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STRATEGY – GREATER CHINA

Alpha Picks: September Conviction Calls

Both the MSCI China and HSI fell about 8.5% in August as the lack of significant stimulus announcements dampened market sentiment. The August earnings season also saw relatively conservative management guidance and emphasis on cost efficiencies and asset light strategies. Against this backdrop, we focus on stocks with pricing power or sustainable margins; we add Giordano, KE Holdings and Trip.com to our BUY list.

WHAT'S NEW

- **Review of August.** The MSCI China and HSI fell 8.5% respectively in August, almost erasing the gains from July as the lack of significant stimulus announcements dampened investors' sentiment. Having carried over our optimism from July, we were wrong footed. For August, most of our stock picks faced price corrections due to market weakness. Among them, COPH (2669 HK/BUY) was the best performer among our stock picks, having increased 5.6% after reporting a better-than-expected 1H23 results.
- **September could see similar levels of volatility.** There could be further supportive policy announcements, which may only provide short-lived rallies, that are dampened by weak macro data. August was also the 2Q/1H23 earnings season, and at the time of writing, about 60% of the 2Q23 earnings on CSI300 have been tabulated. Only 25% of the stocks on CSI300 surprised on the upside and overall earnings are 6.4% below consensus estimates. There were also more companies disappointing on the top-line as well, and managements have generally stressed on further efforts to raise efficiency and focus on asset-light strategies. With no signs of a major stimulus push in the near term, we would like to focus on stocks with pricing power or sustainable margins. We add Giordano, KE Holdings and Trip.com to our BUY list.

ACTION

- **Add Giordano (709 HK) to our BUY list** as we expect it to see strong growth momentum in emerging markets and further recovery in Mainland China in 2H23.
- **Add KE Holdings (2423 HK) to our BUY list** as we believe Beike's housing transaction business will benefit from the recent policy easing on the property market, thus fuelling the company's valuation. Continuous margin expansion will also be fostered by optimised resource utilisation and streamlined personnel structure.
- **Add Trip.com (9961 HK) to our BUY list** as we believe TCOM is well-positioned to benefit from strong pent-up demand for outbound travel and continuous solid domestic travel demand during the summer holiday and National Day in 2H23.
- **Take profit** on Li Auto (2015 HK) from our BUY list.
- **Cut losses** on Aier Eye Hospital (300015 CH), COSCO Shipping Ports (1199 HK), CR Beer (291 HK), and Tencent (700 HK).
- **Maintain BUY** on Baidu (9888 HK), BYD (1211 HK), CATL (300750 CH), COPH (2669 HK), CR Land (1109 HK), Inovance (300124 CH), Kuaishou (1024 HK), Moutai (600519 CH), Ping An Insurance (2318 HK), Sands China (1928 HK).

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Baidu	BUY	144.20	192.00	33.2
BYD	BUY	253.40	590.00	132.8
CATL	BUY	237.65	410.00	72.5
COPH	BUY	9.50	11.69	23.1
CR Land	BUY	36.45	47.48	30.3
Giordano International	BUY	3.01	3.89	29.2
Inovance	BUY	68.98	82.00	18.9
KE Holdings	BUY	48.55	64.00	31.8
Kuaishou	BUY	65.50	100.00	52.7
Moutai	BUY	1,866.00	2,520.00	35.1
Ping An Insurance	BUY	50.10	73.00	45.7
Sands China	BUY	27.35	36.00	31.6
Trip.com	BUY	329.80	411.00	24.6

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Aug 23 (%)	To-Date* (%)
Aier Eye Hospital	BUY	-2.4	-43.9
Baidu	BUY	-1.6	-1.6
BYD	BUY	-5.8	11.5
CATL	BUY	0.5	5.1
COSCO Shipping Ports	BUY	0.2	-1.6
COPH	BUY	5.6	5.6
CR Beer	BUY	-1.8	-1.8
CR Land	BUY	4.9	4.9
Inovance	BUY	-1.8	15.1
Kuaishou	BUY	-0.2	13.9
Li Auto	BUY	-3.0	13.3
Moutai	BUY	-1.2	12.1
Ping An Insurance	BUY	-6.4	-6.4
Sands China	BUY	-6.2	-6.2
Tencent	BUY	-2.9	-13.4
Hang Seng Index		-8.5	

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

PORTFOLIO RETURN

(%)	3Q22	4Q22	2022	1Q23	2Q23
HSI return	-21.2	14.9	-15.5	3.1	-7.3
Alpha Picks Return					
- Price-weighted	-5.7	-9.7	-9.4	1.4	-5.5
- Market cap-weighted	-8.8	-1.9	-6.6	2.0	-8.6
- Equal-weighted	-2.5	1.5	-3.8	0.3	-5.9

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

Source: UOB Kay Hian

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VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 4 Sep 23 (lcy)	Target Price (lcy)	Last Year End	PE 2023F (x)	PE 2024F (x)	PE 2025F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap. (LC$m)	Price/ NTA ps (x)
BUY												
Baidu	9888 HK	BUY	144.20	192.00	Dec 22	14.7	15.5	14.0	0	7.0	403,295	1.5
BYD	1211 HK	BUY	253.40	590.00	Dec 22	28.2	17.8	12.5	0.7	19.6	278,233	6.5
CATL	300750 CH	BUY	237.65	410.00	Dec 22	24.5	15.9	11.2	0.8	21.9	1,044,834	6.5
COPH	2669 HK	BUY	9.50	11.69	Dec 22	22.4	19.5	14.9	1.5	37.9	30,798	6.5
CR Land	1109 HK	BUY	36.45	47.48	Dec 22	8.1	8.0	7.0	4.6	10.5	236,391	0.8
Giordano International	709 HK	BUY	3.01	3.89	Dec 22	12.7	11.3	10.1	10.6	16.6	4,825	1.4
Inovance	300124 CH	BUY	68.98	82.00	Dec 22	38.2	32.2	27.6	0.7	19.2	182,521	11.1
KE Holdings	2423 HK	BUY	48.55	64.00	Dec 22	24.7	20.3	17.4	1.1	7.4	182,505	2.2
Kuaishou	1024 HK	BUY	65.50	100.00	Dec 22	35.3	18.9	12.3	0	-8.8	285,294	5.7
Moutai	600519 CH	BUY	1,866.00	2,520.00	Dec 22	32.0	27.5	23.3	1.6	41.7	2,344,065	9.8
Ping An Insurance	2318 HK	BUY	50.10	73.00	Dec 22	6.8	6.1	5.5	5.2	5.2	969,674	1.0
Sands China	1928 HK	BUY	27.35	36.00	Dec 22	30.1	14.1	11.6	0	167.0	221,349	114.1
Trip.com	9961 HK	BUY	329.80	411.00	Dec 22	24.7	20.3	17.4	0	5.1	213,100	1.7

Source: Bloomberg, UOB Kay Hian
**P/B instead of PE*
***PEV instead of PE*

Baidu – BUY (Julia Pan/Ming San Soong)

- Looking into 2H23, Baidu's advertising revenue is guided to grow sequentially in 3Q23 and 4Q23. For 2H23, advertising revenue growth as compared with 2H21 is expected to surpass 3%. In 3Q23, Baidu Core's non-GAAP operating profit and non-GAAP operating margin are both expected to sustain positive yoy growth. In 2Q23, Baidu's core search revenue climbed 14% yoy to Rmb26.4b. Online marketing revenue growth continued to accelerate and increased 15% yoy compared to 6% in 1Q23, coming in 2% better than our expectations, primarily due to macro recovery and continuous strong recovery in verticals with high offline exposure. In Jun 23, Baidu App's monthly active users reached 677m, up 8% yoy. Other revenue delivered 14% yoy growth in 2Q23, sustaining from 14.7% yoy in 1Q23, mainly due to the resilient AI-powered businesses and cloud business. AI Cloud delivered a decelerated growth of 13% yoy to Rmb4.8b, partially impacted by the delay in fee collection and cloud project completion. On 31 August, Baidu's generative AI Ernie bot was unveiled to the general public, implying more relaxed policy approach towards AI. On 16 Aug 23, Baidu updated its Ernie LLM 3.5, which it claims is well-recognised by its cloud customers, AI developers and industry experts. Ernie LLM 3.5 has achieved a 3x faster training speed and 30x faster inference speed.
- Maintain BUY on Baidu with a target price of HK$192.00. The company now is trading at 12.2x 12-month PE, below its historical mean of 17.8x. Our target price implies 16.5x 2023F PE against 32% EPS CAGR over the next three years.

SHARE PRICE CATALYST

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

BYD – BUY (Ken Lee)

- BYD posted in-line 2Q23 net profit of Rmb6,824m (+145% yoy/+65% qoq), at the mid-point of its guidance range of Rmb6.37b-7.57b. 1H23 net profit grew 205% yoy to Rmb10,954m, vs guidance range of Rmb10.5b-11.7b, our estimated 2023 net profit of Rmb23.8b (+43% yoy) and consensus 2023 net profit of Rmb23.6b (+42% yoy) for full-year 2023. We expect sales and earnings to grow qoq in 3Q-4Q23 along with the sales ramp-up of the models launched in 2Q23 and the debuts of new models in 2H23, including Seal DM-i, Song L, Denza N7/N8, Fang Cheng Bao 5, Yangwang U8/U9.

- Maintain BUY with target price of HK$590.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

SHARE PRICE CATALYST

- Event: a) Growth of monthly EV sales volume, and b) upbeat 3Q23 results.
- Timeline: Sep-Oct 23

CATL – BUY (Ken Lee)

- CATL posted upbeat 2Q23 net profit of Rmb10,859m (+63% yoy/+11% qoq) and 1H23 net profit of Rmb20,717m (+154% yoy), compared with our estimate of Rmb42,570m (+39% yoy) and consensus' estimate of Rmb45.57b (+48% yoy). CATL has been launching multiple brand-new battery products in 2023, including Qilin battery, M3P battery, condensed battery, and sodium-ion battery. We expect revenue to grow at 30% CAGR in 2023-25F, based on 44% CAGR in battery sales volume and a 14% p.a. drop in ASP. Gross profit per wh will likely remain steady at Rmb0.16-0.17, based on the plunge in the prices of lithium carbonate and other battery materials and the ramp-up of the company's upstream projects, including lithium, nickel and cobalt.
- Maintain BUY with target price of Rmb410.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

SHARE PRICE CATALYST

- Event: a) Growth in monthly EV battery shipments, b) drop in lithium carbonate prices, and c) 3Q23 results.
- Timeline: Sep-Oct 23.

China Overseas Property Holdings – BUY (Jieqi Liu/Damon Shen)

- COPH released better-than-expected interim results, underpinned by strong expansion capacity and effective cost control. COPH's attributable net profit grew by 39.2% yoy to HK$726m, beating expectations. In 1H23, COPH further increased gross profit margin of property management services and lowered SG&A ratio. Community VAS resumed strong growth with relatively stable margin. Engineering services rose as the new driver, but margin has yet to stabilise. Management reiterated its target of 30% CAGR earnings during 2021-25. We expect COPH to be a pioneer to unlock value of existing homes (maintenance, transaction, etc). COPH currently is trading at 14.4x 2024F PE, which is 1SD below mean.
- Maintain BUY on COPH with a target price of HK$11.69.

SHARE PRICE CATALYST

- Event: a) Easing of demand-side industry policies, and b) faster-than-expected implementation of Housing Maintenance Fund (HMF).
- Timeline: 3Q23-4Q23.

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

- In Aug 23/8M23, China Resources Land's (CR Land) contracted sales decreased by 8.8% and increased 21.2% yoy to Rmb20.3b/Rmb 207.7b respectively. In August, CR Land continued its pace of land acquisition, winning three land plots for a total land consideration of Rmb5.1b. We expect CR Land to maintain strong competitiveness in 2H23. CR Land's interim results also beat expectations, and further strengthened its market-leading position. Core attributable net profit increased by 10.9% yoy to Rmb11.3b, better than our 2023 earnings growth forecast of 5.9%. Interim dividend is Rmb0.198/share, up 8.8% yoy. CR Land is currently trading at 0.8x 2023F P/B, 8x

2023PE and with 2023 dividend yield of 4.6%. As a top SOE developer and leading mall operator, we think CR Land will continue to increase its market share and is among the best proxies to invest in China's property sector.

- Maintain BUY on CR Land with a target price of HK$47.48.

SHARE PRICE CATALYST

- Event: Further easing of policies in property industry.
- Timeline: 3Q23.

