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CapitaLand Malaysia Trust (CLMT MK/HOLD/RM0.56/Target: RM0.55) Page 23
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Update

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SINGAPORE

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THAILAND

Sector

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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33035.9	(0.3)	(1.9)	(2.9)	(0.3)
S&P 500	4186.8	(1.4)	(3.0)	(3.5)	9.0
FTSE 100	7414.3	0.3	(2.3)	(2.7)	(0.5)
AS30	7046.3	0.0	(3.0)	(2.7)	(2.4)
CSI 300	3504.5	0.5	(2.9)	(5.1)	(9.5)
FSSTI	3078.8	(0.2)	(1.8)	(4.2)	(5.3)
HSCEI	5854.0	0.9	(3.9)	(2.9)	(12.7)
HSI	17085.3	0.6	(3.9)	(2.2)	(13.6)
JCI	6834.4	0.4	(1.3)	(1.3)	(0.2)
KLCI	1442.5	0.5	(0.3)	(0.2)	(3.5)
KOSPI	2363.2	(0.9)	(4.0)	(4.1)	5.7
Nikkei 225	31269.9	0.7	(2.4)	(3.2)	19.8
SET	1401.7	0.8	(2.2)	(6.2)	(16.0)
TWSE	16358.9	0.3	(0.5)	0.5	15.7
BDI	1832	(6.0)	(13.0)	8.1	20.9
CPO (RM/mt)	3622	(1.5)	(2.6)	(0.6)	(10.5)
Brent Crude (US\$/bbl)	90	2.3	(1.5)	(3.4)	4.9

Source: Bloomberg

TOP PICKS

	Ticker	CP (Icy)	TP (Icy)	Pot. +/- (%)
BUY				
Anta Sports	2020 HK	90.80	128.00	41.0
BYD	1211 HK	241.40	630.00	161.0
Bank Neo Commerce	BBYB IJ	238.00	390.00	63.9
Bumi Serpong	BSDE IJ	1,000.00	1,420.00	42.0
HM Sampoerna	HMSPI IJ	865.00	1,300.00	50.3
My EG Services	MYEG MK	0.79	1.18	50.3
Yinson	YNS MK	2.46	3.75	52.4
OCBC	OCBC SP	12.84	17.65	37.5
CP ALL	CPALL TB	56.75	78.00	37.4
Indorama	IVL TB	24.70	30.00	21.5

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
Presentation by Wilmar International (WIL SP)	Malaysia	2 Nov	2 Nov
Virtual Meeting on 1H24 Results with SIA Engineering (SIE SP)	Singapore	6 Nov	6 Nov
1HFY24 Results Virtual Meeting with Singapore Airlines (SIA SP)	Singapore	8 Nov	8 Nov

STRATEGY – HONG KONG

Hong Kong Exchange and Hong Kong Property Sector

Takeaways From 2023 Hong Kong Policy Address: Policies Largely In Line; Maintain MARKET WEIGHT

We have a neutral view on the policies related to the stock market and we expect a short-term rebound in ADT but sustained recovery will still depend on China's macro development and US monetary policy. For the property sector, the relaxation of demand-side management measures is within expectation. However, combining the aggressive land supply plan and weak population policy, the overall impact on the property industry is natural to negative. Sales need to be closely watched.

WHAT'S NEW

- Hong Kong Chief Executive John Lee delivered his second Policy Address on 25 October. Below are the key takeaways regarding the policies related to the capital market and property sector.

ESSENTIALS

Stock Market Implications:

- Reversing stock trading levy to levels before the rise in 2021.** The Hong Kong government will cut the stock stamp duty rate by 3bp to 0.1% and it aims to complete the legislative process by the end of November. We expect the new stock trading levy rate to be officially implemented starting December. The stamp duty cut is expected to reduce the government revenue's revenue by HK\$12.3b, or about 2% of total revenue, according to its estimates.
- Reviewing stock price spreads.** The Hong Kong Stock Exchange (HKEX) and financial regulatory authorities will initiate a review to narrow the minimum bid-ask spreads. This will enable stocks with liquidity but higher minimum bid-ask spreads to better reflect market conditions. The HKEX will seek market opinions on specific measures in 2Q24.
- Reforming GEM market listing rules.** The HKEX has published consultations papers to reform the GEM markets which have not witnessed any IPO since Feb 20. These proposals include simplifying the mechanism for transitioning to the main board and expanding pathways for technology companies to go public in the GEM market. The HKEX is expected to implement the revised listing rules in 1Q24.
- Reducing market data costs.** The HKEX will review the ongoing real-time data service fee standards to reduce the investors' cost for accessing real-time market data. The new fees rate will be implemented by the end of this year.
- History has shown mixed ADT performance after levy adjustments.** The city had lowered its stock trading stamp duty in 1998, 2000 and 2001 before the rise in 2021. We observed that the short-term performance of the HSI was relatively weak after the cuts, but the average daily turnover (ADT) trend was mixed following the levy adjustments. However, in our opinion, the long-term impact of levy cuts on the market appears to be relatively limited. To highlight, the three cuts were taken place during periods of high volatility, such as Asian Financial Crisis and Dot-com bubble, making the past performances less relevant for comparison.

PEER COMPARISON

Company	Ticker	Rec	Price @ 25 Oct 23 (lcy)	Target Price (lcy)	Upside/ (Downside) To TP	Market Cap (lcy b)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (%)	Yield 2024F (%)
Hong Kong Exchanges and Clearing Ltd.	388 HK	BUY	278.20	370.00	33.0	367,672.7	29.8	27.3	7.2	7.0	3.0	3.3
Hysan Development	14 HK	BUY	14.46	26.18	81.1	14,973.8	7.7	6.6	0.2	0.2	9.9	9.9
Sun Hung Kai Properties	16 HK	BUY	79.50	112.64	41.7	231,532.6	9.1	8.7	0.4	0.4	5.5	5.7
New World Development *	17 HK	HOLD	14.22	16.03	12.7	36,189.2	6.7	6.7	0.2	0.2	5.3	5.3
Wharf Real Estate Investment Co Ltd	1997 HK	HOLD	27.65	40.30	45.8	84,558.9	12.8	11.4	0.4	0.4	4.8	5.4
Link REIT	823 HK	BUY	35.90	50.70	41.2	91,204.7	14.0	13.1	0.5	0.5	7.2	7.6

Source: Bloomberg, UOB Kay Hian

SECTOR RATING

Sector	Sector Rating
Hong Kong Property	MARKET WEIGHT
Hong Kong Exchange	MARKET WEIGHT

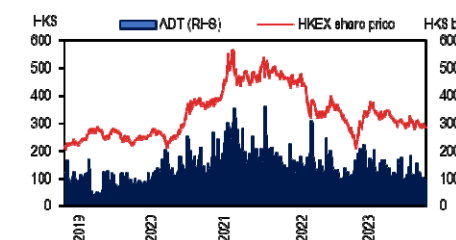
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
SHKP	16 HK	BUY	79.50	112.64
HKEX	388 HK	BUY	278.20	370.00

Source: UOB Kay Hian

HEADLINE ADT TREND AND HKEX SHARE PERFORMANCE



Source: HKEX, Bloomberg, UOB Kay Hian

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HONG KONG STOCK TRADING STAMP DUTY RATE ADJUSTMENTS HISTORY

Time Frame	Adjustment (bps)	Stamp duty rate (%)	HSI performance (%)		ADT changes (%)*	
			1 week	1 month	1 month	1 year
Before Mar 1998		0.1500%				
Apr 1998	-2.50	0.1250%	-0.1	-8.4	-25.6	-62.8
Apr 2000	-1.25	0.1125%	-4.7	-8.4	-30.8	-48.5
Sep 2001	-1.25	0.1000%	-4.9	-8.7	+9.0	-1.6
Aug 2021	+3.00	0.1300%	+0.8	+0.3	-13.2	-39.9

*Single month ADT data before the rate adjustments was used as the baseline for comparison.
Source: Hong Kong SAR Government, HKEX, UOB Kay Hian

• **Lower stamp duty may boost liquidity in the short term.** The 9M23 headline ADT on the HKEX plunged 11.6% yoy to HK\$109.7b due to several external headwinds such as surging US long-term treasury yield, US-China tensions, and the slower pace of economic recovery in Mainland China. We expect the ADT to rebound as a knee-jerk reaction as the 20% lower trading cost after the cut will encourage more day traders, high-frequency traders, and quantitative traders to return to the market. However, we maintain our view that sustained ADT recovery will only occur with a significant improvement in China's economic fundamentals.

• **Impact of GEM reform and market fee reduction on HKEX's core revenue.** We expect the ongoing reforms will revitalise liquidity and fundraising activities in the GEM market, leading to improved trading income and listing fees for the exchange. Meanwhile, it is out of our expectations that the exchange is informed to revise its market data fee. The revenue from providing market data has grown at a CAGR of 5% to HK\$1.1b over the past five years and contributes 7% to the HKEX's core revenue. We will revise our growth assumptions on the market data fee after more details are revealed.

Property Market Implications

- **Adjust the demand-side management measures for residential properties:** a) shorten the applicable period of the special stamp duty (SSD) from three years to two years, b) reduce the respective rates of the buyer's stamp duty (BSD) and the new residential stamp duty (NRSD) by half, from 15% to 7.5%, and c) introduce a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. Under the suspension arrangement, the payment of stamp duty concerned is suspended at the time of property acquisition, but the talent is required to pay the relevant amount if he/she is subsequently unable to become a Hong Kong permanent resident (HKPR).
- **Further speed up land supply.** In the next five years, the government vows to further speed up supply for both private units and public housing units in the next five years. For the medium to longer term, the Northern Metropolis is expected to provide 500,000 new housing units and create 500,000 new jobs in next 20 years. At last, the government will commence the environmental impact assessment process for Kau Yi Chau Artificial Islands, which is expected to provide another 1,000 ha of land.

GOVERNMENT FIVE-YEAR PLAN OF HOUSING SUPPLY

Period	2022 Policy Address	2022 Policy Address	Change
	2023/24-2027/28	2024/25-2028/29	
New public housing units	158000	172000	8.9%
New private housing unit	72000	80000	11.1%

Source: 2023 HK Policy Address, UOB Kay Hian

SCHEDULE OF LAND AND HOUSING SUPPLY OF NORTHERN METROPOLIS

2024	Release all the land use and development proposals
2027	commence land resumption by 2027
2032	form 40% of the new development land and complete 40% of the new flats

Source: 2023 HK Policy Address, UOB Kay Hian

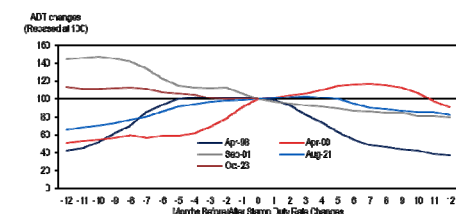
- **Talent and population policies are rather mild.** The Top Talent Pass Scheme (TTPS) introduced last year has achieved satisfactory results, by receiving 160,000 applications and issuing 100,000 approvals, which is equivalent to 1.1x of the total number of talent visas granted in 2019. This year, the government mainly works to: a) marginally expand the

STOCK TRADING COST STRUCTURE

Cost per transaction	Rate (old)	Rate (new)
SFC Transaction Levy	0.0027%	0.0027%
Investor Compensation Levy	0.002%	0.002%
FRC Transaction Levy	0.00015%	0.00015%
Trading Fee	0.00565%	0.00565%
Stamp Duty on Stock Trading*	0.13%	0.10%
Total	0.1405%	0.1105%

Source: HKEX, UOB Kay Hian

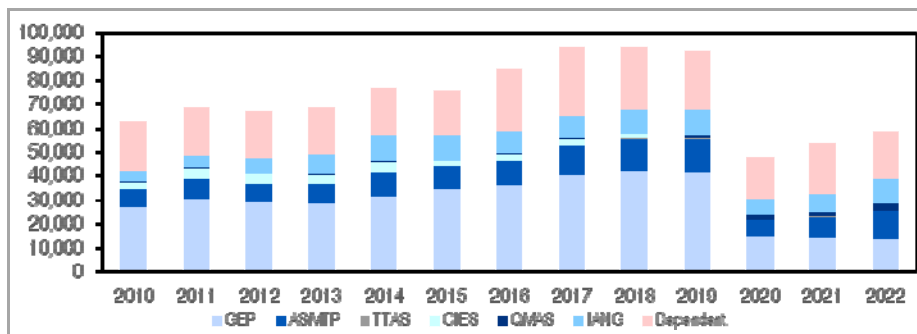
HKEX TRAILING 12-MONTH HEADLINE ADT TREND BEFORE/AFTER STAMP DUTY RATE ADJUSTMENTS



coverage of TTPS, b) relax visa requirement for Vietnamese talents, and c) introduce the high Vocational Professionals Admission Scheme to attract professional Higher Diploma graduates. With birth rate falling to a record low of 0.71, the government published measures to support families with newborn babies. A key takeaway is that applications of families that have babies born on or after 25 October will have their waiting time for public rental housing (PRH) flats reduced by one year.

- **Expect a nice rebound of sales volume in the near term.** From 2016 to 2022, Hong Kong immigration issued a total number of 359,789 talent visas, of which we conservatively estimate that roughly 25% will have the will to apply HKPR once their conditions are fulfilled. That means Hong Kong currently has roughly 90,000 potential PR applicants from its talent pool. As a comparison, Hong Kong has 15,000-20,000 primary home transactions and 35,000-5,000- secondary home transactions annually. Thus, we expect the cut of BSD/NRSD rate and introduction of stamp duty suspension arrangement will help unleash the demand of non-PR talents.

NO. OF TALENT VISAS GRANTED DURING 2010-22



Source: Hong Kong Immigration, UOB Kay Hian. Note: GEP: General Employment Policy; ASMTP: Admission Scheme for Mainland Talents and Professionals; TTAS: Technology Talent Admission Scheme; CIES: Capital Investment Entrant Scheme; QMAS: Quality Migrant Admission Scheme; IANG: Immigration Arrangements for Non-local Graduate

- **Neutral to pessimistic on Hong Kong's property price in 2024.** Besides the high interest rate, concerns over population contraction and oversupply are the two major factors that weigh on Hong Kong's property price. With tedious population policy and aggressive land supply plan, the 2023 Policy Address did not provide major support to Hong Kong's property price in the next 12 months. However, we believe interest rate will remain as the most important

ACTIONS

- **Maintain BUY on the HKEX with unchanged target price of HK\$370.00.** The policies announced by John Lee to enhance stock market liquidity were largely within our expectations. However, the share price retreated by 4% in the afternoon due to profit-taking activities after it had outperformed the index since few days ago. The exchange is now trading at 2024F PE of 26.3x, 1.0SD below its historical mean, which we deem not so pricey.
- **Maintain MARKET WEIGHT on the Hong Kong property sector.** The relaxation of demand-side management measures is in line with our expectation. However, combining the aggressive land supply plan and weak population policy, the overall impact on the property industry is neutral to negative. Looking forward, the sector may still be exposed to risks of upside adjustment of prime rate. Sales of developers are the key to be watched in the following months. We maintain MARKET WEIGHT. SHKP remains our top pick.

MEASURES TO SUPPORT FAMILIES WITH NEW BORN

The government will provide a one-off cash bonus of HK\$20,000 for each baby born on or after 25 Oct 23 in Hong Kong to a parent who is a HKPR. Effective for three years.

The government will raise the deduction ceiling for home loan interest or domestic rents from the current HK\$100,000 to HK\$120,000, an increase of 20%, for taxpayers who live with his/her first child born on or after 25 Oct 23 until the child reaches the age of 18;

Starting from the HOS sale exercise next year, a quota of flats will be reserved for balloting and priority flat selection by family applicants with babies born on or after 25 October until the children reach the age of three. In each of the HOS or GSH sale exercise, an additional 10% of the total number of flats will be reserved for the purpose of selection priority

Applications of families that have babies born on or after 25 October will have their waiting time for PRH flats reduced by one year. Effective from Apr 24

Source: 2023 HK Policy Address, UOB Kay Hian

COMPANY RESULTS

Aier Eye Hospital Group Co (300015 CH)

9M23: Satisfactory Results; Weak Economic Conditions May Slow Revenue Growth

Aier reported satisfactory 9M23 results with total revenue and adjusted net earnings increasing 23.0% yoy and 24.0% yoy respectively, despite the relatively slow economic growth and high base in 3Q22. We expect Aier to deliver relatively strong growth in 4Q23, supported by its well-established business expansion strategy and a low base in 4Q22. Maintain BUY with a lower target price of Rmb21.00 to factor in the possible negative impact of the weaker economic conditions.

