHT on the steel sector.** The recent policy easing has lifted market sentiment. Apparent consumption since mid-Aug 23 has been encouraging, which saw steel products' inventory trending down for fourth consecutive weeks and maintaining at reasonable levels. We are hopeful on downstream consumption as we enter the traditional peak season, which coupled with the potential production curbs, should result in fundamentals continuing to improve in the following weeks.

SMALL/MID CAP HIGHLIGHTS

Pertamina Geothermal Energy (PGEO IJ)

To Become A 1GW Geothermal Company In The Next Two Years

PGEO's share price rose 23.8% mom amid: a) rumours of PGEO acquiring SMGP, b) BREN, its peer, unlocking value through an IPO, and c) the establishment of Indonesia's carbon market. PGEO also has a solid long-term fundamental outlook, supported by its solid operational and balance sheet. It targets to have 1GW capacity in the two years, by adding 340MW capacity to 672MW current capacity. LMB Unit 2 with 55MW capacity will be commercialised in 2024.

WHAT'S NEW

- **Becoming a 1GW-capacity geothermal company in two years.** Pertamina Geothermal Energy (PGEO) targets to become a 1GW-capacity geothermal company in the next two years, up 51% yoy from its current capacity of 672MW. The company has identified an additional capacity of 340MW to add to its current capacity in the next two years, which will come from optimising the existing geothermal assets and power plant capacity and adding new wells in its existing working areas. The development of Lumut Balai (LMB) Unit 2, which has capacity of 55MW, is on track and is expected to be commercialised in 2024. Meanwhile, Hululais Units 1 and 2, which will have an installed capacity of 110MW, are expected to be commercialised in 2026.
- **Solid operational performance translated into solid margins.** PGEO has a solid relationship with PLN with long-term contractual off-take agreement with average contract length of more than 20 years. The tariffs are adjusted with an escalation rate of ~2%, following the US PPI and CPI. Supported by 95-98% available factor, PGEO's EBITDA margin has historically stood at 84-85% while net profit margin has been >40%. Meanwhile, outage rate was low at 0.2% in 1H23, down from 0.5% in 2H22. The 0.5% outage rate in 2H22 was because of the landslide in Karaha working area. In 1H23, driven by the completion of landslide mitigation in Karaha, steam and electricity production improved with availability factor rising to 98.12% from 95.99% 2H22 (1H22: 95.43%). The higher availability and a 2.6% adjustment in ASP lifted net profit by 30.1% yoy in 1H23.
- **Solid balance sheet to support the expansion.** PGEO has stable cash flow generation, supported by robust EBITDA and manageable working capital. Depreciation accounted for 65% of its cost of revenue or 27% of its revenue in 1H23. As of Jun 23, debt outstanding reached US$731m while cash outstanding stood at US$664m, bringing the net debt to EBITDA down to 0.19x and debt to equity ratio (DER) down to 39%. The low leverage provides rooms for the company to seek funding from debt issuance which could be used to finance the company's inorganic and organic expansions.
- **New revenue stream − carbon credit revenue.** PGEO successfully issued about 1.7m tonnes of vintage CO_2eq of emission reduction for CDM and Gold Standard Mechanism from Ulubelu and Karaha working area, which generated additional revenue of US$747,000 in 2022. The next carbon credit project for future issuance will include gold standard in four of its working areas and Verified Carbon Standard (VCS) in one of its working areas. It is reported that geothermal power generation has 10x lower carbon emission footprint compared with power generation from non-renewable resources.

KEY FINANCIALS

Year to 31 Dec (US$m)	2018	2019	2020	2021	2022
Net turnover	n.a.	667	354	369	386
EBITDA	n.a.	253	237	252	315
Operating profit	n.a.	169	133	143	208
Net profit (rep./act.)	n.a.	97	75	88	131
Net profit (adj.)	n.a.	35	26	31	46
PE (x)	n.a.	33.8	44.3	38.0	25.4
P/B (x)	n.a.	3.4	3.2	2.6	2.6
EV/EBITDA (x)	n.a.	13.2	14.1	13.3	10.6
Dividend yield (%)	n.a.	n.a.	n.a	n.a.	n.a.
Net margin (%)	n.a.	14.3	20.6	23.1	33.0
Net debt/(cash) to equity (%)	n.a.	112.2	86.8	67.8	54.4
ROE (%)	n.a.	6.8	5.7	9.8	14.1

Source: PGEO, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	Rp1,170
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Pertamina Geothermal Energy is a state-owned energy company focusing on geothermal energy.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	PGEO IJ
Shares issued (m):	41,396.1
Market cap (Rpb):	48,433.5
Market cap (US$m):	3,156.5
3-mth avg daily t'over (US$m):	3.8

Price Performance (%)

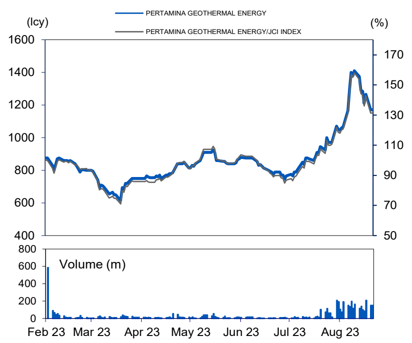
52-week high/low Rp1,410/Rp615

1mth	3mth	6mth	1yr	YTD
23.8	36.0	36.0	n.a	n.a.

Major Shareholders	%
Pertamina Power Indonesia	69.0
Pedeve	6.0

FY23 NAV/Share (Rp)	-
FY23 Net Debt/Share (Rp)	-

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Rumoured to be acquiring Sorik Merapi's geothermal assets**. Earlier this year, it was reported that KS Orka plans to divest of its ownership in Sorik Marapi Geothermal Power (SMGP) and according to the news, there were 10 companies interested to acquire SMGP's ownership, including PGEO. Estimated transaction value is expected to reach US$1b, comprising 240MW installed capacity. We believe US$1b might be a reasonable price given the brownfield project investment could reach US$3m-4m per 1MW. Due to limited data, we are unable to calculate the impact of potential acquisition to PGEO's earnings. However, we believe the acquisition could stretch PGEO's balance sheet to almost 1x DER from 0.39x (assuming an acquisition price of US$1b). We believe PGEO will raise funds through debt as US$600m of its cash will be used as capex for 2023 and 2024.

- **Barito Renewable Energy plans to go public.** Barito Renewable Energy (BREN) plans to go public. It has reportedly submitted its first and second registrations, and is awaiting pre-effective statement from financial authority service (OJK). BREN operates 885MW geothermal power with average availability factors of its assets ranging from 81-97% in 9M22. Its EBITDA margin has been improving gradually, rising from 78.68% in 2019 to 82.15% in 2021. BREN targets to increase its capacity to 900MW this year from the current 885MW. The unlocking of BREN's value by its parent company sparked speculation on its valuation, which has generated positive sentiment for PGEO's share price performance in the last few weeks.

- **Supportive policies to play even larger role, in line with government's net zero emission agenda.** Given its huge potential, geothermal energy is one of the keys to Indonesia's energy sustainability goals to become carbon-neutral by 2060. The government targets to increase the share of geothermal energy to 9.6% in 2030 from 6.3% in 2021, while total energy production will grow at 5.6% CAGR in 2021-30 to 480TWh in 2030. Aside from granting VAT exemption and property tax reduction during the exploration phase, the Ministry of Finance has also signed a financing agreement with the World Bank for the Geothermal Resource Risk Mitigation Facility (GREM) project and will provide extra funding support from the Indonesia Infrastructure Guarantee Fund.

