UOBKayHian

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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33129.6	0.4	(1.3)	(4.9)	(0.1)
S&P 500	4263.8	0.8	(0.3)	(5.6)	11.0
FTSE 100	7412.5	(0.8)	(2.4)	(0.5)	(0.5)
AS30	7082.2	(0.8)	(2.0)	(5.8)	(1.9)
CSI 300	3689.5	(0.3)	0.5	(2.7)	(4.7)
FSSTI	3147.4	(1.4)	(1.6)	(2.5)	(3.2)
HSCEI	5882.7	(1.1)	(2.5)	(8.0)	(12.3)
HSI	17195.8	(0.8)	(1.6)	(6.8)	(13.1)
JCI	6886.6	(0.8)	(0.5)	(1.5)	0.5
KLCI	1415.8	(0.3)	(2.1)	(2.7)	(5.3)
KOSPI	2405.7	(2.4)	(4.3)	(6.8)	7.6
Nikkei 225	30526.9	(2.3)	(5.7)	(7.6)	17.0
SET	1451.3	0.3	(3.1)	(6.2)	(13.0)
TWSE	16273.4	(1.1)	(0.0)	(3.1)	15.1
BDI	1778	(0.1)	1.5	67.3	17.4
CPO (RM/mt)	3673	0.4	0.8	(5.9)	(9.3)
Brent Crude (US$/bbl)	86	(5.6)	(11.1)	(3.6)	(0.1)

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	231.00	590.00	155.4
China Duty Free	601888 CH	105.97	138.00	30.2
Bank Neo Commerce	BBYB IJ	302.00	390.00	29.1
Bumi Serpong	BSDE IJ	1,045.00	1,420.00	35.9
HM Sampoerna	HMSP IJ	850.00	1,300.00	52.9
My EG Services	MYEG MK	0.80	1.18	48.4
Yinson	YNS MK	2.39	3.75	56.9
OCBC	OCBC SP	12.65	18.22	44.0
CP ALL	CPALL TB	60.75	78.00	28.4
Indorama	IVL TB	25.00	37.00	48.0

KEY ASSUMPTIONS

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

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Corporate Roadshow with United Overseas Bank (UOB SP)	Thailand	10 Oct	10 Oct
NDR with Galaxy Entertainment (27 HK)	Taiwan	10 Oct	12 Oct
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Investor Luncheon with Crystal International Group Limited (2232 HK)	Hong Kong	11 Oct	11 Oct
Analyst Marketing by Jonathan Koh on Singapore Bank and REITs	Thailand	11 Oct	12 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct
Post 3Q2023 Results Virtual Meeting with Keppel Pacific Oak US REIT (KORE:SP)	Singapore	19 Oct	19 Oct

SECTOR UPDATE

Shipping And Ports – China

Outlook Still Largely Cautious Despite Some Early Signs Of Stabilisation

Most recent economic indicators still indicate a cautious near-term outlook for global trade despite some signs of stabilisation. For container shipping, freight rates have retraced after a short-lived rebound between July and mid-August, implying earnings pressure for container shipping plays in 2H23. For ports, overall container volume of Chinese ports has been largely stable with low-to-mid single-digit growth ytd. Maintain MARKET WEIGHT given the sector's cheap valuation. Top picks: CSP and CSH.

WHAT'S NEW

- Update on several economic indicators for global trade outlook and sector statistics.

ESSENTIALS

- **Despite some signs of stabilisation, most of the recent economic indicators are still indicating a largely cautious global trade outlook in the near term.**
  - For the first time in six months, China's official manufacturing PMI recovered to above 50 to 50.2 in Sep 23 (Aug 23: 49.7), a sign of stabilising manufacturing activities. However, the new export order sub-index, which is a more direct indicator for export activities, remained in the contractionary territory at 47.8 in Sep 23. On a positive note, this was an improvement over Aug 23's 46.7 and Jul 23's 46.3, indicating a slower rate of contraction in export activities of China's manufacturing enterprises. Import sub-index stood at 47.6 in Sep 23, deteriorating slightly from Aug 23's 48.9.
  - Global manufacturing PMI, a composite index compiled by S&P Global and JP Morgan tracking 29 major manufacturing economies, improved marginally to 49.1 in Sep 23 (Aug 23: 49.0), still implying a slow global manufacturing outlook. The new export orders sub-index of 47.7 in Sep 23 was still in the contractionary territory, but an improvement over Aug 23's 47.0 and Jul 23's 46.4, indicating a slower contraction in global trade activities.
  - Retail confidence in the EU has remained weak in recent months, with a rising number of retailers surveyed indicating that they have sufficient inventory stocks and hence less urgent needs to place new orders with their suppliers.
  - After hitting a recent high in Jul 23, US consumer sentiment slowed down slightly in the past two months, as concerns remain over the Fed's hawkish stance on interest rates to tame inflation. On the positive side, the US economy has demonstrated some robustness, with Aug 23 job openings of 9.6m beating market expectations of 8.8m. The inventory destocking is taking longer than expected, with Jul 23 wholesale (1.39) and retail (1.30) inventory-to-sales ratios still on the high side compared with similar periods of the past three years.

MARKET WEIGHT

(Maintained)

SEGMENTAL RATING

Segment	Rating
Port	OVERWEIGHT
Container Shipping	MARKET WEIGHT

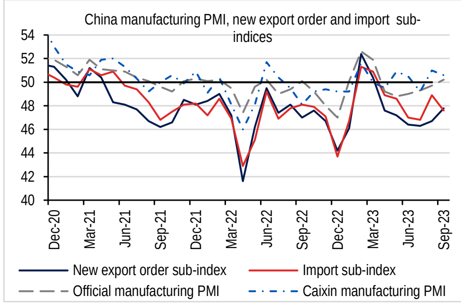
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
CSP	1199 HK	BUY	4.75	6.00
CSH	1919 HK	BUY	7.66	9.71

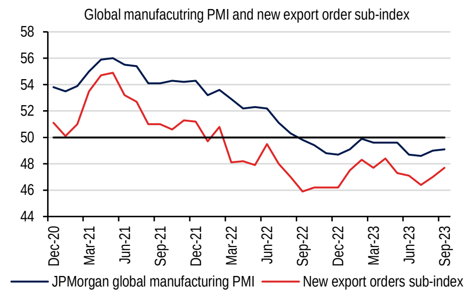
Source: UOB Kay Hian

CHINA MANUFACTURING PMI NEW EXPORT ORDERS INDEX IMPROVED TO 47.8 IN SEP 23



Source: China National Bureau of Statistics, Caixin

GLOBAL MANUFACTURING PMI NEW EXPORT ORDERS INDEX IMPROVED TO 47.7 IN SEP 23



Source: JP Morgan, S&P Global

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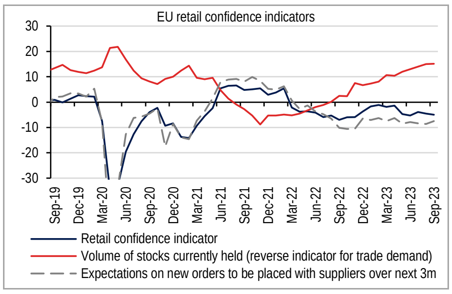
PEER COMPARISON

Segment	Company	Ticker	Rec	Price @ 4 Oct 23 (HK$)	Target Price (HK$)	Upside to TP (%)	Market Cap (US$m)	PE 2023F (x)	PE 2024F (x)	Yield 2023F (x)	Yield 2024F (x)	P/B FY23F (x)	ROE 2023F (%)	ROE 2024F (%)	Net Gearing (%)
Port	COSCO SHIPPING Ports	1199 HK	BUY	4.75	6.00	26.3	2,124	7.3	8.2	5.5	5.0	0.37	5.1	4.5	31.8
	China Merchants Port	144 HK	BUY	9.41	13.33	41.6%	4,965	6.1	7.3	7.4	6.2	0.38	6.3	5.1	26.4
Container Shipping	COSCO SHIPPING Hldg	1919 HK	BUY	7.66	9.71	26.8	15,821	3.8	8.8	13.2	5.7	0.57	15.0	6.4	(44.1)
	Orient Overseas Intl	316 HK	HOLD	101.60	95.40	(6.1)	8,569	4.5	11.1	11.0	4.5	0.73	14.9	6.5	(53.5)

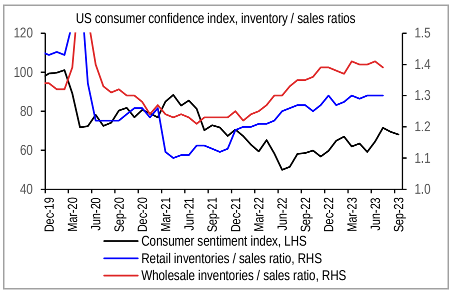
Source: Bloomberg, UOB Kay Hian

EU RETAIL CONFIDENCE STILL WEAK IN SEP 23 WITH RISING INVENTORY STOCK



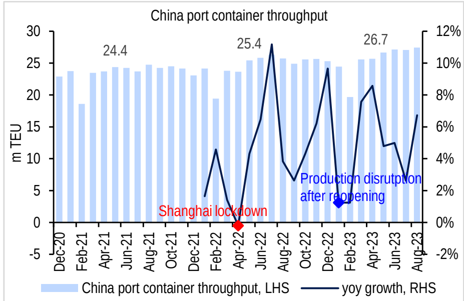
Source: Eurostat

US WHOLESALE AND RETAIL INVENTORY-TO-SALES LEVEL STILL ON THE HIGH SIDE IN JUL 23



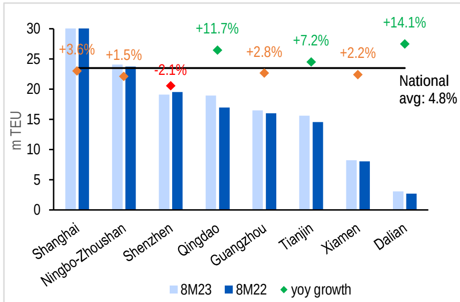
Source: US Census Bureau, University of Michigan

