

WHAT HAPPENED LAST NIGHT

US stocks were higher on Monday, as gains in the energy, industrials and real estate sectors led shares higher. At the close of the NYSE, the DJIA gained 0.59% while the S&P 500 index rose 0.63%, and the NASDAQ Composite index advanced 0.39%. Advancing stocks outnumbered falling ones on the NYSE by 1,962 to 912 and 81 ended unchanged; on the Nasdaq Stock Exchange, 2,176 declined and 2,051 advanced, while 193 ended unchanged. (Source: WSJ, Bloomberg)

WHAT'S IN THE PACK

China/HK Sector Update:

Commodities - Weekly: Israel-Hamas conflict boosts safe-haven appeal.

The Israel-Hamas conflict has boosted the appeal of safe-haven assets. Gold has pared some losses in the past few weeks amid a hawkish Fed. US' Aug 23 nonfarm payroll came in well above expectations at +336,000...

Property - Preview of the 2023 Policy Address: Assessing the impact of easing measures on the property industry.

With Paul Chan softening his tone, when/how to ease cooling measures on non-PR buyers again becomes a market focus. We expect the government to marginally relax BSD/NRSD rules in the 2023 Policy Address...

Singapore Company Update:

Frencken Group - Expect 2024 to be a recovery year; maintain BUY with a 23% higher target price.

(FRKN SP/BUY/\$\$1.05/Target: S\$1.23)

Frencken's semiconductor segment is expected to recover in 2024, backed by an improvement in semiconductor fab equipment spending and the recent increase in revenue guidance by its key customers. Frencken's earnings...

Singapore Technical Analysis:

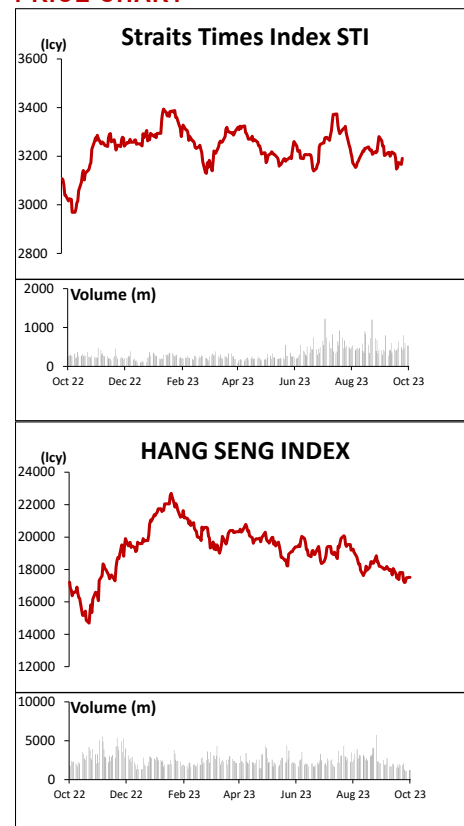
SIA Engineering Co (SIE SP) - Trading BUY

Price broke and closed above the cloud, turning the chart outlook to bullish. The conversion and base lines remain in a bullish crossover...

Singapore Post (SPOST SP) - Trading BUY

Price is trading inside the cloud, keeping the uptrend intact. There is a bearish conversion and base lines crossover. The MACD remains bullish and a bullish crossover could be likely...

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	33604.7	(2.8)	1.4
S&P 500	4335.7	(2.7)	12.9
FTSE 100	7492.2	0.2	0.5
AS30	7157.0	(2.7)	(0.9)
CSI 300	3684.7	(1.5)	(4.8)
FSSTI	3166.5	(1.3)	(2.6)
HSCEI	5998.3	(5.0)	(10.5)
HSI	17517.4	(3.8)	(11.4)
JCI	6891.5	(0.5)	0.6
KLCI	1417.3	(2.6)	(5.2)
KOSPI	2408.7	(5.5)	7.7
Nikkei 225	30994.7	(4.9)	18.8
SET	1431.7	(7.5)	(14.2)
TWSE	16520.6	(0.3)	16.9
BDI	1991	67.9	31.4
CPO (RM/mt)	3570	(6.2)	(11.8)
Brent Crude (US\$/bbl)	88	(2.8)	2.6

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YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 7.88pt lower to 3,166.51. Among the top active stocks were Thai Beverage (-0.9%), Genting Singapore (+0.6%), Seatrium (+1.6%), Singapore Airlines (-2.3%) and Rex International (+4.0%). The FTSE ST Mid Cap Index fell 0.1%, while the FTSE ST Small Cap Index was down 0.7%. The broader market saw 277 gainers and 279 losers with total trading value of S\$508.9m.