VALUATION

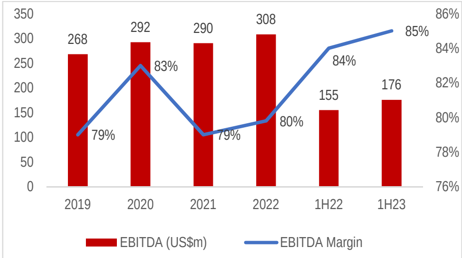
- **PGEO's share price has risen 23.8% mom.** Meanwhile, Indonesia's renewable industry has been busy in the last few months with: a) rumours of KS ORKA divesting SMGP, b) the unlocking of BREN's value, Barito Pacific's (BRPT) subsidiary, through an IPO, c) the establishment of Indonesia's carbon market. Currently, PGEO is trading at 9.9x 2023 EV/EBITDA, which is slightly below global peers' average. Geothermal energy has been listed as a priority investment by the government. PGEO also has a strong relationship with PLN as the offtaker. PGEO's installed capacity will start rising in 2024.

VALUATION

	Mkt Cap	3M Avg.to	------------ PE (x) ------------		------ EV/EBITDA (x) ------	
Company	(US$m)	(US$m)	2023F	2024F	2023F	2024F
Pertamina Geothermal Energy	3,155	3.8	19.1	21.7	9.9	9.7
Ormat Technologies, Inc	4,493	28.9	34.9	28.0	12.7	11.3
Clearway Energy, Inc	4,771	29.1	25.2	20.3	12.0	11.2
FirstEnergy Corp.	20,423	111.3	14.1	13.3	11.5	10.6
Enel SpA	67,792	146.9	10.3	9.6	7.2	7.0
Aboitiz Power Corp.	4,376	0.7	7.9	7.5	9.1	9.0
Average			18.6	16.7	10.4	9.8
Median			16.6	16.8	10.7	10.2

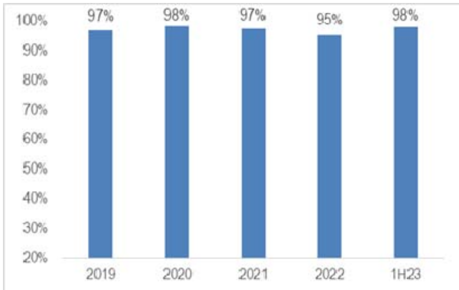
Source: PGEO, Bloomberg

EBITDA AND EBITDA MARGIN TREND



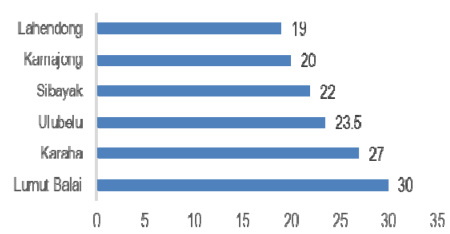
Source: PGEO

AVERAGE AVAIBILITY OF PGEO'S OPERATED ASSETS



Source: PGEO

AVERAGE REMAINING CONTRACT LIFE (YEARS)



Source: PGEO

GEARING RATIO (X)

Source: PGEO

PROFIT & LOSS

Year to 31 Dec (US$m)	2019	2020	2021	2022
Net turnover	667	354	369	386
EBITDA	253	237	252	315
Deprec. & amort.	84	104	108	107
EBIT	169	133	143	208
Total other non-operating income	(23)	(22)	(14)	(14)
Associate contributions	1	2	3	4
Net interest income/(expense)	0	0	0	0
Pre-tax profit	146	111	130	195
Tax	(50)	(38)	(44)	(67)
Minorities	0	0	0	0
Net profit	96	73	85	127
Net profit (adj.)	96	73	85	127

BALANCE SHEET

Year to 31 Dec (US$m)	2019	2020	2021	2022
Fixed assets	2,173	2,079	1,963	1,906
Other LT assets	132	153	155	136
Cash/ST investment	126	155	125	262
Other current assets	142	165	154	171
Total assets	2,573	2,551	2,397	2,475
ST debt	213	229	18	617
Other current liabilities	425	446	181	240
LT debt	967	814	940	328
Other LT liabilities	29	40	28	34
Shareholders' equity	939	1,023	1,229	1,256
Minority interest	(0)	(0)	(0)	(0)
Total liabilities & equity	2,573	2,551	2,397	2,475

CASH FLOW

Year to 31 Dec (US$m)	2019	2020	2021	2022
Operating	202	228	(31)	209
Pre-tax profit	146	111	130	195
Tax	(50)	(38)	(44)	(67)
Deprec. & amort.	84	104	108	107
Working capital changes	(50)	(34)	16	(9)
Non-cash items	73	85	(241)	(16)
Investing	(107)	(48)	(26)	(21)
Capex (growth)	(109)	(48)	(26)	(31)
Investments	0	0	0	0
Others	2	0	0	10
Financing	(97)	(151)	28	(51)
Dividend payments	0	0	0	(30)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	798	0
Loan repayment	(99)	(149)	(770)	(19)
Others/interest paid	1	(2)	(0)	(2)
Net cash inflow (outflow)	(3)	29	(30)	137
Beginning cash & cash equivalent	0	126	155	125
Ending cash & cash equivalent	(3)	155	125	262

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
Profitability				
EBITDA margin	37.9	66.8	68.2	81.7
Pre-tax margin	21.9	31.3	35.1	50.4
Net margin	14.3	20.6	23.1	33.0
ROA	n.a.	2.8	3.4	5.2
ROE	n.a.	7.4	7.6	10.2
Growth				
Turnover	n.a.	(46.9)	4.2	4.7
EBITDA	n.a.	(6.4)	6.4	25.4
Pre-tax profit	n.a.	(24.1)	17.0	50.4
Net profit	n.a.	(23.8)	16.8	49.7
Net profit (adj.)	n.a.	(23.8)	16.8	49.7
EPS	n.a.	(23.8)	16.8	49.7
Leverage				
Debt to total capital	55.7	50.5	43.8	43.0
Debt to equity	125.6	102.0	78.0	75.3
Net debt/(cash) to equity	112.2	86.8	67.8	54.4
Interest cover (x)	6.8	5.7	9.8	14.1

SECTOR UPDATE

Construction – Malaysia

Mixed 1H23 Results; All Eyes On Budget 2024

The sector delivered mixed 1H23 results with sector earnings moderating by 1.0% qoq despite higher revenue. We anticipate stronger 2H23 earnings on higher progress billing amid an easing of the labour shortage and lower building material prices. Companies are expected to ride on the fresh rollout of mega projects (such as MRT3) and a more vibrant Johor property market. Maintain MARKET WEIGHT. Our top picks are Gamuda, Gabungan AQRS and Kerjaya Prospek Group.

WHAT'S NEW

- **Mixed bag of 2Q23 results.** 2Q23 earnings were mixed as three companies' results came in within expectations vs three that came in below, and one that exceeded expectations. Sector earnings moderated by 1.0% qoq to RM382.0m despite a 10.0% increase in revenue to RM5.3b, weighed down by elevated building materials prices. Notably, Gamuda posted an exceptional 3QFY23 (FYE 31 July) earnings on higher contributions from Australia projects which partially made up for the weaker performances by IJM and WCT.

