UOBKayHian

Regional Morning Notes

Monday, 23 October 2023

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

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33127.3	(0.9)	(1.6)	(2.5)	(0.1)
S&P 500	4224.2	(1.3)	(2.4)	(2.2)	10.0
FTSE 100	7402.1	(1.3)	(2.6)	(3.7)	(0.7)
AS30	7089.7	(1.2)	(2.1)	(2.5)	(1.8)
CSI 300	3510.6	(0.6)	(4.2)	(6.1)	(9.3)
FSSTI	3076.7	(0.7)	(3.4)	(4.0)	(5.4)
HSCEI	5871.7	(0.9)	(4.0)	(6.2)	(12.4)
HSI	17172.1	(0.7)	(3.6)	(4.9)	(13.2)
JCI	6849.2	0.0	(1.1)	(2.4)	(0.0)
KLCI	1441.0	(0.1)	(0.2)	(0.6)	(3.6)
KOSPI	2375.0	(1.7)	(3.3)	(5.3)	6.2
Nikkei 225	31259.4	(0.5)	(3.3)	(3.5)	19.8
SET	1399.4	(1.7)	(3.5)	(8.1)	(16.1)
TWSE	16440.7	(0.1)	(2.0)	0.6	16.3
BDI	2046	(1.2)	5.2	28.4	35.0
CPO (RM/mt)	3756	0.2	5.2	3.5	(7.2)
Brent Crude (US$/bbl)	92	(0.4)	2.3	(1.6)	6.8

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
Anta Sports	2020 HK	91.55	128.00	39.8
BYD	1211 HK	244.40	630.00	157.8
Bank Neo Commerce	BBYB IJ	248.00	390.00	57.3
Bumi Serpong	BSDE IJ	1,005.00	1,420.00	41.3
HM Sampoerna	HMSP IJ	870.00	1,300.00	49.4
My EG Services	MYEG MK	0.79	1.18	50.3
Yinson	YNS MK	2.43	3.75	54.3
OCBC	OCBC SP	12.79	17.65	38.0
CP ALL	CPALL TB	55.75	78.00	39.9
Indorama	IVL TB	23.00	30.00	30.4

KEY ASSUMPTIONS

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

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Post 3Q2023 Results Virtual Meeting with Far East Hospitality Trust (FEHT SP)	Singapore	25 Oct	25 Oct
Presentation by Wilmar International (WIL SP)	Malaysia	2 Nov	2 Nov
1HFY24 Results Virtual Meeting with Singapore Airlines Ltd (SIA SP)	Singapore	8 Nov	8 Nov

COMPANY RESULTS

Bank Central Asia (BBCA IJ)

3Q23: In Line With Expectations, Likely To Book Stable NIM In 4Q23

BBCA's net profit in Sep 23 was down 3.6% qoq but up 11.5% yoy, and 9M23 net profit grew 25.5% yoy, which is in line with expectations. CIR rose to 36% (2Q23:31%) due to higher opex in 3Q23. A higher write-off led to a 20bp qoq increase in CoC to 0.3% in 3Q23, but the write-off was less than 1% of the loan. With its low LDR and CASA-dominated funding, BBCA could contain the impact of the industry's tighter liquidity and higher reference rates. We maintain BUY with an unchanged target price of Rp10,300.

3Q23 RESULTS

Year to 31 Dec (Rpb)	3Q23	qoq % chg	yoy % chg	9M23	yoy % chg	Comments
Profit & Loss						
Interest Income	22,300	-2.1%	20.1%	64,885	24.3%	
Interest Expenses	3,376	6.0%	57.0%	8,978	46.8%	
Net Interest Income	18,796	1.2%	15.1%	55,900	21.3%	
Non-Interest Income	6,134	3.7%	10.0%	18,300	9.6%	
Total Income	24,930	1.8%	13.8%	74,200	18.2%	
Operating Expenses	9,400	12.0%	15.4%	27,000	16.4%	
PPOP	15,530	-3.5%	12.9%	47,200	19.2%	
Provision Expenses	418	-0.9%	141.6%	2,300	-41.0%	In line with the expectations
Net Profit	12,210	-3.6%	11.5%	36,400	25.5%	
Key Metrics (%)	9M23	9M22	yoy % chg	3Q23	qoq % chg	Comments
Loan (Rpt)	766	682	12.30%	766	4.1%	Slower CASA growth, but still above industry growth
Deposit (Rpt)	1,089	1,026	6.20%	1,089	1.7%	
Loan/Deposit Ratio	70.4%	66.5%	3.9%	70.4%	1.6%	
CASA Ratio	79.9%	81.0%	-1.1%	79.9%	-0.9%	
NIM	5.5%	5.1%	0.4%	5.5%	0.0%	
CIR	33.6%	34.5%	-0.9%	36.1%	4.9%	
NPL Ratio	2.0%	2.2%	-0.2%	2.0%	0.1%	Improving asset quality with LaR ratio dropping to 7.6%
NPL Coverage Ratio	226.9%	247.9%	-21.0%	226.9%	-30.2%	
Credit Cost	0.4%	0.8%	-0.4%	0.3%	0.2%	
CAR	29.5%	25.4%	4.1%	29.5%	0.0%	
ROE	23.5%	20.6%	2.9%	22.3%	-3.8%	
ROA	3.6%	3.0%	0.6%	3.5%	-0.4%	

