UOBKayHian

Alpha Picks – November 2023

Wednesday, 06 December 2023

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STRATEGY – GREATER CHINA

Alpha Picks: December Conviction Calls

MSCI China rose only 2.3% mom in November while the HSI shed 0.4% mom over the same period, despite positive newsflow for the real estate sector. Investors preferred to sell into strength, as concerns over China's slow economic growth remain. Looking ahead, the mid-Dec 23 Economic Work Conference may provide positive surprises and with MSCI China trading at 12-month forward PE of 9.3x, risk is skewed to the upside. We add CSPC, HKEX, Lenovo, Longfor, Pinduoduo and Sunny Optical to our BUY list.

WHAT'S NEW

- **Review of November.** The MSCI China gained 2.3%, but the HSI slipped 0.4% in November, bringing ytd declines to 10.9% and 13.8% respectively. Concerns on weaker growth momentum continue to weigh on the market and news of additional funding support for Chinese developers failed to see a sustained market rally. Within our stock picks, Kuaishou was the best performer of the month, with a 14.6% return over this period.

- **Risk is skewed to the upside** as the MSCI China index is now trading at only 9.3x 12-month forward PE, pricing in most negatives. Thus, the Economic Work Conference in mid-December may provide upside surprises, if the government steps up on near-term policy support. As such, we are adding a mix of turnaround stocks and beneficiaries of policy support; namely CSPC (1093 HK), HKEX (388 HK), Lenovo (992 HK), Longfor (960 HK), Pinduoduo (PDD US) and Sunny Optical (2382 HK) to our BUY list.

ACTION

- **Add CSPC (1093 HK) to our BUY list** as we expect the new product launches to support double-digit revenue and earnings growth for the company from 2024 onwards.

- **Add HKEX (388 HK) to our BUY list** for beta plays in anticipation of a year-end rally and the favourable outcomes from the LME nickel lawsuit.

- **Add Lenovo (992 HK) to our BUY list** as we see improvements in PC shipment and some positive takeaways from the CES event.

- **Add Longfor (960 HK) to our BUY list** as its contracted sales has outperformed and its debt servicing record is decent despite the challenging environment.

- **Add Pinduoduo (PDD US) to our BUY list** due to its strong revenue growth in 3Q23

- **Add Sunny Optical (2382 HK) to our BUY list,** mainly due to strong shipment data in November and we expect a sustained recovery in December

- **Take profit** on Link REIT (823 HK).

- **Cut losses** on BYD (1211 HK) and CATL (300750 CH).

- **Maintain BUY** on Anta (2020 HK), COSCO Shipping Port (1199 HK), CR Mixc (1209 HK), Great Wall Motor (2333 HK), Innovent (1801 HK), Kuaishou (1024 HK), Moutai (600519 CH) and NetEase (9999 HK)

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Anta	BUY	78.9	128.00	62.2
COSCO Shipping Port	BUY	5.29	6.00	13.4
CR Mixc	BUY	28.5	49.69	74.3
CSPC	BUY	7.16	9.20	28.5
Great Wall Motor	BUY	10.98	13.50	23.0
HKEX	BUY	279.80	370.00	32.2
Innovent	BUY	44.00	60.00	36.4
Kuaishou	BUY	57.20	97.00	69.6
Lenovo	BUY	9.59	11.50	19.9
Longfor	BUY	13.70	17.68	29.1
Moutai	BUY	1760.28	2,488.00	41.3
NetEase	BUY	175.80	204.00	16.0
Pinduoduo	BUY	147.4	173.00	17.4
Sunny Optical	BUY	72.45	87.00	20.1

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Nov 23 (%)	To-Date* (%)
Anta	BUY	-7.8	-7.6
BYD	BUY	-11.5	-8.6
CATL	BUY	-10.0	-27.7
COSCO Shipping Port	BUY	11.5	11.5
CR Mixc	BUY	-3.1	-3.1
Great Wall Motor	BUY	3.1	3.1
Innovent	BUY	-0.5	-0.5
Kuaishou	BUY	14.6	8.9
Link REIT	BUY	7.5	7.5
Moutai	BUY	6.7	11.8
NetEase	BUY	4.8	4.8
Hang Seng Index		-0.4	-13.8

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

PORTFOLIO RETURN

(%)	4Q22	2022	1Q23	2Q23	3Q23
HSI return	14.9	-15.5	3.1	-7.3	-5.9
Alpha Picks Return					
- Price-weighted	-9.7	-9.4	1.4	-5.5	-0.2
- Market cap-weighted	-1.9	-6.6	2.0	-8.6	-2.1
- Equal-weighted	1.5	-3.8	0.3	-5.9	-2.5

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

Source: UOB Kay Hian

ANALYST(S)

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VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 1 Dec 23 (lcy)	Target Price (lcy)	Last Year End	------------------ PE ------------------ 2023F (x)	2024F (x)	2025F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap. (lcy m)	Price/ NTA ps (x)
BUY												
Anta	2020 HK	BUY	78.90	128.00	Dec-22	19.8	17.0	14.6	2.1	23.5	223,494	3.9
COSCO Shipping Port	1199 HK	BUY	5.29	6.00	Dec-22	8.1	9.1	8.5	4.9	5.1	18,851	0.5
CR Mixc	1209 HK	BUY	28.50	49.69	Dec-22	21.4	16.9	14.2	2.4	20.7	65,051	3.3
CSPC	1093 HK	BUY	7.16	9.20	Dec-22	12.6	11.2	9.9	4.0	19.7	85,227	2.9
Great Wall Motor	2333 HK	BUY	10.98	13.50	Dec-22	14.5	10.0	8.9	6.5	11.5	27,573	2.0
HKEX	388 HK	BUY	279.80	370.00	Dec-22	28.9	26.6	24.7	3.1	24.4	354,741	12.6
Innovent	1801 HK	BUY	44.00	60.00	Dec-22	n.a	n.a	83.8	0.0	n.a	71,126	5.1
Kuaishou	1024 HK	BUY	57.2	97.00	Dec-22	26.7	16.1	10.7	0.0	2.9	249,188	4.7
Lenovo	992 HK	BUY	9.59	11.50	Mar-23	9.1	13.4	7.8	4.0	18.7	116,309	2.2
Longfor	960 HK	BUY	13.70	17.68	Dec-22	4.0	4.3	4.3	6.9	11.2	90,307	0.4
Moutai	600519 CH	BUY	1760.28	2,488.00	Dec-22	30.1	25.3	21.5	1.7	33.7	2,211,259	9.3
NetEase	9999 HK	BUY	175.8	204.00	Dec-22	18.6	17.8	16.3	0.0	23.8	541,115	4.1
Pinduoduo	PDD US	BUY	147.4	173.00	Dec-22	26.5	20.8	15.9	0.0	34.3	195,887	9.7
Sunny Optical	2382 HK	BUY	72.45	87.00	Dec-22	29.4	46.1	25.6	0.7	6.9	79,461	3.4

Source: Bloomberg, UOB Kay Hian

Anta – BUY (Stella Guo/Ng Jo Yee/Shirley Wang)

- Although there were industry headwinds in the form of deepening discounts in 3Q23 that triggered investors' concerns over China sportswear companies' deteriorating profitability, we are still confident confident that Anta's profitability should be stable, as: a) Anta's discounts should be manageable in 4Q23, thanks to the decent sales momentum seen during the 11.11 campaign, with the Fila and Anta brands ranking second and third respectively in the sportswear category on Tmall; and b) Anta follows disciplined operation strategies with strict inventory management and expense control. We remain bullish on Anta given: a) the improving brand equity supported by high exposure of direct to customer (DTC), and b) the company's multi-brand strategy, which allows it to cater to customers' demands from different sporting segments and income groups.
- **Maintain BUY** and target price of HK$128.00, which implies 31.2x 2023F PE.

Share Price Catalyst

- Event: Better inventory turnover in 4Q23.
- Timeline: 4Q23.

COSCO SHIPPING Ports – BUY (Roy Chen)

- COSCO SHIPPING Ports (CSP) is our top pick for the regional transportation sector. We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput), b) well-diversified investment portfolio across Asia, Middle East and Europe with good asset quality, c) strong backing from its parent company COSCO SHIPPING Holdings (CSH, 1919 HK), which is China's largest and a globally leading container shipping company with large cargo flow.
- Despite the macro uncertainties, CSP's high-grade port/terminal portfolio has shown reasonable resilience, with 3Q23 gross container throughput rising 4.1% yoy and 3Q23 earnings dropping only by a tad 4% yoy (due to higher interest costs yoy, which should stabilise going forward). Although global trade outlook is not out of woods yet, CSP's container volume growth figure should pick up further in the next two quarters, given the low base of 4Q22 and 1Q23.
- CSP also provides cheap valuation with good dividend. Major shareholder purchases are bolstering share price. Its current price implies PE of 8.1x/9.0x on our conservative 2023F/24F earnings estimates, which implies decent yields of 4.5-5%. CSP's cash-rich parent CSH's has been aggressively accumulating CSP shares in the past one year. Its stake in CSP has risen 12% from 51% as of Sep 22 to 63% as of Nov 23, mostly due to share purchases in the open market at prices ranging between HK$4.73 and HK$6.49. We expect CSH's purchase of CSP shares will continue. With CSP's stable fundamentals and potential share price support/boost from major shareholder purchases, we see CSP as a safe bet which can reward shareholders nicely with decent dividends while waiting for a turnaround in global trade outlook.

- **Maintain BUY and target price of HK$6.00.** Our target price is pegged to 10.3x 2024F PE, matching sector historical mean. CSP offers yields of 5.2-5.8% in 2023-25.

Share Price Catalyst

- Event: a) Further earnings improvement; b) major shareholder purchases in the open market.
- Timeline: 4Q23-1Q24.

CR Mixc Lifestyle Services (Jieqi Liu/Damon Shen)

- For CR Mixc malls, same-store retail sales grew by 26%/24% in Sep 23/9M23 respectively. For 2024, the company targets to achieve 10% same-store sales growth and open 18-20 new malls. Overall, management is confident of achieving its earnings growth target of 40% CAGR in 14th Five-Year Plan (FYP), underpinned by its resilient commercial portfolio and strong competitiveness in the property management segment. The company's cash generating capability remained very strong, with net operating cash flows/core net profit ratio at 1.60x in 2022. We have a BUY rating with target price of HK$49.69, derived from the DCM model with a WACC of 12.0%.

Share Price Catalyst

- Event: Better-than-expected 2023 results.
- Timeline: 4Q23-1Q24.

CSPC – BUY (Carol Dou/Sunny Chen)

- CSPC indicates that academic promotion activities have resumed. It continues to guide for positive growth in revenue and net earnings in 2023, and expects double-digit revenue growth in 2024. Due to continued efforts, all four of CSPC's drug candidates have been included in the 2023 National Reimbursement Drug List (NRDL). It expects the sales growth of NBP to remain resilient in the next two years, and its new innovative products − Duoenda (mitoxantrone hydrochloride liposome injection), Mingfule, Duvelisib (PI3K inhibitor), Anfulike (amphotericin B cholesteryl sulfate complex for injection), Irinotecan hydrochloride liposome injection, and Desvenlafaxine succinate extended-release tablets − will become new growth drivers, bringing in over Rmb3b sales revenue in 2024. With the extensive R&D pipeline rolling out a rising number of innovative products, CSPC has entered the harvest season of innovation. It has obtained five new product approvals in 2023 and targets to achieve 6 and 10 in 2024 and 2025 respectively, followed by approximately 12 per year from 2026 onwards. We expect the new product launches to support double-digit revenue and earnings growth for the company from 2024 onwards.

  Despite the challenging business environment, CSPC sees a bright long-term outlook, and expects to reward investors with over 50% dividend payout ratio in 2023 and no less than 30% for the next few years.

- **Maintain BUY and target price of HK$9.20,** based on: a) HK$4.79/share, or 7x 2024F PE, for existing drugs, and b) NAV-derived pipeline value of HK$4.41/share (WACC: 11.0%, perpetual growth rate: 3.5%).

Share Price Catalyst

- Event: a) Expecting double-digit revenue and earnings growth in 2024, b) continuous new product launches, and c) strong R&D performance and continuous business development efforts
- Timeline: 2H23.

Great Wall Motor (Ken Lee)

- Great Wall Motor (GWM) posted upbeat 3Q23 earnings of Rmb3.63b (+42%yoy/+206% qoq), with the launches of new models and slump in lithium carbonate prices boosting ASP and margins despite price competition. We believe GWM should have passed through the toughest period and is set to stage a strong earnings recovery along with the kickstart of a new product cycle.

- **Maintain BUY with target price of HK$13.50** pegged to 12x 2024F PE, on a par with historic mean one-year forward PE.

Share Price Catalyst

- Event: a) Growth in monthly sales, and b) 4Q23 results.
- Timeline: 4Q23-1Q24.

Hong Kong Stock Exchange (Greater China Research Team)

- Hong Kong Stock Exchange (HKEX) headline ADT rebounded 21.2% mom from the lowest level in four years in October to HK$95.5b, and recorded turnover of HK$139.2b in the last trading day of November. Although the HSI fell 0.4% mom in November, but the turnover data is encouraging due to the lower stamp duty for stock trading that was announced by Hong Kong government in October taking effect in mid-November. Despite the cautious market sentiment due to rising headwinds facing China's economic outlook, we believe that HKEX may serve as a proxy for beta plays in December, underpinned by the expectations of a potential year-end rally and bets for an earlier Fed rate cut. Moreover, the favourable outcome of the nickel litigation involving HKEX's subsidiary, the London Metal Exchange (LME), will likely boost market sentiment toward HKEX, as concerns regarding potential legal provisions have been alleviated.
- **Maintain BUY with target price of HK$370.00**, implying 2024F PE of 36.6x, on a par with its historical mean.

Share Price Catalyst

- Event: a) Year-end rally expectations, b) falling US treasury yield, and c) winning the lawsuit over cancelled nickel trades.
- Timeline: Dec 23

Innovent – BUY (Carol Dou/Sunny Chen)

- Innovent experienced robust drug sales growth of over 45% yoy in 3Q23, as well as smooth progress in commercial portfolio expansion and R&D. It now has ten commercialised products. Our industry check indicates that the company has successfully added the seventh indication of TYVYT to the 2023 NRDL. We forecast revenue to expand at about 26.6% CAGR yoy in 2023-25. With its continuous efforts to improve operating efficiency, the company will likely break even in 2025. Moreover, R&D projects in its pipelines are also well on track. Aside from receiving marketing approval for TYVYT's seventh indication of EGFR-mutated non-squamous non-small cell lung cancer (NSCLC), it also obtained market approval for Equecabtagene Autoleucel (FUCASO, a BMCA-directed CAR-T cell therapy) and tafolecimab injection (SINTBLO, the first domestic anti-PCSK9 monoclonal antibody) in 1H23, and NAILIKE's new indication of TKI-resistant CML in Nov 23.