2Q23 RESULTS SUMMARY

Company	Revenue (RMm)	CNP (RMm)	vs. UOBKH	vs. consensus	Earnings Revision +1YR Fwd	Earnings Revision +2YR Fwd	Earnings Revision +3YR Fwd
Gabungan AQRS	71.0	7.2	In line	In line	-	-	-
Gamuda*	2,067.1	223.4	In line	In line	-	-	-
IJM Corp**	1,225.8	66.4	Below	Below	-2%	-3%	-2%
Kerjaya Prospek Group	309.3	29.9	Below	Below	-4%	-10%	-2%
Malaysian Resources Corp	599.3	10.9	In line	Above	-	-	-
Sunway Construction Group	604.1	32.3	In line	In line	-	+18%	+6%
WCT Holdings	424.5	11.9	Below	Below	-7%	-3%	-3%

*FYE July, based on 3QFY23 results; **FYE Mar, based on 1QFY24 results; Source: Companies, UOB Kay Hian*

- **Anticipate better 2H23 earnings; to ride on the rollout of mega projects and a more vibrant Johor property market.** We continue to anticipate stronger 2H23 earnings on the back of higher progress billing amid an easing of the labour shortage and decline in building material prices. In addition, the upcoming rollout of mega projects such as MRT3 and Penang LRT may further catalyse near-term earnings. For companies with exposure in property development operations, progressive new project launches would also help spur earnings momentum. We also think IJM Corp, WCT, and Gabungan AQRS may ride on the more vibrant property market in Johor given their existing landbanks in the state's prime areas such as Iskandar Puteri and Johor Bahru.

ACTION

- **Maintain MARKET WEIGHT on the sector.** Our neutral sector rating is premised on a lack of visibility on the details regarding the rollout of mega projects amid fiscal constraints, despite a more stable domestic political landscape. Our top pick for the sector remains Gamuda, backed by its robust orderbook with pronounced overseas jobs secured which help to mitigate the muted local contract flows. We derive a higher target price of RM5.14/share for Gamuda, upon rolling forward our valuation base year to FY24 and revising upward FY23-25 earnings to reflect a stronger orderbook. We also like Gabungan AQRS and Kerjaya Prospek Group for their superior orderbook cover ratio and stronger property development earnings from upcoming project launches.

PEER COMPARISON

Company	Ticker	Rec	Price @ 11 Sep 23 (RM)	Target Price (RM)	Market Cap (RMm)	P/E 2024F (x)	P/B 2024F (x)	Yield 2024F (%)
Gabungan AQRS	AQRS MK	BUY	0.37	0.48	199	3.3	0.4	n/a
Gamuda	GAM MK	BUY	4.34	5.14	11,701	13.1	1.1	2.8
IJM Corporation	IJM MK	HOLD	1.78	1.62	6,493	19.3	0.7	3.1
Kerjaya Prospek Group	KPG MK	BUY	1.20	1.54	1,521	10.9	1.2	4.6
Malaysian Resources Corp	MRC MK	HOLD	0.44	0.41	1,966	17.6	0.4	2.3
Sunway Construction Group	SCGB MK	HOLD	1.86	1.69	2,405	15.8	2.8	3.8
WCT Holdings	WCTHG MK	BUY	0.51	0.69	723	7.7	0.2	3.3

Source: UOB Kay Hian

MARKET WEIGHT

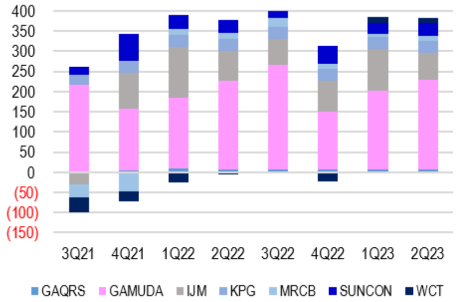
(Maintained)

SECTOR BUYS

Company	TP(RM)	Upside(%)
Gabungan AQRS	0.48	31.5
Gamuda	5.14	18.4
Kerjaya Prospeks Group	1.54	28.3
WCT Holdings	0.69	35.3

Source: UOB Kay Hian

CONSTRUCTION FIRMS' EARNINGS TREND



Source: Companies, UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF AUG 23

Company	Value (RMb)	Orderbook cover (x)
Gabungan AQRS	0.9	2.7
Gamuda	21.5	4.2
IJM Corporation	4.9	1.1
Kerjaya Prospek Group	4.5	4.0
Sunway Construction Group	5.8	2.7
WCT Holdings	3.1	1.5

Source: UOB Kay Hian

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ESSENTIALS

- **Most companies met orderbook replenishment targets.** In 2Q23, most companies remained on track to meet their projected orderbook replenishment. In particular, Gamuda maintained its lead with RM10.5b (including the immediate addition of RM4.5b orderbook from the acquisition of DT Infrastructure) worth of new jobs secured as of end-3QFY23. This means the company will be able to comfortably meet its guided average annual orderbook replenishment target of RM12b-13b for FY23-FY24, while a subsequent pick-up in domestic job flows would further strengthen its already-sturdy position.

  Meanwhile, Sunway Construction Group and Kerjaya Prospek Group also recorded commendable replenishment of RM1.6b and RM1.1b respectively as of end-Aug 23, underpinned by a resilient mix of external and internal job flows. While other companies had secured fewer new projects in 2023, we understand that they still hold a rather upbeat outlook on the back of a potentially strong influx of infrastructure jobs such as MRT3 and ECRL. This is despite a lukewarm outlook from the private sector owing to the long-lasting property overhang environment.

- **Budget 2024 to provide further clarity on the rollout of mega projects.** We also believe that the upcoming Budget 2024 (which is tentatively scheduled to be on 13 October) may inject fresh stimulus to the construction sector. While the budget may likely entail higher development expenditure (DE) to pump prime the domestic economy, we reckon that a large portion of the DE is earmarked for small-to-medium projects which could hardly benefit listed contractors. That said, we think Budget 2024 may provide further execution details (project costs and implementation timelines) for mega projects such as MRT3.

- **MRT3 to be concluded soon.** Recall that there are three packages under MRT3: a) Civil Main Contractor 301 (CMC301) for the elevated portion with estimated costs of RM2b, b) CMC302 for other elevated portions coupled with additional tunnelling jobs with estimated costs of RM12b, and c) CMC303 - tunnelling jobs worth around RM11b. For CMC301, MRCB is said to have put the lowest bid, while YTL and Gamuda are the lowest bidders for CMC302 and CMC303 respectively. Besides proposed project costs, MRT Corp is also assessing tenders based on technical, commercial and track record aspects. The tender outcome is expected to be concluded later this month, following the three-month extension of tender validity to end-Sep 23.

  In addition, we note that there is a confluence of other sizeable infrastructure projects being highlighted in the mid-term review of 12th Malaysia Plan including: a) Penang LRT (estimated project costs of RM9.5b), b) remaining packages of Pan Borneo Highway Sabah and Sarawak-Sabah Link Road II, c) expansion of airports in Penang and Subang, d) upgrades and expansions of highways, as well as e) multiple flood mitigation projects worth RM22b. We believe this suggests a high likelihood of these projects being carried out eventually albeit with limited visibility on project timelines.

