UOBKayHian

Regional Morning Notes

Friday, 01 September 2023

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

GREATER CHINA

Sector

Aviation Page 2

Airlines still loss-making but improving; expecting a turnaround in 2H23. Maintain UNDERWEIGHT.

Results

China Mengniu Dairy (2319 HK/BUY/HK$26.40/Target: HK$39.30) Page 5

1H23: In line; expecting a smooth price hike.

Estun Automation (002747 CH/BUY/Rmb23.23/Target: Rmb31.50) Page 8

2Q23: Earnings impacted by forex loss, but robot business remains solid.

Great Wall Motor (2333 HK/SELL/HK$9.30/Target: HK$5.20) Page 11

2Q23: Results rebound qoq, but 1H23 earnings still fall short of target.

Haier Smart Home (6690 HK/BUY/HK$24.25/Target: HK$28.50) Page 14

1H23: Results in line; air conditioner a bright spot.

Hansoh Pharmaceutical Group Company (3692 HK/BUY/HK$10.20/Target:HK$13.00) Page 17

1H23: Results missed expectations; expect significant revenue recovery from 2024.

MicroPort Scientific Corporation (853 HK/SELL/HK$13.42/Target: HK$9.50) Page 20

1H23: Results beat; anti-corruption campaign clouds growth outlook in 2H23.

Weichai Power (2338 HK/BUY/HK$10.18/Target: HK$16.00) Page 23

2Q23: Earnings up 53% yoy and 10% qoq; in line. Maintain BUY. Raise target price from HK$15.00 to HK$16.00.

INDONESIA

Results

Bank Rakyat Indonesia (BBRI IJ/BUY/Rp5,550/Target: Rp6,100) Page 26

1H23: Better loan mix to support NIM.

MALAYSIA

Sector

Oil & Gas Page 29

Petronas' 1H23 results again showed the group's concerns on a "heated vendor market with rising costs". Our OVERWEIGHT sector call is premised on rising oil prices and the successful resolution between vendor and client.

Results

CIMB Group (CIMB MK/BUY/RM5.63/Target: RM6.00) Page 32

2Q23: Earnings in line, underpinned solid cost discipline and strong non-interest income growth. Maintain BUY and target price of RM6.00.

Farm Fresh (FFB MK/HOLD/RM1.20/Target: RM1.10) Page 35

1QFY24: Earnings disappoint off softened margins. But outlook improves as input prices tank. Maintain HOLD.

Malayan Banking (MAY MK/HOLD/RM9.11/Target: RM9.00) Page 38

2Q23: Results largely in line. Earnings supported by strong non-interest income recovery and lower provisions, offset by surge in opex. Maintain HOLD.

THAILAND

Sector

Retail Page 41

Less policy overhang on the retail sector.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34721.9	(0.5)	1.8	(2.4)	4.8
S&P 500	4507.7	(0.2)	3.0	(1.8)	17.4
FTSE 100	7439.1	(0.5)	1.6	(3.4)	(0.2)
AS30	7517.8	0.1	1.6	(1.9)	4.1
CSI 300	3765.3	(0.6)	1.1	(5.8)	(2.7)
FSSTI	3233.3	0.4	1.7	(4.2)	(0.6)
HSCEI	6332.4	(0.4)	1.0	(7.6)	(5.6)
HSI	18382.1	(0.5)	0.9	(8.1)	(7.1)
JCI	6953.3	(0.2)	0.8	1.0	1.5
KLCI	1451.9	(0.2)	0.8	(0.5)	(2.9)
KOSPI	2556.3	(0.2)	1.5	(4.2)	14.3
Nikkei 225	32619.3	0.9	1.0	(2.6)	25.0
SET	1565.9	(0.7)	0.5	0.6	(6.2)
TWSE	16634.5	(0.5)	(0.8)	(3.4)	17.7
BDI	1086	(0.7)	(5.6)	(5.6)	(28.3)
CPO (RM/mt)	3730	(2.5)	(3.4)	(2.7)	(7.9)
Brent Crude (US$/bbl)	87	1.9	4.2	1.5	1.1

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	245.80	590.00	140.0
China Duty Free	601888 CH	108.92	138.00	26.7
Bank Neo Commerce	BBYB IJ	344.00	1,000.00	190.7
Bumi Serpong	BSDE IJ	1,135.00	1,420.00	25.1
HM Sampoerna	HMSP IJ	880.00	1,300.00	47.7
My EG Services	MYEG MK	0.80	1.18	48.4
Yinson	YNS MK	2.51	4.05	61.4
OCBC	OCBC SP	12.55	18.22	45.2
CP ALL	CPALL TB	65.25	78.00	19.5
Indorama	IVL TB	29.00	37.00	27.6

KEY ASSUMPTIONS

GDP (% yoy)		2022	2023F	2024F
US		2.1	0.8	1.2
Euro Zone		3.5	0.1	1.0
Japan		1.0	1.0	1.5
Singapore		3.6	0.7	3.0
Malaysia		8.7	4.4	4.6
Thailand		2.6	3.1	3.5
Indonesia		5.4	4.9	5.2
Hong Kong		-3.5	4.6	3.0
China		3.0	5.0	4.6
CPO	(RM/mt)	5,088	4,000	4,200
Brent (Average)	(US$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Post-result Investor Luncheon with Giordano International Limited (709 HK)	Hong Kong	5 Sep	5 Sep
Palm Oil Webinar: Global Oilseeds and Vegoil Outlook	Singapore	12 Sep	12 Sep
Presentation by Wilmar International Ltd (WIL:SP)	Kuala Lumpur	13 Sep	13 Sep

SECTOR UPDATE

Aviation – China

Airlines Still Loss-making But Improving; Expecting A Turnaournd In 2H23

The three airlines' 1H23 results were in line with their preliminary guidance, at close to the mid-points of their respective guided ranges. Net losses narrowed yoy and qoq driven by the air travel recovery, with Air China and CSA closer to breakeven. Overall pax yields were below our expectations due to faster-than-expected normalisation of domestic yields amid an oversupply situation. Maintain UNDERWEIGHT as we believe the recovery is well-expected and has been priced in. Top pick: Air China.

1H23 FINANCIAL AND OPERATING HIGHLIGHTS

	1H23	1H22	yoy	1H19	1H23 vs 1H19	UOBKH's 2023F proj.	1H23 vs 2023F
Air China							
Revenue (Rmbm)	63,683	25,400	+151%	67,245	-5%	164,484	39%
Net profit (Rmbm)	-3,447	-19,437	n.a.	3,144	n.a.	6,582	n.a.
ASK (m)	128,800	44,282	+191%	141,728	-9%	306,565	42%
RPK (m)	90,835	26,757	+239%	114,784	-21%	228,897	40%
Pax load factor	70.5%	60.4%	+10.1ppt	81.0%	-10.5ppt	74.7%	-4.1ppt
Pax yield (Rmb/RSK)	0.61	0.56	+8%	0.52	+17%	0.65	-6%
CSA							
Revenue	71,830	40,817	+76%	72,939	-2%	172,194	42%
Net profit	-2,877	-11,490	n.a.	1,682	n.a.	7,688	n.a.
ASK (m)	144,044	75,031	+92%	166,037	-13%	333,098	43%
RPK (m)	109,118	48,324	+126%	137,231	-20%	261,784	42%
Pax load factor	75.8%	64.4%	+11.3ppt	82.7%	-6.9ppt	78.6%	-2.8ppt
Pax yield (Rmb/RSK)	0.56	0.55	+1%	0.48	+17%	0.59	-5%
CEA							
Revenue	49,425	19,354	+155%	58,859	-16%	128,871	38%
Net profit	-6,249	-18,736	n.a.	1,941	n.a.	3,368	n.a.
ASK (m)	108,605	44,554	+144%	131,567	-17%	255,392	43%
RPK (m)	77,935	27,012	+189%	108,854	-28%	191,792	41%
Pax load factor	71.8%	60.6%	+11.1ppt	82.7%	-11.0ppt	75.1%	-3.3ppt
Pax yield (Rmb/RSK)	0.60	0.55	+9%	0.51	+18%	0.65	-8%

Source: Respective companies, UOB Kay Hian

RESULTS

- **1H23 results in line with guidance.** Air China, China Southern Airlines (CSA) and China Eastern Airlines (CEA) recorded net losses of Rmb3.4b, Rmb2.9b and Rmb6.2b in 1H23, falling closer to the mid-points of their respective guided ranges. Air China's revenue rose 151% yoy in 1H23 to Rmb63.7b, forming 39% of our 2023F full-year projection; CSA's revenue rose 76% yoy to Rmb71.8b, at 42% of our full-year projection; CEA's revenue rose 155% yoy to Rmb49.4b, at 38% of our full-year projection. 1H23 revenues of Air China, CSA and CEA were 5%, 9% and 16% below their respective 1H19 (pre-pandemic) levels.
- **Air China and CSA closer to breakeven.** Looking at 2Q23 (when the recovery gained speed), all three airlines achieved significantly lower losses qoq. Excluding non-recurring items (eg sizeable forex losses estimated at Rmb1.4-1.6b in 2Q23), CSA and Air China were quite close to breakeven in 2Q23, with slight core losses of Rmb0.2b and Rmb0.4b respectively. CEA incurred higher core losses than the other two at Rmb1.3b in 2Q23.
- **Overall pax yields missed our projection.** 1H23 pax yields of the three airlines were 5-8% below our projected full-year average levels. The miss was due to faster-than-expected moderation of domestic-route yields, as the domestic market faced an overcapacity situation in 1H23. International-route yields, though also normalising as capacity supply recovers, were still 67-90% higher than pre-pandemic levels in 1H23.

UNDERWEIGHT

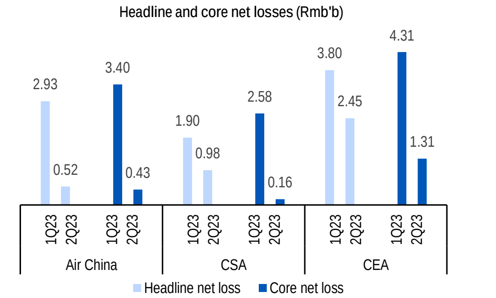
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
Air China	753 HK	BUY	5.81	6.32
China Southern Airlines	1055 HK	SELL	4.17	3.68
China Eastern Airlines	670 HK	SELL	2.77	2.35

Source: Bloomberg, UOB Kay Hian

NET LOSSES NARROWED QOQ IN 2Q23; CSA AND AIR CHINA WERE CLOSER TO BREAKEVEN



Source: Respective companies, UOB Kay Hian

ANALYST(S)

Roy Chen, CFA
+65 6590 6627
roychen@uobkayhian.com

PEER COMPARISON

Company	Ticker	Rec	Price @ 31 Aug 23 (HK$)	Target Price (HK$)	Upside To TP (%)	Market Cap (US$m)	PE* 23F (x)	PE* 24F (x)	PE* 25F (x)	EV/EBIT 23F (x)	EV/EBIT 24F (x)	EV/EBIT 25F (x)	P/B 23F (x)	Yield 23-25F (%)	Net Gearing End-22 (%)
Air China	753 HK	BUY	5.81	6.32	8.8	12,006	33.9	12.7	12.0	14.3	10.0	9.8	2.0	0.0	361.9
China Southern Air	1055 HK	SELL	4.17	3.68	(11.8)	9,638	18.6	15.6	14.0	13.0	13.1	12.3	1.4	0.0	185.0
China Eastern Air	670 HK	SELL	2.77	2.35	(15.2)	7,876	n.a.	16.3	14.8	23.9	13.2	12.6	1.8	0.0	420.8
Average							26.2	14.9	13.6	17.1	12.1	11.6	1.7	0.0	322.6

**PE estimates were adjusted for potential dilutions from new equity raisings*
Source: Bloomberg, UOB Kay Hian

- **Lofty gearings of three airlines.** Due to their still loss-making positions, net gearings of the three airlines elevated further in 1H23, standing at 362%, 185% and 421% for Air China, CSA and CEA, respectively. CSA's net gearings were lower than the other two, only because it raised the most equity (hence more dilution) during the pandemic. Before the pandemic, net gearings of the three airlines ranged between 27-68%.