CHINA PORT CONTAINER VOLUME GROWTH PICKED UP IN AUG 23



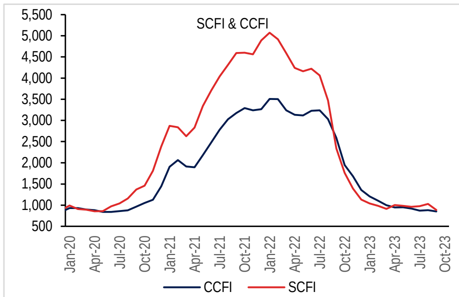
Source: China Ministry of Transport

8M23 CONTAINER VOLUME GROWTH OF EIGHT REGIONAL HUB PORTS IN CHINA



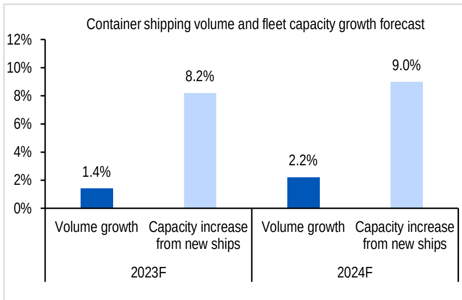
Source: China Ministry of Transport

FREIGHT RATES HAVE RETRACED SINCE MID-AUG 23 AND HIT NEW LOWS OF THE YEAR



Source: Shanghai Shipping Exchange

SHIPPING CAPACITY SUPPLY GROWTH TO OUTPACE DEMAND GROWTH IN 2023-24



Source: Alphaliner

- **Port: China port container throughput grew 6.7% yoy in Aug 23,** faster than the 2.6% yoy growth in Jul 23. For 8M23, container throughput of Chinese ports rose 4.8% yoy. The growth was led by ports/terminals with more domestic and RCEP exposure, including those ports in the Bohai Rim cluster (Qingdao, Tianjin, Dalian, etc). Ports that have relatively higher exposure to US and Europe trades saw more moderate container throughput growth (Shanghai, Ningbo, Guangzhou, Xiamen, etc), or even yoy decline (Shenzhen). Within our coverage, gross container throughput of COSCO SHIPPING Ports (CSP) and China Merchants Port (CMP) grew 2.2% and 1.5% respectively on a yoy comparable basis (ie excluding the impacts from disposals/acquisitions) in Jan-Aug 23, on track to meeting guidance of low-single-digit container throughput growth for the full year.

- **Container shipping: Freight rates have retraced in the past few weeks.** After a short-lived rebound in July and early-August, container freight rates have retraced in the past 1.5 months. Both Shanghai Containerised Freight Index (SCFI), a proxy for spot container freight rates, and China Containerised Freight Index (CCFI), a proxy reflecting both spot and contract freight rates, have reached new lows of the year, standing at 887 and 852 respectively as of 28 Sep 23. As: a) we are already passing the traditional peak period (Aug-Sep) for ocean freights, and b) the effective supply of container shipping capacity is likely to outpace the global trade growth in the rest of the year (and likely 2024), we expect container freight rates to remain under pressure in the near-to-medium term. For container shipping plays COSCO SHIPPING Holdings (CSH) and Orient Overseas International (OOIL), we forecast their 2H23 net profits to decline 19% and 33% hoh, respectively.

ACTION

- **Maintain MARKET WEIGHT with CSH and CSP being our top picks.** Despite the largely cautious near-term outlook, valuations of shipping and port companies are cheap enough, rewarding their investors with attractive dividends while awaiting a re-acceleration of global trade.

- **CSP (1199 HK/BUY/Target: HK$6.00) is our top pick for ports.** We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput), b) well-diversified investment portfolio across Asia, the Middle East and Europe with good asset quality, c) strong backing from its parent company COSCO SHIPPING Holdings (CSH, 1919 HK), which is China's largest and a globally leading container shipping company with large cargo flow. CSP currently trades at only 0.37x 2023F P/B and 7.4x/8.2x 2023F/24F PE, while offering sustainable dividend yields of over 5%.

- **Major shareholder purchase limits share price downside.** We note that CSP's parent company CSH has been proactively purchasing CSP shares in the open market for the past one year. As a result, CSH's shareholding in CSP has risen from 51% in Sep 22 to 61% in Sep 23. CSH's purchase prices for CSP ranged between HK$4.74-6.39/share. Given CSH's huge cash pile and its investment/acquisition strategy focusing on network assets (based on our channel check with CSH), we believe that CSH would continue accumulating CSP's shares going forward. This makes CSP an attractive investment as: a) its share price downside being limited by major shareholder, b) it offers stable yields of over 5%, and c) it presents decent valuation upside once the global trade outlook turns around.

- **CSH (1919 HK/BUY/Target: HK$9.71) is our top pick for container shipping.** Despite the lacklustre earnings outlook for its core container shipping business, CSH's valuation is too cheap to be ignored. Adjusted for upcoming interim dividend payment of Rmb0.51 per share, CSH currently trades at 0.52x 2023F P/B, 2.9SD below the sector's historical mean. Based on our earnings projections and a 50% payout ratio, CSH offers an outsized dividend yield of 13.5% in 2023 and a decent 5.7% yield in 2024. Its huge net cash position of Rmb97b (by our estimate based on CSH's effective ownership) is equivalent to over 80% of CSH's market cap. The huge net cash position would allow CSH to navigate the container shipping downcycle with flexibility while eyeing M&A opportunities that can bolster its earnings and strengthen its position in the logistics ecosystem.

SECTOR UPDATE

IT Hardware – China

Shipment On Track For Sequential Recovery; Remain Cautious On 2024's Growth

We believe the smartphone market is on track for a sequential recovery from 3Q23, driven by restocking demand and new model launches. Latest checks show that the reception to the new iPhone 15 series and Huawei Mate 60 series was exceptional, and may lead to short-term pressure for other competing brands. We are also turning more cautious on the recovery in 2024, and we trim our ASP and margins assumption for the suppliers due to the slower-than-expected recovery in the macro environment. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Smartphone market on track for sequential recovery in 3Q23.** While the end-demand remains relatively sluggish, we believe the sell-in data should start to recover sequentially from 3Q23 onwards (albeit still decline yoy), and return to yoy expansion territory from 4Q23. The growth will be primarily driven by restocking demand in 3Q23, as most smartphone brands had finalised their inventory clearance process in mid-23. From 4Q23 onwards, the sales recovery will be driven by new product launches and a gradual pick-up of consumption appetite from a low base. For the global smartphone shipment, we are now expecting 290m (-4.0% yoy and +9.2% qoq) and 312m (+4.0% yoy and +7.7% qoq) for 3Q23 and 4Q23 respectively. The implied full-year 2023 shipment is 1,135m units (-5.8% yoy).

- **Checking in with iPhone 15 series' lead-time.** During the pre-sales period, iPhone 15 series' wait time was stretched to a new high at an average of 28/36/9 days for the Pro/Pro Max/Base models, which is significantly higher vs iPhone 14 series' 19/23/7 days. Some 12 days after the official launch, the order lead time had shifted slightly to 27/39/10 days, vs iPhone 14's 30/38/2 days. However, note that some colours are in significantly higher demand, eg in China the wait time for the white and natural colour of the Pro Max model is significantly higher at 6-7 weeks, whereas the other two colours' wait time is only 4-5 weeks. Also, the reception for the base model is a lot stronger vs iPhone 14, which is reasonable as Apple resumed specification upgrades for iPhone 15. Overall, we believe the initial data indicates that demand is better-than-feared, and we are now expecting a slight 1% yoy shipment growth for iPhones to 73m units in shipment in 4Q23 despite a high-base.

- **Implication of Huawei's re-entry.** Huawei is making waves in China's smartphone market after its Mate 60 series' launch. The performance provided by its new SoC Kirin 9000S is better than what we expected from SMIC's N+2 (equivalent to 7nm process node), as the performance it provided is closer to Qualcomm's Snapdragon 888, which is fabricated based on 5nm process nodes. Its performance is not comparable with Apple's A17 Bionic chip and Qualcomm's Snapdragon 8 gen 2, but this will not deter Chinese consumers as their buying incentives are not driven by specs.

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
Sunny Optical	2382 HK	BUY	51.65	79.50
Xiaomi	1810 HK	BUY	11.86	15.30

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 04 Oct 23 (HK$)	Target Price (HK$)	Upside/ (Downside) to TP (%)	Market Cap (HK$ m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)	Net Gearing (%)
Sunny Optical	2382 HK	BUY	51.65	79.50	53.9	56,660	44.9	25.6	3.3	3.1	14.8	10.8	6.4	(8.2)
Xiaomi	1810 HK	BUY	11.86	15.30	29.0	296,512	17.1	18.0	1.8	1.8	12.9	10.2	10.0	(45.4)
Q Tech	1478 HK	HOLD	2.97	3.40	14.5	3,511	30.4	10.4	0.6	0.6	7.8	6.0	2.1	14.3
AAC	2018 HK	HOLD	13.08	14.50	10.9	15,829	22.4	13.4	0.6	0.6	4.1	3.1	4.1	6.6

Source: Bloomberg, UOB Kay Hian

As such, if the US sanctions towards China's access to semi equipment and Huawei remains unchanged, we expect Huawei to regain a significant amount of market share by year-end in China. The local Android brands had been more impacted by Huawei's share gains – Honor was most impacted with market share in China down by 3.1ppt in 2Q23, followed by Xiaomi (-2.5ppt yoy) and Vivo (-2.0ppt yoy). In the longer term, we believe Huawei will be constrained in China as it lacks access to Google Services, as such Xiaomi (with 26% shipment exposure to China as of 2Q23) will be best positioned to weather through the impact from Huawei's share gains compared with Oppo (70% from China), Vivo (86% from China) and Honor (86% from China). For 2023, we expect Huawei to ship 36m smartphones (+43% yoy), implying a market share of 13.3%.