  Innovent continues to nurture next-generation blockbusters, such as Mazdutide (GLP-1/GCGR duel agonist for obesity and type II diabetes) and aims to launch another 10 innovative products in the next five years. It expects to achieve targeted drug sales of Rmb20b in 2027.
- **Maintain BUY and target price of HK$60.00,** based on the DCF model with WACC of 11.0% and terminal growth rate of 4%.

Share Price Catalyst

- Event: a) Stronger-than-expected 1H23 results; expecting steady revenue growth in 2023, b) strong R&D performance and continuous business development efforts, and c) new product launches continue to boost revenue growth.

- Timeline**:** 2H23.

Kuaishou Technology – BUY (Julia Pan/Ming San Soong)

- Kuaishou Technology (Kuaishou) guided a strong 4Q23 top-line growth momentum on the back of better-than-expected 11.11 performance. Total revenue is projected to grow by mid-teens, with online marketing/live-streaming/other services revenue are guided to grow by 20%/flattish/40% yoy respectively. The strong online marketing revenue will be bolstered by solid internal advertising revenue growth and 30% yoy growth in e-commerce GMV. Live-streaming revenue growth will continue to be dragged by enhanced governance of the live-streaming ecosystem. S&M expense ratio is projected at 31.6% in 4Q23, improving from 34.4% in 4Q22. In 4Q23, management targets to achieve low-to-mid single-digit yoy growth in DAU, with average daily time spent per DAU to be over 120 minutes. Gross margin is expected to remain above 50%. Operating profit will remain stable thanks to a drop in marketing expense and continuous narrowing in overseas loss. Adjusted net profit is guided to be Rmb2.8b-2.9b, which implies net margin of 8.8%. We forecast 4Q23/2024 revenue growth to be at 17%/24% yoy.

  During 11.11 this year, Kuaishou achieved a larger presale scale with a broader array of participating merchants and more extensive categories and SKUs. According to management, Kuaishou's presale GMV soared by 84% yoy. Through strategies such as "Stream Initiatives", "Fuyao Plan", and "Bestseller Plan", Kuaishou E-commerce is proactively addressing user shopping needs, thus enhancing user experience.

- **Maintain BUY on the company with a target price of HK$97.00.** Our target price implies 3x 2024F P/S. The company is currently trading at 3x 12-month forward EV/Sales (23x 2024F PE), below its historical mean of 4x.

Share Price Catalyst

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

Lenovo (Johnny Yum)

- The Consumer Electronics Show (CES) will be hosted in Jan 24, which will be a positive event for the PC industry as we should see the unveiling of more AI-enabled devices (such as PCs) during the event. As AI PCs can greatly enhance the user's convenience and productivity, we believe it will bolster the replacement demand (especially for commercial segment) from 2024 onwards. Coupled with a pent-up replacement demand from commercial segment prior to the discontinuation of Windows 10, we are now expecting the global PC shipment to recover by 7.6% yoy in 2024. Lenovo as the biggest PC brand globally with 60% PC business exposure to commercial segment will be one of the biggest beneficiaries of the coming demand upcycle.
- **Maintain BUY and target price of HK$11.50,** based on 9.4x FY25F PE, on a par with its peers (Dell+HP)'s average valuation.

Share Price Catalyst

- Events: a) Improvements in PC shipment, and b) positive takeaways from the CES event.
- Timeline: Dec 23-Jan 24.

Longfor – BUY (Jieqi Liu/Damon Shen)

- In 10M23, Longfor reported Rmb152.2b worth of contracted sales, down 8.2% yoy, outperforming most POE developers. Despite the very challenging financing environment, Longfor has kept a decent debt servicing record. Looking forward, we like Longfor because: a) we think Longfor's bond maturity in the coming one year is manageable; and b) policy easing in 4Q23-1Q24 will be key catalysts for Longfor.

- **We have a BUY rating on Longfor with a target price of HK$17.68,** derived from SOTP model. We apply a target PE of 9x/3x to FY24 recurring earnings and property development earnings. Our target price implies 5.5x 2024F PE, a 5.6% 2024 dividend yield and a 48% NAV discount.

Share Price Catalyst

- Event: Stronger-than-expected policy easing.
- Timeline: 4Q23-1Q24.

Moutai – BUY (Ng Jo Yee/Stella Guo/Shirley Wang)

- We are confident on Moutai's full-year revenue growth target of 15% yoy and improving profitability with a net margin expansion of 0.5ppt yoy, driven by: a) rising sales volume of Moutai products from capacity expansion, b) product line extension (such as Moutai 24 Solar Term series and Moutai Chinese Zodiac series), and c) expansion in direct sales channels. Its recent ex-factory price hike reflected its strong pricing power over distributors, and is expected to further lift 2024 earnings by low-to-mid-single digits. With the large-scale brand advertisements planned for 2024, we see a further strengthening of Moutai's branding power.
- Our DCF-based target price of Rmb2,488 implies 42.6x 2023F PE.
- **Maintain BUY with a target price of Rmb2,488.00.** Our DCF-based target price implies 42.6x 2023F PE and 35.8x 2024F PE.

Share Price Catalyst

- Event: Strong 4Q23 results.
- Timeline: 4Q23-1Q24.

NetEase – BUY (Julia Pan/Ming San Soong)

- We expect 2024 revenue growth and net margin expansion to be propelled by: a) improved monetisation given lower channel fees and zero loyalty upon payment channel migration to NetEase's proprietary channel, b) higher user retention from three new titles released since June, and c) solid self-developed mobile games pipeline. In addition, we believe margin expansion will be facilitated by disciplined S&M spending as it relies on KOL advertising rather than traffic acquisition.

  Looking into 2024, we forecast a 19% yoy growth in online games revenue, boosted by newly-launched games Racing Master and Eggy Party as well as Justice Mobile which has accumulated over 50m registered users as of 3Q23. There is also solid progress underway for the upcoming highly-anticipated titles in 2024. Management highlighted that Condor Heroes is in the final stage of preparation and targets to officially launch this game no later than 2Q24. Preparations for Naraka Bladepoint Mobile are fully completed and will be launched upon the receipt of licence approval. As Project Mugen is a highly anticipated game, NetEase plans to continue investing additional resources in the development of the game to ensure it delivers next-generation quality content. Leveraging Eggy Party's established reputation in domestic markets, Netease successfully introduced Eggy Party in Southeast Asia in 3Q23, where it consistently achieved prominent positions on Google Play download charts for several weeks, notably in Indonesia and Thailand.
- **We maintain BUY on the company with target price of HK$204.00 (US$127.00),** factoring in the solid online games growth and promising pipeline in the upcoming months. Our target price implies 18x 2024F PE. The company is trading at 14x 12-month forward PE, against its historical mean of 16x.

Share Price Catalyst

- Event: a) Strong performance of games pipeline, and b) improving profitability of NetEase Cloud Music.

- Timeline: 2H23.

Pinduoduo – BUY (Julia Pan/Ming San Soong)

- PDD Holdings' (PDD) revenue grew by a strong 94% yoy in 3Q23 (accelerating from 66% in 2Q23) to Rmb68.8b, exceeding growth in NBS' physical goods/Alibaba's/JD's/Vipshop/ Kuaishou's group e-commerce revenue growth of 7.0%/3.0%/1.7%/5.3%/37.0% yoy during the same period. This was mainly due to favourable consumption recovery in 3Q23 and positive results from the execution of high-quality development strategy. Online marketing services revenue grew rapidly by 39.3% yoy, moderating slightly from 2Q23's 50.4% and 3Q22's 58.7%. Transaction commission revenue growth remained intact and soared 315% yoy to Rmb29.2b, likely due to strong revenue contribution from Temu.

  Temu's GMV for 1H23/3Q23 reportedly reached US$3b/US$5b respectively. With the robust growth trajectory, we opine Temu is well on track to achieve its 2023 annual GMV target of US$15b, especially with Black Friday sales and Christmas sales in December. In addition, Temu has set a 2024 GMV target of US$30b, on the back of rapid overseas expansion, double the US$15b annual GMV target for 2023. With PDD's strong cash flow generation from the main platform (2023F net profit of Rmb60b) and net cash of US$23b in funding for Temu, Temu is able continue achieving rapid global expansion in 2024.

  By leveraging on the ROI-based "blackbox" advertisement solutions, PDD is expected to achieve improvement in its ads take rate amid the current industry-wide adtech upgrade. In addition, PDD has established its large language model which will serve its e-commerce system, including applications in AI shopping guides and intelligent generation of product images. We believe this will optimise efficiency and productivity, leading to incremental revenue contribution in 2024.

- **Maintain BUY with target price of US$173.00**, which implies 25x 2024F PE against a 21% EPS CAGR over 2024-27. PDD is now trading at 22x 2024F PE and 4.5x EV/Sales based on 2024 revenue, below its historical mean of 6x.

Share Price Catalyst

- Event: a) Initiate dual listing plan in HKEX, b) continued gain in consumer mindshare on higher purchase frequency and value-for-money products, c) strong sales of agriculture products on a higher growth of online grocery categories, and d) improved monetisation rates.

- Timeline: 2H23.

Sunny Optical (Johnny Yum)

- We see several positive developments for the smartphone sector: a) China/global smartphone demand continued to register positive yoy growth through Oct and Nov 23, b) the restocking demand for components may turn out better than expected with the peak season extending into Nov 23 (historically Nov and Dec 23 is a low season), c) the competition landscape is improving, with key players such as AAC and Sunny started to raise prices for new projects; and d) the resilient pricing of Huawei's Mate 60 and Xiaomi 14 series (no discounts since launch in Sep/Oct 23) indicate strong demand for high-end domestic brand smartphones, implying a sustainable product mix improvement for component suppliers. We are now more optimistic on Sunny Optical's handset business, and expect the specs upgrades, better competition landscape, and shipment recovery to bolster its earnings growth from 2H23-2024. As such, we factor in a higher shipment, ASP and margins assumption and raise our 2023-25 earnings estimates by 7%-10% to Rmb1.5b/2.8b/3.9b respectively.

- **We recommend BUY on Sunny Optical with a target price of HK$87.00,** based on 30.7x 2024F PE, equivalent to 0.5SD below its 5-year historical forward mean PE.

Share Price Catalyst

- Event: a) Strong Nov 23 shipment data, and b) sustained recovery in December.

- Timeline: Dec 23.

STRATEGY – INDONESIA

Alpha Picks: Underperformance With A 3.7% Return

Our portfolio delivered a 3.7% return in Nov 23, underperforming the JCI that recorded a 7.2% return. Our top three gainers are BBNI (+12.5%), TLKM (10.1%), SMGR (8.9%) and NCKL (6.5%). Over the past 10 years, the JCI's highest monthly return is usually in December, averaging 2.59%. In anticipation of the year-end rally, we increase our portfolio beta by adding GOTO and BMRI as investors could purchase banks amid the market rally. Our picks are GOTO, BMRI, JSMR, TLKM, BBNI, NCKL, CTRA, MYOR and AKRA.

WHAT'S NEW

- **Our portfolio underperformed despite recording a 3.7% return.** Our portfolio delivered an average 3.7% return in Nov 23. Despite the positive return, our portfolio return trailed the JCI that rose by 7.2%. The biggest gainers in JCI in Nov 23 were ARTO (76.35%) and BREN (55.99%). The top three sectors with the highest returns in Nov 23 were IDXTECH (22.9%), IDXINFRA (21.9%) and IDXFIN (8.9%). Our biggest gainers are BBNI (+12.5%), TLKM (10.1%), SMGR (8.9%), NCKL (6.5%), and CTRA (4.2%). The biggest losers are MYOR (-8.2%), CMRY (-2.9%) and AKRA (-1.9%).
- **Increase portfolio beta, bank (BMRI) and JSMR in anticipation of year-end rally.** In the past 10 years, the return for the month of December has averaged 2.59%, making it the strongest month of the year historically. We decide to increase beta to our portfolio by adding GOTO as one of our selections for a year-end trade. We also decide to add BMRI as investors are likely to establish positions on large-cap banks during a rally. We also add JSMR to capitalise on its recent rally.
- **Reduce exposure to consumer: drop CMRY and SMGR.** We decided to drop CMRY as it has recorded 10.4% loss since its inception, and consumer stocks could trail during a rally. We keep MYOR as a hedging name to our portfolio. We also drop SMGR as this stock has not been performing.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Posmarito Pakpahan	Bank Negara Indonesia	BUY	13.6%	Loan growth to accelerate in 2H23.
Posmarito Pakpahan	Bank Mandiri	BUY	NA	Strong 4Q23 results with a stable NIM
Paula Ruth	Telekom Indonesia	BUY	10.1%	Attractive valuation, positive seasonality in 4Q23, and strong balance sheet.
Limartha Adhiputra	Ciputra Development	BUY	10.3%	Better 4Q23 marketing sales and NPAT achievement.
Limartha Adhiputra	Jasa Marga	BUY	NA	Potential 52% increase in traffic in 4Q23 due to Christmas and New Year Holiday, divestment of Jasamarga TransJava Tollroad in 1H24.
Stevanus Juanda	Mayora Indah	BUY	3.9%	Recovery in 3Q23 sales and raw material cost drop will expand margin in 2023.
Posmarito Pakpahan	AKR Corporindo	BUY	-7.6%	Rising oil prices and retail gas station growth
Stevanus Juanda	Gojek Tokopedia	BUY	NA	Attractive valuation that could rally in year-end trade.
Limartha Adhiputra	Trimegah Bangun Persada	BUY	-6.4%	a) Rise in production volume, b) rise in nickel price, and c) inclusion in FTSE Russell index
				Drop: CMRY, SMGR

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

KEY RECOMMENDATIONS

Ticker	Rec	Price 1-Dec-23 (Rp)	Target Price (Rp)	Potential Upside (%)
BBNI	BUY	5,250	5,600	6.7
BMRI	BUY	5,900	6,500	10.2
JSMR	BUY	4,720	5,300	12.3
GOTO	BUY	109	121	11.0
TLKM	BUY	3,830	4,700	22.7
NCKL	BUY	1,055	1,300	23.2
CTRA	BUY	1,150	1,300	13.0
MYOR	BUY	2,520	3,200	27.0
AKRA	BUY	1,435	1,840	28.2

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Nov-23 (%)	To Date (%)
BBNI	BUY	12.5%	13.6%
SMGR	BUY	8.9%	-6.3%
NCKL	BUY	6.5%	-6.4%
TLKM	BUY	10.1%	10.1%
CTRA	BUY	4.2%	10.3%
MYOR	BUY	-8.2%	3.9%
AKRA	BUY	-1.3%	-7.6%
CMRY	BUY	-2.9%	-10.4%
JCI		7.2%	
USD-IDR X-RATE		2.4%	