STOCK IMPACT

- **Recovery on track.** China's air traffic is expected to continue to recover in 2H23 and 2024. As of Jul 23, overall pax capacity of the three airlines recovered to 98-101% of their respective pre-pandemic levels. Domestic capacity supply surpassed pre-pandemic levels at 120-130%; supply of international and regional capacities were still subdued at 51-54% of the pre-pandemic levels. Overall pax loads of the three airlines recovered to 93-95% of their respective pre-pandemic levels, with domestic loads at 116-119% of the pre-pandemic levels and international and regional loads at 49-52%.

JUL 23 PAX OPERATION DATA OF THE THREE MAJOR CHINESE AIRLINES

	--- Overall ---			--- Domestic ---			--- International & Regional ---		
	Air China	CSA	CEA	Air China	CSA	CEA	Air China	CSA	CEA
Pax capacity (m seat-km)	29,368	30,549	23,626	23,639	25,449	18,983	5,729	5,100	4,643
as % of pre-pandemic	*101%*	*98%*	*99%*	*130%*	*120%*	*124%*	*52%*	*51%*	*54%*
mom change	*+5.8ppt*	*+3.5ppt*	*+5.6ppt*	*+3.6ppt*	*+2.6ppt*	*+2.4ppt*	*+5.6ppt*	*+4.5ppt*	*+9.8ppt*
Pax load (m pax-km)	22,136	24,720	18,526	17,949	20,476	14,914	4,187	4,243	3,612
as % of pre-pandemic	*93%*	*95%*	*94%*	*119%*	*116%*	*118%*	*49%*	*51%*	*52%*
mom change	*+7.9ppt*	*+4.9ppt*	*+9.0ppt*	*+4.4ppt*	*+4.7ppt*	*+6.2ppt*	*+9.6ppt*	*+4.8ppt*	*+12.2ppt*
Pax load factors	75.4%	80.9%	78.4%	75.9%	80.5%	78.6%	73.1%	83.2%	77.8%
mom change	*+2.7ppt*	*+1.5ppt*	*+2.5ppt*	*+1.6ppt*	*+1.5ppt*	*+2.3ppt*	*+7.3ppt*	*+1.4ppt*	*+3.7ppt*
diff. vs pre-pandemic	*-6.2ppt*	*-2.2ppt*	*-3.5ppt*	*-7.6ppt*	*-2.5ppt*	*-4.2ppt*	*-5.3ppt*	*-0.1ppt*	*-2.7ppt*

Source: Respective companies, UOB Kay Hian

- **Capacity guidance and yield outlook.** As for capacity guidance, both CSA and CEA expect for their international-route capacity to reach about 80% of the pre-pandemic levels by end-23, while Air China guided for a 70% recovery. All three airlines expect further recovery in 2024. Management also noted that, as the capacity of international routes recover further and more widebody aircrafts get deployed to long-haul international routes, the current overcapacity pressure for domestic routes would be alleviated. This would help support domestic yields while international yields continue to normalise.

- **Expecting a turnaround in 2H23.** We expect all three airlines to turn around into profitability in 2H23. As for the full year, we estimate that Air China and CSA would end up positively while CEA is likely to record a slight loss due to its higher losses incurred in 1H23.

- **Potential equity raisings.** Given their lofty gearing and inability to meaningfully pare down debts with organic earnings, we expect all three airlines to tap equity-raising to strengthen their balance sheets. On 1 Jun 23, CSA announced its plan to raise up to Rmb17.5b via A-share issuance and up to HK$2.9b from H-share issuance. This ongoing issuance follows the multiple rounds of equity-raisings already done by CSA during the pandemic and may expand CSA's share base by up to 25.8%. Air China and CEA have not announced new equity-raisings yet, but given their loftier gearing compared to CSA, we think it may not take long for them to tap the equity market.

EARNINGS REVISION

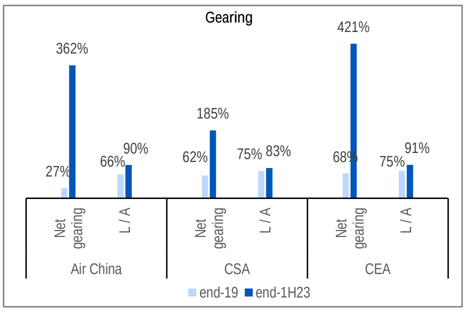
- **Cut 2023 earnings forecast.** We cut our 2023 earnings for all three airlines, as we factored in lower average yield levels and finetune the capacity recovery projection (having raised domestic-route capacity projection while incorporating slower recovery for international-route capacity). Our 2024-25 earnings forecasts were largely intact.

UPDATED 2023 EARNINGS FORECASTS FOR THE THREE AIRLINES

	--- Air China ---			--- CSA ---			--- CEA ---		
Rmbm	Old	New	change	Old	New	change	Old	New	change
2023F earnings	6,582	3,069	-53%	7,688	4,453	-42%	3,368	-435	-113%

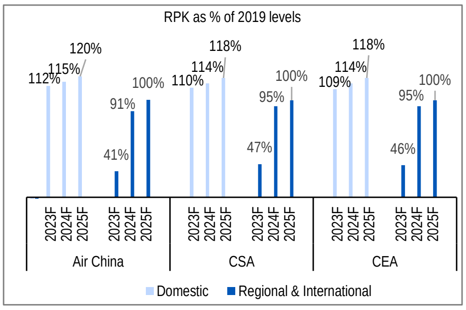
Source: UOB Kay Hian

LOFTY GEARING OF THE THREE AIRLINES



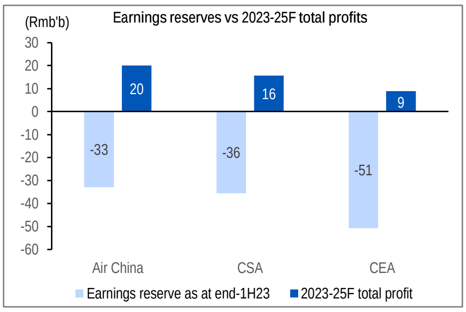
** The net gearing estimates here have excluded lease liabilities, which, if included, would make the three airlines' net gearing even higher.*
Source: Airline companies, UOB Kay Hian

UPDATED PROJECTION FOR AIR TRAFFIC RECOVERY OF THE THREE AIRLINES BY ROUTE REGION



Source: Respective companies, UOB Kay Hian

2023-25 EARNINGS NOT ENOUGH TO MAKE UP FOR NEGATIVE EARNINGS RESERVES



Source: Respective companies, UOB Kay Hian

ACTION

- **Maintain UNDERWEIGHT on the Chinese airlines segment.** While we are sanguine about the segment's recovery, we note that the recovery is well-expected by the market and largely priced in. We maintain our case that earnings in the next few years are likely to be fully retained by the three major Chinese airlines to rebuild their balance sheet strengths (making up for the huge negative earnings reserves before a dividend can be paid) and provide for their lifted capex plans. Air China (753 HK/BUY/Target: HK$6.32) is our preferred pick among the three major Chinese airlines for its national flag carrier status and relatively cheaper valuation against its steady-state profit potential.

RISKS

- **Upside risks:** Market sentiments stirred up by: a) positive newsflow about China tourism spending and air travel recovery, and b) airlines potentially making a turnaround in earnings in 3Q23.
- **Downside risks:** a) Slower-than-expected earnings recovery possibly due to macroeconomic headwinds damping demand, sharp rise of jet fuel price and/or weakened renminbi, b) EPS-dilutive equity-raisings, and c) dissipation of the market's excitement about the airlines' recovery story.

COMPANY RESULTS

China Mengniu Dairy (2319 HK)

1H23: In Line; Expecting A Smooth Price Hike

Mengniu reported in-line results in 1H23. Liquid milk sales were up 5% yoy, with Milk Deluxe and Fresh Meadow up double-digits yoy in 1H23. Management continues to push for premiumisation, driven by higher-value offerings, and expects a price hike in Milk Deluxe' highest-end product. It expects full-year revenue growth to fall at the lower end of guided range, and expects gross margin gains to flow through OPM expansion (+50bp yoy). Maintain BUY. Target price: HK$39.30.

1H23 RESULTS

Year to 31 Dec (Rmbm)	1H23	2H22	1H22	hoh chg (%)	yoy chg (%)
Total revenue	51,119	44,871	47,722	13.9	7.1
Gross profit	19,630	15,231	17,459	28.9	12.4
Gross profit margin	38.4%	33.9%	36.6%	4.5ppt	1.8ppt
EBIT	2,975	2,068	2,193	43.9	35.7
EBIT margin	5.8%	4.6%	4.6%	1.2ppt	1.2ppt
Attributable net profit	3,020	1,552	3,751	94.7	(19.5)
Attributable net profit margin	5.9%	3.5%	7.9%	2.5ppt	-2.0ppt

Source: China Mengniu Dairy, UOB Kay Hian

RESULTS

- **Results in line.** Mengniu Dairy (Mengniu) reported 1H23 revenue of Rmb51.1b (+7.1% yoy; excluding Milkground, organic sales +3% yoy) and attributable net profit of Rmb3.0b (-19.5% yoy), largely in line with consensus estimate. Gross margin was higher at 38.4% in 1H23 (+1.8ppt yoy) due to decline in raw milk prices and product structure improvement. Operating profit margin was higher at 6.4% in 1H23 (+1.1ppt yoy). SG&A expense ratio was 31.5% (+0.7ppt yoy) in 1H23, as it invested in new retail channels, of which, product and brand marketing expense ratio was 10% (+0.6ppt yoy). Excluding one-off items, attributable net profit and attributable net profit margin was Rmb3.1b (+4.3% yoy) and 6.1% (-0.1ppt yoy).