- **Stabilising building materials prices.** Meanwhile, the continued easing of building materials prices should bode well for construction companies and lead to margin improvements in the upcoming quarters. We note that steel bar prices eased by 7.8% qoq to RM2,765/tonne in 2Q23 and have further declined by 2.8% to RM2,640/tonne as of end-Aug 23. Meanwhile, prices for bulk cement also declined by 4.6% qoq to RM372/tonne in 2Q23 despite rising by 2.2% to RM380/tonne as of end-Aug 23 (still lower than RM390/tonne in 1Q23). This bolsters our anticipations of better 2H23 earnings for construction firms on profit margin improvements, not to mention a ramp-up of construction progress amid gradual easing of labour shortage issues.

MEGA PROJECTS PIPELINE

Project	Value (RMb)	Remarks
ECRL	50	Status: Around 49% completion in 1Q23 with expected completion in Dec 26 .
		Potential beneficiaries: IJM Corp (for vertical package; Econpile, Suncon (for horizontal package).
MRT3	30	Status: Approved in Budget 2023; jobs to be awarded in 2023.
		Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE
Pan Borneo Highway Sabah	4	Status: Cabinet approval in 2022 to proceed with the remaining 19 work packages (five years) under Phase 1B. Phase 1 was 82% done as of Aug 23.
		Potential beneficiaries: Suria Capital (JV with GAQRS), WCT
Rapid Transit System (RTS)	4	Status: 41% completion as of Jul 23; Aims to hit 70% by end-23; Expected completion: Dec 2026 Ekovest won RM2b EPC contract.
		Potential beneficiaries: Subcontractor works for rail-related contractors such as Suncon, IJM Corp
High Speed Rail (HSR)	TBC	Status: In preliminary stages with MyHSR recently hosted RFI exercise in Jul 23 and may submit proposal to Singapore government in coming months.
		Potential beneficiaries: Contractors with rail expertise; Gamuda and MMC (underground section); Suncon, IJM, WCT, GAQRS, MRCB, YTL, HSSE

Source: Media reports, UOB Kay Hian

MRT3 PROJECT DETAILS

Project owner	MRT Corp
Project period	2023-30 (8 years)
Project structure	a) 2 contractors for elevated works
	b) 1 contractor for underground works
	c) 1 contractor for integrated rail system
	d) 1 project management consultant
Estimated cost	RM30-50b
Funding structure	Sukuk issuances and other hybrid funds; every work package will have its own PFI
Length of alignment	51km: 40km of elevated tracks & 11km of underground tunnels
No. of stations	31 including 10 interchange stations

Source: Media reports, UOB Kay Hian

SECTOR UPDATE

Plantation – Malaysia

Short-term Bearish, But Supported By Indonesia's Lower-than-expected Supply

Aug 23 palm oil inventory came in higher than market estimate mainly due to lower-than-expected exports and domestic consumption. We expect inventory level to increase marginally, driven largely by higher production, while exports remain sluggish. Having said that, we reckon that Indonesia's lower-than-market-expectation supply would support the pricing. Maintain OVERWEIGHT, accumulate on weakness with the upcoming strong earnings.

OVERWEIGHT

(Maintained)

STOCK PICKS

Company	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	BUY	1.85	2.65
IOI Corporation	BUY	4.03	4.80
KL Kepong	HOLD	21.20	24.40
Sime Darby Plantation	BUY	4.30	5.00

Source: UOB Kay Hian

CPO PRICE ASSUMPTIONS (RM/TONNE)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
Our forecast:	
2023F	4,000
2024F	4,200
CPO Price:	
MPOB @ 11/9/2023	3,750
BMD 3rd Month Contract	3,628

Source: UOB Kay Hian

MPOB'S AUG 23 STATISTICS

(m tonne)	Aug 23	mom % chg	yoy % chg	8M23	yoy % chg
CPO Production	1.75	8.9	1.6	11.45	(1.1)
Palm Oil Stocks	2.12	22.5	1.4	2.12	1.4
Palm Oil Domestic Use	0.25	(27.3)	0.7	2.53	25.9
Palm Oil Exports	1.22	(9.8)	(6.0)	9.65	(1.7)
Oleochemical	*0.26*	*11.6*	*18.9*	*1.85*	*2.2*
Biodiesel	*0.02*	*19.2*	*(23.7)*	*0.13*	*(42.6)*
Palm Oil Imports	0.11	213.7	128.5	0.66	(13.6)
CPO Price (RM/tonne)	3805.0	(2.4)	(8.7)	3,903.7	(32.2)

Source: MPOB, UOB Kay Hian

WHAT'S NEW

- Palm oil inventory in Malaysia for Aug 23 came in higher than market expectation, hitting above 2m tonnes vs market expectation of 1.90m-1.94m tonnes. The main variance was mainly due to the lower-than-expected exports and domestic usage.
- Some of the key highlights are:

  a) **Inventory: Hitting above 2m tonnes, beating market expectation.** This was mainly due to the lower-than-expected exports and domestic disappearance, while imports remained high.

  b) **Production: Within market expectation** with growth mainly coming from Sarawak, Pahang and Johor. The drier weather had led to stronger FFB yield recovery in Sarawak, and less public holidays disruption translated into better performance for Peninsular Malaysia.

  c) **Exports:** Weaker than expected as destination markets stock up comfortably now and weak domestic demand in China is also slowing down demand. Meanwhile, Indonesia continues to offer a wider discount to grab larger exports market share.

  a) **Imports remained high in Aug 23.** With Indonesian refined palm oil pricing remaining attractive, Malaysia palm oil imports continue to remain at a high level with refineries buying directly from the Indonesian parties.

ACTION

- **Maintain OVERWEIGHT.** We maintain our view that CPO prices would trade at the range of RM3,800-4,200/tonne. From the recent East Malaysia Palm Oil Conference, the speakers were also bullish on CPO prices which is in line with our in-house view. With the current uncertain weather (especially from the South Africa region), we reckon that this would continue to buoy the soybean prices and palm oil prices as well.

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PEER COMPARISON

Company	Ticker	Rec	Price @ 11 Sep 23 (RM)	Target Price (RM)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	ROE (%)	P/B (x)	2023F Div (sen)	Div Yield (%)
Malaysia												
Hap Seng Plantations	HAPL MK	BUY	1.85	2.65	316.5	7.0	11.9	8.5	11.0	0.8	9.3	5.0
IOI Corporation	IOI MK	BUY	4.03	4.80	5,348.6	15.8	16.7	15.3	10.0	2.2	12.6	3.1
KL Kepong	KLK MK	HOLD	21.20	24.40	4,891.2	10.6	15.6	13.2	16.6	1.6	68.0	3.2
Sime Darby Plantation	SDPL MK	BUY	4.30	5.00	6,361.9	14.3	25.2	14.5	13.8	1.5	10.2	2.4
Genting Plantations	GENP MK	HOLD	5.18	6.40	994.3	9.9	14.9	13.8	9.1	0.9	15.2	2.9
Kim Loong	KIML MK	HOLD	1.82	1.95	377.9	9.6	10.0	9.5	19.7	2.0	15.5	8.5
Sarawak Oil Palms	SOP MK	HOLD	2.56	3.00	487.6	4.7	7.4	5.9	15.7	0.7	13.9	5.4

Source: UOB Kay Hian

- We recommend investors to accumulate upstream plantation players with strong production growth. We expect CPO prices to trend higher from towards end-4Q23 to better reflect the tightness of global palm oil supplies. Thus, we recommend investors to accumulate plantation stocks. Top pick: Hap Seng Plantations and IOI Corporation. Trading BUY: Sime Darby Plantation.

