MARKET NEWS

US stocks were higher on Wednesday, as gains in the real estate, utilities, and communication services sectors led shares higher. At the close of the NYSE, the DJIA gained 0.19% while the S&P 500 index rose 0.43%, and the NASDAQ Composite index advanced 0.71%. Advancing stocks outnumbered falling ones on the NYSE by 1,759 to 1,113 and 92 ended unchanged; on the Nasdaq Stock Exchange, 2,338 declined and 1,882 advanced, while 228 ended unchanged. (Source: WSJ, Bloomberg)

Yesterday, the FSSTI index ended 6.20pt lower at 3,192.87, taking the ytd performance to -1.3%. Among the top active stocks were Singapore Telecommunications (+1.3%), Thai Beverage (+1.8%), Genting Singapore (+0.6%), Frencken (+7.4%) and Rex International (-0.6%). The FTSE ST Mid Cap Index fell 0.1%, while the FTSE ST Small Cap Index gained 0.5%. The broader market saw 333 gainers and 223 losers with total trading value of S$899.1m.

WHAT'S IN THE PACK

China/HK Sector Update

Banking - 3Q23 results preview: Earnings growth expected to reach bottom.

Seatrium's outlook in 2024 remains bright, in our view, as we expect new order wins in both the oil & gas…

China/HK Asian Gems Corporate Highlights

Hutchmed (China) - Maintaining oncology revenue target of US$450m-550m in 2023.

(13 HK/NOT RATED/HK$26.60)

Hutchmed has built strong R&D capabilities with three self-developed innovative small molecule oncology drugs successfully marketed in China…

Nio Inc - Takeaways from Asian Gems Conference.

(9866 HK/NOT RATED/HK$68.90)

Nio, one of the leading pure-play EV companies in China, joined the Asian GEM Conference yesterday. During the conference, management shared…

Xiaomi Corp - Takeaways from Asian Gems Conference.

(1810 HK / BUY / HK$12.30 / Target: HK$15.30)

Xiaomi expects the smartphone market to recover sequentially in 2H23 on the back of a healthy inventory level and end-demand…

China/HK Small/Mid Cap Highlights

Crystal International - Takeaways from luncheon.

(2232 HK)/NOT RATED/HK$2.45)

In our luncheon with Crystal International yesterday, management shared its strategies…

Singapore Asian Gems Corporate Highlights

Seatrium - Enthusiasm unabated – Outlook remains bright in 2024.

(STM SP/BUY/S$0.128/Target: S$0.190)

Seatrium's outlook in 2024 remains bright, in our view, as we expect new order wins in both the oil & gas…

Monthly Technical Regional Indices Watch

In this report, we provide the outlook of regional indices on a monthly basis. We also include a list of tradable Exchange Traded Funds (ETF) for each of the said indices.

The said indices under our coverage are:

- Hang Seng Index (HSI IND)
- FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI IND)
- Jakarta Stock Exchange Composite Index (JCI IND)
- Stock Exchange Of Thailand Index (SET IND)
- FTSE Straits Times Index (STI IND)

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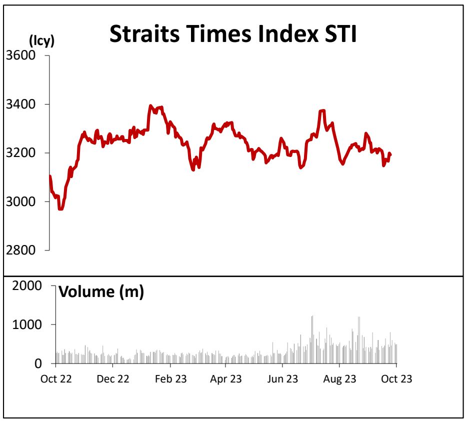
PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	33804.9	(2.5)	2.0
S&P 500	4377.0	(2.5)	14.0
FTSE 100	7620.0	1.6	2.3
AS30	7281.3	(1.6)	0.8
CSI 300	3667.6	(2.5)	(5.3)
FSSTI	3192.9	(0.7)	(1.8)
HSCEI	6132.9	(2.0)	(8.5)
HSI	17893.1	(0.7)	(9.5)
JCI	6931.8	(0.0)	1.2
KLCI	1436.5	(1.2)	(3.9)
KOSPI	2450.1	(3.4)	9.6
Nikkei 225	31936.5	(2.6)	22.4
SET	1456.0	(5.8)	(12.7)
TWSE	16672.0	0.6	17.9
BDI	1948	57.7	28.6
CPO (RM/mt)	3548	(5.4)	(12.4)
Brent Crude (US$/bbl)	86	(5.3)	(0.1)

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (S$)	Chg (%)	5-day ADT ('000s)
DBS Group Holdings	33.72	(0.7)	87.0
Oversea-Chinese Banking Corp	13.00	0.0	54.5
Seatrium	0.13	0.0	47.9
United Overseas Bank	28.50	(0.2)	43.5
Yangzijiang Shipbuilding	1.60	0.6	31.2

TOP GAINERS

Company	Price (S$)	Chg (%)	5-day ADT ('000s)
Nio Inc	8.80	3.7	1.0
Lendlease Global Commercial	0.53	2.9	3.3
Singapore Land Group	2.05	2.5	0.1
OUE Commercial REIT	0.23	2.2	0.3
CDL Hospitality Trusts	1.03	2.0	1.8

TOP LOSERS

Company	Price (S$)	Chg (%)	5-day ADT ('000s)
Jardine Matheson Holdings	42.92	(5.1)	13.4
Yanlord Land Group	0.62	(4.6)	0.5
Top Glove Corp	0.21	(4.5)	0.7
DFI Retail Group Holdings	2.38	(2.5)	1.4
Sasseur REIT	0.65	(2.3)	0.5

MONTHLY TECHNICAL REGIONAL INDICES WATCH – INDICES OUTLOOK

In this report, we provide the monthly outlook for regional indices, namely the **Hang Seng Index,** the **FTSE Bursa Malaysia Kuala Lumpur Composite**, the **Jakarta Stock Exchange Composite Index**, the **Stock Exchange Of Thailand Index** and the **FTSE Straits Times Index**. We also include a list of tradable Exchange Traded Funds (ETF) for each of the said indices.

Hang Seng Index (HSI IND)

Key support at 16,800

Source: Bloomberg

Tradable ETF(s) listed in Hong Kong: **Tracker Fund Of Hong Kong (2800 HK), CSOP Hang Seng Index ETF (3037 HK)**

Last close: 17,893.10

Outlook:
In the weekly chart, the index fluctuated within the downtrend channel continuously. It closed with a hammer pattern for three consecutive weeks from the week of 18 Sep 23. The major support is around 16,800. Meanwhile, the key resistance is around 18,000 and 18,800.