Source: UOB Kay Hian

PORTFOLIO RETURN

	2022	1Q23	2Q23	3Q23
JCI return	4.1%	-0.7%	-2.1%	4.2%
Alpha Picks Return				
Price-weighted	8.9%	-0.5%	-0.1%	4.8%
Market cap-weighted	9.7%	1.9%	-1.4%	4.1%
Equal-weighted	6.6%	-0.1%	-0.5%	0.3%

Assumptions for the 3 methodologies:

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

Source: UOB Kay Hian

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VALUATION

Company	Ticker	Rec	Price 1-Dec-23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US$m)	3M Avg Turnover (US$m)	PE 2023F (x)	PE 2024F (x)	P/B 2022F (x)	P/B 2023F (x)	ROE 2023F (%)	Net Gearing (%)
Bank Negara Indonesia	BBNI	BUY	5,250	5,600	6.7	12,653.4	19.0	9.1	7.9	1.3	1.1	15.1	(73.8)
Bank Mandiri Persero	BMRI	BUY	5,900	6,500	10.2	35,584.3	24.8	10.9	9.6	2.1	1.9	20.5	(55.2)
Jasa Marga (Persero)	JSMR	BUY	4,720	5,300	12.3	2,214.0	2.4	15.7	11.7	1.4	1.2	9.5	157.7
GoTo GoJek Tokopedia	GOTO	BUY	109	121	11.0	8,462.3	21.5	NA	NA	1.0	1.1	NA	(21.9)
Telkom Indonesia	TLKM	BUY	3,830	4,700	22.7	24,517.5	19.4	14.6	14.4	2.7	2.6	18.9	20.2
Trimegah Bangun Persada	NCKL	BUY	1,055	1,300	23.2	4,301.7	3.7	11.2	7.9	2.8	2.2	36.4	50.2
Ciputra Development	CTRA	BUY	1,150	1,300	13.0	1,377.5	1.5	10.6	8.9	1.1	1.0	10.4	(0.6)
Mayora Indah	MYOR	BUY	2,520	3,200	27.0	3,641.0	1.1	23.8	20.2	3.9	3.4	18.7	17.1

AKR Corporindo	AKRA	BUY	1,435	1,840	28.2	1,861.4	2.9	10.3	10.7	2.4	2.2	24.1	(10.0)

Source: Bloomberg, UOB Kay Hian

Gojek Tokopedia - BUY (Stevanus Juanda)

- **Introducing the Hemat programme as a value proposition.** Gojek Tokopedia's (GOTO) performance continues to improve. The company reiterated that it will generate a positive adjusted EBITDA by 4Q23. It has introduced the Hemat programme in its on-demand service and e-commerce service, which provides more affordable services so that it can tap into larger addressable markets. This programme will benefit GOTO despite the lower pricing to consumers.
- **For on-demand service, consumers will enjoy lower pricing but have to wait longer for their rides and foods.** Consumers will also use smaller cars. For drivers, it could translate to higher revenue as this programme will be zoned for short-term rides, thus enabling drivers to take on more short-term trips. In Go Food, consumers will need to wait for 40-45 minutes (compared with the traditional 20-30 minutes) so that GOTO can bundle the deliveries alongside other orders. Also, restaurants will be within a 2km radius to encourage more orders and delivery bundling.
- **For e-commerce, the Hemat programme will implemented in the form of merchandise assortment and lower delivery cost.** Consumers can save on delivery cost but suppliers will be closer to the customers. Merchandise items could also be cheaper, but the orders could be more frequent as the total cost to consumers including shipping will be cheaper.
- **Risk to positive adjusted EBITDA by 4Q23.** GOTO mentioned that it has faced stiff competition in the market and it has decided to match its competitors, recognising that regaining lost market share is a harder task. Hence, it has retracted its guidance of achieving positive adjusted EBITDA in 4Q23.
- **Maintain BUY with a target price of Rp121.** We derive a fair value of Rp121 for GOTO, which is derived from multiple of EV/GTV of 0.18x, which is the EV/GTV multiple used on both GOTO and BUKA. With 82.6% upside from the current level, we maintain BUY on GOTO, with a target price of Rp121.

Share Price Catalyst

- **Events:** Valuation re-rating on year-end rally
- **Timeline:** Christmas on 25 Dec 23, New Year's Eve on 31 Dec 23 and New Year's Day on 1 Jan 24.

Jasa Marga - BUY (Limartha Adhiputra)

- **6-7% tariff adjustments in Jun 23 and Aug 23 will impact 2H23 revenue growth.** The Minister of Public Works and Public Housing (PUPR) has adjusted the tariffs for several toll road sections namely Cipularang, Padaleunyi, Jagorawi, Soedyatmo, Cimanggis-Cibitung, Ngawi-Kertosono, and etc. The tariff adjustment will be impact 2H23's revenue growth and we expect a 23% hoh increase in 2H23 toll revenue with 2023 toll revenue of Rp13.7t.
- **A total of 475km of new toll road sections will be operated until 2025.** In 2023, Jasa Marga (JSMR) will operate Jakarta-Cikampek II South (Section 3) and Cinere-Serpong (Section 2) with a total length of 35km. In 2024, another 43km of toll road will be operated by JSMR, which are Jakarta-Cikampek II South (Section IIB), Jogja-Bawen (Section I), and Jogja-Solo (Section IA). In 2025, JSMR expects to operate much longer toll road lengths of 398km, which are the Probolinggo-Banyuwangi (Section I-III), Jogja-Bawen (Section II-VI), Jogja-Solo (Section IB-III), and Patimban access.
- **Expect 2023 and 2024 core NPAT at Rp2.2t and Rp2.9t respectively.** We estimate JSMR's 2023 core NPAT at Rp2.2t, surging 153% yoy from 2022's core NPAT of Rp864b, supported by traffic growth of 12.4% yoy and tariff adjustment at an average of 6-7% for several toll road sections. In 2024, we estimate JSMR's NPAT at Rp2.9t, up 34.3% yoy,

supported by traffic growth of 6.1% and average tariff adjustment of 6-7%.

- **Divestment of Jasa Marga TransJava Toll Road (JTT) as re-rating catalyst for JSMR's share price.** We expect the divestment of JTT to improve JSMR's financial performance and revenue growth and also act as a re-rating catalyst for share price. JSMR plans to divest its stakes in JTT to raise around Rp4.5t equity fund.

- **Maintain BUY with a target price of Rp5,300.** We maintain our BUY rating with a target price of Rp5,300, based on -1SD to 2023F-24F EV/EBITDA of 9.7x. We believe JSMR's 2023F-24F EBITDA could still grow 17.1% yoy and 16.6% yoy respectively on the back of improved traffic, increased toll road tariffs, and its ability to minimise the potential risks of interest rate hikes. Currently, the stock is trading at 9.3x 2023F EV/EBITDA, or near -1SD to its five-year EV/EBITDA of 9.7x, which is still an attractive valuation.

Share Price Catalyst

- **Events:** Potential 52% increase in traffic in 4Q23 due to the Christmas and New Year holidays, divestment of Jasamarga TransJava toll road in 1H24.

- **Timeline:** 4Q23 results announcement in end-Mar 24.

Bank Mandiri - BUY (Posmarito Pakpahan)

- **Digital initiatives boosting CASA.** Amid rising competition in the CASA market, Bank Mandiri's (BMRI) digital initiatives have helped to improve its funding structure and gain market share. CASA ratio increased to 79% in Sep 23 from 66% in Jan 19. Its CASA market share rose from 16% in Jun 19 to 18% in Sep 23.

- **NIM could remain stable in 2024.** BMRI is expanding its portfolio of higher-yield assets which could support its NIM amid rising CoF. The commercial and retail segments will continue as loan growth drivers in 2024. With its lower LDR compared to other SoE banks, there is room for BMRI to book higher loan growth than other SoE banks.

- **One of the best asset qualities among SoE banks.** BMRI's loan quality is improving. As at Sep 23, LaR ratio and NPL had declined to 9.8% and 1.5% respectively. Theoretically, the retail and commercial segments have higher CoC. However, BMRI's CoC declined 50bp to <1% in 9M23. As of Sep 23, LaR coverage stood at 45.9% and NPL coverage stood at 299%.

- **Opex is under control and BRIS continues to improve its efficiencies.** Digitalisation and cost awareness will continue to support the bank's efficiencies. BMRI's cost-to-income ratio (CIR) only was 34% in 9M23. Its subsidiary, BRIS, will continue to improve its CIR post the merger from the current 48.4% in Sep 23.

- **Risks:** Management changes, adverse economic development, 7DRR hikes, worsening geopolitical issues, rising domestic political risk, and loan growth slowing down.

- **We have a BUY rating on BMRI.** Our target price of Rp6,500 is based on 2.1x 2024F P/B, derived from GGM (ROE: 20.0%, COE: 12.3%, Growth: 5%). Supported by ROE expansion, improving asset quality, and strong earnings growth momentum have supported BMRI's valuation re-rating. Currently, BMRI is trading at 1.9 forward P/B, +1.5 SD to its mean historical forward P/B. We believe BMRI is likely to maintain its strong growth momentum in 2024. We expect BMRI to distribute 60% of its 2023 net profit as dividends.

Share Price Catalyst

- **Events:** Expecting a strong set of results for 4Q23.

- **Timeline:** 4Q23 results are likely to be announced in 1Q24.

Trimegah Bangun Persada - BUY (Limartha Adhiputra)

- **Ferronickel sales expected to increase to 90,000 tonnes in 2023 and 120,000 tonnes**

in 2024. We expect Trimegah Bangun Persada's (NCKL) ferronickel production to increase 65,000 tonnes in 2023 with Halmahera Jaya Ferronickel's (HJF) Phase 2 rotary kiln electric furnace (RKEF) starting production in 2Q23. With additional capacity from HJF's Phase 2 RKEF in 2Q23, we expect 2023 ferronickel production and sales of 90,000 tonnes, up 255%. We have incorporated 90,000 tonnes for 2023 production volume at an average cash cost of US$11,510/tonne.

- **Acquisition of new nickel mines to secure more ore supply.** NCKL announced the acquisition of a 29% stake in Gane Permai Sentosa (GPS) and 99% stake in Gane Tambang Sentosa (GTS) from its parent company, Harita Jayaraya (HJR). The 29% acquisition of GPS is valied at Rp48.8b (~US$3m) while the 99% acquisition of GTS is valued at Rp7.9b (~US$0.5m), which NCKL believes to be much lower than the potential value of their nickel reserves. After the acquisition, NCKL's estimated total reserves will become 301.9m wmt, consisting of 225m wmt of limonite and 76.9m wmt of saprolite, extending its ore supply by more than 15 years.
- **Expect 2023 and 2024 NPAT to come in at Rp5.9t (+27.2% yoy) and Rp8.4t (+41.5% yoy) respectively** as sales volume will continue to increase on ramped-up nickel production in 2023-24. NCKL is optimistic of achieving its 2023 production and sales targets and believes that its NPAT will come in higher than consensus' expectation of Rp5.7t. We maintain 2023 and 2024 average nickel prices at US$22,785/tonne and US$20,000/tonne respectively. Hence, NCKL's revenue for 2023 should come in at Rp23.5t, with Rp6.4t in EBITDA, which implies a 41.3% growth yoy, while 2024 revenue will be Rp27.5t with EBITDA of Rp9.7t.
- **Maintain BUY with a target price of Rp1,300.** Our target price of Rp1,300 implies its average 2024F EV/EBITDA of 7.8x and its average 2024F PE of 9.2x. We maintain BUY on the back of potential higher EBITDA and net profit in 2023-24. Sales volume will increase as NCKL ramps up its production capacity, which could offset the risk of lower nickel price in 2024. We also expect that nickel demand to improve if China's economy recovers with higher usage of nickel in stainless steel and EV battery productions.

Share Price Catalyst

- **Events:** a) Rise in production volume, b) rise in nickel price, and c) inclusion in FTSE Russell index.
- **Timeline:** Announcement of NCKL's inclusion in FTSE Russell Index in mid-Dec 23 and 4Q23 results in Mar 24.

Telkom Indonesia - BUY (Paula Ruth)

- **Cross-selling between Indihome and Telkomsel could translate to higher revenue and profit.** The integration should be positive as Indihome has only 9.5m customers now. Indihome's services could be offered to Telkomsel's 151m customers. If 5% of Telkomsel's customers subscribe to Indihome, Indihome's customer numbers will rise 80% to 16.95m subscribers. We expect higher revenue and profit after the integration.
- **Indonesia's fixed broadband penetration is below one-third that of Thailand.** Indonesia's fixed broadband penetration (14%) is still relatively low compared with many countries (Turkey: 66%, Thailand: 47%), according to McKinsey, Oxford Economics, Analysys Mason and TLKM. Furthermore, broadband penetration in Indonesia is expected to increase to about 23% in 2027 from 14% in 2021, assuming GDP per household grows at a 6% CAGR to US$70,000 by 2027, according to the same sources.
- **Positive synergy from cost efficiency too.** We believe that the integration of fixed and mobile broadband into one business entity will be positive to TLKM as it enables more innovative offerings like fixed mobile convergence (FMC) and fixed wireless access (FWA). TLKM expects FMC to enable further synergies in the form of opex and capex efficiency. We expect TLKM's capex-to-revenue ratio to decline to 22% in 2027 from 25%

in 2023.

- **2023 NPAT could rise 21.9% yoy,** supported by the relatively low base of its digital investment's (GoTo Gojek Tokopedia, or GOTO) stock price as of end-22. We expect strong net profit growth in 2023 of 21.9% yoy, up from -16.2% yoy in 2022 (dragged down by an unrealised decrease in GOTO's fair value). Note that the quarterly trend of earnings growth tends to be affected by GOTO's share price movement.
- **Maintain BUY with a target price of Rp4,700.** Our target price implies 8x 2023 EV/EBITDA (adjusted according to ownership in Telkomsel). TLKM trades at 6.4x 2024F EV/EBITDA (13% discount to its historical mean).

Share Price Catalyst

- **Events:** Higher demand for data services during Christmas and New Year celebrations.
- **Timeline:** Christmas on 25 Dec 23, New Year's Eve on 31 Dec 23 and New Year's Day on 1 Jan 24.