- **Liquid milk sales grew 5% yoy in 1H23,** driven by premiumisation and product mix upgrade. Milk Deluxe, with its high-end Organic Dream Cap series leading in organic segment, and Shiny Meadow, which leads the high-end fresh milk segment, were up by double-digits yoy in 1H23. Xiaoxianyu sales volume in 1H23 was >2x that in 2022. Ice cream sales were up 10.4% yoy, while milk powder sales were flattish yoy. Bellamy grew over 20% yoy in 1H23 and is expected to be better in 2H23. Cheese products surged (+313.6% yoy) as it consolidated Milkground from Dec 22 onwards. Its consolidated share in the cheese market grew in 1H23.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	88,141	92,593	102,016	111,817	122,734
EBITDA	7,483	7,620	8,736	9,705	10,803
Operating profit	5,087	5,723	7,021	8,152	9,398
Net profit (rep./act.)	5,222	5,193	6,165	7,093	8,191
Net profit (adj.)	5,222	5,193	6,165	7,093	8,191
EPS (sen)	131.6	131.4	155.9	179.5	207.2
PE (x)	18.6	18.7	15.7	13.7	11.8
P/B (x)	2.6	2.4	2.2	1.9	1.7
EV/EBITDA (x)	16.7	16.4	14.3	12.9	11.6
Dividend yield (%)	1.6	1.6	1.9	2.2	2.5
Net margin (%)	5.9	5.6	6.0	6.3	6.7
Net debt/(cash) to equity (%)	32.1	56.0	41.6	29.7	18.4
ROE (%)	15.0	13.5	14.5	15.0	15.5
Consensus net profit	-	-	6,167	7,183	8,280
UOBKH/Consensus (x)	-	-	1.00	0.99	0.99

Source: Mengniu, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$26.40
Target Price	HK$39.30
Upside	+48.9%

COMPANY DESCRIPTION

Mengniu is the second largest dairy company in China. Its Deluxe brand is the leading high-end UHT milk brand with the largest market size in China.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	2319 HK
Shares issued (m):	3,940.0
Market cap (HK$m):	104,015.0
Market cap (US$m):	13,259.3
3-mth avg daily t'over (US$m):	38.7

Price Performance (%)

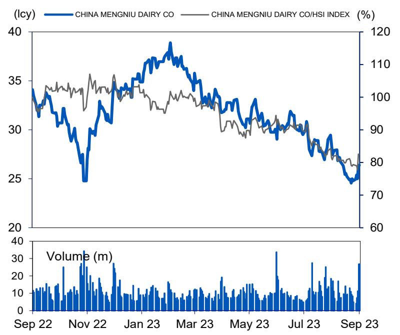
52-week high/low HK$38.89/HK$24.55

1mth	3mth	6mth	1yr	YTD
(10.4)	(11.9)	(22.4)	(24.9)	(24.3)

Major Shareholders	%
COFCO Corp	24.11

FY23 NAV/Share (Rmb)	11.30
FY23 Net Cash/Share (Rmb)	4.70

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ng Jo Yee
11+603 2147 1984
joyee@uobkayhian.com

Stella Guo
+852 2236 6798
stella.guo@uobkayhian.com.hk

- **Revenue from overseas grew 24.7% yoy in 1H23,** accounting for 4.1% of total revenue. Its overseas ice cream business was up 21.8% yoy, accounting for 45.6% of its overseas revenue. Aice maintained its strong growth and recorded a significant increase in profit margins.

KEY OPERATIONAL DATA

	1H23	1H22	% chg
Revenue by product			
Liquid milk products	41,640	39,665	5.0
Ice cream products	4,309	3,904	10.4
Milk powder products	1,894	1,894	0.0
Cheese products	2,256	545	313.6
Others	1,019	1,714	(40.5)
Operating margin %			
Liquid milk products	6.8%	5.7%	1ppt
Ice cream products	16.6%	13.1%	3.5ppt
Milk powder products	-7.1%	-19.5%	12.4ppt
Cheese products	3.4%	-8.3%	11.7ppt
Others	0.5%	0.2%	0.3ppt
Revenue - by geographic			
Mainland China	48,997	46,021	6.5%
Overseas	2,121	1,701	24.7%

Source: Mengniu, UOB Kay Hian

STOCK IMPACT

- **Narrowing liquid milk market size with its peer.** Mengniu maintained its mid- to high-single-digit revenue growth guidance, and expects full-year growth to fall at the lower end of guidance. Despite the overall weak environment, the company will continue to push for premiumisation, driven by higher-value product offerings. In 1H23, its liquid milk market size inched towards its peer, driven by the solid growth of its Milk Deluxe series and reflecting customers' acceptance of the product. As such, we expect a smooth price hike of its highest-end product of Milk Deluxe (ie Milk Deluxe Desert Organic Milk).

- **Fresh milk segment focusing on delivery.** The fresh milk segment saw growth in both sales (double-digit yoy) and profit in 1H23. The effective selling price of the high-end brand Shiny Meadow also trended up in 1H23. Operating profit margin improved but has not reached the company's expectation. Instead of hiking prices, it will focus on strengthening all near-radius channels, such as Dingdong Macai and JD Daojia apps, which solves consumers need for convenience and immediacy and to provide fresh high-quality products.

- **Expect operating margin expansion.** Management guided an operating profit margin (OPM) expansion of 50bp yoy for 2023, which falls at the upper end of the 30-50bp guidance earlier this year. Operating margin expansion will be driven by: a) lower raw milk prices, and b) product mix improvement of major categories. Per management, the ice cream business could grow faster at 20% yoy in the future. The OPM of the normal temperature products has been stable, while the remaining categories have not reached management's expectation, though they have been improving.

EARNINGS REVISION/RISK

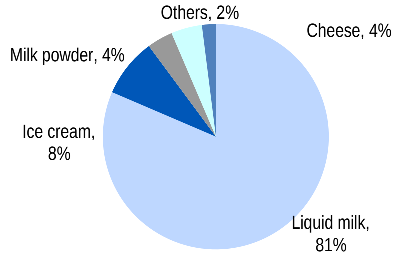
- **Unchanged earnings forecasts.**

- **Risks.** Slowdown in consumption recovery and higher-than-expected selling expenses.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK$39.30.** We are positive on Mengniu's robust OPM expansion in 2023 and thereafter. Maintain BUY and target price of HK$39.30, which implies 23.5x 2023F PE and 20.0x 2024F PE.

REVENUE BREAKDOWN BY PRODUCT IN 1H23



Source: Mengniu, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	92,593.3	102,016.3	111,816.6	122,733.7
EBITDA	7,620.2	8,736.4	9,704.5	10,803.2
Deprec. & amort.	1,896.7	1,715.4	1,552.3	1,405.4
EBIT	5,723.5	7,021.0	8,152.2	9,397.8
Total other non-operating income	408.9	925.0	1,111.5	1,217.0
Net interest income/(expense)	260.1	(142.9)	(316.9)	(285.8)
Pre-tax profit	6,392.5	7,803.0	8,946.8	10,329.0
Tax	(1,317.5)	(1,607.4)	(1,816.2)	(2,096.8)
Minorities	118.2	(31.0)	(37.8)	(41.2)
Net profit	5,193.2	6,164.6	7,092.8	8,191.0
Net profit (adj.)	5,193.2	6,164.6	7,092.8	8,191.0

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	19,652.6	21,944.7	24,203.8	26,535.2
Other LT assets	61,383.5	61,215.7	61,047.9	60,880.1
Cash/ST investment	12,765.8	12,730.1	13,514.5	16,325.7
Other current assets	24,011.2	25,677.5	27,410.5	29,341.0
Total assets	117,813.2	121,568.1	126,176.7	133,082.0
ST debt	9,094.7	9,831.9	9,448.0	9,661.8
Other current liabilities	24,058.5	27,083.6	29,415.5	31,911.5
LT debt	26,106.3	21,493.3	18,872.7	16,963.8
Other LT liabilities	8,501.9	8,501.9	8,501.9	8,501.9
Shareholders' equity	40,098.5	44,673.2	49,916.6	55,979.8
Minority interest	9,953.3	9,984.2	10,022.0	10,063.2
Total liabilities & equity	117,813.2	121,568.1	126,176.7	133,082.0

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	2,981.9	9,453.7	9,465.6	10,387.1
Pre-tax profit	6,502.4	7,803.0	8,946.8	10,329.0
Tax	(1,317.5)	(1,607.4)	(1,816.2)	(2,096.8)
Deprec. & amort.	1,896.7	1,715.4	1,552.3	1,405.4
Working capital changes	(1,040.4)	1,358.9	598.9	565.6
Other operating cashflows	(3,059.1)	183.9	183.9	183.9
Investing	(965.4)	(4,023.6)	(3,827.4)	(3,752.9)
Capex (growth)	(5,621.9)	(3,923.6)	(3,727.4)	(3,652.9)
Investments	5,397.5	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(741.0)	(100.0)	(100.0)	(100.0)
Financing	(467.5)	(5,465.8)	(4,853.8)	(3,822.9)
Dividend payments	(1,506.2)	(1,590.0)	(1,849.4)	(2,127.8)
Proceeds from borrowings	5,304.1	5,218.9	6,827.4	7,752.9
Loan repayment	(4,265.5)	(9,094.7)	(9,831.9)	(9,448.0)
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	1,549.0	(35.7)	784.4	2,811.2
Beginning cash & cash equivalent	11,216.9	12,765.8	12,730.1	13,514.5
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	12,765.8	12,730.1	13,514.5	16,325.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.2	8.6	8.7	8.8
Pre-tax margin	6.9	7.6	8.0	8.4
Net margin	5.6	6.0	6.3	6.7
ROA	4.8	5.2	5.7	6.3
ROE	13.5	14.5	15.0	15.5
Growth				
Turnover	5.1	10.2	9.6	9.8
EBITDA	1.8	14.6	11.1	11.3
Pre-tax profit	5.4	22.1	14.7	15.4
Net profit	(0.5)	18.7	15.1	15.5
Net profit (adj.)	(0.5)	18.7	15.1	15.5
EPS	(0.1)	18.6	15.1	15.5
Leverage				
Debt to total capital	41.3	36.4	32.1	28.7
Debt to equity	87.8	70.1	56.7	47.6
Net debt/(cash) to equity	56.0	41.6	29.7	18.4
Interest cover (x)	n.a.	61.1	30.6	37.8

COMPANY RESULTS

Estun Automation (002747 CH)

2Q23: Earnings Impacted By Forex Loss, But Robot Business Remains Solid

Estun's 2Q23 earnings of Rmb54m are slightly below our expectation due to a slight miss in margins and forex loss. The robot business remains robust with strong performance from both Estun and the Cloos brand, but this is offset by a disappointing core component business. For 2023, management maintains its target to ship 25,000 robots, but did highlight the potential impact of the industrial robot price war initiated by the foreign brands. Maintain BUY. Target price: Rmb31.50.