The weekly RSI is around 39, indicating a bearish signal and weak momentum. The weekly MACD line is below its signal line, while both lines are below the zero-line and indicating a bearish signal.

Strategy:
The key support level is around 16,800. It should move between 16,800 and 18,800. Investors are recommended to accumulate quality stocks near the key level.

Support: 16,800
Resistance: 18,000 / 18,800

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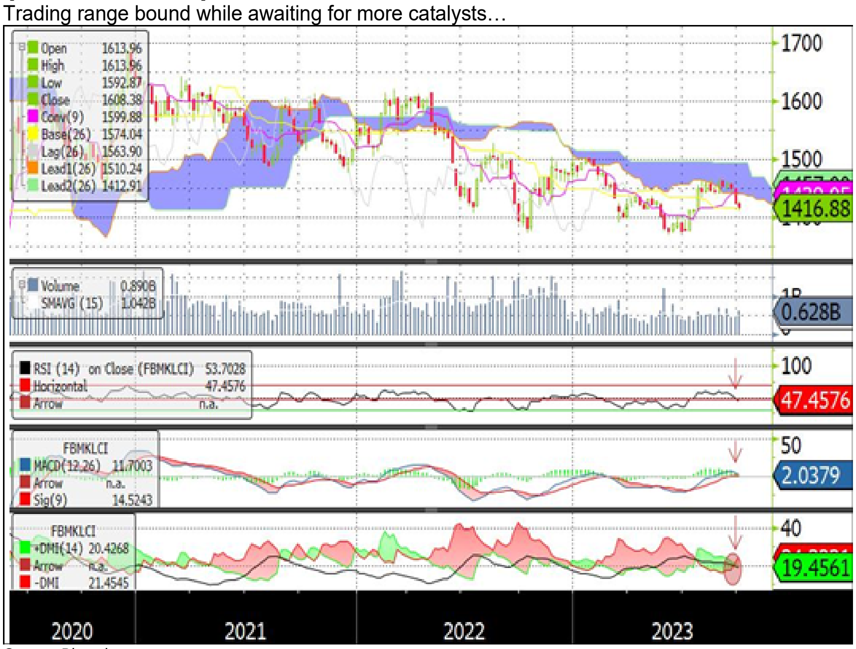
FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI IND)

Trading range bound while awaiting for more catalysts…



Source: Bloomberg

Tradable ETF(s) in Malaysia**: FTSE Bursa Malaysia KLCI ETF (FBMKLCI-EA 0820EA)**

Last close: 1,436.49

Outlook:
Based on weekly chart, the index formed a bearish Marubozu and closed lower at 1,435.17 on last week's movement. Given the lack of domestic catalysts, external factors may have more weightage. Thus, the FBMKLCI may be vulnerable to negative sentiments regionally. Nevertheless, we remain upbeat on the overall medium-term prospect of the index.

In the near term, we expect that the index will continue to trade in range bound within the support level of 1,400 and resistance level of 1,467. If the bear continues to control the market, the index will continue to drop to the next psychological support level of 1,400.

Strategy:
Since the index is in a bearish mode in the near term, we suggest that investors look for the opportunity to enter the market by buying on the dip.

Support: 1,400/1,377
Resistance: 1,467/1,487

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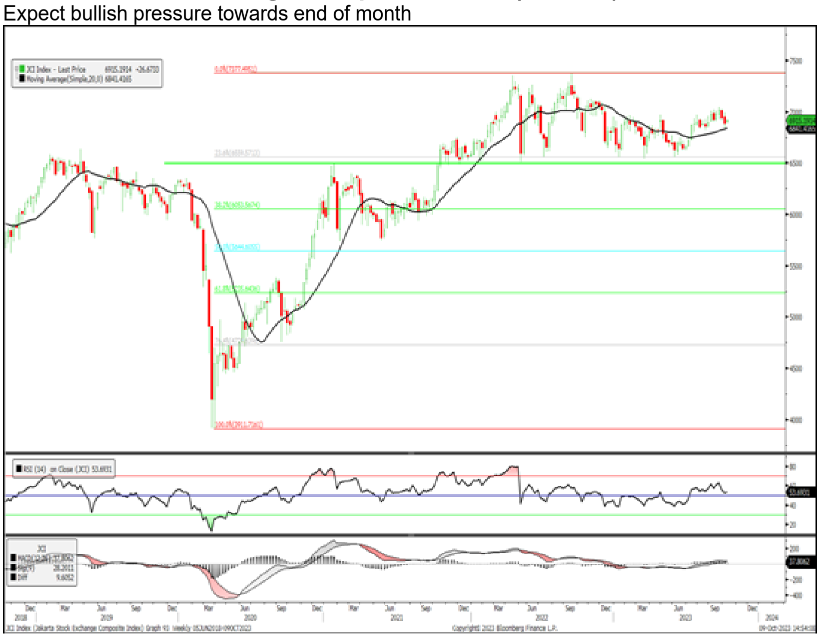
MONTHLY TECHNICAL REGIONAL INDICES WATCH – INDICES OUTLOOK

Jakarta Stock Exchange Composite Index (JCI IND)

Expect bullish pressure towards end of month



Source: Bloomberg

Tradable ETF(s) listed in Indonesia:
Reksa Dana Premier ETF LQ-45 (ETF LQ45),
Reksa Dana Premier ETF IDX30 (ETF IDX 30)

Last close: **6,931.75**

Outlook:
JCI failed to hold above its psychological level of 7,000 last month. Negative sentiment is coming from the weakening of USD/IDR which usually has a negative correlation with JCI. Having said that, we see that there is potential for rebound towards the end of the month as seasonality pattern is showing a strong bullish pattern with 8x gains and 2x losses in the last ten years and average gains of 2.1%. As for the technical view, we expect more consolidation ahead as the RSI is sloping downwards but MACD remains on bullish crossover. Looking forward, we expect a late rebound towards the end of the month with the nearest resistance at 7,130 and support at 6,745.

Strategy:
Potential late rebound with positive seasonality. Focus on the energy, financial and consumer sectors.

Support: 6,820 / 6,745
Resistance: 7,130 / 7,260

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Stock Exchange Of Thailand Index (SET IND)

Sideways down with trading range 1,400-1,500 level

Source: Bloomberg

Tradable ETF(s) in Thailand: **ThaiDEX SET50 ETF (TDEX), ThaiDEX SET100 ETF (TH100), KTAM SET50 ETF Tracker (ESET50)**

Tradable ETF(s) in Singapore: **Lyxor UCITS ETF by Societe Generale (P2P)**

Last close: 1,455.99

Outlook:
The SET Index fell below the key support level of 1,450, resulting in the outlook turning more bearish with direction following the sideways channel. As there have been many supports between 1,400 and 1,450 and as the index becomes oversold, we see potential technical recovery from 1,430 to 1,500.