Source: BBCA

RESULTS

- **3Q23 net profit was down 3.6% qoq but up 11.5% yoy.** Bank Central Asia's (BBCA) net profit was down 3.6% qoq, but up 11.5% yoy. Driven by a 4.1% qoq loan growth and 6.5% qoq increase in fee income, operating income grew 1.8% qoq (+13.8% yoy). However, higher costs led to a 3.5% qoq (+12.9% yoy) decline in pre-provision operating profit (PPOP). Opex rose 12% qoq (+15.4% yoy), resulting in cost to income ratio (CIR) surging to 36.1% in 3Q23 from 31.2% in 2Q23.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net interest income	56,136	63,990	75,382	84,986	94,279
Non-interest income	22,338	23,487	25,408	26,949	28,187
Net profit (rep./act.)	31,440	40,756	49,377	55,990	61,743
Net profit (adj.)	31,440	40,756	49,377	55,990	61,743
EPS (Rp)	254.9	330.2	400.0	453.6	500.2
PE (x)	35.2	27.2	22.4	19.8	17.9
P/B (x)	5.5	5.0	4.5	4.1	3.7
Dividend yield (%)	1.2	1.8	2.3	2.8	3.1
Net int margin (%)	5.1	5.3	5.7	5.7	5.8
Cost/income (%)	38.6	37.1	34.8	33.7	33.2
Loan loss cover (%)	241.0	287.7	268.8	269.3	275.8
Consensus net profit	-	-	48,716	53,493	57,864
UOBKH/Consensus (x)	-	-	1.01	1.05	1.07

Source: BBCA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp8,975
Target Price	Rp10,300
Upside	+14.8%

COMPANY DESCRIPTION

BBCA is the largest private bank in Indonesia.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	BBCA IJ
Shares issued (m):	123,275.1
Market cap (Rpb):	1,152,621.7
Market cap (US$m):	75,261.0
3-mth avg daily t'over (US$m):	43.1

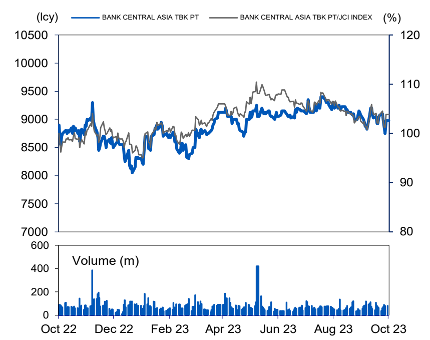
Price Performance (%)

52-week high/low Rp9,400/Rp7,900

1mth	3mth	6mth	1yr	YTD
1.6	6.3	4.5	18	9.4

Major Shareholders	**%**
Dwimuria Investama Andalan	54.9
FY23 NAV/Share (Rp)	2,007
FY23 CAR Tier-1 (%)	23.51

PRICE CHART



Source: Bloomberg

ANAYLST(S)

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- **9M23 net profit grew 25.5% yoy, in line with expectations.** Powered by: a) low-teens loan growth, b) NIM expansion, and c) lower credit cost (CoC), 9M23 profit grew 25.5% yoy to Rp36.4t. This is in line with our and market expectations, accounting for 74%/75% of our/market full-year estimates. Despite a 47% yoy increase in interest expenses, net interest income rose 21.3% yoy as loans grew 12.3% yoy and net interest margin expanded 40bp yoy. Opex increased 16.4% yoy, bringing CIR to 33.6% in 9M23. PPOP rose 19% yoy to Rp27t. IT-related costs (communication, hardware and software) grew 43.8% yoy, accounting for 7.4% of total opex (9M22: 6.0%). CoC dropped by 40bp to 0.4% in 9M23. NPL ratio was stable at 2.0% with NPL coverage standing at 227% in Sep 23.

- **Higher loan contribution to total earning assets in 9M23 improved the yield.** Loans outstanding stood at Rp766t, growing 12.3% yoy (7.7% ytd/4.1% qoq) as all segments posted positive yoy loan growth. The SME loan segment reported the highest growth, followed by the consumer segment, with respective loan growth of 16.4% yoy and 14.4% yoy. With the strong loan growth, the SME segment's contribution to total loan increased 13.7% while that from the consumer segment jumped to 24.8%. The better asset mix and higher loan contribution to total earning assets improved the asset yield. The asset yield expanded by 109bp yoy to 7.3% in 9M23, which was slightly higher than 1H23's 7.24%.

- **Slower CASA growth in Sep 23, but CASA ratio was relatively stable with LDR relatively low.** Despite the strong loan growth, liquidity remained ample with loan to deposit ratio (LDR) standing at 70.4% as deposits grew 6.2% yoy. The LDR was far below the industry's LDR of 85.7% which we believe can provide an opportunity for the bank's loans to surpass the industry's. Current and saving account (CASA) growth decelerated to 4.7% yoy (Jun 23: 5.7% yoy). Nevertheless, CASA ratio remained high at 80% and CASA to loan ratio stood at 114%. Given that the funding was dominated by CASA, the bank could manage the pressure of high reference rate to NIM which was stable at 5.5% in 3Q23 (2Q23: 5.5%, 9M22: 5.1%).

- **LaR ratio declined to 7.6% in Sep 23, and CoC dropped 40bp yoy.** Loan at risk (LaR) ratio declined to 7.6% in Sep 23 from 11.7% in Sep 22 as restructured loans outstanding fell 35.6% yoy. NPL ratio was relatively stable at 2.0% in Sep 23 with a loan write-off of Rp1.5t. The write-off was relatively small, accounting for less than 1% of total loans outstanding. However, it was higher than the write-off in 1H23 (Rp640b). With a higher write-off in 3Q23, CoC rose by 20bp qoq, but was still within management's guidance.