Giordano International – BUY (Kate Luang)

- Giordano's 1H23 net profit surged by 96% yoy to HK$190m, underpinned by a successful Mainland China turnaround and proactive franchise expansion in emerging markets. We believe online sales and the addition of franchise stores will fuel the growth in Mainland China in 2H23, and we see proactive franchise expansion in emerging markets as the key growth driver going forward. We like Giordano given: a) its improving brand image globally, thanks to continuous product upgrades, localised marketing strategies, and ongoing store optimisation; b) competitive advantage from nimble supply chain management that continues to support strong cash flow generation; and c) generous dividend payout policy that offers attractive dividend yield.
- BUY with target price of HK$3.89 based on 10-year DCF, implying 8.2% dividend yield in 2023 and 16.4x 2023F PE. Giordano is currently trading at 12.7x 2023F PE, 0.9SD below its pre-pandemic historical mean of 15.6x in 2014-18. We believe that Giordano's valuation has not fully captured its growth momentum in emerging markets and strong cash flow generating capabilities.

SHARE PRICE CATALYST

- Event: a) Franchise expansion in Mainland China, especially from October onwards; b) store relocation to primer locations in Hong Kong; and c) strong same-store sales growth in 3Q23.
- Timeline: 2H23

Inovance – BUY (Johnny Yum)

- Inovance managed to rise to the top selling servo and low-current inverter brand in China in 2Q23, while registering robust share gains in small-sized PLC and industrial robots during the quarter as well. We believe the import substitution trend is irreversible, and we expect further share gains in the long term as domestic leaders expand their product offerings and close the technological gap. Inovance may also be a potential beneficiary of the upcoming government stimulus due to its exposure to consumer electronics and property market (through its elevator business), as we believe that the positive policies can improve the manufacturer's investment sentiment. Moreover, Inovance is now exploring new businesses such as linear guide equipment, and expanding into the overseas market, which should both serve as key growth drivers in the mid-long term.
- Maintain BUY and target price of Rmb82.00, which is based on 38.3x 2024F PE, on a par with its historical mean PE.

SHARE PRICE CATALYST

- Event: Improvements in official industrial output data.
- Timeline: Sep 23.

KE Holdings – BUY (Julia Pan/ Ming San Soong)

- KE Holdings' (Beike) 3Q23 revenue is guided to reach Rmb16b, down 10-15% yoy, with a 20% yoy decline in GTV. Its existing housing transaction revenue is forecasted to decline

10-15% qoq, mainly due to a high base in July and Aug 22. The new housing transaction services revenue is expected to decline by 30-35% yoy and 40% qoq in 3Q23. 2Q23 revenue reported a positive growth of 41% yoy (1Q23: +62%). Existing home transaction revenue growth decelerated to 16% yoy (1Q23: +49%), supported by a 16% yoy increase in gross transaction value (GTV) served by connected agents on the Beike platform. New home transaction services revenue growth remained intact at 45% yoy to Rmb8.7b. 2Q23 non-GAAP operating income sustained its positive trajectory with non-GAAP operating margin expanding by 16ppt yoy to 11%, mainly underpinned by optimised resource utilisation and more streamlined personnel structure. The company expects 3Q23 to be the bottom and expects the Beike housing transaction business to benefit from the recent policy easing on the property market, thus fuelling the company's valuation. On 31 Aug 23, the PBOC and the China Banking and Insurance Regulatory Commission issued notices to adjust and optimise the current differentiated housing credit policy, with the target of cutting downpayment ratios and interest rates for individual housing loans to better meet the demands for both essential and improved housing.

- Maintain BUY with a target price of HK$64.00 (US$23.00), using 20x PE against average earnings of 2023/24, implying 1.7x 2023 EV/Sales. Beike is trading at 1.2x 12-month forward EV/sales, 0.8SD below its historical mean of 2.3x.

SHARE PRICE CATALYST

- a) Higher monetisation rates, b) less competition, c) positive policies issued by the government to simulate housing transactions and a better funding environment for property developers, and d) household income recovery after China's reopening.
- Timeline: 2H23

Kuaishou – BUY (Julia Pan/ Ming San Soong)

- Kuaishou guided a better-than-expected 3Q23 and full-year 2023 outlook. 3Q23 revenue is estimated to ramp up by high teens to twenties, with online marketing/live-streaming/other services are forecasted to grow at about 21%/mid-single digit/30% yoy respectively. Live-streaming revenue growth is expected to be flat yoy in 4Q23, mainly impacted by the enhanced governance of the live-streaming ecosystem since Jun 23. The strong online marketing revenue is bolstered by solid brand advertising revenue recovery (10+% in 2Q23) and mid-thirties yoy growth in e-commerce gross merchandise value (GMV). Gross profit is estimated to inch up by 4ppt yoy, translating to gross margin of 50%. Operating profit is expected to remain stable sequentially, while net profit is guided to be around Rmb2b, thanks to lowering marketing expenses and continuous narrowing of overseas losses. For full-year 2023, the company expects yoy revenue growth of 20% and to achieve non-GAAP net profit of Rmb7b-7.5b. In 2Q23, Kuaishou's online marketing services revenue grew 30% yoy to Rmb14.3b, fuelled by enhanced monetisation efficiency. The number of active advertisers on Kuaishou's platform almost doubled yoy in 2Q23. Live-streaming revenue delivered a slightly moderated growth of 16% yoy (1Q23: 19%; 2Q22: 19%), bolstered by double-digit yoy growth in monthly ARPPU as well as enhanced array of live-streaming content and optimised live-streaming ecosystem. E-commerce GMV grew 39% yoy while revenue jumped 58% yoy to Rmb3b, primarily attributed to the implementation of a scoring mechanism and monetisation for product matching for key opinion leaders (KOL) through the KOL distribution channel.
- Maintain BUY on the company with a target price of HK$100.00. Our target price implies 3x 2023F PS. The company is currently trading at 2x 12-month forward EV/Sales (15.6x 2024F PE), below its historical mean of 4x.

SHARE PRICE CATALYST

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

Moutai – BUY (Jo Yee Ng/Stella Guo)

- Despite the tepid overall baijiu market, the demand for premium baijiu, particularly Moutai, remains rigid. This is evident from the solid revenue growth in 2Q23, low success rate of purchases made through the i-Moutai app and the stable wholesale prices. We remain confident on the company being able to achieve full-year revenue growth target of 15% yoy and its improving profitability with a net margin expansion of 0.5ppt yoy, which will be driven by: a) rising sales volume of Moutai products from capacity expansion, b) product line extension (such as Moutai 24 Solar Term series and Moutai Chinese Zodiac series), and c) expansion in direct sales channels. Moutai stands out with its strong brand reputation and earnings visibility.
- Maintain BUY. Our DCF-based target price of Rmb2,520 implies 43.4x 2023F PE.

SHARE PRICE CATALYST

- Event: Increasing wholesale prices leading up to the Mid-Autumn Festival and National Day holidays.
- Timeline: 3Q23.

Ping An Insurance – BUY (Greater China Research Team)

- The new business value (NBV) of Ping An in 1H23 recorded an impressive 45% yoy (second-highest among peers) growth to Rmb25,960m, with NBV of the agent channel and the bancassurance channel surging 43.0% and 174.7% yoy respectively. Ping An also defended its margin well due to its industry-leading NBV margin from bancassurance channel, attributed to the cost synergy generated from the cooperation with its subsidiaries, Ping An Bank. Additionally, we believe Ping An will continue to deliver a high-single digit NBV growth in 2H23 even after the suspension of life insurance with a 3.5% rate, due to the continuous resilient saving insurance products demand and Ping An’s integrated finance business model to increase its customer stickiness as shown in increasing of contracts per customer. We continue to like Ping An given: a) success of its “4 channels + 3 products” life reform strategy as shown by the increasing productivity of agent and rapid growth in bancassurance distribution channel via increasing Private Wealth Adviser teams, b) competitive advantage from its “integrated finance + healthcare” business model, c) strong premium growth momentum to persist in 2H23 due to a low-base effect, and d) the positive policy measures to boost capital market may improve Ping An’s investment yield.
- BUY with target price of HK$73.00, implying 0.7x 2024F P/EV. We believe that Ping An's valuation has not fully captured the recovery of its fundamentals, especially after we saw a strong turnaround in 1H23.

SHARE PRICE CATALYST

- Event: a) Success of life reform to deliver more sustainable NBV growth in 2H23, and b) recovery of capital market
- Timeline: 2H23.

Sands China – BUY (Ng Jo Yee/Stella Guo)

- Sands China will be the largest beneficiary of the mass market recovery with the return of group tours and increasing visitations from non-Guangdong provinces and international countries. In Jun 23, the company’s mass GGR recovered to 97% of 2019’s level (vs the 85% level in 2Q23). We expect a sequential mom improvement and expect its mass GGR to fully recover in 3Q23 on the back of full operating capacity, amid the summer peak season and an uplift in international flight frequency. We also expect its EBITDA margin to continue rising in the coming quarters as mass and non-gaming revenue recover.
- Our target price of HK$36.00 implies 13.6x 2024F EV/EBITDA.

SHARE PRICE CATALYST

- Event: Better-than-expected GGR during the summer peak holiday.
- Timeline: 3Q23.

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

- Trip.com (TCOM) is well-positioned to benefit from strong pent-up demand for outbound travel and continuous domestic travel demand during the summer holiday and National Day in 2H23. According to the Ministry of Culture and Tourism, summer tourism market in 2023 is expected to surpass 2019’s level. According to the China Tourism Academy's forecast, during July and August, the number of domestic tourists is expected to reach 1.3b, accounting for 20.2% of the total annual domestic tourism trips. However, the growth in China's domestic travel is expected to moderate slightly after the summer and National Day holidays due to seasonality. However, the gradual expansion in capacity of outbound flights is anticipated to drive further outbound demand and contribute to sustained growth throughout 2023. For 2024, the full recovery in outbound travel will lift revenue growth to 15-20%, according to TCOM. The company also observed the divergent industry trends in per capita spending on its platform (grew 10% from pre-COVID-19 levels) due to increased frequency. We forecast 2Q23 revenue to surge 169% yoy to Rmb10.8b, or 25% above the 2Q19 level. Gross margin was guided at 80-81%, edging up marginally from 2019 levels. Non-GAAP operating profit is guided at Rmb3.1b for 2Q23, translating to non-GAAP operating margin of 29%. For full-year 2023, revenue is guided to grow over 20% above 2019’s level, mainly bolstered by the release of domestic travel demand. Operating margin for 2023 is projected at about 25%.
- We maintain BUY with a target price of HK$411.00 (US$54.00), which implies 1x/0.8x 2023/24F PEG over the next three years, and compares with 1.2x before the pandemic.

SHARE PRICE CATALYST

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

STRATEGY – INDONESIA

Alpha Picks: Underperformance In Aug 23

Our portfolio declined by an average of 1.9% in Aug 23 compared with the JCI's return of -0.7%. Our short idea ADRO delivered a 9.8% appreciation, working against our view. BSDE declined 5.2% followed by HMSP which fell 4.3%. Other losers were SMGR (-3.5%) and MAPI (-3.3%). Gainers were MYOR (+7.3%), BBNI (+2.4%) and CTRA (+1.2%). We dropped ADRO as our analyst has upgraded the stock to BUY. Our picks: MYOR, BSDE, CTRA, HMSP, BBNI, SMGR and MAPI.