Strategy:
We change our view to bearish given that SET Index is continuing to fall and cannot stand above the 1,450 level which is the bullish structural support level. For strategy, we recommend trading buy in 1,430-1,500 with stop-loss at 1,400. Investors should reduce some exposure and raise more cash until the index turns more bullish.

Support: 1,430 / 1,400
Resistance: 1,450 / 1,500

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MONTHLY TECHNICAL REGIONAL INDICES WATCH – INDICES OUTLOOK

FTSE Straits Times Index (STI IND)

Consolidation mode continues

Source: TechAnalyzer

Tradable ETF(s) in Singapore:
Singapore STI ETF by Nikko AM (G3B), Straits Times Index ETF by SPDR (ES3)

Last close: 3,192.87

Outlook:
In a bigger and longer view, the FSSTI index has been consolidating within a big triangle chart pattern since Feb 22. We notice that price formed a sideways rectangle pattern, hinting at possible bigger movement ahead once it breaks out. There is a high chance that price may break below this rectangle pattern. MACD remains flat and is hovering around the zero-line, confirming the sideways pattern.

Strategy:
There are two possible ways to trade within a sideways rectangle pattern. Firstly, accumulate quality stocks when price is trading near to the support level of 3,131. Use 3,130 as the support. Secondly, sell on the rise when price breaks and retests the rectangle pattern at 3,130.

Support: 3,130 / 2,970
Resistance: 3,285 / 3,410

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OUR PREVIOUS WRITE UP...

103rd Edition – 13 September 2023, Wednesday
https://research.uobkayhian.com/content_download.jsp?id=75156&h=95a62165d7784d4c1e8bbb3bdcb18d56

102nd Edition – 14 August 2023, Monday
https://research.uobkayhian.com/content_download.jsp?id=74592&h=ae3097adfcecca946eac4a7e564478b1

101st Edition – 12 July 2023, Thursday
https://research.uobkayhian.com/content_download.jsp?id=74087&h=b40e389fc0bc2afdf077c9e1d3da84c0

100th Edition – 8 June 2023, Thursday
https://research.uobkayhian.com/content_download.jsp?id=73639&h=a94c78e03951ad040fc3623be1ecd46e

99th Edition – 10 May 2023, Wednesday
https://research.uobkayhian.com/content_download.jsp?id=73134&h=ca17b4025893bce44f956376d66de519

FROM THE REGIONAL MORNING NOTES...

Seatrium (STM SP)

Enthusiasm Unabated – Outlook Remains Bright In 2024

Seatrium's outlook in 2024 remains bright, in our view, as we expect new order wins in both the oil & gas as well as renewables sectors. In the near term, this could come in the form of two Brazilian FPSOs while in the medium to longer term, renewables demand remains well supported. The company's strategic review remains on track to be completed by end-23. Maintain BUY. Target price: S$0.19.

WHAT'S NEW

- **Positive outlook – Stay invested.** Seatrium presented an upbeat outlook on the offshore marine and renewables industry to nearly 40 institutional investors at the UOB Kay Hian Asian Gems conference earlier this week. While new rig orders may be 1-2 years away, the company will continue to focus on a return to profitability, safe and on-time execution of its current S$19.7b orderbook as well as to fill up the gap in its orderbook pipeline for 2026-29.

- **Strategic review to be completed by end-23.** Management commented that its "ambitious" strategic review is ongoing and, among other issues, will address: a) extraction of cost and revenue synergies between the merged companies, b) the inevitable consolidation of its global network of yards, c) the company's ideal capital structure going forwards, d) potential consolidation of its shares (which appears to be a 2024 event in our view), and e) target orderbook mix between renewables and oil & gas projects. In addition, the strategic review will also look at what sort of investments the company will need to make in the areas of digitisation, robotics and artificial intelligence, which will partially address the issue of a chronic labour shortage that has affected many industries globally.

- **Update on Brazilian FPSOs.** The company has submitted its tender for the P-84 and P-85 FPSOs for Petrobras' Atapu and Sépia fields respectively and, as is standard procedure, Seatrium is currently going through the negotiation with Petrobras regarding the price as well as a technical review. Management appeared somewhat optimistic that the results of the tender could be known by year end.

- **Headwinds in the offshore wind sector not a worry.** While price growth and rising interest rates have driven up costs for offshore wind projects, Seatrium's wind projects are related to infrastructure that has received Final Investment Decision and thus management strongly believes that its projects have no cancellation risk.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,862	1,947	4,621	5,353	6,942
EBITDA	(1,028)	(7)	256	502	839
Operating profit	(1,224)	(206)	(35)	211	501
Net profit (rep./act.)	(1,171)	(261)	(270)	158	353
Net profit (adj.)	(1,171)	(261)	(270)	158	352
EPS (S$ cent)	(6.5)	(0.8)	(0.4)	0.2	0.5
PE (x)	n.m.	n.m.	n.m.	53.9	24.2
P/B (x)	0.5	1.0	1.0	1.0	1.0
EV/EBITDA (x)	n.m.	n.m.	41.7	21.3	12.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(62.9)	(13.4)	(5.8)	3.0	5.1
Net debt/(cash) to equity (%)	45.8	26.5	25.2	19.1	9.1
Interest cover (x)	(14.8)	(1.5)	(0.2)	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	1.9	4.1
Consensus net profit	-	-	(278)	195	497
UOBKH/Consensus (x)	-	-	0.97	0.81	0.71

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

STOCK IMPACT

- **New rig orders – not so soon.** Management commented that while jack-up dayrates have, in some cases, exceeded US$180,000/day with a large number of rigs having been reactivated, it does not believe that rig owners will order new assets in the next 1-2 years. Seatrium attributed this to the health of the drillers which, as a group, has only just regained a modicum of financial health. Instead, it believes that national oil companies and perhaps brave speculators will likely be the first to order rigs in the medium to longer term.
- **Repairs and upgrades segment – remaining bullish.** In 1H23, Seatrium successfully delivered 144 repairs & upgrades projects and on the investor call highlighted that it remains bullish on this business segment into 2024 given greater volumes of trade flows and cruise liner activity after COVID-19. In addition, it noted that new decarbonisation rules and regulations promulgated by the International Maritime Organisation (IMO) will lead to retrofitting of older vessels, thus opening up a new business segment for the company.
- **1H23 results season saw positive comments from oilfield services CEOs** which bolster our positive view on the offshore marine sector. SLB stated that the offshore market is being driven by “resilient long-cycle offshore developments, production capacity expansions, (and) the return of global exploration and appraisal”. This was echoed by Subsea 7 which stated that “there is a very long cycle in oil and gas coming, there are a number of good years ahead of us”. TechnipFMC meanwhile commented that many projects are “in advanced stages (and) moving towards final investment decision”. Thus far in 2H23, our channel checks indicate that offshore marine companies remain bullish heading into 2024.