EARNINGS REVISION/RISKS

- **Retain our 2023/24 earnings estimates.**

- **Risk:** Adverse macro development, geopolitical uncertainties, changes in regulations, worsening asset quality, lower NIM and higher expenses.

VALUATION/RECOMMENDATION

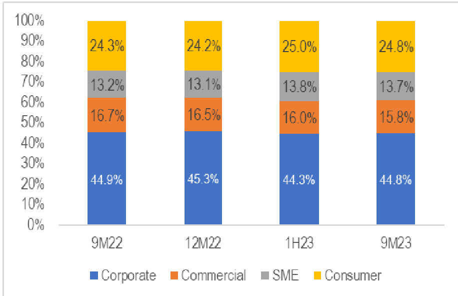
- **Maintain BUY with a target price of Rp10,300.** Using the Gordon Growth Model, we derived a fair P/B of 4.6x, assuming an ROE of 20.8%, long-term growth of 8% and cost of equity of 10.8%. BBCA has the lowest LDR and the highest CASA to loan and CASA ratio in the industry which provide an opportunity for the bank's loans to grow above industry where its cost of fund is less sensitive to changes in reference rates. The bank also has the best asset quality among its peers with LaR ratio standing at 7.6% and LaR coverage at 67%. As at end-Sep 23, the write-off accounted for less than 1% of its loans. BBCA's ROE stood at 23.5% in 9M23, higher than 20.6% in 9M22. BBCA is trading at 4.2x forward P/B, or +0.5SD to its five-year average. Looking at PE, BBCA is trading at 21.2x, close to -1.5SD to its five-year mean forward PE.

LOAN GROWTH

(Rpt)	9M23	% yoy	% ytd	% qoq
Corporate	343.5	12.2%	6.6%	5.4%
Commercial	121	6.5%	3.1%	2.7%
SME	104.8	16.4%	12.8%	3.4%
Consumer	189.6	14.4%	10.1%	3.2%
Mortgage	117.9	11.5%	8.1%	2.9%
Vehicles	53.5	22.1%	15.9%	4.0%
Personal & C.(	15	15.3%	9.2%	2.8%
Employee	3.3	1.0%	0.7%	2.3%
Sharia	7.6	6.2%	3.8%	-0.2%
Total	**766.1**	**12.3%**	**7.7%**	**4.1%**

Source: BBCA

LOAN COMPOSITION



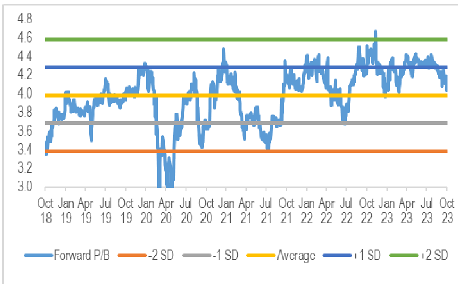
Source: BBCA

DEPOSIT GROWTH AND COMPOSITION

(Rpt)	9M23	% yoy	% ytd	% qoq
Current Account	338	6.1%	4.2%	2.7%
Saving Accounts	532	3.9%	1.6%	-0.7%
CASA	870	4.7%	2.6%	0.6%
Time Deposits	219	12.3%	14.2%	6.1%
Deposit	1,089	6.2%	4.7%	1.6%
CASA Ratio	79.9%	-1.1%	-1.7%	-0.8%

Source: BBCA

FORWARD P/B



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Interest income	72,241	86,734	97,200	107,240
Interest expense	(8,252)	(11,353)	(12,215)	(12,960)
Net interest income	63,990	75,382	84,986	94,279
Fees & commissions	16,584	17,744	18,987	20,316
Non-interest income	23,487	25,408	26,949	28,187
Total income	87,476	100,789	111,934	122,466
Staff costs	(13,651)	(15,017)	(16,218)	(17,515)
Other operating expense	(18,831)	(20,012)	(21,519)	(23,142)
Pre-provision profit	54,994	65,761	74,197	81,809
Loan loss provision	(4,527)	(4,040)	(4,210)	(4,631)
Pre-tax profit	50,467	61,721	69,988	77,178
Tax	(9,711)	(12,344)	(13,998)	(15,436)
Net profit	40,756	49,377	55,990	61,743
Net profit (adj.)	40,756	49,377	55,990	61,743

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Cash with central bank	21,360	21,360	21,360	21,360
Govt treasury bills & securities	18,682	22,058	23,162	24,522
Interbank loans	120,380	157,378	157,378	157,378
Customer loans	693,779	770,094	843,253	927,579
Investment securities	248,895	292,774	352,168	394,814
Derivative receivables	182,167	186,398	191,263	196,857
Fixed assets (incl. prop.)	24,709	25,451	26,214	27,001
Other assets	4,759	1,669	(1,590)	(5,269)
Total assets	1,314,732	1,477,181	1,613,209	1,744,241
Interbank deposits	7,936	7,936	7,936	7,936
Customer deposits	1,030,452	1,092,134	1,150,185	1,218,150
Debt equivalents	2,073	2,073	2,073	2,073
Other liabilities	53,089	127,089	179,703	215,759
Total liabilities	1,093,550	1,229,232	1,339,897	1,443,918
Shareholders' funds	221,019	247,786	273,148	300,160
Minority interest - accumulated	163	163	163	163
Total equity & liabilities	1,314,732	1,477,181	1,613,209	1,744,241