Bank Negara Indonesia - BUY (Posmarito Pakpahan)

- **Fundamental improvement in credit risk.** In the last couple of quarters, Bank Negara Indonesia (BBNI) focused on de-risking its balance sheet, which led to moderate loan growth compared with other big banks, but also resulted in improving credit risk. Risk weighted asset (RWA) density credit risk for loan portfolio declined to 74.3% in Sep 23, which also resulted in an improvement in CAR ratio.
- **Higher CAR; plans to raise DPR to 50%.** Driven by solid earnings and improving credit risk, BBNI's Tier 1 CAR increased to 2.1% in Sep 23 from 19.8% in Jun 23 (2018: 17.4%). With improving CAR, BBNI plans to raise its dividend payout ratio (DPR) to 50% from last year's DPR of 40%. With the new DPR, BBNI offers 5-6% dividend yield at current price.
- **To reprice >30% of loans in Dec 23.** Higher rates and liquidity tightening could cause CoF to remain elevated in 4Q23, but the government's accelerating budget spending in 4Q23 can be a catalyst for a better liquidity environment. We see upside to earnings from: a) the bank's plan to reprice at least Rp250t loans (>30% of its loans) in Dec 23, and b) further CoC normalisation.
- **Maintain BUY with a target price of Rp5,600.** We arrive at 1.3x 2024F P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.8%, and long-term growth: 5%. BBNI is facing transformation by restructuring its loan portfolio and focusing on digitalisation on its front-end and back-end. Re-rating on valuation will be driven by continued ROAE improvement, for which management targets to reach 18% by 2025. BBNI's ROE has been trending up to 15.5% in 9M23 vs 2.6% in 2020, and is higher than 13.4% in 2019. BBNI is the cheapest stock among the Big Four banks, trading at 1.0x, close to average of its five-year historical P/B.
- **Risks:** Adverse economic development, 7DRR hikes, worsening geopolitical issues, and loan growth slowing down.

Share Price Catalyst

- **Events:** a) Solid 3Q23 results on the back of a 30bp qoq NIM expansion due to loan yield improvement, and 20bp qoq CoC decline on the back of improving asset quality, b) the bank plans to have another round of loan repricing in Dec 23, and c) government accelerating budget spending in 4Q23.
- **Timeline:** Loan repricing in Dec 23.

AKR Corporindo - BUY (Posmarito Pakpahan)

- **71% hoh net profit growth in 2H23.** We expect AKR Corporindo (AKRA) to deliver a strong net profit growth of 71% hoh (+22% yoy) in 2H23, driven by: a) 77ha land sales, b) 6-8% petroleum volume sales, and c) stable margin from its petroleum business. We expect gross margin to improve to 10.2%, with Java Integrated Industrial and Port Estate (JIIPE) contributing 30%.

- **77ha land sales in 2H23.** AKRA signed a binding agreement (CSPA) with Sichuan Hebang Biotechnology in 3Q23 for a land purchase of 67ha to set up a petrochemical manufacturing plant in JIIPE. We expect the 67ha of land sales to be recognised as revenue in 4Q23 while 10ha land sales had been reported in 3Q23.
- **Petroleum volume on track with margins sustained.** Supported by the mining activities and economic recovery, we expect petroleum volume to grow 6-8% this year. In 2Q23, petroleum volume grew 4% qoq (+5% yoy) with a run rate of 240,000 kl per month. AKRA could sustain its high margin per litre in 2H23 due to its extensive logistic networks and exposure to eastern Indonesia.
- **Maintain BUY with a target price of Rp1,840.** We arrive at our target price: a) using DCF method to value its trading and distribution and other segments, and b) using discount to RNAV to value its industrial estate segment. We use WACC of 9.6% and terminal growth of 3% in our DCF valuation and 60% discount to JIIPE's NAV with assumption of 519ha saleable landbank and ASP of US$150/sqm. We adjust the value to 60% AKRA's ownership in JIIPE. Our target price of Rp1,840 implies 13x 2023F PE. AKRA is trading at 10.9x forward PE, -1SD to its five-year historical forward PE mean.
- **Risks:** Adverse economic development, worsening geopolitical issues, lower-than-expected sales volume, decline in basic chemical prices, lower margin per litre and lower land sales booking than management guided.

Share Price Catalyst

- **Events:** a) Upward pressure for oil prices in the short term, and b) land sales booking in 4Q23.
- **Timeline:** Meanwhile, we expect the company to book 67ha of land sales in 4Q23. 4Q23 results are likely to be announced in 1Q24.

Mayora Indah - BUY (Stevanus Juanda)

- **Raised product prices by 12-18% in 2022;** gross margin to improve by 180-480bp yoy in 2023. Mayora Indah's (MYOR) product ASPs increased by an average of 15% in 2022 and in the range of 12-18%. As raw material prices are normalising in 2023, MYOR will no longer increase its prices. However, the new and higher prices are likely to remain elevated, which will translate to gross margin improving from 22.2% in 2022 to 25-27% in 2023.
- **ASP increase should offset recent rise in wheat and CPO prices.** Our sensitivity analysis indicates that every 5% ASP increase will result in NPAT rising by 51.3%; every 5% increase in wheat and CPO prices will cause 2023 NPAT to decline by 6.0% and 4.6% respectively. After increasing ASP by an average of 15% in 2023, we believe 2H23 gross margin could still expand but likely with a lower magnitude.
- **3Q23 NPAT up 87.1% yoy and 64.2% qoq to Rp807.3b.** MYOR continues to benefit from the decline in raw material costs as gross margin expanded by 442bp and net margin jumped by 451bp. Bogasari adjusted flour prices in Jul 23, which has benefitted MYOR. 3Q23 operating profit was up 75.5% yoy. MYOR reported 9M23 NPAT of Rp2,026b, rising 86.8% yoy. The reported 9M23 NPAT is in line with UOBKH's forecast of Rp2,655b (76.3% level) but slightly ahead of the street's (78.8% level) forecast of Rp2,572b.
- **Advertising and promotional expenses at 9-11% of sales;** lower freight costs as container costs normalise. MYOR's advertising expenses declined from Rp3.6t in 2021

(13% of sales) to Rp2.65t (8.6% of sales) in 2022. In 2023, MYOR will continue to maintain its advertising and promotion costs at 9-11% of sales. Freight costs rose 19.2% yoy in 2022, but are likely to decrease in 2023 as container costs have normalised and oil prices have declined.

- **Maintain BUY on MYOR with a target price of Rp3,000; 2023 NPAT could rise 44.4% yoy to Rp2,593b.** Despite the potential slight pressure from the increase in wheat and CPO prices, we expect MYOR to record a strong yoy growth in NPAT in 2023. We have forecasted 34.8% yoy core NPAT growth in 2023. With 28.1% upside, we maintain BUY on MYOR with a target price of Rp3,000.

Share Price Catalyst

- **Events:** Potential strong results from 4Q23 onwards.
- **Timeline:** 4Q23 results announcement at end-Mar-24.

Ciputra Development - BUY (Limartha Adhiputra)

- **Marketing sales on track to achieve 2023 upgraded target of Rp9.8t.** 9M23 marketing sales reached Rp7.8t, contributing 79.7% of Ciputra Development's (CTRA) 2023 target. In 3Q23, marketing sales was Rp2.7t, 58.8% higher than 2Q23's marketing sales achievement of Rp1.7t. Sales of houses and land lots contributed the most to total marketing sales in 9M23 (76%), followed by shophouses (21%), while apartment and offices made up the remaining 3%.

- **VAT incentives to support marketing sales growth in 2024.** The government is providing value added tax (VAT) incentives, starting in Nov 23-Dec 24 and will be divided into two periods. During the first period (Nov 23-Jun 24), housing units priced up to Rp2b will see 100% of VAT borne by the government. During the second period (Jul 24-Dec 24), the VAT borne by the government will be reduced to 50%. The government is considering expanding the VAT incentives to housing units priced up to Rp5b. We believe this will have a positive impact on property companies, including CTRA as it has houses and apartments in its inventory priced between Rp1b-5b.

- **Expect 2023-24 net profit to grow 7.6% yoy and 19.6% yoy to Rp2.0t and Rp2.4t respectively.** 2023-24 revenue could grow on stronger development revenue growth. The high marketing sales in 2022 will translate into stronger development revenue for 2023-24. We expect 2023 revenue to grow 9.8% yoy to Rp10t, of which 78.7% will be development revenue and 21.3% will be recurring revenue. We forecast 2024 revenue at Rp10.8t (+8.2% yoy) with 78.5% contribution from development revenue and 21.5% contribution from recurring revenue.

- **Maintain BUY with a target price of Rp1,300.** This is derived from five-year +1SD discount to 2023 RNAV/share, or at a 66.5% discount to our RNAV. We think CTRA deserves an above-average valuation as it has well-diversified projects in and outside Java that can drive its marketing sales growth in 2023. CTRA is currently trading near five-year mean discount to 2023 RNAV/share.

Share Price Catalyst

- **Events:** a) Strong 4Q23 earnings on high handover seasonality, b) Bank Indonesia's seven-day repo rate to stay at current level.
- **Timeline:** a) 4Q23 marketing sales announcement in early-1Q24 and 4Q23 results in Mar 24, and b) BI rate announcement on 22-23 Nov 23.

STRATEGY – MALAYSIA

Alpha Picks: Still Focusing On Domestic Winners

Our Alpha Picks trounced the FBMKLCI in Nov 23 (+5.9% vs. +0.7%) mostly thanks to Hume Cement's (Hume) run-up. Nov 23's performance validated our focus on winners of selective domestic demand, a strategy which remains valid. Dec 23 picks: Bursa Malaysia (Bursa), Ekovest Berhad (Ekovest), IOI Corp, Genting Malaysia (GENM), Inari Amerton (Inari), KPJ Healthcare (KPJ), RGB International (RGB) and Sunway Berhad. We add RGB and drop Hume (which has more than doubled ytd).

WHAT'S NEW

- **Market review for Nov 23.** The FBMKLCI was up 0.7% in Nov 23. Major winners within the KLCI segments included gaming (+12.6%), ports (+4.0%) and plantation (+2.0%) while losers included the offshore contractor segment of oil and gas (-9.7%), healthcare (-2.0%) and building materials (-1.9%). Looking to the non-KLCI segments, gloves (+15.4%) was the major winner while losers included media (-8.4%), EMS tech (-1.2%) and aviation (-1.0%).
- **Nov 23's Alpha Picks outperformed.** Nov 23's portfolio outperformed the KLCI, posting a return of +5.9% on the back of strong performance from the previous month's additions. Hume (+25.4%) and GENM (+10.3%) posted the largest gains while our other picks provided modest returns. The only exceptions were Ekovest (-5.3%) and Bursa (-0.4%) but overall, November was a solid month for our portfolio.
- **Domestic theme winners to drive our Alpha Picks.** We continue to expect outperformances by beneficiaries of domestic-oriented investment themes: Iskandar 2.0 (favouring Ekovest and Sunway Berhad), en mass recovery of Chinese tourists (GENM), and year-end window dressing (Bursa).

ACTION

- **Dec 23 Alpha Picks: Bursa, Ekovest, IOI Corp, GENM, Inari, KPJ, RGB and Sunway Berhad**. We added RGB, a value stock (prospective PE and dividend yield of about 6x and >6% respectively, backed by net cash of >40% of market cap) which is set to recover after falling >30% from its peak in August. We understand that RGB's assistance in an MACC (anti-corruption) investigation is at a tail end, which allows investors to refocus on its strong fundamentals. Meanwhile, we removed Hume from our Alpha Picks after its stellar performance, having more than doubled ytd. Nevertheless, Hume still promises substantial upside over the longer term, given that the current valuations have not fully reflected its ability to generate significant free cash flow.

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Keith Wee	Bursa Malaysia	BUY	(2.5)	Valuation rerating and ADV momentum as investors price in peak US interest rate cycle. Past beneficiary of window dressing.
Lucas Tan, Nazira Abdullah	Ekovest Berhad	BUY	(5.3)	Riding on the vibrancy of Johor's property/infrastructure demand, and asset monetisation efforts.
Jack Goh	Genting Malaysia	BUY	10.3	Recovery of international (China) patronage; expected New York downstate gaming concession bid.
Desmond Chong	Inari Amertron	BUY	2.5	Strong recovery in FY24 premised on its new flagship programme, fruition of new business collaboration.
Jacquelyn Yow, Leow Huey Chuen	IOI Corporation	BUY	2.3	Strong earnings sensitivity to rising CPO prices (driven by weather-related risks).
Philip Wong	KPJ Healthcare	BUY	4.7	Sale of its loss-making aged care centre in Australia and all its gestating hospitals should break even.
Jack Goh	RGB International	BUY	n.a.	Delivering stellar earnings growth in 2023-24 as major beneficiary of ASEAN's blooming gaming scene.
Nazira Abdullah	Sunway Berhad	BUY	7.0	Iskandar Malaysia proxy and value unlocking from healthcare segment.

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

KEY RECOMMENDATIONS

Company	Rec	Share Price (RM)	Target Price (RM)	Upside to TP (%)
BURSA	BUY	6.75	7.85	16.3
EKOVEST	BUY	0.450	1.10	144.4
GENM	BUY	2.69	3.50	30.1
INRI	BUY	2.89	3.60	24.6
IOI	BUY	3.98	4.80	20.6
KPJ	BUY	1.34	1.40	4.8
RGB	BUY	0.29	0.35	20.7
SWB	BUY	1.90	2.38	25.3

Source: UOB Kay Hian

PORTFOLIO PERFORMANCE

Company	Rec	Nov 23 (%)	To-date* (%)
BURSA	BUY	(0.4)	(2.5)
EKOVEST	BUY	(5.3)	(5.3)
GENM	BUY	10.3	10.3
HUME	BUY	26.5	13.2
INRI	BUY	2.5	2.5
IOI	BUY	2.3	2.3
KPJ	BUY	4.7	4.7
SWB	BUY	7.0	7.0
FBMKLCI		0.7	

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

PORTFOLIO RETURN

(%)	2022	1Q23	2Q23	3Q23
FBMKLCI Return	-4.6	-4.9	-3.2	5.9
Alpha Picks Return				
- Price-weighted	2.9	-3.6	-1.6	4.2
- Market Cap-weighted	-2.9	1.3	1.2	1.7
- Equal-weighted	-0.2	-1.1	1.2	4.3

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

Source: UOB Kay Hian

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Bursa Malaysia – BUY (Keith Wee)

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

Share Price Catalyst

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

Ekovest – BUY (Lucas Tan, Nazira Abdullah)

- **Higher earnings in FY24 on stronger construction operations and the maiden contribution of SPE.** Ekovest is poised to deliver stellar earnings growth over the next three years backed by: a) better performance of the construction division as the progress billing of Rapid Transit System (RTS) picks up pace, and b) maiden profit from Setiawangsa-Pantai Expressway (SPE) upon the highway's commencement of operations in 4Q23. Further upside to earnings could come from better-than-expected performance of Duta-Ulu Kelang Expressway (DUKE) and the property division.
- **To benefit from a strong pipeline of infrastructure projects.** We expect Ekovest to grow its construction orderbook amid a brighter sector outlook. Potential replenishment opportunities include DUKE Phase 2A Istana Link (estimated value of RM3.8b), projects from Johor and the reinvigoration of the River of Life project.
- **Multiple corporate reorganisations and acquisitions are gradually taking shape.** The group is undertaking multiple corporate exercises including: a) the merger of Knusford and its own construction arm, b) the acquisition of lands along RTS Bukit Chagar line for potential transit-oriented development (TOD) 2 & 3, c) the acquisition of at least 51% or up to 70% stake in Credence, and d) the IWH-IWC merger. These exercises allow Ekovest to streamline its operations, eliminate many of the existing recurrent-related party transactions as well as tap into the rising vibrancy of Johor's property market.
- **Maintain BUY with a target price of RM1.10,** based on a 50% discount to its SOTP of RM2.21, which is largely anchored by the valuation of its highways. We hold an optimistic view on the company's outlook, as it will be able to ride on the potential monetisation of its DUKE highways as well as the rising vibrancy of the Johor property market (through its access of IWC-IWH landbanks and TOD 2 & 3 near RTS Bukit Chagar).