2Q23 RESULTS

Year to 31 Dec (Rmbm)	2Q22	1Q23	2Q23	yoy % chg	qoq % chg	1H22	1H23	yoy % chg
Revenue	851	986	1,255	47.5	27.3	1,655	2,241	35.4
Gross profit	285	331	411	44.0	24.0	549	742	35.2
Net profit	16	43	54	234.9	26.3	76	97	27.7
Core net profit	10	32	37	274.0	15.7	35	69	100.6
Margins (%)								
Gross margin	33.5	33.6	32.7	(0.8)	(0.9)	33.1	33.1	(0.0)
Operating margin	4.2	4.0	7.0	2.8	3.0	4.4	5.7	1.3
Net margin	1.9	4.4	4.3	2.4	(0.0)	4.6	4.3	(0.3)

Source: Estun, UOB Kay Hian

RESULTS

- **Estun's 2Q23 results registered in-line revenue, but missed in bottom line due to forex loss.** Estun Automation's (Estun) revenue in 2Q23 was in line with our estimates, growing 47.5% yoy and 27.3% qoq to Rmb1,255m. Margins were slightly below our expectation, declining 0.8ppt yoy and 0.9ppt qoq to 32.7%, while opex ratio was well under control at 25.5%. Net profit in 2Q23 grew 2.3x yoy from a low base to Rmb54m, which is below our expectation due to forex loss (Rmb16m in 1H23).
- **By segment, robots performed better than expected while core components business missed.** In 1H23, Estun's robot business grew 46.8% yoy to Rmb1,732m, which is above our expectation as domestic robot sales turned out to be stronger than expected. However, the core components business disappointed with a 7.0% yoy growth to Rmb619m. Gross margins for the automation business arrived at 31.9%, which is also below our expectation as we were expecting more upside.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	3,020	3,881	5,313	6,362	7,488
EBITDA	227	433	517	663	837
Operating Profit	115	298	381	512	670
Net Profit	122	166	275	357	458
Net Profit (adj.)	67	97	235	317	418
EPS (fen)	14.0	19.2	31.7	41.2	52.8
EPS (fen) (adj.)	7.7	11.1	27.1	36.6	48.2
P/E (x)	300.3	208.4	85.8	63.5	48.2
P/BV (x)	7.8	7.3	6.7	6.1	5.4
EV/EBITDA (x)	95.5	50.9	43.4	33.8	27.2
Dividend yield (%)	0.1	0.1	0.3	0.4	0.5
Net margin (%)	4.0	4.3	5.2	5.6	6.1
Net debt to equity (%)	61.4	76.0	81.9	71.6	69.4
Interest cover (x)	4.1	3.6	5.1	6.7	8.7
ROE (%)	3.1	3.6	8.1	10.0	11.9
Consensus net profit	-	-	291.5	462.5	681.8
UOBKH/Consensus (x)	-	-	0.94	0.77	0.67

Source: Estun , Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rmb23.23
Target Price	Rmb31.50
Upside	+35.6%

COMPANY DESCRIPTION

Estun develops and manufactures mechanical equipment. The company focuses on metal forming and electro-hydraulic robotic machines.

STOCK DATA

GICS sector	Industrial Equipment
Bloomberg ticker:	002747 CH
Shares issued (m):	870
Market cap (Rmbm):	20,199
Market cap (US$m):	2,927
3-mth avg daily t'over (US$m):	67.3

Price Performance (%)

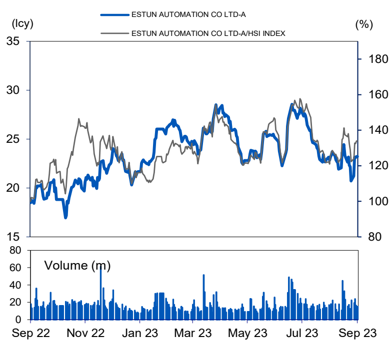
52-week high/low Rmb29.41/Rmb16.45

1mth	3mth	6mth	1yr	YTD
0.3	(8.1)	(6.3)	22.9	7.1

Major Shareholders	%
Wu Bo.	41.98

FY23 NTAV/Share (Rmb)	0.87
FY23 Net Debt/Share (Rmb)	2.86

PRICE CHART



Source: Bloomberg

ANALYST(S)

Johnny Yum
+852 2236 6706
johnny.yum@uobkayhian.com.hk

Ariel Poh
+603 2147 1986
yunli@uobkayhian.com

STOCK IMPACT

- **Revenue target of Rmb5.5b unchanged, including Rmb2b from the Cloos brand, and maintain full-year robot shipment target of 25,000 units.** Management did not change their previous revenue target of Rmb5.5b (+46% yoy), but mentioned that there will be difficulties in achieving the target given the pricing pressure and weak core component sales. Nevertheless, management maintained its target to ship >25,000 robots in 2023, and still strives to achieve a Rmb300m in net profit which is one of the KPIs in its share incentive scheme for 2023 (Rmb300m excluding fees of about Rmb40m related to its share incentive scheme).

- **Solar and auto are now the biggest contributors to the robot business.** In 1H23, >20% of shipment was contributed by solar, and about 20% from all automobile end-markets (including welding/AGV for auto OEMs, auto parts manufacturers, Li-ion battery). 3C contributes to another 20% of total shipment, followed by metal processing at about 15% of robot shipment. Management believes the strong order inflow from the solar sector can sustain through 2H23, and the development of new applications and end-markets may support demand growth from 2024 onwards. Estun is planning to invest more heavily into the small-payload robots, as management is expecting a demand recovery from the 3C industry from 2024 onwards.

- **Management expects margins to recover in 2H23.** Management attributed the gross margins decline in 2Q23 to the timing of profit recognition in its overseas business, which should start to recover in 2H23 as shipment picks up and as profits are recognised. On the other hand, the profitability of its core component business should recover meaningfully in 2H23 as the segment’s margins in 1H are often impacted by product cycle and ASP cuts. Lastly, management also stated that the margins of its domestic robot sales are improving, primarily thanks to a better operating scale.

  Management did mention that the distributors of its foreign competitors are still cutting prices for inventory destocking, and Estun may potentially participate in the price war in order to secure market share and growth. This may negatively impact Estun’s margins, but management stated that Estun’s robot prices are still lower compared to that of the foreign brands, and expects the improvements in operation scale to offset the margin pressure from ASP cuts.

EARNINGS REVISION/RISK

- **We trim our core net profit estimates by 8.5%/9.0%/7.6% for 2023-25 respectively to Rmb235m/Rmb317m/Rmb418m.** We factored in a lower sales and margins assumption for the core components business. We maintain our cautious margin assumption for the robot business at 33.0% (-0.4ppt yoy) as we expect mounting competition from the foreign brands.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of Rmb31.50** as we roll over to our 2024 estimates. Our target price of Rmb31.50 is now based on 86.1x 2024F PE, still pegged to 0.5SD below its five-year average historical forward mean.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	3,881	5,313	6,362	7,488
EBITDA	433	517	663	837
Depreciation & amortization	134	135	150	166
EBIT	298	381	512	670
Total other non-operating income	18	18	18	18
Associate contributions	(4)	(4)	(4)	(4)
Net interest income/(expense)	(83)	(74)	(76)	(77)
Pre-tax profit	263	429	558	715
Tax	(80)	(86)	(112)	(143)
Minorities	(17)	(69)	(89)	(114)
Net profit	166	275	357	458
Net profit (recurrent)	97	235	317	418

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	776	954	1,119	1,272
Other LT assets	2,991	3,053	3,136	3,241
Cash/ST investment	668	286	380	187
Other current assets	3,815	4,526	4,822	5,535
Total assets	8,251	8,820	9,457	10,235
ST debt	814	800	800	800
Other current liabilities	2,504	2,770	3,016	3,293
LT debt	1,430	1,430	1,430	1,430
Other LT liabilities	433	433	433	433
Shareholders' equity	2,774	3,023	3,325	3,711
Minority interest	296	365	454	568
Total liabilities & equity	8,251	8,820	9,457	10,235

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	27	108	623	380
Pre-tax profit	298	381	512	670
Tax	(80)	(86)	(112)	(143)
Depreciation/amortization	134	135	150	166
Associates	4	4	4	4
Working capital changes	(364)	(445)	(50)	(436)
Non-cash items	35	118	118	118
Other operating cashflows	-	-	-	-
Investing	(262)	(369)	(393)	(419)
Capex (growth)	(283)	(255)	(255)	(255)
Investments	(809)	(121)	(143)	(169)
Proceeds from sale of assets	-	-	-	-
Others	830	7	5	4
Financing	254	(122)	(136)	(153)
Dividend payments	(115)	(108)	(136)	(153)
Issue of shares	-	-	-	-
Proceeds from borrowings	1,956	1,331	1,331	1,331
Loan repayment	(1,419)	(1,346)	(1,331)	(1,331)
Others/interest paid	(168)	-	-	-
Net cash inflow (outflow)	19	(382)	94	(192)
Beginning cash & cash equivalent	653	668	286	380
Ending cash & cash equivalent	668	286	380	187

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.1	9.7	10.4	11.2
Pretax margin	6.1	7.1	8.0	8.9
Net margin	4.3	5.2	5.6	6.1
ROA	1.3	2.7	3.5	4.2
ROE	3.6	8.1	10.0	11.9
Growth				
Turnover	28.5	36.9	19.7	17.7
EBITDA	90.6	19.4	28.3	26.3
Pre-tax profit	58.3	63.2	30.1	28.2
Net profit	36.3	65.1	30.1	28.2
Net profit (adj)	43.7	142.8	35.2	31.8
EPS	36.6	65.1	30.1	28.2
Leverage				
Debt to total capital	33.6	31.3	29.2	27.0
Debt to equity	100.1	91.4	83.1	74.4
Net debt to equity	76.0	81.9	71.6	69.4
Interest cover (x)	3.6	5.1	6.7	8.7

COMPANY RESULTS

Great Wall Motor (2333 HK)

2Q23: Results Rebound qoq, But 1H23 Earnings Still Fall Short Of Target

GWM's 2Q23 core net profit came in as expected at Rmb966m (+28% yoy). But 1H23 core net profit still plummeted by 64% yoy to Rmb749m, representing only 21% of our 2023 net profit forecast of Rmb3.5b and 12% of consensus 2023 net profit of Rmb6.085b. The shortfall lies in margins. We expect GWM's earnings to remain dragged by the stiffening competition in the ICE SUV market. Maintain 2023-25 net profit forecasts at Rmb3.50b/Rmb3.46b/Rmb3.27b. Maintain SELL. Target price: HK$5.20.

2Q23 RESULTS

Year to 31 Dec (Rmbm)	2Q22	1Q23	2Q23	yoy % chg	qoq % chg	1H23	yoy % chg
Sales volume ('000 units)	235	220	299	27.2	35.9	519	0.1
Revenue	28,515	29,039	40,933	43.5	41.0	69,971	12.6
Gross profit	5,644	4,666	7,124	26.2	52.7	11,791	3.2
Gross margin (%)	*19.8*	*16.1*	*17.4*	(2.4)	1.3	*16.9*	*(1.5)*
EBIT	748	(187)	1,163	55.5	n.a.	977	(56.1)
EBIT margin (%)	*2.6*	*(0.6)*	*2.8*	0.2	3.5	*1.4*	*(2.2)*
Net profit	3,967	174	1,187	(70.1)	581.3	1,361	(75.7)
Net profit (adj)	756	(217)	966	27.9	n.a.	749	(63.6)
Net margin (%)	*2.6*	*(0.7)*	*2.4*	(0.3)	3.1	*1.1*	*(2.2)*
Operating cash flow	19,637	(8,204)	5,768	(70.6)	n.a.	(2,436)	n.a.
Free cash flow	16,282	(11,330)	1,141	(93.0)	n.a.	(2,436)	n.a.