WHAT'S NEW

- **Our portfolio underperformed again in Aug 23.** Our portfolio declined by an average of 1.9% in Aug 23, underperforming the JCI which declined by only 0.7%. The biggest loser was our short idea on ADRO which delivered a 9.8% appreciation. BSDE dropped by 5.2%, HMSP dropped by 4.3%, SMGR declined by 3.5% and MAPI declined by 3.3%. Gainers are MYOR (+7.3%), BBNI (+2.4%) and CTRA (+1.2%)
- **Drop ADRO.** We drop ADRO from our selection of short ideas as our analyst has upgraded it to BUY.
- **MAPI is the top performer in our portfolio.** We continue to like MAPI as it is entering new markets such as Cambodia, penetrating existing markets such as Vietnam and the Philippines and acquiring new brands such as Footlocker.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Posmarito Pakpahan	Bank Negara Indonesia	BUY	-2.1%	Loan growth to accelerate in 2H23
Stevanus Juanda	Mitra Adiperkasa	BUY	63.4%	Earnings surprise on the upside. Over 15% EPS growth for the next two years.
Limartha Adhiputra	Bumi Serpong Damai	BUY	-4.0%	Better 3Q23 marketing sales and NPAT achievement.
Limartha Adhiputra	Ciputra Development	BUY	14.5%	Better 3Q23 marketing sales and NPAT achievement.
Limartha Adhiputra	Semen Indonesia	BUY	-0.4%	Potentially stronger sales volume, margin expansion, and higher NPAT achievement in 2H23.
Stevanus Juanda	HM Sampoerna	BUY	-4.9%	Recovery in purchasing power, selling price increased, attractively priced at -1SD PE.
Stevanus Juanda	Mayora Indah	BUY	7.3%	ASP increase of 15% in 2022 and raw material cost drop will expand margin in 2023.
				Drop: ADRO

** Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as Alpha Pick Source: UOB Kay Hian

KEY RECOMMENDATIONS

Ticker	Rec	Price 31 Aug-23 (Rp)	Target Price (Rp)	Potential Upside (%)
BBNI	BUY	9,175	11,200	22.1
SMGR	BUY	6,800	9,200	35.3
BSDE	BUY	1,135	1,420	25.1
MAPI	BUY	1,935	2,500	29.2
CTRA	BUY	1,140	1,300	14.0
HMSP	BUY	880	1,300	47.7
MYOR	BUY	2,620	3,000	14.5

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Aug-23 (%)	To Date (%)
BBNI	BUY	2.4%	-2.1%
SMGR	BUY	-3.5%	-0.4%
BSDE	BUY	-5.2%	-4.0%
MAPI	BUY	-3.3%	63.4%
CTRA	BUY	1.2%	14.5%
HMSP	BUY	-4.3%	-4.9%
ADRO	HOLD	-9.8%	-9.8%
MYOR	BUY	7.3%	7.3%
JCI		-0.7%	
USD-IDR X-RATE		-1.0%	

Source: UOB Kay Hian

PORTFOLIO RETURN

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

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

Source: UOB Kay Hian

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VALUATION

Company	Ticker	Rec	Price 31-Aug-23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US$m)	3M Avg Turnover (US$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	ROE 2023F (%)	Div. Yield 2023F (%)	Net Gearing (%)
Bank Negara Indonesia	BBNI	BUY	9,175	11,200	22.1	11,236	16.8	7.9	6.9	1.1	1.0	15	(74)	(74)
Semen Indonesia	SMGR	BUY	6,800	9,200	35.3	3,027	5.0	14.8	13.3	1.0	1.0	7	18	0
Bumi Serpong Damai	BSDE	BUY	1,135	1,420	25.1	1,578	1.4	10.0	9.9	0.7	0.6	7	0	15
Mitra Adiperkasa	MAPI	BUY	1,935	2,500	29.2	2,109	3.0	14.2	11.6	3.3	2.7	26	15	(1)
Ciputra Development	CTRA	BUY	1,140	1,300	14.0	1,388	2.5	10.5	8.7	1.1	1.0	10	(1)	(10)
HM Sampoerna	HMSP	BUY	880	1,300	47.7	6,722	2.0	12.3	11.7	3.5	3.4	29	(10)	(39.7)
Mayora Indah	MYOR	BUY	2,620	3,000	14.5	3,847	1.2	25.9	22.0	4.0	3.4	17.9	17	17.1

Source: Bloomberg, UOB Kay Hian

Mayora Indah – BUY (Stevanus Juanda)

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

SHARE PRICE CATALYST

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

Bumi Serpong Damai − BUY (Limartha Adhiputra)

- **Meaningful 1H23 marketing sales achievement of Rp4.79t, equivalent to 54% of 2023 marketing sales target of Rp8.8t, up 3% yoy.** The residential segment contributed Rp3.02t, or 63%, to the total 1H23 marketing sales. The commercial segment (including commercial lots, apartments, and shophouses) contributed Rp1.78t, representing 37% of total 1H23 marketing sales. With the meaningful 1H23 achievement, we believe BSDE could achieve its 2023 marketing sales target of Rp8.8t.
- **Expectation of rate cut(s) in late-2H23 and 2024 could lead to an appreciation in BSDE's share price.** The recent decline in inflation numbers in both the US and Indonesia could lead to interest rate cut(s) in 2H23 and 2024. Property names including BSDE could re-rate upwards on the back of an expected rate reduction. Interest rates have peaked and downside is likely. Based on historical performance, BSDE's share price tends to rise whenever interest rates stabilise with expectations of declining.
- **Expect 2023F-24F NPAT to grow 6.8% yoy to Rp2.6t and 0.2% yoy to Rp2.6t respectively.** After strong yoy yoy earnings growth in 1H23, we expect BSDE to continue its earnings growth in 2H23. BSDE usually records higher development revenue in 2H23 as handover of property units usually take place in 2H23. All in all, we maintain our 2023 NPAT forecast at Rp2.6t, up 6.8% yoy and 2024 NPAT forecast at Rp2.6t, up 0.2% yoy.
- **Maintain BUY with a target price of Rp1,420.** We maintain our BUY call for BSDE with a target price of Rp1,420, pegged to its +1SD five-year discount to RNAV of 76.3%.

Currently, BSDE is trading at its five-year mean discount to RNAV, which is still attractive. Solid growth in development revenue and NPAT could still come in 2023 as BSDE starts to hand over the 2021-22 property sales.

SHARE PRICE CATALYST

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

Ciputra Development − BUY (Limartha Adhiputra)

- **Ciputra Development (CTRA) upgraded its 2023 marketing sales target to Rp9.8t (+19% yoy).** CTRA expects additional growth from all major locations including Medan and Makassar, with a larger contribution from Greater Jakarta and Greater Surabaya. In Jul 23, CTRA further expanded the landed residential portfolio by launching an additional cluster in CitraGarden Serpong. In Aug 23, CTRA had several new projects set to be launched, eg Citra City Sentul, CitraGarden Bintaro and CitraLand Sampali, along with new clusters within CitraLand Gama City Medan and CitraLand Tanjung Morawa. Joint operation and direct ownership projects will contribute 61% and 39% respectively of CTRA's 2023 marketing sales target of Rp9.8t.
- **2H23 marketing sales achievement could be higher than 1H23 as more new products launched.** In Jul 23, CTRA launched a new cluster called Diandre in CitraGarden Serpong. This launch resulted in marketing sales of Rp356b, with a take-up rate of 75%. CTRA plans to launch Citra City Sentul and expects to generate Rp400b in its marketing sales. Another project in Greater Jakarta is CitraGarden Bintaro which is estimated to achieve marketing sales of Rp400b in the first phase. Three projects in Medan, CitraLand Sampali, CitraLand Gama City, and CitraLand Tanjung Morawa are expected to generate marketing sales of Rp450b, Rp130b, and Rp120b respectively.
- **Expect 2023-24 net profit to grow 7.6% yoy to Rp2.0t and 19.6% yoy to Rp2.4t respectively.** 2023-24 revenue could grow on stronger development revenue growth. The high marketing sales in 2022 will translate into stronger development revenue for 2023-24. We expect 2023 revenue to grow 9.8% yoy to Rp10t, of which 78.7% will be development revenue and 21.3% will be recurring revenue. We forecast 2024 revenue at Rp10.8t (+8.2% yoy) with 78.5% contribution from development revenue and 21.5% contribution from recurring revenue.
- **Maintain BUY with a target price of Rp1,300.** This is derived from five-year +1SD discount to 2023 RNAV/share, or at a 66.5% discount to our RNAV. We think CTRA deserves an above-average valuation as it has well-diversified projects in and outside Java that can drive its marketing sales growth in 2023. CTRA is currently trading at near five-year mean discount to 2023 RNAV/share.

SHARE PRICE CATALYST

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

Bank Negara Indonesia − BUY (Posmarito Pakpahan)

- **Fundamental improvement in credit risk.** In the last couple of quarters, Bank Negara Indonesia (BBNI) focused on de-risking its balance sheet which led to moderate loan growth compared to other big banks, but also resulted in improving credit risk. Risk Weighted Asset (RWA) density credit risk for loan portfolio declined by 4.6% yoy to 74.7% in Jun 23, which also resulted in an improvement in CAR ratio. BBNI's provision coverage (NPL coverage: 309% and LaR coverage: 47%) is much higher than that in 2019 (NPL coverage: 134% and LaR coverage: 32.3%).

- **Higher CAR, plans to raise DPR to 50%.** Driven by solid earnings as well as improving credit risk, BBNI's tier 1 CAR increased to 19.8% in Jun 23, up from 17.4% in Dec 18. Meanwhile, total CAR stood at 21.6% in Jun 23, up from 18.5% in Dec 18. With improving CAR, BBNI plans to raise its dividend payout ratio (DPR) to 50% from last year's DPR of 40%. With the new DPR, BBNI offers >6% dividend yield at current price.

- **Expect a high single-digit hoh net profit growth in 2H23.** We estimate BBNI to book net profit of Rp11.3t in 2H23, growing 9.5% hoh which will lead to 18% yoy net profit growth in 2023. 2H23 earnings growth will be mainly driven by loan growth which management targets to grow by 7-9% this year. A ramp-up in government spending is expected to support loan growth in 2H23 as the government only spent about 40% of its allocated 2023 budget in 1H23. Furthermore, we expect the bank to book the delayed payment of Kedit Usaha Rakyat's (KUR) subsidy by the government in 2H23, amounting to Rp340b.

- **Maintain BUY with a target price of Rp11,200.** We arrive at 1.3x 2024F P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.8%, and long-term growth: 5%. BBNI is facing transformation by restructuring its loan portfolio and focusing on digitalisation on its front-end and back-end. Re-rating on valuation will be driven by continued ROAE improvement, for which management targets to reach 18% by 2025. BBNI's ROE has been trending up to 15.4% in 1H23 vs 2.6% in 2020, and is higher than 13.4% in 2019. BBNI is the cheapest stock among the Big Four banks, trading at 1.0x, close to average of its five-year historical P/B.

- **Risks:** Adverse economic development, worsening geopolitical issues, loan growth slowing down.

SHARE PRICE CATALYST

- **Events:** Management targets 7-9% loan growth this year which could translate into loan growth picking up in 2H23.

- **Timeline:** Expecting loan growth to accelerate in 2H23.

HM Sampoerna – BUY (Stevanus Juanda)

- **Excise tax increase of 10% on average for 2023-24.** The Ministry of Finance has decided to increase excise tax for cigarettes by an average of 10% for 2023 and 2024. For unfiltered hand-rolled clove cigarettes, the excise tax jump will be 5% for the largest producers. The excise tax increase for machine-rolled clove cigarettes will be 11.50-11.75% for the largest producers. For non-clove machine-rolled cigarettes, the excise tax hike will be 11-12%. For e-cigarettes, the increase will be 15% in 2023-24.

- **Recovery in purchasing power could bode well for 2023 volume and pricing power.** We think that the potential recovery in purchasing power could bode well for cigarette consumption volume as smokers will trade up their cigarette consumption to the more expensive national brands. We assume that HM Sampoerna's (HMSP) machine-rolled and hand-rolled cigarettes volume will increase by 3% for each segment. An increase in purchasing power will also bode well for pricing as we believe ASP will rise 10% for machine-rolled cigarettes, 12% for non-clove cigarettes, and 5% for hand-rolled cigarettes.

- **Prices have been increasing since 4Q22.** Our channel check indicates that prices have been increasing since 4Q22. According to our source, industry volume declined by 5%. We think profit should rise given that the elasticity of demand is 0.6 for cigarette consumption.

- **Maintain BUY with a target price of Rp1,300.** Our target price is derived using the historical five-year -0.5SD PE of 26.3x applied to 2023F EPS. With 42.9% upside from the current level, we maintain BUY on HMSP with a target price of Rp1,300.

SHARE PRICE CATALYST

- **Events:** 2024 excise tax announcement in late-2H23.
- **Timeline:** Announcement of strong 3Q23 results.

Semen Indonesia − BUY (Limartha Adhiputra)

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

SHARE PRICE CATALYST

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

Mitra Adiperkasa – BUY (Stevanus Juanda)

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

(Zara, Massimo Dutti, Pull & Bear, etc), Birkenstock, Converse, Champion and Digimap brands are exclusive. In the Philippines, the exclusive brands are Converse, New Balance, Haddad, Airwalk, Hoka and Fitflop. In Singapore and Malaysia, JVs are formed with Converse and Reebok.

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

SHARE PRICE CATALYST

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

STRATEGY – MALAYSIA

Alpha Picks: Adding Layers Of Risk-On Mode

Our Alpha Picks outperformed the KLCI in August (+1.6% vs. -0.5%). We add a variety of small-mid caps as we gradually add layers of risk-on mode from now till the year-end. September's picks: Bursa Malaysia (Bursa), Hap Seng Plantations (HAPL), Hume Cement Industries (Hume), Malaysia Airports Holdings (MAHB), Mr DIY Group (Mr DIY), My EG Services (MYEG), VS Industry (VSI) and Yinson Holdings (Yinson). Bursa and Hume are new additions.