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **We maintain our BUY rating on Seatrium 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. Given the company’s exposure to the offshore marine upcycle, we strongly believe that Seatrium’s current P/B valuation is inexpensive. Risks include higher-than-expected provisions for 2023, negative news flow regarding its CPIB case and volatile oil prices.
- **Maintain sector view at OVERWEIGHT.** We continue to like Seatrium as we believe that the company will benefit from stronger offshore marine dynamics as well as demand for offshore vessels and structures related to the renewables industry. In addition, the normalisation of economic activity should result in a greater volume of shipping activities thus positively impacting its repairs/upgrades segment. While 40% of Seatrium’s current orderbook is in the renewable energy space (with the remainder related to oil and gas projects), its addressable market is arguably much larger when taking into account carbon capture usage and storage, floating LNG, and ammonia storage and transport which feeds into the hydrogen energy chain.

SHARE PRICE CATALYST

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

FROM THE REGIONAL MORNING NOTES...

Banking – China

3Q23 Results Preview: Earnings Growth Expected To Reach Bottom

We expect CCB's and CMB's earnings to grow 3.4% and 6.7% yoy due to lower impairment despite NIM dilution and subdued fee income. Although household loans remained sluggish in August, early signs of an economic recovery indicate that the current policy easing measures may be gaining traction, potentially stimulating effective credit demand. Maintain MARKET WEIGHT. CMB remains as our top pick given its attractive valuation and compelling 6.4% dividend yields.

WHAT'S NEW

- **3Q23 results preview.** We expect banks under our coverage, China Construction Bank (CCB) and China Merchants Bank (CMB), to deliver a net profit growth of 3.4% and 6.7% yoy, respectively, driven by the lower impairment charged against the backdrop of prolonged NIM compression and sluggish fee income.

3Q23 RESULTS ESTIMATES

	----------------------- CCB -----------------------			----------------------- CMB -----------------------		
(Rmbm)	3Q23F	3Q22	yoy	3Q23F	3Q22	yoy
Total Assets	38,771,636	34,299,695	13.0%	10,726,358	9,707,111	10.5%
Interest Earning Assets	37,220,770	33,042,588	12.6%	10,100,057	9,149,143	10.4%
Net Interest Margin	1.72%	2.05%	-33bp	2.14%	2.41%	-27 bp
Net Interest Income	160,049	165,367	-3.2%	54,035	54,438	-0.7%
Fee Income	25,570	26,054	-1.9%	21,403	22,347	-4.5%
Operating Income	187,029	186,604	0.2%	84,124	85,947	-2.0%
Operating Expenses	48,628	48,037	1.2%	30,125	30,793	-2.2%
PPOP	138,402	138,567	-0.1%	54,089	54,704	-1.1%
Provision	34,764	38,202	-9.0%	7,013	9,212	-23.9%
Net Profit	87,885	84,994	3.4%	40,533	37,977	6.7%

Source: CCB, CMB, UOB Kay Hian

ESSENTIALS

- **Banks' asset expansion slowed after higher growth in 1H23.** According to data from the China Banking and Insurance Regulatory Commission (CBIRC), the asset growth of SOE banks and joint-stock banks decelerated to 12.9% and 6.8% yoy respectively in August, down from 13.7% and 7.0% yoy at end-1H23. As such, based on historical performance, we forecast that CCB and CMB will achieve asset growth of 10.5% and 13.0% yoy, respectively.

- **Lack of effective credit demand from households led to slower loan growth in Aug 23.** The outstanding renminbi loan growth in Aug 23 also eased marginally to 11.1% yoy (Jun 23: 11.3% yoy) on the back of subdued household loans growth of 5.3% yoy (Jun 23: 5.9% yoy). Notably, long-term household consumer loans only grew 0.7% yoy in Aug 23, implying continued weak demand for mortgage loans. We also noticed the moderation of corporate loan growth to 14.1% yoy (Jun 23: 14.2%), mainly due to the slowdown of long-term corporate loan growth (Aug 23: 17.7%, Jun 23: 18.1%). In summary, the loan disbursement pattern in 3Q23 closely mirrored that in 1H23 while corporate loan demand remained robust, but demand for retail loans continued to be sluggish.

PEER COMPARISON

Company	Ticker	Rec	Price @ 11 Oct 23 (HK$)	Target Price (HK$)	Market Cap (HK$ b)	Upside/ (Downside) to TP (%)	-------- PE ------- 2023F (x)	2024F (x)	--------- P/B -------- 2023F (x)	2024F (x)	------- Yield ------- 2023F (x)	2024F (x)	-------- ROE------- 2023F (%)	2024F (%)	-------- NIM -------- 2023F (%)	2024F (%)
CCB	0939 HK	BUY	4.44	6.10	1,132.6	37.4	3.2	3.0	0.34	0.32	10.0	10.7	11.5	10.9	1.72	1.77
CMB	3968 HK	BUY	32.00	50.00	863.7	56.3	5.2	4.5	0.71	0.64	6.4	7.4	16.5	17.0	2.17	2.25

Source: Bloomberg, UOB Kay Hian

- **Limited downside for NIM in 3Q23.** The central bank has rolled out several policy rate cuts to stimulate economic growth but we think that the measures had limited impact on banks' NIM performance in 3Q23. This is because the 10bp one-year LPR cut in Aug 23 and adjustment of deposit rates in Sep 23 may take some time to make an impact. While the repricing of existing mortgage rates will immediately impact banks' NIM, its negative effects may also be less pronounced in 3Q23, as it was only implemented at end-Sep 23.
- **As such, we expect the NIM of CCB and CMB to contract by a smaller 3bp and 2bp qoq to 1.72% and 2.14% respectively.** We think CMB will see less NIM compression than CCB as we believe its funding cost may fall further in 3Q23. This drop comes after an unexpected surge in demand deposit costs in 2Q23, which was caused by the temporary return of wealth management products to CMB's balance sheet in the form of demand deposits.
- **Expecting fee income to continue underperforming.** We forecast the fee income of CMB and CCB to decline by 1.9% and 4.5% yoy, attributed to the sluggish fee income from their agency distribution of mutual funds and wealth management business, influenced by the volatile market and the lower expected returns of bank wealth management products in 3Q23. The commissions income from the bancassurance business may also fall due to the relatively slower insurance sales in 2H23 and commission rate cut as instructed by regulator.
- **Manageable NPL ratio allows for lower credit cost**. As the non-performing loan (NPL) ratios of CCB and CMB improved in 1H23, we expect that the banks continue decreasing the impairment charges on loans and other credit assets in order to bolster their profit in the face of sluggish revenue.