SINGAPORE

TOP TRADING TURNOVER

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
DBS Group Holdings	33.58	(0.6)	94.2
United Overseas Bank	28.27	0.0	54.6
Oversea-Chinese Banking Corp	12.88	0.2	52.4
Seatrium Singapore	0.13	1.6	44.2
Telecommunications	2.38	0.0	38.5

TOP GAINERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
ESR-LOGOS REIT	0.28	1.9	3.3
Seatrium	0.13	1.6	44.2
Frasers Centrepoint Trust	2.09	1.5	6.8
NetLink NBN Trust	0.86	1.2	3.6
Digital Core REIT Management	0.51	1.0	1.0

TOP LOSERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Sembcorp Industries	4.83	(2.6)	29.2
Mandarin Oriental	1.60	(2.4)	0.1
Singapore Land Group	2.00	(2.4)	0.0
Singapore Airlines	6.40	(2.3)	34.1
Cromwell REIT SGD	1.80	(2.2)	0.0

HONG KONG

TOP TRADING TURNOVER

Stock	Price (HK\$)	Chg (%)	5-day ADT ('000)
Bank Of China	2.73	0.0	240,877
Country Garden Holdings	0.84	(6.7)	139,219
China Construction Bank	4.37	0.2	109,900
Petrochina Co	5.64	2.5	109,543
China Petroleum & Chemical	4.12	1.5	95,703

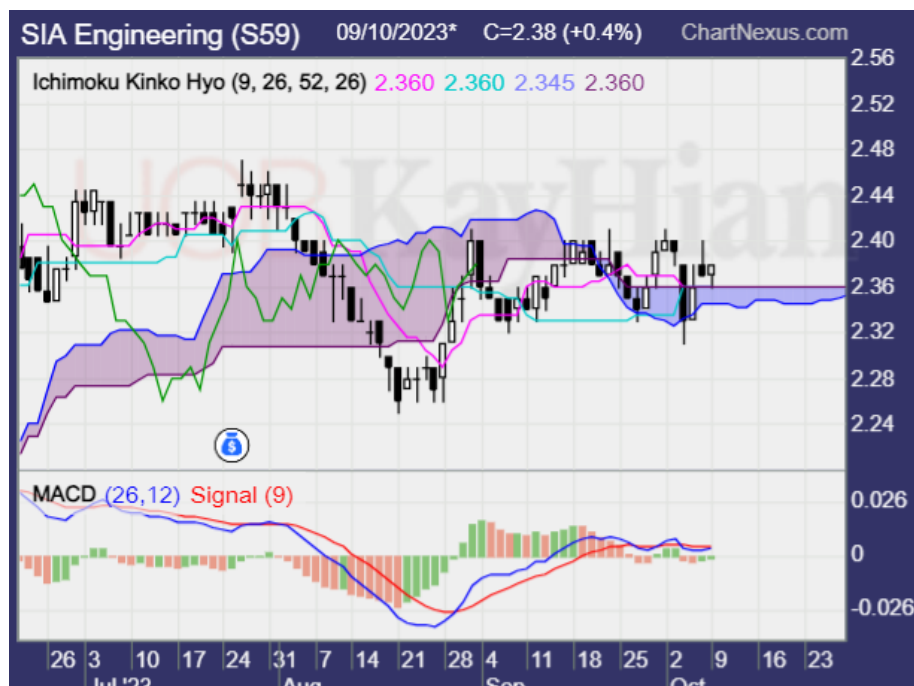
TOP GAINERS

Stock	Price (HK\$)	Chg (%)	5-day ADT ('000)
Yankuang Energy Group	15.00	6.2	18,956
China Coal Energy Co	6.06	4.1	7,429
Zijin Mining Group Co	11.80	3.7	19,226
Bank Of Communications	4.72	3.1	31,744
Wuxi Biologics Cayman Inc	44.90	2.7	11,715

TOP LOSERS

Stock	Price (HK\$)	Chg (%)	5-day ADT ('000)
Country Garden Holdings	0.84	(6.7)	139,219
China Southern Airlines	3.75	(3.6)	3,325
PICC Property & Casualty	9.80	(3.4)	26,183
Zhongsheng Group Holdings	19.92	(2.8)	1,878
China Railway Group	3.86	(2.8)	9,773

SINGAPORE TRADERS' CORNER



SIA Engineering Co (SIE SP)