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	25.9	23.5	24.0	24.2
Total CAR	26.8	24.7	25.2	25.4
Total assets/equity (x)	5.8	5.8	5.8	5.7
Tangible assets/tangible common equity (x)	5.8	5.8	5.8	5.7
Asset Quality				
NPL ratio	1.7	1.8	1.8	1.7
Loan loss coverage	287.7	268.8	269.3	275.8
Loan loss reserve/gross loans	4.9	4.8	4.8	4.7
Increase in NPLs	(13.9)	16.8	8.6	6.6
Credit cost (bp)	65.2	53.0	50.0	50.0
Liquidity				
Loan/deposit ratio *	67.3	70.5	73.3	76.1
Liquid assets/short-term liabilities	15.4	18.3	17.4	16.6
Liquid assets/total assets	12.6	14.0	12.8	11.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	14.0	17.8	12.7	10.9
Fees & commissions, yoy chg	13.0	7.0	7.0	7.0
Pre-provision profit, yoy chg	14.2	19.6	12.8	10.3
Net profit, yoy chg	29.6	21.2	13.4	10.3
Net profit (adj.), yoy chg	29.6	21.2	13.4	10.3
Customer loans, yoy chg *	11.4	11.0	9.5	10.0
Customer deposits, yoy chg	6.4	6.0	5.3	5.9
Profitability				
Net interest margin	5.3	5.7	5.7	5.8
Cost/income ratio	37.1	34.8	33.7	33.2
Adjusted ROA	3.3	3.6	3.7	3.8
Reported ROE	19.2	21.1	21.5	21.5
Adjusted ROE	19.2	21.1	21.5	21.5
Valuation				
P/BV (x)	5.0	4.5	4.1	3.7
P/NTA (x)	5.0	4.5	4.1	3.7
Adjusted P/E (x)	27.2	22.4	19.8	17.9
Dividend Yield	1.8	2.3	2.8	3.1
Payout ratio	47.8	51.1	54.7	56.2

SECTOR UPDATE

Automobile – Malaysia

Sep 23 TIV: Mom Slowdown In Sales As Consumer Waited For Budget 2024

MAA's September TIV came in at 68,156 units, bringing ytd TIV to 571,767 units (+11% ytd). We revise our forecast upwards by 4.5% to 700,000 units in 2023, taking into consideration the stronger-than-expected demand primarily for national car brands. However, we maintain a neutral outlook for the rest of 2023 and 2024, due to an expectation of limited catalysts, and the subsequent softening in numbers. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Sep 23 TIV dropped mom, but improved yoy.** The Malaysia Automotive Association's (MAA) Sep 23 total industry volume (TIV) decreased 6.4% mom, but improved 5% yoy to 68,156 units. 9M23 TIV was 571,767 units (+11% yoy). We believe the lower sales in Sep 23 was due to consumers' wait-and-see approach in anticipation of new incentives to be unveiled in Malaysia's Budget 2024. EV sales have surged over 100% yoy to 5,630 units ytd compared with 2,631 units, bolstered by the continuous introduction of new models and the government's commitment to enhancing the EV ecosystem in Malaysia, which suggests promising potential for further expansion.
- **National brands: Mom dip in sales, but maintaining healthy numbers**. In Sep 23, Perodua maintained its lead in the auto market, selling 28,995 units (-7% mom, +18% yoy) with a 40% market share, while second-place Proton sold 12,006 units (-12% mom, -18% yoy). The A and B car segments continued to demonstrate a favourable performance, driven by models such as Bezza, Myvi and Axia for Perodua and Iriz, Saga and Persona for Proton. We understand that most brands experienced a decline in mom sales due to customers' wait-and-see approach for incentives to be unveiled during Malaysia's Budget 2024.
- **Non-national brands affected as customers awaited Malaysia Budget 2024.** For non-national brands, Toyota retained its market leadership with sales of 9,020 units (+0.7% mom, -0.8% yoy), followed by Honda with 6,514 units sold (-16% mom, -9% yoy). Meanwhile, Mazda recorded sales of 1,378 units (-26% mom, +40% yoy) in Sep 23. This monthly performance suggested a slowdown in demand for non-national brands due to the same aforementioned reason, but still maintains strong figures on a yoy basis.

ACTION

- The sector is trading at 8x 2024F PE, which is still at a discount to its five-year PE mean of 12x. We have revised our TIV forecast upwards to 700,000 units in 2023, given the positive numbers and stronger-than-expected demand recorded, especially for national car brands. However, we retain our MARKET WEIGHT call on the sector and maintain our neutral view as there are no significant catalysts to boost the industry volume currently. Thus, we expect sector revenue and earnings to decline 11% and 16% in 2H23 respectively.
- **Bermaz Auto (BAUTO MK/BUY/Target: RM2.86).** We expect BAUTO's 2QFY24 revenue and earnings to decline 26-44% and 57-60% qoq respectively. We anticipate a decrease in demand for BAUTO's key brand, Mazda, over the remaining three months of 2023, primarily due to the impact of price increases introduced for some models in Apr 23 and the shift in customers' interest to EV cars. Nevertheless, the outlook will remain stable, supported by progress in its CKD line-up, a steady orderbook, and an attractive dividend yield of 6.9%. The target price is still based on an ascribed PE of 12x to its FY24F EPS.