CCB & CMB LOAN QUALITY INDICATORS

	2022			1H23			2023F		
%	Credit Cost	NPL Ratio	Provision Coverage Ratio	Credit Cost*	NPL Ratio	Provision Coverage Ratio	Credit Cost	NPL Ratio	Provision Coverage Ratio
CCB	0.70	1.38	241.53	0.82	1.37	244.48	0.68	1.35	244.13
CMB	0.78	0.96	450.78	0.88	0.95	447.63	0.77	0.94	447.10

Source: CCB, CMB, UOB Kay Hian
**Annualized*

ASSUMPTION CHANGES

- **We reduced our 2023 NIM assumptions on CCB and CMB after assessing the impact of repricing existing mortgage rates.** Based on our calculations, the NIM of CCB and CMB will contract by 1.5bp and 3.3bp respectively after the implementation of the policy. Thus, we reduce our NIM assumptions of CCB and CMB in 2023 by 2bp and 3bp to 1.72% and 2.17% respectively.
- **We also revised our 2023 credit cost assumptions on CMB** after taking account into its lower impairments charged on other credit assets in 1H23.
- **All in all, we trimmed CCB's 2023/24/25 earnings forecasts by 1.8%/2.1%/2.9% and CMB's by 0.8%/0.6%/1.5%** after factoring in the assumption changes above.

EARNINGS REVISION

Net Profit	2023F			2024F			2025F		
(Rmb m)	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
CCB	338,736	345,018	-1.8	367,779	375,729	-2.1	395,231	406,923	-2.9
CMB	143,670	144,889	-0.8	165,603	166,629	-0.6	189,958	192,936	-1.5

Source: CCB, CMB, UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT.** Despite the challenges posed by a slow top-line growth resulting from NIM compression and muted fee income growth, we expect the banks' earnings growth to get back on track slowly as we see more policy easing measures taking place gradually, especially those for boosting the consumer and property markets. We have observed some early signs of an economic recovery such as improvement in PMI data and positive CPI inflation. Consequently, we expect the banks' NIM dilution to ease further due to the recovery of effective credit demand.

- **Central Huijin increased stake in big 4 SOE banks to boost investor confidence.** On 11 Oct 23, Central Huijin increased its holdings in all four major SOE banks collectively for the first time since 2015. This was accomplished by purchasing their shares in the open market for about Rmb477m. Meanwhile, Central Huijin also announced that they will continue these purchases over the next six months. We believe that this will improve the market sentiment on Chinese banks and strong price movements are expected in the near term.

- **Top pick.** CMB remains as our topic pick as it is: a) a proxy to economic recovery given its market-leading position in the retail banking and wealth management businesses, and b) offering attractive risk-to-reward profile given its depressed valuation (-1.8 SD) but relatively higher ROE and compelling dividend yield (6.4%), and c) CMB's share price performance is still laggard compared to its peers in the recent rebound.

RISKS

- Deterioration of asset quality from the contagion effect of the property sector.

- Weaker-than-expected economic recovery in 2H23.

- NIM compression reaccelerates due to asset yield trending down.

FROM THE REGIONAL MORNING NOTES...

Hutchmed (China) (13 HK)

Maintaining Oncology Revenue Target Of US$450m-550m In 2023

Hutchmed has built strong R&D capabilities with three self-developed innovative small molecule oncology drugs successfully marketed in China. It focuses on exploring overseas markets and expanding the number of indications for its existing products, and actively develops combination therapies for its pipeline products with domestic biologics drugs. It maintains its oncology revenue guidance of US$450m-550m in 2023, and targets to achieve breakeven in 2025.

WHAT'S NEW

- Here are the key takeaways from HUTCHMED (China) Limited's (Hutchmed) meeting with investors at the Asian Gems Virtual Conference.

STOCK IMPACT

- **R&D strategies.** Hutchmed has successfully marketed three self-developed innovative small molecule oncology drugs (namely Fruquintinib (ELUNATE), Surufatinib (SULANDA) and Savolitinib (ORPATHYS)) in China. It focuses on exploring overseas markets and expanding the number of indications for its existing products in the near term, and actively collaborates with MNC partners and carries out multi-centre global trials. It is also actively developing combination therapies (combo) for its small molecule drugs in the pipeline with leading domestic biologics drugs in the market (eg PD-1 inhibitors from Innovent, Junshi Biosciences, and BeiGene), aiming to offer better treatment options for patients. Aside from its R&D in small molecule drugs, it also owns a substantial team of biologists, and intends to move its large molecule drug candidates from pre-clinical development phase to clinical development phase in the future.

- **Maintains oncology revenue guidance of US$450m-550m in 2023.** Hutchmed's revenue surged 164% yoy to US$532.9m in 1H23. Oncology/immunology products revenue soared 294% yoy to US$359.2m (including US$258.7m upfront payment income from Takeda) in 1H23. The company believes the Chinese government's anti-corruption campaign will have limited impact on its sales growth. With an established sales team (over 900 people as at end-Jun 23) covering >3,000 hospitals and >33,000 oncology physicians, it maintains its 2023 oncology/Immunology revenue target at US$450m-550m (including recognising about US$280m upfront payment income from Takeda) vs US$164m in 2022. Meanwhile, revenue from other ventures (prescription drug marketing and distribution platforms) increased by 57% yoy to US$173.7m in 1H23. Hutchmed indicates the distribution business lays good infrastructure for the company to sell its oncology drugs.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2018	2019	2020	2021	2022
Net turnover	214.1	204.9	228.0	356.1	426.4
EBITDA	(88.9)	(141.1)	(189.8)	(321.0)	(398.9)
Operating profit	(92.6)	(146.4)	(196.7)	(328.3)	(407.7)
Net profit (rep./act.)	(74.8)	(106.0)	(125.7)	(194.6)	(360.8)
Net profit (adj.)	(74.7)	(105.9)	(125.1)	(194.6)	(360.7)
EPS (Fen)	(11.2)	(15.9)	(17.9)	(24.6)	(42.6)
PE (x)	n.a.	n.a.	n.a.	n.a.	n.a.
P/B (x)	7.6	11.7	9.4	6.3	4.5
EV/EBITDA (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted net margin (%)	(34.9)	(51.7)	(54.9)	(54.7)	(84.6)
Net debt/(cash) to equity (%)	(66.5)	(58.8)	(77.0)	(94.0)	(95.4)
Interest cover (x)	(91.8)	(142.1)	(249.9)	(554.6)	(625.3)
ROE (%)	n.a.	(36.9)	(41.3)	(39.0)	(37.0)