WHAT'S NEW

- **Market review for Aug 23.** The FBMKLCI contracted slightly during August following its rally to the 1,450 mark earlier in June. Major losers within the KLCI subsectors included plantation (-5.0%), consumer (-4.0%) and oil & gas subsectors (with the exception of offshore contractors) while the automobile (+13.4%) and aforementioned offshore contractor (+10.4%) sectors posted the largest gains. Looking to non-FBMKLCI sectors, property (+20.3) and construction (+9.3%) rallied significantly following renewed interest in government projects and the development of Johor as an economic hub. Other winners include the EMS (+6.6%) players as well as the aviation sector (6.4%). A key event in August was the election of six states, of which the '3-3' outcome between the competing coalitions PH-Unmo and Perikatan Nasional (PN) was well anticipated.
- **August's Alpha Picks outperformed,** with the portfolio posting gains of 1.6% mom vs the FBMKLCI's 0.5% contraction. MAHB (+7.8%) and VSI (+5.6%) were the biggest winners while MYEG (+3.9%) and Mr DIY (+2.7%) also posted respectable gains. Otherwise, HAPL (-5.6%), Nationgate (-1.9%) and Yinson (-1.6%) dragged performance.
- **Positioning for a rising risk-on market.** We expect the market to add on layers of risk-on mode through 4Q23 which favours the small-mid caps. Most of our alpha picks are expected to capitalise on events in Sep 23. They include: a) Bursa, for its persistently high trading value, b) Hume, which will see rising demand and production volumes, stronger margins, c) MYEG, as the brisk sales of Zetrix tokens suggest upside to 3Q23 earnings, d) VS Industry, for its new client acquisition, and e) Yinson for its strong qoq earnings growth.

ACTION

- **Sep 23 Alpha Picks: BUY Bursa, HAPL, Hume, MAHB, Mr DIY, MYEG, VSI and Yinson.** We have removed NationGate in favour of Bursa (strong trading volumes) and Hume (another strong upcoming quarter anticipated). Hume trades at only 5x 2023 fully diluted PE.

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Keith Wee	Bursa	BUY	n.a.	Positive share price action driven by valuation re-rating and ADV momentum due to heightened global equity risk sentiment as the US interest rate cycle reaches its peak.
Jacquelyn Yow, Leow Huey Chuen	Hap Seng Plantations	BUY	(5.6)	Strong earnings sensitivity to rising CPO prices (driven by weather-related risks).
Malaysia Research Team	Hume Cement	BUY	n.a.	Stronger demand and rising margins in the upcoming quarter. Trades at mid-single-digit PE based on the latest quarter's annualised earnings.
Malaysia Research Team	Malaysia Airports Holdings	BUY	35.3	Poised for sequentially better quarterly earnings. Revision of new Operating Agreement (OA) in 2H23 is also an immediate re-rating catalyst.
Philip Wong	Mr DIY Group	BUY	(8.5)	Firming of SSSG particularly in 2H23 alongside improving margins.
Jack Goh/ Jack Lai	My EG Services	BUY	(12.2)	Zetrix blockchain's ongoing pilot phase of China's custom integration portal led to strong earnings in 2Q23.
Desmond Chong	VS Industry	BUY	5.6	Making a comeback from cyclical weakness. Onboarding new prospects to anchor a strong growth in FY24.
Kong Ho Meng	Yinson Holdings	BUY	19.0	Delivery of existing FPSO contracts, potential new FPSO contract, and potential unlocking of more capital.

** Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as alpha pick
Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec	Share Price (RM)	Target Price (RM)	Upside to TP (%)
BURSA	BUY	6.93	7.85	13.3
HAPL	BUY	1.92	2.65	38.0
HUME	BUY	1.91	2.54	33.0
MAHB	BUY	7.70	8.11	5.3
MRDIY	BUY	1.47	2.15	46.3
MYEG	BUY	0.785	1.18	50.3
VSI	BUY	1.00	1.10	10.0
YNS	BUY	2.50	4.05	62.1

Source: UOB Kay Hian

PORTFOLIO PERFORMANCE

Company	Rec	Aug 23 (%)	To-date* (%)
HAPL	BUY	(5.6)	(3.0)
NationGate	BUY	(1.9)	2.1
MAHB	BUY	7.8	40.0
Mr DIY	BUY	2.7	(10.9)
My EG	BUY	3.9	(13.3)
VSI	BUY	5.6	11.7
Yinson	BUY	(1.6)	18.5
FBMKLCI		(0.5)	

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

PORTFOLIO RETURN

(%)	2022	1Q23	2Q23
FBMKLCI Return	-4.6	-4.9	-3.2
Alpha Picks Return			
- Price-weighted	2.9	-3.6	-1.6
- Market Cap-weighted	-2.9	1.3	1.2
- Equal-weighted	-0.2	-1.1	1.2

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

Source: UOB Kay Hian

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Bursa Malaysia – BUY (Keith Wee)

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

SHARE PRICE CATALYST

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

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

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

SHARE PRICE CATALYST

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

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

- **Strong earnings and margin ahead.** We expect Hume to record stronger earnings in 2024, supported by stronger demand and more construction activities on the back of improved foreign labour intake. We expect prices to remain elevated at >RM350/mt in FY24. With coal prices having retreated recently and ASPs remaining elevated, cement players should see better margins ahead.
- **Better utilisation rate with uptick in construction activities.** The industry is expected to grow this year with utilisation rates normalising as construction activities rebound with the acceleration of infrastructure projects and some affordable housing projects. This will lead to stronger demand and stable prices, which act as the primary drivers of improvements in the earnings outlook. Long-term prospects still rest on key projects including MRT3, Pan Borneo Highway, ECRL, RTS and PSR.

KEY EVENTS IN JUNE 23

Corporate

- 2Q23 results season: Generally disappointing earnings with positive surprises from auto stocks, MYEG, TM and Hume
- KLK proposed to acquire a 33% stake in Boustead Plantations with plans to privatise the company via mandatory general offer
- Malaysia Airports Holdings terminated Pestech International's contract to supply aerotrains to KLIA
- Proton Holdings' vehicle sales for 7M23 hit 90,647, surpassing 90,000 for the first time since 2012
- Sime Darby purchased a 61% stake in UMW Holdings with plans to privatise the company
- Sime Darby paid RM1.5b for the purchase of Australia's Cavpower Group which sells caterpillar equipment
- The Ministry of Home Affairs terminated Iris Corp's NIISE contract

Economics

- 2Q23 employment stats: unemployment down to 3.4% (-0.1ppt) in June
- EPF recorded a total investment income of RM33.2b in 1H23, up 39.7% yoy
- July exports fell 13.1% yoy to RM116.8b on lower demand for manufactured goods
- July inflation moderated to 2.2% from 2.4% in June
- Malaysia saw 2.9% slower yoy economic growth in 2Q23 compared to 5.6% in 1Q23.

Politics & Policy

- State election results: 3-3 split maintained with only surprise being Unity Gov losing two-thirds majority in Selangor.
- The government announced a Special Financial Zone in Forest City to boost investment, growth and economic activity in Johor.

Source: Media reports

SECTOR PERFORMANCE

	------ Performance (%) -----	
Sector	Aug	Ytd
Automobile	13.4	30.9
Aviation	6.4	22.0
Banking	0.7	1.4
Building Materials	(2.9)	1.7
Construction	9.3	21.8
Consumer	(4.0)	(9.0)
Exchange	5.1	7.9
Gaming	0.6	(1.4)
Glove Manufacturing	(12.9)	0.2
Healthcare	(0.2)	(1.0)
Insurance	6.9	10.9
Manufacturing	6.2	19.1
Media	(4.7)	(21.1)
Oil & Gas - Heavy Engineering	(11.2)	(15.9)
Oil & Gas - Asset Owners	(2.7)	0.8
Oil & Gas - Offshore Contractors	10.4	46.7
Oil & Gas - Shipping	0.1	(1.5)
Plantation	(5.0)	(1.7)
Port	2.1	(3.7)
Property	20.3	49.1
REITs	0.7	9.3
Technology - EMS	6.6	(8.5)
Technology - Semiconductor	0.8	10.0
Technology - Software	3.0	(5.0)
Telecommunications	(2.2)	2.0
Utilities	1.8	4.6

Source: Bloomberg, UOB Kay Hian

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

SHARE PRICE CATALYST

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

Malaysia Airports Holdings – BUY (Malaysia Research Team)

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

SHARE PRICE CATALYST

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

Mr DIY Group – BUY (Philip Wong)

- **Proxy for 2H23 consumption recovery play.** Despite being a retailer and being susceptible to headwinds associated with a downshift in consumer spending, Mr DIY is the clear low-cost leader for its product offerings and may even benefit from downtrading activity. Downside is further cushioned by the easing of supply chain and cost inflationary pressures.
- **Highly cash generative.** Mr DIY has the potential to increase its dividend payout ratio over the medium term given its high cash generation and increasingly low debt levels. Net gearing is expected to turn net cash to -0.5x in 2025 from 0.2x in 2020.
- **BUY with a target price of RM2.15.** Our PE peg of 35x based on 2023 earnings is at a 35% discount to large-cap domestic consumer peers Nestle and QL, which have historically traded at 54x. Mr DIY's valuations are extremely attractive, trading at a PE of 26x 2023F. This is a deep discount to its historical -1SD of its mean valuations of 36.6x.

SHARE PRICE CATALYST

- **SSSG should firm up, especially in 2H23.** Raised ASPs will also alleviate margins that were previously under pressure. This is against the backdrop of still-robust store rollout going forward.

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

- **China targets making full conversion to the blockchain trading platform mandatory by 2025.** My EG Services (MYEG) has rolled out the initial stages of its blockchain integration with Chinese customs via its Zetrix platform with the scope of the pilot project encompassing the issuance and authentication of the certificate of origin (COO), smart contract information verification and blockchain-based digital signing. We understand that China plans to fully host its customs services on its national blockchain by 2025 with the exporters from RCEP economic bloc nations and MYEG set to officially launch its Zetrix integration with China in 3Q23.
- **E-government services holding up well.** The official extensions of MYEG's concessions – JPJ (announced) and the immigration department (expected soon) – should provide a level of support for MYEG's core e-government segment in the near-to-medium term. Recall that the introduction of digital road tax renewal by JPJ did not significantly (c.5% volume reduction) affect MYEG in 1Q23 and immigration service contributions have remained relatively robust. For the latter, the eventual easing backlog of foreign worker matching services (currently still in the tens of thousands) should be offset by the heightened foreign worker renewal income.
- **BUY with an SOTP-based target price of RM1.18,** which implies 22x 2023F PE (-0.5SD below five-year mean). Our target price is still well below the theoretical blue-sky scenario fair value of RM3.73.

SHARE PRICE CATALYST

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

VS Industry – BUY (Desmond Chong)

- **Expect a sequentially stronger 4QFY23.** After a gestation period in Jan-Jun 23, most of its key customers have ramped up orders from 2QFY23 onwards, followed by the launch of new models which would be the growth drivers for FY24.
- **New prospects to anchor a stronger FY24.** The group has started pre-production (at the component level) for one of the three prospective customers with potential imminent earnings contribution in FY24. While the initial sales contribution is only about RM50m-100m, this prospective contract could carry better margins relative to the other turnkey contracts.
- **Negatives fairly priced in on appealing valuations.** We see bright spots stemming from: a) order rechannelling which would cushion the general weakness, b) a relief in systemic disruption, and c) undemanding valuation with de-rating catalysts being sufficiently priced in. It is trading at 13.0x FY24F PE (near to -1SD below its five-year mean even at its trough earnings) which presents a balanced risk-reward ratio for entry.

SHARE PRICE CATALYST

- Stronger-than-expected earnings growth (major wins on lucrative orders) from trade diversion-related customers.
- Higher-than-expected order wins following the fallout from other EMS players on major contract termination.
- Potential asset monetisation from its China assets and other investments.

Yinson Holdings – BUY (Kong Ho Meng)

- **Solid proxy for FPSO.** Among the floating production, offloading and storage (FPSO) stocks under our coverage, Yinson has the best track record of delivering new FPSO projects.

- **It also has the highest future earnings growth,** with earnings (excluding finance lease income accounting distortions) in the next 2-3 years potentially growing by >2x to >RM1b base, which will come from at least three new FPSOs.
- **BUY with an SOTP-based target price of RM4.05.** This implies 18x FY24F PE, or 8x on long-term PE assuming FPSO Agogo fully contributes to earnings (lifting earnings base to about RM2b). Our SOTP still ignores the non-O&G ventures' long-term value.

SHARE PRICE CATALYST

- **Progress of delivering existing FPSOs in its upcoming earnings announcement.** FPSO Anna Nery achieved provisional acceptance in Jan 23 (to effectively earn 90% of day rate until first oil). On 7 May 23, first oil was achieved.
- **Secured Eni's FPSO Agogo (US$5.3b for a 20-year tenure),** and with a US$0.5b early prepayment to fund early-stage working capital, the IRR and daily rate of this FPSO will be the highest ever in Yinson's current fleet. Yinson also recently exercised the call option to proceed with the long-term lease of FPSO Atlanta. Assuming the lease contract terms for FPSO PAJ (for BP in Angola) is firmed up for an estimated 10-year firm tenure starting 2024, this event catalyst may provide a net present value (NPV) upside of US$1b (before deducting loans or potential stake divestments).