ESSENTIALS

- **Sep 23 outlook:**
  a) **Production: Marginal increase mom.** We reckon that production is likely to remain strong in the first half of September as earlier rainfall induces FFB ripening. Based on our observation from our recent trips, the palm oil trees are still showing good production. However, based on our channel checks, Indonesia's production was not as good as Malaysia's in August, ie flat mom to marginal decline as some regions were suffering from dryness and hotspots started to emerge in West Kalimantan.

  b) **Exports: Lower or flat mom,** mainly due to slower demand from China and Malaysia palm oil exports losing market share to Indonesia. Having said that, we observed that the price discount between Indonesia and Malaysia pricing is narrowing. This is likely due to Indonesia's lower-than-expected production as compared with Malaysia.

  c) **End-stock: Higher mom.** We expect the inventory level to increase to 2.3m-2.4m tonnes, which may be bearish for the immediate term. Having said that, Indonesia's potentially lower-than-market expectation palm oil supply may continue to support the global palm oil pricing.

SECTOR CATALYSTS

- **2H23 earnings to be stronger hoh.** Based on most of the plantation companies under our coverage, 1H23 earnings only account for about 30% of our full-year estimate. We reckon that 2H23 earnings would come in strongly with margin expansion mainly from the softer fertiliser pricing as well as lower fertiliser application (most of the companies had applied more fertiliser in 1H23). On top of that, fuel cost has also dropped in 2H23.

- **Monitoring the uncertain weather closely.** Despite highlighting the possibility of El Nino in late-3Q23, we reckon that there may be some delay. Having said that, we would like to highlight the prolonged dry weather in Canada and the US which would affect the soybean yield given such extreme hot weather.

- **Watch out for rising crude oil prices.** The recent increase in crude oil prices may trigger non-mandated biodiesel blending as vegoil prices corrected lately. Palm oil – gasoil oil (POGO) price spread has narrowed with palm oil now at a discount of US$200/tonne to gasoil after both prices diverged recently.

ASSUMPTION CHANGES

- **No changes to CPO ASP assumptions.** We maintain our CPO price assumption at RM4,000/tonne and RM4,200/tonne for 2023 and 2024 respectively.

CPO PRODUCTION BY REGION

(m tonne)	Aug 23	mom % chg	yoy % chg	8M23	yoy % chg
CPO Production	1.75	8.9	1.6	11.45	(1.1)
Pen Malaysia	*0.94*	*9.3*	*(0.9)*	*6.02*	*(7.4)*
Sabah	*0.39*	*9.8*	*1.7*	*2.83*	*9.1*
Sarawak	*0.42*	*7.2*	*7.3*	*2.59*	*4.8*

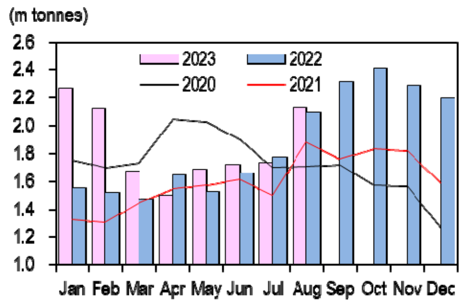
Source: MPOB

KEY EXPORTS DESTINATION FOR JAN-AUG 23

Country	Jan-Aug 23 (tonnes)	Jan-Aug 22 (tonnes)	yoy % chg
INDIA	1,576,420	1,651,464	-4.5
CHINA	766,288	621,168	23.4
KENYA	524,461	441,402	18.8
TURKIYE	468,074	540,620	-13.4
JAPAN	304,606	302,921	0.6
others	4,802,512	4,944,431	-2.9
Total	8,442,361	8,502,006	-0.7

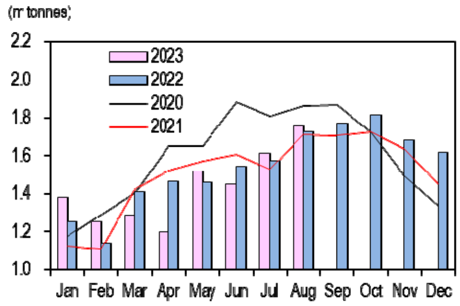
Source: MPOC

AUG 23 INVENTORY LEVEL HIGHER THAN EXPECTED



Source: MPOB

STRONG PRODUCTION IN AUG 23



Source: MPOB

COMPANY UPDATE

CDL Hospitality Trusts (CDREIT SP)

Singapore And Europe Leading The Recovery

CDREIT's six Singapore hotels will benefit from higher occupancies and increased contributions from GCWH during the seasonally stronger 2H23. Visitor arrivals have picked up since July as Singapore becomes a preferred destination for well-heeled Chinese tourists. CDREIT will benefit from the continued recovery in Germany and Italy. Residential Build-to-Rent project The Casting in the UK will start contributing in 2H24. Maintain BUY for 2024 distribution yield of 6.6%. Target price: S$1.48.

WHAT'S NEW

- **Singapore: Becoming a preferred destination for Chinese tourists.** RevPAR for CDL Hospitality Trusts' (CDREIT) six Singapore hotels increased 20.7% yoy to S$182 in 2Q23 driven by higher room rates (+28.5% yoy). The recovery would have been more pronounced if not for: a) Grand Copthorne Waterfront Hotel (GCWH) undergoing refurbishment, and b) one of its hotels exiting the last government contract in Jan 23 and still undergoing gestation in 1H23. The average length of stay in Singapore was 3.9 days in 1H23, which is 15% higher than pre-pandemic levels. We expect continued recovery from Singapore driven by higher occupancies in 2H23 due to an influx of Chinese tourists. Its six hotels in Singapore will also benefit from the healthy line-up of MICE events and concerts.

- **Repositioning GCWH as a leading conference hotel.** GCWH has just completed extensive refurbishment and will contribute more meaningfully post-renovation in 2H23. Full renovation for its 549 rooms was completed in Jun 23. The bedroom refurbishment removed 34,000 room nights (34% of total room nights) from its inventory in 1H23. Conference facilities were closed since Apr 23 but reopened in Jul 23. Room rates have increased by double digits, while the pace of bookings for corporate events have picked up. The hotel also benefits from the opening of the Havelock MRT station in Nov 22.

- **Germany: Event calendar to pick up in 2H23.** RevPAR for Germany recovered 40.5% yoy although events have not fully recovered. The recovery was driven by corporate travellers and airline crew. NPI was boosted by variable rent of €0.4m in 1H23. Pullman Hotel Munich benefits from the pick-up in events during 2H23, including Oktoberfest and IAA Mobility (motor show focusing on passenger vehicles) in September.