Trading Buy Range: S\$2.36-2.37

Last price: S\$2.38

Target price: S\$2.51

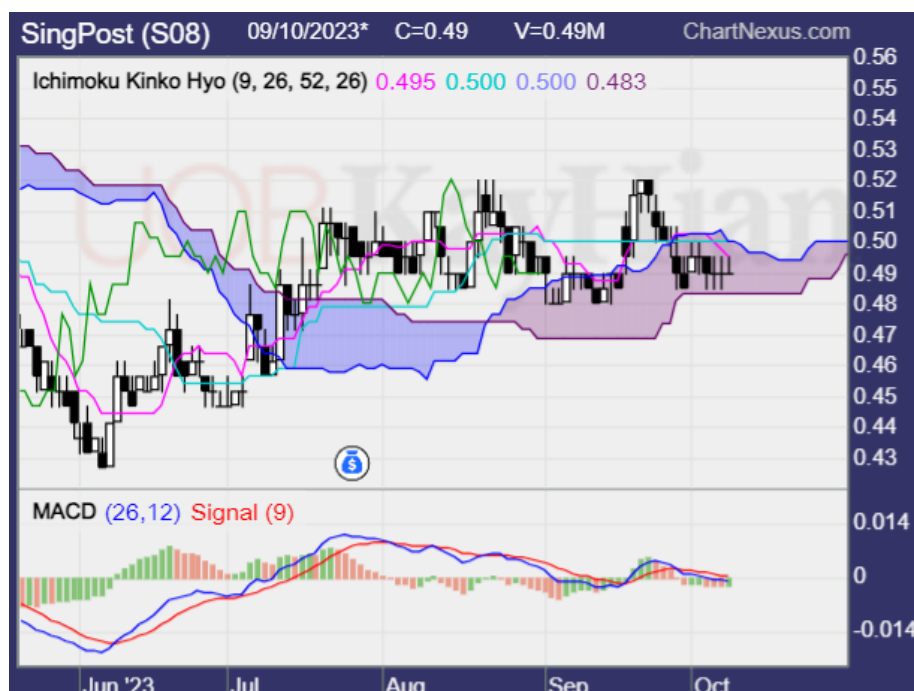
Protective stop: S\$2.30

Price broke and closed above the cloud, turning the chart outlook to bullish. The conversion and base lines remain in a bullish crossover. The MACD is still bullish, and a bullish crossover is likely. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$2.51. Stops could be placed at S\$2.30.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S\$2.67.



Singapore Post (SPOST SP)

Trading Buy Range: S\$0.490-0.495

Last price: S\$0.490

Target price: S\$0.560

Protective stop: S\$0.470

Price is trading inside the cloud, keeping the uptrend intact. There is a bearish conversion and base lines crossover. The MACD remains bullish, and a bullish crossover could be likely. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$0.56. Stops could be placed at S\$0.47.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental HOLD and target price of S\$0.52.

ANALYST

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FROM THE REGIONAL MORNING NOTES...

Frencken Group (FRKN SP)

Expect 2024 To Be A Recovery Year; Maintain BUY With A 23% Higher Target Price

Frencken's semiconductor segment is expected to recover in 2024, backed by an improvement in semiconductor fab equipment spending and the recent increase in revenue guidance by its key customers. Frencken's earnings appear to have bottomed in 1H23, based on its latest guidance of a stable 2H23 vs 1H23, with only one out of five segments expected to show a revenue decline. We raise our target price by 23% to \$51.23 after raising our 2024 earnings forecast. Maintain BUY.

WHAT'S NEW

- **Largest semiconductor segment expected to recover in 2024.** Frencken Group's (Frencken) biggest segment, which contributed around 40% of 2022 earnings, is expected to perform better hoh from 2H23 onwards, based on Frencken's latest revenue guidance. Also, Frencken's two largest semiconductor customers have raised their revenue guidance in their latest results. ASML has raised its 2023 yoy revenue growth guidance from 25% to 30% in its 2Q23 results and expects 3Q23 revenue of €6.8b (+0% qoq/+17% yoy). ASML highlighted that the overall demand for its systems continues to be strong, resulting in record bookings in 3Q23 of around €8.9b. On the other hand, Applied Materials (AMAT) reported earnings that beat analyst estimates in Aug 23, and also guided for earnings in the coming quarter to be around 10% above analyst estimates. This was mainly due to improving demand from AI-related chips and rising orders from customers in China who are looking to increase purchases of equipment that are capable of older manufacturing processes.
- **SEMI expects global fab equipment spending to recover in 2023.** In the 12 Sep 23 quarterly World Fab Forecast Report by Semiconductor Equipment and Materials International (SEMI), global fab equipment spending for front-end facilities in 2023 is expected to decline 15% yoy before rebounding 15% yoy in 2024. Next year's fab equipment spending recovery will be partly driven by the end of the semiconductor inventory correction in 2023 and strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments. The trend suggests that the semiconductor industry is turning the corner and on a path back to growth.
- **Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23 and there is potential for more new business in Asia.** Frencken expects to post stable revenue in 2H23 vs 1H23. The company's outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, Frencken is seeing more new business opportunities in Asia than in Europe, especially in Malaysia.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	792	828
EBITDA	87	82	54	75	80
Operating profit	64	54	24	44	48
Net profit (rep./act.)	59	52	26	42	46
Net profit (adj.)	59	52	26	42	46
EPS (\$ cents)	13.8	12.1	6.0	9.7	10.7
PE (x)	7.6	8.6	17.5	10.8	9.8
P/B (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.1	4.4	6.6	4.8	4.5
Dividend yield (%)	3.9	3.5	1.7	2.8	3.1
Net margin (%)	7.7	6.6	3.5	5.2	5.5
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	62.2	22.8	16.2	20.7	21.2
ROE (%)	16.5	13.5	6.5	9.9	10.1
Consensus net profit	-	-	25	39	49
UOBKH/Consensus (x)	-	-	1.02	1.06	0.94

Source: Frencken, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Long-term growth supported by diversified segments and new programmes.** Frencken has built long-term customer relationships with multinational companies that are leaders in their own fields. Backed by its diverse exposure to multiple market segments in the high technology industry and the strength of its balance sheet, Frencken is confident of weathering the current headwinds and will continue to focus on investments in programmes for existing and new customers. This will ensure that it is well-positioned to capitalise on a recovery in the global economy and technology sector. Frencken has continued strong new product introduction (NPI) and first article (FA) engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

EARNINGS REVISION/RISK

- We raised our 2024/2025 earnings forecasts by 17%/8% after increasing our revenue estimates by 5% to account for improved revenue outlook by Frencken's key customers. We also raised our gross margin assumptions by 0.5%/0.1% to account for better operating leverage from higher revenue.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 23% higher target price of S\$1.23**, pegged to 12.6x 2024F PE, based on 1SD above mean PE. The +1 SD in our PE multiple peg is to capture Frencken's earnings cycle, which is approaching a trough, and improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencken has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