Source: GWM

RESULTS

- **2Q23 earnings improved qoq but still plummeted yoy, as expected.** Great Wall Motor (GWM) posted 2Q23 net profit of Rmb1,187m (-70% yoy/+581% qoq), at the mid-point of its guidance of Rmb976m-1,376m. Stripping out one-off items, GWM registered core net profit of Rmb966m (+28% yoy) in 2Q23, at the mid-point of its guidance range of Rmb817m-1,067m and much better than a core net loss of Rmb217m in 1Q23. GWM's 2Q23 earnings improvement was due to sales growth from electric vehicles (EV) and exports.
- **Revenue in line with estimates.** GWM's sales volume increased by 27% yoy and 36% qoq to 299,027 units in 2Q23, lifting revenue by 43.5% yoy/41% qoq during the quarter. This was mainly due to the increase in new products and EVs in sales mix. On flat yoy sales volume, 1H23 revenue grew 13% yoy to Rmb69.97b, representing 43% of our 2023 estimated revenue of Rmb162.25b, in line with expectation.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	136,405	137,340	162,251	182,533	202,814
EBITDA	10,450	9,673	10,456	11,583	12,791
Operating profit	4,856	3,063	3,067	3,294	3,602
Net profit (rep./act.)	6,726	8,266	3,501	3,462	3,274
Net profit (adj.)	4,203	4,477	3,501	3,462	3,274
EPS (fen)	45.5	51.1	41.3	40.8	38.6
PE (x)	18.6	16.6	20.5	20.7	21.9
P/B (x)	1.3	1.1	1.1	1.0	1.0
EV/EBITDA (x)	7.9	8.6	7.9	7.2	6.5
Dividend yield (%)	4.4	3.4	1.5	1.4	0.0
Net margin (%)	4.9	6.0	2.2	1.9	1.6
Net debt/(cash) to equity (%)	(18.6)	(7.7)	5.3	18.9	33.5
Interest cover (x)	n.a.	n.a.	n.a.	13.3	6.6
ROE (%)	11.3	13.0	5.3	5.1	4.7
Consensus net profit	-	-	6,085	7,333	8,743
UOBKH/Consensus (x)	-	-	0.58	0.47	0.37

Source: GWM , Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	HK$9.30
Target Price	HK$5.20
Upside/(Downside)	-44.1%

COMPANY DESCRIPTION

Based in Baoding, in Hebei province, Great Wall Motor produces and sells pick-up trucks, SUVs and sedans under its proprietary brand Great Wall.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	2333 HK
Shares issued (m):	2,511
Market cap (HK$m):	23,354
Market cap (US$m):	2,994
3-mth avg daily t'over (US$m):	32.1

Price Performance (%)

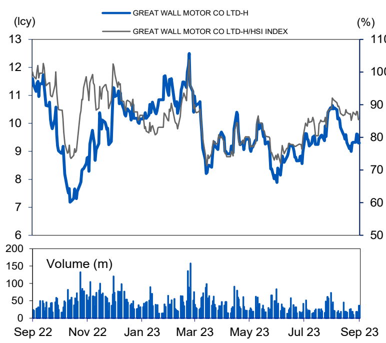
52-week high/low HK$17.96/HK$6.90

1mth	3mth	6mth	1yr	YTD
(11.9)	15.7	(10.6)	(21.7)	(8.5)

Major Shareholders	%
Wei Jian Jun	56.04

FY23 NTAV/Share (Rmb)	5.46
FY23 Net Debt/Share (Rmb)	0.46

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ken Lee
+852 2236 6760
ken.lee@uobkayhian.com.hk

Bella Lu
+86 21 5404 7225 ext. 810
bellalu@uobkayhian.com

- **2Q23 margins improved qoq, but 1H23 margins still down yoy.** Gross margin tumbled by 2.4ppt yoy and rebounded by 1.3ppt qoq to 17.4% in 2Q23. EBIT margin edged up 0.2ppt yoy and 3.5ppt qoq to 2.8% in 2Q23, due to a drop in administrative expenses and R&D expenses. Administrative expenses/revenue ratio and R&D expenses/revenue ratio respectively fell 1.2ppt/1.7ppt yoy and 1.2ppt/0.5ppt qoq to 2.5% and 4.8% in 2Q23. 1H23 gross margin and EBIT margin still declined by 1.5ppt/2.2ppt yoy to 16.9%/1.4% respectively, lower than our 2023 assumptions of 17.4%/2.0%.

STOCK IMPACT

- **We keep our 2023-25 sales volume estimates at 1.20m/1.35m/1.50m units,** lower than the company's 2023 sales target of 1.6m units. GWM's sales volume grew by 7% yoy and 4% mom to 109,091 units in Jul 23 and jumped by 1% yoy to 628,143 in 7M23, representing 52% of our estimated 2023 sales volume and 39% of the company's 2023 sales target. When it comes to sales mix, GWM's EV sales saw a significant increase from May in light of new product launches such as Haval Xiaolong and WEY Lanshan DHT-PHEV, new mocha DHT-PHEV and Tank 500Hi4-T, boosting the company's EV penetration from 13% in 1Q23 to 22% in 2Q23. Based on the released sales data in July, EV penetration has reached 27%. In 2H23, GWM will launch new products such as Haval Menglong and Gaoshan DHT-PHEV and Shanhaipao HEV&PHEV from WEY, further enriching the company's EV product matrix.

- **We maintain our EBIT margin assumptions for 2023-25 at 1.9%/1.8%/1.8%,** based on the in-line 1H23 EBIT margin and intensifying price war in China's ICE-car market as a result of the transition in emission standard and competition from EVs. Though GWM indicated that it will not join the price war, we think it will be inevitable for the company, given its market position and the intensifying competition.

EARNINGS REVISION/RISK

- **We maintain our 2023-25 net profit forecasts at Rmb3,501m/Rmb3,462m/ Rmb3,274m respectively.** Our 2023-25 earnings estimates are over 50% below consensus', as we expect lower sales and margins and do not factor in any extraordinary gains as the street does. The street is extrapolating the exceptional gains (including the over Rmb2b in forex gain) into the future, which we deem unlikely. Note that GWM only registered core net profit of Rmb4,477m/Rmb749m/Rmb966m in 2022/1H23/2Q23, compared with consensus 2023 net profit forecast of Rmb6,085m.

- **Risks.** Downsides to our earnings estimates lie in worse-than-expected sales of the new models and bigger-than-expected price cuts.

VALUATION/RECOMMENDATION

- **Maintain SELL with a target price of HK$5.20,** based on the unchanged 12x 2024F PE (on a par with historical mean one-year forward PE).

CATALYST

- a) Disappointing monthly sales, b) price cuts, and c) worse-than-expected quarterly earnings.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	137,340	162,251	182,533	202,814
EBITDA	9,673	10,456	11,583	12,791
Depreciation & amortization	(6,609)	(7,389)	(8,289)	(9,189)
EBIT	3,063	3,067	3,294	3,602
Total other non-operating income	2,535	-	-	-
Associate contributions	721	800	800	800
Net interest income/(expense)	2,488	23	(247)	(550)
Pre-tax profit	8,807	3,890	3,847	3,852
Tax	(554)	(389)	(385)	(578)
Minorities	13	-	-	-
Net profit	8,266	3,501	3,462	3,274
Net profit (recurrent)	4,477	3,501	3,462	3,274

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	26,949	33,949	42,849	53,649
Other LT assets	50,728	55,138	58,749	61,560
Cash/ST investment	26,899	18,318	8,886	8,153
Other current assets	80,782	91,613	100,038	108,445
Total assets	185,357	199,019	210,523	231,807
ST debt	10,827	10,827	10,827	20,827
Other current liabilities	84,975	97,670	106,762	115,810
LT debt	15,406	15,406	15,406	15,406
Other LT liabilities	46	46	46	46
Shareholders' equity	65,201	66,168	68,580	70,815
Minority interest	15	15	15	15
Total liabilities & equity	185,357	199,019	210,523	231,807

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	12,311	11,931	11,865	12,855
Pre-tax profit	8,807	3,890	3,847	3,852
Tax	(554)	(389)	(385)	(578)
Depreciation/amortisation	6,609	7,389	8,289	9,189
Associates	(721)	(800)	(800)	(800)
Working capital changes	(1,909)	1,864	667	641
Non-cash items	(1)	-	-	1
Other operating cashflows	80	(23)	247	549
Investing	(10,505)	(17,055)	(19,326)	(21,478)
Capex (growth)	16,301	18,000	20,000	22,000
Investments	18,945	20,000	20,000	20,000
Proceeds from sale of assets	442	-	-	-
Others	(46,192)	(55,055)	(59,326)	(63,478)
Financing	(3,133)	(3,456)	(1,972)	7,890
Dividend payments	(1,226)	(3,456)	(1,972)	(2,110)
Issue of shares	357	-	-	-
Proceeds from borrowings	22,106	10,000	10,000	20,000
Loan repayment	12,812	10,000	10,000	10,000
Others/interest paid	(37,183)	(20,000)	(20,000)	(20,000)
Net cash inflow (outflow)	(1,009)	(8,580)	(9,432)	(734)
Beginning cash & cash equivalent	27,908	26,899	18,318	8,886
Change due to forex impact	317	-	-	-
Ending cash & cash equivalent	26,899	18,318	8,886	8,153

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(0.6)	(0.5)	(0.4)	(0.4)
Pre-tax margin	6.4	2.4	2.1	1.9
Net margin	3.3	2.2	1.9	1.6
ROA	4.6	1.8	1.7	1.5
ROE	13.0	5.3	5.1	4.7
Growth				
Turnover	0.7	18.1	12.5	11.1
EBITDA	(29.4)	(8.0)	0.0	0.0
Pre-tax profit	17.7	(55.8)	(1.1)	0.1
Net profit	22.9	(57.6)	(1.1)	(5.4)
Net profit (adj.)	6.5	(21.8)	(1.1)	(5.4)
EPS	12.2	(19.2)	(1.1)	(5.4)
Leverage				
Debt to total capital	16.6	15.4	14.6	17.6
Debt to equity	47.1	46.4	44.8	57.5
Net debt/(cash) to equity	(7.7)	5.3	18.9	33.5
Interest cover (x)	n.a.	n.a.	13.3	6.6

COMPANY RESULTS

Haier Smart Home (6690 HK)

1H23: Results In Line; Air Conditioner A Bright Spot

Haier's 1H23 results were in line with market expectations. We believe the company will continue to gain market share and momentum in the air conditioner segment into 2H23 despite the weak overall sector demand. Overseas markets are still under pressure, but we expect a sequential improvement ahead. Maintain BUY. Target price: HK$28.50.

1H23 Results

Year to 31 Dec (Rmbm)	1H23	2H22	1H22	hoh chg (%)	yoy chg (%)
Total revenue	131,614	121,856	121,629	8.0	8.2
Cost of sales	-92,398	-83,518	-85,401	10.6	8.2
Gross profit	39,216	38,338	36,228	2.3	8.2
Gross profit margin	29.8%	31.5%	29.8%	-1.7ppt	0.0ppt
EBITDA	15,376	11,625	13,206	32.3	16.4
EBITDA margin	11.7%	9.5%	10.9%	2.1ppt	0.8ppt
Net profit	8,964	6,751	7,960	32.8	12.6
Net profit margin	6.8%	5.5%	6.5%	1.3ppt	0.3ppt

Source: Haier Smart Home, UOB Kay Hian

RESULTS

- **1H23 results in line.** Haier Smart Home (Haier) reported 1H23 revenue of Rmb131,614m (+8% yoy), in line with market consensus. Gross margin was 29.8%, remaining flat yoy. EBITDA was Rmb15,376m (+16% yoy) and EBITDA margin was 11.7% (+0.8ppt yoy), mainly due to the lower SG&A expenses (-0.4ppt yoy). Net profit was Rmb8,964m (+13% yoy), in line with market consensus, and net profit margin was 6.8% (+0.3ppt yoy).