Share Price Catalyst

- **Potential monetisation of DUKE highways to unlock huge investment value.** Despite a lack of clarity, there is increasing likelihood of the monetisation of highways amid the

KEY EVENTS IN NOV 23

Corporate

- 3Q23 results season: More positive surprises
- Notable outperformers: GENT, HUME, MAHB, MYEG, VSI
- Notable underperformers: INARI, TNB, Farm Fresh
- Air Asia X announced the upliftment of its PN17 status without having to submit a regularisation plan
- Bermaz Auto announced it will return the distributorship of Peugeot to Stellantis N.V. after its expiry on 30 November
- YTL Power has become a substantial shareholder of smaller rival Ranhill Utilities after acquiring an 18.9% stake

Economics

- 3Q23 GDP: up 3.3% yoy, mainly driven by private sector spending
- MIER Business Conditions Index fell to 79.7pt, the lowest since 2Q20, on concerns over rising costs
- MY international reserves: US$110.5b as of 15 Nov
- Oct 23 trade data: Total trade down 2.4% yoy, trade surplus came in at RM12.9b
- EPF posted 19% higher investment income of RM14.67b in 3Q23

Others

- MITI has implemented a two-year moratorium on expansion in the iron and steel industry
- The government has restructured toll concessions for 19 highways to avoid toll hikes
- Real estate market transactions were up 22.6% yoy in 3Q23

Source: Media reports

SECTOR PERFORMANCE

	-------- Performance (%) --------	
Sector	Oct	Ytd
Automobile	1.4	31.3
Aviation	-1	16
Banking	-0.3	-2.2
Building Materials	-1.9	-0.7
Construction	-0.1	23.7
Consumer	-0.5	-13.1
Exchange	-0.4	1.7
Gaming	12.6	0.7
Glove Manufacturing	15.4	16.5
Healthcare	-2	-4
Insurance	1.8	10.6
Manufacturing	0.3	13.7
Media	-8.4	-41.5
O&G - Heavy Eng	2.2	-10.5
O&G - Asset Owners	-2.3	-1.2
O&G - Offshore Contractors	-9.7	37.7
O&G - Shipping	-0.8	-4.1
Plantation	2	-2.7
Port	4	-7.3
Property	-0.2	41.2
REITs	1.8	7.4
Tech - EMS	-1.2	-19
Tech - Semiconductor	1.4	3.4
Tech - software	0.9	-5.6
Telecommunications	1.5	-2.3
Utilities	0.5	3.1

Source: Bloomberg, UOB Kay Hian

government's commitment to fulfilling its earlier promises to abolish highway tolls in stages. The potential monetisation can be a major rerating catalyst since DUKE Phase 1 and Phase 2 could command a lucrative equity value of RM3.1b or enterprise value of RM4.6b (on a 60% basis), about 2x above Ekovest's market cap, while generating disposal gains of RM2b-3b.

Genting Malaysia (GENM) – BUY (Jack Goh)

- **Re-diverting attention towards 4Q23-2024's earnings quality.** GENM is well-positioned for strong gross gaming revenue (GGR) and earnings recovery momentum in 4Q23-2024, driven mainly by the ramp-up of intra-regional flight capacities and meaningful influx of international visitorship to Malaysia and Resorts World Genting (RWG).
- **Recovery strength to track progressive capacity restoration in RWG.** Note that RWG's operating matrix has largely normalised to pre-pandemic levels. We understand that: a) available hotel rooms in RWG have been restored to around 10,000 rooms; b) EBITDA margin expanded on higher gaming contributions and average spending (3Q23: 33.5% vs pre-COVID-19's 26-31%); and c) the earlier croupier shortage issues have been fully resolved.
- **RWG to see sustain solid recovery momentum.** RWG's EBITDA further improved (+6% qoq) in 3Q23, mainly reflecting higher gaming volume at Resorts World Genting (RWG) (*pls check, correct?),* following the restoration of operating capacity and higher hilltop visitations. Note that RWG's GGR saw a commendable recovery to around 93% of 3Q19's figure (2Q23: 87%) on surging VIP GGR (103% of 3Q19's figure). Overseas operations in the US and UK have also posted stellar EBITDA growth on the back of improving capacity and business normalisation post-pandemic with an uptick in footfall visitations.
- **BUY with a target price of RM3.50,** which implies 11x 2023F EV/EBITDA (historical mean). Current risk-reward is highly appealing with discounted valuations (-1.5SD below mean) and a lush dividend yield of about 7.2%, making GENM palatable for mid- to long-term positioning.

Inari Amertron (INRI) – BUY (Desmond Chong)

- **After the fifth consecutive yoy sales contraction on lower loading volumes amid inventory adjustment,** which saw Inari Amertron's share price dwindling from its all-time high of RM4.25 in late-21 to RM2.80, negatives have been fairly priced in on an undemanding valuation of 19x ex-cash FY24F PE
- **We expect growth to resume in 2024 (+22% yoy),** predominantly driven by its RF (*stands for?)* segment as the group is gearing up for its new flagship programme (which would account for two-thirds of its total revenue).
- **The group is on-boarding new customers which could contribute around RM150m revenue** (11% of FY23 revenue; mostly memory related) in FY24. Meanwhile, the new plant from its JV company Yiwu Semiconductor International will be ready in 4Q23 and start contributing in 2024.

Share Price Catalyst

- Stronger-than-expected earnings growth from trade diversion-related customers.
- Better-than-expected demand adoption for its new optical transceiver products.

IOI Corporation (IOI) –BUY (Jacquelyn Yow, Leow Huey Chuen)

- **Capitalising on CPO price uptrend.** We expect FY24 earnings to increase by 45% yoy, on the back of higher CPO ASP and lower cost of production as fertiliser prices have normalised.
- **Strong operational performance.** Among large-cap plantation companies, IOI is the sole company to see an increase in oil extraction rate (OER) over the past three years, despite the sector-wide headwinds such as wet weather and labour issues.

- **IOI has the highest downstream margin vs its peers.** We attribute this to its strong customer-based differentiated products and its new plant being more cost-effective.

Share Price Catalyst

- Better-than-expected CPO prices.
- Higher-than-expected FFB production growth.

KPJ Healthcare (KPJ) –BUY (Philip Wong)

- KPJ has largely completed its greenfield expansion, allowing for a healthier balance sheet and realisation of its positive operating leverage.
- Aside from enjoying its positive structural trend, its valuations are undemanding. It is currently trading close to its -2SD to its five-year pre-pandemic PE mean.
- Reorganisation of its loss-making regional operations paves the way for improved earnings visibility.

Share Price Catalyst

- Loss-making hospitals breaking even.
- Sale of loss-making aged care centre in Australia, expected for 1H24.

RGB International Berhad (RGB) – BUY (Jack Goh)

- **Record-high earnings under spotlight.** RGB reported record-high 2Q23 net profit of RM26.5m (+152% qoq), quadrupling four folds from pre-pandemic's (2Q19) earnings. In 3Q23, the group also reported a yoy stronger 3Q23 revenue of RM170.4m (+142% yoy, -49% qoq) and net profit of RM26.1m (+2318% yoy, -1% qoq).
- **Well-positioned to capture the exponential slot machines growth in ASEAN gaming jurisdictions.** While the ASEAN gaming scene especially in the Philippines remains highly charged with aggressive gaming capacity expansion and post-pandemic replacement cycle, RGB is poised to largely benefit from this trend. To note, RGB has >70% market share in the Indochina and Philippines' slot machines market.
- **Better capital management anticipated with strong balance sheet; lush prospective yield of 4.5%.** RGB currently holds net cash of around RM187m, equivalent to about 42% of the group's current market cap. This may allow better capital management or higher dividends payout. To note, RGB declared 1.2sen/share dividend as of 9M23, which implies a 4% yield.
- **Potential capital upside on palatable valuations.** RGB is currently trading at discounted valuations of 5.8x 2024F PE vs historical mean of 9-10x, which offers potential capital upside as the group sustains 2023 record-high earnings momentum moving forward.
- **BUY with a target price of RM0.35,** which implies 8x 2024F PE (-0.5SD below pre-pandemic's five-year mean), with potential upside to our target price should management embark on a more aggressive capacity management policy.

Sunway (SWB) – BUY (Nazira Abdullah)

- **Iskandar Malaysia's proxy.** Sunway's 1,632 acres of landbank in Johor with gross development value (GDV) of RM29b (57% of its remaining total GDV of RM51.4b) may stand to benefit from the positive prospects of Johor's property landscape in light of developments such as the RTS and special economic zone.
- **Unlocking value of healthcare segment.** Growth of hospital network and performance of the healthcare division is on track. Sunway is targeting to list its healthcare segment by 2027 and may consider listing earlier should the opportunity arise

- **Earnings outlook.** We expect Sunway to see a stronger 4Q23 on higher sales of RM2.2b (+22% yoy), strong unbilled sales of RM4.17b (3.6x cover ratio), higher number of hospital beds (from hospital expansion) as well as higher property investment from the leisure and hospitality businesses (seasonally stronger quarter). For 2024, we expect even higher contribution from the property segment given lumpy recognition from Parc Central Tampines in Singapore while the progress billings from the group's newly-launched Singapore projects namely Terra Hills and The Continuum should also start contributing. Additionally, we also anticipate more launches from the group's Johor township in 2024.

- **Maintain BUY with a target price of price of RM2.38,** based on 10% discount to our SOTP-based valuation of RM2.64/share. The stock is currently trading at 2023F PE of 13.6x and 2024F PE of 13x (largely around its five-year average of 14.3x PE) and P/B of 0.7x (below five-year average of 0.9x).

Share Price Catalyst

- Riding on the Johor theme vibrancy.

VALUATIONS

Company	Ticker	Rec	Share Price 1 Dec 23 (RM)	Target Price (RM)	Last Year End	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	Yield 2024F (%)	ROE 2024F (%)	Market Cap (US$m)	Price/ NTA (x)
Bursa Malaysia	BURSA MK	BUY	6.75	7.85	22-Dec	24.1	23.9	22.0	4.3	31.0	1,168.9	6.8
Ekovest Berhad*	EKO MK	BUY	0.450	1.10	23-Jun	(51.4)	31.0	20.8	0.0	n.a	285.5	(0.3)
Genting Malaysia Bhd	GENM MK	BUY	2.69	3.50	22-Dec	92.0	18.6	16.6	7.2	7.7	3,262.3	1.3
Inari Amertron	INRI MK	BUY	2.89	3.60	23-Jun	33.7	28.5	23.9	3.8	16.8	2,316.5	4.0
IOI Corporation *	IOI MK	BUY	3.98	4.80	23-Jun	17.1	15.5	14.1	3.7	14.2	5,283.1	2.0
KPJ Healthcare	KPJ MK	BUY	1.34	1.40	22-Dec	36.2	25.0	21.4	2.3	11.6	1,251.3	9.9
RGB International	RGB MK	BUY	0.29	0.35	22-Dec	96.6	6.6	6	4.5	48.1	96.3	0.9
Sunway Berhad	SWB MK	BUY	1.90	2.38	22-Dec	14.8	14.0	13.3	3.0	5.3	2,018.9	0.7

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

STRATEGY – SINGAPORE

Alpha Picks: Add VALUE And VMS; Remove THBEV And CSE

Global markets rallied in Nov 23 as encouraging economic data, cooling inflation and dovish comments from the US Fed raised hopes of an end to the rate-hike cycle. This enabled our Alpha Picks portfolio, which rose 1.5% mom in Nov 23, to beat the STI by 1.3ppt on an equal-weighted basis. For Dec 23, we add VALUE and VMS, while removing THBEV and CSE.

WHAT'S NEW

- **Market review.** Global markets rallied in Nov 23, fuelled by increased expectations that the US Fed will put an end to the current interest rate-hike cycle, backed by cooling inflation and slowing economic data. Also, a better-than-expected conclusion to the US corporate earnings season boosted global investor sentiment, with the STI increasing 0.2% mom.

- **Strong performance.** Our Alpha Picks portfolio outperformed in Nov 23 and was up 1.5% mom on an equal-weighted basis, beating the STI by 1.3ppt. Key to this outperformance were Sembcorp Industries (SCI, +12.0% mom), Frencken (+10.6% mom) and Far East Hospitality Trust (+9.3% mom). SCI's performance was driven by positive sentiment after its Investor Day and a series of renewables acquisitions in China, India and Vietnam while Frencken was driven by robust 3Q23 results and an improved outlook. Far East Hospitality Trust continues to benefit from Singapore's recovering tourist arrivals. However, our portfolio's performance was offset by Thai Beverage (-7.4% mom) which posted weak FY23 results, while a weak oil price dragged down sentiment towards our O&G-related picks such as Seatrium (-6.3% mom) and MarcoPolo Marine (-3.9% mom).