9M23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	3Q23	yoy % chg	9M22	9M23	yoy % chg
Revenue	4,944	5,795	17.2%	13,052	16,047	23.0%
Gross profit	2,777	3,263	17.5%	6,775	8,334	23.0%
Selling expense	(472)	(559)	18.5%	(1,258)	(1,607)	27.7%
Administrative expense	(710)	(758)	6.7%	(1,819)	(2,084)	14.6%
R&D expense	(88)	(98)	11.3%	(202)	(246)	21.6%
EBT	1,397	1,883	34.7%	3,224	4,299	33.3%
Net profit	1,066	1,469	37.8%	2,357	3,181	35.0%
Adj. net profit	1,121	1,346	20.1%	2,504	3,105	24.0%
% of sales	3Q22	3Q23	yoy ppt chg	9M22	9M23	yoy ppt chg
Gross profit	56.2%	56.3%	0.1	51.9%	51.9%	0.0
Selling expense	9.5%	9.6%	0.1	9.6%	10.0%	0.4
Administrative expense	14.4%	13.1%	(1.3)	13.9%	13.0%	(0.9)
R&D expense	1.8%	1.7%	(0.1)	1.6%	1.5%	(0.0)
EBT	28.3%	32.5%	4.2	24.7%	26.8%	2.1
Net profit	21.6%	25.3%	3.8	18.1%	19.8%	1.8
Adjusted net profit	22.7%	23.2%	0.6	19.2%	19.3%	0.2

Source: Aier, UOB Kay Hian

RESULTS

- Satisfactory 9M23 results.** Aier Eye Hospital Group (Aier) reported strong 9M23 results with revenue increasing by 23.0% yoy to Rmb16.0b and adjusted net earnings grew 24.0% yoy to Rmb3.1b. Net earnings expanded significantly by 35.0% yoy to Rmb3.2b in 9M23. The results are satisfactory.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	15,001	16,110	20,644	24,393	28,262
EBITDA	4,656	4,547	6,057	7,361	8,359
Operating profit	4,120	3,964	5,290	6,382	7,421
Net profit (rep./act.)	2,323	2,524	3,417	4,205	4,976
Net profit (adj.)	2,783	2,919	3,811	4,599	5,370
EPS (Fen)	29.8	31.3	40.9	49.3	57.6
PE (x)	55.7	53.1	40.7	33.7	28.9
P/B (x)	13.7	9.3	7.3	6.4	5.6
EV/EBITDA (x)	31.9	32.7	24.5	20.2	17.8
Dividend yield (%)	0.7	0.6	0.6	0.8	0.9
Net margin (%)	15.5	15.7	16.6	17.2	17.6
Net debt/(cash) to equity (%)	(17.4)	(28.6)	(35.5)	(39.0)	(42.9)
Interest cover (x)	43.7	683.2	n.a.	n.a.	n.a.
ROE (%)	22.0	18.0	18.0	18.5	19.1
Consensus net profit	-	-	3,465	4,478	5,738
UOBKH/Consensus (x)	-	-	1.10	1.03	0.94

Source: Aier Eye Hospital, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rmb16.61
Target Price	Rmb21.00
Upside	+26.5%
(Previous TP)	Rmb26.00)

COMPANY DESCRIPTION

Aier Eye Hospital Group Ltd. is the largest ophthalmic medical service provider in the global market.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	300015 CH
Shares issued (m):	9,328.4
Market cap (Rmbm):	154,944.9
Market cap (US\$m):	21,174.6
3-mth avg daily t'over (US\$m):	113.9

Price Performance (%)

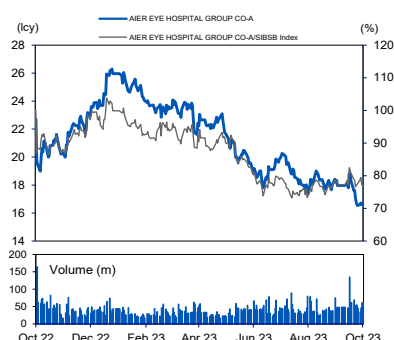
52-week high/low Rmb26.31/Rmb16.54

1mth	3mth	6mth	1yr	YTD
(9.8)	(16.4)	(25.9)	(22.4)	(30.5)

Major Shareholders

	%
Mr. CHEN Bang	42.9
Mr. LI Li	10.3
FY23 NAV/Share (Rmb)	2.28
FY23 Net Cash/Share (Rmb)	0.81

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Revenue and earnings growth satisfactory in 3Q23, despite weak economic condition and high base in 3Q22.** Aier's total revenue increased by 17.2% yoy to Rmb5.8b in 3Q23. Despite the relatively slow economic growth in China and considerably high revenue base in 3Q22, the company's 9M23 revenue has maintained satisfactory revenue growth. Aier continues to see strong demand and great market opportunities in eye care services in China and will further enhance its efforts of ophthalmology marketing education and digital marketing activities. Its net profit increased by 37.8% yoy to Rmb1.56b and adjusted earnings jumped by 20.1% yoy to Rmb1.3b in 3Q23.
- **Effective market expansion strategy to continue supporting satisfactory revenue growth in 2023 and beyond.** According to management, the optometry and refractory businesses have experienced relatively slower growth while the other eye disease business segments (such as high-end cataract operation segment, anterior segment and posterior segment services) continue to deliver robust revenue expansion. The relatively weak economic condition may have impacted the growth of certain high-end businesses to some extent, while we continue to believe the company's market penetration strategy via acquisitions and steady organic growth will enable it to expand market reach and continue to support a relatively strong revenue growth outlook. Moreover, the overseas markets currently brought in approximately 11% of total revenue. Management expects the overseas business will grow faster and contribute to approximately 30% of total revenue in the next five years.
- **3Q23 profit margin improved slightly from 3Q22.** Gross margin and adjusted net margin showed slight improvement from 56.2% and 22.7% in 3Q22 to 56.3% and 23.2% in 3Q23 respectively. Selling expense/revenue increased by 0.1ppt to 9.6%, while G&A expenses/revenue ratio decreased by 1.3ppt to 13.1% in 3Q23. According to management, the third quarter is usually the strongest quarter of a year, and the improving profit margin was mainly due to strong revenue growth. We believe profit margin will improve further in the next few years as most of the company's hospitals have a relatively short operating history and will yield higher profit margins as they mature.
- **Cut revenue growth assumptions for 2023-25 to reflect possible impact from slower economic growth in China.** Given the low base in 4Q22 impacted by the COVID-19 outbreak, we believe Aier will report relatively strong revenue growth in 4Q23. However, we think the weaker economic condition could lead to slower growth potential of the ophthalmology market in China. We hence, cut the revenue growth forecasts for 2023-25 to reflect possible slower revenue growth outlook.
- **Plans share buybacks of Rmb200m-300m for the next 12 months at no more than Rmb26.98 per share.** The share bought back will be used for share incentives or employee share option scheme.

EARNINGS REVISION/RISKS

- We cut the revenue growth forecasts for 2023-25 from 30.1%, 21.4% and 23.7% yoy to 28.1%, 18.2% and 15.9% yoy, respectively to reflect possible weaker growth outlook.
- Risks. a) Policy uncertainties, b) possible negative impact from weaker economic condition, and c) risks in overseas and domestic business expansion, etc.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of Rmb21.00,** based on our DCF model, assuming WACC of 11.2% and terminal growth rate of 4%. We believe Aier will still maintain solid growth of 17.0% CAGR during 2023-25, despite the increasing challenging economic condition in China.

STOCK PRICE CATALYSTS

- Strong market demand for ophthalmic medical services to boost revenue in 4Q23.
- Effective growth strategy and business model support business expansion in China and overseas.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	16,109.9	20,644.3	24,393.5	28,261.8
EBITDA	4,546.9	6,057.1	7,360.6	8,358.8
Deprec. & amort.	582.8	767.1	978.8	937.4
EBIT	3,964.1	5,290.0	6,381.8	7,421.4
Total other non-operating income	(622.4)	(711.8)	(711.8)	(711.8)
Net interest income/(expense)	(6.7)	0.0	0.0	0.0
Pre-tax profit	3,335.1	4,578.2	5,670.0	6,709.7
Tax	(646.1)	(938.5)	(1,190.7)	(1,409.0)
Minorities	(164.8)	(223.0)	(274.5)	(324.8)
Net profit	2,524.2	3,416.7	4,204.9	4,975.9
Net profit (adj.)	2,918.8	3,811.2	4,599.4	5,370.4

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	4,041.1	5,504.5	6,730.8	8,002.3
Other LT assets	12,880.5	14,002.3	14,002.3	14,002.3
Cash/ST investment	5,992.0	8,703.7	10,613.0	13,081.2
Other current assets	3,665.2	4,228.0	4,755.4	5,304.4
Total assets	26,578.8	32,438.5	36,101.4	40,390.2
ST debt	1,112.0	1,034.0	1,034.0	1,034.0
Other current liabilities	4,256.7	5,298.3	5,677.4	6,080.2
LT debt	115.1	109.2	109.2	109.2
Other LT liabilities	3,479.5	3,561.3	3,561.3	3,561.3
Shareholders' equity	16,671.5	21,268.7	24,278.1	27,839.2
Minority interest	944.0	1,167.0	1,441.5	1,766.3
Total liabilities & equity	26,578.8	32,438.5	36,101.4	40,390.2

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	4,490.7	3,748.4	5,309.9	6,091.8
Pre-tax profit	3,335.1	4,578.2	5,670.0	6,709.7
Tax	(646.1)	(938.5)	(1,190.7)	(1,409.0)
Deprec. & amort.	582.8	767.1	978.8	937.4
Working capital changes	(1,187.6)	(658.4)	(148.3)	(146.2)
Other operating cashflows	2,406.5	0.0	0.0	0.0
Investing	(3,260.0)	(2,130.5)	(2,205.1)	(2,208.9)
Capex (growth)	(1,242.7)	(2,230.5)	(2,205.1)	(2,208.9)
Investments	(557.3)	100.0	0.0	0.0
Proceeds from sale of assets	388.4	0.0	0.0	0.0
Others	(1,848.3)	0.0	0.0	0.0
Financing	390.4	1,093.8	(1,195.5)	(1,414.7)
Dividend payments	(717.7)	(971.4)	(1,195.5)	(1,414.7)
Issue of shares	0.0	2,151.9	0.0	0.0
Proceeds from borrowings	(98.5)	(222.8)	0.0	0.0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	1,206.5	136.1	0.0	0.0
Net cash inflow (outflow)	1,621.1	2,711.7	1,909.3	2,468.2
Beginning cash & cash equivalent	4,349.2	5,992.0	8,703.7	10,613.0
Changes due to forex impact	21.7	0.0	0.0	0.0
Ending cash & cash equivalent	5,992.0	8,703.7	10,613.0	13,081.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	28.2	29.3	30.2	29.6
Pre-tax margin	20.7	22.2	23.2	23.7
Net margin	15.7	16.6	17.2	17.6
ROA	10.4	11.6	12.3	13.0
ROE	18.0	18.0	18.5	19.1
Growth				
Turnover	7.4	28.1	18.2	15.9
EBITDA	(2.4)	33.2	21.5	13.6
Pre-tax profit	6.0	37.3	23.8	18.3
Net profit	8.6	35.4	23.1	18.3
Net profit (adj.)	4.9	30.6	20.7	16.8
EPS	4.9	30.6	20.7	16.8
Leverage				
Debt to total capital	6.5	4.8	4.3	3.7
Debt to equity	7.4	5.4	4.7	4.1
Net debt/(cash) to equity	(28.6)	(35.5)	(39.0)	(42.9)
Interest cover (x)	683.2	n.a.	n.a.	n.a.

COMPANY RESULTS

Baoshan Iron & Steel (600019 CH)

3Q23: In Line; Gross Margin Jumps 3.3 ppt qoq To 8.3%

Baosteel reported 9M23 earnings of Rmb8,350.4m (-11.8% yoy), representing 81% of our 2023 forecast, in line with expectations. 3Q23 gross margins expanded sequentially to 8.3% (+3.3% qoq), thanks to lower coal prices and cost-cutting initiatives. 9M23 cost reduction reached Rmb4.89b, exceeding the annual target. The growing differentiated products' sales and export orders have offset the impacts of lacklustre domestic demand. Maintain BUY. Target price: Rmb7.10.

3Q23 RESULTS

Year to 31 Dec (Rmbm)	9M22R	9M23	yoy chg	3Q22R	3Q23	yoy chg
Revenue	279,198.9	255,384.2	(8.5)	94,941.2	85,162.0	(10.3)
Cost of sales	(260,790.8)	(239,298.8)	(8.2)	(90,976.1)	(78,100.0)	(14.2)
Gross profit	18,408.2	16,085.3	(12.6)	3,965.1	7,062.0	78.1
SG&A	(7,227.3)	(7,468.8)	3.3	(2,672.3)	(2,544.2)	(4.8)
Net finance cost	(1,140.7)	(668.9)	(41.4)	(244.7)	(291.7)	19.2
Operating profit	13,554.5	12,440.7	(8.2)	2,367.6	5,537.0	133.9
Non operating profit/loss	(406.6)	(536.1)	31.8	(77.4)	(148.4)	91.6
PBT	13,147.9	11,904.6	(9.5)	2,290.1	5,388.6	135.3
Tax	(2,160.5)	(2,235.8)	3.5	(334.0)	(949.9)	184.4
Minority interest	(1,523.5)	(1,318.4)	(13.5)	(283.8)	(640.7)	125.8
Net Profit	9,463.8	8,350.4	(11.8)	1,672.4	3,798.0	127.1
Gross margin (%)	6.6	6.3	(0.3)	4.2	8.3	4.1
Net profit margin (%)	3.4	3.3	(0.1)	1.8	4.5	2.7

Source: Baoshan Iron & Steel, UOB Kay Hian

RESULTS

- In line; best quarter of the year.** Baoshan Iron & Steel (Baosteel) reported 9M23 earnings of Rmb8,350.4m, down 11.8% yoy, representing 80.6%/76.3% of our/consensus earnings forecast for 2023, in line with expectations. Quarterly profit was the highest of the year at Rmb3,798m (+40.3% qoq/+127.1% yoy), mainly driven by the lower production costs and particularly cheaper coking coal prices in 2Q23.
- 3Q23 consolidated gross margin grew 3.3ppt qoq to 8.3%.** Consolidated gross margin remained resilient in 3Q23 at 8.3% (+3.3ppt qoq/+1.2ppt yoy, mainly supported by the cheaper coking coal prices and effective cost savings measures. Cost was reduced by Rmb4.89b in 9M23 (1H23: Rmb2.99b), exceeding the target set for the year. 3Q23 profit per tonne was Rmb283 (+Rmb82 qoq/+Rmb155 yoy).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	365,342	369,058	338,795	348,959	352,449
EBITDA	49,313	31,464	31,304	36,589	40,706
Operating profit	29,967	11,525	9,317	13,435	16,389
Net profit (rep./act.)	22,040	9,623	10,365	13,951	16,748
Net profit (adj.)	22,040	9,623	10,365	13,951	16,748
EPS (Fen)	99.0	43.2	46.5	62.7	75.2
PE (x)	6.4	14.6	13.6	10.1	8.4
P/B (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x)	3.6	5.7	5.7	4.9	4.4
Dividend yield (%)	8.4	4.4	3.7	4.9	5.9
Net margin (%)	6.0	2.6	3.1	4.0	4.8
Net debt/(cash) to equity (%)	14.6	10.2	7.0	2.3	(3.8)
Interest cover (x)	27.6	20.4	26.5	32.5	40.0
ROE (%)	11.7	5.0	5.2	6.7	7.7
Consensus net profit	-	-	11,126	13,706	15,708
UOBKH/Consensus (x)	-	-	0.93	1.02	1.07

Source: Baosteel, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rmb6.33
Target Price	Rmb7.10
Upside	+12.2%

COMPANY DESCRIPTION

Baosteel is the second largest steel manufacturer in the world and largest steel manufacturer in China. The company manufactures a variety of steel products including cold rolled plates and coils, hot rolled plates and coils.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	600019 CH
Shares issued (m):	22,262.2
Market cap (Rmbm):	140,919.7
Market cap (US\$m):	19,257.9
3-mth avg daily t'over (US\$m):	66.1

Price Performance (%)

52-week high/low Rmb7.08/Rmb4.81

1mth	3mth	6mth	1yr	YTD
1.4	3.9	(5.0)	22.2	13.2

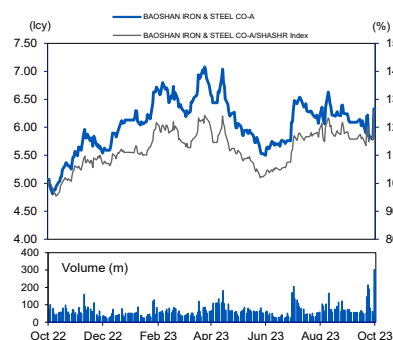
Major Shareholders %

-	-
-	-
-	-

FY23 NAV/Share (Rmb) 9.08

FY23 Net Debt/Share (Rmb) 0.64

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Differentiated products and export orders came to the rescue.** Commodity billet sales volume was flattish qoq at 13.41m tonnes while the company's 1+1+N products' (differentiated products) sales volume for 9M23 was 20.32m tonnes (+1.57m tonnes yoy). Riding on the recovery of auto manufacturing in 3Q23, Baosteel's cold-rolled coil (CRC) automobile sheet also recorded record-high monthly sales volume in the quarter. Furthermore, the company's overseas contracted sales volume was also up 45.5% yoy to 4.54m tonnes, on track to meet its 6.00m tonnes annual target, taking advantage of the current higher steel prices in the overseas market.
- **Margins under pressure amid intensifying competition.** Product ASP has been trending down qoq since the beginning of the year although overall sales volume has improved sequentially. Industry competition has intensified further, especially for homogenous steel products with low entry barrier. Furthermore, the company also noticed that mass market electric vehicles (EV) now favour lower-end auto sheet products, disadvantaging Baosteel who has a competitive edge in high-end product range. The company had to actively adapt to the change in market trend and optimise product offering in order to retain market share.

ASP AND SALES VOLUME TREND

Product Range	ASP (Rmb per tonne)			Sales Volume (10,000 tonnes)		
	1Q23	2Q23	3Q23	1Q23	2Q23	3Q23
Flat products	4,956	4,858	4,608	1,086	1,180	1,192
Steel Pipes	7,393	7,610	7,127	46	50	48
Others	4,506	3,975	3,858	79	115	101
Overall	5,020	4,883	4,642	1,211	1,345	1,341

Source: Baoshan Iron & Steel, UOB Kay Hian

- **High growth potential in high-end silicon steel products.** The company plans to gradually exit mid- and low-end silicon steel products which have witnessed an influx of new players. The company sees huge growth potential in high-end silicon steel products, as: a) the revision of GB 20052 standard will boost demand for high-end grain-oriented silicon steel used in power transformer, and b) the high-paced growth of the EV industry has boosted demand for high-end non-oriented silicon steel.
- **Initiate share buyback scheme amid low valuation.** Baosteel plans to buy back its shares with total proceeds of Rmb3.0b (self-funded), with a price of not more than Rmb8.86 per share, and will eventually be used for employee share incentive scheme. The share buyback scheme should involve a minimum of 338.6m shares, about 1.5% of total shares outstanding. The company believes this is the right timing for it to react on the current unreasonably low company valuation of around 0.7x 2022 P/B.

EARNINGS REVISION/RISK

- No change to earnings forecasts.