STOCK IMPACT

- **Air conditioner a bright spot in 1H23.** Haier's air conditioner segment progressed well amid a highly competitive environment in 1H23. According to CMM, air conditioners' market share across all channels (in terms of retail sales) was up by 0.6ppt yoy, reaching 16.4%. Specifically, market share in lower-tier channels significantly rose by 7.1ppt yoy to 22.0%. While this can be attributed to Haier's brand awareness and product innovation, it was also due to the company's efforts in channel expansion this year, which strengthened emerging channels such as live streaming platforms.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	227,081	243,485	262,231	282,691	304,545
EBITDA	18,648	21,407	23,675	26,562	29,630
Operating profit	13,588	15,361	17,800	20,246	22,941
Net profit (rep./act.)	13,079	14,711	16,717	18,846	21,173
Net profit (adj.)	13,079	14,711	16,717	18,846	21,173
EPS (Fen)	141.0	158.0	177.9	199.7	224.3
PE (x)	16.0	14.3	12.7	11.3	10.0
P/B (x)	2.6	2.3	2.0	1.8	1.6
EV/EBITDA (x)	10.3	9.0	8.1	7.2	6.5
Dividend yield (%)	2.2	2.7	2.9	3.3	3.7
Net margin (%)	5.8	6.0	6.4	6.7	7.0
Net debt/(cash) to equity (%)	(13.9)	(15.2)	(23.0)	(30.4)	(37.5)
Interest cover (x)	26.1	21.5	23.5	30.2	39.0
ROE (%)	17.8	17.0	16.9	16.9	16.9
Consensus net profit	-	-	16,807	19,237	21,810
UOBKH/Consensus (x)	-	-	0.99	0.98	0.97

Source: Haier Smart Home, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$24.25
Target Price	HK$28.50
Upside	+17.5%
Share Price	HK$24.25

COMPANY DESCRIPTION

Haier Group Corporation is a Chinese multinational home appliances and consumer electronics company headquartered in Qingdao, Shandong. It designs, develops, manufactures and sells products including refrigerators, air conditioners, washing machines, dryer.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	6690 HK
Shares issued (m):	2,858.5
Market cap (HK$m):	231,455.0
Market cap (US$m):	29,504.6
3-mth avg daily t'over (US$m):	31.4

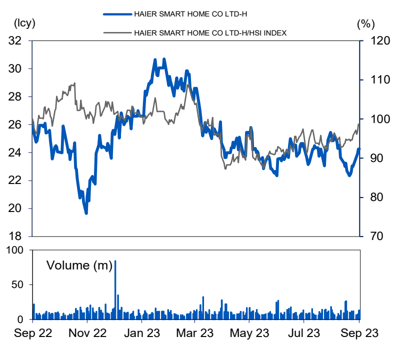
Price Performance (%)

52-week high/low HK$30.70/HK$19.64

1mth	3mth	6mth	1yr	YTD
(4.7)	8.0	(12.6)	(6.0)	(8.8)

Major Shareholders	%
HKSCC	23.64
FY23 NAV/Share (Rmb)	11.11
FY23 Net Cash/Share (Rmb)	2.55

PRICE CHART



Source: Bloomberg

ANALYST(S)

Stella Guo
+852 2236 6798
stella.guo@uobkayhian.com.hk

Ng Jo Yee
+603 2147 1984
joyee@uobkayhian.com

SEGMENTAL INFORMATION

Year to 31 Dec (Rmbm)	1H23	2H22	1H22	hoh chg (%)	yoy chg (%)
Revenue by category					
-Refrigerator/freezers	20,506	19,752	19,258	3.8	6.5
-Kitchen appliances	1,739	1,458	1,656	19.3	5.0
-Air conditioners	19,538	12,465	15,919	56.7	22.7
-Laundry appliances	12,481	14,604	12,472	(14.5)	0.1
-Water appliances	7,304	6,865	6,677	6.4	9.4
-Smart home business overseas	66,733	63,508	61,196	5.1	9.0
-Other business	3,313	3,204	4,451	3.4	(25.6)
Operating profit margin					
-China overall	10.5%	8.3%	8.8%	2.2ppt	1.7ppt
-Refrigerator/freezers	13.5%	7.5%	11.9%	6.0ppt	1.6ppt
-Kitchen appliances	4.3%	1.5%	2.8%	2.7ppt	1.5ppt
-Air conditioners	5.6%	3.3%	2.9%	2.3ppt	2.8ppt
-Laundry appliances	12.0%	12.2%	10.4%	-0.2ppt	1.6ppt
-Water appliances	14.0%	12.6%	12.7%	1.4ppt	1.3ppt
-Smart home business overseas	5.2%	4.1%	5.9%	1.1ppt	-0.7ppt
-Other business	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Haier Smart Home, UOB Kay Hian

- **Expect double-digit air conditioner sales growth in 4Q23.** Although air conditioner demand weakened in July, Haier demonstrated a better sales performance than that of the overall industry, with retail sales only down by single-digits in Jul 23, compared to the industry (online/offline retail sales down by 14% yoy/21% yoy in Jul 23, according to AVC). Going into 4Q23, Haier is confident that air conditioner sales will record a double-digit yoy growth. Furthermore, the company also enhanced its supply chain network to improve production efficiency. Thus, management expects the air conditioner segment's profit to grow faster than revenue, with profit growth 50% higher than revenue growth.

- **Overseas markets to see sequential improvement.** In 1H23, revenue from overseas markets increased by 9% yoy to Rmb66,733m while the operating margin declined by 0.7ppt yoy. This was mainly due to: a) hiking interest rate and inflation impact in the European market, b) weak performance of Candy, which recorded losses in 1H23, and c) intensified competition in the Australia & New Zealand market, coupled with the decelerated upgrading of mid- to high-end products. Management expects overseas markets to see sequential improvement in 2H23. Candy has already turned profitable in Aug 23, and the company aims to launch more new products to enhance the profitability.

EARNINGS REVISION/RISK

- **Earnings forecasts remain unchanged.**

VALUATION/RECOMMENDATION

- **Maintain BUY and unchanged target price of HK$28.50.** We like Haier for: a) the potential upside in the air conditioner segment, and b) operating efficiency improvement in the overseas market. The stock currently trades at 12.7x 2023F PE, 1.25SD below the five-year historical average.

DCF VALUATION

Rmbm	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
EBIT	17,800	20,246	22,941	24,739	26,480	28,390	30,313	32,405	34,683	37,170	39,889
D&A	5,876	6,315	6,690	7,008	7,279	7,510	7,706	7,873	8,015	8,135	8,238
Capex	-9,061	-9,061	-9,061	-9,061	-9,061	-9,061	-9,061	-9,061	-9,061	-9,061	-9,061
W.C. change	1,373	1,233	1,415	1,207	1,003	1,116	1,196	1,321	1,459	1,613	1,785
FCFF	12,928	15,254	18,041	19,640	21,149	23,075	24,943	26,968	29,133	31,468	33,995
NPV of FCFF	12,928	13,438	14,001	13,428	12,738	12,243	11,659	11,105	10,568	10,056	9,570
PV of terminal value	84,784										
Enterprise value	216,517										
Net debt	-24,066										
MI	1,315										
Equity value	239,268										
# of shares O/S (in m)	9,438										
Value per share (Rmb)	25.40										
Value per share (HK$)	28.50										

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	243,485.0	262,230.6	282,691.3	304,545.4
EBITDA	21,406.8	23,675.1	26,561.7	29,630.3
Deprec. & amort.	6,046.0	5,875.5	6,315.4	6,689.6
EBIT	15,360.8	17,799.6	20,246.3	22,940.7
Associate contributions	1,582.0	1,582.0	1,582.0	1,582.0
Net interest income/(expense)	(995.0)	(1,008.1)	(880.7)	(760.5)
Pre-tax profit	17,790.0	20,215.7	22,789.9	25,604.4
Tax	(3,058.0)	(3,475.0)	(3,917.5)	(4,401.2)
Minorities	(21.0)	(23.9)	(26.9)	(30.2)
Net profit	14,711.0	16,716.9	18,845.5	21,172.9
Net profit (adj.)	14,711.0	16,716.9	18,845.5	21,172.9

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	31,857.0	34,797.3	37,299.0	39,427.5
Other LT assets	73,603.0	73,612.1	73,620.0	73,626.9
Cash/ST investment	53,369.0	58,938.9	65,851.6	75,960.6
Other current assets	77,014.0	81,566.0	87,151.7	93,727.0
Total assets	235,843.0	248,914.2	263,922.3	282,742.0
ST debt	22,718.0	19,531.5	17,476.9	13,838.1
Other current liabilities	96,029.0	101,954.1	108,773.0	116,763.1
LT debt	16,451.0	15,341.0	12,563.2	12,424.4
Other LT liabilities	5,931.0	5,931.0	5,931.0	5,931.0
Shareholders' equity	93,423.0	104,841.9	117,836.5	132,413.5
Minority interest	1,291.0	1,314.9	1,341.8	1,372.0
Total liabilities & equity	235,843.0	248,914.3	263,922.4	282,742.0

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	20,154.0	22,243.5	24,674.9	27,561.6
Pre-tax profit	17,790.0	20,215.7	22,789.9	25,604.4
Tax	(3,058.0)	(3,475.0)	(3,917.5)	(4,401.2)
Deprec. & amort.	6,046.0	4,138.6	4,577.3	4,950.6
Working capital changes	(1,583.0)	1,373.2	1,233.1	1,414.9
Non-cash items	(182.0)	0.0	0.0	0.0
Other operating cashflows	1,141.0	(9.0)	(7.9)	(6.9)
Investing	(8,920.0)	(7,079.0)	(7,079.0)	(7,079.0)
Capex (growth)	0.0	0.0	0.0	0.0
Investments	(22.0)	0.0	0.0	0.0
Proceeds from sale of assets	(218.0)	0.0	0.0	0.0
Others	(8,680.0)	(7,079.0)	(7,079.0)	(7,079.0)
Financing	(3,822.0)	(9,594.6)	(10,683.2)	(10,373.6)
Dividend payments	(5,135.0)	(5,298.0)	(5,850.9)	(6,595.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	3,673.0	(4,296.6)	(4,832.3)	(3,777.7)
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(2,360.0)	0.0	0.0	0.0
Net cash inflow (outflow)	7,412.0	5,569.9	6,912.7	10,109.0
Beginning cash & cash equivalent	45,198.0	53,369.0	58,938.9	65,851.6
Changes due to forex impact	759.0	0.0	0.0	0.0
Ending cash & cash equivalent	53,369.0	58,938.9	65,851.6	75,960.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.8	9.0	9.4	9.7
Pre-tax margin	7.3	7.7	8.1	8.4
Net margin	6.0	6.4	6.7	7.0
ROA	6.5	6.9	7.3	7.7
ROE	17.0	16.9	16.9	16.9
Growth				
Turnover	7.2	7.7	7.8	7.7
EBITDA	14.8	10.6	12.2	11.6
Pre-tax profit	11.6	13.6	12.7	12.3
Net profit	12.5	13.6	12.7	12.3
Net profit (adj.)	12.5	13.6	12.7	12.3
EPS	12.1	12.6	12.3	12.3
Leverage				
Debt to total capital	29.3	24.7	20.1	16.4
Debt to equity	41.9	33.3	25.5	19.8
Net debt/(cash) to equity	(15.2)	(23.0)	(30.4)	(37.5)
Interest cover (x)	21.5	23.5	30.2	39.0

COMPANY RESULTS

Hansoh Pharmaceutical Group Company (3692 HK)

1H23: Results Missed Expectations; Expect Significant Revenue Recovery From 2024

Hansoh Pharma reported weaker-than-expected results with revenue and earnings remaining relatively flat in 1H23. We believe the slower growth was mainly due to significant impact of the COVID-19 outbreak in 1Q23 and sluggish generic business. Given the challenging business environment, we expect a slow revenue growth in 2H23, but a gradual recovery from 2024 onwards supported by the robust market expansion of its innovative products. Maintain BUY with a lower target price of HK$13.00.