- **More tech exposure.** For Dec 23, we add Valuetronics and Venture with the former expected to benefit from higher earnings from new customer acquisitions and share buybacks, while the latter's valuation appears compelling, backed by its decent 6% dividend yield and potential share buybacks. We remove Thai Beverage as we believe higher SG&A costs and stiff competition in key beer markets will likely stymie its share price performance, while CSE Global lacks near-term share price catalysts, in our view.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Jacquelyn Yow	Bumitama	BUY	3.4	Margin expansion backed by CPO price uptrend.
Roy Chen	SIA Engineering	BUY	0.0	Earnings and dividend recovery.
John Cheong	Frencken Group	BUY	14.4	Better-than-expected sequential earnings.
John Cheong	Civmec	BUY	18.6	Strong order book and higher dividend.
John Cheong	Valuetronics	BUY	-	Earnings recovery from new customers.
John Cheong	Food Empire	BUY	-0.9	Dual listing expected to improve valuation.
John Cheong	Venture Corp	BUY	-	Higher-than-expected dividends.
Jonathan Koh	Far East Hosp Tr	BUY	11.9	Pure play on Singapore's hospitality sector.
Jonathan Koh	OCBC	BUY	2.2	Attractive dividend yield; less susceptible to NIM compression.
Jonathan Koh	Mapletree Industrial Trust	BUY	-1.3	A play on the global growth in data centres.
Adrian Loh	Sembcorp Ind	BUY	76.8	Re-rating prospects as a green energy play.
Adrian Loh	Seatrium	BUY	-14.3	New order win momentum from oil & gas and renewables industry
Adrian Loh	RH Petrogas	BUY	-18.3	Exploration catalysts in the near term
Llelleythan Tan	ComfortDelgro	BUY	2.4	Increase in taxi commission rates.
Chong Lee Len	SingTel	BUY	-3.4	Higher 2HFY24 dividend.
Heidi Mo	Marco Polo Marine	BUY	-9.4	Higher-than-expected utilisation and increased offshore activity

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

KEY RECOMMENDATIONS

Company	Rec*	----- Price (S$) ----- 1 Dec	Target	Up/(down) to TP (%)
Bumitama	BUY	0.605	0.70	15.7
Civmec	BUY	0.765	1.23	60.8
ComfortDelGro	BUY	1.29	1.69	31.0
Far East HTrust	BUY	0.66	0.76	15.2
Food Empire	BUY	1.09	1.63	49.5
Frencken	BUY	1.19	1.23	3.4
MapletreeInd	BUY	2.27	2.69	18.5
MarcoPolo Marine	BUY	0.048	0.06	25.0
O C B C	BUY	12.64	17.35	37.3
RH PetroGas	BUY	0.188	0.238	26.6
Seatrium	BUY	0.102	0.19	86.3
Sembcorp Ind	BUY	5.20	7.20	38.5
SIA Engineering	BUY	2.29	2.67	16.6
SingTel	BUY	2.30	3.15	37.0
Valuetronics	BUY	0.555	0.72	29.7
Venture Corp	BUY	13.02	14.06	8.0

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

CHANGE IN SHARE PRICE

Company	Rec	Nov 23[1] (% mom)	To-date[2] (%)
Bumitama	BUY	6.1	3.4
Civmec *	BUY	(1.1)	18.6
ComfortDelGro	BUY	(2.3)	2.4
CSE Global	BUY	2.4	7.7
Far East HTrust	BUY	9.3	11.9
Food Empire	BUY	(0.9)	(0.9)
Frencken	BUY	10.6	14.4
MapletreeInd *	BUY	7.6	(1.3)
MarcoPolo Marine	BUY	(3.9)	(9.4)
O C B C	BUY	(1.1)	2.2
RH PetroGas	BUY	0.0	(18.3)
Sembcorp Ind	BUY	12.0	76.8
Seatrium	BUY	(6.3)	(14.3)
SIA Engineering *	BUY	0.4	0.0
SingTel *	BUY	(0.8)	(3.4)
ThaiBev	BUY	(7.4)	(10.7)
FSSTI		0.2	
UOBKH Portfolio		1.5	

Source: UOB Kay Hian

PORTFOLIO RETURNS (%)

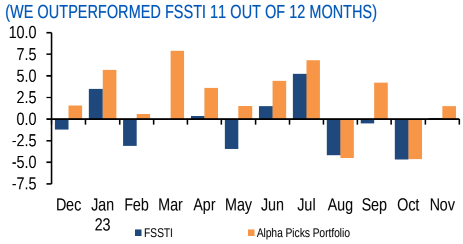
	1Q23	2Q23	3Q23	Oct 23	Nov 23
FSSTI return	0.2	-1.6	-0.4	-4.7	0.2
Alpha Picks Return					
- Price-weighted	5.5	10.1	-18.8	-5.2	2.2
- Marketcap-weighted	2.9	5.4	-5.0	-4.6	-0.8
- Equal-weighted	9.1	7.2	-0.7	-6.3	1.5

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

Source: UOB Kay Hian

PORTFOLIO RETURNS IN THE PAST 12 MONTHS

(WE OUTPERFORMED FSSTI 11 OUT OF 12 MONTHS)



Source: Bloomberg, UOB Kay Hian

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

- **Margin expansion coupled with CPO uptrend.** Bumitama Agri (Bumitama) has strong earnings sensitivity towards CPO prices compared with its Indonesian SGX-peers as it is a pure upstream player and sells 100% of its CPO into the spot market. We expect margin expansion for 2H23 and 2024 with production costs forecast to decline by 10-15% due to lower fertiliser costs.
- **Higher dividend yield.** We expect an attractive dividend yield of 6-7% for 2023-24 due to its dividend payout policy of up to 40%.
- **Maintain BUY with a target price of S$0.70**, which is pegged to an undemanding 6.0x 2024F PE.

Share Price Catalyst

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

SIA Engineering – BUY (Roy Chen)

- **Riding the recovery of regional flight activities.** Aircraft movements at Changi Airport recovered to 90% of the pre-pandemic levels in Oct 23 and are expected to increase further as regional air traffic continues to recover. SIA Engineering is a key beneficiary of this trend given its over 80% market share of Changi Airport's line maintenance service volume. Its maintenance, repair and overhaul (MRO) businesses for airframe, engine and component are also set to improve as regional flight activities pick up further.
- **Strong balance sheet with sizeable net cash position.** SIA Engineering had net cash of over S$589m as at end-1QFY24, equivalent to 23% of its current market cap. This sizeable net cash position earns SIA Engineering decent interest income (over S$20m by our estimate) in the high interest rate environment and allows the company to eye potential acquisition opportunities to expand its regional network.
- **Undemanding valuation with further dividend recovery.** SIA Engineering currently trades at FY25F (normalised year) PE of 14.8x, or 11.3x only if excluding its net cash position. With the core profitability recovery, we expect SIA Engineering to recover its dividend to 8.5/12 S cents in FY24/25, leading to a dividend yield of 3.7%/5.2%.
- **Maintain BUY and target price of S$2.67.** Our DCF-based target price is based on a WACC of 8.5% and a terminal growth rate of 2.5%. SIAEC is currently trading at 14.8x FY25F (normalised year) PE (or 11.3x if ex-net-cash).

Share Price Catalysts

- **Events:** a) Organic earnings recovery, b) dividend recovery, c) possible M&As.
- Timeline: 3-6 months.

Frencken – BUY (John Cheong)

- **Stable outlook for 2H23 indicate 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. Frencken'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.
- **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 the semiconductor industry is turning the corner and on a path back to growth.

- **Long-term growth supported by diversified segments and new programmes.** 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. 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.
- **Maintain BUY and 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 the 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 Catalysts

- **Events:** a) Better-than-expected earnings or dividend surprise, b) improving net margin from better-than-expected factory utilisation, and c) winning of new customers.
- **Timeline:** 3-6 months.

Civmec – BUY (John Cheong)

- **Solid earnings growth for 1QFY24 and improved net cash position.** Civmec's 1QFY24 net profit of A$15.2m (+7.3% yoy) is in line with our expectations, accounting for 24% of our full-year estimate. Net margin remained flat yoy but improved qoq by 2.6ppt, driven by the delivery of higher-return projects and better cost management. On top of this, the group recorded an improved net cash position of A$43.9m (+215.8% qoq) from strong operating cash flows of A$40.1m during the quarter. We expect Civmec to continue to deliver a strong set of results moving forward.
- **Positive outlook amid buoyant tendering activities.** Tendering activities saw continued strong momentum across all sectors that Civmec has a presence in. Its orderbook stood at around A$1.15b (-3.4% qoq; +10.6% yoy) as at end-FY23, securing most of the revenue for the next 12 months with a portion extending up to 2029.
- **Final dividend a positive surprise; company turned into net cash position.** Given its robust cash generated from operations in FY23 (+239% yoy to A$123m), Civmec has declared a final dividend of 3.0 A cents (+50% yoy), bringing full-year dividend to 5.0 A cents (FY22: 4.0 A cents). This is above management's previous guidance of maintaining its final dividend and represents an attractive dividend yield of 6%. Civmec also turned into net cash position for the first time in FY23 (A$14m vs A$33m net debt in FY22).
- **Maintain BUY with a target price of S$1.23,** pegged to 11x FY24F PE (based on 1SD below five-year mean). We think the current valuation of 8x FY24F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civmec's Australian peers are trading at an average of 15x FY24F PE.

Share Price Catalysts

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

Valuetronics – BUY (John Cheong)

- **Strong earnings beat in 1HFY24 results.** Valuetronics' (VALUE) 1HFY24 net profit of HK$82.1m (+42% yoy, +26.1% hoh) was above our expectations, making up 61% of our full-year estimate. Gross margin improved by 3.1ppt due to: a) lower material costs from component shortage relief as the group's supply chain visibility has improved, and b) lower labour costs in China, stemming from stabilisation in the labour supply as well as depreciation of the Renminbi. The surge in other income to HK$28.8m (+123% yoy), mainly from rising interest income as a result of the US Fed rate hikes, also led to net margin expansion to 9.2% (+3.7ppt yoy).
- **Positive outlook with four new customers contributing.** Upon VALUE's newly-constructed Vietnam campus commencing operations, it has consolidated its facilities into one campus site since Jun 22 to optimise operations and costs. VALUE has since acquired two new customers – a hardware provider customer for retail chain stores and a customer providing cooling solutions for high performance computing environments – and successfully commenced initial shipments at end-FY23. Full-year contribution is expected from the two new customers in FY24. More recently, VALUE has acquired another two new customers, including an electronic products supplier for a global entertainment conglomerate and a Canada-based customer providing network access solutions. Management expects to have shipments scheduled in 2HFY24 and production ramp-up in FY25.
- **Strong balance sheet, special dividend and share buybacks.** As of 1HFY24, VALUE had net cash of HK$1.1b (accounting for around 80% of its current market cap). It has also doubled its interim dividend in 1HFY24 via a special dividend and has started aggressive share buybacks after its 1HFY24 results, where it has bought back 2.5m shares vs only 0.5m shares before its 1HFY24 results announcement.
- **Maintain BUY with PE-based target price of S$0.72,** pegged to 10.6x PE for FY24. This is based on 1SD above VALUE's historical PE mean to account for potential strong demand from its four new customers. VALUE is currently trading at only 2x FY24 ex-cash PE and offers an attractive FY24 dividend yield of around 7.5%.

Share Price Catalysts

- **Events:** a) Winning more customers, b) higher-than-expected contributions of new customers, c) higher-than-expected dividends and share buybacks.
- **Timeline:** 6-12 months.

Food Empire – BUY (John Cheong)

- **Potential dual listing on Hong Kong Stock Exchange to improve valuation.** Food Empire Holdings (FEH) recently announced that it is exploring a dual primary listing in Hong Kong. This will provide FEH with more avenues to raise capital and exposure to a broader investor base. If successful, we believe that it could mean better valuations for the stock. Trading at 8x 2024F PE vs Singapore peers' average of 11x and regional peers' average of 14x, its valuation is due for a re-rating, in our view.
- **Strong demand for consumer staple products.** Despite rising inflationary pressures and ASPs, FEH does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, demand is relatively price inelastic. FEH's products in the coffee segment, such as the MacCoffee brand, continue to be affordable with mass appeal, leading to stronger demand in 2023.
- **Frequent share buybacks to date reflects confidence.** From Apr 23, FEH has bought back 1.8m shares at up to S$1.11. This is close to the 52-week high share price of S$1.18, showing management's confidence in the future growth outlook.
- **Maintain BUY.** Our target price of S$1.63 is based on 11x 2024F EPS, or its long-term historical mean.

Share Price Catalysts

- **Events:** a) Better-than-expected earnings or dividend surprise, b) improving net margin from better-than-expected ASPs and easing of key costs including freight and raw material costs, and c) successful dual listing on Hong Kong Stock Exchange.
- **Timeline:** 3-6 months.

Venture Corp – BUY (John Cheong)

- **Expect decline in revenue to ease.** VMS expects the extent of decline in demand from customers to ease as inventory destocking is entering the final stages. Also, VMS is hopeful that new product launches from customer and more relocation of manufacturing activities to ASEAN could improve demand for its manufacturing facilities.
- **VMS will continue to strengthen the relationships with its customers** and other business partners that it has forged over many years. It will deepen its strategic collaboration with customers, working with them to secure growth in market share. New product introductions (NPI) with both existing and new customers are on track to be rolled out next year. The adoption of VMS module solutions by its life science and industrial customers is also picking up pace, which will complement its core EMS++ business going forward.
- **Healthy balance sheet and consistent dividends.** As of end-3Q23, VMS had net cash of S$957m (accounting for around 25% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. Also, VMS continues to issue the same amount of dividends or better than that of preceding years.
- **Maintain BUY with a target price of S$14.06, pegged to its long-term forward mean PE of 14.6x 2024F earnings.** We recently upgraded the stock to BUY as we think that VMS' share price correction of about 30% ytd has made its valuation more compelling. Currently, VMS is trading at 13x 2024F PE (9x ex-cash 2024 PE), that is around 0.5SD below its long-term PE mean and offers a decent dividend yield of around 6%

Share Price Catalysts

- **Events:** a) Positive earnings surprise, b) winning more customers, and c) higher-than-expected dividends and share buybacks.
- **Timeline:** 3-6 months.

Far East Hospitality Trust – BUY (Jonathan Koh)

- **Pure play on Singapore's hospitality sector,** which benefits from rising visitor arrivals increasing at 44.6% yoy in Sep 23. 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) jumped 26.0% yoy to S$173.
- **Cushion from higher interest rates.** Management intends to utilise the incentive fee of S$18m from the divestment of Central Square to cushion the negative impact from higher interest rates.
- **Strong balance sheet.** Far East Hospitality Trust (FEHT) has a resilient balance sheet with aggregate leverage remaining low at 32.2% as of Sep 23.
- **Attractive dividend yield.** FEHT provides an attractive 2024 distribution yield of 7.6%. Its P/NAV of 0.63x is unwarranted given its good corporate governance and strong sponsor.
- **Maintain BUY.** Our target price of S$0.76 is based on DDM (cost of equity: 7.75%, terminal growth: 2.8%).

Share Price Catalysts

- **Events:** a) Recovery in occupancy, ADR and RevPAR in 2023 and 202; and b) downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.

- Timeline: 6-12 months.