Source: Hutchmed, Bloomberg, UOB Kay Hian

- **Expects Fruquintinib to obtain US FDA market approval by end-Nov 23.** Hutchmed had submitted the new drug application (NDA) for Fruquintinib for the indication of metastatic colorectal cancer (mCRC) to the US FDA in May 23. The global phase III FRESCO-2 trial it conducted on Fruquintinib involved 691 patients from 14 countries (including the US, Europe, Japan and Australia), and did not even involve Chinese patients. With solid clinical data from phase III multi-regional clinical trials (MRCT) submitted, it is confident in obtaining marketing approval for Fruquintinib in the US, and expects the approval at end-Nov 23. Meanwhile, it submitted a marketing authorisation application (MAA) to European Medicines Agency (EMA) in Jun 23 and an NDA in Japan in Sep 23 for Fruquintinib, expecting to launch the product in Europe and Japan in 2024.
- **Oncology products' sales growth momentum to continue.** Hutchmed's oncology product revenue expanded by 26% yoy to US$80.1m in 1H23. Fruquintinib, Surufatinib and Savolitinib delivered revenue of US$42.0m, US$22.6m, and US$15.1m in 1H23, representing yoy growth of 16%, 66%, 10%, respectively. Tazemetostat (TAZVERIK), in-licensed from Epizyme, also recorded revenue of US$0.4m in 1H23. The company out-licensed Fruquintinib's overseas rights to Takeda in Jan 23, which can potentially bring in up to US$1.13b in payment (including upfront payment of US$400m). Its Fruquintinib is under NDA review for second-line (2L) gastric cancer (GC) in China. Its Savolitinib is also under seven registrational studies, including three global studies led by AZ and four China studies led by Hutchmed. It expects the sales growth momentum of these oncology products to continue in the next few years, supported by the products' continuous overseas market expansion, and potential approvals of new indications/combination therapies. Expecting robust revenue expansion, Hutchmed maintains its target to achieve breakeven in 2025.
- **Smooth progress in R&D; sufficient cash to support business expansion.** Investing approximately US$300m/year in R&D, Hutchmed sees smooth progress in R&D. It has more than 15 programmes for seven drug candidates supporting its potential near-term NDA filings. Aside from the global potential, Fruquintinib is also under review by National Medical Products Administration (NMPA) for 2L GC in combination with paclitaxel and is expected to be approved by NMPA in 2024. In addition, Hutchmed targets to file the first NDA for its drugs Sovleplenib (HMPL-523, Syk inhibitor), Amdizalisib (HMPL-689, PI3Kδ inhibitor) and Tazemetostat (EZH2 inhibitor) in the next 12 months. With a strong cash position of US$856.2m as at end-Jun 23, Hutchmed believes the sufficient cash and improving profitability will support its continuous R&D programmes and business expansion. Moreover, the company indicates that it has not seen impact from the US-China geopolitical tension on its R&D activities.

EARNINGS REVISION/RISKS

- **Risks:** a) Regulatory risks such as worse-than-expected impact from the anti-corruption campaign, and potential price pressure in NRDL negotiations, b) risks in new product development and market launch, c) intensifying competition, and d) risks in business expansion and collaboration activities.

VALUATION/RECOMMENDATION

- **Not rated.** Hutchmed is trading at 4.0x 2024F P/S and 4.5x 2024F P/B, according to Bloomberg.

FROM THE REGIONAL MORNING NOTES...

Nio Inc (9866 HK)

Takeaways From Asian Gems Conference

Nio, one of the leading pure-play EV companies in China, joined the Asian GEM Conference yesterday. During the conference, management shared with us the latest developments of the company, including the sales trend, new product line-ups, the new EV brand, battery swap services, overseas sales, the smartphone business and competitive advantages. The takeaways are as follows.

WHAT'S NEW

- **Management remains optimistic on sales outlook despite recent setback.** Nio Inc's (Nio) quarterly deliveries bottomed at 23,520 units in 2Q23 and grew 75% yoy and 136% qoq to 39,791 units in 3Q23. Deliveries have started to rebound since July when it cut product prices by Rmb30,000 across the board for debundling the prices of EVs and the life-time battery swap services. Though monthly deliveries fell from the recent peak of 20,462 units in July to 19,329 units in August and 15,641 units in September, management remains optimistic on sales outlook. According to management, Nio was the best-selling premium car brand in China with price tag above Rmb300,000 in July-August, taking 15% market share.
- **Debundling the prices of EVs and the life-time battery swap services.** Before July, buyers of Nio electric vehicles (EV) were eligible for life-time battery swap services for free, as the battery swap fees were included into the car prices. Starting July, new car buyers are not eligible for the life-time battery swap service, but they pay Rmb30,000 less for the EVs. The change of pricing strategy is due to the fact that most customers prefer paying for the battery swap services separately. As such, Nio's sales spiked to over 20,000 units in July right after the Rmb30,000 price cut.
- **Battery swap services and charging stations improve user experience by facilitating energy replenishment.** Nio thinks it is crucial to increase its sales, as 50% of its customers do not have personal charging piles. Nio currently has 190 battery swap stations and 10,000 charging piles for its customers. The battery swap stations provide battery services that are comparable to the refuelling stations for ICE-cars at a fee of Rmb30-50/swap, roughly on a par with the charging fee in the local markets. The percentage of Nio's car owners that use the battery swap services has spiked from 15% initially to 50% currently. As such, Nio's products command a premium on comparable ICE-car models of premium brands such as Mercedes-Benz and BMW.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2018	2019	2020	2021	2022
Net turnover	4,951	4,951	7,825	16,258	36,136
EBITDA	(9,121)	(9,121)	(10,080)	(3,561)	(3,418)
Operating profit	(9,596)	(9,596)	(11,079)	(4,608)	(4,496)
Net profit (rep./act.)	(23,328)	(11,413)	(5,611)	(10,572)	(14,559)
Net profit (adj.)	(23,328)	(11,413)	(5,611)	(10,572)	(14,559)
EPS (fen)	(70.2)	(11.1)	(4.7)	(6.7)	(9.0)
PE (x)	n.a.	n.a.	n.a.	n.a.	n.a.
P/B (x)	6.7	n.a.	17.9	9.5	5.1
EV/EBITDA (x)	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield (%)	-	-	-	-	-
Net margin (%)	(471.2)	(230.5)	(71.7)	(65.0)	(40.3)
Net debt/(cash) to equity (%)	(62.0)	n.a.	(108.3)	(92.9)	(82.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	(34.2)	(49.7)
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Nio, Bloomberg, UOB Kay Hian

- **To roll out second generations of existing models and new brand for mass market in next 1-2 years.** Nio currently has eight battery electric vehicle (BEV) models - ES8, ES7, EC7, ET7, ES6, EC6, ET5 and ET5T. The ES series (ES8, ES7 and ES6) are SUVs; the EC series (EC7 and EC6) are crossover SUVs; and the ET series (ET7, ET5 and ET5T) are sedans. In regard to pricing, all models are positioned at premium with a price tag of above Rmb300,000. Among them, ES8, ES7, EC7 and ET7 are priced at above Rmb350,000; while ES6, EC6, ET5 and ET5T are priced at Rmb300,000-350,000. Nio believes its product portfolio covers all segments of China's premium EV market. Going forward, Nio will roll out the second generations of the existing models based on a new technology platform. The company will also launch the new model under its new mass-market brand Alps from 2H24.