SHARE PRICE CATALYST

- Higher-than-expected factory utilisation rates and better cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 9 Oct 23 (TC)	Market Cap (USD)	PE 2023F (x)	2024F (x)	PB 2023F (x)	2024F (x)	EV/EBITDA 2023F (%)	2024F (x)	ROE 2023F (%)	Yield 2023F (%)
Frencken	FRKN SP	SGD	1.05	328	17.5	10.8	1.1	1.0	6.6	4.8	6.5	1.7
SGX-listed peers												
Venture	VMS SP	SGD	12.34	2,621	12.8	12.3	1.2	1.2	7.5	7.2	9.8	6.1
AEM	AEM SP	SGD	3.37	760	n.a.	11.8	2.1	1.9	44.9	8.8	0.2	0.0
UMS	UMSH SP	SGD	1.29	632	14.4	11.2	2.4	2.1	9.4	7.5	17.0	4.2
Average					13.6	11.8	1.9	1.7	20.6	7.8	9.0	3.4
Semiconductor (39% of Frencken's 2022 sales)												
Asml Hol	ASML NA	EUR	559.7	237,934	28.8	26.1	19.2	16.5	23.5	21.1	73.1	1.2
Intel Corp	INTC US	USD	36.19	151,564	64.5	21.0	1.5	1.4	17.5	10.8	2.1	2.1
Kulicke & Soffa	KLIC US	USD	47.31	2,672	27.3	23.6	n.a.	n.a.	17.7	13.2	8.6	n.a.
Benchmark Elec	BHE US	USD	24.14	861	12.0	10.1	0.8	0.8	n.a.	n.a.	6.9	2.7
Average					33.2	20.2	7.1	6.2	19.6	15.0	22.7	2.0
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	66.05	13,698	n.a.	98.9	n.a.	n.a.	97.6	20.2	n.a.	4.2
Western Digital	WDC US	USD	46.4	15,040	n.a.	n.a.	1.4	1.5	n.a.	n.a.	(15.0)	0.0
Average					n.a.	98.9	1.4	1.5	97.6	20.2	(15.0)	2.1
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	498.55	192,415	22.3	20.3	4.1	3.8	20.0	18.4	18.2	0.3
Oxford Instruments	OXIG LN	GBP	1980	1,395	18.0	17.4	0.0	0.0	n.a.	n.a.	17.2	1.0
Koninklijke Philips	PHIA NA	EUR	17.626	17,260	15.5	12.7	1.3	1.3	8.5	7.8	4.3	4.8
Siemens Healthineers	SHL GR	EUR	47.22	56,167	23.6	20.7	2.7	2.5	17.0	14.5	10.8	1.8
Average					19.8	17.8	2.0	1.9	15.2	13.6	12.6	2.0
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	14.63	3,757	10.7	6.0	0.9	0.8	3.3	2.9	9.2	3.3
Visteon	VC US	USD	132.77	3,744	20.0	13.9	5.0	4.0	9.0	7.4	25.4	0.0
Thyssenkrupp	TKA GR	EUR	6.584	4,322	26.0	8.8	0.3	0.3	1.0	0.9	1.1	2.6
Bosch	BOS IN	INR	19215.75	6,808	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4
Denso	6902 JP	JPY	2303.5	48,683	14.2	12.9	1.5	1.4	7.5	6.9	10.7	2.2
Johnson Contr	JCI US	USD	52.35	35,615	14.9	13.2	2.1	2.0	11.3	10.5	14.0	2.8
Average					17.2	11.0	2.0	1.7	6.4	5.7	12.1	2.0

Source: Bloomberg, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Commodities – China

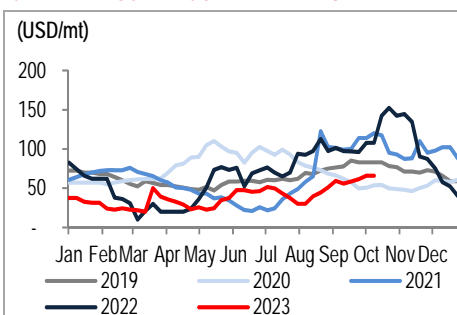
Weekly: Israel-Hamas Conflict Boosts Safe-Haven Appeal

The Israel-Hamas conflict has boosted the appeal of safe-haven assets. Gold has pared some losses in the past few weeks amid a hawkish Fed. US' Aug 23 nonfarm payroll came in well above expectations at +336,000. However, the weaker-than-expected wage growth of 0.2% mom could be a signal of decelerating inflation. Steel inventory was +6.7% wow and ended its seven consecutive weeks of downtrend. Steel's apparent consumption and cement shipment was -15.2%/-8.6% wow during Golden Week holidays.

• **Base metals (maintain MARKET WEIGHT):** The Israel-Hamas conflict boosts the appeal of safe-haven assets.