Oversea-Chinese Banking Corp – BUY (Jonathan Koh)

- **Committed to new dividend policy.** Management intends to maintain dividend payout ratio at 50% going forward. Oversea-Chinese Banking Corp (OCBC) provides attractive dividend yield of 6.3% for 2023.
- **Capital management.** OCBC had the highest CET-1 CAR of 14.8% in 3Q23. It is comfortable with CET-1 CAR receding lower to 14.0% over the short to medium term (3-5 years). Management will consider all options for capital management, including special dividends.
- **Refreshed strategy to deliver incremental S$3b revenue.** Management aims to deliver incremental revenue of S$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainability. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S$3b.
- **Maintain BUY.** Our target price of S$17.35 is based on 1.42x 2024F P/B, derived from the Gordon Growth Model (ROE: 12.8%, COE: 9.0%, growth: 0.0%).

Share Price Catalyst

- **Events:** a) Resiliency from high CET-1 CAR of 14.8%, and b) attractive 2023 dividend yield of 6.3% from commitment to new dividend payout ratio of 50%.
- Timeline: 6-12 months.

Mapletree Industrial Trust – BUY (Jonathan Koh)

- **Strategic diversification to Japan's data centre market.** Mapletree Industrial Trust (MINT) is acquiring an effective interest of 98.5% in a newly-built data centre in Osaka, Japan for ¥52.0b (S$507.9m). We expect MINT to continue to expand in Japan due to positive yield spread with cap rates of 3-4% and low funding cost in JPY.
- **Backfilling data centre at Brentwood, Tennessee.** MINT is in advanced negotiations with a potential replacement tenant for its data centre at Brentwood, Tennessee with NLA of 347,515sf currently occupied by AT&T (expiry: Nov 23). The new tenant intends to sign a long-term lease for the entire data centre with rental escalation.
- **Maintain BUY.** Our target price of S$2.69 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

Share Price Catalysts

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

Sembcorp Industries – BUY (Adrian Loh)

- **Further growth in renewables capacity.** As expected during its Investor Day on 6 Nov 23, SCI upgraded its target gross installed renewables capacity from its prior 10GW by 2023 (which it has easily achieved), and it is now targeting to grow this to 25GW by 2028. This implies a 22% CAGR over 2023-28 which is higher than its peers' average CAGR of 17% over the same period.
- **More solar, and a more balanced geographic exposure.** Its 2023-28 plans involve incrementally growing its solar exposure relative to wind (wind:solar was 62:31 as at end-22). Geographically, SCI is ideally looking to increase exposure to India and Southeast Asia relative to China (China:India:Southeast Asia was 62:27:10 as at end-22).

- **Developments since its Investor Day.** Since 6 Nov 23, SCI has announced 673MW of acquisitions towards its target of 25GW by 2028 which involves both solar and wind in Vietnam, China and India. These three acquisitions will be completed by 1H24. Note that UOBKH is currently forecasting stable EPS growth in 2024 vs consensus' forecast of 9% decline; hence, we expect positive earnings momentum in the next six months.

- **Maintain BUY with a target price of S$7.20 based on a target PE multiple of 13.6x.** Our target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's "normalised" earnings compared to 2022's earnings. SCI, cognisant of its funding needs for growth, will likely keep its dividend payout ratio at 25%.

Share Price Catalysts

- **Events:** a) Value-accretive acquisitions in the green energy space, and b) potential to increase targets for its gross renewables capacity.

- Timeline: 6+ months.

Seatrium – BUY (Adrian Loh)

- **An operationally steady 2023.** In its latest 3Q23 business update, Seatrium (STM) continued to show solid execution of its current suite of projects with the delivery of four key projects to Shell, the Abu Dhabi national oil company and SBM as well. With the merger with Keppel Offshore Marine completed, we believe that STM should continue to execute its projects safely and on time.

- **No impact from the wind industry's travails at present.** In our view, STM is affected by delays but not order cancellations that are buffeting the offshore wind industry at present, given that these issues are confined to the east coast of the US. In any case, the company's contracts are cashflow neutral given that it is paid based on milestones, and will not suffer in the event of a cancellation. In Europe, the offshore wind industry appears more stable given that STM's exposure is via national grid operators such as RWE and TenneT, which are very focused on energy transition.

- **Repairs & upgrades segment - kicking goals.** With a single yard attracting business instead of two entities competing for work, STM is understandably bullish about this segment's prospects. Looking out into 2024 and beyond, STM highlighted that it will start to move away from pure repair and instead facilitate energy transition via vessel upgrades (eg installation of decarbonisation technology due to new International Maritime Organisation regulations) and new technology deployment. In addition, this segment should see incremental demand for the reactivation of drilling rigs as utilisations exceed 90%.

- **Strategic review.** The company is on target to complete its strategic review by end-23 with a Capital Markets Day to be held in 1H24.

- **We maintain our BUY rating on STM with a P/B-based target price of S$0.19.** Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x and is pegged to its 2024 book value of S$0.125.

Share Price Catalysts

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

- Timeline: 6-12 months.

RH Petrogas – BUY (Adrian Loh)

- **Positive newsflow in the near term**. While RH Petrogas' (RHP) announcement of a dry hole at Riam-1 in Oct 23 was negative, we highlight that it is currently drilling the high-impact Karuka-1 gas well which is targeting 1.8tcf (equivalent to 300mmble) in unrisked gas resources, with results due out in Jan 24. Clearly, the gas well would be material to a company of RHP's size. The company will drill Piarawi-1, targeting 6.6mmbbl of recoverable oil, after the completion of Karuka-1 which is expected in late-Dec 23.

- **Valuing the exploration upside for RHP.** Using recovery factors of 10-25% and risking the two remaining wells at 50-80% for both geological and commercial risks, we arrive at a total valuation of S$0.06/share. This represents potential upside of >32% based on RHP's 31 October closing price. Note that we have factored in much higher risking factors for these wells given that they are both deeper wells and are targeting new geological play types.
- **For exposure to upstream oil & gas in Singapore, we prefer RH Petrogas.** Compared with Rex International (REXI SP/SELL/Target: S$0.10), RH Petrogas is a more focused oil play as it has exposure only to onshore Indonesia, does not undertake interested party transactions, and more importantly has been able to demonstrate a higher level of operational excellence having increased production at its two mature onshore oil fields in the past five years. Relative to Rex, we believe that RHP's stronger oil production record will enable it to benefit from stronger oil prices heading into the Northern Hemisphere heating season.
- **We have a BUY rating on RHP and an SOTP-based target price of S$0.25.** Note that we have not valued the company's exploration upside within our SOTP.

Share Price Catalysts

- **Events:** We believe that newsflow surrounding the drilling results for these wells will be key share price drivers for RHP in the next 4-5 months. News on Karuka-1 is expected in Jan 24 after the requisite flow tests.
- Timeline: 4-5 months.

ComfortDelgro – BUY (Llelleythan Tan)

- **3Q23: Strong underlying performance.** ComfortDelgro Corporation (CD) reported a strong 3Q23 whereby revenue (+3.8% yoy, +4.3% qoq), core operating profit (+31.0% yoy, +12.7% qoq) and PATMI (+54.5% yoy, +9.2% qoq) all surged, backed by improving business fundamentals. 3Q23 revenue and PATMI were driven largely by higher contributions from most of CD's business segments. 3Q23 core operating (+1.5ppt yoy, +0.6ppt qoq) and PATMI (+1.6ppt yoy, +0.2ppt qoq) margins also expanded, on the back of UK bus indexation and new contract renewals coupled with the new taxi platform fees implemented since start-3Q23.
- **Public transport services: Higher fares and cost indexation to boost profit.** 3Q23 revenue (+3.4% yoy, +3.9% qoq) and core operating profit (+19.6% yoy, +13.8% qoq) outperformed, aided by improving rail ridership in Singapore and more importantly, UK bus contract renewals and indexation which have started to come through. We reckon that earnings from the public transport segment have bottomed out and are expected to continue the upward momentum moving forward, backed by favourable tailwinds and higher public transport fares starting late-4Q23.
- **Upcoming catalysts.** We expect potential upward revisions for CD's 5% commission rate in 4Q23/2024, given that it is considerably lower when compared with major competitors Grab and GoJek. According to our estimates, a 1% increase in commission rate would raise our 2024 full-year taxi operating profit by 4-5%.
- **Maintain BUY with a PE-based target price of S$1.69,** pegged to 15x 2024F PE, CD's average long-term PE. With improving fundamentals, a decent 4.6% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD would help support share price performance moving forward.

Share Price Catalysts

- Events: a) Bus tender contract wins; increase in taxi commission rates; b) complete removal of taxi rental rebates.

- Timeline: 6-12 months.

Singapore Telecommunications – BUY (Chong Lee Len & Llelleythan Tan)

- **Doubling down on revenue drivers.** Singapore Telecommunications (Singtel) maintains its strategic aim to grow overall group ROIC from 8% in FY23 to low double digits by FY26, driven by its growth engines (regional data centres (RDC) and NCS). Both RDC and NCS are still expected to contribute more than 20% of EBITDA by FY28, almost double FY23's 12%, which would offset telecom services' declining EBITDA. Cash proceeds from the sale would likely be utilised for further expansion for both RDC and NCS, coupled with returns to shareholders.
- **Unlocking shareholder value.** The group has about S$4b of capital recycling after the stake sale of its RDC business which we reckon would likely come from paring down its stakes in its regional associates (valued at around S$49b as of end-1QFY24). Singtel currently has S$2b-3b of excess cash which we believe may lead to larger dividends towards the higher end of the group's new 70-90% of underlying PATMI dividend policy in 2HFY24.
- **Higher dividend policy.** Singtel adjusted its dividend policy higher to 70-90% of underlying net profit (60-80% of underlying net profit previously) which could potentially bring its full-year FY24 dividend to around 13.0 S cents/share, implying an ample annualised dividend of around 5.4%.
- **Maintain BUY with a DCF-based target price of S$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.

Share Price Catalysts

- Events: a) Successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.
- Timeline: 6-12 months.

Marco Polo Marine – BUY (Heidi Mo)

- **Significant top-line growth in 3QFY23 from higher utilisation.** Marco Polo Marine (MPM) reported a strong improvement in 3QFY23 revenue to S$36.8m (+28.9% yoy) due to an uptick in utilisation levels in both its core businesses, bringing 9MFY23 revenue up to S$92.7m (+65.1% yoy). For the ship chartering segment, vessel utilisation rates rose to 92% (+8% yoy) on the back of a better demand environment. MPM's shipyard also achieved high utilisation at 93% (+7% yoy), as a result of increased shipbuilding and ship repair activities.
- **Benefitting from minimal newbuilds and increased offshore activity.** Although the surge in demand should lead to newbuilding, vessel supply is set to remain constrained on the horizon. Securing financing remains challenging, resulting in a limited possibility of newbuilds. The APAC offshore windfarm market is also attracting increased investments in offshore wind projects. With its growing presence in the region such as recent partnerships into Japan and South Korea, MPM is placed in a favourable position.
- **Construction of new dry dock to boost ship repair capacity.** MPM has recently announced plans to build a S$240m Dry Dock 4 in Nov 23, funded by a mix of operational cashflows and external bank financing. This will increase ship repair capacity by up to 25%, allowing MPM to capture growing demand for ship repairs. With completion expected to be in 1QFY25, it will likely contribute to higher earnings then.
- **New CSOV to boost ship chartering revenue.** MPM has announced plans to build and operate a new commissioning service operation vessel (CSOV) to support commissioning work for the construction and maintenance of offshore wind farms. This will provide charter services to support the Taiwan, Japan and South Korea markets. The CSOV's

expected completion in 3QFY24 will be timely to meet the growing offshore windfarm industry in Asia.

- **Maintain BUY with a target price of S$0.060.** We value MPM at 1.3x FY24F P/B, in line with +2SD to its historical five-year average on the back of improving charter rates and vessel utilisation rates.

Share Price Catalysts

- **Events:** a) Higher-than-expected charter rates and vessel utilisation, and b) new or higher value of ship repair projects.
- **Timeline:** 3-6 months.

VALUATION

Company	Ticker	Rec*	Price 31 Oct 23 (S$)	Target Price (S$)	Upside To TP (%)	Last Year End	PE 2022A (x)	PE 2023E (x)	PE 2024E (x)	Yield 2023E (%)	ROE 2023E (%)	Market Cap. (S$m)	Price/ NAV ps (x)
Bumitama	BAL SP	BUY	0.605	0.70	15.7	12/22	4.0	5.1	5.1	7.8	16.3	1,049.2	0.9
Civmec	CVL SP	BUY	0.765	1.23	60.8	6/23	7.7	7.3	6.9	5.8	14.2	388.3	1.0
ComfortDelGro	CD SP	BUY	1.29	1.69	31.0	12/22	16.1	15.2	11.7	6.2	9.0	2,793.8	1.1
Far East HTrust	FEHT SP	BUY	0.66	0.76	15.2	12/22	26.5	15.8	19.8	6.6	3.7	1,321.7	0.7
Food Empire	FEH SP	BUY	1.09	1.63	49.5	12/22	7.0	8.0	7.4	4.0	17.4	574.7	1.6
Frencken	FRKN SP	BUY	1.19	1.23	3.4	12/22	9.8	19.8	12.2	2.5	9.9	508.2	1.3
MapletreeInd	MINT SP	BUY	2.27	2.69	18.5	3/23	17.2	17.1	16.4	6.0	7.1	6,431.8	1.2
MarcoPolo Marine	MPM SP	BUY	0.048	0.06	25.0	9/23	7.7	6.9	10.4	0.0	10.2	180.2	1.1
O C B C	OCBC SP	BUY	12.64	17.35	37.3	12/22	10.0	8.1	8.2	6.3	12.5	56,807.2	1.1
RH PetroGas	RHP SP	BUY	0.188	0.238	26.6	12/22	5.6	10.5	9.3	0.0	32.3	157.0	4.4
Seatrium	STM SP	BUY	0.102	0.19	86.3	12/22	n.a.	n.a.	44.0	0.0	1.9	6,958.1	0.9
Sembcorp Ind	SCI SP	BUY	5.20	7.20	38.5	12/22	10.9	9.8	9.8	3.1	19.6	9,251.9	2.1
SIA Engineering	SIE SP	BUY	2.29	2.67	16.6	3/23	38.7	21.3	14.8	5.2	10.1	2,572.3	1.5
SingTel	ST SP	BUY	2.3	3.15	37.0	3/23	17.1	16.1	13.8	5.8	9.5	37,956.9	1.5
Valuetronics	VALUE SP	BUY	0.555	0.72	29.7	3/23	10.9	8.4	7.9	8.0	11.7	227.9	1.0
Venture Corp	VMS SP	BUY	13.02	14.06	8.0	12/22	10.2	14.1	13.5	5.8	9.6	3,782.4	1.3

** Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation*

STRATEGY – THAILAND

Alpha Picks: Dec 23 Portfolio

Our Alpha Picks performed slightly better than the market (2.4% vs 0.0%) in Nov 23. In November, the global stock market broadly celebrated a relief rally from the US economic data set up that supported lower inflation and a halt in interest rate, while the SET index remained unchanged at +0.01% given pressure on specific big caps. For Dec 23, our picks are ADVANC, BDMS, CPALL, EA, EGCO, MAJOR, SCB and TU.