VALUATION/RECOMMENDATION

- **We maintain BUY with a target price of Rmb7.10, pegged to 0.8x 2023F P/B.** The company has continued to outperform the industry, backed by China Iron and Steel's (CISA) data which indicates that overall industry profit was down 34.1% yoy (vs Baosteel's -11.8% yoy). We expect 4Q23 margin to likely to be lower sequentially given the recent spike in iron ore and coal prices. Demand for flat products will remain stable in 4Q23, backed by resilient demand from automobile and home appliances manufacturing. We have yet to see official announcement on the crude steel production curb from the authorities, but as growing number of steel mills are now loss-making, we should see more of them voluntarily cut production in the short term, which will help in tightening the supply demand dynamics. We are cautiously optimistic on the company's outlook in 4Q23.

SHARE PRICE CATALYST

- Stronger-than-expected recovery of downstream demand; correction of raw material prices.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	369,058	338,795	348,959	352,449
EBITDA	31,464	31,304	36,589	40,706
Deprec. & amort.	19,939	21,987	23,154	24,317
EBIT	11,525	9,317	13,435	16,389
Total other non-operating income	(47)	3,009	3,462	3,963
Associate contributions	2,548	2,701	2,863	3,035
Net interest income/(expense)	(1,546)	(1,183)	(1,126)	(1,018)
Pre-tax profit	12,481	13,844	18,634	22,369
Tax	(1,015)	(1,661)	(2,236)	(2,684)
Minorities	(1,842)	(1,818)	(2,447)	(2,937)
Net profit	9,623	10,365	13,951	16,748
Net profit (adj.)	9,623	10,365	13,951	16,748

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	44,719	37,889	40,721	44,982
Pre-tax profit	15,044	13,844	18,634	22,369
Tax	(1,015)	(1,661)	(2,236)	(2,684)
Deprec. & amort.	19,939	21,987	23,154	24,317
Working capital changes	14,010	6,615	4,008	3,711
Other operating cashflows	(3,259)	(2,896)	(2,839)	(2,731)
Investing	(26,191)	(28,528)	(28,778)	(27,367)
Capex (growth)	(22,423)	(26,023)	(26,023)	(26,023)
Investments	(5,043)	(2,788)	(3,066)	(1,687)
Proceeds from sale of assets	985	0	0	0
Others	290	283	312	343
Financing	(13,740)	(3,121)	(1,852)	(3,391)
Dividend payments	(12,716)	(6,204)	(5,183)	(6,976)
Issue of shares	0	0	0	0
Proceeds from borrowings	(3,063)	619	719	817
Others/interest paid	2,040	2,464	2,612	2,768
Net cash inflow (outflow)	4,788	6,240	10,090	14,224
Beginning cash & cash equivalent	17,068	21,784	28,024	38,115
Changes due to forex impact	(72)	0	0	0
Ending cash & cash equivalent	21,784	28,024	38,115	52,339

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	148,259	159,421	169,742	179,223
Other LT assets	75,101	77,103	83,744	89,004
Cash/ST investment	21,784	28,024	38,115	52,339
Other current assets	153,105	142,264	132,388	122,129
Total assets	398,249	406,811	423,989	442,695
ST debt	14,579	14,119	13,705	13,333
Other current liabilities	129,408	127,604	131,718	135,184
LT debt	27,073	28,152	29,284	30,473
Other LT liabilities	11,312	11,595	11,907	12,250
Shareholders' equity	194,623	202,269	211,857	222,999
Minority interest	21,253	23,071	25,518	28,455
Total liabilities & equity	398,249	406,811	423,989	442,695

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.5	9.2	10.5	11.5
Pre-tax margin	3.4	4.1	5.3	6.3
Net margin	2.6	3.1	4.0	4.8
ROA	2.5	2.6	3.4	3.9
ROE	5.0	5.2	6.7	7.7
Growth				
Turnover	1.0	(8.2)	3.0	1.0
EBITDA	(36.2)	(0.5)	16.9	11.3
Pre-tax profit	(57.1)	10.9	34.6	20.0
Net profit	(56.3)	7.7	34.6	20.0
Net profit (adj.)	(56.3)	7.7	34.6	20.0
EPS	(56.3)	7.7	34.6	20.0
Leverage				
Debt to total capital	16.2	15.8	15.3	14.8
Debt to equity	21.4	20.9	20.3	19.6
Net debt/(cash) to equity	10.2	7.0	2.3	(3.8)
Interest cover (x)	20.4	26.5	32.5	40.0

COMPANY RESULTS

China Overseas Land & Investment (688 HK)

3Q23: Improved Results; Likely To Meet Its 2023 Target

3Q23 revenue rose 61% yoy to Rmb28.3b on: a) a low base in 3Q22, and b) policy easing measures. In 9M23, revenue decreased 3.2% yoy, while operating profit was Rmb22.6b, implying an operating margin of 19%. Contracted sales are largely on track and land investment is catching up to its 2023 target. We expect COLI to achieve its 2023 target and keep the dividend payout ratio stable in 2023. Maintain BUY with an unchanged target price of HK\$25.86.

3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	3Q23	yoy	9M22	9M23	yoy
Revenue	17,520	28,250	61%	121,310	117,410	-3.2%
Operating Profit	n/a	3,530	n/a	n/a	22,600	n/a
Operating Profit Margin	n/a	12%	n/a	n/a	19%	n/a
	22-Sep	23-Sep	yoy			
Cash	119,350	115,530	-3%			
Net Gearing	43.70%	39.70%	-4.0bps			

Source: COLI, UOB Kay Hian

RESULTS

- Construction progress catching up. Thanks to: a) a relatively low base in 3Q22, and b) various policy easing measures in 3Q23, China Overseas Land & Investment's (COLI) revenue increased by 61% yoy to Rmb28.3b. Operating profit was Rmb3.5b, implying operating profit margin of 12%. In 9M23, revenue declined by 3.2% yoy to Rmb117.4b. Operating profit was Rmb22.6b, implying operating profit margin of 19%. Cash balance decreased 3% yoy and increased 1.2% qoq to Rmb115.5b. Net gearing decreased 4.0bp yoy and increased 3.9bp qoq to 39.7%.

STOCK IMPACT

- Contracted sales largely on track.** In Sep 23/9M23, the accumulated contracted sales increased by 23.0%/18.7% yoy to Rmb28.1b/Rmb 239.0b respectively. The gross floor area (GFA) sold increased 11.9% yoy to 10.3m sqm. COLI targets to achieve 20% growth in contracted sales.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	242,240.8	180,321.6	202,792.1	243,849.0	269,435.7
EBITDA	50,465.1	32,395.0	35,778.0	43,800.4	48,635.9
Operating profit	50,057.1	31,871.8	35,232.7	43,232.9	48,046.2
Net profit (rep./act.)	40,155.4	23,264.7	26,865.7	31,761.8	35,058.5
Net profit (adj.)	33,920.0	24,420.0	26,865.7	31,761.8	35,058.5
EPS (sen)	309.9	223.1	245.5	290.2	320.3
PE (x)	4.4	6.2	5.6	4.7	4.3
P/B (x)	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	6.5	10.1	9.2	7.5	6.7
Dividend yield (%)	7.9	5.2	5.4	6.3	7.0
Net margin (%)	16.6	12.9	13.2	13.0	13.0
Net debt/(cash) to equity (%)	32.6	45.5	41.7	36.1	32.9
Interest cover (x)	58.3	30.7	30.3	33.3	33.3
ROE (%)	12.2	6.7	7.3	8.1	8.2
Consensus net profit	-	-	25,349	27,818	30,964
UOBKH/Consensus (x)	-	-	1.06	1.14	1.13

Source: COLI, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$14.90
Target Price	HK\$25.86
Upside	+73.6%

COMPANY DESCRIPTION

China Overseas Land and Investment Limited is a member of China State Construction Engineering Corporation. The company was founded in Hong Kong in 1979, principally engaged in property development and investment operations.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	688 HK
Shares issued (m):	10,944.9
Market cap (HK\$m):	168,989.0
Market cap (US\$m):	21,599.9
3-mth avg daily t'over (US\$m):	42.8

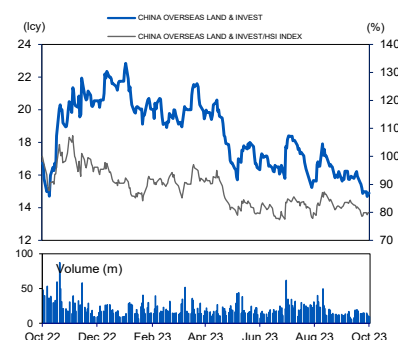
Price Performance (%)

52-week high/low					HK\$22.85/HK\$14.70
1mth	3mth	6mth	1yr	YTD	
(6.4)	(6.4)	(28.5)	(22.6)	(25.0)	

Major Shareholders

	%
-	-
FY23 NAV/Share (HK\$)	34.49
FY23 Net Debt/Share (HK\$)	14.38

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Land investment pace to pick up in 4Q23.** In 9M23, COLI acquired a attributable GFA of 3.19m sqm, down 39.6% yoy. Attributable land premium declined 13.6% yoy to Rmb64.4b. On 24 Oct 23, COLI won the bid for Shanghai Xuhui sites for Rmb24b (with an aggregate GFA of 0.67m sqm) which are designated for residential and commercial use. COLI holds 85% of the venture, while the remainder is held by Shanghai Longhua Construction Development. The company targets to achieve double-digit yoy growth in attributable land investment. We think the land investment pace will pick up in 4Q23.

EARNINGS REVISION/RISK

- **We keep our earnings forecast unchanged.** The easing of policies in the property industry may help COLI further accelerate sales pace in 4Q23. With solid progress in construction, we think COLI can achieve positive earnings growth and keep the stable dividend payout rate in 2023.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of HK\$25.86.** COLI is now trading at: a) 5.8x one-year forward PE, which is nearly 1SD above the mean, b) 0.4x one-year forward PB, which is nearly 1 SD below the mean, c) 5.5% one-year forward PB, which is 0.5SD below the mean. Backed by a strong balance sheet, COLI is steadily acquiring land and increasing its market share.

SHARE PRICE CATALYST

- Stronger-than-expected recovery of property sales.
- Further easing of policies in the property industry.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	180,321.6	202,792.1	243,849.0	269,435.7
EBITDA	32,395.0	35,778.0	43,800.4	48,635.9
Deprec. & amort.	523.2	545.4	567.5	589.7
EBIT	31,871.8	35,232.7	43,232.9	48,046.2
Total other non-operating income	3,010.5	2,000.0	2,000.0	2,000.0
Associate contributions	2,181.4	2,933.6	2,557.5	2,745.6
Net interest income/(expense)	(1,056.7)	(1,181.9)	(1,316.8)	(1,461.7)
Pre-tax profit	36,006.9	38,984.4	46,473.6	51,330.1
Tax	(11,450.8)	(10,704.7)	(13,040.2)	(14,426.4)
Minorities	(1,291.4)	(1,414.0)	(1,671.7)	(1,845.2)
Preferred dividends	0.0	0.0	0.0	0.0
Net profit	23,264.7	26,865.7	31,761.8	35,058.5
Net profit (adj.)	24,420.0	26,865.7	31,761.8	35,058.5

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	(20,070.4)	42,316.0	56,277.2	50,604.2
Pre-tax profit	36,006.9	38,984.4	46,473.6	51,330.1
Tax	(11,450.8)	(10,704.7)	(13,040.2)	(14,426.4)
Deprec. & amort.	(523.2)	(545.4)	(567.5)	(589.7)
Associates	(2,181.4)	(2,933.6)	(2,557.5)	(2,745.6)
Working capital changes	(39,525.1)	19,742.7	28,017.0	18,894.7
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(2,396.9)	(2,227.4)	(2,048.2)	(1,859.0)
Investing	(23,000.0)	(23,000.0)	(23,000.0)	(23,000.0)
Capex (growth)	(10,000.0)	(10,000.0)	(10,000.0)	(10,000.0)
Investments	(13,000.0)	(13,000.0)	(13,000.0)	(13,000.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	17,410.3	15,037.4	11,118.7	9,349.0
Dividend payments	(7,617.7)	(9,026.7)	(10,671.8)	(11,779.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	80,000.0	80,000.0	80,000.0	80,000.0
Loan repayment	(44,620.4)	(44,392.5)	(45,349.2)	(44,595.7)
Others/interest paid	(10,351.5)	(11,543.4)	(12,860.3)	(14,275.8)
Net cash inflow (outflow)	(25,660.1)	34,353.3	44,395.9	36,953.2
Beginning cash & cash equivalent	129,861.4	109,211.3	143,564.7	187,960.6
Changes due to forex impact	5,010.0	0.0	0.0	0.0
Ending cash & cash equivalent	109,211.3	143,564.7	187,960.6	224,913.8

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	197,312.1	207,612.1	217,912.1	228,212.1
Other LT assets	51,542.4	59,622.1	68,019.0	76,435.7
Cash/ST investment	109,211.3	143,564.7	187,960.6	224,913.8
Other current assets	555,188.4	588,343.5	612,989.9	620,763.7
Total assets	913,254.1	999,142.3	1,086,881.5	1,150,325.3
ST debt	39,357.4	45,349.2	44,595.7	71,922.2
Other current liabilities	241,794.1	268,644.5	283,650.2	269,439.3
LT debt	231,027.9	255,560.1	290,964.4	299,042.2
Other LT liabilities	27,977.0	32,019.8	36,669.1	42,015.8
Shareholders' equity	354,479.7	377,536.5	409,298.3	444,356.8
Minority interest	18,618.1	20,032.1	21,703.8	23,549.0
Total liabilities & equity	913,254.1	999,142.3	1,086,881.5	1,150,325.3

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.0	17.6	18.0	18.1
Pre-tax margin	20.0	19.2	19.1	19.1
Net margin	12.9	13.2	13.0	13.0
ROA	2.6	2.8	3.0	3.1
ROE	6.7	7.3	8.1	8.2
Growth				
Turnover	(25.6)	12.5	20.2	10.5
EBITDA	(35.8)	10.4	22.4	11.0
Pre-tax profit	(43.0)	8.3	19.2	10.5
Net profit	(42.1)	15.5	18.2	10.4
Net profit (adj.)	(28.0)	10.0	18.2	10.4
EPS	(28.0)	10.0	18.2	10.4
Leverage				
Debt to total capital	42.0	43.1	43.8	44.2
Debt to equity	76.3	79.7	82.0	83.5
Net debt/(cash) to equity	45.5	41.7	36.1	32.9
Interest cover (x)	30.7	30.3	33.3	33.3

COMPANY RESULTS

EVE Energy (300014 CH)

3Q23: Earnings In Line, But Margins Beat

EVE's 3Q23 net profit came in as expected at Rmb1,273m (-3% yoy/+26% qoq), with the gross margin beat offsetting the revenue miss. Stripping out one-off items, core net profit came in at Rmb899m (-9% yoy/+39% qoq), vs our estimate of Rmb900m. The 3Q23 earnings beat lies in margins. We maintain 2023-25 net profit forecasts at Rmb4,56b/Rmb6.15b/Rmb7.60b, based on lower revenue and higher gross margin. Maintain BUY. Target price: Rmb92.00.

3Q23 RESULTS

Year to 31 Dec (Rmb)	3Q23	yoy % chg	qoq % chg	9M23	yoy % chg
Revenue	12,553	34.2	6.5	35,529	46.3
Gross profit	2,302	42.2	29.5	5,962	54.8
Gross margin (%)	18.3	1.0	3.3	16.8	0.9
EBIT	1,492	34.1	6.8	4,235	98.4
EBIT margin (%)	11.9	(0.0)	0.0	11.9	3.1
Net profit	1,273	(2.5)	25.9	3,424	28.5
Net profit (adj.)	899	(8.5)	39.4	2,155	(1.0)
Net margin (%)	7.2	(3.3)	1.7	6.1	(2.9)

Source: EVE Energy

RESULTS

- 3Q23 net profit in line with our estimate at Rmb1,273m (-3% yoy/+26% qoq).** Stripping out one-off items, EVE Energy's (EVE) core net profit came in at Rmb899m (-9% yoy/+39% qoq), vs our estimate of Rmb900m. 9M23 net profit grew 29% yoy to Rmb3,424m, compared with our estimated 2023 net profit of Rmb4.56b and consensus' 2023 net profit forecast of Rmb5b.
- Revenue grew 34% yoy and 7% qoq to Rmb12.6b in 3Q23, missing our estimate on lower-than-expected ASP.** This brings 9M23 revenue to Rmb35.5b (+46% yoy), vs our full-year estimates of Rmb59.3b. Segment-wise, power batteries, energy storage batteries and electronics batteries contributed Rmb5.5b/Rmb4.3b/Rmb2.1b of sales revenue respectively in 3Q23, driven by sales volume growth. Sales volume of power batteries and energy storage batteries grew 71% yoy and 116% yoy respectively to 20GWh and 18GWh in 9M23. Sales volume of electronics batteries recovered to 60m units/month in 3Q23.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	16,900	36,304	47,377	58,461	67,046
EBITDA	2,583	3,985	6,331	8,057	9,605
Operating profit	1,692	2,761	5,230	6,898	8,394
Net profit (rep./act.)	2,906	3,509	4,560	6,150	7,600
Net profit (adj.)	2,547	2,695	3,049	4,752	5,996
EPS (fen)	153.1	171.9	222.9	300.6	371.5
PE (x)	27.7	24.7	19.0	14.1	11.4
P/B (x)	4.5	2.8	2.5	2.2	1.8
EV/EBITDA (x)	37.9	24.6	15.5	12.1	10.2
Dividend yield (%)	2.4	0.4	0.5	0.7	0.9
Net margin (%)	15.1	7.4	6.4	8.1	8.9
Net debt/(cash) to equity (%)	15.7	37.2	46.4	33.0	15.4
Interest cover (x)	12.8	18.8	9.9	10.7	11.9
ROE (%)	15.8	11.1	9.4	12.7	13.7
Consensus net profit	-	-	5,031	7,237	9,452
UOBKH/Consensus (x)	-	-	0.91	0.85	0.80

Source: EVE Energy, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rmb42.40
Target Price	Rmb92.00
Upside	117.0%

COMPANY DESCRIPTION

EVE Energy Co., Ltd. develops, manufactures and sells lithium-ion batteries of consumer electronics, cordless power tools, two-wheeled electric vehicles and electric vehicles.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	300014 CH
Shares issued (m):	2,046
Market cap (Rmbm):	86,739
Market cap (US\$m):	11,192
3-mth avg daily t'over (US\$m):	103.6

Price Performance (%)

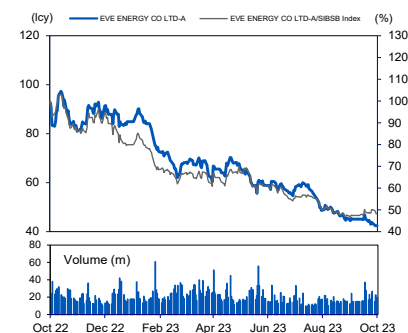
52-week high/low		HK\$100.47/HK\$41.93		
1mth	3mth	6mth	1yr	YTD
(5.9)	(25.4)	(29.8)	(53.9)	(51.8)

Major Shareholders

Tibet EVE Holdings Co., Ltd.	32.02
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FY23 NAV/Share (Rmb)	15.59
FY23 Net Debt/Share (Rmb)	6.97

PRICE CHART



Source: Bloomberg

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- **Gross margin beat in 3Q23 due to decline in lithium carbonate prices and cost reduction initiatives.** Gross margin spiked by 1.0ppt yoy/3.3ppt qoq to 18.3% in 3Q23, bringing 9M23 gross margin to 16.8% (+0.9 ppt), vs our full-year 2023 assumption of 16%. The gross margin beat in 3Q23 was due to the 46% decrease in lithium carbonate price from Rmb317,500/tonne in June to Rmb171,000/tonne in September and cost reduction initiatives such as the decrease in defect rate of batteries and the ramp-up of upstream battery material projects.
- **EBIT margin beat on other income and SG&A.** EBIT margin remained flat yoy and qoq at 11.9%. In 9M23, EBIT margin spiked by 3.1ppt yoy to 11.9%, vs our full-year 2023 assumption of 8.8%. The EBIT margin beat was due to two factors. Firstly, other incomes surged by 130% yoy to Rmb1,513m in 9M23, due to the booking of government rebates/subsidy incomes along with the launches of new production lines. Secondly, SG&A/revenue ratio decreased by 0.2ppt yoy to 3.3% in 9M23.