- **Profitability of the value chain will depend on rate of spec upgrades, but we see near-term fluctuations.** As more consumers spending habits are switching to high-end phones, almost all brands are trying to expand into the premium smartphone market. We expect the trend to continue to forward, however with the strong reception of Huawei's Mate 60 series, we understand that the Android competitors had turned more conservative on their near-term high-end smartphone shipment targets, which may impact the shipment of high-end products and hence the recovery of profitability across the supply chain in the near term.

ACTION

- **Sunny Optical (2382 HK/BUY/Target: HK$79.50).** Sunny's share price was under severe pressure recently due to two main reasons: a) funds outflow from both foreign investors (due to the US' rate hikes) and Chinese investors (likely reduced exposure prior to the Golden Week holiday); and b) the ongoing US autoworker strike as the US is a key region for Sunny's vehicle business. While we believe the liquidity issue should start to improve after China's Golden Week holiday, we believe a prolonged US autoworker strike may act as an ongoing overhang to the company's share price. However, we would like to highlight that the strike will not impact Sunny's shipment in the near term as according to our understanding, its US clients have yet to adjust shipment orders.

  We are also generally more conservative regarding the recovery of the smartphone market from 2024, and expect slower ASP/margins growth/expansion. We fine-tune our assumptions and our earnings estimates are adjusted down by ~1% for 2024-25. Our target price is adjusted to HK$79.50, still based on 31.5x 2024F PE. Maintain BUY.

- **Q Tech (1478 HK/HOLD/Target: HK$3.40).** Similar to Sunny, we cut our Q Tech's 2024-25 earnings estimates by 8-13% to factor in a more cautious outlook on the smartphone market's recovery. We also factored in the renminbi depreciation into our model, and our target price is adjusted to HK$3.40, still based on 12x 2024F PE. Maintain HOLD.

  Note that we are closely monitoring the Android market's recovery, and Q Tech's share gains in Huawei's supply chain. Historically, Q Tech's financial performance is closely correlated to Huawei's smartphone development cycle, and it should benefit greatly from Huawei's re-entry into the smartphone market. Nevertheless, we believe OFilm (and potentially Luxshare) could be the biggest beneficiary in the Mate 60 product cycle.

- **Xiaomi (1810 HK/BUY/Target: HK$15.30).** We like Xiaomi for its diversified geographic exposure, its strong presence in the higher growth emerging markets such as Latin America and South East Asia, the stringent cost control measures which can be a key bottom line driver in the coming quarters, as well as the improving visibility of its EV business. However, we are closely monitoring the potential impact from Huawei in China, as strong performance from Huawei may erode its market share particularly in China's high-end smartphone market. Maintain BUY and keep target price at HK$15.30, based on 23.5x 2024F PE.

SECTOR UPDATE

Banking – Indonesia

Expecting Another Solid Quarterly Results

Indonesia's manufacturing PMI of 52.3pt in Sep 23 showed domestic manufacturing remaining in an expansive phase which supported loan growth and economic recovery. Loan growth accelerated in Aug 23 to 9.1%, outpacing deposit growth of 7.2%. Despite pressure in CoF, we expect the banks under our coverage to deliver 19.7% yoy net profit growth this year. 3Q23 results will be announced this month, and we expect another set of solid quarterly results. Maintain OVERWEIGHT. Top picks: BBNI & BMRI.

WHAT'S NEW

- **Loan growth accelerated in Aug 23.** The industry's loans grew 9.06% yoy in Aug 23, accelerating from 8.54% yoy in Jul 23, driven by robust growth in investment and working capital. As of Aug 23, investment loans rose 10% yoy, underpinned by strong growth in the manufacturing industry. The working capital and consumer loans jumped 8.2% yoy and 9.1% yoy respectively in Aug 23. The Big Four banks and Bank Tabungan Negara (BBTN) posted strong loan growth with combined loan growth of 10.9% yoy in Aug 23. Bank Mandiri (BMRI) posted the highest loan growth, up 12.3% yoy, followed by Bank Rakyat Indonesia (BBRI) (+11.9% yoy), Bank Central Asia (BBCA) (+10.1% yoy), BBTN (+9.8% yoy) and Bank Negara Indonesia (BBNI) (+8.4% yoy). Indonesia's manufacturing PMI index of 52.3pt in Sep 23 showed that domestic manufacturing remained expansive, echoing the continuous recovery in the domestic economy which remained in an expansive phase. This is in line with Bank Indonesia's (BI) business activity survey in 3Q23 that showed the manufacturing sector's optimism. We expect the industry's loans to grow at high single digits.

- **LDR rose gradually with rising competition in gathering deposits.** Loan to deposit ratio (LDR) gradually rose to 85.7% in Aug 23 from 81.4% in Jan 23 as loan growth outpaced deposit growth. Loans grew 9.06% yoy while deposits rose 7.2% yoy. With current reserve requirement (GWM) of 9% and current LDR level, we believe banks are facing rising competition in gathering deposits. Time deposit rates rose across all tenors by 4.2bp mom (+168.2bp yoy/+53.6bp ytd) on average. Current and saving account growth slowed to 9.6% yoy/2.6% yoy in Aug 23 from 13.0% yoy/2.9% yoy in Jul 23 respectively. Meanwhile, time deposit growth accelerated from 6.8% yoy in Jul 23 to 7.5% in Aug 23. Among the Big Four banks and BBTN, BBCA had the lowest LDR, at 68.8%, followed by BMRI (87.6%), BBRI (88.8%), BBNI (90.6%) and BBTN (97.9%). Banks have opted to maximise balance sheet by keeping LDR at 90-95%. As LDR rises gradually and inflation continues to decline, BI could lower GWM before conducting a rate cut. Looking at the funding structure, CASA dominates total deposits. CASA to loan ratio from the highest to the lowest: BBCA (117%), BMRI (89.6%), BBNI (77.4%), BBRI (71.5%) and BBTN (53%).

- **Another solid quarterly results.** We expect Indonesian banks to deliver another solid quarterly results following strong 2Q23 results. Despite the surging interest expenses, the combined unconsolidated net profit of the Big Four banks (BBRI, BMRI, BBNI and BBCA) and BBTN increased 17.6% yoy in 8M23 as: a) loan growth, b) lower credit cost (CoC), and c) manageable operating expenses supported the net profit. We noted that BMRI's monthly net profit reached >Rp4t consecutively in the last three months, higher than the >Rp3t monthly net profit in the last 12 months. Meanwhile, BBNI's monthly net profit hit Rp2t in Aug 23, higher than the Rp1.5t average monthly net profit in 2022. The net profit growth from the highest to the lowest: BBCA (+29.2% yoy), BMRI (+27.5% yoy), BBNI (+11.9%), BBRI (+4.7%), and BBTN (+1.1% yoy). Based on 8M23 results, we expect the 9M23 results of banks under our coverage will meet market expectations.

OVERWEIGHT

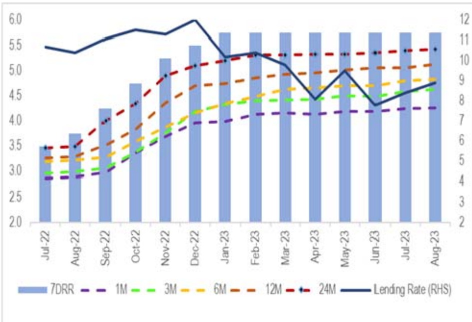
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Rp)	Target Price (Rp)
Bank Mandiri	BMRI IJ	BUY	6,125	6,500
Bank Negara Ind	BBNI IJ	BUY	10,375	11,200

Source: UOB Kay Hian

LENDING RATE AND TIME DEPOSIT RATE TREND (%)



Source: Bank Indonesia

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PEER COMPARISON

Ticker	Rec	Price 4 Oct 23 (Rp)	Target Price (Rp)	Market Cap (US$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Div Yield 2023F (%)	Div Yield 2024F (%)	ROE 2023F (%)
BBCA	BUY	9,200	10,300	72,566	23.0	20.3	4.6	4.2	2.2	2.7	21.1
BMRI	BUY	6,125	6,500	36,577	11.3	9.9	2.2	2.0	4.4	5.3	20.5
BBNI	BUY	10,375	11,200	12,380	9.0	7.8	1.3	1.2	5.5	6.4	15.1
BBRI	BUY	5,250	6,100	50,911	13.2	11.9	2.5	2.4	6.1	6.7	19.6
BBTN	BUY	1,250	1,700	1,123	4.8	4.3	0.6	0.5	3.6	4.1	12.9
BTPS	BUY	1,885	2,900	929	9.9	6.6	1.6	1.4	4.9	5.1	16.9

Source: Bloomberg, UOB Kay Hian

- **Further decline in CoC due to robust provision coverage and improving asset quality.** Combined CoC further declined to 1.3% in 8M23 from 1.8% in 8M22, translating into a 16% yoy decline in provision expenses. Among the Big Four banks, BBCA has the lowest CoC, standing at 0.4% (-0.4% yoy), followed by BMRI: 0.9% (-0.3% yoy), BBNI: 1.4% (-0.6% yoy), BBRI: 2.4% (-0.5% yoy). Based on our calculation, the combined net write-off of the Big Four banks was less than 1% of total loans outstanding. BBRI had the highest net write-off, accounting for 1.5% of loans outstanding, followed by BBNI (0.93%), BMRI (0.69%) and BBCA (0.22%). We expect the sound domestic macroeconomic environment to support the improvement in asset quality.

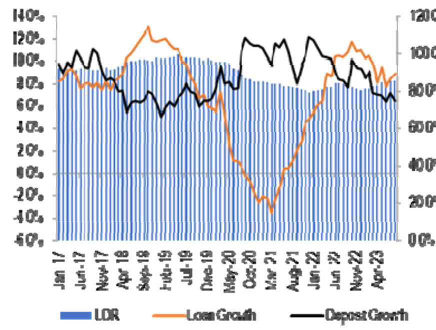
VALUATION/RECOMMENDATION

- **Maintain OVERWEIGHT.** Despite pressure from a higher reference rate, we expect banks under our coverage to deliver 19.7% yoy net profit growth this year. Underpinned by domestic manufacturing optimism and more government spending in 2H23, loan growth will remain strong. Domestic economy recovery also supports the improvement in asset quality. The downstream programme in Indonesia has resulted in multiplier benefits for the economy which could add confidence to the economy's growth momentum. With LDR trending up and inflation easing, BI could lower the GWM before conducting rate cuts which we believe should be positive to the industry. Political campaigns for 2024 election will start in Nov 23. It could support a recovery in purchasing power of the low-income class.