VALUATIONS

Company	Ticker	Rec	Share Price 4 Sep 23 (RM)	Target Price (RM)	Last Year End	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap (US$m)	Price/ NTA (x)
Bursa Malaysia	BURSA MK	BUY	6.93	7.85	Dec 22	24.7	24.5	22.5	3.9	28.9	1,204.9	7.0
Hap Seng Plantations	HAPL MK	BUY	1.92	2.65	Dec 22	7.0	12.3	8.8	4.9	6.3	329.9	0.8
Hume Cement*	HUME MK	BUY	1.91	2.54	Jun 23	11.3	10.1	11.1	n.a	24.0	209.9	1.0
Malaysia Airports Holdings	MAHB MK	BUY	7.70	8.11	Dec 22	78.1	30.6	18.2	1.8	6.6	2,760.2	2.2
Mr D.I.Y. Group	MRDIY MK	BUY	1.47	2.15	Dec 22	29.3	23.8	20.2	1.9	36.6	2,981.2	7.9
My EG Services Bhd	MYEG MK	BUY	0.785	1.18	Dec 22	14.1	13.4	12.5	2.2	18.2	1,248.2	2.3
VS Industry	VSI MK	BUY	1.00	1.10	Jul 23	21.6	14.6	12.4	3.1	11.2	825.8	1.6
Yinson*	YNS MK	BUY	2.50	4.05	Jan 23	18.3	11.2	9.5	4.0	12.6	1,561.2	1.9

**Figures for 2023, 2024F and 2025F shown due to FYE*
Source: UOB Kay Hian

UOBKayHian

STRATEGY – SINGAPORE

Alpha Picks: Adding MINT While Removing RMFD

On a market cap-weighted basis, the STI outperformed our Alpha Picks by 0.3ppt, which was helped by our industrial stock picks. On a price-weighted and market-cap weighted basis, however, our portfolio significantly underperformed due to Sea Ltd. We note that our Alpha Picks portfolio has nevertheless beaten the STI in 16 out of the past 18 months. For Sep 23, due to favourable tailwinds for its data centre segment, we add MINT while removing RFMD from our Alpha Picks portfolio.

WHAT'S NEW

- **Market review.** Coming off a strong Jul 23, global investor sentiment took a dive in early-Aug 23 as the US Fed expressed concern about the pace of inflation, implying a "higher for longer" narrative about future interest rate policy. This sent global markets sharply lower with the STI down around 7% by mid-August. Also, lacklustre economic data and an ongoing property crisis in China further dragged investor risk-on sentiment. However, softening US jobs data at the end of Aug 23 raised the odds of a pause in interest rate hikes, lifting markets slightly with the STI ending up 4.2% lower mom.

- **Soft performance.** For Aug 23, our Alpha Picks portfolio fell 4.5% mom on an equal-weighted basis vs the STI's 4.2% decline. Our industrial stock picks continue to thrive with Yangzijiang Shipbuilding (9.7% mom) and CSE Global (+3.6% mom) both doing well on the back of strong 1H23 results and margins while Delfi's (+5.6% mom) robust top- and bottom line growth in 1H23 also pushed its share price higher. Our underperformers include Sea Ltd (-43.0% mom), LHN (-11.7% mom), and CapLand Ascott Trust (-10.3% mom) with Sea's e-commerce guidance causing a sell-off which we view as overly harsh. LHN suffered from profit taking after its recent run-up in share price performance while CapLand Ascott Trust suffered from overall market weakness in REITs.

- **For Sep 23, we add Mapletree Industrial Trust** to our Alpha Picks portfolio, backed by favourable tailwinds for its data centre segment, while removing Raffles Medical given overall market weakness in the healthcare sector.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Jacquelyn Yow	Bumitama	BUY	-6.0	Margin expansion backed by CPO price uptrend.
John Cheong	SEA Ltd	BUY	-38.5	Better-than-expected upcoming quarterly earnings.
John Cheong	Civmec	BUY	24.0	Strong order book and higher dividend.
John Cheong	Delfi	BUY	18.9	Higher revenue contribution from Indonesia.
John Cheong	CSE Global	BUY	24.4	Expect earnings growth with 8% dividend yield.
Jonathan Koh	CapLand Ascott Trust	BUY	4.9	A play on COVID-19 reopening in the EU & UK.
Jonathan Koh	OCBC	BUY	1.5	Attractive dividend yield and less susceptible to NIM compression.
Jonathan Koh	Mapletree Industrial Trust	BUY	-	A play on the global growth in data centers.
Adrian Loh	Keppel Corp	BUY	50.2	Moving to a more asset-light business model.
Adrian Loh	Sembcorp Ind	BUY	81.8	Re-rating prospects as a green energy play; conventional energy expected to be stable
Adrian Loh	Seatrium	BUY	21.8	New order win momentum from oil and gas as well as renewables industry
Adrian Loh	Yangzijiang Ship	BUY	30.3	Shipbuilding margin expansion; better capital management.
Llelleythan Tan	Thai Beverage	BUY	1.8	Return of Chinese tourists to Vietnam.
Llelleythan Tan	ComfortDelgro	BUY	0.8	Inflection point as 2Q23 earnings bottom out.
Heidi Mo	LHN Group	BUY	-4.2	Potential special dividend from value unlocking

** Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as Alpha Pick
Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec*	----- Price (S$) ----- 31 Aug	Target	Up/(down) to TP (%)
Bumitama	BUY	0.55	0.65	18.2
CapLand Ascott	BUY	0.97	1.31	35.1
Civmec	BUY	0.80	1.23	53.8
ComfortDelGro	BUY	1.27	1.56	22.8
CSE Global	BUY	0.485	0.61	25.8
Delfi	BUY	1.25	1.83	46.4
Keppel Corp	BUY	6.94	9.09	31.0
LHN	BUY	0.34	0.55	61.8
MapletreeInd	BUY	2.30	2.89	25.7
OCBC	BUY	12.55	18.22	45.2
Sea (in US$)	BUY	37.93	94.34	148.7
Seatrium	BUY	0.145	0.19	31.0
Sembcorp Ind	BUY	5.35	7.20	34.6
Thai Beverage	BUY	0.57	0.83	45.6
YZJ ShipBldg SGD	BUY	1.69	1.88	11.2

** Rating may differ from UOB Kay Hian's fundamental view*
Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Aug 23[1] (% mom)	To-date[2] (%)
Bumitama*	BUY	(1.3)	(6.0)
CapLand Ascott*	BUY	(10.3)	4.9
Civmec	BUY	(2.4)	24.0
ComfortDelGro*	BUY	3.1	0.8
CSE Global*	BUY	3.6	24.4
Delfi*	BUY	5.6	18.9
Keppel Corp*	BUY	(3.9)	50.2
LHN	BUY	(11.7)	(4.2)
OCBC*	BUY	(2.6)	1.5
Raffles Medical	BUY	(10.0)	(5.3)
Sea (in US$)	BUY	(43.0)	(38.5)
Sembcorp Ind*	BUY	(0.9)	81.8
Seatrium	BUY	2.8	21.8
ThaiBev	BUY	(5.8)	1.8
YZJ ShipBldg SGD	BUY	9.7	30.0
FSSTI		(4.2)	
UOBKH Portfolio		(4.5)	

** Adjusted for DPS for the monthly performance*
Source: UOB Kay Hian

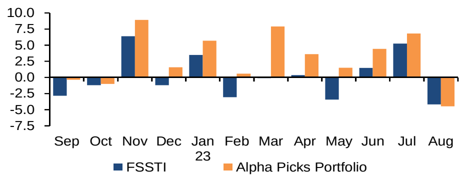
PORTFOLIO RETURNS (%)

	2022	1Q23	2Q23	Jul-23	Aug-23
FSSTI return	4.1	0.2	-1.6	5.2	-4.2
Alpha Picks Return					
- Price-weighted	5.6	5.5	10.1	4.7	-31.3
- Marketcap-weighted	8.1	2.9	5.4	6.8	-14.4
- Equal-weighted	2.8	9.1	7.2	3.9	-4.5

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

Source: UOB Kay Hian

PORTFOLIO RETURNS IN THE PAST 12 MONTHS
(WE OUTPERFORMED FSSTI 11 OUT OF 12 MONTHS)



Source: Bloomberg, UOB Kay Hian

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Bumitama Agri - BUY (Jacquelyn Yow & Leow Huey Chuen)

- **Margin expansion coupled with CPO uptrend.** Bumitama would have strong earnings sensitivity towards CPO prices as compared with its Indonesian peers listed on SGX being a pure upstream player and selling 100% of its CPO at spot market. We also expect margin expansion for 2H23 and 2024 with cost of production to drop by 10-15% due to lower fertiliser cost.
- **Higher dividend yield.** We expect an attentive high dividend yield of 6-7% for 2023-24 with its dividend payout policy of up to 40%.
- **Maintain BUY with a target price of S$0.65** where we pegged the target price at 6.0x 2024F PE.

SHARE PRICE CATALYST

- **CPO price uptrend.** We reckon that CPO price would be trending upwards from 3Q23-1H24. We anticipate that palm oil output during this period may fall below market expectations due to the impact of extreme weather changes. Moreover, there is a significant weather-related risk affecting other global oilseed crops, which could lead to deviations in global vegetable oil and oilseed oil production.
- **Timeline:** 3-6 months.

Sea Limited – BUY (John Cheong, Jacquelyn Yow & Heidi Mo)

- **Accumulate on weakness as share price correction is overdone and non e-commerce segments have been overlooked.** We reckon that the share price correction of Sea is overdone with the fear of investment drag for its e-commerce segment. We believe the improving profitability of the gaming and digital financial services segments has been overlooked.
- **Sea is the only profit-making e-commerce and digital finance services provider in the region.** We believe that investors should not discount the strong market position of SeaMoney and the strong efficiency of its digital finance service segment.
- **Garena is poised to reintroduce Free Fire to the Indian market on 5 Sep 23,** following a ban by the government that lasted over 18 months. It is worth remembering that India used to make up around 10% of Garena's monthly active users. If we assume a similar rate of growth in the gaming segment's EBITDA, this would lift the EBITDA by about 5%. This development might have a slight positive impact on the stock's sentiment.
- **Maintain BUY with a target price of US$94.34** on it being the potential first player in the region with positive annual net profit from the e-commerce and digital financial service segments.

SHARE PRICE CATALYST

- **Events:** a) Better-than-expected upcoming quarterly earnings, and b) reduced competition in the ASEAN e-commerce market.
- **Timeline:** 3-6 months.

Civmec – BUY (John Cheong)

- **Strong FY23 results with revenue growth across most sectors and strong net margin expansion.** Civmec recorded higher FY23 revenue and earnings of A$830.9m (+2.7% yoy) and A$57.7m (+13.7% yoy) respectively. Gross profit margins across all sectors improved, driving a 0.6ppt yoy increase in net margin to 6.9%. Strong improvement in net margin was driven by the delivery of higher return projects, better cost management and optimisation of productivity.

- **Positive outlook amid buoyant tendering activities.** Tendering activities continue its strong momentum across all sectors that Civmec has a presence in. Its orderbook stood at around A$1.15b (-3.4% qoq; +10.6% yoy) as at end-FY23, securing most of the revenue for the next 12 months with a portion extending up to 2029.
- **Final dividend a positive surprise and company turned into net cash position.** Given its robust cash generated from operations in FY23 (+239% yoy to A$123m), Civmec has declared a final dividend of 3.0 A cents (+50% yoy), bringing full-year dividend to 5.0 A cents (FY22: 4.0 A cents). This is above management's previous guidance of maintaining its final dividend and represents an attractive dividend yield of 6%. Civmec has also turned into net cash position for the first time in FY23 (A$14m vs A$33m net debt in FY22).
- **Maintain BUY with a target price of S$1.23,** pegged to 11x FY24F PE (based on 1SD below five-year mean). We think the current valuation of 8x FY24F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civmec's Australian peers are trading at an average of 15x FY24F PE.

SHARE PRICE CATALYST

- **Events:** a) Earnings surprise due to higher-than-expected contract wins and margin, b) better-than-expected dividend, and c) takeover offer by strategic shareholders given the high entry barrier of defence business.
- **Timeline:** 3-6 months.