STOCK IMPACT

- **We maintain our 2023-25 estimates on sales volume of EV batteries and energy storage batteries at 60GWh/85GWh/110GWh respectively,** based on intact sales in 9M23 and the launches of new projects, eg the agreements with Powin and ABS for supplying lithium iron-phosphate (LFP) batteries for energy storage system (ESS), orders for LFP batteries and big cylindrical nickel cobalt manganese (NCM) batteries from auto OEMs. In addition, EVE has secured orders for EV batteries from Guangzhou Automotive Corporation (GAC), XPeng, Hozon and other mainstream automakers. EVE's current effective capacity is 80GWh for power batteries and energy storage batteries. The company continues to build capacity to match order growth, with more than 100GWh of effective capacity in 2024, according to management guidance. The growth in energy storage battery's sales volume will also be driven by the decline in lithium carbonate prices, which improves the economy of ESS.
- **We cut 2023-25 ASP assumptions for EV battery and energy storage battery from Rmb0.83/Rmb0.75/Rmb0.67 to Rmb0.65/Rmb0.58/Rmb0.52 respectively,** based on the lower-than-expected 9M23 ASP and the decline in raw material prices. Based on the new battery pricing mechanism, battery prices are linked to battery material prices.
- **We trim 2023-25 revenue growth estimates for the electronics battery segment from 10%/10%/10% to 0%/5%/5%,** based on management guidance. Revenue of electronics battery will remain at the same level as last year, with the sales volume growth offsetting the ASP decrease. For 2024-25, we expect 5% revenue CAGR for the segment, vs 10% previously, based on the slower-than-expected market growth.
- **We lift 2023-25 gross margin assumptions from 16.0%/16.0%/16.0% to 17.2%/18.3%/18.3% respectively,** based on upbeat 9M23 gross margin and lower battery material costs. Lithium carbonate price has dropped by nearly 46% from Rmb317,500/tonne in mid-June to Rmb171,000/tonne currently.

EARNINGS REVISIONS/RISKS

- **We maintain 2023-25 net profit forecasts at Rmb4.56b/Rmb6.15b/Rmb7.60m respectively,** based on lower ASP and higher gross margin.

RECOMMENDATION

- **Maintain BUY with target price of Rmb92.00,** based on our 10-year DCF model (WACC: 14.8%; terminal growth: 4%). Our target price implies 31x 2024F PE.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	36,304	47,377	58,461	67,046
EBITDA	3,985	6,331	8,057	9,605
Depreciation & amortization	(1,224)	(1,101)	(1,158)	(1,211)
EBIT	2,761	5,230	6,898	8,394
Total other non-operating income	(358)	-	-	-
Associate contributions	1,242	900	1,300	1,650
Net interest income/(expense)	(147)	(529)	(643)	(708)
Pre-tax profit	3,498	5,602	7,556	9,336
Tax	174	(420)	(567)	(700)
Minorities	(163)	(622)	(839)	(1,036)
Net profit	3,509	4,560	6,150	7,600
Net profit (recurrent)	2,695	3,049	4,752	5,996

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	24,154	34,088	37,563	38,886
Other LT assets	22,626	23,542	24,858	26,524
Cash/ST investment	7,209	8,440	17,206	29,228
Other current assets	29,648	36,387	43,031	48,313
Total assets	83,638	102,457	122,658	142,952
ST debt	3,997	9,997	15,997	21,997
Other current liabilities	28,188	36,153	43,821	50,093
LT debt	16,284	16,284	16,284	16,284
Other LT liabilities	2,010	2,010	2,010	2,010
Shareholders' equity	30,413	34,646	40,341	47,325
Minority interest	2,747	3,369	4,207	5,244
Total liabilities & equity	83,638	102,457	122,658	142,952

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	2,860	7,137	8,515	9,895
Pre-tax profit	3,498	5,602	7,556	9,336
Tax	174	(420)	(567)	(700)
Depreciation/amortization	1,224	1,101	1,158	1,211
Associates	(1,242)	(900)	(1,300)	(1,650)
Working capital changes	(953)	1,226	1,024	990
Non-cash items	159	529	643	708
Other operating cashflows	-	-	-	-
Investing	(19,917)	(10,964)	(4,519)	(2,325)
Capex (growth)	(13,835)	(11,050)	(4,650)	(2,550)
Investments	(2,745)	-	-	-
Proceeds from sale of assets	270	-	-	-
Others	(3,606)	86	131	225
Financing	18,121	5,058	4,770	4,452
Dividend payments	(758)	(942)	(1,230)	(1,548)
Issue of shares	9,109	-	-	-
Proceeds from borrowings	12,965	9,000	9,000	9,000
Loan repayment	(2,995)	(3,000)	(3,000)	(3,000)
Others/interest paid	(201)	-	-	-
Net cash inflow (outflow)	1,064	1,231	8,766	12,022
Beginning cash & cash equivalent	6,102	7,209	8,440	17,206
Changes due to forex impact	42	-	-	-
Ending cash & cash equivalent	7,209	8,440	17,206	29,228

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.0	13.4	13.8	14.3
Pretax margin	9.6	11.8	12.9	13.9
Net margin	7.4	6.4	8.1	8.9
ROA	4.2	3.3	4.2	4.5
ROE	11.1	9.4	12.7	13.7
Growth				
Turnover	114.8	30.5	23.4	14.7
EBITDA	54.3	58.9	27.3	19.2
Pre-tax profit	15.0	60.1	34.9	23.6
Net profit	20.8	29.9	34.9	23.6
Net profit (adj)	5.8	13.1	55.9	26.2
EPS	12.3	29.7	34.9	23.6
Leverage				
Debt to total capital	24.2	25.6	26.3	26.8
Debt to equity	66.7	75.9	80.0	80.9
Net debt to equity	37.2	46.4	33.0	15.4
Interest cover (x)	18.8	9.9	10.7	11.9

COMPANY UPDATE

Li Ning (2331 HK)

Cut Full-year Revenue Guidance To Single-digit % Growth; Key Priority Is Distributor Control

Li Ning's disappointing 3Q23 business operations can be attributed to distributors' cross-region and channel sales. Management cut the company's full-year revenue guidance to single-digit % yoy growth (vs mid-teens % previously), and implied that margins should be under pressure. We think the company will take a long time to strengthen its control on distributors. We cut target price by 10% to HK\$48.80. Maintain BUY on its cheap valuation.

WHAT'S NEW

- Li Ning announced its 3Q23 operational updates.

STOCK IMPACT

- Operations disappointed, particularly in the e-commerce channel.** In 3Q23, Li Ning recorded mid-single-digit % retail sell-through yoy growth, with retail/wholesale channels increasing by low-twenties % and low-single-digit % yoy, respectively. Management attributed the better direct retail performances to the good sales momentum in its outlet stores and the faster expansion of directly-operated stores. However, sell-through of e-commerce channel declined by low-single-digit yoy, below management's expectations, which was affected by a high base and offline distributors' cross-region and channel sales. Same-store sales were weak in 3Q23 as well. Same-store sales for the overall platform recorded a mid-single-digit % yoy decline, with retail and wholesale channels registering mid-single-digit % increase and low-teens % decrease yoy respectively, while e-commerce platforms registered low-single-digit % yoy decline.
- Online discounts under pressure.** Inventory turnover trended up to around five months by the end of 3Q23 from 3.8 months as of end-2Q23, with inventory structure remaining stable. Offline discounts narrowed by low-single-digit yoy in 3Q23, with retail channel discounts improving more than wholesale channel discounts (retail channel: <30% off vs wholesale channel: <25% off). Although online discounts improved qoq in 3Q23, it deepened by low-single-digit yoy. Looking ahead, we expect online discounts to remain under pressure given the company's destocking initiatives amid the challenging operation backdrop. Li Ning targets to bring inventory turnover to 4.5 months by 4Q23.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	22,572	25,803	27,875	30,141	33,567
EBITDA	5,896	5,668	6,176	7,006	8,053
Operating profit	4,736	4,082	4,327	4,920	5,748
Net profit (rep./act.)	4,011	4,064	4,041	4,535	5,217
Net profit (adj.)	4,011	4,064	4,041	4,535	5,217
EPS (Fen)	158.0	154.3	153.4	172.1	198.0
PE (x)	17.9	18.3	18.4	16.4	14.3
P/B (x)	3.5	3.1	2.7	2.4	2.2
EV/EBITDA (x)	11.4	11.8	10.9	9.6	8.3
Dividend yield (%)	1.6	1.6	1.6	1.8	2.1
Net margin (%)	17.8	15.7	14.5	15.0	15.5
Net debt/(cash) to equity (%)	(63.3)	(21.3)	(26.9)	(32.8)	(38.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	26.9	17.9	15.7	15.7	16.1
Consensus net profit	-	-	4,485	5,400	6,402
UOBKH/Consensus (x)	-	-	0.90	0.84	0.81

Source: Li Ning, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$30.20
Target Price	HK\$48.80
Upside	+61.6%
(Previous TP)	HK\$54.20)

COMPANY DESCRIPTION

Li Ning is one of the leading sportswear brands in China. Li Ning brand is its main brand.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2331 HK
Shares issued (m):	2,636.0
Market cap (HK\$m):	79,608.6
Market cap (US\$m):	10,177.8
3-mth avg daily t'over (US\$m):	84.0

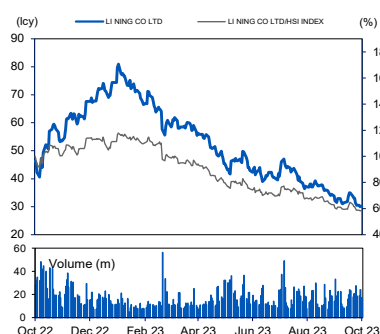
Price Performance (%)

52-week high/low		HK\$81.00/HK\$30.00		
1mth	3mth	6mth	1yr	YTD
(10.7)	(27.8)	(45.5)	(34.5)	(55.4)

Major Shareholders

	%
Viva China	10.29
FY23 NAV/Share (Rmb)	10.30
FY23 Net Cash/Share (Rmb)	2.78

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Cut full-year revenue guidance; expect margins to miss.** Due to the worse-than-expected sales momentum, management has revised down its full-year revenue guidance of mid-teens % yoy growth to single-digit % yoy growth. Although management did not mention the revision of mid-teens% net margin guidance, we think Li Ning will face challenges achieving this, as we expect: a) the deepening discounts online will lead to a deterioration in gross margin in 2H23, and b) the company will incur higher selling expenses on 2024 Paris Olympics starting from 2H23.

EARNINGS REVISION/RISK

- **Cut 2023-24 earnings forecasts by 8/11%.** We cut our 2023-24 revenue forecasts by 3%/6% respectively, on worse-than-expected sales momentum. Our new 2023 revenue forecast implies a 3% revenue yoy growth in 2H23. We lower our 2023-24 gross margin forecasts by 0.2ppt/0.4ppt respectively on the deepening online discounts. We raise our 2023-24 selling expense ratio estimates by 0.3ppt/0.1ppt, as we expect the company to incur more expenses related to the 2024 Paris Olympics. Thus, our 2023-24 earnings forecasts are lowered by 8%/11% respectively. Our new 2023 earnings forecast implies a 2% earnings yoy growth in 2H23 and a full-year net margin of 14.5%.

VALUATION/RECOMMENDATION

- **Cut target price by 10% to HK\$48.80.** Li Ning's share price has corrected by 23% since Sep 23 (vs the HIS's -9%), reflecting reflects capital market concerns on the distributors' cross-region and channel sales issue. In our view, Li Ning will take a long time to strengthen its control on distributors and enhance product competitiveness, which will achieve the normalisation of business operations of its sales channels, and thus support long-term business expansion. We cut our target price by 10% to HK\$48.80, and maintain BUY rating on its cheap valuation. The stock currently trades at 18.4x 2023F PE, 1SD below the five-year historical average.

LI NING SELL-THROUGH GROWTH RATE (YOY)

	Overall platform	Offline	Retail	Wholesale	e-commerce
1Q21	(+) high-eighties	(+) low-eighties	(+) low-nineties	(+) low-eighties	(+) 100%
2Q21	(+) low-nineties	(+) low-nineties	(+) high-eighties	(+) low-nineties	(+) high-nineties
3Q21	(+) low-forties	(+) high-thirties	(+) mid-thirties	(+) high-thirties	(+) mid-fifties
4Q21	(+) low-thirties	(+) high-twenties	(+) high-twenties	(+) high-twenties	(+) low-forties
1Q22	(+) high-twenties	(+) mid-twenties	(+) mid-thirties	(+) low-twenties	(+) mid-thirties
2Q22	(-) high-SD	(-) high-SD	(-) high-SD	(-) high-SD	(+) mid-SD
3Q22	(+) mid-teens	(+) mid-teens	(+) low-20s	(+) low-teens	(+) mid-20s
4Q22	(-) low-teens	(-) high-teens	(-) mid-teens	(-) low-twenties	(+) mid-SD
1Q23	(+) mid-SD	(+) high-SD	(+) mid-teens	(+) mid-SD	(-) low-teens
2Q23	(+) mid-teens	(+) high-teens	(+) high-twenties	(+) mid-teens	(+) low-teens
3Q23	(+) mid-SD	(+) high-SD	(+) low-twenties	(+) low-SD	(-) low-SD

Source: Li Ning, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	25,803.4	27,874.5	30,140.6	33,566.6
EBITDA	5,668.2	6,176.3	7,006.4	8,052.9
Deprec. & amort.	1,586.6	1,849.2	2,086.3	2,305.0
EBIT	4,081.6	4,327.2	4,920.1	5,747.9
Total other non-operating income	671.6	671.6	671.6	671.6
Associate contributions	201.2	301.7	301.7	301.7
Net interest income/(expense)	327.2	84.0	149.1	230.6
Pre-tax profit	5,415.1	5,384.5	6,042.5	6,951.8
Tax	(1,351.3)	(1,343.7)	(1,507.9)	(1,734.8)
Minorities	(0.1)	0.0	0.0	0.0
Net profit	4,063.7	4,040.8	4,534.6	5,217.0
Net profit (adj.)	4,063.7	4,040.8	4,534.6	5,217.0

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	3,913.6	5,124.2	5,658.5	6,418.3
Pre-tax profit	5,415.1	5,384.5	6,042.5	6,951.8
Tax	(1,316.4)	(1,343.7)	(1,507.9)	(1,734.8)
Deprec. & amort.	781.5	959.4	1,107.6	1,228.4
Working capital changes	(1,133.2)	326.3	238.8	217.7
Non-cash items	17.9	(202.2)	(222.4)	(244.7)
Other operating cashflows	148.8	0.0	0.0	0.0
Investing	(9,481.4)	(1,762.4)	(1,762.4)	(1,762.4)
Capex (growth)	(1,822.2)	(1,712.4)	(1,712.4)	(1,712.4)
Investments	(73.7)	(50.0)	(50.0)	(50.0)
Proceeds from sale of assets	7.7	0.0	0.0	0.0
Others	(7,593.3)	0.0	0.0	0.0
Financing	(1,887.4)	(1,219.2)	(1,212.2)	(1,360.4)
Dividend payments	(1,194.7)	(1,219.2)	(1,212.2)	(1,360.4)
Issue of shares	96.7	0.0	0.0	0.0
Proceeds from borrowings	600.0	0.0	0.0	0.0
Loan repayment	(600.0)	0.0	0.0	0.0
Others/interest paid	(789.4)	0.0	0.0	0.0
Net cash inflow (outflow)	(7,455.3)	2,142.7	2,683.8	3,295.5
Beginning cash & cash equivalent	14,744.9	7,382.2	9,524.9	12,208.7
Changes due to forex impact	92.6	0.0	0.0	0.0
Ending cash & cash equivalent	7,382.2	9,524.9	12,208.7	15,504.2

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	3,234.6	4,033.9	4,685.7	5,217.1
Other LT assets	18,017.1	18,223.0	18,448.6	18,695.8
Cash/ST investment	7,382.2	9,524.9	12,208.7	15,504.2
Other current assets	5,012.7	5,084.6	5,232.5	5,619.8
Total assets	33,646.5	36,866.3	40,575.4	45,037.0
ST debt	718.3	718.3	718.3	718.3
Other current liabilities	6,522.5	6,920.7	7,307.4	7,912.3
LT debt	1,489.4	1,489.4	1,489.4	1,489.4
Other LT liabilities	584.3	584.3	584.3	584.3
Shareholders' equity	24,329.4	27,151.1	30,473.5	34,330.1
Minority interest	2.5	2.5	2.5	2.5
Total liabilities & equity	33,646.5	36,866.3	40,575.4	45,037.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	22.0	22.2	23.2	24.0
Pre-tax margin	21.0	19.3	20.0	20.7
Net margin	15.7	14.5	15.0	15.5
ROA	12.7	11.5	11.7	12.2
ROE	17.9	15.7	15.7	16.1
Growth				
Turnover	14.3	8.0	8.1	11.4
EBITDA	(3.9)	9.0	13.4	14.9
Pre-tax profit	1.6	(0.6)	12.2	15.0
Net profit	1.3	(0.6)	12.2	15.0
Net profit (adj.)	1.3	(0.6)	12.2	15.0
EPS	(2.3)	(0.6)	12.2	15.0
Leverage				
Debt to total capital	8.3	7.5	6.8	6.0
Debt to equity	9.1	8.1	7.2	6.4
Net debt/(cash) to equity	(21.3)	(26.9)	(32.8)	(38.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

COMPANY RESULTS

Unilever Indonesia (UNVR IJ)

3Q23: 21% YOY NPAT Growth Driven By Lower Raw Material Costs

UNVR's 3Q23 NPAT rose 21.0% yoy and 5.6% qoq to Rp1,430b. The strong growth in NPAT was driven by a 483bp gross margin expansion that eventually translated to 227bp in net margin expansion. ASP was adjusted downwards by 1% in 3Q23 but gross margin was the highest in the last two years. Volume rose 4.3% in 3Q23. 9M23 NPAT came in at Rp4,189b, below our expectations but in line with consensus'. Maintain BUY with a target price of Rp5,200.