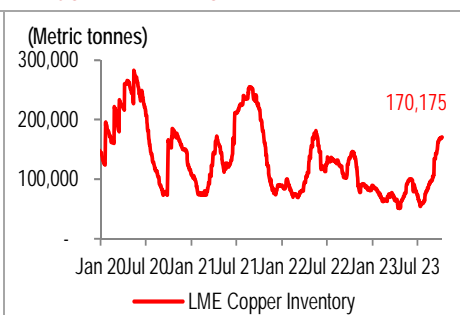
- The attack on Israel is expected to continue to boost the appeal of safe-haven assets like gold and the US dollar. Spot gold prices have rallied over 1% on 10 September, paring some losses in the past few weeks given the rising treasury yield and strengthening USD.
- US' nonfarm payrolls released on 6 October came in well above expectations at +336,000 (consensus: +170,000) while Aug 23's reading was also revised up to +227,000 from +178,000, bolstering bets for another rate hike in 2023. However: a) US' Aug 23 wage growth remained moderate at 0.2% mom (consensus: 0.3% mom), which could be a signal of decelerating inflation; and b) unemployment rate also came in above expectations at 3.80% (consensus: 3.70%).
- COMEX gold/LME copper three-month futures closed -1.0%/-2.7% wow at US\$1,830 per t oz/US\$8,046 per mt as at end last week. The US dollar index has reversed down by 0.1% wow to 106.04 while 10-year treasury yield further climbed to 4.78%.
- According to CME FedWatch Tool, market is still pricing in 72.9% odds of the Fed maintaining interest rate at 5.25-5.50% on 1 Nov 23, and is expecting a first rate cut in Jun 24 with a 61.01% probability.
- The focus this week will be on the: a) US' Sep 23 CPI data releasing on 12 October (consensus: +3.6% yoy/+0.30% mom), and b) FOMC meeting minutes on the same day.

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 9 Oct 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	2024F (x)	P/B 2023F (x)	2024F (x)	EV/EBITDA 2023F (x)	2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	19.88	28.30	42.4	135,865.6	8.3	7.6	0.5	0.5	8.0	7.2	6.4
Baosteel	600019 CH	BUY	6.14	7.10	15.6	136,689.9	13.2	9.8	0.7	0.6	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	1.94	3.10	59.8	13,546.9	7.2	5.6	0.3	0.3	6.6	5.4	3.8
Zijin Mining	2899 HK	BUY	11.80	15.00	27.1	337,519.8	12.5	10.6	2.7	2.3	10.3	9.1	23.7

Source: Bloomberg, UOB Kay Hian

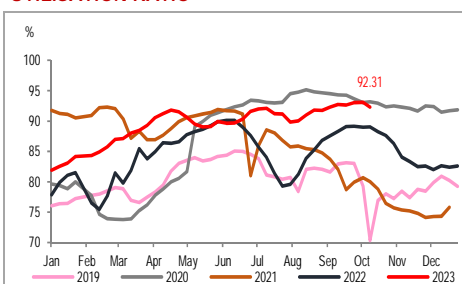
- **Steel (maintain UNDERWEIGHT):** Weak Golden Week home sales data dragged on sentiment.

- **Iron ore prices corrected on moderating demand outlook.** SGX iron ore futures continued declining, - 5.1% w/w to US\$112.25 per mt on 10 September, the lowest in a month. Sentiment was dragged by the data released by China Index Academy, whereby 35-city home sales during the Golden Week holiday (29 September-6 October) were down by close to 20% yoy. Iron ore's demand outlook for the rest of 2023 would hinge on China's potential crude steel output cap.

- **CMRG in talks with miners over 2024 iron ore supply.** China Mineral Resources Group (CMRG), the central procurement agency established in Jul 22, was reported to be in talks with Rio Tinto Group and other leading miners regarding 2024's iron ore supply. CMRG and major miners were said to be in discussion on preferential terms on transport, grades and delivery arrangements.

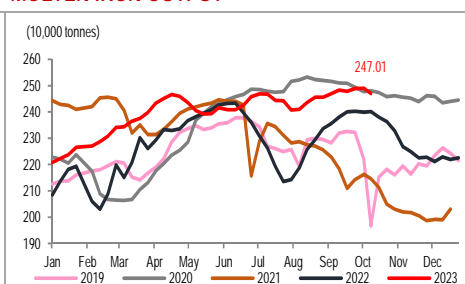
- It was also reported that large steel mills, like Baowu Steel and Ansteel Group, have now delegated all their iron ore term purchases to CMRG. As the largest iron ore buyers globally, we believe this would strengthen Chinese steel mills' bargaining power as a group, and enhance their iron ore supply security amid intensifying geopolitical tensions. This should also help in stabilising steel mills' profitability in view of volatile iron ore prices and expected weak downstream demand ahead.

247 SAMPLED STEEL MILLS BLAST FURNACE UTILISATION RATIO



Source: Bloomberg, UOB Kay Hian

247 SAMPLED STEEL MILLS DAILY AVERAGE MOLTEN IRON OUTPUT

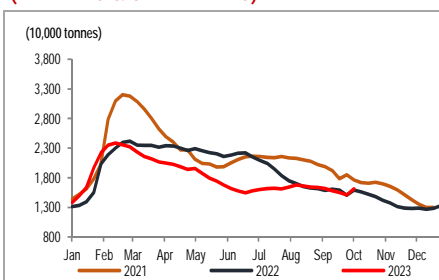


Source: Wind, UOB Kay Hian

- **Steel production activities reversed down.** According to Mysteel's survey on 247 sampled steel mills, daily average molten iron production (for the week ended 6 October) was 2.4701m tonnes (-0.0198m tonnes w/w), blast furnace capacity utilisation ratio was down 0.77ppt w/w to 92.31%. Some of the blast furnaces which were loss-making have commenced maintenance work and halted productions. Weekly output of five major steel products slowed to 9.2341m tonnes (-0.74% w/w) this week.