- **As for overseas markets, Nio will focus on five countries in Northern and Western Europe.** These five countries include Sweden, Norway, Denmark, the Netherlands and Germany. Nio believes its products and brand positioning suit these markets more, so it will focus on these five countries in the foreseeable future. Only after Nio gains significant market share in these five countries will it expand into other countries.

- **Smartphone business as a complementary service for EV customers that improve their experience.** As such, Nio will not invest too much in the R&D of smartphones. It had hired many talents from the smartphone industry for software development, thus did not employ that many employees for the smartphone business. As for fixed asset investment, Nio has not spent much in capex as well, as the comprehensive supply chain of smartphone in China allows the company to outsource the production to third-party manufacturers.

- **Nio's competitive advantages.** Management believes Nio's edge lies in its comprehensive technologies in both hardware and software, eg self-developed electric powertrain, provision of multiple battery packs for users in collaboration with leading suppliers, proprietary operating system for smart cockpit, over-the-air updates and whole vehicle control, Navigate On Pilot advanced driver assist system etc. Nio's innovative Battery as a Service model makes the separation between EV and battery pack possible. That provides more flexibility for customers by allowing them to choose from various battery packs.

  Furthermore, Nio has 190 battery swap stations and 10,000 recharging piles to provide customers with comprehensive energy replenishment services. Last but not least, it has a group of loyal customers who are more than willing to refer the brand to the people they know. Referred purchases accounted for 60% of total new car purchases of Nio in 2022. As such, Nio has spent less on advertisement and marketing compared with peers.

FROM THE REGIONAL MORNING NOTES...

Xiaomi Corp (1810 HK)

Takeaways From Asian Gems Conference

Xiaomi expects the smartphone market to recover sequentially in 2H23 on the back of a healthy inventory level and end-demand, and believes the company should face limited impact from Huawei's re-entry as the two brands have different positioning in terms of price range. On the other hand, the EV business is on track for mass production by 1H24, and expenses will be well-controlled at <Rmb8b in 2023. Maintain BUY. Target price: HK$15.30.

WHAT'S NEW

- Xiaomi Corp (Xiaomi) attended the 2023 Asian Gems Virtual Conference on 11 October. Here are the key takeaways.

STOCK IMPACT

- **Smartphone business to see healthier inventory and recovery.** Management expects the smartphone market to see sequential improvements in 2H23, as the inventory level is now back to a healthier level and end-demand gradually recovers. On the margin side, the prices of components (such as memory and display panel) are starting to pick up, and Xiaomi may potentially start to prioritise market share gains (vs prioritising profitability in 1H23) by providing more aggressive promotions which imply that margins may moderate going forward from a historical high level in 2Q23. In the medium to long term, management's premiumisation strategy should continue to contribute to margin expansion as Xiaomi expands its high-end smartphones coverage in Europe, and the company optimises the operating efficiency of its offline stores in China (which attract more high-end sales vs online channels.)

- **Impacts from Huawei's re-entry into China's smartphone market controllable.** Management highlighted that Huawei's presence is strongest in the price range of >Rmb7,000, whereas Xiaomi's flagship series is mainly in the range of Rmb4,000-6,000. At the same time, Huawei should have limited resources to expand outside of China, whereas Xiaomi has a strong presence in key overseas regions such as Europe, Middle East, Latin America and Southeast Asia. Management also pointed out that Honor and Apple benefitted more to Huawei's absence in China compared with Xiaomi, and as such it believes the impact from Huawei should be a lot more controllable compared to its competitors.

KEY FINANCIALS

Year to 31 Dec (Rmb)	2021	2022	2023F	2024F	2025F
Net turnover (Rmbm)	328,309	280,044	268,290	309,390	335,747
EBITDA (Rmbm)	23,263	9,955	17,051	21,549	22,865
Operating profit (Rmbm)	20,201	6,247	13,194	17,423	18,455
Net profit (rep./act.) (Rmbm)	19,339	2,474	13,557	15,045	15,870
Net profit (adj.) (Rmbm)	22,040	8,518	15,032	15,045	15,870
EPS (Fen)	88.4	34.3	60.1	60.2	63.5
PE (x)	11.6	33.2	17.0	17.9	17.0
P/B (x)	3.0	2.2	1.9	1.9	1.7
EV/EBITDA (x)	9.4	22.0	12.9	10.2	9.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	5.9	0.9	5.1	4.9	4.7
Net debt/(cash) to equity (%)	(20.6)	(23.6)	(45.4)	(42.9)	(36.4)
Interest cover (x)	12.5	(5.6)	(9.6)	(7.0)	(7.3)
ROE (%)	16.9	6.1	10.0	9.1	8.8
Consensus net profit (Rmbm)	-	-	12,798	13,781	15,858
UOBKH/Consensus (x)	-	-	1.17	1.09	1.00

Source: Xiaomin , Bloomberg, UOB Kay Hian

- **Europe and emerging markets as key development focus for its overseas business.** Similar to China, Xiaomi is now focusing on bringing its premium products to the European market given the region's higher purchasing power compared with other emerging markets; while for the emerging markets, Xiaomi sees strong growth opportunities from Middle East, Latin America, Southeast Asia and Africa and expects the brand to gain more market share by providing high quality products and expanding sales channels. For India, Xiaomi will retain its strategy to prioritise profitability over market share given the tough operating environment for Chinese companies.

- **EV business well on track for mass production in 1H24.** Xiaomi's EV production line in Beijing is ready for production, and its first EV model had passed a round of Winter Testing and Summer testing. There will be another round of Winter testing by 4Q23, but generally Xiaomi's EV is well on-track for mass production by 1H24. Management disclosed that its Beijing EV factory is ready for production, and its first EV model is scheduled for another round of Winter testing by 4Q23. After that, Xiaomi's EV will be on-track for mass production in 1H24. Management believes Xiaomi has the competitive edge of: a) having a strong brand name such that there are less marketing efforts/expenses, b) ample cash reserves at Rmb113.2b as of 2Q23 (vs Rmb7.5b-8b in R&D expenses + Rmb2b in capex in 2023), and c) a strong online presence as well as offline channel with >10,600 offline retail stores in China.