- We have BUY calls for the Big Four banks: BBRI (Rp6,100), BBNI (Rp11,200), BMRI (Rp6,500), BBCA (Rp10,300). Our top picks are BBNI and BMRII. BBNI is the cheapest and has the highest beta among banks which makes it more sensitive to the changes in the economic environment and expectations. BBNI showed improving credit risk which resulted in: a) higher CAR ratio, b) higher LaR coverage, and c) lower exposure to SoE construction companies. Focusing on the low-risk loan segment and having robust coverage, we expect BBNI to have a better earnings quality and gradually recover its ROE to the high-teens. Recovery in loan growth should serve as a positive catalyst. Looking at the monthly data, BMRI continues its strong growth momentum. In the last three months, BMRI (bank only) booked >Rp4t monthly profit, higher than the average of monthly net profit of Rp3.6t in 5M23 (BBRI's average monthly net profit in 8M23: Rp4.3t). Thus, we replace BBRI with BMRI on its back strong earnings growth. Meanwhile, based on monthly data, small banks under our coverage still have issues with asset quality.

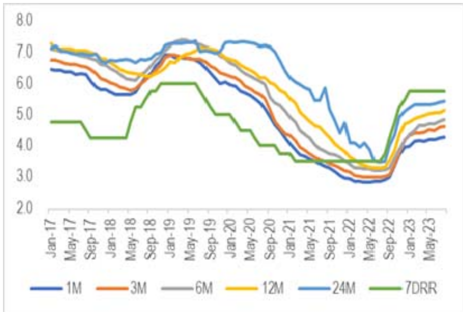
- Risks include adverse macro developments, uncertain geopolitical issues, regulatory changes, worsening asset quality, lower-than-expected NIM, lower-than-expected loan growth, heightening competition, and higher expenses.

LDR AND LOAN AND DEPOSIT GROWTH



Source: Bank Indonesia

7DRR (%) AND TIME DEPOSIT RATES (%) (LONGER HORIZON)



Source: Bank Indonesia

8M23 AND AUG 23 RESULTS

	BBRI			BMRI			BBNI			BBCA			BBTN		
Profit & Loss (Rpb)	mom	8M23	yoy	mom	8M23	yoy	mom	8M23	yoy	mom	8M23	yoy	mom	8M23	yoy
Interest income	3.1%	95,249	11.2%	-2.1%	64,280	22.3%	-10.1%	40,475	17.1%	4.7%	53,917	24.5%	5.3%	18,283	9.4%
Interest expense	2.5%	23,685	76.3%	0.8%	16,630	56.6%	-2.9%	13,039	65.9%	1.7%	7,449	43.3%	-1.8%	9,438	43.3%
Net Interest Income	3.3%	71,564	-0.9%	-3.1%	47,650	13.6%	-13.5%	27,436	2.8%	5.3%	46,468	22.0%	12.9%	8,845	-12.6%
Other Opr Income	1.2%	26,543	12.7%	-18.4%	19,097	14.9%	-5.6%	11,700	-4.7%	-9.6%	14,673	10.3%	-31.0%	2,047	109.8%
Other Opr Expenses	-13.2%	36,461	3.2%	-9.4%	22,341	7.1%	-7.8%	16,232	0.6%	13.1%	20,418	14.4%	-3.6%	5,800	-4.9%
PPoP	13.1%	61,645	2.0%	-6.5%	44,407	17.8%	-13.7%	22,903	0.3%	-4.6%	40,723	21.4%	15.8%	5,091	1.8%
Provision Expenses	86.9%	17,766	-8.7%	-14.9%	5,732	-18.6%	-73.7%	6,158	-23.2%	-189.0%	1,722	-50.4%	-10.0%	2,575	6.0%
Pretax Income	-3.9%	43,486	6.0%	-5.9%	38,712	26.3%	28.0%	16,675	12.9%	-10.2%	38,956	29.3%	48.9%	2,485	-2.2%
Tax Exp	52.0%	8,659	11.9%	5.4%	7,200	20.9%	-24.4%	3,049	17.7%	-10.1%	7,247	29.7%	249.1%	485	-13.6%
Income After Tax	-13.9%	34,827	4.7%	-8.2%	31,512	27.5%	44.4%	13,626	11.9%	-10.2%	31,709	29.2%	30.7%	2,001	1.1%
Balance Sheet (Rpt)	Aug-23	mom	yoy	Aug-23	mom	yoy	Aug-23	mom	yoy	Aug-23	mom	yoy	Aug-23	mom	yoy
Loan	1,124	1.4%	11.9%	997	1.2%	12.3%	652	0.8%	8.4%	729	0.3%	10.1%	314	1.1%	9.8%
Allowance Impairment	81	1.5%	-10.4%	48	-2.3%	-19.0%	49	0.2%	-4.5%	35	0.3%	-2.2%	16	0.6%	4.6%
Deposit	1,265	2.9%	12.3%	1,138	-0.8%	9.8%	720	-0.1%	7.1%	1,060	-0.2%	4.9%	321	0.7%	3.3%
Current Account	297	4.0%	20.3%	455	-1.1%	23.0%	282	-1.4%	14.3%	323	-2.2%	1.8%	126	-1.9%	31.5%
Saving	507	-0.5%	2.3%	438	0.0%	6.7%	223	-1.6%	-1.6%	531	0.0%	4.2%	41	1.2%	-8.1%
Time Deposit	462	6.3%	20.1%	245	-1.6%	-4.5%	215	3.6%	8.0%	205	2.8%	12.0%	154	2.7%	-9.5%
CASA	804	1.1%	8.3%	893	-0.6%	14.4%	505	-1.5%	6.7%	854	-0.9%	3.3%	167	-1.1%	18.8%
Ratios	mom	8M23	yoy	mom	8M23	yoy	mom	8M23	yoy	mom	8M23	yoy	mom	8M23	yoy
LDR	-1.4%	88.8%	-0.3%	1.7%	87.6%	2.0%	0.8%	90.6%	1.1%	0.3%	68.8%	3.2%	0.4%	97.9%	5.8%
CASA	-1.2%	63.5%	-2.4%	0.2%	78.5%	3.2%	-1.0%	70.2%	-0.3%	-0.6%	80.6%	-1.2%	-1.0%	51.9%	6.8%
CASA/Loan	-0.2%	71.5%	-2.4%	-1.6%	89.6%	1.6%	-1.8%	77.4%	-1.3%	-1.4%	117.1%	-7.6%	-1.2%	53.0%	4.0%
NIM	0.1%	6.7%	-0.7%	-0.2%	5.0%	0.2%	-0.8%	4.6%	-0.2%	0.3%	5.5%	0.7%	0.4%	3.4%	-0.7%
CoC	1.6%	2.4%	-0.5%	-0.1%	0.9%	-0.3%	-1.8%	1.4%	-0.6%	0.5%	0.4%	-0.4%	-0.1%	1.2%	-0.04%

Source: Respective companies, UOB Kay Hian

INITIATE COVERAGE

Ekovest (EKO MK)

Multi-year Growth Story In The Making

A deep-value contractor and toll highway concessionaire, Ekovest is a prime candidate for asset monetisation and a significant beneficiary of the rapidly-growing vibrancy of Johor's property and construction sectors. Operationally, Ekovest should turn profitable in FY24, driven by improvements in all business segments. Initiate coverage with a BUY and target price of RM1.10 based on a 50% discount to SOTP of RM2.21.

INVESTMENT HIGHLIGHTS

- **Monetisation of highways seems possible.** Ekovest has long been on investors' radars for its highly-valuable Duta-Ulu Kelang Expressway (DUKE). We consider the monetisation of DUKE Phase 1 and Phase 2 to be timely, aligning with the rebound in highway traffic to pre-pandemic levels since early-23. The potential monetisation can be a major re-rating catalyst since DUKE Phase 1 and Phase 2 could command a lucrative equity value of RM3.1b or enterprise value of RM4.6b (on a 60% basis), about two times Ekovest's market cap, while generating disposal gains of about RM2-3b.
- **Swelling construction orderbook.** We expect Ekovest to significantly grow its existing construction orderbook which is backed by the RM1.2b rapid transit system project. Opportunities include the potential activation of DUKE Phase 2A Istana Link (estimated value of RM3.8b), projects from Johor and the reinvigoration of the River of Life project.
- **Corporate restructuring to further streamline business operations.** Helmed by its founder and executive chairman, Tan Sri Lim Kang Hoo, the enlarged conglomerate through Ekovest after restructuring proposals will have a stronger asset portfolio and vast strategic landbank from its exposure to the merged IWC-IWH entity. IWC-IWH is a master developer in the Flagship A Zone of Iskandar Malaysia with landbank of >4,000 acres, primarily concentrated in the Danga Bay area, near RTS Bukit Chagar.
- **Tapping rising vibrancy of Johor property and construction scene.** We are positive on Ekovest's proposal to acquire land near RTS and develop Transit-Oriented Development (TOD) 2 and 3 with at least RM5b GDV. With the Johor market gaining traction backed by government's incentives, spillover demand from Singapore, the eventual launch of RTS and the special economic zone in Iskandar Malaysia, we anticipate that the development will thrive, bolstering Ekovest's crucial role in driving growth within the region.