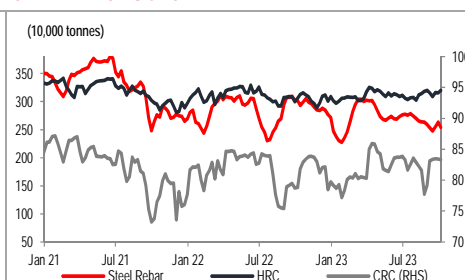
- **Downtrend of steel inventory ended; sharp decline in consumption of construction-related steel products.** Overall steel inventory based on Mysteel's survey was up 6.73% w/w to 16.13 tonnes (+1.2% yoy), ending its seven-consecutive weeks of contraction. Weekly steel apparent consumption slumped 15.2% w/w to 8.2169m tonnes (-6.4% yoy). The decline was led by rebar/wire rods with weekly consumption falling 33.8%/20.0% w/w amid slower construction activities.

INVENTORY OF FIVE MAJOR STEEL PRODUCTS (TRADERS & STEEL MILLS)



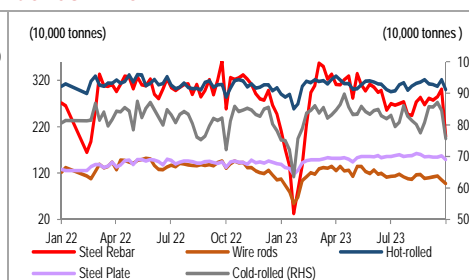
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



Source: Wind, UOB Kay Hian

- **Cement (maintain MARKET WEIGHT):** The rainy weather and long holidays dragged on cement demand.
 - **Weekly shipment -8.6% wow during Golden Week holidays.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 27 Sep-3 Oct 23 was 5.22m tonnes (-8.6% wow/-38.4% yoy). By region, the eastern/central/southern regions' shipment volume was -9.7%/-9.9%/+8.7% wow (-44.4%/-39.1%/-46.8% yoy) respectively. Shipment for infrastructure projects was 2.06m tonnes (-8.0% wow/-18.9% yoy). The rainy weather coupled with slower construction activities during the Golden Week holidays has dragged on cement demand.
 - **Inventory level declined further on slowing production output.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation has slowed further to 49.15% (-1.28ppt wow). The same survey also indicated that clinker storage capacity trimmed slightly to 72.35% (-1.37ppt wow).

ESSENTIALS

- **We maintain MARKET WEIGHT on the base metals sector.** A hawkish Fed and strong US dollar have continued to weigh on metal prices. We are concerned on global copper demand given the prospect of a prolonged high interest rate environment and gloomy global economic outlook. Partly due to the high pace expansion of inventory level, copper prices fell below US\$8,000 on 4 and 5 October. The downcycle is likely to last until 2H24, while the rebound in crude oil prices would also inflate miners' production costs and erode margins.
- **We maintain MARKET WEIGHT on the cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves and construction activities resume after the long holidays. We are still concerned about the high inventory level as it could cap the upside of the price recovery. With the acceleration of local government special purpose bond issuance, we should see a ramp up in construction activities in 4Q23.
- **We maintain UNDERWEIGHT on the steel sector.** We expect more production curbs to be announced in the following weeks with the authorities' intention to improve air quality. Steel production activities are expected to remain active in Oct 23 based on the current known production schedule, but we expect the growing inventory pressure and recent steep deterioration of profitability to continue to help in moderating the production output in the following weeks.

FROM THE REGIONAL MORNING NOTES...

Property – Hong Kong

Preview Of 2023 Policy Address: Assessing Impact Of Easing Measures On Property Industry

With Paul Chan softening his tone, when/how to ease cooling measures on non-PR buyers again becomes a market focus. We expect the government to marginally relax BSD/NRSD rules in the 2023 Policy Address. However, it may still be a bit too early to bet on the complete removal of cooling measures, as: a) the CCL index is still flat ytd, and b) Hong Kong has a very large pool of non-PR talents waiting to apply for PR and possibly buying property. Maintain MARKET WEIGHT. SHPK remains our top pick.

WHAT'S NEW

- On 8 Oct 23, Paul Chan said the government would pragmatically review property policies.
- The CCL and CVI index were released on 6 Oct 23.

ESSENTIALS

- **CCL index flat ytd and 18% lower than peak.** The CCL index stood at 156.79 on 6 Oct 23, flat ytd and 18% lower than the peak level reached in Aug 21. The CVI index, which reflects banks' view on the property market, fell to 11.23 as of 6 Oct 23; it has been staying below 20 for four consecutive months. High interest rates (ie 1M HIBOR standing above 4% in the last month) continued to weigh on the sentiment of home-buyers.
- **Rising possibility of easing cooling measures on property sector.** Hong Kong Financial Secretary Paul Chan said on 27 September that "we see that the current property market situation is different from when we introduced the management measures". This is the first time government official hinted on easing cooling measures on non-HK PR buyers, although his overall tone remains prudent as he said that "recent property price correction was still manageable". On 8 Oct 23, Paul Chan again said to pragmatically review property policies.