1H23 RESULTS

(Rmbm)	1H22	1H23	yoy %
Revenue	4,434	4,511	*1.7%*
CNS diseases	845	701	*-17.0%*
Oncology	2,451	2,555	*4.2%*
Anti-infective	597	601	*0.7%*
Metabolic diseases and others	541	654	*20.9%*
Gross profit	4,036	3,976	*-1.5%*
Selling expense	-1,683	-1,670	*-0.8%*
Admin expense	(292)	(330)	*12.9%*
R&D expense	(739)	(929)	*25.8%*
Operating profit	1,509	1,500	*-0.6%*
Net profit to shareholders	1,298	1,289	*-0.7%*
Adjusted net profit	1,298	1,289	*-0.7%*
Ratios (%)	1H22	1H23	ppt chg yoy
GP margin %	91.0%	88.1%	*-2.9*
Selling expense %	38.0%	37.0%	*-0.9*
Admin expense %	6.6%	7.3%	*0.7*
R&D expense %	16.7%	20.6%	*3.9*
OP margin %	34.0%	33.2%	*-0.8*
Adjusted net profit margin%	29.3%	28.6%	*-0.7*

Source: Hansoh Pharma, UOB Kay Hian

RESULTS

- **1H23 results below estimates.** Hansoh Pharmaceutical Group Company's (Hansoh Pharma) 1H23 revenue remained flat with a slight increase of 1.7% yoy to Rmb4.5b. Adjusted net earnings decreased by 0.7% yoy to Rmb1.3b in 1H23. The results were lower than our and consensus full-year growth estimates for 2023. The company expects to distribute an interim dividend of 7.07 HK cents/share, up 41.4% yoy from 5.00 HK cents/share.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	9,935	9,382	9,823	11,815	14,227
EBITDA	3,631	3,389	3,590	4,282	5,119
Operating profit	3,353	3,007	3,181	3,846	4,656
Net profit (rep./act.)	2,713	2,584	2,718	3,286	3,978
Net profit (adj.)	2,713	2,584	2,718	3,286	3,978
EPS (Fen)	45.2	43.6	45.9	55.5	67.2
PE (x)	21.0	21.8	20.7	17.1	14.1
P/B (x)	2.8	2.5	2.3	2.0	1.8
EV/EBITDA (x)	13.1	14.0	13.2	11.1	9.3
Dividend yield (%)	0.8	0.9	1.0	1.2	1.4
Net margin (%)	27.3	27.5	27.7	27.8	28.0
Net debt/(cash) to equity (%)	(33.5)	(37.0)	(35.0)	(41.0)	(46.9)
Interest cover (x)	68.8	58.3	n.a.	n.a.	n.a.
ROE (%)	14.3	12.1	11.4	12.5	13.6
Consensus net profit	-	-	2,865	3,263	3,712
UOBKH/Consensus (x)	-	-	0.95	1.01	1.07

Source: Hansoh Pharma, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$10.20
Target Price	HK$13.00
Upside	+27.4%
(Previous TP	*HK$14.00)*

COMPANY DESCRIPTION

Founded in 1995, Hansoh Pharmaceutical Group Company is a leading R&D-driven pharmaceutical company in China.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	3692 HK
Shares issued (m):	5,933.4
Market cap (HK$m):	60,520.2
Market cap (US$m):	7,714.8
3-mth avg daily t'over (US$m):	6.5

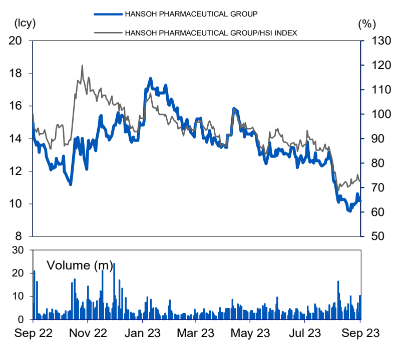
Price Performance (%)

52-week high/low HK$17.70/HK$9.55

1mth	3mth	6mth	1yr	YTD
(19.0)	(21.3)	(27.7)	(35.0)	(31.3)

Major Shareholders	**%**
Ms. Zhong Huijuan	65.7
Mr. Cen Junda	16.0
FY23 NAV/Share (Rmb)	4.19
FY23 Net Cash/Share (Rmb)	1.47

PRICE CHART



Source: Bloomberg

ANALYST(S)

Carol Dou
+852 2236 6749
carol.dou@uobkayhian.com.hk

Sunny Chen
+852 2826 4857
sunny.chen@uobkayhian.com.hk

STOCK IMPACT

- **Revenue of innovative drugs grew 20.1% yoy in 1H23.** Innovative drugs continued to generate robust sales, with revenue growing 20.1% yoy to reach Rmb2.8b, representing 61.8% of total revenue in 1H23, up from 52.3% a year ago. However, the GPO tender resulted in price pressure, and caused generics to see an 18.4% yoy decline in revenue to Rmb1.7b (or 38.2% of total revenue). Revenue of nervous system products amounted to Rmb701m, representing a decrease of 17% yoy in 1H23. Oncology products posted a revenue increase of 4.2% yoy to Rmb2.6b. Anti-infective products' revenue dropped 0.7% yoy to Rmb601m. Sales of metabolic and other drugs saw an increase of 20.9% yoy to Rmb654m. Oncology drugs are the largest revenue contributor, bringing in 56.6% of total revenue.

- **Net profit margin remained relatively stable in 1H23.** The company saw gross margin decline by 2.9ppt to 88.1% in 1H23. We attribute the drop in gross margin to significant price pressure of generics. We believe the gross profit margin will gradually increase in the next few years as the company launches an increasing number of innovative products. Moreover, the company has also been enhancing cost control efforts and expects to improve operating efficiency. In 1H23, the selling expense/revenue ratio declined by 0.9ppt. Moreover, R&D expenses rose by 25.8% yoy to reach Rmb929m in 1H23, showing continued strengthening of its R&D investment. Adjusted net profit margin decreased by 0.7ppt to 28.6% in 1H23. As a result, the adjusted net profit decreased slightly by 0.7% yoy to Rmb1.3b in 1H23.

- **Expects innovative products to generate 65% of total revenue in 2023 and 80% in 2025.** Hansoh Pharma's Ameile and Xinyue have been successfully included in the National Reimbursement Drug List (NRDL) with price cuts of about 43% and 60% respectively. We believe the 2022 NRDL inclusion will allow its six innovative drugs to quickly expand their market presence. Moreover, the company has recently obtained market approval for Saint Luolai (Pegmolesatide, a long-acting peptide-based erythropoiesisstimulating agent (ESA) promoting the proliferation of red blood cells in the body) for anemia in CDK adult patients who have not received ESA and are not on dialysis, and expects the product to be included in the 2023 NRDL. Considering the challenging business environment with heightened anti-corruption campaign, we anticipate relatively slow growth in 2023, but expect the enriched innovative drug portfolio to support strong revenue from 2024. The management expects innovative drugs to generate an increasing revenue contribution of approximately 65% of total revenue in 2023 and about 80% in 2025.

- **R&D and BD bear fruit.** Hansoh Pharma has achieved significant progress in R&D in 1H23. It successfully launched Pegmolesatide in 1H23 and expects to receive market approval for Aumolertinib's adjuvant therapy in 2024 and have 15 innovative drugs (including new indications) that may bring over 80% of total revenue in 2025. Hansoh Pharma also achieved various milestones with partners, ie, Biotheus on HS-20117, NiKang Therapeutics on HS-10516, and TiumBio on HS-10518.

EARNINGS REVISION/RISKS

- We have revised our 2023 revenue and earnings growth assumptions from the previous 15.1% yoy and 14.7% to 4.7% and 5.2%, respectively to reflect the slower growth potential in 2023 and brighter outlook from 2024.

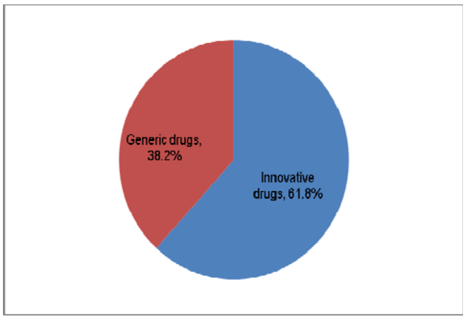
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK$13.00** based on SOTP valuation, comprising: a) HK$4.67/share at 8x 2024F PE for existing drugs, and b) NAV-derived pipeline value of HK$8.33/share (11.4% WACC, 3.5% perpetual growth rate).

SHARE PRICE CATALYSTS

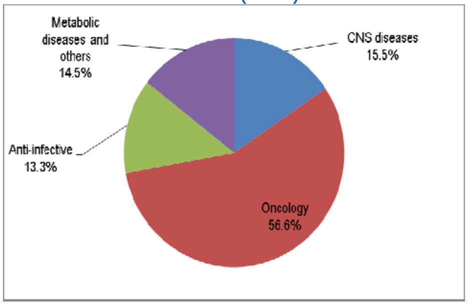
- a) Strong revenue and earnings growth for 2023; b) contined efforts in R&D and innovative drug launches; and c) productive BD programmes.

REVENUE CONTRIBUTION OF GENERIC AND INNOVATIVE DRUGS (1H23)



Source: Hansoh Pharma, UOB Kay Hian

REVENUE BY SEGMENT (1H23)



Source: Hansoh Pharma, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	9,382.4	9,822.8	11,815.2	14,226.9
EBITDA	3,388.7	3,590.3	4,282.5	5,119.4
Deprec. & amort.	382.2	409.1	436.1	463.1
EBIT	3,006.6	3,181.1	3,846.4	4,656.3
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(58.1)	0.0	0.0	0.0
Pre-tax profit	2,948.4	3,181.1	3,846.4	4,656.3
Tax	(364.7)	(463.2)	(560.1)	(678.0)
Minorities	0.0	0.0	0.0	0.0
Net profit	2,583.7	2,717.9	3,286.3	3,978.2
Net profit (adj.)	2,583.7	2,717.9	3,286.3	3,978.2

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	3,195.6	3,097.2	2,996.1	2,869.9
Other LT assets	974.6	992.7	991.8	988.8
Cash/ST investment	8,378.4	8,684.1	11,302.8	14,479.2
Other current assets	17,453.2	20,473.2	21,351.4	22,414.5
Total assets	30,001.9	33,247.2	36,642.1	40,752.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	2,619.5	8,052.2	8,709.7	9,505.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	4,735.4	350.8	350.8	350.8
Shareholders' equity	22,646.9	24,844.2	27,581.6	30,896.2
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	30,001.9	33,247.2	36,642.1	40,752.5

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	2,741.0	991.9	3,501.6	4,174.1
Pre-tax profit	2,948.4	3,181.1	3,846.4	4,656.3
Tax	(364.7)	(463.2)	(560.1)	(678.0)
Deprec. & amort.	382.2	409.1	436.1	463.1
Working capital changes	463.6	(2,135.2)	(220.8)	(267.2)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(688.5)	0.0	0.0	0.0
Investing	(368.0)	(186.3)	(334.0)	(334.0)
Capex (growth)	(319.0)	(319.0)	(319.0)	(319.0)
Investments	(30.0)	(15.0)	(15.0)	(15.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(19.0)	147.7	0.0	0.0
Financing	(713.3)	(500.0)	(548.9)	(663.7)
Dividend payments	(713.3)	(520.6)	(548.9)	(663.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	0.0	20.6	0.0	0.0
Net cash inflow (outflow)	1,659.7	305.7	2,618.7	3,176.4
Beginning cash & cash equivalent	6,718.7	8,378.4	8,684.1	11,302.8
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	8,378.4	8,684.1	11,302.8	14,479.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	36.1	36.6	36.2	36.0
Pre-tax margin	31.4	32.4	32.6	32.7
Net margin	27.5	27.7	27.8	28.0
ROA	9.0	8.6	9.4	10.3
ROE	12.1	11.4	12.5	13.6
Growth				
Turnover	(5.6)	4.7	20.3	20.4
EBITDA	(6.7)	5.9	19.3	19.5
Pre-tax profit	(10.7)	7.9	20.9	21.1
Net profit	(4.8)	5.2	20.9	21.1
Net profit (adj.)	(4.8)	5.2	20.9	21.1
EPS	(3.7)	5.3	20.9	21.1
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(37.0)	(35.0)	(41.0)	(46.9)
Interest cover (x)	58.3	n.a.	n.a.	n.a.