Delfi – BUY (John Cheong)

- **Market leader of chocolate confectionery products in Indonesia, backed by positive macro trends.** Delfi is a manufacturer and distributor of many popular chocolate confectionery products in Indonesia. According to Euromonitor, it commands a dominant market share of approximately 41% in Indonesia, thanks to its early-mover advantage in building brand loyalty since the early-1950s. Its home market, Indonesia, where it generates more than 70% of its revenue, demonstrates vast potential based on its macro industry trends of a fast-growing middle class, a young population and high domestically-driven GDP growth.
- **Well-positioned to capitalise on premiumisation trend.** Delfi has been focusing on its premiumisation strategy to offer differentiated products based on changing consumer tastes. The company's premium brands include SilverQueen, Delfi Premium and Van Houten. In 2022, core profit grew 68.7% yoy to US$43.6m, mainly driven by strong performance in Delfi's main operating market, Indonesia, which recorded revenue of US$317.4m (+17.5% yoy). This was attributable to Delfi's premium brands SilverQueen and Cha Cha, which both saw double-digit growths. New products, largely healthier snacks targeting Millennials and Gen-Zs, were also launched during the year, supporting the segment's revenue growth.
- **Expect healthy double-digit growth in 2023-25 as Indonesia's consumers emerge stronger from the pandemic.** For 2023-25, we estimate total revenue at US$518m-597m (three-year CAGR of 4.8%) and net profit at US$47m-53.9m (three-year CAGR of 4.7%). The key growth drivers will be: a) an increase in Delfi's product volume and ASP in Indonesia, b) healthy growth in Indonesia's economy after the pandemic, where we expect Delfi's revenue to grow 10% in 2023-25, with Bank Indonesia projecting Indonesia's economy to grow 4.9% in 2023 and 5.1% in 2024, and c) a gradual improvement in gross margin as Delfi continues to gain traction in its premiumisation strategy.
- **Maintain BUY with a PE-based target price of S$1.83,** based on 17x 2024F PE, pegged to its long-term mean. We have rolled over our valuation base year from 2023. Delfi is currently trading at 12x 2024F PE, a 30% discount to Indonesia peers' 2024F PE average of 18x.

SHARE PRICE CATALYST

- **Events:** a) Higher revenue contribution from Indonesia, and b) improving gross margin with traction gained in premiumisation of product offerings.
- **Timeline:** 3-6 months.

CSE Global – BUY (John Cheong)

- **Earnings above expectations due to strong improvement in net margin.** CSE's 1H23 earnings of S$11m (+143% yoy) were above expectations. The beat was mainly due to a strong improvement in net margin which grew 1.5ppt yoy to 3.2%. To recap, CSE was hit badly last year by delays in project delivery due to supply chain issues, which have eased significantly in 1H23.
- **Expect strong earnings recovery in 2023.** We expect CSE to achieve 338% yoy growth in 2023 earnings as it recovers from low base earnings of S$5m in 2022. As the supply chain disruptions ease, CSE will be able to deliver its contracts faster and enjoy margins recovery. Also, CSE's strong orderbook of S$522m as of 1H23 (+34% yoy) should ensure robust earnings in 2H23 and 2024.
- **Strong orderbook should drive better earnings in 2H23.** CSE's 1H23 orderbook reached an all-time high of S$522m (+34% yoy) due to strong order intake in the infrastructure and mining & minerals segments, which has grown 12% and 15% yoy respectively. This robust orderbook coupled with strong order flow should drive a better 2H23 earnings on a hoh basis.
- **Stable financial performance in the infrastructure and mining & minerals sectors,** supported by a steady stream of projects arising from requirements in digitalisation, communications and enhancements in physical and cyber security globally, and from data centres and water utilities in the Americas and Asia Pacific region. CSE will expand its engineering capabilities and technology solutions to pursue new market opportunities and diversify into new markets brought about by the emerging trends towards urbanisation, electrification and decarbonisation.
- **Maintain BUY with a target price of S$0.61.** Our target price is pegged to 15x 2024 PE (based on +1SD above mean). Our target price implies a 2023 dividend yield of 4.5% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2023.

SHARE PRICE CATALYST

- **Events:** a) Large infrastructure project wins, and b) accretive acquisitions.
- **Timeline:** 3-6 months.

CapLand Ascott Trust – BUY (Jonathan Koh)

- **Continued recovery in key markets.** Portfolio RevPAU grew 20% yoy to S$149 in 2Q23, reaching 98% of pre-pandemic levels. The increase was largely driven by room rates. There is room to improve portfolio occupancy, which currently hovers at about 75%. RevPAU for key markets in Australia, Japan, Singapore, the UK and US was above pre-pandemic levels based on a same-store basis. China and Vietnam outperformed with RevPAU growth of 78% and 83% yoy respectively.
- **Strengthened resiliency with longer-stay properties.** CLAS invested in 12 longer-stay accommodations, comprising student accommodation properties in the US and rental housing in Japan. These asset classes currently account for 19% of portfolio valuation. Management has raised the asset allocation for longer-stay accommodation by 10ppt from 15-20% to 25-30% in the medium term.
- **Maintain BUY.** Our target price of S$1.35 for CLAS is based on DDM (cost of equity: 7.5%, terminal growth: 2.8%).

SHARE PRICE CATALYST

- **Events:** a) Recovery in international travel driven by the easing of travel restrictions and reopening of borders globally, including Japan and China, and b) yield-accretive acquisitions in the student accommodation and rental-housing space.
- **Timeline:** 6-12 months.

Oversea-Chinese Banking Corp – BUY (Jonathan Koh)

- **Committed to new dividend policy.** Management intends to maintain dividend payout ratio at 50% going forward. OCBC provides attractive dividend yield of 6.3% for 2023.
- **Capital management.** CET-1 CAR improved 0.5ppt yoy to 15.4% in 2Q23. OCBC is comfortable with CET-1 CAR receding lower to 14.0% over the short- to medium-term (3-5 years). Management will consider all options for capital management, including special dividends.
- **Refreshed strategy to deliver incremental S$3b revenue.** Management aims to deliver incremental revenue of S$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainability. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S$3b.
- **Maintain BUY.** Our target price of S$18.22 is based on 1.45x 2024F P/B, derived from the Gordon Growth Model (ROE: 13.1%, COE: 9.0%, growth: 0.0%).

SHARE PRICE CATALYST

- **Events:** a) Resiliency from high CET-1 CAR of 15.4%, and b) attractive 2023 dividend yield of 6.3% from the commitment to the new dividend payout ratio of 50%.
- **Timeline:** 6-12 months.

Mapletree Industrial Trust – BUY (Jonathan Koh)

- **Strategic diversification to Japan's data centre market.** MINT is acquiring an effective interest of 98.5% in a newly-built data centre in Osaka, Japan for ¥52.0b (S$507.9m). We expect MINT to continue to expand in Japan due to positive yield spread with cap rates of 3-4% and low funding cost in JPY.
- **Backfilling data centre at Brentwood, Tennessee.** MINT is in advanced negotiations with a potential replacement tenant for its data centre at Brentwood, Tennessee with NLA of 347,515sf currently occupied by AT&T (expiry: Nov 23). The new tenant intends to sign a long-term lease for the entire data centre with rental escalation.
- **Maintain BUY.** Our target price of S$2.89 is based on DDM (cost of equity: 7.0%, terminal growth: 2.2%).

SHARE PRICE CATALYST

- **Events:** a) Growth from data centres located in North America and Japan, and b) acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments.
- **Timeline:** 6-12 months.

Keppel Corp – BUY (Adrian Loh)

- **Solid 1H23 results.** KEP's results for 1H23 were stronger-than-expected with revenue of S$3.7b (+11% yoy) and pre-tax profit of S$602m (+9% yoy). Its net profit from continuing operations rose 3% yoy to S$445m. Including the S$3.3b in disposal gain from the divestment of Keppel Offshore Marine (KOM), net profit was S$3.6b which made it the highest in the company's 55-year history. 1H23 ROE (excluding discontinued operations) was 8.0% vs 7.3% in 1H22.

- **It is raining dividends.** KEP declared a S$0.15 interim dividend (1H22: S$0.15) as well as a special dividend comprising a dividend in-specie (DIS) of one Keppel REIT (KREIT) unit for every five KEP shares held. After the distribution, the company will remain the largest unitholder of KREIT with a 37.1% stake. The DIS is part of KEP's capital management initiative and will be subject to its shareholders' approval at an EGM later this year.
- **Infrastructure reported an exceptionally strong performance** with segmental net profit more than doubling to S$291m with the connectivity segment also putting in decent growth, up 12% to S$37m. KEP's real estate segment, as expected, continues to face a challenging environment in its key China market that caused its segmental net profit to decline 29% yoy to S$186m.
- **We retain our BUY rating on KEP with pro forma SOTP-based target price of S$9.09.** In the near term, we believe that the market will focus on KEP's asset monetisation announcements as this could bolster earnings in 2H23 and into 2024.

SHARE PRICE CATALYST

- **Events:** a) Resumption of normal business conditions in China, and b) continued success in its capital recycling programme.
- **Timeline:** 3-6 months.

Sembcorp Industries – BUY (Adrian Loh)

- **Strong 1H23 results.** In early-Aug 23, SCI reported a 50% yoy increase in adjusted EBITDA of S$1.14b that was driven by profit margin strength in its conventional energy segment as well as the inclusion of newly-acquired assets in its renewables segment. SCI declared a higher interim dividend of S$0.05/share vs S$0.04/share in 1H22. Annualised ROE before extraordinary items expanded by an impressive 8.3ppt yoy to 26.6%.
- **Expecting stable earnings from conventional energy.** During the analyst briefing, management highlighted that in 2H23, around two-thirds of its Singapore capacity will be contracted and underpinned by Power Purchase Agreements. With this contracted position persisting through into 2024 and beyond, earnings from the conventional energy segment will be more stable.
- **We maintain our BUY rating on the company with a target price of S$7.20** based on an unchanged target PE multiple of 13.6x. This target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's normalised earnings compared with 2022's earnings.

SHARE PRICE CATALYST

- **Events:** a) Sustained economic recovery after COVID-19, thus leading to increased energy and utilities usage, b) positive EPS revision momentum as the street upgrades earnings in 2H22, c) value-accretive acquisitions in the green energy space, and d) new renewables targets which may be revealed during its investor day on 6 Nov 23.
- **Timeline:** 6+ months.

Seatrium – BUY (Adrian Loh)

- **A loss in 1H23 does not derail the company's bullish outlook.** Seatrium's reported loss for 1H23 was due to provisions, however we note that the company has seen a strong recovery in its EBITDA since 1H22, and we strongly believe that it is well placed to continue on this track given its S$19.7b net orderbook. The company's balance sheet remains strong with net debt to equity of 0.17x as at end-1H23. In our view, news flow from Seatrium on new orders will continue to be robust in the next 6-12 months.

- **Integration with Keppel Offshore Marine (KOM) proceeding well.** During its 1H23 results briefing, management stated that the integration with KOM is proceeding well and it expects this process to be completed by year end, and it will continue to focus on EBITDA performance which it views as an indicator of how well it is doing operationally. We believe that the company will likely 'kitchen sink' its 2023 numbers with various merger-related exceptional items to start off with a clean and new slate for 2024.

- **We maintain our BUY rating on Seatrium and with a P/B-based target price of S$0.19.** Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x and is pegged to its 2024 book value of S$0.125. Our positive view on the stock reflects our belief that the company will benefit from bullish trends in the offshore marine space. These include: a) the tailwinds from increased construction in the renewables space, and b) the current offshore marine upcycle. Risks include higher-than-expected provisions for 2023, negative news flow regarding its Corrupt Practices Investigation Bureau (CPIB) case and volatile oil prices.

SHARE PRICE CATALYST

- **Events:** New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.

- **Timeline:** 6-12 months.

Yangzijiang Shipbuilding – BUY (Adrian Loh)

- **Order wins continue to be robust.** In 1H23, YZJ won new orders for 46 vessels with a total contract value of US$4.42b. YZJ currently has 180 vessels in its orderbook totalling US$14.7b which is its highest ever. Ytd, the company has US$5.8b in new orders, thus exceeding its 2023 target of US$3b. During the results briefing, management stated its belief that 2H23 could be quieter on the new order win front given that its yards are full until at least 1H27.

- **We have a BUY recommendation on the stock with a higher PE-based target price of S$1.88 (previously S$1.65).** Our target PE multiple of 9.9x, applied to an aggregate of our 2023 and 2024 EPS forecast, is 1.5SD above YZJ's past five-year average of 6.6x. We view as fair given: a) the company's earnings growth in 2023 and 2024, b) sustainability of its earnings due to its US$15b orderbook at present, and c) earnings visibility that has improved out to 2027 given the recent spate of new orders.

SHARE PRICE CATALYST

- **Events:** a) Evidence of continued shipbuilding margin expansion, b) better capital management initiatives, and c) new order win announcements.

- **Timeline:** 3-6 months.

Thai Beverage – BUY (Llelleythan Tan)

- **Sturdy 9MFY23 above expectations.** For 9MFY23, THBEV reported overall revenue and core EBITDA of Bt215.9b (+3.8% yoy) and Bt37.8b (-3.4% yoy), exceeding our expectations. The outperformance was driven by a steady 3QFY23 whereby revenue grew (+4.0% yoy, +0.3% qoq) while core EBITDA softened (-2.4% yoy, -0.7% qoq) lesser than our initial expectations. We now expect THBEV's FY23 PATMI to grow by 6.2% yoy against our previous expectations of a 3.1% yoy drop.