COOLING MEASURES ON HONG KONG PROPERTY MARKET

Tax	Rate	Effective date
Buyers Stamp Duty (BSD)	15% on transaction value for non-PR buyers	Oct 2012
New Residential Stamp Duty (NRSD)	15% on transaction value for non-PR buyers	Nov 2016
Special Stamp Duty (SSD)	10%/15%/20% on transaction value, if property is sold within 12-36 months/6-12 months/6months after purchasing	Oct 2012

Source: Hong Kong Immigration, UOB Kay Hian

- **Assessing impact of easing measures on property sector.** Despite the negative impact of high interest rates and tighter capital control of mainland China, we think easing policy measures will have a notable impact on demand and will change the market equilibrium in the short term, considering the big talent pool of Hong Kong.
 - a) During 2016-22, Hong Kong Immigration approved 55,800-81,400 HK PR applications annually. Assuming all one-way permit (OWP) holders will apply for HK PR, the number of talents that successfully receive HK PR is estimated to be 10,800-26,800 annually, which is equivalent to 19-48% of the total number of property transactions.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside/(Downside)	Market	PE		P/B		Yield	
			6 Oct 23 (HK\$)	Price (HK\$)	to TP (%)	Cap (HK\$m)	Y1 (x)	Y2 (x)	Y1 (x)	Y2 (x)	Y1 (%)	Y2 (%)
Hysan Development	14 HK	BUY	14.88	26.18	75.9	15,281.9	7.9	6.8	0.2	0.2	9.7	9.7
Sun Hung Kai Properties	16 HK	BUY	83.90	112.64	34.3	243,123.8	9.5	9.1	0.4	0.4	5.2	5.5
New World Development	17 HK	HOLD	14.96	16.03	7.1	37,648.8	7.0	7.0	0.2	0.2	5.1	5.1
Wharf Real Estate Investment Co Ltd	1997 HK	HOLD	29.05	40.30	38.7	88,202.4	13.4	11.9	0.5	0.5	4.6	5.2
Link REIT	823 HK	BUY	36.90	50.70	37.4	94,236.9	14.5	13.6	0.5	0.5	6.9	7.4

Source: Bloomberg, UOB Kay Hian

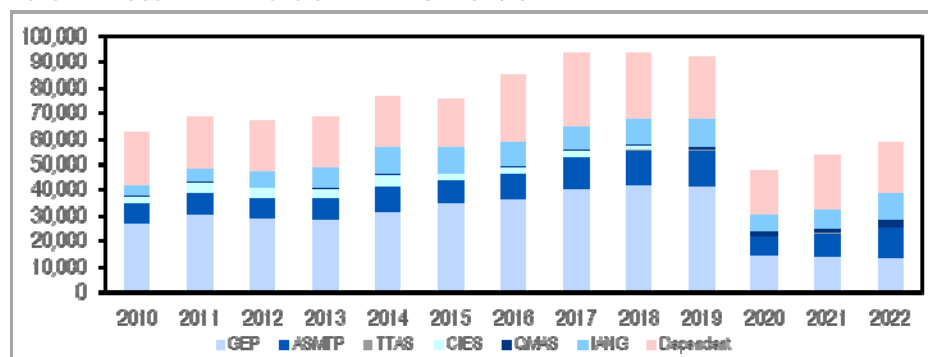
NO. OF POTENTIAL NEW BUYERS (NEW HK PR) VS NO. OF TRANSACTIONS

	2017	2018	2019	2020	2021
No. of primary home transactions	18,501	15,458	20,685	15,013	17,469
No. of secondary home transactions	39,744	38,782	35,893	41,353	51,928
Approved HKPR application (excl. OWP)	21,009	25,832	26,790	10,799	16,046
Approved HKPR application (incl. OWP)	63,609	69,232	81,390	55,799	56,546
No. of new PR (excl. OWP) vs no. home transactions	36%	48%	47%	19%	23%

Source: Hong Kong Immigration, UOB Kay Hian

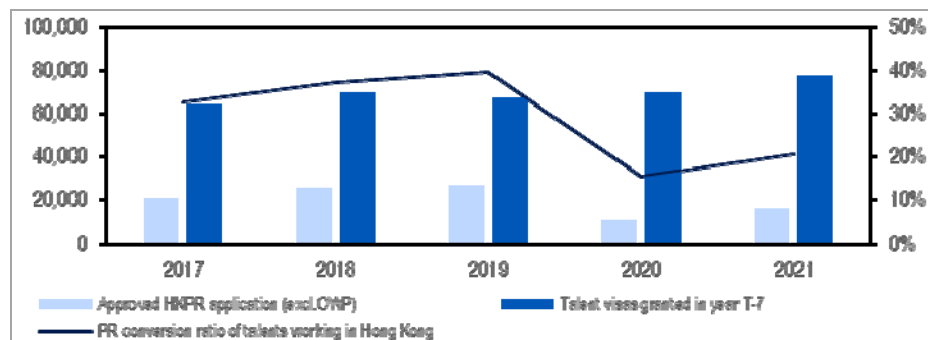
b) From 2016 to 2022, Hong Kong immigration issued a total number of 359,789 talent visas, of which we conservatively estimate that roughly 25% will apply for their HK PR once their conditions are fulfilled. That means Hong Kong currently has roughly 90,000 potential PR applicants from its talent pool. We expect this sizeable group to be the key beneficiaries if the Hong Kong government eases measures on the property sector.