MARKET WEIGHT

(Maintained)

SEGMENTAL RATING

Segment	Rating
Automobile	MARKET WEIGHT (MAINTAINED)

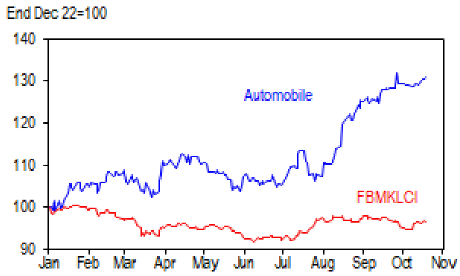
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price	Target Price
BERMAZ AUTO	BAUTO MK	BUY	2.45	2.86

Source: Bloomberg, UOB Kay Hian

AUTOMOBILE SECTOR OUTPERFORMED KLCI



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

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PEER COMPARISON

Company	Ticker	Rec	Price @ 20 Sep 23 (MYR)	Target Price (MYR)	Upside/(Downside) to TP (%)	Market Cap (MYR 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 (%)
Bermaz Auto	BAUTO MK	BUY	2.45	2.86	16.7	2,855.1	10.3	11.3	3.4	3.1	6.8	7.4	34.4
UMW Holdings	UMWH MK	BUY	4.81	5.00	3.9	5,619.5	12.7	13.4	1.0	0.9	7.2	8.0	7.9

Source: UOB Kay Hian

- **UMW Holdings (BAUTO MK/BUY/Target: RM5.00).** We forecast UMW's revenue and earnings to decrease 26-28% and 33-36% qoq respectively. We expect a slowdown in new bookings for Toyota in 2H23, but anticipate a recovery in the equipment, M&E and aerospace segments that should offset the impact of lower vehicle sales. The target price is based on the offer price of RM5.00, which implies 14x 2024F PE (UMW's five-year mean).

ESSENTIALS

- **Increase 2023 TIV forecast to 700,000 units (from 670,000) (4.5% yoy).** We revise our forecast upwards by 4.5% to 700,000 units, taking into consideration the stronger-than-expected demand. We have incorporated an additional 30,000 units into our projection, primarily based on the expectation that national brands like Perodua and Proton will continue to bolster demand, particularly among budget-conscious mass-market customers attracted to affordable models. Brands that have a wide range of affordable choices in the A and B car segments in the market will be able to attract more customers. Hence, this will bolster our forecast for the remaining months in 2023, resulting in an estimated total industry volume (TIV) of 128,233 units (or 42,744 units per month).

- **Remaining conservative for 2024.** For 2024, we expect TIV to come in at 650,000-680,000 units. However, this assumption surpasses the five-year pre-pandemic average (2016-20) of 577,841 units, indicating that our forecast is above historical figures, which we consider to be a healthy sign in the industry. We foresee limited catalysts in 2024 that can significantly boost TIV numbers further, in contrast to 2022 and 2023, except for the ongoing introduction of new models by certain brands.

- **National brand still supporting the numbers.** Perodua and Proton have shown significant ytd sales growth in 2023, with Perodua units experiencing a 19% yoy increase and Proton units achieving a 17% yoy growth. Notably, new bookings for Perodua are robust, resulting in shorter waiting times of 2-5 months compared with 2-8 months in 2022, depending on the models. This has led to a healthy decrease in order backlog (Sep 23: 155,000 units, Aug 23: 155,000 units, Jul 23: 190,000 units), while new orders will be further supported by year-end promotions. Proton's monthly sales declined 12.4% yoy, attributed to buyers awaiting the announcement of new incentives in Malaysia Budget 2024. However, the continuous debut of new models and collaborations with Geely are expected to bolster sales. Proton's transition to a hybrid model (X90) represents a positive step toward full electric vehicle (EV) adoption.

- **Malaysia Budget 2024: Neutral on automobile sector.** The recent budget announcements will further enhance the EV and sustainability ecosystem by introducing additional incentives, which include: a) extension of income tax relief for EV charging expenses, b) tax deductions for EV rental costs, and c) introduction of the Electric Motorcycle Adoption Incentive Scheme. We have gathered information indicating that over 90% of EV car buyers belong to the T20 group. We believe the numbers can be further supported by the ongoing government incentives and plans, ultimately benefitting the B40 and M40 groups. Note that EV sales have surged over 100% yoy to 5,630 units ytd compared with 2,631 units, indicating promising potential for further growth.

TOP KEY MARQUES YTD

	----------- Sales (Units) -----------		--------- Market Share (%) ---------		-------------- Ranking --------------	
Make	Jan–Sept 23	Jan–Sept 22	Jan–Sept 23	Jan–Sept 22	Jan–Sept 23	Jan–Sept 22
Perodua	233,227	196,354	40.8	38.2	1	1
Proton	114,806	98,028	20.1	19.1	2	2
Toyota	75,398	70,132	13.2	13.6	3	3
Honda	54,017	60,183	9.4	11.7	4	4
Mazda	14,213	10,536	2.8	2.0	5	5
Others	80,106	79,216	14.0	15.4	n/a	n/a
TIV	571,767	514,449	100	100	n/a	n/a
Passenger	512,852	456,572	90	89	n/a	n/a
Commercial	58,915	57,877	10	11	n/a	n/a