- **Italy: Benefitting from return of leisure travellers from Asia.** RevPAR for Italy grew 66.4% yoy and was 33.2% above pre-pandemic levels. Hotel Cerretani Firenze benefitted from the strong recovery of Asian travellers. Chinese tourists are fond of travelling to Italian cities, including Florence. The tourism industry has almost recovered back to pre-pandemic levels. NPI was boosted by variable rent of €1.2m in 1H23.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	158	229	266	288	294
EBITDA	71	105	128	149	153
Operating profit	50	84	107	128	132
Net profit (rep./act.)	72	220	48	71	72
Net profit (adj.)	28	76	48	71	72
EPU (S$ cent)	2.3	6.2	3.8	5.7	5.7
DPU (S$ cent)	4.3	5.6	6.1	7.0	7.0
PE (x)	46.1	17.0	27.4	18.4	18.3
P/B (x)	0.8	0.7	0.8	0.8	0.8
DPU Yld (%)	4.1	5.4	5.8	6.6	6.7
Net margin (%)	45.5	95.8	17.9	24.8	24.6
Net debt/(cash) to equity (%)	58.7	55.1	62.7	67.0	70.2
Interest cover (x)	4.0	n.a.	2.5	3.0	2.9
ROE (%)	4.4	12.8	2.7	4.1	4.2
Consensus DPU (S$ cent)	n.a.	n.a.	6.4	7.1	7.8
UOBKH/Consensus (x)	-	-	0.96	0.98	0.90

Source: CDL Hospitality Trusts, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$1.05
Target Price	S$1.48
Upside	+41.0%
(Previous TP	*S$1.55)*

COMPANY DESCRIPTION

CDREIT is a stapled group compromising CDL Hospitality REIT and CDL Hospitality Business Trust. It owns 19 operational properties with 4,820 rooms across eight countries with portfolio valuation of S$2.8b as of Mar 23. It is the first hospitality REIT listed on the Main Board of the SGX on 19 Jul 06.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CDREIT SP
Shares issued (m):	1,244.4
Market cap (S$m):	1,306.6
Market cap (US$m):	957.5
3-mth avg daily t'over (US$m):	1.8

Price Performance (%)

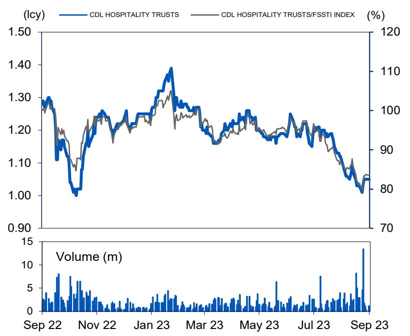
52-week high/low S$1.39/S$1.00

1mth	3mth	6mth	1yr	YTD
(7.1)	(11.8)	(16.0)	(15.3)	(16.0)

Major Shareholders	%
Kwek Hldgs	27.0

FY23 NAV/Share (S$)	1.40
FY23 Net Debt/Share (S$)	0.88

PRICE CHART



Source: Bloomberg

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- **The UK: Margin pressure from higher wages and…** RevPAR for its two UK hotels increased 10.1% yoy to £141 and room rates were 13% above pre-pandemic levels in 2Q23. Hilton Cambridge City Centre and The Lowry Hotel were affected by higher labour costs and cessation of the government's COVID-19 business rates relief since 2Q22. Hotel Brooklyn provided full six months contribution in 1H23. Fixed rent from Hotel Brooklyn has increased 5% to £2.5m per year (7 May 23 to 6 May 24).
- **…expansion in rental housing.** Residential Build-to-Rent project The Castings with 352 units in Manchester, UK, has completed structural works and topped out in Jun 23. The Castings is on track for practical completion around mid-24. There is strong demand but a supply shortage for rental housing in Manchester. Asking rents have increased 10-15% yoy for one-bed, two-bed and three-bed units. The average length of stay is one year or more. We estimate that The Casting will contribute 4.4% of NPI in 2H24.
- **Guiding for a slight increase in cost of debts.** Aggregate leverage was stable at 37.9% in 2Q23. About 48% of its borrowings are on fixed interest rates. CDREIT has refinanced term loan of S$120m with five-year sustainability-linked loan. Cost of debt increased 0.3ppt qoq to 4.1% in 2Q23.

STOCK IMPACT

- **Outlook for Singapore remains positive** with continued recovery supported by a healthy pipeline of MICE events and increased flight connectivity. Singapore Tourism Board (STB) expects visitor arrivals to reach 12m-14m in 2023 (2022: 6.3m), bringing in tourism receipts of S$18b-21b (66-75% of pre-pandemic levels). Tourism activities are expected to recover fully to pre-pandemic levels in 2024.
- **Recovery gathered pace in Jul 23.** Visitor arrivals increased 95% yoy and 26% mom to 1.4m in Jul 23, reaching 79% of pre-pandemic levels. Chinese tourists doubled mom to 231,326 in Jul 23 (16.3% of total), reaching 59% of pre-pandemic levels. China has, once again, become Singapore's largest source market. Visitor arrivals from Indonesia and Australia grew 6% and 8% mom respectively.
- **Chinese visitors to boost demand in 2H23.** Well-heeled Chinese tourists have returned since Jul 23. Flight capacity has increased and administrative kinks for visa applications have been resolved. The volume of Chinese guests is expected to increase during the National Day Golden Week in Oct 23, which coincides with the mid-autumn festival. STB expects 1.1m-2.2m Chinese visitors in 2023 (2019: 3.6m).

1H23 RESULTS

Year to 31 Dec (S$m)	1H23	yoy % chg	Remarks
Total Revenue	119.2	+20.9	Registered healthy growth despite renovation at GCWH.
Net Property Income (NPI)	62.9	+23.3	Growth driven by Singapore, Japan, Australia, Europe and the UK.
Distributable Income	31.2	+23.8	Interest costs increased 71.4% yoy.
DPU (S cents)	2.51	+23.0	

Source: CDREIT, UOB Kay Hian

EARNINGS REVISION/RISK

- We trimmed our 2023 DPU forecast by 11% due to the seasonally softer 1H23 and depreciation of AUD (-6.1% yoy) and JPY (-8.5% yoy) against the SGD.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$1.48 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

SHARE PRICE CATALYST

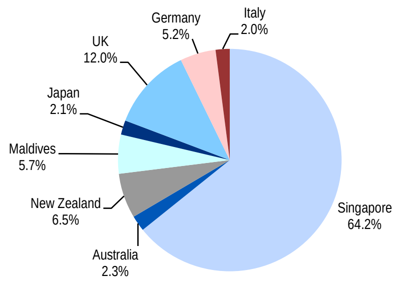
- Recovery of MICE events in Singapore. Return of corporate and leisure travellers to Australia, Germany, Italy, Japan, Maldives, New Zealand and the UK.
- Contributions from yield-accretive acquisitions, including hotels and rental housing.

KEY OPERATING METRICS – CDREIT

	2Q22	3Q22	4Q22	1Q23	2Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	2.04	n.a.	3.59	n.a.	2.51	23.0%	-30.1%
Aggregate Leverage	39.5%	39.4%	36.6%	37.5%	37.9%	-1.6ppt	0.4ppt
Weighted All-in-Financing Cost	2.3%	2.5%	3.5%	3.8%	4.1%	1.8ppt	0.3ppt
% Borrowings in Fixed Rate	63.8%	64.4%	55.9%	55.5%	47.9%	-24.9ppt	-13.7ppt
Weighted Debt Maturity (years)	1.9	1.7	2.0	1.9	2.1	0.2yrs	0.2yrs
Singapore Hotels							
Average Occupancy Rate (%)	65.2%	88.1%	86.8%	67.9%	69.2%	4ppt	1.3ppt
Average Room Rate (%)	189	226	241	259	258	36.5ppt	-0.4ppt
RevPAR	123	199	209	176	179	45.5ppt	1.7ppt

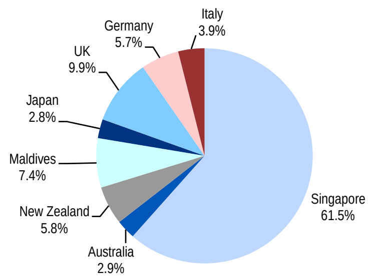
Source: CDREIT, UOB Kay Hian * *hoh % chg for DPU*