NO. OF VARIOUS TALENT VISAS GRANTED DURING 2010-22



Source: Hong Kong Immigration, UOB Kay Hian. Note: CEP: General Employment Policy; ASMP: 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 Graduates.

% OF ELIGIBLE TALENTS APPLYING FOR HK PR



Source: Hong Kong Immigration, UOB Kay Hian

- **Key points to watch out for during the coming policy address on 25 October.** In the 2022 Policy Address, the government marginally eased policies that for non-PR talents purchasing properties. With greater downward pressure on property market, we expect further easing of measures in the 2023 Policy Address, which may include: a) shortening the number of years for non-PR talents to become PR, b) lowering Buyer's Stamp Duty (BSD) and New Residential Stamp Duty (NRSD) tax rates, c) adopting the practice of exempting BSD and NRSD for non-PR talents when they buy property and asking for tax payments if they sell their property before becoming HKPR. A complete removal of BSD and NRSD is of low possibility at the moment. On the other hand, the government's target of private and government housing supply will be another focus.

RECAP: KEY TAKEAWAYS FROM 2022 HONG KONG POLICY ADDRESS

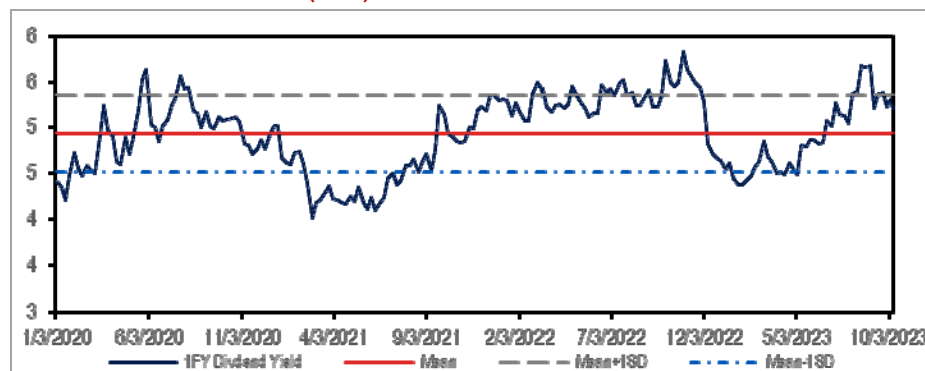
Subject	Details
Refunding the extra stamp duty paid by eligible incoming talents.	Eligible talents will receive a refund on extra stamp duty if they have stayed seven years to become permanent residents while still holding property by then. The amount talents end up paying will be equal to first-home PR buyers in the city (from HK\$100 to 4.25% of transaction value), as compared with 30% stamp duty charged for non-PR residents.
Accelerating private housing supply in next five years.	The government vows to get sufficient land ready to provide no less than 72,000 residential units in the next five years. This is a more aggressive supply plan as compared with the target of 2021 Policy Address of providing land for 100,000 residential units in the next 10 years.
Increasing public housing supply in next five years	The government targets to provide 158,000 units of public housing in the next five years, including 30,000 units of light public housing (LPH) units, representing an increase of approximately 50% compared with 105,000 units provided in the previous five-year period.
Continuing to push forward the development of Northern Metropolis and other major infrastructures	Construction of Northern Metropolis remains as one of the government's top agenda. For the next five years, the government targets to commence all land resumption procedures for development projects. In the subsequent 10 years, the government targets to form 40% of the new development land and complete 40% of the new flats. Specifically, the government guides that the Northern Metropolis will adopt higher plot ratios, ie 6.5 for residential sites (higher than 5 for earlier generations of new towns like Sha Tin) and 9.5 for commercial sites.

Source: 2022 Hong Kong Policy Address, UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT on Hong Kong's property sector.** During this earnings season, major developers guided down their dividend payout ratios in order to better position themselves amid a high interest rate environment. Stock prices of major Hong Kong developers have corrected by 11~30% ytd. In the short term, we think that major negative factors have been fully priced in. Looking forward, we expect the Hong Kong government to set a more supportive tone for the property industry during the upcoming policy address, which is expected to be a key catalyst for the sector. SHKP remains our top pick for its abundant saleable resources and balanced product mix in Hong Kong.
- **SHKP remains our top pick.** Stock prices of SHKP have corrected by over 20% ytd, dragged by: a) weak sentiment of property market in the high interest rate environment, and b) normalised dividend payout ratio of 40-50% since FY24 from 60% in FY23. We think most near-term negative factors have been priced in. Potential policy easing will offer upside on margin and valuation. SHKP is currently trading at 5.2% FY24 dividend yield, which is close to 1SD above its three-year mean.

1FY DIVIDEND YIELD OF SHKP (16HK):2020-2023



Source: Bloomberg, UOB Kay Hian

RISKS

- **Upside risks:** Stronger-than-expected policy easing at 2023 Policy Address.
- **Downside risks:** Longer-than-expected interest rate hike cycle.

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