Click here for Blue Top dated 04 Oct 23

KEY FINANCIALS

Year to 30 Jun (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	809	1,117	1,207	1,218	1,091
Operating profit	180	237	272	352	363
Net profit (rep./act.)	(124)	(111)	(85)	(41)	(37)
Net profit (adj.)	(90)	(40)	20	64	68
EPS (sen)	(3.0)	(1.3)	0.7	2.2	2.3
PE (x)	n.m.	n.m.	79.4	24.3	22.9
P/B (x)	0.5	0.5	0.5	0.5	0.6
EV/EBITDA (x)	35.3	27.5	23.7	18.9	18.3
Dividend yield (%)	0	0	0	0	0
Net margin (%)	n.m.	n.m.	1.6	5.3	6.2
Net debt/(cash) to equity (%)	227	226	210	206	203
Interest cover (x)	1.1	1.23	1.42	1.8	1.9
ROE (%)	(3.7)	(1.7)	0.8	2.7	2.9
Consensus net profit ()	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-
UOBKH/Consensus (x)				12.45	2.56

Source: Ekovest, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

BUY

Share Price	RM0.54
Target Price	RM1.10
Upside	+104.0%

COMPANY DESCRIPTION

A conglomerate with exposure in construction, property development, highway concessionaires and plantation operations.

STOCK DATA

GICS sector	Construction
Bloomberg ticker:	EKO MK
Shares issued (m):	2,965.4
Market cap (RMm):	1,571.7
Market cap (US$m):	332.7
3-mth avg daily t'over (US$m):	5.6

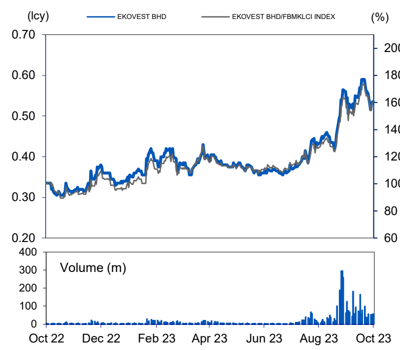
Price Performance (%)

52-week high/low RM0.62/RM0.30

1mth	3mth	6mth	1yr	YTD
(6.2)	45.2	30.9	60.6	55.9

Major Shareholders	%
Lim Kang Hoo	30.8
-	-
-	-
FY24 NAV/Share (RM)	0.94
FY24 Net Debt/Share (RM)	2.01

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Potential disposal of DUKE to result in fundamental change.** While the potential monetisation of DUKE Phase 1 and Phase 2 remains up in the air due to a lack of clarity, we highlight that it has the potential to substantially improve Ekovest's balance sheet by removing the substantial RM2.4b debt associated with these assets. This would reduce Ekovest's high leverage despite giving up recurring income from highway operations. Our rough calculations indicate that the group's gross gearing ratio could improve from 2.32x (in FY23) to 1.33x after the potential DUKE Phase 1 and Phase 2 sale. The remaining debt on the balance sheet would mostly stem from SPE. Excluding all non-recourse loans from DUKE Phase 1 and Phase 2 and SPE, we estimate Ekovest's net gearing to be 0.19x.

- **Fetching RM7.6b enterprise valuation; Ekovest's 60% stake at RM4.6b.** Our DCF valuation for DUKE Phase 1 and Phase 2 is based on 5.5% WACC. In addition, the RM7.6b valuation (on a 100% stake basis) for DUKE Phase 1 and Phase 2 mirrors a six-year IRR of 10% compared with the implied EV of RM2.8b from EPF's acquisition in 2017 of a 40% stake for RM1.13b which valued the highways at an EV of RM2.8b on a 100% basis. Note that our valuation is conservative compared to the management's guidance.

EARNINGS REVISION/RISK

- **Ekovest is on track for profitability in FY24,** driven by: a) increasing construction division earnings due to RTS project progress, and b) maiden profit from SPE as the highway starts operations in 4Q23 (with 6-7 months of contributions in FY24). We anticipate a return to profitability in 2HFY24, paving the way for a profitable full-year in FY24 after two years of losses in FY22-23.

VALUATION/RECOMMENDATION

- **Initiate coverage with BUY and a target price of RM1.10,** based on a 50% discount to its SOTP of RM2.21, which is largely anchored by the valuation of its highways. We ascribe a 50% discount to the valuation to factor in execution risk and complexity of its business structure. However, there might be potential upside to our target price should the execution be better than expected. The stock is trading at 79.4x FY24F PE (above its 10-year mean of 17.9x, justified by its potential return to profitability). In terms of P/B, Ekovest is still undervalued, trading at 0.5x 2FY24F P/B (below 10-year P/B of 0.8x).

- We like Ekovest for its: a) undervalued concession asset whose value has yet to be appreciated, b) track record of taking on a role of the primary contractor in the past highway projects it has undertaken, and c) the good locations of its landbanks.

- **Potential upside to our target price after restructuring.** Factors contributing to this include: a) TOD 2 and 3 with an estimated NPV of RM660m; b) merged IWC-IWH, with an after-tax net realisable value of RM16b for its expanded 4,212-acre landbank; and c) expected 15% dilution from the issuance of 3.0b new shares, resulting in a total of 5.97b shares. Our revised target price may reach RM1.32, theoretically, with a lower 30% discount (vs 50%) due to a streamlined business structure. Should Johor's property and construction space perform better than expected, we estimate a blue-sky scenario of equity value per share at RM3.00 before SOTP discount, assuming the IWH-IWC landbank is sold at RM300psf (vs current assumption of RM120psf).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

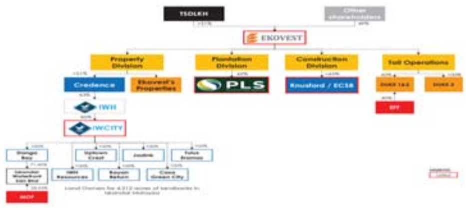
- **Environmental**
  - **Sustainable construction management.** Implementation of ISO14001:2015 on environmental management system.
- **Social**
  - No material accident and injury reported in the workplace during the year.
- **Governance**
  - Five of its nine directors are independent directors.

OUTSTANDING ORDERBOOK AND TENDERBOOK

(RMm)	Contract Value	Outstanding Orderbook
Project		
RTS (Phase 1)	1,438	1,200
Tenderbook		
DUKE 2A (Istana Link)	3,800	
KL Bund	950	
RTS Phase 2 (CIQ & other)	1,400	

Source: Ekovest

CORPORATE STRUCTURE AFTER RESTRUCTURING



Source: Respective companies, UOB Kay Hian

REVENUE BY SEGMENT

	FY23	FY24F	FY25F	FY26F
Construction	529	640	480	360
Property	139	92	186	141
Toll Operations	288	307	376	406
Plantation	118	124	130	137
Others	44	45	46	47
Total	1,117	1,207	1,218	1,091
yoy growth	38.2	8.0	0.9	(10.5)

Source: Ekovest, UOB Kay Hian

EBIT BY SEGMENT

	FY23	FY24F	FY25F	FY26F
Construction	90	128	96	72
Property	12	37	74	56
Toll Operations	259	193	252	279
Plantation	17	12	13	14
Others	(5)	(6)	(4)	(3)
Total	372	365	431	418
yoy growth	106.9	(2.0)	18.1	(3.0)

** Excludes administrative expenses*

Source: Ekovest, UOB Kay Hian

SOTP

Segment	Stake	Fair Value (RMm)	Remarks
Property development	100%	766.0	RNAV
Construction	100%	972.8	10x FY24 PE
Duke 1&2	60%	4,557.0	DCF to concenssion expiry, 5.5% WACC
Duke 3	100%	5,170.1	DCF to concenssion expiry, 6.6% WACC
Plantation	62%	204.6	Book value
Enterprise Value		**11,670.4**	
(-) Net debt		(5,120.5)	End-FY23
Equity Value		**6,549.9**	
Enlarged no. of shares (mil shares)		2,965.4	After the latest private placement
Equity Value/share		**2.21**	
Discount		50%	
Target Price (RM)		**1.10**	

** Net debt took out 40% of RM2.4b debt from DUKE Phase 1 and Phase 2 (40% owned by EPF)*

Source: Ekovest, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Net turnover	1,117	1,207	1,218	1,091
EBITDA	304	399	473	494
Deprec. & amort.	66	67	67	67
EBIT	237	272	352	363
Associate contributions	0	0	0	0
Net interest income/(expense)	(247)	(240)	(232)	(226)
Pre-tax profit	(10)	32	119	137
Tax	(100)	(114)	(137)	(142)
Minorities	(2)	(4)	(23)	(32)
Extraordinary Items	71	105	105	105
Net profit	(111)	(85)	(41)	(37)
Net profit (adj.)	(40)	20	64	68

BALANCE SHEET

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Fixed assets	248	251	251	251
Other LT assets	9,809	9,773	9,741	9,706
Cash/ST investment	172	329	248	233
Other current assets	1,045	907	869	821
Total assets	11,274	11,260	11,108	11,011
ST debt	353	631	607	598
Other current liabilities	784	881	992	985
LT debt	6,125	5,682	5,462	5,385
Other LT liabilities	1,217	1,217	1,216	1,217
Shareholders' equity	2,306	2,355	2,314	2,277
Minority interest	490	494	517	549
Total liabilities & equity	11,274	11,260	11,108	11,011

CASH FLOW

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Operating	352	221	199	102
Pre-tax profit	(10)	32	119	137
Tax	(10)	(114)	(137)	(142)
Deprec. & amort.	23	23	23	23
Associates	0.1	0.1	0.1	0.1
Working capital changes	81	235	150	40
Other operating cashflows	267	44	44	44
Investing	158	(34)	(35)	(32)
Capex (growth)	(234)	(28)	(29)	(26)
Proceeds from sale of assets	3.6	0.0	0.0	0.0
Net Redemption of Investment Funds	410	0	0	0
Others	(21)	(6)	(6)	(5)
Financing	(362)	(30)	(245)	(85)
Dividend payments	0	0	0	0
Issue of shares	39	135	0	0
Net Drawdown/(Repayment) of Borrowings	(392)	(165)	(245)	(85)
Others/interest paid	(9)	0	0	0
Net cash inflow (outflow)	148	157	(81)	(15)
Beginning cash & cash equivalent	24	172	352	305
Changes due to forex impact	(0)	0	23	57
Ending cash & cash equivalent	172	329	248	233