EARNINGS REVISION/RISK

- No changes to earnings.

VALUATION/RECOMMENDATION

- **Maintain BUY and keep target price at HK$15.30,** based on 23.5x 2024F PE, on a par with historical forward mean valuation.

SHARE PRICE CATALYST

- Better-than-expected market share data by end-October, better-than-expected 3Q23 results in November.

FROM THE REGIONAL MORNING NOTES...

Crystal International (2232 HK)

Takeaways From Luncheon

In our luncheon with Crystal International yesterday, management shared its strategies to enhance share gains from key customers. Looking ahead, management guides for a high single-digit hoh revenue growth in 2H23 and remains positive on the outlook in 2024. The company plans to step up the process of raising the dividend payout ratio and achieve its long-term target of a 60% dividend payout ahead of schedule.

WHAT'S NEW

- **Ongoing share gains from key customers.** Crystal International (Crystal) continues to enhance share gains from key lifestyle and sportswear customers such as Uniqlo and Lululemon. For its largest customer Uniqlo, who currently accounts for approximately 32% of total revenue, Crystal focuses on share gains from its LifeWear products, which have the potential to achieve sustainable growth in the long term. On the other hand, Crystal targets to enhance its share gains from Lululemon by supplying high-quality new products, such as men's ABC pants (men's wear that is more ergonomic around the waist) in 2H23 and Define jackets in 2024.

- **Expecting recoveries in 2H23.** Crystal has seen demand pick up for denim recently and expects further recoveries in 2H23. Management believes that its sales have bottomed out in 1H23, and expects revenue in 2H23 to register a high single-digit hoh growth, compared with US$1.0b in 1H23. Regarding profitability, Crystal expects a mild increase in both gross margin and net margin in 2H23, vs 19.1% and 7.3% in 1H23 respectively.

- **Positive 2024 outlook.** Management remains positive on the outlook in 2024, as it expects positive impact of the 2024 Summer Olympics on the sales of its sportswear product category. Crystal previously guided for a mid-teens yoy revenue growth in 2024.

- **Stepping up dividend payout ratio.** As per our previous update, management planned to increase its dividend payout ratio by 5ppt every 1-2 years and targeted to achieve 60% dividend payout in the long term (2022: 35%). Currently, Crystal plans to achieve 60% payout ratio ahead of schedule.

VALUATION/RECOMMENDATION

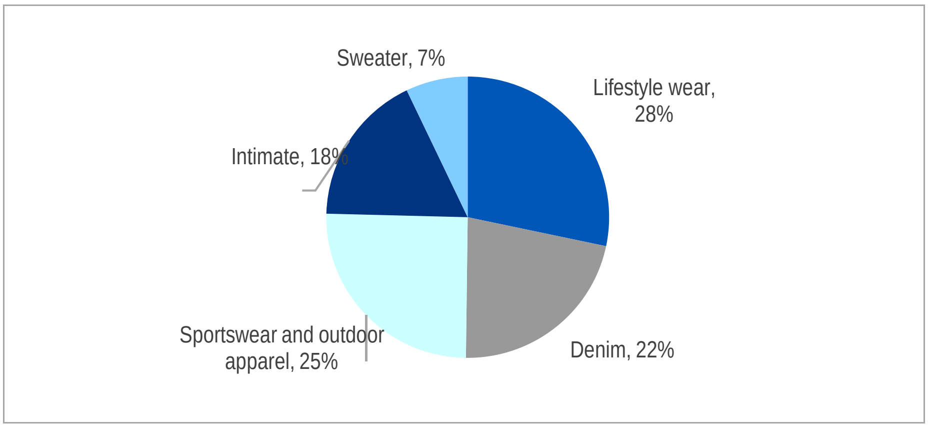
- **Trading at below historical mean.** According to Bloomberg, Crystal is trading at 4.8x one-year forward PE, which is below the historical average of 8.4x PE.

KEY FINANCIALS

Year to 31 Dec (US$m)	2018	2019	2020	2021	2022
Net turnover	2,496	2,428	1,985	2,341	2,491
Gross Profit	470	463	386	448	463
Operating Profit	185	189	134	204	209
Net Profit	149	152	108	163	173
EPS (cent)	5.2	5.3	3.8	5.7	6.1
P/E (x)	6.1	6.0	8.4	5.6	5.3
Book value per share	0.3	0.4	0.4	0.5	0.5
P/BV (x)	0.9	0.8	0.8	0.7	0.7
EBITDA	259	286	231	297	301
EV/EBITDA (x)	2.0	1.8	2.3	1.8	1.8
DPS (cent)	11.2	1.1	1.1	1.8	2.2
Dividend yield (%)	34.2	3.3	3.4	5.4	6.6
Net margin (%)	6.0	6.3	5.4	7.0	6.9
Net debt to equity (%)	13.4	3.7	(15.5)	(15.7)	(24.0)
Interest cover (x)	10.4	12.5	13.5	27.5	19.0
ROE (%)	15.7	14.6	9.6	13.3	13.1

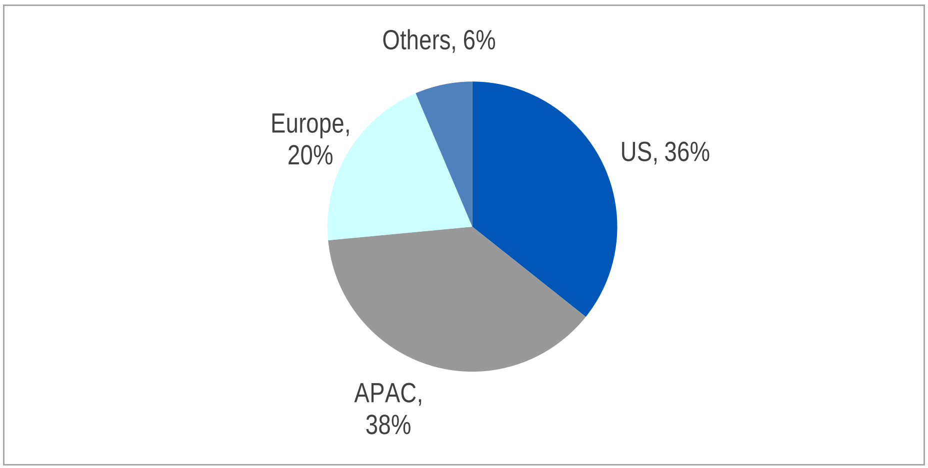
Source: Crystal International, Bloomberg, UOB Kay Hian

REVENUE BY SEGMENT



Source: Crystal International, Bloomberg, UOB Kay Hian

REVENUE BY REGION



Source: Crystal International, Bloomberg, UOB Kay Hian

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