9M23 AND 3Q23 RESULTS

Year to 31 Dec (Rpb)	9M23	yoy (%)	3Q23	3Q22	yoy (%)	qoq (%)	Remarks
Revenue	30,506	-3.3%	10,214	10,076	1.4%	5.4%	Strong gross margin
Gross Profit	15,274	2.2%	5,157	4,600	12.1%	5.5%	expansion observed
Op Profit	5,455	-9.4%	1,828	1,536	19.0%	3.3%	483bps yoy
Net Profit	4,189	-9.2%	1,430	1,182	21.0%	5.6%	improvement
	9M23	yoy (%)	3Q23	3Q22	yoy (%)	qoq (%)	
Gross Margin	50.1	268.2	50.5	45.7	483.1	3.6	
Op Margin	17.9	(120.2)	17.9	15.2	265.3	(36.4)	
Net Margin	13.7	(89.0)	14.0	11.7	227.0	1.9	

Source: UNVR, UOB Kay Hian

RESULTS

- **UNVR reported 3Q23 NPAT of Rp1,430b; increasing 21% yoy and 5.6% qoq.** 3Q23 sales rose by 1.4%, driven by 4.3% yoy volume growth while UNVR reduced its pricing by 1% for skin cleansing, home care and fabric care products. The price reduction was enacted in the industry because of the decline in petrochemical prices. 3Q23 gross margin actually expanded by 483bp yoy. This caused a 265bp and 227bp expansion in operating and net margin respectively.
- **9M23 NPAT declined 9.2% yoy to Rp4,189b.** The reported 9M23 NPAT is below our (70.0% level) 2023F NPAT forecast of Rp5,988b but in line with consensus' (74.7% level) 2023F NPAT forecast of Rp5,611b.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net turnover	39,546	41,219	41,338	44,232	47,328
EBITDA	8,196	7,586	7,351	8,300	8,386
Operating profit	7,679	7,069	6,835	7,783	7,869
Net profit (rep./act.)	5,758	5,365	5,244	5,986	6,043
Net profit (adj.)	5,758	5,365	5,244	5,986	6,043
EPS (Rp)	150.9	140.6	137.4	156.9	158.4
PE (x)	27.0	29.0	29.7	26.0	25.8
P/B (x)	36.0	38.9	35.3	28.7	27.0
EV/EBITDA (x)	19.5	21.1	21.7	19.2	19.1
Dividend yield (%)	4.1	3.7	3.1	3.2	3.7
Net margin (%)	14.6	13.0	12.7	13.5	12.8
Net debt/(cash) to equity (%)	35.3	2.4	92.9	55.1	98.1
Interest cover (x)	44.8	101.1	85.6	76.0	69.3
ROE (%)	124.4	129.0	124.7	121.8	108.0
Consensus net profit	-	-	5,577	5,929	6,506
UOBKH/Consensus (x)	-	-	0.94	1.01	0.93

Source: Unilever Indonesia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp4,080
Target Price	Rp5,200
Upside	+27.5%
(Previous TP)	Rp5,700)

COMPANY DESCRIPTION

UNVR manufactures home and personal care products, such as soaps, cosmetics and detergents. The company also produces food, such as ice cream, oil- & dairy-based food products, tea and margarine.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	UNVR IJ
Shares issued (m):	38,150.0
Market cap (Rpb):	155,652.0
Market cap (US\$m):	9,807.9
3-mth avg daily t'over (US\$m):	3.3

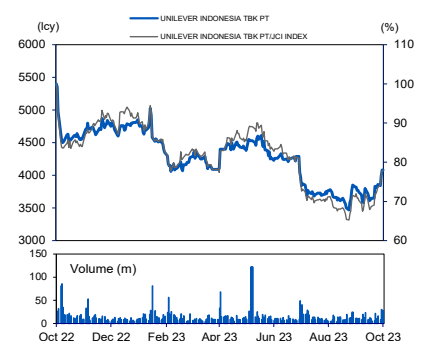
Price Performance (%)

52-week high/low			Rp5,400/Rp3,470	
1mth	3mth	6mth	1yr	YTD
6.8	0.7	(0.2)	(22.7)	(13.2)

Major Shareholders

	%
Unilever Indonesia Holding B.V.	85.0
FY23 NAV/Share (Rp)	116
FY23 Net Debt/Share (Rp)	107

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Home and personal care:** 3Q23 sales growth came in at 1% and 9M23 sales declined 4.4%. 3Q23 EBIT rose 46.9% yoy and 9M23 EBIT was flat (0.8% yoy decline).
 - **Beauty and personal care:** 9M23 sales were driven by mid-single-digit growth in value of oral care, hair care and deodorant products. Skin cleansing products' 9M23 value grew 447bp and volume grew 630bp. Oral care products' 9M23 value grew 86bp and volume grew 48bp. Facial care products turned around with value growing 122bp and volume growing 78bp.
 - GAL remained the no.1 facial moisturiser brand, Vaseline remained the no.1 body care brand and Clear became the no.1 anti-dandruff shampoo brand.
 - **Home care:** Sales growth in 9M23 was led by volume growth, driven by double-digit growth in dishwashing products. Home care volume grew 48bp in 9M23. Fabric care product volume rose 32bp and cleaning product volume rose 130bp in 9M23.
- **Food & refreshment.** In 3Q23, double-digit sales growth was driven by volume growth of Bango, Royco and Buavita. Food products' value rose 94bp and volume grew 150bp in 9M23. Tea products' value grew 130bp while ice cream products' performance was impacted by the market slowdown.

SEGMENTAL ANALYSIS (9M23 AND 3Q23)

	Home & Personal Care				Foods					Home & Personal Care				Foods			
	Personal Care	Refreshment	Total	Growth	Personal Care	Refreshment	Total	Margin		Personal Care	Refreshment	Total	Margin	Personal Care	Refreshment	Total	Margin
9M23	19,922.1	10,583.6	30,505.8		10,702.3	31,539.3				100.0	100.0	100.0		100.0	100.0	100.0	
Sales	19,922.1	10,583.6	30,505.8		10,702.3	31,539.3				100.0	100.0	100.0		100.0	100.0	100.0	
Gross Profit	10,574.9	4,699.0	15,273.9		4,699.0	15,273.9				53.1	44.4	50.1		53.1	44.4	50.1	
Operating Profit	5,197.3	2,104.9	7,302.1		2,104.9	7,302.1				26.1	19.9	23.9		26.1	19.9	23.9	
9M22	20,837.0	10,702.3	31,539.3		10,702.3	31,539.3				100.0	100.0	100.0		100.0	100.0	100.0	
Sales	20,837.0	10,702.3	31,539.3		10,702.3	31,539.3				100.0	100.0	100.0		100.0	100.0	100.0	
Gross Profit	10,234.3	4,711.1	14,945.4		4,711.1	14,945.4				49.1	44.0	47.4		49.1	44.0	47.4	
Operating Profit	5,241.5	2,303.4	7,544.9		2,303.4	7,544.9				25.2	21.5	23.9		25.2	21.5	23.9	
3Q23	6,670.8	3,543.0	10,213.8		3,543.0	10,213.8				100.0	100.0	100.0		100.0	100.0	100.0	
Sales	6,670.8	3,543.0	10,213.8		3,543.0	10,213.8				100.0	100.0	100.0		100.0	100.0	100.0	
Gross Profit	3,551.0	1,605.7	5,156.7		1,605.7	5,156.7				53.2	45.3	50.5		53.2	45.3	50.5	
Operating Profit	1,714.1	712.3	2,426.4		712.3	2,426.4				25.7	20.1	23.8		25.7	20.1	23.8	
3Q22	6,603.2	3,472.7	10,075.9		3,472.7	10,075.9				100.0	100.0	100.0		100.0	100.0	100.0	
Sales	6,603.2	3,472.7	10,075.9		3,472.7	10,075.9				100.0	100.0	100.0		100.0	100.0	100.0	
Gross Profit	3,080.1	1,520.2	4,600.3		1,520.2	4,600.3				46.6	43.8	45.7		46.6	43.8	45.7	
Operating Profit	1,166.9	905.8	2,072.8		905.8	2,072.8				17.7	26.1	20.6		17.7	26.1	20.6	

Source: UNVR, UOB Kay Hian

EARNINGS REVISION/RISK

- **Lower our NPAT forecasts by 12.4%/1.1%.** As the 9M23 results were below our expectations, we reduce our 2023F/24F NPAT forecasts by 12.4%/1.1% respectively. Our forecasts are 6.0% below and 1.0% above of that of consensus'.

NEW, ORIGINAL AND CONSENSUS FORECASTS

	New		Original		Difference (%)		Street		Difference (%)	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Sales	41,338	44,232	43,794	46,860	-5.6%	-5.6%	41,376	43,129	-0.1%	2.6%
Gross Profit	20,513	21,553	20,878	21,903	-1.7%	-1.6%	20,379	21,455	0.7%	0.5%
Op Profit	6,835	7,783	7,904	8,144	-13.5%	-4.4%	7,294	7,866	-6.3%	-1.0%
Net Income	5,244	5,986	5,988	6,051	-12.4%	-1.1%	5,611	5,991	-6.5%	-0.1%
Core Net Income	5,244	5,986	5,988	6,051	-12.4%	-1.1%	5,577	5,929	-6.0%	1.0%
	New		Original		Difference (bp)		Street		Difference (bp)	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Gross Margin	49.6	48.7	47.7	46.7	195	199	49.3	49.7	37	102
Net Margin	16.5	17.6	18.0	17.4	152	22	17.6	18.2	109	64
Core Net Margin	12.7	13.5	13.7	12.9	99	62	13.6	13.9	88	36

Source: UNVR, UOB Kay Hian

VALUATION/RECOMMENDATION

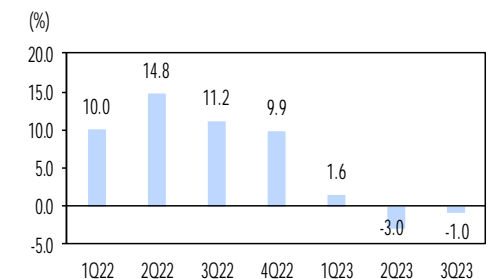
- **Maintain BUY with a target price of Rp5,200.** Our target price of Rp5,200 is derived using historical average 33.2x PE applied to 2024F EPS. With 27.5% upside from the current level, we maintain BUY on UNVR with a target price of Rp5,200.

FMCG AND UNVR GROWTH IN VALUE AND VOLUME 9M23

Business Unit	Value Growth(%)		Volume Growth (%)	
	Market	ULI	Market	ULI
Personal Care	3.3	4.9	-2.9	0.1
Nutrition*	2.6	3.6	-0.7	2.1
Home Care	0.4	-1.9	-0.8	1.0
Beauty & Well-Being	4.1	-3.1	-1.7	-6.8
Total excl Ice Cream**	2.7	0.9	-1.1	0.3

Source: UNVR

DOMESTIC PRICE GROWTH IN Q3-23



Source: UNVR

FORWARD PE BAND



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Net turnover	41,219	41,338	44,232	47,328
EBITDA	7,586	7,351	8,300	8,386
Deprec. & amort.	517	517	517	517
EBIT	7,069	6,835	7,783	7,869
Total other non-operating income	0.0	0.0	0.0	0.0
Net interest income/(expense)	(75)	(86)	(109)	(121)
Pre-tax profit	6,994	6,749	7,674	7,748
Tax	(1,629)	(1,505)	(1,688)	(1,705)
Minorities	0.0	0.0	0.0	0.0
Net profit	5,365	5,244	5,986	6,043
Net profit (adj.)	5,365	5,244	5,986	6,043

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Fixed assets	9,536	10,665	10,878	14,155
Other LT assets	1,214	1,309	1,406	1,486
Cash/ST investment	503	902	2,015	838
Other current assets	7,065	7,212	7,717	8,257
Total assets	18,318	20,088	22,016	24,736
ST debt	600	5,000	5,000	6,500
Other current liabilities	11,842	8,609	9,326	9,962
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	1,879	2,066	2,273	2,500
Shareholders' equity	3,997	4,413	5,417	5,774
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	18,318	20,088	22,016	24,736

CASH FLOW

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Operating	8,061	1,859	7,203	7,224
Pre-tax profit	6,994	6,749	7,674	7,748
Tax	(1,629)	(1,505)	(1,688)	(1,705)
Deprec. & amort.	517	517	517	517
Working capital changes	385	(373)	(61)	(196)
Other operating cashflows	1,795	(3,528)	762	860
Investing	(526)	(719)	(764)	(3,835)
Capex (growth)	(638)	(690)	(754)	(3,823)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	112	0.0	24	29
Others	0.0	(29)	(35)	(41)
Financing	(7,358)	(740)	(5,324)	(4,564)
Dividend payments	(5,824)	(4,828)	(4,982)	(5,686)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(1,250)	4,400	0.0	1,500
Others/interest paid	(283)	(312)	(343)	(377)
Net cash inflow (outflow)	177	400	1,115	(1,175)
Beginning cash & cash equivalent	325	503	902	2,015
Changes due to forex impact	0.2	(1.5)	(1.5)	(1.6)
Ending cash & cash equivalent	503	902	2,015	838

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.4	17.8	18.8	17.7
Pre-tax margin	17.0	16.3	17.3	16.4
Net margin	13.0	12.7	13.5	12.8
ROA	28.7	27.3	28.4	25.9
ROE	129.0	124.7	121.8	108.0
Growth				
Turnover	4.2	0.3	7.0	7.0
EBITDA	(7.5)	(3.1)	12.9	1.0
Pre-tax profit	(6.7)	(3.5)	13.7	1.0
Net profit	(6.8)	(2.3)	14.2	1.0
Net profit (adj.)	(6.8)	(2.3)	14.2	1.0
EPS	(6.8)	(2.3)	14.2	1.0
Leverage				
Debt to total capital	13.1	53.1	48.0	53.0
Debt to equity	15.0	113.3	92.3	112.6
Net debt/(cash) to equity	2.4	92.9	55.1	98.1
Interest cover (x)	101.1	85.6	76.0	69.3

COMPANY RESULTS

CapitaLand Malaysia Trust (CLMT MK)

3Q23: Results Slightly Above Expectations

CLMT's 3Q23 results were slightly higher than our estimates from the newly-acquired Queensbay Mall. Occupancy rates improved across the portfolio, and it achieved a positive rental reversion of 6.3%, except for 3 Damansara mall. Maintain HOLD. Target price: RM0.55.