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
Operating Profit Margin	21.2	22.5	28.9	33.3
Pre-tax margin	(0.9)	2.7	9.8	12.6
Net margin	(3.6)	1.6	5.3	6.2
ROA	(0.4)	0.2	0.6	0.6
ROE	(1.4)	0.7	2.3	2.4
Growth				
Turnover	(11.9)	(4.8)	(4.0)	(14.0)
Operating Profit	31.8	14.8	29.1	3.4
Pre-tax profit	n.m.	n.m.	269.7	15.1
Net profit	n.m.	n.m.	n.m.	n.m.
Net profit (adj.)	n.m.	n.m.	227.1	5.8
EPS	n.m.	n.m.	227.1	5.8
Leverage				
Debt to total capital	73.8	72.8	72.4	72.4
Debt to equity	231.8	221.6	214.4	211.7
Net debt/(cash) to equity	225.6	210.1	205.6	203.5
Interest cover (x)	1.2	1.4	1.8	1.9

SECTOR UPDATE

REITs – Singapore

Bond Yields Being Held Hostage By Political Gridlock

We postulate that the recent spike in US government bond yields is caused by concerns over a prolonged government shutdown, rather than consensus view of higher inflation. Government bond yields could remain elevated till mid-November. We see opportunities to accumulate CLAS (Target: S$1.27), FEHT (Target: S$0.71), FLT (Target: S$1.47), KREIT (Target: S$1.08), LREIT (Target: S$0.79) and MINT (Target: S$2.74) on current weakness. Maintain OVERWEIGHT.

WHAT'S NEW

- **A convenient short-term compromise.** Last week, the US Congress passed legislation to extend funding to the US government at 2023's US$1.6t annual rate till 17 Nov 23, which averted a government shutdown. House Speaker Kevin McCarthy obtained the required two-third majority to pass the bill with support from democrats but angered hardliners within the Republican Party in the process. The stopgap measure kicked the can down the road for a more decisive showdown on 17 Nov 23 (45 days later).

- **Unprecedented ousting of House Speaker.** Efforts to oust House Speaker Kevin McCarthy were led by Republican Matt Gaetz from Florida, a long-time political opponent. Current procedures allow one member of Congress to force a vote on removing the House Speaker. The vote to vacate the House Speaker was supported by 208 Democrats and eight Republicans. The search to appoint the next House Speaker is ongoing.

- **The next showdown for government shutdown could get nasty.** Concerns over the credit standing of the US government have increased since Fitch Ratings downgraded the US' long-term foreign currency issuer default rating from AAA to AA+ on 1 Aug 23. The mood on Capitol Hill is acrimonious. The unprecedented ousting of the House Speaker could make Republicans less willing to compromise during negotiations. Thus, government bond yields could remain elevated till mid-November.

- **Latest core PCE inflation was benign.** Core PCE inflation slid lower to 3.9% yoy in August compared with 4.3% yoy in July. The inflationary momentum has also slowed to 0.1% mom (annualised: 2.2%) compared with 0.2% mom the previous month. The benign core PCE inflation numbers were largely ignored by the market.

- **Economic projections for 2024 suggest a soft landing.** Based on economic projections provided by FOMC members as of Sep 23, the US economy is expected to expand by 1.5% and core PCE inflation to recede to 2.6% in 2024, which reflect more resilient economic expansion and a possible soft landing. The latest dot plot indicates that the Fed is likely to hike Fed funds rate by 25bp on 1 Nov 23. The Fed funds rate is expected to be cut by 50bp in 2024 (previous: 100bp).

ACTION

- **Bond yields being held hostage by political gridlock.** The US 10-year government bond yield has risen by 98bp to 4.82% since July largely due to concerns over the deterioration of the US' credit standing and a possible prolonged government shutdown. The Singapore 10-year government bond yield rose in sympathy but by a smaller 32bp to 3.40% during the same time frame, which reflects financial stability in Singapore. Singapore Overnight Rate Average (SORA) was also relatively unchanged.

OVERWEIGHT

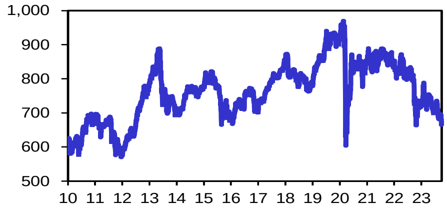
(Maintained)

TOP S-REIT PICKS

Company	Rec	Share Price (S$)	Target Price (S$)
CLAS	BUY	0.92	1.27
FEHT	BUY	0.60	0.71
FLT	BUY	1.07	1.47
KREIT	BUY	0.84	1.08
LREIT	BUY	0.51	0.79
MINT	BUY	2.21	2.74

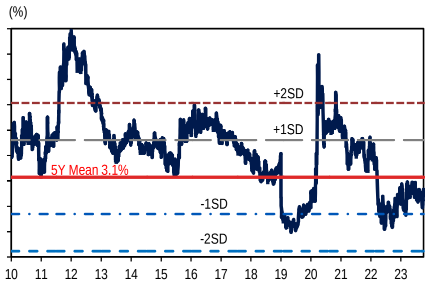
Source: UOB Kay Hian

FTSE ST ALL-SHARE REITS INDEX (FSTREI)



Source: UOB Kay Hian

S-REIT YIELD SPREAD



Source: UOB Kay Hian

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PEER COMPARISON

Name	Ticker	Rec	Price 4 Oct 23	Target Price	Mkt Cap (US$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
CapLand Ascott	CLAS SP	BUY	0.92	1.27	2,507	6.2	6.1	6.8	6.9	74.5	38.6	0.80
Far East HTrust	FEHT SP	BUY	0.60	0.71	875	5.5	6.4	6.7	6.1	40.9	32.0	0.66
Frasers L&C Trust	FLT SP	BUY	1.07	1.47	2,909	7.1	6.6	6.8	6.8	43.4	28.6	0.84
Keppel REIT	KREIT SP	BUY	0.84	1.08	2,308	7.0	6.8	6.9	6.9	73.2	39.2	0.63
Lendlease REIT	LREIT SP	BUY	0.51	0.79	879	9.2	8.6	8.4	8.6	84.9	40.6	0.65
Mapletree Ind Trust	MINT SP	BUY	2.21	2.74	4,564	6.1	6.2	6.4	6.6	58.9	38.2	1.19

Source: Bloomberg, UOB Kay Hian

- **Maintain OVERWEIGHT.** Resiliency of balance sheets is of paramount importance as interest rates are expected to stay higher for longer. We cut our target prices for S-REITs by an average of 5.1% after adjusting our risk-free rate higher by 25bp to 3.25%. We see value to accumulate the following S-REITs on current weakness:

CapitaLand Ascott Trust (CLAS SP/BUY/Target: S$1.27/Upside: 38%)

- CLAS' portfolio occupancy is expected to improve during the seasonally stronger 2H23 (1H23: 75%). It benefits from the recent expansion in longer-stay properties, such as student accommodation and rental housing, which accounted for 19% of portfolio valuation. CLAS has a resilient balance sheet with aggregate leverage at 38.6%, adjusted interest coverage ratio of 4.3x and weighted average debt to maturity of 3.6 years.

Far East Hospitality Trust (FEHT SP/BUY/Target: S$0.71/Upside: 18%)

- FEHT is a pure play on the hospitality sector in Singapore. Five of its hotels (51% of portfolio valuation) are located near major hospitals that are popular with medical tourists. FEHT is scouting for opportunities to invest in limited-service, midscale and upscale hotels at gateway cities in developed markets. Its expansion overseas is supported by its low aggregate leverage of 32%. FEHT's low P/B of 0.66x is unwarranted given good corporate governance and its strong sponsor (Far East Organization).

Frasers Logistics Trust (FLT SP/BUY/Target: S$1.47/Upside: 37%)

- FLT's logistics properties in New South Wales, Victoria and Germany registered strong positive rental reversions of +16.7%, +31.1% and +18.9% respectively on average rent vs average rent basis. It has maintained full occupancy of 100% for logistics properties across Australia, Europe and the UK. FLT's aggregate leverage of 28.6% is one of the lowest among blue chip S-REITs, while its interest coverage ratio is high at 8.0x. New CEO Anthea Lee has officially taken over with effect from 14 Aug 23.

Keppel REIT (KREIT SP/BUY/Target: S$1.08/Upside: 29%)

- KREIT is the only pure play office REIT listed on the SGX. KREIT has backfilled vacant spaces ahead of new supply coming on-stream in 4Q23. Occupancy is 100% for both Ocean Financial Centre and One Raffles Quay, and 98.3% for Marina Bay Financial Centre. P/NAV of 0.63x is near the low of 0.61x in 23 Mar 20 during the onset of the COVID-19 pandemic.

Lendlease Global Commercial REIT (LREIT SP/BUY/Target: S$0.79/Upside: 55%)

- LREIT has the option of divesting the office block at Jem combined with a private placement to redeem perpetual securities of S$400m and deleverage. We estimate the negative impact to be manageable at 3.8% for DPU and 2.3% for NAV per unit. LREIT provides an attractive FY24 distribution yield of 8.6%.

Mapletree Industrial Trust (MINT SP/BUY/Target: S$2.74/Upside: 24%)

- MINT has successfully expanded to Japan's data centre market. It plans to recycle assets in Singapore through the divestment of its business park and light industrial buildings to finance the enlargement of scale in Japan. MINT is also close to securing a replacement tenant for its data centre at Brentwood, Tennessee when AT&T's lease expires in Nov 23.

SECTOR CATALYSTS

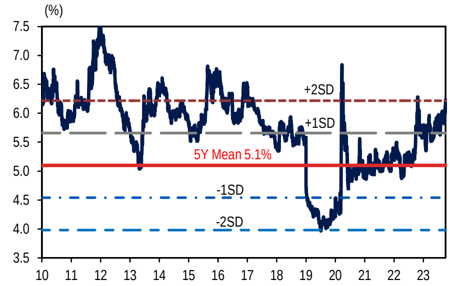
- Hospitality, retail and office REITs benefitting from the reopening of the economy and easing of COVID-19 restrictions in Singapore and around the region.