PORTFOLIO VALUATION BY COUNTRY (JUN 23)



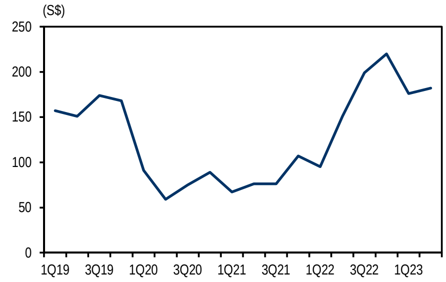
Source: CDREIT

NPI BY COUNTRY (1H23)



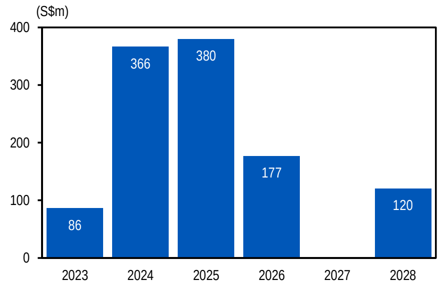
Source: CDREIT

SINGAPORE HOTELS – REVPAR



Source: CDREIT

DEBT MATURITY PROFILE



Source: CDREIT

PROFIT & LOSS

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Net turnover	229.4	266.3	287.7	293.6
EBITDA	105.1	128.4	148.8	152.9
Deprec. & amort.	21.0	21.4	20.4	20.4
EBIT	84.1	107.0	128.4	132.5
Net interest income/(expense)	0.1	(50.8)	(49.1)	(52.1)
Pre-tax profit	227.7	56.2	79.3	80.3
Tax	(7.8)	(8.2)	(7.9)	(8.0)
Minorities	(0.1)	(0.2)	0.0	0.0
Net profit	219.8	47.8	71.4	72.3
Net profit (adj.)	76.3	47.8	71.4	72.3

BALANCE SHEET

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Fixed assets	2,887.9	2,919.0	3,077.1	3,097.1
Other LT assets	62.8	119.3	3.3	3.3
Cash/ST investment	96.9	95.6	94.6	94.3
Other current assets	55.5	56.9	58.2	58.3
Total assets	3,103.2	3,190.9	3,233.3	3,253.0
ST debt	238.8	86.2	86.2	86.2
Other current liabilities	61.1	68.8	71.3	71.4
LT debt	842.0	1,105.0	1,165.0	1,205.0
Other LT liabilities	168.1	177.2	177.2	177.2
Shareholders' equity	1,786.2	1,746.3	1,726.2	1,705.8
Minority interest	6.9	7.3	7.3	7.3
Total liabilities & equity	3,103.2	3,190.9	3,233.3	3,253.0

CASH FLOW

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Operating	116.4	95.3	117.4	120.3
Pre-tax profit	223.2	51.7	75.1	76.1
Tax	(7.8)	(8.2)	(7.9)	(8.0)
Deprec. & amort.	21.0	21.4	20.4	20.4
Working capital changes	4.3	5.4	1.2	0.0
Non-cash items	10.8	12.0	12.9	13.3
Other operating cashflows	(135.1)	13.1	15.7	18.4
Investing	(98.2)	(79.7)	(42.0)	(20.0)
Capex (growth)	(77.0)	(59.7)	(22.0)	0.0
Capex (maintenance)	(22.0)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.8	0.0	0.0	0.0
Financing	(51.9)	(16.9)	(76.4)	(100.6)
Distribution to unitholders	(62.9)	(76.6)	(87.3)	(88.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	464.8	110.4	60.0	40.0
Loan repayment	(421.8)	0.0	0.0	0.0
Others/interest paid	(32.0)	(50.8)	(49.1)	(52.1)
Net cash inflow (outflow)	(33.7)	(1.3)	(1.0)	(0.3)
Beginning cash & cash equivalent	139.5	96.9	95.6	94.6
Changes due to forex impact	(8.8)	0.0	0.0	0.0
Ending cash & cash equivalent	96.9	95.6	94.6	94.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	45.8	48.2	51.7	52.1
Pre-tax margin	99.3	21.1	27.6	27.4
Net margin	95.8	17.9	24.8	24.6
ROA	7.3	1.5	2.2	2.2
ROE	12.8	2.7	4.1	4.2
Growth				
Turnover	45.4	16.1	8.0	2.1
EBITDA	48.0	22.2	15.9	2.7
Pre-tax profit	201.5	(75.3)	41.2	1.3
Net profit	206.1	(78.3)	49.4	1.3
Net profit (adj.)	172.8	(37.3)	49.4	1.3
EPU	170.8	(37.7)	48.4	0.6
Leverage				
Debt to total capital	37.6	40.5	41.9	43.0
Debt to equity	60.5	68.2	72.5	75.7
Net debt/(cash) to equity	55.1	62.7	67.0	70.2
Interest cover (x)	n.a.	2.5	3.0	2.9

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SECTOR UPDATE

Oil & Gas – Thailand

Expect Strong 3Q23 Net Profit For The Refinery Business.

There are positive factors in the crude oil market, with both crude oil prices and GRM rebounding. As a result, we expect the refinery business to see a substantial increase in net profit in 3Q23, totalling Bt38.4b, surging both qoq and yoy. In the oil & gas sector, we prefer PTTEP, Thai Oil, and PTT Oil and Retail. Maintain MARKET WEIGHT.

MARKET WEIGHT

(Maintained)

WHAT'S NEW

- **World economy has started to recover.** The economic outlook is showing signs of improvement due to two main factors: a) China's economic stimulus measures are starting to yield positive results. In August, China reported PMI score of 51pt. This is the highest PMI level since Feb 23, indicating the effectiveness of China's economic stimulus policies. These policies are now positively impacting the Chinese economy, particularly through increased domestic purchasing power; and b) there is a shift in the direction of US monetary policy, which is beginning to lean towards relaxation. Specifically, there is an expectation that the Fed will reduce interest rates by 100-125bp to a range of 4.25-4.50% by the end of 2024. Additionally, it is anticipated that US GDP will continue to expand by 3.1% qoq in 3Q23.

- **Tight supply is also a factor supporting crude oil prices.** In 3Q23, crude oil (Dubai) prices reached Us$84.50/bbl, increasing 8.7% qoq. Several key factors contributing to this significant rise in crude oil prices are: a) concerns about supply constraints — the tight supply conditions played a pivotal role in driving crude oil prices to their highest level in nine months. Notably, issues related to Saudi Arabia and Russia further escalated this situation, as they extended their production cuts by 1.0 and 0.3 million barrels per day (MBD), respectively, until the end of Dec 23; b) surging demand — crude oil demand surged to record highs in 3Q23, with expectations of continued growth.

  Forecasts suggest that crude oil demand will reach a new peak of 105.32 MBD in 4Q24 (data from OPEC's Oil Market Report in Aug 23); and c) low US crude oil reserves − the US experienced dwindling crude oil reserves, dropping by over 6.3 MB to 417 MB. Additionally, there is a renewed interest in purchasing more crude oil from the US to bolster the Strategic Petroleum Reserve (SPR).

- **Seasonal demand supports GRM.** Singapore gross refining margin (GRM) during 3Q23 stood at US$10.8/bbl, up 170% qoq and 52% yoy. The GRM for the primary products, namely gasoline, diesel, and jet fuel, recorded jumps of 25%, 90%, and 95% respectively. The rebound in GRM was attributed to several factors: a) seasonal gasoline demand, b) heightened economic activities and increased international travel, and c) decreasing inventory of refined products.