3Q23 RESULTS

Year to 31 Dec (RMm)	3Q23	2Q23	qoq % chg	yoy % chg	9M23	yoy % chg
Rental income	83.4	84.6	(1.4)	48.2	229.8	38.8
Car park income	7.2	7.1	1.3	44.0	19.8	37.2
Other revenue	13.0	13.0	(0.1)	34.2	37.3	38.5
Total revenue	103.6	104.8	(1.1)	46.0	286.9	38.6
Operating expenses	(45.3)	(47.9)	(5.5)	38.2	(132.5)	39.2
Net property income	58.3	56.8	2.6	52.6	154.4	38.2
Non-operating expenses	(31.2)	(29.3)	6.4	80.1	(80.6)	62.7
Normalised PAT	27.8	29.7	(6.5)	29.6	77.5	19.1
Core EPU (sen)	1.0	1.1	(7.0)	(2.5)	2.9	(10.0)
DPU (sen)	1.05	1.06	(0.9)	4.0	2.98	0.7
Margins (%):			ppt chg	ppt chg		ppt chg
NPI	56.3	54.2	2.0	4.6	53.8	(0.2)
Normalised PAT	26.8	28.4	(1.6)	(11.2)	27.0	(4.4)

Source: CapitaLand Malaysia Mall Trust, UOB Kay Hian

RESULTS

- Slightly above expectations.** CapitaLand Malaysia Trust (CLMT) reported 3Q23 revenue of RM103.6m (-1.1% qoq, +46% yoy) and core net profit of RM27.8m (-6.5% qoq, +29.6% yoy). Cumulatively, 9M23 core net profit of RM77.5m (+19% yoy) accounted for 77% and 73% of our and consensus' full-year estimates respectively. The increase in 9M23 earnings was driven by: a) contribution from the newly-acquired Queensbay Mall (completed on 21 Mar 23), and b) higher occupancies across the portfolio (89.6% in 9M23 vs 83% in 9M22).
- 9M23 core net profit of RM77.5m was arrived at after excluding fair value loss of RM8m from reported net profit of RM69.5m.
- Declared 1.05 sen dividend for the quarter**, bringing 9M23 dividend to 2.98 sen (9M22: 2.96 sen), below our expectation on dilution from the recent placement and dividend reinvestment plan.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	224	276	373	417	446
EBITDA	89	136	180	201	215
Operating profit	87	134	178	199	213
Net profit (rep./act.)	(30)	50	106	112	126
Net profit (adj.)	(30)	50	106	112	126
EPS (sen)	(1.5)	2.5	4.2	4.4	5.0
PE (x)	n.m.	22.6	13.4	12.6	11.3
P/B (x)	0.4	0.4	0.5	0.5	0.5
EV/EBITDA (x)	41.3	27.0	20.4	18.3	17.0
Dividend yield (%)	3.3	7.2	6.9	7.3	7.8
Net margin (%)	(13.6)	18.3	28.4	27.0	28.2
Net debt/(cash) to asset (%)	34.0	34.0	42.9	42.8	42.8
Interest cover (x)	1.9	3.0	2.5	2.3	2.5
ROE (%)	n.a.	2.1	4.2	4.3	4.8
Consensus net profit (sen)	-	-	4.2	4.5	5.0
UOBKH/Consensus (x)	-	-	1.0	1.0	1.0

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

HOLD

(Maintained)

Share Price	RM0.56
Target Price	RM0.55
Upside	-1.8%

COMPANY DESCRIPTION

CapitaLand Malaysia Trust is a real estate investment trust. The trust makes long-term investments in income-producing real estate primarily used for retail purposes and located in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CLMT MK
Shares issued (m):	2,733.4
Market cap (RMm):	1,530.7
Market cap (US\$m):	320.2
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

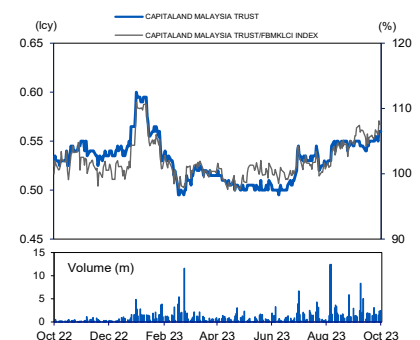
52-week high/low RM0.600/RM0.495

1mth	3mth	6mth	1yr	YTD
2.8	3.7	8.7	7.7	4.7

Major Shareholders

	%
CMMT Investment	35.7
Employees Provident Fund	13.8
Amanah Saham Nasional	13.2
FY23 NAV/Share (RM)	1.18
FY23 Net Debt/Share (RM)	0.95

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **NPI margin declined to 53.8% for 9M23 (9M22: 54.1%, 2022: 54%) due to higher property operating expenses (+40%) on higher utilities charges.** We gather that while the utilities charges have been trending lower from Jul 23 onwards, it will still be higher for full-year 2023 with impact of about RM4m (or 4% of 2023 net profit). Nonetheless, NPI margin improved by 2.0 ppt qoq and 4.6ppt yoy, attributable to the accretive Queensbay Mall acquisition. Other operating expenses were higher by 6% qoq and 80% yoy mainly relating to new acquisition expenses. We expect 2023 net profit to surge 110% from the newly-acquired Queensbay Mall and Valdor Logistics (acquired in Dec 22).
- **The proposed acquisition of a freehold logistics warehouse at the Hicom Glenmarie Industrial Park in Shah Alam** is anticipated to make a positive contribution to portfolio revenue from 2024. The gross annual rental revenue is estimated at RM3.5m and generates a yield of approximately 6.5%. This should cushion revenue loss (about RM3.8m) from its proposed disposal of 3 Damansara office, which is expected to be completed by 1Q24 (disposal value of RM52m).
- **Achieved positive rental reversion of 6.3%.** All malls contributed to the positive rental reversion except for 3 Damansara Mall (-27% variance over preceding average rental), likely due to occupancy and rent pressure from the oversupply of nearby malls.
- **Overall portfolio occupancy saw slight uptick to 89.6% in 3Q23 vs 88.0% in 2Q23,** mainly due to higher occupancy in Queensbay Mall and Sungei Wang Plaza. 3Q23 same store shopper traffic was -0.5% vs 3Q19 and +21.6% vs 3Q22. 3Q23 tenant sales psf was strong at +23.4% vs 3Q19 and +9.1% vs 3Q22, driven by improvements in consumer sentiment after the pandemic.
- **Balance sheet wise,** 83% of total debt was on fixed financing rate with average cost of debt of 3.98%. Net gearing level is at 44%, within the Securities Commission's limit of 50%.

EARNINGS REVISION/RISK

- **We increase our 2023-25 net profit by 5-10%** to account for higher contribution from Queensbay Mall. Nonetheless, our DPU forecast was largely unchanged after we properly accounted for a larger share base from the recent placement and dividend reinvestment plan.

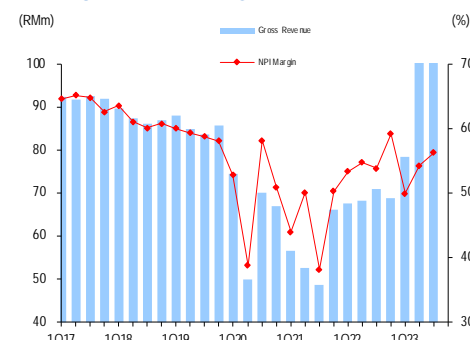
VALUATION/RECOMMENDATION

- **Maintain HOLD with an unchanged target price of RM0.55.** Our target price implies a 7.1% 2023 dividend yield and is based on a dividend discount model (required rate of return: 9.3%, terminal growth: 1.0%). We reckon the current valuation now is fair given that its forward yield spread to MGS of 2.8ppt has already narrowed to its five-year historical mean (2.44ppt).

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

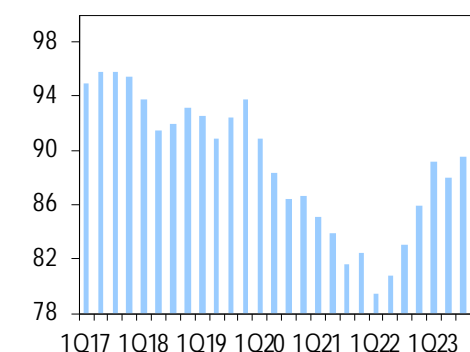
• Environmental	
-	CLMT is committed to working towards the long term and annual targets under CapitaLand's 2030 SMP Framework: a) reduce carbon emission intensity by 78% by 2030, b) reduce energy intensity by 35% by 2030, and c) reduce water intensity by 45% by 2030 (using 2009 as base year).
• Social	
-	About 20% of senior management are women. Staff engagement score was 81% with 98% survey participation.
-	Invested close to RM64,000 through CapitaLand's philanthropic arm, CapitaLand Hope Foundation, to benefit to benefit over 1,200 underprivileged children.
• Governance	
-	The Board comprises five independent directors and three non-independent directors. Female representation on board is 12.5%.
-	Adopted the anti-bribery and anti-corruption policy for the Manager's compliance (ABC Policy).

REVENUE AND NPI MARGIN



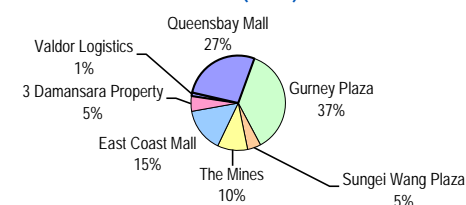
Source: CMMT, UOB Kay Hian

PORTFOLIO OCCUPANCY (%)



Source: CMMT, UOB Kay Hian

REVENUE BREAKDOWN (3Q23)



Source: CMMT, UOB Kay Hian

ASSUMPTIONS

	2023F	2024F	2025F
Portfolio Occupancy (%)	89.6	90.6	90.6
Blended rental step-up (%)	+3.4	+4.0	+4.7

Source: UOB Kay Hian

FORWARD YIELD SPREAD



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	276	373	417	446
EBITDA	136	180	201	215
Deprec. & amort.	1	1	2	2
EBIT	134	178	199	213
Associate contributions	0	0	0	0
Net interest income/(expense)	(45)	(72)	(86)	(87)
Pre-tax profit	49	106	112	126
Tax	2	0	0	0
Minorities	0	0	0	0
Net profit	50	106	112	126
Net profit (adj.)	50	106	112	126

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	3,892	4,904	4,904	4,928
Other LT assets	3	3	3	3
Cash/ST investment	84	17	47	69
Other current assets	36	49	54	58
Total assets	4,016	4,973	5,009	5,058
ST debt	184	184	184	184
Other current liabilities	111	142	153	160
LT debt	1,267	1,967	2,007	2,047
Other LT liabilities	35	34	19	21
Shareholders' equity	2,418	2,646	2,646	2,646
Minority interest	0	0	0	0
Total liabilities & equity	4,016	4,973	5,009	5,058

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	156	191	206	219
Pre-tax profit	90	106	112	126
Tax	0	0	0	0
Deprec. & amort.	1	1	2	2
Associates	(81)	(990)	0	0
Working capital changes	20	11	5	3
Other operating cashflows	126	1,062	86	87
Investing	(114)	(1,004)	(14)	(20)
Capex (growth)	(14)	(14)	(14)	(20)
Investments	(81)	(990)	0	0
Others	(20)	0	0	0
Financing	(33)	746	(162)	(177)
Distribution to unitholders	(27)	(108)	(115)	(129)
Issue of shares	0	228	0	0
Proceeds from borrowings	157	700	40	40
Loan repayment	(118)	0	0	0
Others/interest paid	(45)	(74)	(87)	(88)
Net cash inflow (outflow)	8	(67)	30	21
Beginning cash & cash equivalent	76	84	17	47
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	84	17	47	69

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	49.2	48.1	48.2	48.2
Pre-tax margin	17.7	28.4	27.0	28.2
Net margin	18.3	28.4	27.0	28.2
ROA	1.3	2.4	2.3	2.5
ROE	2.1	4.2	4.3	4.8
Growth				
Turnover	23.1	35.3	11.6	7.0
EBITDA	52.9	32.4	11.7	7.2
Pre-tax profit	n.a.	117.9	6.0	12.0
Net profit	n.a.	110.4	6.0	12.0
Net profit (adj.)	n.a.	110.4	6.0	12.0
EPU	n.a.	68.3	6.0	12.0
Leverage				
Debt to total capital	37.5	44.8	45.3	45.7
Debt to asset	36.1	43.3	43.8	44.1
Net debt/(cash) to asset	34.0	42.9	42.8	42.8
Interest cover (x)	3.0	2.5	2.3	2.5

COMPANY UPDATE

Velesto Energy (VEB MK)

Pricing In Another Rate Hike For 2024 Horizon

Despite the expectedly weak 3Q23 results (Naga 3 had idle periods), we note that the industry JU DCR continued to rise, and has now reached the same levels as the pre-2014 rig upcycle (US\$170,000). Contract tenures are also getting longer. However, looking at factors such as competition (PV Drilling), we still assume VEB will not fully benefit from the high industry rates, and upside is capped on the basis of peer valuation. Retain HOLD, with adjusted target of RM0.28.

WHAT'S NEW

- **Southeast Asia JU rig leading DCR jumped by >25% qoq to US\$170,000** based on Borr Drilling's latest contracts. Firstly, it announced a two-year contract in Thailand for jackup (JU) rig Idun from Oct 23, valued at US\$124m (or daily rate (DCR) of US\$170,000). Borr Drilling also has a US\$25m, two-well contract for 151 days in Indonesia from Dec 23 (estimated day rate: US\$165,000). According to industry sources, the job is believed to be for Petronas Carigali Indonesia. The latest DCR is above the previous high of US\$130,000 three months ago (1H23 average: US\$106,000). For harsh environment jobs, DCR can be higher at US\$200,000. The Middle East players (Aramco and ADNOC) continue to drive up JU contracting. Hence, the 500-JU rig market will continue to be tight. The prospects of a 100% industry utilisation are on the horizon.
- **Average contract duration is longer, and in favour of the rig contractors.** According to Esgian, global JU rigs' average contract duration in 1H23 reached 624 days (>1.5 years). For example, Petrovietnam (PV) had a six-year firm contract for JU rig PV Drilling V, for Brunei Shell. As the contract was secured in 2019 and PV Drilling was desperate to boost its rig utilisation amid a lack of sustainable drilling demand in Vietnam, the day rate was as low as US\$75,000. More recently, Saipem secured a 10-year contract extension for its JU rig Perro Negro 7 in Middle East.
- **Price renegotiations for 2024 contracts have started**, as per management guidance in 2Q23 briefing. To recap, the two-year Petronas umbrella contracts will expire in early-24. We observed that Petronas had recently hired rigs PV Drilling I (two-year tenure until 4Q25) and PV Drilling VI (one-year tenure) respectively on call-out basis. If we assume the timing of those contracts are close to when VEB commenced the 2024 price negotiations (ie in 3Q23), we believe Petronas will most likely retain the umbrella contracts for VEB (for up to five rigs) under a price consideration of US\$120,000-140,000 levels. This is because the latest US\$170,000 contract rate is similar to JU rates seen in the pre-2014 oil upcycle, and historically Petronas has had a track record of shying away from day rates that are too high.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	378	581	830	1,063	973
EBITDA	83	107	291	441	318
Operating profit	(74)	(54)	111	257	132
Net profit (rep./act.)	(91)	(100)	71	193	90
Net profit (adj.)	(145)	(63)	68	193	90
EPS (sen)	(1.4)	(0.6)	0.7	1.8	0.9
PE (x)	n.m.	n.m.	39.9	14.1	30.2
P/B (x)	1.2	1.2	1.2	1.1	1.0
EV/EBITDA (x)	29.9	23.2	8.6	5.6	7.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(24.1)	(17.2)	8.6	18.1	9.3
Net debt/(cash) to equity (%)	12.8	19.3	15.0	6.7	2.0
Interest cover (x)	2.2	3.9	12.4	17.9	14.7
ROE (%)	n.a.	n.a.	3.1	7.9	3.5
Consensus net profit	-	-	67	123	163
UOBKH/Consensus (x)	-	-	1.02	1.57	0.55

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

HOLD

(Maintained)

Share Price	RM0.26
Target Price	RM0.28
Upside	+7.3%
(Previous TP)	RM0.204

COMPANY DESCRIPTION

Velesto Energy, formerly UMW O&G, is the premier local jackup rig service provider in Malaysia.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	VEB MK
Shares issued (m):	8,215.6
Market cap (RMm):	2,136.1
Market cap (US\$m):	446.5
3-mth avg daily t'over (US\$m):	1.7

Price Performance (%)

52-week high/low RM0.275/RM0.110

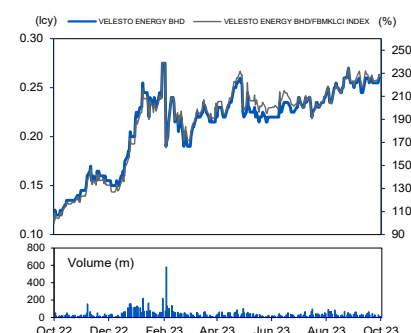
1mth	3mth	6mth	1yr	YTD
2.0	13.0	20.9	136.4	73.3

Major Shareholders

	%
Skim Amanah Saham Bumiputera	37.9
Yayasan Pelaburan Bumiputera	11.1

FY23 NAV/Share (RM)	0.22
FY23 Net Debt/Share (RM)	0.03

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Competition landscape and costs not to be ignored.** Given the high oil price sentiment and demand for production enhancement (Malaysia's production targeted to reach 2m bpd by 2025 vs 1.5m bpd currently), we believe Petronas may upgrade its local JU rig demand (14/12 rigs for 2024/25) in the upcoming Activity Outlook. Although Icon Offshore is no longer a local competition, the competition landscape is still not to be ignored. Borr Drilling is the foreign rig operator to watch, along with Noble Corp, and these foreign operators usually have a few rigs allocated for Malaysia waters.
- Another rising (or returning) competitor is PV Drilling, which re-entered the Malaysia market in 2017, and now has about 2-3 rigs allocated for the Malaysia market (in tandem with its long-term strategy), alongside Thailand, Brunei and Indonesia. 2-3 years ago, PV Drilling was aggressive in bidding for overseas jobs at below-market rates, given that domestic opportunities were scarce. According to Upstream, this might be one of the reasons for Petronas' "hesitation" to award contracts with rates aligning to the market.
- Moving forward, although we do not expect PV Drilling to be aggressively securing more market share in Malaysia, we assume that local JU long-term contract rates will remain below market rates. Here, we assume the likes of PV Drilling will be able to compete at lower EBITDA breakeven (vs VEB's >US\$50,000). This is based on PV Drilling's 2023 guidance for a surge in EBITDA margins and profit, despite its revenue target being similar to that of 2022, which suggests aggressive cost cuts.

EARNINGS REVISION

- **Upgrade 2023-25 earnings by 7%/104%/101%; EBITDA by 2%/37%18%.** Given the more persistent tight rig markets and oil price outlook, our new base-case scenario is a high chance of VEB securing contracts for at least five of its rigs at a daily rate of US\$125,000 for 2024, hence lifting our 2024 average rate assumption from US\$99,000, and utilisation assumption from 75%. The uncertainty here is costs, although we understand that the recent costs increases (rig manpower, inventories etc) have normalised, unlike back in late-22 to early-23. To be conservative, we upgrade our opex breakeven assumption from US\$52,000 for 2024.