- Limited new supply for logistics and retail segments in Singapore.

ASSUMPTION CHANGES

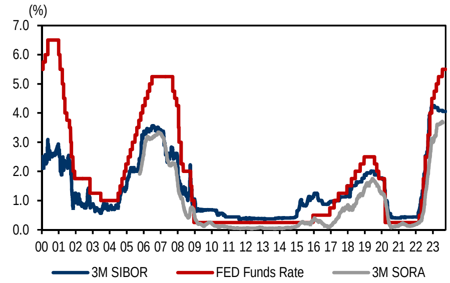
- We maintain our existing DPU forecasts.

S-REIT DISTRIBUTION YIELD



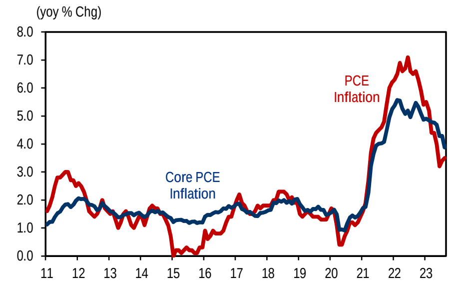
Source: Federal Reserve

FED FUNDS RATE VS THREE-MONTH SIBOR



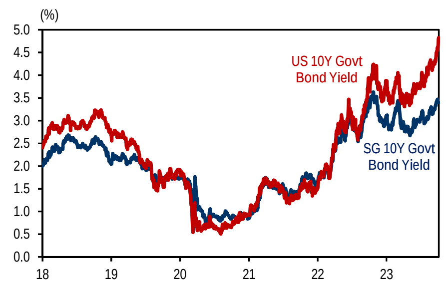
Source: Bloomberg

US PCE INFLATION VS CORE PCE INFLATION



Source: Bloomberg

10Y GOVERNMENT BOND YIELD – US VS SG



Source: Bloomberg

RISKS

- a) Interest rates staying at elevated levels for a prolonged period of time, and b) escalation of the Russia-Ukraine war beyond Ukraine.

CHANGES TO TARGET PRICES

Name	Ticker	Rec	Price (S$) 4 Oct 23	---- Target (S$) ---- Old	New	------ COE (%) ------ Old	New	Terminal Growth (%)
HEALTHCARE								
PLife REIT	PREIT SP	BUY	3.71	4.49	4.19	6.50	6.75	3.0
HOSPITALITY								
CapLand Ascott	CLAS SP	BUY	0.92	1.35	1.27	7.25	7.50	2.8
CDL HTrust	CDREIT SP	BUY	1.02	1.48	1.41	7.25	7.50	2.8
Far East HTrust	FEHT SP	BUY	0.60	0.75	0.71	7.50	7.75	2.8
INDUSTRIAL								
CapLand Ascendas	CLAR SP	BUY	2.66	3.30	3.13	7.00	7.25	2.5
Digi Core REIT USD	DCREIT SP	BUY	0.525	0.73	0.69	7.00	7.25	2.2
Mapletree Ind Trust	MINT SP	BUY	2.21	2.89	2.74	7.00	7.25	2.2
Mapletree Log Trust	MLT SP	BUY	1.60	1.86	1.75	7.00	7.25	2.8
OFFICE								
Keppel REIT	KREIT SP	BUY	0.84	1.12	1.08	6.50	6.75	1.5
RETAIL								
Frasers CT	FCT SP	BUY	2.13	2.50	2.36	7.00	7.25	2.5
Lendlease REIT	LREIT SP	BUY	0.51	0.83	0.79	7.25	7.50	2.2
Sasseur REIT	SASSR SP	BUY	0.645	0.96	0.93	8.50	8.75	1.5
DIVERSIFIED								
CapLand Int Comm Trust	CICT SP	BUY	1.78	2.20	2.09	7.00	7.25	2.2
Frasers L&C Trust	FLT SP	BUY	1.07	1.56	1.47	7.25	7.50	2.8
Mapletree Pan Asia	MPACT SP	BUY	1.36	1.90	1.80	7.00	7.25	2.2
Suntec REIT	SUN SP	HOLD	1.13	1.37	1.30	7.00	7.25	1.5

Source: UOB Kay Hian

PEER COMPARISON

Name	Ticker	Rec	Curr	Price 29 Sep 23	Target Price	Mkt Cap (US$m)	---- Yield (%) ---- Hist	Curr	Fwd 1Y	Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
HEALTHCARE													
First REIT	FIRT SP	NR	S$	0.235	n.a.	355	11.2	21.7	22.1	11.5	73.3	38.7	0.76
PLife REIT	PREIT SP	BUY	S$	3.71	4.19	1,636	3.9	3.8	3.8	3.9	57.3	35.3	1.59
HOSPITALITY													
CapLand Ascott	CLAS SP	BUY	S$	0.92	1.27	2,507	6.2	6.1	6.8	6.9	74.5	38.6	0.80
CDL HTrust	CDREIT SP	BUY	S$	1.02	1.41	925	5.5	6.0	6.8	6.9	64.3	37.9	0.72
Far East HTrust	FEHT SP	BUY	S$	0.60	0.71	875	5.5	6.4	6.7	6.1	40.9	32.0	0.66
Frasers HTrust	FHT SP	NR	S$	0.50	n.a.	702	3.3	4.6	5.2	6.2	57.2	35.3	0.78
INDUSTRIAL													
AIMS APAC REIT	AAREIT SP	NR	S$	1.29	n.a.	761	7.7	7.4	7.4	7.5	80.1	32.9	0.96
CapLand Ascendas	CLAR SP	BUY	S$	2.66	3.13	8,514	5.9	5.8	5.8	5.9	64.3	36.7	1.14
Digi Core REIT USD	DCREIT SP	BUY	US$	0.525	0.69	591	7.6	7.0	6.8	6.9	54.2	34.2	0.64
ESR-LOGOS REIT	EREIT SP	NR	S$	0.27	n.a.	1,485	11.3	10.6	10.6	10.6	74.6	39.4	0.79
Keppel DC REIT	KDCREIT SP	NR	S$	2.05	n.a.	2,572	5.0	4.9	5.2	5.4	60.6	36.3	1.47
Mapletree Ind Trust	MINT SP	BUY	S$	2.21	2.74	4,564	6.1	6.2	6.4	6.6	58.9	38.2	1.19
Mapletree Log Trust	MLT SP	BUY	S$	1.60	1.75	5,786	5.6	5.3	5.1	5.1	79.2	39.5	1.13
OFFICE													
Keppel REIT	KREIT SP	BUY	S$	0.84	1.08	2,308	7.0	6.8	6.9	6.9	73.2	39.2	0.63
RETAIL													
Frasers CT	FCT SP	BUY	S$	2.13	2.36	2,653	5.7	5.7	5.5	5.5	57.1	40.2	0.92
Lendlease REIT	LREIT SP	BUY	S$	0.51	0.79	879	9.2	8.6	8.4	8.6	84.9	40.6	0.65
Sasseur REIT	SASSR SP	BUY	S$	0.645	0.93	583	10.2	9.7	10.1	10.5	43.5	26.2	0.78
PARAGON REIT	PGNREIT SP	NR	S$	0.825	n.a.	1,705	6.6	6.1	6.4	6.5	49.7	29.8	0.91
Starhill Global	SGREIT SP	NR	S$	0.48	n.a.	789	7.9	8.1	8.3	8.5	63.6	36.7	0.66
DIVERSIFIED													
CapLand China Trust	CLCT SP	NR	S$	0.86	n.a.	1,059	8.7	9.2	9.7	10.2	87.8	40.2	0.65
CapLand Int Comm Trust	CICT SP	BUY	S$	1.78	2.09	8,635	5.9	6.0	6.1	6.2	68.3	40.4	0.84
Frasers L&C Trust	FLT SP	BUY	S$	1.07	1.47	2,909	7.1	6.6	6.8	6.8	43.4	28.6	0.84
Mapletree Pan Asia	MPACT SP	BUY	S$	1.36	1.80	5,201	7.1	6.7	6.9	7.0	74.7	40.7	0.78
OUE Comm REIT	OUECT SP	NR	S$	0.23	n.a.	919	9.2	7.8	7.8	8.3	72.7	39.1	0.39
Suntec REIT	SUN SP	HOLD	S$	1.13	1.30	2,383	7.9	6.9	6.7	6.8	70.5	42.6	0.53

Source: Bloomberg, UOB Kay Hian

COMPANY UPDATE

Krungthai Card (KTC TB)

3Q23 Results Preview: Expect Manageable Increase In Credit Cost

We expect KTC to post a 3Q23 net profit of Bt1,746m (-2% yoy, -3% qoq). The main drag will be higher credit cost due to a weakening economy. Meanwhile, increasing the minimum payment in the credit card business will be another concern as KTC needs to raise credit costs to cushion an unexpected bad loan. Due to a 9.8% mom correction in share price and widening upside to the target price, we upgrade to BUY with an unchanged target price of Bt51.00.