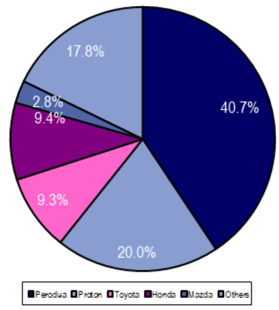
Source: MAA

KEY ASSUMPTIONS

Financial Year	TIV Forecasts (units)
2019	604,281
2020	529,514
2021	508,911
2022	720,658
2023F	670,000
2023F (New forecast)	700,000

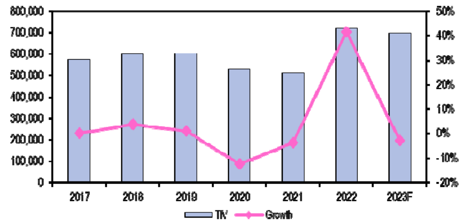
Source: MAA, UOB Kay Hian

MARKET SHARE AS OF 9M23



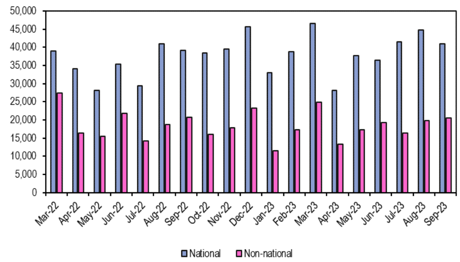
Source: MAA

YEARLY TIV NUMBERS



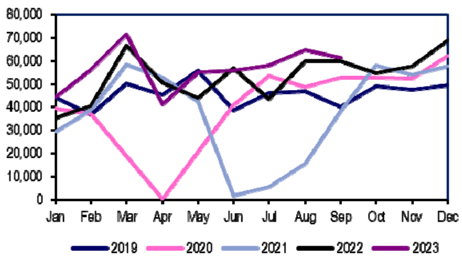
Source: MAA

NATIONAL AND NON-NATIONAL VEHICLES



Source: MAA

PASSENGER VEHICLES TREND



Source: MAA

COMPANY UPDATE

Raffles Medical Group (RFMD SP)

Entering Vietnam; Inflection Point Remains To Be Seen

RFMD announced its expansion into Vietnam through a majority stake acquisition in a hospital. Its Changi TCF has also been extended till Feb 25. However, the reveal of TCF unit prices was lower than expected. Moving forward, the healthcare services segment is expected to face lower margins while a persistently strong Singapore dollar would drag the hospital services segment's recovery. Maintain BUY but with a lower target price of S$1.47.

WHAT'S NEW

- **Regional expansion…** Raffles Medical Group (RFMD) announced that it is acquiring a majority stake in a hospital named American International Hospital (AIH) in Ho Chi Minh, Vietnam. The hospital was founded in 2018, has 120 beds and staff of about 500 including 60 doctors. This is in line with our expectations that RFMD would expand regionally given its growing cash war chest and limited domestic growth potential. It was noted that the valuation of the hospital was at US$45.6m and would be funded internally by cash. RFMD had about S$300m in cash as at end-1H23. It would also enter into a management services agreement to manage AIH operations.

- **…to benefit RFMD to a slight extent.** Not much financial details were given about the transaction in the press release. However, looking at a recent comparable transaction, Thomson Medical Group recently acquired the 200-bedder FV Hospital in Vietnam at around S$440m valuation, ~16.8x EV/EBITDA and S$26m EBITDA. Given AIH's valuation of US$45.6m and an EV/EBITDA multiple assumption of around 13x, we assume AIH has an EBITDA of S$5m-6m. Furthermore, the management services agreement to manage AIH operations would bring in higher revenue and higher quality earnings for RFMD. Assuming a 70% stake and annual EBITDA of S$3m-5m from the service agreement, we estimate this would boost RFMD's 2024 net profit estimate by at most 4-5%. Additional potential upside may come from the service agreement.

- **Extension granted.** It was recently announced on GEBIZ, Singapore government's tendering website, that RFMD's Changi Transitional Care Facility (TCF) had been granted an extension. This TCF is now set to operate till Feb 25, in line with our earlier expectations that the Changi TCF would be extended. There were a total of nine applicants including current TCF operators Thomson Medical and Crawfurd Hospital. Based on the details released, RFMD had the lowest overall bid of S$151,392, less than half of the second-lowest overall bid. This is largely due to the absence of one-off set-up costs and RFMD having the lowest bid for COVID-19 treatment services by a large margin. We opine that this is due to existing economies of scale and expertise that RFMD currently has running the existing TCF.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	724	767	681	641	690
EBITDA	161	236	177	159	160
Operating profit	121	196	140	124	122
Net profit (rep./act.)	84	144	106	94	93
Net profit (adj.)	84	143	106	94	93
EPS (S$ cent)	4.5	7.7	5.7	5.1	5.0
PE (x)	26.2	15.3	20.7	23.2	23.5
P/B (x)	2.3	2.2	2.1	2.0	1.9
EV/EBITDA (x)	12.3	8.4	11.2	12.4	12.4
Dividend yield (%)	2.4	3.2	3.0	2.7	2.5
Net margin (%)	11.6	18.7	15.6	14.7	13.5
Net debt/(cash) to equity (%)	(9.4)	(17.7)	(22.6)	(26.0)	(29.4)
Interest cover (x)	28.1	57.0	n.a.	n.a.	n.a.
ROE (%)	9.1	14.5	10.2	8.8	8.4
Consensus net profit	-	-	120	122	122
UOBKH/Consensus (x)	-	-	0.88	0.77	0.77