- **Spirits: Stable performance aided by brown spirits.** Despite 9MFY23 sales volumes dropping 3.5% yoy, 9MFY23 revenue and EBITDA increased 3.3% yoy and 6.2% yoy respectively in line with our expectations. 3QFY23 spirits revenue and EBITDA surged 12.0% yoy and 13.5% yoy respectively, backed by ASP hikes in 1QFY23 and improving tourist arrivals. Moving forward, we expect the spirits segment to continue its upward momentum, driven by expected ASP hikes for the brown spirits and a continually improving product sales mix.

- **Beer: Supported by better sequential performance.** On a sequential basis, 3QFY23 beer revenue (+8.8% qoq) and EBITDA (+11.8% qoq) improved on the back of higher sales volumes (+10.2% qoq). Also, EBITDA margins expanded slightly by 0.4ppt qoq, which we reckon came from better A&P spending efficiency. Moving forward, we expect beer sales volumes to stay muted till 1QFY24, supported by higher Chinese tourist arrivals to Vietnam. We also expect margins to stabilize from further cost savings and better efficiencies.
- **Maintain BUY with an SOTP-based target price of S$0.83.** We reckon that THBEV remains attractively priced at -2SD to its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds and a decent 4% FY23 dividend yield. We opine that the recent share price weakness presents an attractive entry level.

SHARE PRICE CATALYST

- **Events:** Gaining market share in the beer segment. M&As/potential spinoff listing.
- **Timeline:** 6-12 months.

ComfortDelgro – BUY (Llelleythan Tan)

- **Public transport services: Better sequentially.** 1H23 core operating profit (-34.5% yoy, +21.3% hoh) grew sequentially, backed by higher rail ridership, improved charter activities in Australia and tapering inflationary pressures. Similarly, 2Q23 segmental revenue (-0.7% yoy, +6.4% qoq) and core operating profit (-30.4% yoy, +25.7% hoh) were generally higher qoq. We reckon that earnings from the public transport segment have bottomed out in 2Q23, and are expected to continue the upward momentum moving forward, backed by favourable tailwinds.
- **Taxi: Inflection point.** Despite 2Q23 revenue growing marginally (+2.5% yoy, +2.7% qoq), core operating profit surged to S$26m (+104.8% yoy, +53.6% qoq), higher than our initial S$18m forecast. This was largely driven by the reduction of CD's daily taxi rental rebates. Recovery for CD's taxi operations in China remains muted but management noted that the group expects a stronger gradual recovery in 2H23
- **Upcoming catalysts.** Starting 3Q23, CD implemented a platform fee of S$0.70 for every point-to-point online booking made through its Zig app. Based on our estimates, this would imply an approximate S$11m-12m hoh increase in revenue for 2H23, which would most likely flow down to taxi segmental operating profit. Furthermore, we expect potential upward revisions for CD's 5% commission rate in 2H23, given that it is considerably lower when compared with major competitors Grab (20%) and GoJek (15%). According to our estimates, a 1% increase in commission rate would raise our 2024 full-year taxi operating profit by 4-5%.
- **Maintain BUY with a PE-based target price of S$1.56,** pegged to 15x 2024F PE, CD's average long-term PE. With improving fundamentals, a decent 4.7% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD would help support share price performance moving forward.

SHARE PRICE CATALYST

- **Events:** a) Bus tender contract wins, b) increase in taxi commission rates, and c) complete removal of taxi rental rebates.
- **Timeline:** 6-12 months.

LHN Group – BUY (Heidi Mo)

- **Real estate management group with market-leading position in the co-living space.** In 1HFY23, LHN derived the majority (75%) of its PBT from the space optimisation business, which focuses on recycling under-utilised properties through the acquisition and master leasing of commercial, industrial and residential properties. LHN entered the co-living space in 2019 and has become the market leader in Singapore with a 20% market share. As of 1HFY23, it owned and subleased 17 properties under the Coliwoo brand, with a total of 1,678 keys.

- **Coliwoo expected to drive FY23 core earnings by 46% yoy from 70% increase in number of new keys.** LHN's growth strategy is to expand its current property portfolio through master leases and acquisitions, and targets to add around 800 keys per year for the next three years. In its current pipeline of acquisitions, 89 keys along Pasir Panjang Road and Arab Street will be added in 1Q24, three freehold properties along River Valley Road and Rangoon Road will add approximately 61 keys in 2H24, while the GSM building will add another 187 keys in 3Q25. As new keys will take 6-9 months to reach steady state, we expect Coliwoo's FY24/25 earnings to soar 211%/76% yoy to S$11.0m/S$19.4m respectively. This will likely lift LHN's FY23 core earnings by 46% yoy to S$25m.

- **Value unlocking of more assets could lead to special dividends.** In the 1HFY23 results press release, LHN highlighted that it is exploring options to further enhance shareholder value and is considering capital recycling to move towards an asset-light model. On 31 Jul 23, LHN accepted an offer to take over its 84%-owned subsidiary LHN Logistics. This is expected to generate a disposal gain of S$18m and cash proceeds of S$28.9m (20% of LHN's market cap), translating to potential special dividend of up to 1.2 S cents/share given LHN's 30% dividend payout policy. We have not factored any special dividend into our financial estimates.

- **Maintain BUY and a target price of S$0.55,** pegged to 9x FY23F PE (based on long-term mean PE). We think that LHN's current valuation of 6x FY24F PE and dividend yield of 6.3% are attractive, given the group's leading market share in the co-living space, robust expansion pipeline and strong EPS growth.

SHARE PRICE CATALYST

- **Events:** a) Divestment of assets and b) higher-than-expected growth in co-living keys.

- **Timeline:** 3-6 months.

VALUATION

Company	Ticker	Rec*	Price 31 Aug 23 (S$)	Target Price (S$)	Upside To TP (%)	Last Year End	PE 2022A (x)	PE 2023E (x)	PE 2024E (x)	Yield 2023E (%)	ROE 2023E (%)	Market Cap. (S$m)	Price/ NTA ps (x)
Bumitama	BAL SP	BUY	0.55	0.65	18.2	12/22	3.7	5.0	4.7	8.0	16.7	953.8	0.9
CapLand Ascott	CLAS SP	BUY	0.97	1.35	35.1	12/22	30.6	26.9	21.0	5.8	2.9	3,548.8	0.8
Civmec	CVL SP	BUY	0.80	1.23	53.8	6/23	8.0	7.6	7.4	5.5	14.4	405.9	1.1
ComfortDelGro	CD SP	BUY	1.27	1.56	22.8	12/22	15.9	14.1	12.6	4.7	7.5	2,750.5	1.1
CSE Global	CSE SP	BUY	0.485	0.610	25.8	12/22	54.5	14.4	11.9	5.7	9.7	298.2	1.4
Delfi	DELFI SP	BUY	1.25	1.83	46.4	12/22	12.6	12.0	11.2	4.2	18.3	763.9	2.2
Keppel Corp	KEP SP	BUY	6.94	9.09	31.0	12/22	13.3	13.3	13.0	3.0	8.2	12,229.6	1.1
LHN	LHN SP	BUY	0.34	0.55	61.8	9/22	3.0	5.6	5.1	6.8	12.0	139.0	0.7
MapletreeInd	MINT SP	BUY	2.30	2.89	25.7	3/23	17.4	16.5	16.1	6.0	7.1	6,515.6	1.2
OCBC	OCBC SP	BUY	12.55	18.22	45.2	12/22	9.9	8.0	7.8	6.0	13.1	56,420.3	1.1
Sea (in US$)	SE US	BUY	37.93	94.34	148.7	12/22	n.a.	22.7	18.4	0.0	14.6	19,770.3	3.5
Seatrium	STM SP	BUY	0.145	0.190	31.0	12/22	n.a.	n.a.	62.5	0.0	(4.5)	9,891.5	1.2
Sembcorp Ind	SCI SP	BUY	5.35	7.20	34.6	12/22	11.2	10.1	10.1	3.0	22.8	9,543.8	2.1
Thai Beverage	THBEV SP	BUY	0.57	0.83	45.6	9/22	11.9	11.6	10.7	4.3	15.1	14,321.1	2.0
YZJ ShipBldg SGD	YZJSGD SP	BUY	1.69	1.88	11.2	12/22	12.2	10.3	9.2	4.0	16.2	6,676.5	2.0

** Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation*
Source: UOB Kay Hian

STRATEGY – THAILAND

Alpha Picks: Sep 23 Portfolio

Our Alpha Picks outperformed the market (+2.5% vs +0.6%) in Aug 23. The market rebounded in the latter half of the month thanks to the success of selecting the new prime minister and the decline in US bond yield benefitting risky assets. For Sep 23, our picks are CPALL, CPN, ERW, KKP, MAJOR, MINT, OR, PTTEP, RATCH, SCB, TIDLOR and TOP.

WHAT'S NEW

- **Portfolio outperformed in August.** The portfolio outperformed the benchmark (+0.6% vs +2.5%). The top outperforming stocks were: a) ERW (+17.1%) due to the easing of visa restrictions, b) KKP (+8.1%), and c) SCB (+4.9%) as a laggard play for the banking sector. The most underperformers were affected by dividend payment: a) MAJOR (-5.2%), b) OR (-4.7%), and c) RATCH (-2.1%).
- **Rising oil prices limit market downside.** After the earnings season in 2Q23 which are expected to be the bottom for this year, a slight earnings revision for SET Index has commenced. Also, the recovering demand and tightening supply of global crude oil may support the growth of energy stocks in 2H23. The 30% contribution of the energy sector to broad market earnings would help to increase the SET Index's earnings and limit downside of the Thai market.
- **New government to enhance purchasing power.** We reiterate our view on the domestic plays because of the new economic policies which focus on consumption including: a) the 10,000 Baht digital wallet; b) the agricultural debt moratoriums. These two factors support debt repayment as well as improve asset quality and purchasing power; and c) the reduction of energy prices to lessen the burden on cost of living. Therefore, we maintain positive view on the commerce sector and selective buy on consumer finance.
- **Tourism still a main economic driver.** The proposed policy of free visa for Chinese and Indian tourists will accelerate the incoming tourists and economic recovery. As a result, the tourism sector will continue to perform in 2H23 and be the main contribution of economic growth amid delayed government spending which will be key risk to construction services in the next 1-2 quarters.

ACTION

- **Add CPN.** The exposure in residence and retail in response to incoming tourists.
- **Add TIDLOR.** The increasing private spending, debt repayment and diversified strategy in high margin businesses.
- **Take profit on ESSO and add TOP.** ESSO's current price already priced in the acquired price from BCP, thus we switch to another refiner for higher upside.

ANALYSTS' TOP ALPHA PICKS*

Analyst	Company	Rec	Performance	Catalyst
Kampon Akaravarinchai	CPALL	BUY	5.2	Domestic consumption recovery due to more foreign tourists and the election.
Kasemsun Koonnara	CPN	BUY		New projects and higher transfers.
Kochakorn Sutaruksanon	ERW	BUY	15.1	Outstanding RevPar compared with domestic peers.
Kwanchai Atiphophai/ Thanawat Thangchadakorn	KKP	BUY	(5.1)	The laggard play in the banking sector.
Tanaporn Visaruthaphong/ Thachasorn Jutagon	MAJOR	BUY	(6.5)	High season in 2Q and gain on selling MPIC.
Kochakorn Sutaruksanon	MINT	BUY	5.6	Expect higher yoy earnings.
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	OR	BUY	(6.8)	An increase in marketing margins will improve earnings.
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	PTTEP	BUY	(0.6)	A recovery of crude oil prices in 2H23.
Arsit Pamaranont	RATCH	BUY	(2.1)	Lower gas prices, seasonal demand, and ability to renew contracts.
Kwanchai Atiphophai/ Thanawat Thangchadakorn	SCB	BUY	13.5	Increasing policy rate and NIM.
Kwanchai Atiphophai/ Thanawat Thangchadakorn	TIDLOR	BUY		Beneficial from government stimulus and improving asset quality.
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	TOP	BUY		Increasing GRM.
Arsit Pamaranont	ESSO	BUY	3.7	Dropped

** Denotes a timeframe of 1-3 months and not UOBKH's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as alpha pick
Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Share Price 31 Aug 23 (Bt)	Target Price (Bt)	Upside/ (Downside) to TP (%)
CPALL	65.25	78.00	19.54
CPN	68.75	80.00	16.36
ERW	5.55	6.20	11.71
KKP	60.00	78.00	30.00
MAJOR	14.50	18.00	24.14
MINT	33.25	42.00	26.32
OR	20.40	29.00	42.16
PTTEP	158.50	182.00	14.83
RATCH	35.50	50.00	40.85
SCB	118.00	130.00	10.17
TIDLOR	23.60	28.00	18.64
TOP	51.50	68.00	32.04

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Aug 23 (%)	To-date* (%)
CPALL	2.8	5.2
ERW	17.1	15.1
ESSO	3.7	3.7
KKP	8.1	(5.1)
MAJOR	(5.2)	(6.5)
MINT	0.8	5.6
OR	(4.7)	(6.8)
PTTEP	(0.6)	(0.6)
RATCH	(2.1)	(2.1)
SCB	4.9	13.5
SET Index	0.6	

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

PORTFOLIO RETURNS

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

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

Source: UOB Kay Hian

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CPALL (Kampon Akaravarinchai)

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

SHARE PRICE CATALYST

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

CPN (Kasemsun Koonnara)

- Central Pattana (CPN) is Thailand's largest retail property developer which focuses on developing retail properties like shopping malls in major cities for rental, as well as other mall-related businesses like F&B, hotels and residential properties.
- 2H23 earnings are expected to continue improving, driven by new projects and higher transfers. 2023 earnings are likely to hit a new record high, and we foresee upside risks to our forecasts now that 1H23 earnings account for 53% of our full-year forecast. We also remain optimistic on CPN's earnings outlook in the future, due to its expansion plan. In addition, CPN may announce additional development plans for new projects.
- Maintain BUY with an SOTP-based target price of Bt80.00. We value CPN's core business at Bt78.98/share, based on DCF, assuming a WACC of 7.4%, risk-free rate of 2%, debt premium of 1%, equity risk premium of 8.5%, and terminal growth rate of 3.0%. Cash flows are discounted to 2023. We value the residential business at Bt1.02/share, assuming 10x 2023F PE. Our target price of Bt80.00 implies 28x 2023F PE, or around 10-year average.