ACTION

- **Maintain MARKET WEIGHT.** We maintain an optimistic stance on the prospects of crude oil prices and GRM, driven by the restricted supply and a resurgence in demand for the rest of the year. However, our apprehensions persist regarding the petrochemical sector, given the potential repercussions of heightened new supply in 2H23 and throughout 2024. In the oil & gas sector, we prefer PTTEP (PTTEP TB/ Target: Bt182.00), Thai Oil (TOP TB/Target: Bt68.00) and PTT Oil and Retail (OR TB/Target: Bt29.00).

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PEER COMPARISON

Company	Rec	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	-------- Net Profit -------- 2023F (Btm)	2024F (Bt m)	------------ PE ------------ 2023F (x)	2024F (x)	Net EPS Growth 2023F(%)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
BCP TB	U.R.	38.00	44.00	15.8	1,482	8,043	8,331	6.5	6.3	(36.9)	0.8	3.2	9.3
ESSO TB	BUY	9.85	15.00	52.3	966	4,324	4,579	7.9	7.4	(54.5)	1.2	8.1	15.3
IRPC TB	HOLD	2.28	2.50	9.6	1,320	1,860	3,221	25.1	14.5	142.6	0.6	4.4	2.3
PTTGC TB	HOLD	36.00	41.00	13.9	4,598	6,663	9,730	24.4	16.7	176.1	0.5	5.6	2.0
SPRC TB	HOLD	9.10	9.00	(1.1)	1,118	2,757	4,122	14.3	9.6	(64.1)	1.2	4.4	7.8
TOP TB	BUY	48.75	68.00	39.5	2,817	16,380	13,989	6.6	7.8	(49.9)	0.6	5.1	10.0
Refinery					12,301	40,026	43,972	10.8	9.9	(18.8)	0.7	5.1	6.3

Source: UOB Kay Hian

SECTOR CATALYSTS

- **Increased GRM bolstering net profit recovery in 3Q23.** We expect the profit from the refinery business in 3Q23 will be around Bt38.4b, showing a significant growth on both qoq and yoy bases. This positive trend is attributed to the increased crude oil prices and GRM. However, profits from the petrochemical business are influenced by factors that negatively impact the spread of product prices, leading to a qoq reduction. This dynamic results in companies with EBITDA primarily from the refinery business, such as TOP, SPRC, BCP, and ESSO, experiencing a notable net profit growth in 3Q23.

3Q23 EARNINGS PREVIEW: REFINERY AND PETROCHEMICAL

	3Q22	2Q23	3Q23F	9M22	9M23F	yoy % chg.
BCP	2,470	458	13,720	12,103	16,919	40%
ESSO	-3,127	-1,294	2,715	11,072	2,245	-80%
IRPC	-2,549	-2,246	4,300	2,785	2,355	-15%
PTTGC	-13,384	-5,591	3,570	-9,410	-1,939	n.a.
SPRC	-5,027	-2,105	2,928	7,414	2,042	-72%
TOP	12	1,117	11,170	32,521	16,841	-48%
Total	-21,605	-9,661	38,403	56,484	38,464	-32%

Source: Bloomberg and UOB Kay Hian

ESSENTIALS

- **PTTEP (BUY/Target: Bt182.00).** The rise in crude oil prices is alleviating worries on 3Q23's operating performance. We expect product ASPs to remain consistent in 3Q23 compared with the previous quarter. The trending increase in production costs is expected to be offset by the rising sales volume, especially from the Erawan project, which has added production capacity of 400 million cubic feet per day (MMSCFD) since Jun 23. We assess PTTEP as a financially robust entity with substantial cash on hand amounting to Bt146b. The net debt-to-equity stands low at 0.25x. Additionally, the projected average EBITDA of Bt200b between 2024 and 2026, after accounting for annual capital expenditures, leaves PTTEP with a free cash flow of no less than Bt100b. This bolsters PTTEP's potential to expand investments or consider enhanced dividend payouts.

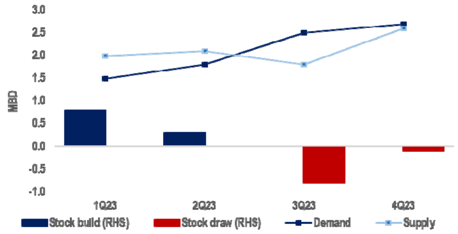
- **TOP (BUY/Target: Bt68.00).** The increased GRM and crude oil prices will serve as factors boosting core profits and driving a heightened perception of stock gains in 3Q23. Meanwhile, the utilisation rate is anticipated to remain at a high level of around 113%, closely resembling the preceding 1H23. This leads us to project that TOP's net profit in 3Q23 will be around Bt11.0b, exhibiting a significant increase on both qoq and yoy bases. TOP has announced an interim dividend at Bt0.65/share, with the ex-dividend date (XD) on 7 September and the dividend payment date on 22 September.

- **OR (BUY/Target: Bt29.00).** We anticipate that the core profit for 3Q23 will decrease qoq due to seasonal effects. However, it is expected to increase yoy due to higher oil sales volume in line with the expansion plans of the oil station and marketing margin recovery. This also includes increased revenue and EBITDA margin in the non-oil businesses, driven by the growth of Café Amazon's sales that align with the expansion of branches and cost controls as per the plan. We believe that core profit will rebound in 4Q23 due to increased oil sales and market value as the tourism sector enters its high season, starting from September onwards. This will act as a driving factor for heightened demand for gasoline, diesel, and jet fuel. OR has announced an interim dividend of Bt0.25/share, with the XD set on 7 September and the dividend payment date on 22 September.

RISKS

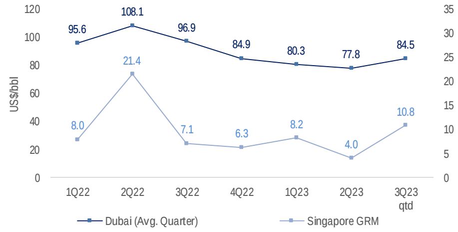
- US monetary policy easing.
- China's economic stimulus policies boosting demand for petroleum and petrochemical products in 2H23.
- Increased crude oil prices and GRM.
- Hurricane season in the US.

GLOBAL OIL DEMAND AND PRODUCTION



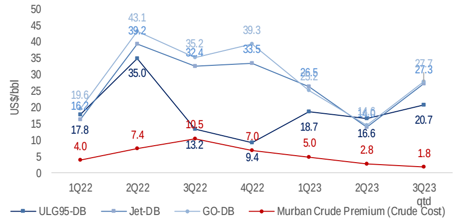
Source: Bloomberg, UOB Kay Hian

CRUDE OIL AND SINGAPORE GRM



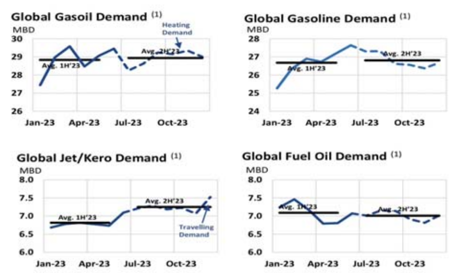
Source: Bloomberg, UOB Kay Hian

GRM'S REFINE PRODUCT AND CRUDE PREMIUM



Source: Bloomberg and UOB Kay Hian

HIGHER DEMAND GROWTH LED BY PRODUCT



Source: Bloomberg, UOB Kay Hian

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