VALUATION/ RECOMMENDATION

- **Retain HOLD with adjusted target price of RM0.28, which implies 15x 2024F PE (previous target: RM0.20).** Although its 3Q23 results are expected to be weak (more maintenance periods and Naga 3 was partially idle), given the high oil price sentiment, investors are now looking at 2024 horizon. However, we retain our view that VEB's valuation (7x EV/EBITDA) is not exactly cheap, unlike other rig players that can fully benefit from the JU rates upside.
- Our previous valuation was based on a peak DCR of US\$120,000 to be secured for 2024. Our new target price suggests there is still some minor trading upside – assuming that new contract DCR can go as high as US\$140,000 (note that Naga 5 is also bidding for overseas contracts, which implies that only Naga 5 may potentially be able to leverage on the current industry JU rates of US\$170,000). This essentially implies 7x PE on a 2024 earnings scenario of peak utilisation of 85%, DCR of US\$140,000, and opex breakeven of US\$69,000 respectively.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

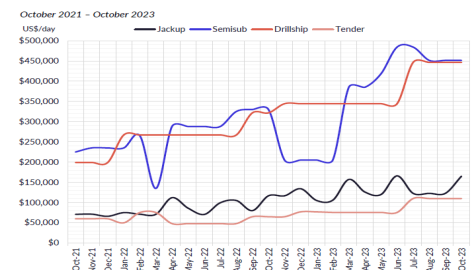
• Environmental	
- Greenhouse gas (GHG) emission compliance. Achieved 15% reduction of carbon intensity of operational emissions, and is developing emission reduction guidelines	
- Safety. Loss time injury frequency (LTIF) was 0.50 in 2022 (2021: 0.54).	
• Social	
- Diversity. 16% of total staff are female; 29% of total staff are non-Malaysians.	
- COVID-19 policies. Set up compliance measures and hired a health advisor.	
• Governance	
- 5 out of 9 board members are independent.	

KEY ASSUMPTION (ON DAILY RATE BASIS)

	2023F	2024F	2025F
US\$/ RM forex rate	4.40	4.40	4.40
Rig number	6	6	6
Utilisation	80%	83%	78%
Daily Charter Rate, US\$,000	94.0	119.0	114.0
Rigs Revenue, RMm	724.6	951.7	856.8
Workover Revenue, RMm	42.9	47.9	52.9
Workover Revenue (%)	5.6	4.8	5.8
Daily OPEX, US\$,000	56.0	64.5	67.9
- Utilised, US\$,000	64.5	72.9	80.2
- Stacking, US\$,000	22.0	23.1	24.3
Daily depreciation,	18.6	19.1	19.4
Daily finance cost,	2.8	3.0	3.6
Daily tax cost, US\$,000	2.1	4.2	2.1
Profit Breakeven at	79.5	90.8	93.0
100% util, US\$,000			

Source: UOB Kay Hian

ASIA PACIFIC RIG LEADING DAY RATES



Source: Westwood Global

PV DRILLING 2023 PLAN VS 2022

Indicators, Bil VND	1H23	2023F	2022A
Revenue	2,637	5,400	5,431
EBITDA	887	Na	959
PBT	278	140	(139)
PAT	209	100	(155)
Capex	(56)	(297)	(155)
Assets	20,816	20,534	20,704
Rig utilization	Na	~6	3/6

Source: PV Drilling

PEER VALUATIONS

Forward P/E	Last 4Q	2023F	2024F	2025F
Velesto Energy *	87.7	28.9	15.3	13.7
PV Drilling	Na	35.98	23.2	15.5
Borr Drilling	9.4	38.8	6.6	4.9
COSL **	16.2	113.1	10.5	8.9
Noble Corp	13.7	18.9	9.5	6.8
Seadrill	12.7	11.8	10.3	6.5
Shelf Drilling	Na	14.3	3.1	2.3
Diamond Offshore	6.8	6.1	15.2	5.7

Forward EV/EBITDA	Last 4Q	2023F	2024F	2025F
Velesto Energy *	9.4	8.8	6.7	6.0
PV Drilling	12.5	10.0	7.6	5.8
Borr Drilling	7.4	9.2	6.2	5.2
COSL **	9.9	8.1	7.4	6.9
Noble Corp	7.	8.9	5.8	4.6
Seadrill	6.5	6.9	5.9	4.4
Shelf Drilling	9.9	6.4	4.5	3.8
Diamond Offshore	19.4	15.3	6.4	4.0

* Velesto's data is based on consensus forecast;

** COSL=China Oilfield Services Limited

Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	581	830	1,063	973
EBITDA	107	291	441	318
Deprec. & amort.	162	179	184	187
EBIT	(54)	111	257	132
Associate contributions	0	0	0	0
Net interest income/(expense)	(27)	(23)	(25)	(22)
Pre-tax profit	(81)	91	233	110
Tax	(19)	(20)	(40)	(20)
Minorities	0	0	0	0
Net profit	(100)	71	193	90
Net profit (adj.)	(63)	68	193	90

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	2,423	2,146	2,012	2,025
Other LT assets	9	9	10	10
Cash/ST investment	120	116	331	590
Other current assets	546	898	1,139	1,061
Total assets	3,098	3,169	3,492	3,686
ST debt	255	183	183	183
Other current liabilities	251	344	439	403
LT debt	306	285	320	460
Other LT liabilities	4	4	4	4
Shareholders' equity	2,282	2,353	2,546	2,636
Minority interest	0	0	0	0
Total liabilities & equity	3,098	3,169	3,492	3,686

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	(25)	21	231	318
Pre-tax profit	(81)	91	233	110
Tax	(19)	(20)	(40)	(20)
Deprec. & amort.	162	179	184	187
Associates	0	0	0	0
Working capital changes	(81)	(226)	(141)	55
Other operating cashflows	(6)	(4)	(5)	(14)
Investing	(103)	(50)	(50)	(200)
Capex (growth)	(153)	(50)	(50)	(200)
Investments	58	58	58	58
Proceeds from sale of assets	3	0	0	0
Others	(12)	(58)	(58)	(58)
Financing	(56)	35	35	140
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	0	35	35	140
Loan repayment	(52)	0	0	0
Others/interest paid	(4)	0	0	0
Net cash inflow (outflow)	(184)	6	216	258
Beginning cash & cash equivalent	293	109	116	331
Changes due to forex impact	11	0	0	0
Ending cash & cash equivalent	120	116	331	590

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	18.5	35.0	41.5	32.7
Pre-tax margin	(14.0)	11.0	21.9	11.3
Net margin	(17.2)	8.6	18.1	9.3
ROA	n.a.	2.3	5.8	2.5
ROE	n.a.	3.1	7.9	3.5
Growth				
Turnover	53.9	43.0	28.0	(8.5)
EBITDA	29.1	170.8	51.9	(27.9)
Pre-tax profit	n.a.	n.a.	154.8	(52.7)
Net profit	n.a.	n.a.	170.1	(53.2)
Net profit (adj.)	n.a.	n.a.	183.2	(53.2)
EPS	n.a.	n.a.	183.2	(53.2)
Leverage				
Debt to total capital	19.7	16.6	16.5	19.6
Debt to equity	24.6	19.9	19.8	24.4
Net debt/(cash) to equity	19.3	15.0	6.7	2.0
Interest cover (x)	3.9	12.4	17.9	14.7

COMPANY RESULTS

Far East Hospitality Trust (FEHT SP)

3Q23: Rising RevPAR And Profitability Driven By Surge In Visitor Arrivals

RevPAR increased 44% yoy and 14% qoq to S\$131 for its nine hotels. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23. The incentive fee of S\$18m will be utilised to cushion the negative impact of higher interest rates. FEHT provides a 2024 distribution yield of 7.6%. Its P/NAV of 0.63x is unwarranted given its good corporate governance, strong sponsor and low aggregate leverage of 32.2%. Maintain BUY. Target price: S\$0.76.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	yoy % chg	Remarks
Gross Revenue	30.2	+42.5	Hotels RevPAR: +44% yoy to S\$150 in 3Q23.
- Hotels	23.3	+56.3	Serviced Residences: RevPAR: +12% yoy to S\$239 in 3Q23.
- Serviced Residence	2.9	+14.4	On a same-store-basis, Serviced Residence and Commercial
- Commercial Premises	3.9	+6.5	Premises have grown 18.9% and 15.5% yoy respectively.
Net Property Income (NPI)	28.1	+42.4	
Distributable Income	22.9	+51.0	Indicative 3Q23 DPU is 1.12 S cents.

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported 3Q23 distributable income of S\$22.9m (+51% yoy), which is above our expectations due to higher RevPAR for both hotels and serviced residences.
- Hotels: Steep sequential recovery.** RevPAR for hotels increased 43.6% yoy to S\$150 in 3Q23, returning to pre-pandemic levels. Occupancy improved 10.6ppt yoy to 86.7% while average daily rate (ADR) increased 26.0% yoy to S\$173 driven by a recovery in visitor arrivals. Rendezvous Hotel Singapore and Village Hotel Albert Court, which were released from government contracts in mid-March, ramped up rapidly. One hotel remains under government contract. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23. Revenue for hotels increased 56.3% yoy (Elizabeth Hotel was undergoing renovation in 3Q22).
- Serviced residences: Steady and consistent contributor.** RevPAR for serviced residences increased 12.2% yoy to S\$239 in 3Q23, which is 31% above pre-pandemic levels. The resilient performance was driven by a 14.4% yoy growth in ADR. FEHT continues to benefit from new bookings secured at higher rates. On a same-store basis, revenue for serviced residences increased 18.9% yoy if we exclude contributions from Village Residence Clark Quay (divestment completed on 24 Mar 22).

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	83	84	109	115	115
EBITDA	65	67	87	92	92
Operating profit	65	67	87	92	92
Net profit (rep./act.)	131	204	83	67	65
Net profit (adj.)	41	50	83	67	65
EPU (S\$ cent)	2.1	2.5	4.2	3.3	3.2
DPU (S\$ cent)	2.6	3.3	4.1	4.3	3.9
PE (x)	27.1	22.7	13.7	17.1	17.6
P/B (x)	0.7	0.6	0.6	0.6	0.6
DPU Yld (%)	4.6	5.7	7.2	7.6	6.9
Net margin (%)	157.4	243.8	76.1	58.1	56.9
Net debt/(cash) to equity (%)	56.8	38.2	38.0	38.7	39.5
Interest cover (x)	3.3	4.0	3.6	3.3	3.1
ROE (%)	8.2	11.8	4.6	3.7	3.6
Consensus DPU (S\$ cent)	n.a.	n.a.	3.8	4.2	4.3
UOBKH/Consensus (x)	-	-	1.08	1.03	0.92

Source: Far East Hospitality Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.57
Target Price	S\$0.76
Upside	+33.3%
(Previous TP)	S\$0.710)

COMPANY DESCRIPTION

FEHT is a Singapore-focused hotel and serviced residences hospitality trust. It has a portfolio of 12 hospitality properties, comprising nine hotels and three serviced residences with 3,015 rooms.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	FEHT SP
Shares issued (m):	2,000.0
Market cap (S\$m):	1,130.0
Market cap (US\$m):	827.1
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

52-week high/low S\$0.675/S\$0.53

1mth	3mth	6mth	1yr	YTD
(11.0)	(13.7)	(7.4)	5.6	(8.9)

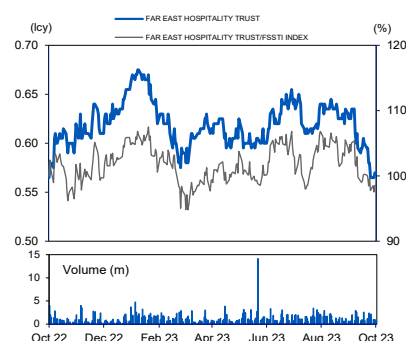
Major Shareholders

	%
Golden Development	22.5
Far East Organization	16.0
Golden Landmark	9.6

FY23 NAV/Share (S\$) 0.91

FY23 Net Debt/Share (S\$) 0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Collected additional incentive fee of S\$18m.** FEHT has received additional payment of S\$18m from the divestment of Central Square in 2Q23 after the buyer obtained provisional permission for redevelopment from the Urban Redevelopment Authority. Management intends to utilise the incentive fee of S\$18m received in Mar 23 to cushion the negative impact from higher interest rates.

- **Working on early refinancing.** Aggregate leverage remained low at 32.2% as of Sep 23. Average cost of debt was unchanged at 3.2%. Interest coverage ratio is healthy at 3.7x. FEHT is in the advanced stage of negotiation to refinance borrowings of S\$125m that mature in 2024 (17% of total borrowings). Management expects average cost of debt to hit 3.5% by end-23.

STOCK IMPACT

- **Benefitting from rising visitor arrivals.** Visitor arrivals increased 44.6% yoy to 1.1m in Sep 23, representing 77% of pre-pandemic levels. Chinese tourists grew 9x yoy to 135,677 in Sep 23, reaching 55% of pre-pandemic levels. China has regained its stature as the largest source market for Singapore in 3Q23. There is room for further recovery as Chinese tourists accounted for a smaller 9.9% of total visitor arrivals during 9M23 compared with 19.0% in 2019. The volume of Chinese guests is expected to increase during the National Day Golden Week in Oct 23, which coincides with the Mid-Autumn Festival.

- **Exploring expansion overseas.** FEHT intends to diversify into gateway cities in developed markets. It is scouting for opportunities to invest in limited-service, midscale and upscale hotels, where yields are higher. Potential acquisitions are likely to be fully debt funded. Management aims for a balanced mix of 80:20 between properties in Singapore and overseas over the longer term.

- **Trading at steep 37% discount against NAV.** FEHT trades at a P/B of 0.63x, the lowest in our universe of hospitality REITs. The discount is unwarranted given FEHT's good corporate governance, a strong sponsor in Far East Organization (FEO), and low aggregate leverage of 32.2% as of Sep 23.

EARNINGS REVISION/RISK

- We raise our DPU forecasts by 9% 2023 and by 8% for 2024 after factoring in the strong 3Q23 results and additional capital distribution of S\$0.5m in 2H23 and S\$3.0m in 2024.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$0.76 is based on DDM (cost of equity: 7.75%, terminal growth: 2.8%).

SHARE PRICE CATALYST

- Downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.
- Recovery in occupancy, ADR and RevPAR in 2023 and 2024.
- Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.

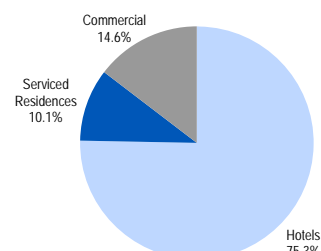
KEY OPERATING METRICS – FEHT

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	1.73	n.a.	1.92	n.a.	n.a.	n.a.
Aggregate Leverage	33.5%	32.0%	32.0%	32.0%	32.2%	-1.3ppt	0.2ppt
Average Cost of Debt	2.0%	2.1%	3.2%	3.2%	3.2%	1.2ppt	0ppt
Weighted Debt Maturity (years)	2.6	3.1	3.7	3.5	3.2	0.6yrs	-0.3yrs
% Borrowings in Fixed Rate	60.9%	54.1%	47.3%	47.2%	40.6%	-20.3ppt	-6.6ppt

* hoh % chg for DPU

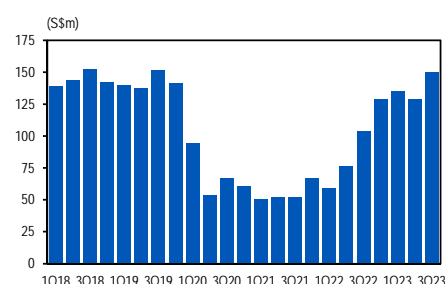
Source: FEHT, UOB Kay Hian

BREAKDOWN OF GROSS REVENUE (9M23)



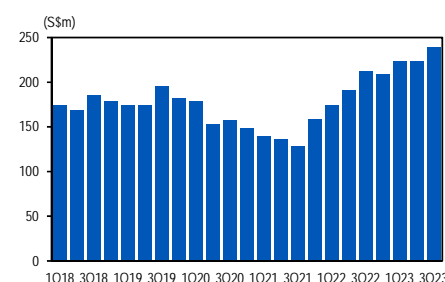
Source: FEHT

REVPAR – HOTELS



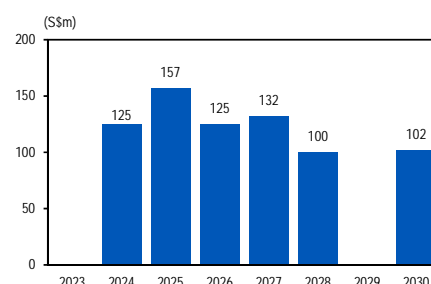
Source: FEHT

REVPAR – SERVICED RESIDENCES



Source: FEHT

DEBT MATURITY PROFILE



Source: FEHT

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	83.6	109.1	115.0	115.0
EBITDA	66.5	87.0	92.5	92.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	66.5	87.0	92.5	92.5
Associate contributions	0.0	2.0	2.4	2.4
Net interest income/(expense)	(16.8)	(24.0)	(28.1)	(29.4)
Pre-tax profit	203.9	83.0	66.8	65.5
Tax	(0.1)	0.0	0.0	0.0
Net profit	203.8	83.0	66.8	65.5
Net profit (adj.)	49.6	83.0	66.8	65.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	71.9	103.5	98.3	97.3
Pre-tax profit	203.8	83.0	66.8	65.5
Associates	0.0	(2.0)	(2.4)	(2.4)
Working capital changes	(3.1)	(2.4)	0.4	(0.4)
Non-cash items	(145.7)	8.9	8.9	8.9
Other operating cashflows	16.9	15.9	24.6	25.7
Investing	255.5	(4.0)	(4.0)	(4.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(7.2)	(4.0)	(4.0)	(4.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	263.7	0.0	0.0	0.0
Others	(1.0)	0.0	0.0	0.0
Financing	(289.3)	(96.0)	(94.6)	(92.8)
Distribution to unitholders	(60.8)	(73.4)	(75.8)	(74.6)
Issue of shares	0.0	0.0	0.0	1.0
Proceeds from borrowings	150.0	2.2	10.0	10.0
Loan repayment	(360.0)	0.0	0.0	0.0
Others/interest paid	(18.5)	(24.8)	(28.9)	(29.2)
Net cash inflow (outflow)	38.1	3.5	(0.3)	0.4
Beginning cash & cash equivalent	11.7	49.8	53.3	52.9
Ending cash & cash equivalent	49.8	53.3	52.9	53.3

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,446.8	2,446.8	2,446.8	2,446.8
Other LT assets	9.0	10.2	10.8	11.2
Cash/ST investment	49.8	53.3	52.9	53.3
Other current assets	49.6	61.5	62.5	62.5
Total assets	2,555.1	2,571.7	2,572.9	2,573.7
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	10.6	13.8	13.9	13.9
LT debt	737.8	740.0	750.0	760.0
Other LT liabilities	6.9	8.5	8.6	8.6
Shareholders' equity	1,799.8	1,809.4	1,800.4	1,791.2
Total liabilities & equity	2,555.1	2,571.7	2,572.9	2,573.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	79.6	79.8	80.4	80.4
Pre-tax margin	244.0	76.1	58.1	56.9
Net margin	243.8	76.1	58.1	56.9
ROA	7.8	3.2	2.6	2.5
ROE	11.8	4.6	3.7	3.6
Growth				
Turnover	0.4	30.5	5.4	0.0
EBITDA	2.8	30.7	6.3	0.0
Pre-tax profit	55.6	(59.3)	(19.6)	(2.0)
Net profit	55.5	(59.3)	(19.6)	(2.0)
Net profit (adj.)	20.4	67.4	(19.6)	(2.0)
EPU	19.5	66.1	(20.2)	(2.7)
Leverage				
Debt to total capital	29.1	29.0	29.4	29.8
Debt to equity	41.0	40.9	41.7	42.4
Net debt/(cash) to equity	38.2	38.0	38.7	39.5
Interest cover (x)	4.0	3.6	3.3	3.1

SECTOR UPDATE

Banking – Thailand

3Q23: Results Beat Expectations; Unexciting Earnings Outlook Ahead

Banks under our coverage recorded a combined net profit of Bt50b (+13% yoy, -3% qoq), surpassing our estimate by 8%. Strong NII growth was driven by expanded NIM. However, non-II weakened due to a sharp decline in investment gains. Going forward, we anticipate limited NIM expansion and a deterioration in asset quality. Despite the challenging earnings outlook, certain banks offer appealing valuations. We maintain MARKET WEIGHT on the sector. Our top picks are SCB and KKP.