3Q23 RESULTS PREVIEW

Year to 31 Dec (Btm)	3Q23F	2Q23	3Q22	qoq chg (%)	yoy chg (%)
Total gross loans	108,280	104,920	96,390	3.2	12.3
Net interest income	3,664	3,557	3,337	3.0	9.8
Non-interest income	2,248	2,268	2,207	(0.9)	1.9
Loan loss provision	(1,603)	(1,438)	(1,276)	11.4	25.6
Non-Interest expenses	(2,144)	(2,135)	(2,056)	0.4	4.3
Pre-provision operating profit	3,768	3,690	3,487	2.1	8.0
Net income	1,746	1,806	1,773	(3.3)	(1.5)
EPS (Bt)	0.68	0.70	0.69	(3.3)	(1.5)
Ratio (%)					
NPL Ratio (%)	2.0	2.0	2.0		
Loan loss coverage ratio (%)	440	433	448		
Net interest margin (NIM %)	13.7	13.7	14.0		
Credit cost (bp)	601	554	535		
Cost to income (%)	36.3	36.7	37.1		

Source: KTC, UOB Kay Hian

WHAT'S NEW

- **Softening 3Q23 earnings growth.** We expect Krungthai Card (KTC) to report a 3Q23 net profit of Bt1,746m, down 2% yoy and 3% qoq due to elevated credit costs. The credit costs will remain higher given: a) a weakening economy outlook after the Bank of Thailand (BOT) adjusted down Thailand's GDP growth in 2023, and b) the increase in minimum payment for credit cards. In terms of pre-provision operating income (PPOP), we expect the company to post a growth of 8% yoy and 2% qoq.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	9,257	9,986	11,123	12,200	13,260
Non-interest income	10,769	11,852	12,601	13,658	14,688
Net profit (rep./act.)	5,879	7,079	6,967	7,766	8,881
Net profit (adj.)	5,879	7,079	6,967	7,766	8,881
EPS (Bt)	2.3	2.7	2.7	3.0	3.4
PE (x)	19.3	16.0	16.3	14.6	12.8
P/B (x)	4.2	3.6	3.2	2.8	2.5
Dividend yield (%)	2.0	2.3	2.6	2.8	3.3
Net int margin (%)	13.4	13.3	13.3	13.4	13.6
Cost/income (%)	36.6	37.2	36.9	36.7	36.8
Loan loss cover (%)	292.2	476.4	440.0	480.0	505.0
Consensus net profit	-	-	7,403	8,044	8,907
UOBKH/Consensus (x)	-	-	0.94	0.97	1.00

Source: Krungthai Card, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	Bt43.75
Target Price	Bt51.00
Upside	+16.6%

COMPANY DESCRIPTION

The company provides unsecured financial products, credit card products and services, and personal loans to consumers in Thailand.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	KTC TB
Shares issued (m):	2,578.3
Market cap (Btm):	112,802.1
Market cap (US$m):	3,044.8
3-mth avg daily t'over (US$m):	8.4

Price Performance (%)

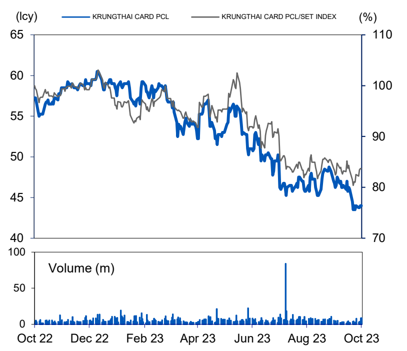
52-week high/low Bt60.50/Bt43.50

1mth	3mth	6mth	1yr	YTD
(9.3)	(11.6)	(18.6)	(23.2)	(25.8)

Major Shareholders	%
Krungthai Bank (KTB)	49.3
Mongkol Prakitchaiwattana	10.0
Thai NVDR	8.8

FY23 NAV/Share (Bt)	13.71
FY23 Solvency Ratio (%)	

PRICE CHART



Source: Bloomberg

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Thanawat Thangchadakorn

STOCK IMPACT

- **Expect KTC's 3Q23 loan growth to be stronger than peers'.** We estimate the KTC's loan portfolio will expand by 12% yoy and 3% qoq. This growth is primarily driven by an increase in credit card spending activities. In contrast, the broader industry's credit card and personal loan outstanding balances have shown a more modest growth and even contraction. Specifically, the industry's credit card outstanding balance grew by just 1% yoy, while the personal loan outstanding balance contracted by 11% yoy as of Jul 23. Despite this, the industry's credit card spending has shown a robust performance, with an increase of 8.6% yoy in Jul 23.

- **Credit costs continue to increase in 3Q23.** Although we expect NPLs to be near their peak, we believe the credit cost will rise in 3Q23. The uneven economic recovery will be the key pressure that makes KTC increase credit cost. The increase in minimum payment on credit cards from 5% to 8%, effective in Jan 24, will be another key concern to make KTC raise the credit cost higher to guard against potential debt becoming bad debt. Nevertheless, we believe that KTC can handle the rise in credit costs smoothly. KTC had the highest LLC ratio among its peers at 433% in 2Q23. (MTC: 105%, SAWAD: 74% and TIDLOR: 266%).

- **RL measure to cool down loan growth next year.** Apart from the Persistent Debt (PD) measure to mitigate the household debt problem, BOT reiterated that they would implement the Responsible Lending (RL) measure on Jan 24. The RL measure intends to protect new debtors from excessive promotion of borrowing. We believe the RL measure will have some impact on loan growth in 2024 due to less promotion and advertising on credit cards and personal loans. We maintain loan growth of 8.3% yoy in 2024 as we wait for more details on the household debt measures.

- **New CEO to run the business.** There is some concern about the retirement of the current chief executive officer (CEO) at the end of this year that the business's direction and the way of doing business may change. According to the recent analyst meeting, KTC reaffirmed that the business' focus will be consistent under management by a new CEO. Meanwhile, the current management team remains to serve and drive the company. We believe KTC will maintain conservative lending and continue to improve asset quality.

EARNINGS REVISION/RISK

- No earnings revision.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with an unchanged target price of Bt51.00.** We use the Gordon Growth Model (cost of equity: 11.5%, long-term growth: 3%). Apart from the upside to the current share price, we upgrade KTC to BUY given: a) the highest loan loss coverage (LLC) ratio among the peers, which is adequate to cushion the unexpected bad debt, b) the peak of the rate hike cycle will lessen pressure on net interest margin (NIM) despite funding cost remaining escalated for a while, and c) the benefit from government stimulus such as minimum wage increase and digital cash payout policy to improve repayment on debt and better asset quality. The stock is trading at 15x 2023F PE, approximately -1SD to its five-year mean and trading at 2.9x 2023F P/B, almost -2SD to its five-year mean.

SHARE PRICE CATALYST

- A peak in NPLs.

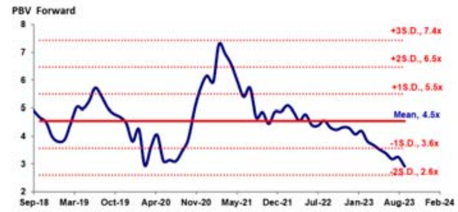
- An improvement in asset quality due to government stimulus.

- A continuous recovery in the domestic economy.

PE BAND

Source: KTC, UOB Kay Hian

P/B BAND



Source: KTC, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Interest income	11,379	12,883	14,395	15,615
Interest expense	(1,392)	(1,761)	(2,195)	(2,355)
Net interest income	9,986	11,123	12,200	13,260
Fees & commissions	7,976	8,990	9,902	10,655
Other income	3,876	3,611	3,756	4,033
Non-interest income	11,852	12,601	13,658	14,688
Total income	21,839	23,723	25,858	27,948
Staff costs	(7,872)	(8,500)	(9,214)	(9,985)
Other operating expense	(244)	(265)	(278)	(292)
Pre-provision profit	13,722	14,958	16,366	17,671
Loan loss provision	(4,868)	(6,318)	(6,855)	(6,651)
Other provisions	0	0	0	0
Associated companies	17	41	48	48
Other non-operating income	0	0	0	0
Pre-tax profit	8,871	8,682	9,558	11,068
Tax	(1,818)	(1,735)	(1,816)	(2,214)
Minorities	26	21	23	27
Net profit	7,079	6,967	7,766	8,881
Net profit (adj.)	7,079	6,967	7,766	8,881

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Cash with central bank	2,182	4,372	4,737	5,026
Govt treasury bills & securities	0	0	0	0
Interbank loans	0	0	0	0
Customer loans	94,014	104,991	113,297	120,210
Investment securities	0	0	0	0
Derivative receivables	0	0	0	0
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	348	372	409	443
Other assets	5,252	4,355	4,631	4,851
Total assets	101,796	114,090	123,074	130,529
Interbank deposits	0	0	0	0
Customer deposits	0	0	0	0
Derivative payables	0	0	0	0
Debt equivalents	45,456	48,041	52,050	55,227
Other liabilities	24,764	30,472	30,850	29,958
Total liabilities	70,220	78,513	82,900	85,185
Shareholders' funds	31,353	35,356	39,929	45,073
Minority interest - accumulated	223	221	245	271
Total equity & liabilities	101,796	114,090	123,074	130,529

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Total assets/equity (x)	3.2	3.2	3.1	2.9
Tangible assets/tangible common equity (x)	3.3	3.3	3.1	2.9
Asset Quality				
NPL ratio	1.8	2.0	1.9	1.8
Loan loss coverage	476.4	440.0	480.0	505.0
Loan loss reserve/gross loans	4.7	5.5	5.5	5.1
Increase in NPLs	(44.4)	24.0	2.9	0.5
Credit cost (bp)	497.9	579.9	575.3	520.8
Liquidity				
Loan/deposit ratio	167.0	163.6	168.4	174.6
Liquid assets/short-term liabilities	13.5	20.4	22.5	25.6
Liquid assets/total assets	2.1	3.8	3.8	3.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	7.9	11.4	9.7	8.7
Fees & commissions, yoy chg	10.3	12.7	10.1	7.6
Pre-provision profit, yoy chg	8.0	9.0	9.4	8.0
Net profit, yoy chg	20.4	(1.6)	11.5	14.4
Net profit (adj.), yoy chg	20.4	(1.6)	11.5	14.4
Customer loans, yoy chg	14.0	11.7	7.9	6.1
Profitability				
Net interest margin	13.3	13.3	13.4	13.6
Cost/income ratio	37.2	36.9	36.7	36.8
Adjusted ROA	7.4	6.5	6.5	7.0
Reported ROE	24.3	20.9	20.6	20.9
Adjusted ROE	24.3	20.9	20.6	20.9
Valuation				
P/BV (x)	3.6	3.2	2.8	2.5
P/NTA (x)	3.7	3.2	2.9	2.5
Adjusted P/E (x)	15.9	16.2	14.6	12.8
Dividend Yield	2.3	2.6	2.8	3.3
Payout ratio	36.4	42.9	41.1	42.1

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