Source: RMG, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$1.18
Target Price	S$1.47
Upside	+24.9%
(Previous TP	*S$1.70)*

COMPANY DESCRIPTION

Raffles Medical Group Limited is a health care provider. The Company operates medical clinics, imaging centers, and medical laboratories. Raffles provides general and specialized medical, medical evacuation, medical advisory, and dental treatment services.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	RFMD SP
Shares issued (m):	1,862.4
Market cap (S$m):	2,197.6
Market cap (US$m):	1,601.2
3-mth avg daily t'over (US$m):	1.0

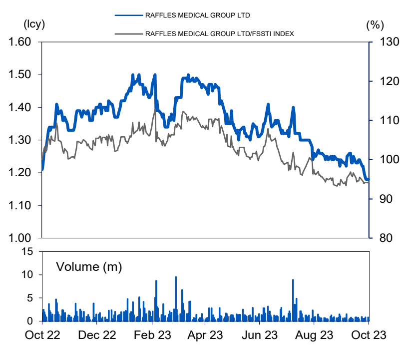
Price Performance (%)

52-week high/low S$1.50/S$1.18

1mth	3mth	6mth	1yr	YTD
(4.8)	(10.6)	(19.2)	(4.1)	(15.7)

Major Shareholders	%
Dr Loo Choon Yong	52.8
FY23 NAV/Share (S$)	0.57
FY23 Net Cash/Share (S$)	0.13

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Details revealed.** The unit price per bed for the TCF has been revealed for the first time. For a minimum occupancy quantity (MOQ) of 40 beds, the price was S$468/bed/day. Any incremental capacity above MOQ was at S$488/bed/day. As the TCF has around 200 beds, this implies annual revenue of S$30m-35m (beds x unit price x 365 days) on a stable 90% occupancy. A recent domestic COVID-19 wave coupled with an ongoing hospital bed crunch is expected to help support occupancy levels. Despite the TCF contract extension being generally positive for RFMD, this is still starkly lower than our previous annual TCF revenue estimates of S$110m-120m, as compared with S$30m-35m mentioned earlier.

- **Change to revenue mix assumptions.** From RFMD's 1H23 results, we initially estimated that RFMD had around S$85m of COVID-19-related revenue in 1H23, of which S$55m was from the TCF given the absence of vaccination and PCR test revenue. Based on the new information, excluding an estimated semi-annual TCF revenue of around S$15m, we estimate that there was about S$50m of COVID-19-related (excluding TCF) revenue in 1H23, S$20m more than our initially expected S$30m. However, we expect this source of revenue to taper off completely in 2H23. We also reckon that 1H23 core clinic revenue is likely better than previously estimated. From the 1H23 results, we had already pencilled in close to 15% yoy growth from pre-COVID-19 levels (2019) at S$82m. However, we now estimate that 1H23 core clinic revenue is 35-40% higher than 2019 levels at around S$95m-100m, driven by higher patient footfall at RFMD's clinics.

- **Triple whammy.** Overall, we see downside risks to our 2023-25 revenue and earnings estimates due to a combination of higher-than-expected COVID-19-related revenue, lower TCF contributions, and increased contributions from the lower-margin core clinic segment. Also, a persistently strong Singapore dollar against regional currencies is expected to drag RFMD's hospital services segment's recovery in 2H23. We now expect 2H23 PATMI to fall 45.2% yoy and 23.2% hoh respectively (-41.5% yoy and -18.0% hoh previously) to S$46m. Potential upside may come from the three upcoming TCF tenders. Based on an average 133 beds per TCF and similar terms to the current TCF, we estimate that winning one TCF tender would lift our 2024 PATMI forecast by 3-4%.

HEALTHCARE SERVICES SEGMENTAL BREAKDOWN (S$'000)

	FY17	FY18	FY19	FY20	FY21	FY22	1H23
Total Revenue	203,342	215,875	234,910	278,119	443,553	490,730	234,288
Insurance Revenue	81,337	86,350	93,964	93,748	98,158	100,209	67,022
Core Clinic Revenue	122,005	129,525	140,946	134,371	145,395	150,521	97,266
COVID-19 Revenue*	-	-	-	40,000	170,000	210,000	50,000
TCF Revenue	-	-	-	10,000	30,000	30,000	15,000

*Source: Bloomberg, UOB Kay Hian *Expected to taper off in 2H23.*

EARNINGS REVISION/RISK

- **Downward revisions to our 2023-25 PATMI forecasts.** We now expect 2023-25 PATMI of S$105.8m (S$108.9m previously), S$94.2m (S$101.6m previously) and S$93.1m (S$93.3m previously) respectively. Given the lack of clarity, we have not added the AIH stake acquisition and management agreement into our estimates.

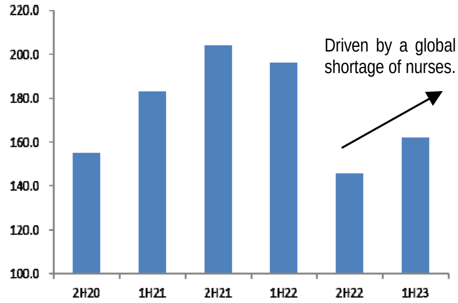
VALUATION/RECOMMENDATION

- **Maintain BUY but with a lower PE-based target price of S$1.47 (S$1.70 previously),** pegged to the same 29x PE multiple, RFMD's long-term average mean PE, to 2024F PATMI estimates (2023F previously). Although we are bullish on RFMD's expansion in China/Vietnam and potential new acquisitions in the medium to long term, we only expect an inflection point in late-24 or 2025. Thus, given an upcoming short-term normalisation in earnings, we have rolled over our PE multiple to 2024F. RFMD currently trades (21x) at a discount to regional peers (31x).