SHARE PRICE CATALYST

- Event: Better-than-expected performance, especially from the rental and service segment, announcement of new projects, better profitability and a clear and stable political situation in Thailand.
- Timeline: 2H23.

ERW (Kochakorn Sutaruksanon)

- The Erawan Group (ERW) is a leading hotel investment company in Thailand. Its hotel portfolio ranges from luxury to mid-scale and economy across Thailand's major tourist destinations.

- We expect 2Q23 earnings to surge yoy but decline qoq due to the low season of travel in Thailand. Although the number of international arrivals in April was down by 4% mom to 2.1m, we expect that it should recover from 3Q23 due to the pent-up demand from China.
- Maintain BUY with a target price of Bt5.70. Our valuation is based on EV/EBITDA multiple of 20.0x, 2SD above its historical trading. We prefer ERW as it is the key beneficiary of Thailand's reopening and it is the only pure-play hotel operator.

SHARE PRICE CATALYST

- Event: Government stimulus package, better-than-expected recovery in foreign tourists and better cost control.
- Timeline: 2H23.

KKP (Kwanchai Atiphophai, CFA)

- Kiatnakin Phatra Bank (KKP) is a small-sized bank that has roughly 2% of the credit market. It has a strong focus on auto hire purchase lending which accounts for about half of its loanbook.
- KKP's loan portfolio has grown well in the past three years, demonstrating a consistent average growth rate of 17% CAGR over 2020-22. Notably, in 1H23, its loan portfolio expanded by an impressive 17.4% yoy, surpassing its projected target of 13% yoy growth for the entire year of 2023. However, the bank faced a rapid credit cost increase in 2Q23, especially in the hire purchase segment. Given the current circumstances, we believe that KKP has no necessity to engage in aggressive lending practices and instead anticipates a heightened emphasis on maintaining loan quality. Therefore, we expect KKP's loan growth to slow down in 2H23 and reach 13% yoy for 2023.
- Maintain BUY with a lower target price of Bt78.00 based on the Gordon Growth Model (cost of equity: 12.5%, long-term growth: 2.0%). Our target price implies 1.1x 2023F P/B, slightly above its five-year mean.

SHARE PRICE CATALYST

- Event: Strong 2Q23 results.
- Timeline: 2H23.

MAJOR (Tanaporn Visaruthaphong/ Thachasorn Jutaganon)

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

SHARE PRICE CATALYST

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

- Timeline: 2Q-4Q23.

MINT (Kochakorn Sutaruksanon)

- Minor International (MINT) is one of the largest hospitality companies in the Asia-Pacific region. It also operates restaurants in Thailand and overseas and is involved in residential property development and retail trading.
- 2Q23 earnings are likely to surge yoy and qoq. The yoy surge should turn the net loss in 1Q23 to a profit of Bt1.8b-2.0b in 2Q23. The key driver is a recovery in all business units, especially hotels in Europe. EBITDA margin should improve yoy and qoq from the economies of scale of the hotel operations. Alongside this, MINT also maintains food EBITDA margin through optimising the menu prices and entering into contracts to lock in raw material prices.
- Maintain BUY with a target price of Bt42.00 based on EV/EBITDA multiple at 13.0x, at -0.5SD of its historical mean. MINT is one of our picks in the hotel sector as: a) the valuation is undemanding, trading at EV/EBITDA of 11.0x, which is lower than the hotel sector at 15x-18x, and b) 2Q23 earnings are likely to outperform its peers.

SHARE PRICE CATALYST

- Event: Better-than-expected cost control, ability to increase ADR.
- Timeline: 2Q-3Q23.

OR (Tanaporn Visaruthaphong/Benjaphol Suthwanish)

- PTT Oil And Retail Business (OR) operates an integrated oil and non-oil retailing platform both in Thailand and abroad, including the sales and distribution of petroleum products and other products in retail and commercial marketing, coffee shops, other food and beverage outlets, convenience stores and space management offerings.
- We expect core profit to continue growing in 2Q23. This positive outlook is supported by increased oil sales and the expectation of marketing margin not being lower than 1Q23. According to the Energy Policy and Planning Office (EPPO) report, the marketing margin for diesel fuel in Bangkok in Apr 23 was Bt1.9/litre, surpassing the figures recorded in Feb 23 (Bt1.66/litre) and Mar 23 (Bt1.86/litre). This suggests a positive trend in marketing margins, and we expect 2Q23 marketing margin to be at least as high as 1Q23.
- Maintain BUY with a target price of Bt29.00, based on a five-year average PE of 24x. The projected outlook seems reasonable, with improving marketing margins, increased oil sales volume and the alleviation of pressure from the oil fund. These factors have the potential to facilitate a sustained growth in OR's earnings in the forthcoming two quarters.

SHARE PRICE CATALYST

- Event: An increase in marketing margin will improve earnings.
- Timeline: 2023.

RATCH (Arsit Pamaranont)

- Ratch Group (RATCH) is a leading IPP in Thailand. It has a total equity installed capacity of 7,379MW. Capacity can be broken down into 6,495MW under commercial operations and 884MW under development and construction.
- In the short term, we expect RATCH's overall operations to improve qoq in 2Q23 on the back of a gradual recovery in Thailand's economy along with much lower gas costs and seasonal power demand in Thailand. We expect RATCH to report a core profit of Bt2.1b in 2Q23, supported by healthy utilisation rate of Hongsa power plant (HPC) of 90% (96%

in 1Q23, 90% in 2Q22) and earnings turnaround in small power producer (SPP) power plants like Nava Nakorn Electricity Generating (NNEG), Sahacogen (SCG) and berk prai cogen due to the Bt80/MMBTU lower gas cost.

- Maintain BUY with a target price of Bt50.00 based on the DCF valuation of all projects (WACC of 5.0%). We still like RATCH for its impressive growth outlook and we continue to see upside for RATCH's share price from here. The company also offers a 4.5% dividend yield for 2023 (the highest among its big-cap peers).

SHARE PRICE CATALYST

- Event: Expected recovery in demand for power in Thailand and overseas.
- Timeline: 2023.

SCB (Kwanchai Atiphophai, CFA/Thanawat Thangchadakorn)

- SCB X is one of the largest commercial banks with a roughly 15% share of Thailand's credit market. It has a strong focus on retail lending, which accounts for 46% of its loanbook.
- SCB reported return on equity (ROE) at 10.1% in 2Q23, the first time since the start of the pandemic (3Q19 ROE: 15%). According to management's guidance, the company set a goal to raise ROE to a range of 13-15% in the next 3-5 years, which is a medium-term plan. Furthermore, SCB intends to maintain a high dividend payout ratio, with the last payout at 60%.
- Maintain BUY with a lower target price of Bt130.00, based on the Gordon Growth Model (cost of equity: 11%, long-term growth: 2%). SCB currently trades at 7.9x 2023F PE, -1SD to its five-year mean, and at 0.8x 2023F P/B, approximately its five-year mean.

SHARE PRICE CATALYST

- Event: The Bank of Thailand (BOT) implementing policy rate hikes.
- Timeline: 2H23.

TIDLOR (Kwanchai Atiphophai, CFA/Thanawat Thangchadakorn)

- The non-bank company that provides auto title loans, hire purchase financing services for second-hand used trucks, and other types of non-lending products include life and non-life insurance brokerage services under the brand "Ngern Tid Lor".
- Better asset quality outlook but maintaining conservative credit cost guidance. Management reaffirmed that TIDLOR's NPL ratio should peak in early-3Q23. The company has tightened its lending policies, and the delinquency rate has shown signs of slowing down. However, management maintains its credit cost guidance unchanged at 3.00-3.35% as uncertainties revolving around the establishment of the new government could delay the implementation of the stimulus scheme. Also, prices of second-hand vehicles are continuing to trend downward, which could widen losses from the sales of repossessed items.
- Upgrade to BUY. TIDLOR's share price has fallen sharply due to the large sell-off by one of its major shareholders. However, this sell-off does not impact the company's fundamentals. Its share price is undervalued. We upgrade to BUY with an unchanged target price of Bt28.00 based on the Gordon Growth Model.

SHARE PRICE CATALYST

- Event: Strong 3Q23 results.
- Timeline: 2H23.

TOP (Tanaporn Visaruthaphong/Benjaphol Suthwanish)

- Thai Oil (TOP) is an oil refinery company. It also produces oil related products including LPG, kerosene, fuel oil and chemicals.
- Crude oil prices and refining margin is expected to support a strong recovery in 3Q23 net profit. We expect 3Q23 net profit to grow on both qoq and yoy bases. This growth will be primarily boosted by three factors: a) jump in revenue due to an increase in crude oil prices, b) strong recovery in core profit due to GRM improving on both qoq and yoy bases, and c) utilisation rate being sustained at a notably high level, which will support the escalating seasonal demand and counter the reduction in regional output stemming from unplanned shutdowns of regional refineries.
- We maintain our BUY recommendation with a target price of Bt68.00, based on regional forward PE of 11x in 2024. We continue to expect a recovery in GRM and core profit in 3Q23.

SHARE PRICE CATALYST

- Event: Crude oil prices rebound in 2H23, and the driving season and hurricane season in the US which will cause demand for refined oil to increase.
- Timeline: 2H23.

VALUATION

Company	Ticker	Rec.	Last Price 31 Aug 23 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	------------ PE ------------ 2022 (x)	2023F (x)	2024F (x)	EPS Growth 2023F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
CP All	CPALL TB	BUY	65.25	78.00	19.54	16,605	44.2	35.2	29.2	25.5	1.4	5.3	1.4	5.6
Central Pattana	CPN TB	BUY	68.75	80.00	16.36	8,741	28.7	23.8	22.6	20.5	1.2	3.5	1.7	13.9
The Erawan Group	ERW TB	BUY	5.55	6.20	11.71	712	n.a.	38.5	31.1	396.0	0.1	3.8	1.2	10.9
Kiatnakin Phatra Bank	KKP TB	BUY	60.00	78.00	30.00	1,439	6.7	7.1	5.8	(5.9)	(1.2)	0.8	4.1	11.9
Major Cineplex Group	MAJOR TB	BUY	14.50	18.00	24.14	367	51.4	14.5	11.4	255.9	0.1	2.0	6.9	12.4
Minor International	MINT TB	BUY	33.25	42.00	26.32	4,915	41.2	32.1	24.5	28.5	1.1	2.3	1.0	6.5
PTT Oil And Retail Business	OR TB	BUY	20.40	29.00	42.16	6,935	23.6	16.6	15.8	41.9	0.4	1.1	1.8	6.5
PTT Exploration and Production	PTTEP TB	BUY	158.50	182.00	14.83	17,826	8.9	10.2	8.7	(13.4)	(0.8)	1.3	5.0	13.5
Ratch Group	RATCH TB	BUY	35.50	50.00	40.85	1,458	13.4	9.5	8.1	40.4	0.2	0.8	5.6	7.5
SCB X	SCB TB	BUY	118.00	130.00	10.17	11,255	10.6	9.9	9.1	7.5	1.3	0.8	5.3	8.5
Ngern Tid Lor	TIDLOR TB	BUY	23.60	28.00	18.64	1,550	15.8	16.1	14.5	(2.0)	(7.9)	2.3	1.2	14.4
Thai Oil	TOP TB	BUY	51.50	68.00	32.04	2,976	3.5	7.0	8.2	(49.9)	(0.1)	0.7	4.9	10.0

Source: UOB Kay Hian

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