WHAT'S NEW

- Results beat expectations due to strong NII growth; significantly offset by weak non-II.** In 3Q23, banks under our coverage reported a combined net profit of Bt50b, up 13% yoy but down 3% qoq, beating our estimates by 8%. Net interest income (NII) grew well (+20% yoy, +5% qoq), mainly driven by net interest margin (NIM), which expanded well by 39bp yoy and 11bp qoq. The policy rate hike was the key to supporting NIM expansion. Meanwhile, non-interest income (non-II) softened by 4% yoy and 12% qoq, primarily due to reduction of a net gain on financial instruments measured at fair value through profit or loss (FVTPL) of around 12% yoy and 59% qoq. As a result, non-II offset the spectacular results of NII in 3Q23.

Economic instability and rising interest rates undermining banks' asset quality. The uneven economic recovery and the burden of rising interest rates significantly impaired borrowers' capacity to meet their repayment commitments. This economic instability and financial strain have led to an increase in new NPL formation for the banking sector. The new NPL formation increased from 131bp in 2Q23 to 145bp in 3Q23. The Bangkok Bank (BBL) showed the most increase in new NPL formation, surging by 240bp qoq, followed by SCB X (SCB) with a 53bp qoq increase. Moreover, debt moratoriums such as the reduction in minimum payment for credit cards and relaxed classification of distressed loans are set to expire on 31 Dec 23. The end of these supportive initiatives will likely result in a further influx of non-performing loans, adding to the banks' deteriorated asset quality.

- NIM should peak in 4Q23.** In response to the recent policy rate increase of 25bp, all banks have promptly adjusted their floating interest rates in line with the change in Oct 23. In its official statement, the Bank of Thailand (BOT) implied that the current policy rate of 2.5% is now at a level deemed appropriate to bolster Thailand's long-term economic growth. As a result, the BOT will likely maintain the policy rate at this current level for an extended period unless there are significant alterations in fundamental economic factors. Therefore, the banks' NIM peak is likely to be in 4Q23. Following this, the funding costs are projected to gradually outpace the yield on earning assets.

ACTION

- Maintain MARKET WEIGHT.** The banking sector's earnings growth is becoming less exciting due to the end of the upward trend in interest rates. Additionally, there is a noticeable deterioration in asset quality, as evidenced by the rise in new NPL formation. However, amid these challenges, there are banks with attractive valuations. We recommend taking advantage of any weaknesses and our top picks are SCB and Kiatnakin Phatra Bank (KKP).

PEER COMPARISON

Company	Rec.	Last Price (Bt) 24 Oct	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit 2023F (Btm)	2024F (Bt m)	PE 2023F (x)	2024F (x)	Net EPS Growth 2023F (%)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
BBL TB	HOLD	161.50	164.00	1.5	8,556	40,778	41,621	7.6	7.4	39.1	0.6	3.3	7.8
KBANK TB	HOLD	130.50	145.00	11.1	8,582	41,131	43,514	7.5	7.1	15.0	0.6	2.9	7.9
KKP TB	BUY	49.00	69.00	40.8	1,152	6,269	6,953	6.6	6.0	(17.5)	0.7	5.6	10.5
KTB TB	HOLD	18.80	21.50	14.4	7,293	39,102	41,139	6.7	6.4	16.0	0.6	3.6	10.0
SCB TB	BUY	96.00	124.00	29.2	8,971	40,423	43,657	8.0	7.4	8.3	0.7	6.6	8.6
TISCO TB	HOLD	95.25	97.00	1.8	2,117	7,436	7,335	10.3	10.4	3.0	1.8	8.1	17.5
TTB TB	HOLD	1.67	1.72	3.0	4,501	17,944	19,023	9.0	8.5	26.4	0.7	3.2	8.0
Banking					41,171	193,083	203,242	7.7	7.3	16.7	0.7	4.3	9.0

Source: UOB Kay Hian

MARKET WEIGHT

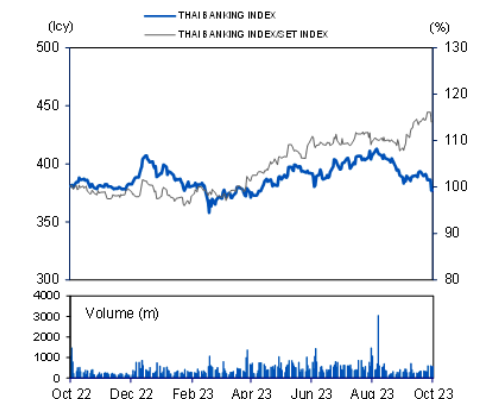
(Maintained)

OUR TOP PICK

Company	Ticker	Rec	Current Price (Bt) 24 Oct	Target Price (Bt)
SCB X	SCB	BUY	96.00	124.00
Kiatnakin Phatra Bank	KKP	BUY	49.00	69.00

Source: Respective companies, UOB Kay Hian

RETURN: BANK VS SET



Source: UOB Kay Hian

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ESSENTIALS

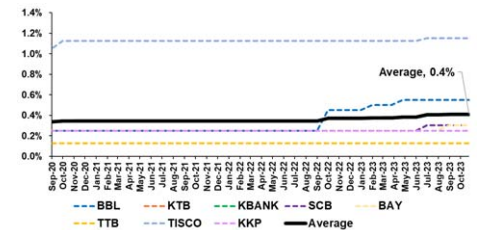
- BBL: Results beat; but record-high NPL formation raised concerns.** Bangkok Bank (BBL) reported better-than-expected 3Q23 results at Bt8.4b (+48% yoy, flat qoq). The results beat our and consensus estimates by 9% and 8% respectively, driven by higher NIM. However, loan growth fell short, non-II declined, and high NPL formation was recorded. We believe the stock is trading at its fair value.
- KBANK: Net profit exceeds expectations.** Kasikorn Bank (KBANK) posted a net profit of Bt11b, representing an increase of 7% yoy and 3% qoq. The results exceeded our and consensus' expectations by 10% and 7% respectively. The key contributor to KBANK's decent performance was the substantial growth in NII, although this was counterbalanced by weaker-than-expected investment returns due to the challenging market conditions during this period. Asset quality improved due to a clean-up program, although credit costs are expected to persist.
- KKP: Weak results as expected; negatives should have been priced in.** Kiatnakin Phatra Bank (KKP) posted a 3Q23 net profit of Bt1.3b (-39% yoy, -9% qoq). The results were in line with our expectations but lower than consensus' by 11%. The earnings drag came from a jump in provision expenses and weak non-II. On a positive note, despite hefty losses stemming from the sales of foreclosed assets, the bank's asset quality improved qoq. The stock has fallen 35.7% from its 52-week high, indicating that most negative factors have already been priced in. We maintain BUY on KKP.
- KTB: Decent results with well-controlled asset quality.** Krungthai Bank (KTB) reported a 3Q23 net profit at Bt10.3b (+22% yoy, +1% qoq), beating our estimates by 11% but in line with consensus estimates. The key drivers for 3Q23 earnings were mainly non-II, primarily in fee and service income. Meanwhile, KTB could control asset quality efficiently with a decline in the NPL ratio and a higher loan loss coverage ratio qoq. There is a probability that digital money will be distributed via another digital platform instead of Pao Tang. We believe KTB will have minimal negative sentiment as the market got wind of this news a while ago.
- SCB: Results missed expectations with asset quality deteriorating.** SCB X (SCB) reported 3Q23 net profit of Bt9.7b (-6% yoy, -19% qoq). The results were in line with our expectations but below consensus' by 9%. The key drag was softer non-II qoq with high credit cost. As of 9M23, credit cost was 189bp, exceeding the 2023 target of around 120-140bp. Management admits there is a high probability that credit cost will exceed the 2023 target. However, the company guided that credit costs peaked in 2Q23 at 201bp and NIM should peak in 4Q23. Its share price has reflected this concern with a 18% decline in the last two months. We maintain BUY on SCB.
- TISCO: Decent 3Q23 results; but multiple headwinds ahead.** TISCO Financial Group (TISCO) posted a decent net profit of Bt1,874m in 3Q23 (+6% yoy and +1% qoq). The results were 7% above our estimates but in line with consensus'. However, we lower our 2024-25 earnings projections by 9.4% and 15.2% respectively due to normalisation in funding and credit costs.
- TTB: Results beat; but limited upside.** TMB Thanachart Bank (TTB) performed well in 3Q23, with a net profit of Bt4.7b, up 28% yoy and 4% qoq. This exceeded both our and consensus estimates by 12% and 7% respectively. The decent 3Q23 results can be attributed to NIM expansion and good cost control. The stock's valuation is not cheap.

3Q23 RESULTS ACTUAL VS FORECAST

	3Q23 Net profit (Btm)			Actual vs Forecast	
	Actual	UOBKH	Consensus	UOBKH	Consensus
BBL	11,350	10,373	10,501	Above	Above
KBANK	11,282	10,217	10,580	Above	Above
KKP	1,281	1,229	1,435	In-line	Below
KTB	10,282	9,267	9,877	Above	In-line
SCB	9,663	9,467	10,568	In-line	Below
TISCO	1,874	1,752	1,825	Above	In-line
TTB	4,735	4,234	4,438	Above	Above
Total	50,467	46,539	49,224	Above	In-line

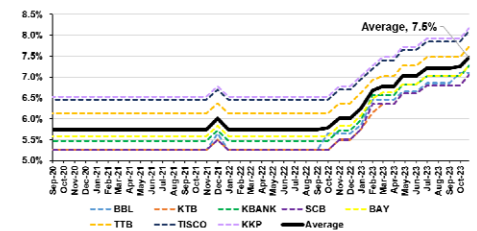
Source: Bloomberg, UOB Kay Hian

CASA INTEREST RATES



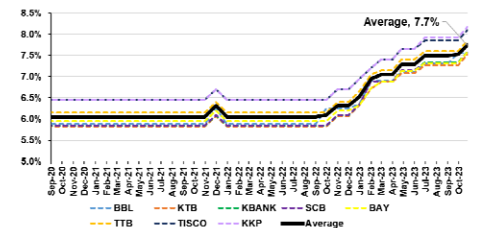
Source: BOT, UOB Kay Hian

MINIMUM LOAN RATES (MLR)



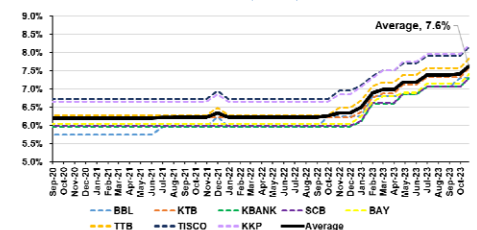
Source: BOT, UOB Kay Hian

MINIMUM OVERDRAFT RATES (MOR)



Source: BOT, UOB Kay Hian

MINIMUM RETAIL RATES (MRR)



Source: BOT, UOB Kay Hian

NEW NPL FORMATION

	2023	3Q23	Chg (bp) qoq
BBL	(47)	193	240
KBANK	300	80	(220)
KKP	251	159	(91)
KTB	123	84	(39)
SCB	168	221	53
TISCO	130	161	31
TTB	94	138	44
Average	131	145	14

Source: Respective companies, UOB Kay Hian

3Q23 RESULTS WRAP-UP

	3Q23	2Q23	3Q22	qoq (%)	yoy (%)	2023F	2022	yoy (%)
Net profit (Btm)								
BBL	11,350	11,294	7,657	0.5	48.2	40,778	29,306	39.1
KBANK	11,282	10,994	10,574	2.6	6.7	41,131	35,769	15.0
KKP	1,281	1,408	2,083	(9.1)	(38.5)	6,269	7,602	(17.5)
KTB	10,282	10,156	8,450	1.2	21.7	39,102	33,698	16.0
SCB	9,663	11,868	10,309	(18.6)	(6.3)	40,423	37,546	7.7
TISCO	1,874	1,854	1,771	1.1	5.8	7,436	7,222	3.0
TTB	4,735	4,566	3,715	3.7	27.5	17,944	14,195	26.4
Total	50,467	52,141	44,559	(3.2)	13.3	193,083	165,338	16.8
Pre-provision operating profit (Btm)								
BBL	23,365	22,333	19,701	4.6	18.6	84,313	69,876	20.7
KBANK	27,294	27,223	23,484	0.3	16.2	105,927	98,505	7.5
KKP	3,163	3,632	3,698	(12.9)	(14.5)	14,585	14,526	0.4
KTB	22,155	21,686	17,276	2.2	28.2	84,953	70,620	20.3
SCB	24,854	27,300	22,815	(9.0)	8.9	101,899	84,547	20.5
TISCO	2,478	2,366	2,323	4.8	6.7	9,779	9,711	0.7
TTB	10,222	9,897	8,902	3.3	14.8	39,369	35,900	9.7
Total	113,532	114,437	98,197	(0.8)	15.6	440,826	383,685	14.9
Total loans (Btb)								
BBL	2,734	2,710	2,806	0.9	(2.6)	2,619	2,693	(2.7)
KBANK	2,452	2,465	2,480	(0.5)	(1.1)	2,478	2,511	(1.3)
KKP	408	406	370	0.4	10.2	430	384	11.9
KTB	2,652	2,596	2,634	2.1	0.7	2,630	2,618	0.4
SCB	2,478	2,446	2,365	1.3	4.8	2,545	2,397	6.2
TISCO	232	230	213	0.6	8.7	234	219	7.0
TTB	1,371	1,372	1,401	(0.1)	(2.2)	1,371	1,384	(0.9)
Total	12,327	12,226	12,271	0.8	0.5	12,306	12,206	0.8
NIM (%)								
BBL	3.1	2.9	2.5	23bp	62bp	2.9	2.4	52bp
KBANK	3.9	3.8	3.5	10bp	45bp	3.7	3.4	32bp
KKP	4.4	4.6	4.3	-20bp	4bp	4.5	4.5	0bp
KTB	3.4	3.2	2.6	21bp	77bp	3.3	2.6	64bp
SCB	3.8	3.8	3.4	6bp	39bp	3.7	3.4	31bp
TISCO	5.2	5.0	5.2	19bp	5bp	5.1	5.0	1bp
TTB	3.3	3.2	2.9	19bp	42bp	3.2	2.9	26bp
Average	3.9	3.8	3.5	11bp	39bp	3.8	3.5	29bp
Credit cost (bp)								
BBL	132	133	145	-1bp	-13bp	124	123	0bp
KBANK	208	207	160	1bp	49bp	207	210	-3bp
KKP	165	188	122	-23bp	43bp	166	144	22bp
KTB	124	119	86	5bp	39bp	121	92	29bp
SCB	199	199	131	0bp	68bp	201	144	58bp
TISCO	25	11	23	14bp	3bp	23	34	-11bp
TTB	127	124	125	3bp	2bp	123	133	-10bp
Average	140	140	113	0bp	27bp	138	126	12bp

Source: Respective companies, UOB Kay Hian

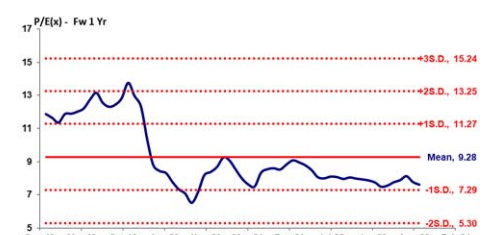
EARNINGS REVISION

- No earnings revision.

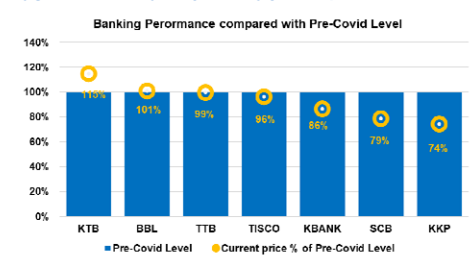
SECTOR P/B BAND



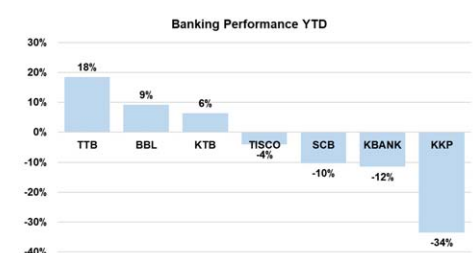
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CURRENT PRICE VS PRE-COVID-19



BANKING PERFORMANCE YTD



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