SHARE PRICE CATALYST

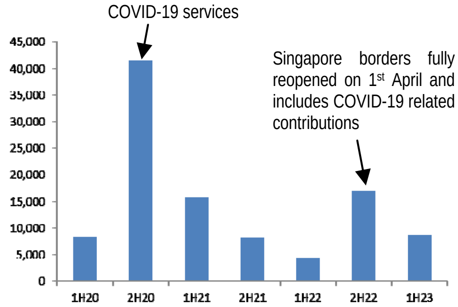
- Ramp-up of Chinese hospitals' operations and winning upcoming TCF tenders.

RFMD'S SEMI-ANNUAL STAFF COSTS (S$M)



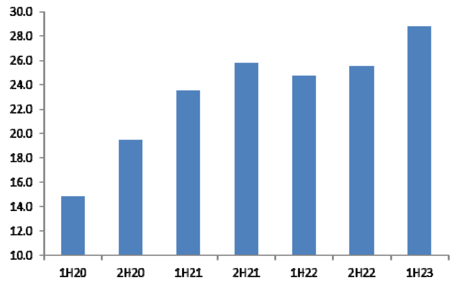
Source: UOB Kay Hian, RFMD

HOSPITAL SERVICES' SEMI-ANNUAL EBIT (S$M)



Source: UOB Kay Hian, RFMD

RFMD'S REVENUE FROM CHINA (S$M)



Source: UOB Kay Hian, RFMD

HISTORICAL FORWARD PE

Source: Bloomberg, UOB Kay Hian

HISTORICAL FORWARD PE

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Net turnover	766.5	681.5	640.6	689.8
EBITDA	236.1	177.0	158.8	159.6
Deprec. & amort.	40.2	37.0	34.8	37.5
EBIT	195.8	140.0	124.0	122.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(4.1)	1.3	1.8	2.3
Pre-tax profit	191.7	141.4	125.8	124.4
Tax	(48.0)	(35.3)	(31.4)	(31.1)
Minorities	(0.2)	0.0	0.0	0.0
Net profit	143.5	106.0	94.3	93.3
Net profit (adj.)	143.3	105.8	94.2	93.1

BALANCE SHEET

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Fixed assets	1,012.5	1,025.4	1,040.6	1,053.2
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	253.1	311.1	356.9	404.2
Other current assets	207.1	145.5	106.2	108.1
Total assets	1,497.7	1,507.0	1,528.7	1,590.5
ST debt	9.7	9.7	9.7	9.7
Other current liabilities	316.0	281.0	264.1	284.4
LT debt	63.4	63.4	63.4	63.4
Other LT liabilities	78.2	82.1	86.2	90.6
Shareholders' equity	1,015.1	1,055.5	1,090.0	1,127.1
Minority interest	15.4	15.4	15.4	15.4
Total liabilities & equity	1,497.7	1,507.0	1,528.7	1,590.5

CASH FLOW

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Operating	196.2	137.6	126.5	133.6
Pre-tax profit	191.7	141.4	125.8	124.4
Tax	(48.0)	(35.3)	(31.4)	(31.1)
Deprec. & amort.	40.2	37.0	34.8	37.5
Working capital changes	(32.9)	(5.2)	(2.5)	3.0
Other operating cashflows	45.2	(0.2)	(0.2)	(0.2)
Investing	(22.8)	(50.0)	(50.0)	(50.0)
Capex (growth)	(22.8)	(50.0)	(50.0)	(50.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(183.7)	(29.7)	(30.7)	(36.3)
Dividend payments	(52.0)	(32.7)	(29.9)	(28.0)
Issue of shares	6.0	0.0	0.0	0.0
Proceeds from borrowings	(94.4)	0.0	0.0	0.0
Others/interest paid	(43.3)	3.0	(0.8)	(8.3)
Net cash inflow (outflow)	(10.3)	57.9	45.8	47.3
Beginning cash & cash equivalent	265.0	253.1	311.1	356.9
Changes due to forex impact	(1.5)	0.0	0.0	0.0
Ending cash & cash equivalent	253.1	311.1	356.9	404.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Turnover	5.9	(11.1)	(6.0)	7.7
EBITDA	47.0	(25.0)	(10.3)	0.5
Pre-tax profit	65.9	(26.3)	(11.0)	(1.1)
Net profit	70.5	(26.1)	(11.0)	(1.1)
Net profit (adj.)	70.5	(26.1)	(11.0)	(1.1)
EPS	71.9	(26.1)	(11.0)	(1.1)
Profitability				
EBITDA margin	30.8	26.0	24.8	23.1
Pre-tax margin	25.0	20.7	19.6	18.0
Net margin	18.7	15.6	14.7	13.5
ROA	9.4	7.1	6.2	6.0
ROE	14.5	10.2	8.8	8.4
Leverage				
Debt to total capital	6.6	6.4	6.2	6.0
Debt to equity	7.2	6.9	6.7	6.5
Net debt/(cash) to equity	(17.7)	(22.6)	(26.0)	(29.4)
Interest cover (x)	57.0	n.a.	n.a.	n.a.

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