WHAT'S NEW

- **Portfolio outperformed the market in October.** The portfolio outperformed the market (2.4% vs 0.0%) in October. The strongest performers were TU (9.7%) and OR (9.3%), while the worst performers were CPALL (-6.3%) and BDMS (-0.9%).
- **SET Index maintained in November.** The SET Index rebounded in the first week of November, from a heavy decline of -6.09% last month due to the pressure from rising bond yield and the Israel-Hamas conflict. As the interest rate hike situation gained more clarity, US 10-year bond yield declined to <4.30% from over 4.80% in the beginning of November. The SET Index rallied in the first week, before absorbing the pressure from disappointing earnings from big caps and disappointing GDP in 3Q23.
- **Packaging industry plays improved in November while big caps declined.** The packaging, property and REITs, petrochemical, professional services, finance sectors improved in November. The insurance, transportation, healthcare, electronics and banking sectors declined, especially big caps in those sectors such as AOT (-10.86%).
- **Positive factors ahead for SET Index.** The SET Index might respond positively to a) the FOMC meeting on 13 Dec 23 in the US, b) government stimuli and policies such as debt aid and power tariff reduction, and c) the introduction of Thailand ESG (TESG) fund on 1 Dec 2023 with the aim to help stabilise the index. While we expect to see a recovery in the last quarter of the year as it is the high season.
- **Strategy: Focus on strong cash flow and high dividend yield.** Given the current economic condition, our portfolio will stick to stocks with strong fundamentals and cash flow that provide attractive yield, and stocks with earnings that have bottomed out.

ACTION

- **Take profit from OR.** With expanding domestic demand in 2024, OR is still exposed to the uncertainty of government policies and entry of new operators. The marketing margin for OR remains under pressure from the government as it perceives that the business selling price does not reflect the global market price and is trying to lower the cost of living by reducing prices.
- **Add ADVANC and EGCO.** To cope with uncertainties in the global economy, we are adding more defensive exposure to our portfolio. For ADVANC, we believe acquiring Triple Three Broadband would provide synergy upsides. For EGCO, we believe its valuation is undemanding with 7.5x PER and expected dividend yield of 5.3%.

ANALYSTS' TOP ALPHA PICKS*

Analyst	Company	Rec	Performance	Catalyst
Kampon Akaravarinchai	ADVANC	BUY		Continued growth momentum in 4Q23.
Kitpon Praipaisarnkit	BDMS	BUY	(1.9)	Impressive outlook in 3Q23 and benefit from international patients
Kampon Akaravarinchai	CPALL	BUY	(16.1)	Domestic consumption recovery due to more foreign tourists and the election.
Kasemsun Koonara	EA	BUY	6.0	Continued growth momentum in 4Q23.
Arsit Pamaranon	EGCO	BUY		Continued growth momentum in 4Q23.
Tanaporn Visaruthaphong/ Thachasorn Jutagon	MAJOR	BUY	(1.9)	Continued growth momentum in 4Q23.
Tanaporn Visaruthaphong / Thanawat Thangchadakorn	SCB	BUY	(4.6)	Brighter economic outlook and improvement in asset quality.
Kampon Akaravarinchai	TU	BUY	1.4	Core profit expected to improve qoq.
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	OR	HOLD	(9.1)	Dropped.

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

KEY RECOMMENDATIONS

Company	Share Price 30 Nov 23 (Bt)	Target Price (Bt)	Upside/ (Downside) to TP (%)
ADVANC	218.00	262.00	20.18
BDMS	26.25	33.00	25.71
CPALL	52.00	76.00	46.15
EA	44.50	73.00	64.04
EGCO	129.00	200.00	55.04
MAJOR	15.20	18.00	18.42
SCB	99.25	124.00	24.94
TU	14.70	17.40	18.37

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Nov 23	To-date*
	(%)	(%)
BDMS	(0.9)	(1.9)
CPALL	(5.9)	(16.1)
EA	6.0	6.0
MAJOR	-	(1.9)
OR	8.7	(9.1)
SCB	0.8	(4.6)
TU	8.9	1.4
SET Index	(0.1)	

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

PORTFOLIO RETURNS

(%)	2022	1Q23	2Q23	3Q23
SET return	0.7	(3.6)	(6.6)	(2.1)
Alpha Picks Return				
- Price-weighted	4.1	2.2	(1.2)	(1.1)
-Market cap-weighted	4.4	0.8	(0.1)	(1.4)
- Equal-weighted	2.7	0.3	(5.5)	(2.3)

Assumptions for the three methodologies:

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

Source: UOB Kay Hian

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ADVANC (Kampon Akaravarinchai)

- **Resilient earnings outlook.** We expect ADVANC to deliver both yoy and qoq earnings growth in 4Q23 on the back of the high season from travelling and data consumption demand.
- **Strengthen core business outlook.** We expect ADVANC's core business in fixed broadband and mobile network operators to be more resilient in the long term. This will be on the back of: a) less competition after the M&A of TRUE-DTAC, and b) the acquisition of 3BB which will make ADVANC the no.1 FBB provider in Thailand. These should be the key growth drivers for ADVANC in short to medium term.
- **Riding new wave of growth with global innovations.** We foresee the new s-curve of growth opportunities for ADVANC such as the rolling out of data centres in Thailand, virtual banking, and tech collaboration with global companies.
- **Strong core business operation with high dividend yield.** ADVANC offers a high dividend yield with 3.5-4% per year.

Share Price Catalyst

- Continued growth in 4Q23.

EGCO (Arsit Pamaranont)

- **Healthy earnings outlook for 4Q23-2024.** Despite the lull season, we believe EGCO's core profit will remain healthy at Bt1.3b in 4Q23, thanks to high power demand from overseas power plants in winter. Additionally, we believe EGCO's SPP project should benefit from lower gas costs in 4Q23 despite a lower fuel adjustment charge (FT). Looking ahead, substantial earnings growth is anticipated in 2024. We expect a strong contribution from three gas-fired power plants in the US. Preliminary estimations suggest that these three power plants are poised to make a noteworthy contribution, projected at Bt600m-800m/year, accounting for 6-8% of 2024's core profit and beyond.
- **Balance sheet remains healthy.** EGCO has a strong balance sheet with debt-to-equity ratio of only 1.1x as at end-3Q23. EGCO also holds about Bt37.5b in cash, which is enough to acquire projects and provide potential upside.
- **Maintain BUY with a target price of Bt200.00,** based on DCF valuation. We are still positive on EGCO for its 5.3% dividend yield. We also believe its share price has already priced in the negative news.

Share Price Catalyst

- Continued growth in 4Q23.

BDMS (Kochakorn Sutaruksanon)

- BDMS is a group of leading private hospitals with a nationwide network offering world-class medical treatment to both local and international patients with new greenfield projects, M&A and digitalisation of healthcare services as key long-term growth drivers.
- We are bullish on BDMS in 3Q23, with earnings expected to set a new quarterly record as 3Q is the high season for Middle Eastern patients. The continuous recovery in the number of international arrivals will also benefit BDMS in the wellness segment (BDMS Wellness Clinic) as well as Mövenpick BDMS Wellness Resort, which is well-prepared for increasing arrivals. In addition, BDMS is also one of the beneficiaries of the new policy by Beijing's government to cover expenses for assisted reproduction technology from 1 Jul 23, including in-vitro fertilisation (IVF). However, we are cautious on the normalisation of pent-up demand from patients.
- **Maintain BUY with a target price of Bt33.00,** based on DCF methodology (WACC: 7.3%, terminal growth 3.6%). We favour BDMS due to its earnings resilience in 2Q23, which is the off-season, and the possibility of record-high quarterly earnings in 3Q23. In addition, BDMS has the least downside risk among its peers due to its diversification of

patient bases. The target price corresponds to 39x 2023F PE and 37x 2024F PE, respectively, close to -1SD of its five-year pre-COVID-19 historical average.

Share Price Catalyst

- Event: Strong growth of the wellness industry and support from the Thai government to promote Thailand as a medical hub, synergies created with BDMS' hospital network and the digital healthcare ecosystem, better-than-expected recovery in the number of international patients, and accretive M&A deals.
- Timeline: 2H23.

CPALL (Kampon Akaravarinchai)

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

Share Price Catalyst

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

EA (Tanaporn Visaruthaphong, Kasemsun Koonnara)

- EA and its subsidiaries operate three businesses: biodiesel, renewable power plants, battery and electric vehicles.
- We maintain a positive view on EA's earnings, which are expected to hit a new record high in 2023. EA is expected to see minor impact from the cut in FT rate, at 1-2% of our 2023 earnings assumption. Negative operating cash flow is likely to continue till 4Q23 but should improve from 1Q24 onwards. 3Q23 earnings are expected to rise yoy and qoq.
- **Maintain BUY with a target price of Bt81.00.** We value EA's renewable power plant business at Bt40.10/share, based on DCF. The cash flow is discounted to 2023. We value the biodiesel business at Bt1.00/share, assuming 20x 2023F PE. In addition, the battery and EV business is valued at Bt39.60/share.

Share Price Catalyst

- Timeline: 4Q23.

MAJOR (Tanaporn Visaruthaphong/ Thachasorn Jutaganon)

- Major Cineplex Group (MAJOR) is a cinema operator with related businesses like bowling, karaoke, rentals, cinema media and film distribution.

- **Anticipating sustained growth in 3Q23 admission revenue through strong box office performance.** We expect sustained growth in admission revenue for 2023, building on the momentum generated by upcoming blockbuster releases in 3Q23. Notable titles like Aquaman and the Lost Kingdom, Mission: Impossible - Dead Reckoning Part One, The Marvels, Barbie, Oppenheimer and Thai movie named Long Live Love are poised to drive this recovery. Looking ahead to 4Q23, earnings outlook might slightly drop qoq due to off-season movies.

- **Maintain BUY** with a lower target price of Bt18.00 (previous: Bt23.00). We roll over our valuation to 2024 and de-rate valuation from mean PE to -1SD PE to reflect earnings that might be softer than in 1H23 due to off-season movies. Our target price is based on 13x 2024F PE and -1SD to its five-year PE mean. We still like MAJOR due to many blockbuster movies in 3Q23. The stock is also less impacted by advertising expenditure compared to other players in the media industry.

Share Price Catalyst

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

- Timeline: 2H23.

TU (Kampon Akaravarinchai)

- TU manufactures and exports frozen and canned seafood, including canned food, frozen food and snacks. It is also involved in pet food, value-added products and animal feed.

- **We expect TU's 4Q23 earnings to see a qoq recovery,** as its US and EU customers are restocking inventory, which will benefit TU's top-line. Also, we expect to see a gross margin recovery following higher ASPs and lower raw material costs. Overall, we still maintain our forecast of 2023 net profit declining by 32% yoy, mainly pressured by weak operations in 1H23. For 2024, we estimate a net profit growth of 22.5% yoy, driven by higher ASPs, a decline in costs, and a recovery in the pet food business.

- **Maintain BUY with a target price of Bt17.40.** We peg the forward PE target to TU's five-year mean of its latest PE band, which is equivalent to 14.5x. Our target price is based on 2024's EPS. We expect TU's earnings momentum to improve on a qoq basis in 2H23 and 2024 following lower raw material costs and sales recovery.

Share Price Catalyst

- Event: Stronger-than-expected 2H23 earnings recovery momentum, and b) a significant improvement in TU's profitability from lower raw material costs.

- Timeline: 2H23 and 2024.

SCB (Thanawat Thangchadakorn)

- NIM will expand until it peaks in 4Q23. SCB foresees that policy interest will remain steady in 2024. In addition, SCB's management estimates that net interest margin will peak in 4Q23 and decline gradually due to rising funding costs.

- **Credit cost has peaked.** In 3Q23, SCB prepared for: a) 15-20% of retail customers in stage 1 of the comprehensive debt structuring (CDR) blue scheme undergoing downward stage migration in the next 12-24 months, and b) BOT raising the credit card minimum repayment amount from 5% to 8%. The company said credit costs peaked in 2Q23 at 201bp. We believe SCB's credit cost would remain high as the bank is likely to increase its loan loss coverage (LLC) ratio from the current level, as there are still many headwinds that could trigger a deterioration in asset quality in the future.

- **Maintain BUY with a target price of Bt124.00.** Our valuation is based on the Gordon Growth Model (cost of equity: 11%, long-term growth: 2%). SCB trades at 8.7x 2023F PE, almost -1SD to its five-year mean, and at 0.8x 2023F P/B, approximately its five-year mean. Based on the upside to the share price, we recommend to BUY on weakness.

Share Price Catalyst

- Improving asset quality and brighter economic outlook.

VALUATION

Company	Ticker	Rec.	Last Price 30 Nov 23 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	------------- PE ------------- 2022 (x)	2023F (x)	2024F (x)	EPS Growth 2023F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Advanced Info Service	ADVANC TB	BUY	218.00	262.00	20.18	17,995	24.9	22.1	20.2	12.8	1.7	7.0	3.5	33.0
Bangkok Dusit Medical Services	BDMS TB	BUY	26.25	33.00	25.71	11,578	33.1	30.8	29.2	7.3	4.2	4.4	2.3	14.1
CP All	CPALL TB	BUY	52.00	76.00	46.15	12,965	35.2	28.0	23.2	25.5	1.1	4.2	1.8	5.6
Energy Absolute	EA TB	BUY	44.50	73.00	64.04	4,607	21.8	20.6	21.4	6.1	3.4	3.6	0.7	18.0
Electricity Generating	EGCO TB	BUY	129.00	200.00	55.04	1,885	25.3	7.7	8.1	230.4	0.0	0.5	5.2	7.2
Major Cineplex Group	MAJOR TB	BUY	15.20	18.00	18.42	377	53.9	15.2	11.9	255.9	0.1	2.1	6.6	12.4
SCB X	SCB TB	BUY	99.25	124.00	24.94	9,275	8.9	8.3	7.7	8.3	1.0	0.7	6.4	8.6
Thai Union Group	TU TB	BUY	14.70	17.40	18.37	1,899	9.8	15.1	11.9	(34.7)	(0.4)	0.9	3.7	5.3

Source: UOB Kay Hian

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