COMPANY RESULTS

MicroPort Scientific Corporation (853 HK)

1H23: Results Beat; Anti-corruption Campaign Clouds Growth Outlook In 2H23

MicroPort reported revenue growth of 19.2% yoy to reach US$482.6m, and net loss declined by 17.9% yoy to Rmb162.6m in 1H23. The results are better than our full-year growth estimates for 2023. MicroPort guided revenue to grow at approximately 25% yoy (excluding forex impact) and significant decrease in net loss in 2023. We are relatively conservative as the anti-corruption campaign clouds its growth outlook for 2H23. Maintain SELL and target price of HK$9.50.

1H23 RESULTS

Year to 31 Dec (US$m)	1H22	1H23	yoy %
Revenue	405.0	482.6	*19.2%*
Orthopedics devices	107.7	115.9	*7.6%*
Cardiovascular devices	60.7	79.2	*30.5%*
CRM business	104.4	108.3	*3.7%*
Endovascular devices	70.8	89.0	*25.7%*
Neurovascular devices	31.3	42.6	*36.0%*
Surgical devices	2.4	3.1	*28.3%*
Heart valves	19.0	25.0	*31.9%*
Surgical robots	0.2	4.9	*3,037.8%*
Gross profit	247.7	288.4	*16.4%*
Selling expense	(146.6)	(169.8)	*15.8%*
G&A expense	(133.3)	(95.9)	*-28.0%*
R&D expense	(186.4)	(187.3)	*0.5%*
Operating profit	(195.8)	(175.8)	*-10.2%*
Net profit to shareholders	(198.1)	(162.6)	*-17.9%*
EPS (diluted) US$/cents	(10.9)	(8.9)	*-18.3%*
Ratios (%)	1H22	1H23	+/- ppt
GP margin %	61.2%	59.8%	*(1.4)*
Selling expense /Revenue	36.2%	35.2%	*(1.0)*
G&A expense / Revenue	32.9%	19.9%	*(13.0)*
R&D expense / Revenue	46.0%	38.8%	*(7.2)*
OP margin %	-48.4%	-36.4%	*11.9*
Net profit margin%	-48.9%	-33.7%	*15.2*

Source: MicroPort, UOB Kay Hian

RESULTS

- **Better-than-expected 1H23 results.** MicroPort Scientific Corporation (MicroPort) reported total revenue of US$482.6m (up 19.2% yoy) and a net loss of US$162.6m in 1H23, declining by 17.9% yoy from 1H22's net loss of US$198.1m. The results are better than our estimates and in line with market estimates for 2023. According to the management, excluding the forex impact, revenue grew 25% yoy in 1H23.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F	2025F
Net turnover	778.6	840.8	966.1	1,062.3	1,166.2
EBITDA	(214.4)	(417.8)	(256.0)	(229.0)	(340.8)
Operating profit	(293.6)	(507.0)	(355.1)	(348.0)	(341.2)
Net profit (rep./act.)	(276.5)	(436.5)	(281.1)	(273.7)	(266.7)
Net profit (adj.)	(276.5)	(436.5)	(281.1)	(273.7)	(266.7)
EPS (US$ cent)	(15.3)	(24.0)	(15.4)	(15.0)	(14.7)
PE (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/B (x)	2.1	2.7	2.6	2.6	2.5
EV/EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Dividend yield (%)	0.3	0.0	0.0	0.0	0.0
Net margin (%)	(35.5)	(51.9)	(29.1)	(25.8)	(22.9)
Net debt/(cash) to equity (%)	(93.2)	(60.0)	(38.6)	(32.8)	(28.1)
Interest cover (x)	(4.5)	(5.3)	(4.1)	(3.7)	(5.4)
ROE (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus net profit	-	-	(321)	(231)	(144)
UOBKH/Consensus (x)	-	-	0.88	1.19	1.85

Source: MicroPort, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	HK$13.42
Target Price	HK$9.50
Upside	-29.2%

COMPANY DESCRIPTION

MicroPort is a leading developer, manufacturer and marketer of medical devices in China, mainly focusing on minimally invasive interventional products for the treatment of vascular diseases and orthopaedic products.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	853 HK
Shares issued (m):	1,833.7
Market cap (HK$m):	24,607.8
Market cap (US$m):	3,136.9
3-mth avg daily t'over (US$m):	9.8

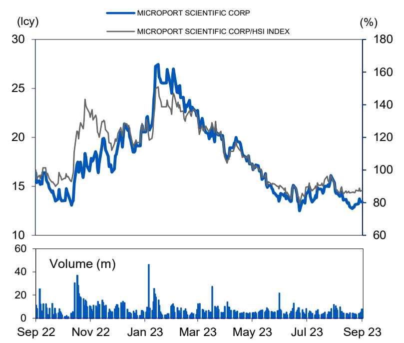
Price Performance (%)

52-week high/low HK$27.45/HK$12.50

1mth	3mth	6mth	1yr	YTD
(13.9)	(0.4)	(39.5)	(14.6)	(34.7)

Major Shareholders	%
Otsuka Medical Devices Co., Ltd.	20.9
FY23 NAV/Share (Rmb)	0.65
FY23 Net Cash/Share (Rmb)	0.25

PRICE CHART



Source: Bloomberg

ANALYST(S)

Carol Dou
+852 2236 6749
carol.dou@uobkayhian.com.hk

Sunny Chen
+852 2826 4857
sunny.chen@uobkayhian.com.hk

STOCK IMPACT

- **MicroPort reported 1H23 revenue of US$482.6m, up 19.2% yoy.** Excluding the forex impact, revenue would have grown 25% yoy in 1H23, according to the management. The company's four largest revenue contributors, orthopaedics, cardiovascular, CRM, and endovascular devices, reported revenue increases of 7.6% yoy, 30.5% yoy, 3.7% yoy and 25.7% yoy respectively. Meanwhile, the emerging segment, ie neurovascular devices, surgical devices, heart valves and surgical robots businesses posted significant revenue increases of 36.0% yoy, 28.3%, 31.9% and 3,037.8% yoy respectively in 1H23. The company's overseas business contributed US$234.4m (or 48.6%) of total revenue, up 8.4% yoy in 1H23. Revenue from China increased by 31.5% yoy to US$248.2m (or 51.4% of total revenue) in 1H23.

- **Significantly improved operating efficiency.** Gross margin stood at 59.8% in 1H23, down further from 61.2% in 1H22, due to unfavourable sales mix and cost increase as a result of the COVID-19 lockdowns, new manufacturing plants and inflation. Selling expense/revenue ratio decreased by 1.0ppt yoy to 35.2%, and G&A expense/revenue declined by 13.0ppt yoy from 32.9% to 19.9% in 1H23, as the company proactively enhanced cost control initiatives and improved operating efficiency. MicroPort has been refining its pipelines and efforts in new product R&D, and spent 38.8% of 1H23's total revenue on R&D (or US$187.3m, up 0.5% yoy) vs 46.0% in 1H22. As a result, net margin improved by 15.2ppt to -33.7% in 1H23.

- **Management continues to guide for revenue growth of 25% yoy and significant reduction in net loss in 2023.** Management is optimistic about the company's business outlook and guided 25% yoy revenue growth for 2023 (excluding forex impact). It expects sales of cardiovascular devices, orthopaedics, and CRM business to see 20% yoy, 10-15% yoy and 10% yoy revenue growths respectively in 2023 and high double-digit revenue growth for other segments (ie heart valve, neurovascular and endovascular products) in 2023. It also estimates gross margin to maintain at about 60% in 2023. MicroPort also intends to improve operating efficiency by reduce SG&A expenses/revenue ratio from 69% to 56-57% in 2023. The company plans to focus on its core businesses and targets to reduce R&D/revenue ratio from 50% in 2022 to 35-38% in 2023. It also guided a significant reduction in net loss in 2023.

- **Anti-corruption campaign could impact the revenue growth of new products.** We have seen significant delays in purchase activities for medical devices, especially for large medical equipment. The heightened anti-corruption campaign could significantly impact the revenue growth of the company in 2H23. Moreover, GPO tenders and weaker synergy because of the separation of different listing entities may result in a relatively modest revenue growth and margin recovery in 2023. It remains challenging for the company to turn profitable in the next two years.

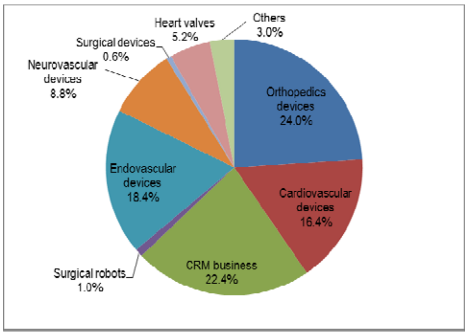
EARNINGS REVISION/RISKS

- Possible further weakening of global economic conditions.
- Possible worse-than-expected impact from anti-corruption campaign.
- Potential GPO tenders on its cardiovascular products, orthopaedics, CRM, and other products could slow revenue growth and depress margins.

VALUATION/RECOMMENDATION

- **Maintain SELL and target price of HK$9.50**. The target price is based on SOTP, by applying: a) 9x 2024F PE to the company's cardio-cerebral vascular (CCV)/endovascular stent segment at HK$2.60/share, b) DCF-based valuation of HK$2.13/share for the orthopaedic business, c) HK$1.73/share for pacemakers, d) HK$1.76/share for TAVI, and e) HK$1.29/share for the surgical robot business.

SEGMENT REVENUE (1H23)



Source: MicroPort, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Net turnover	840.8	966.1	1,062.3	1,166.2
EBITDA	(417.8)	(256.0)	(229.0)	(340.8)
Deprec. & amort.	89.2	99.1	119.0	0.4
EBIT	(507.0)	(355.1)	(348.0)	(341.2)
Associate contributions	(42.5)	0.0	0.0	0.0
Net interest income/(expense)	(78.4)	(62.6)	(62.6)	(62.6)
Pre-tax profit	(581.5)	(417.7)	(410.6)	(403.8)
Tax	(6.6)	(15.0)	(14.7)	(14.5)
Minorities	151.6	151.6	151.6	151.6
Net profit	(436.5)	(281.1)	(273.7)	(266.7)
Net profit (adj.)	(436.5)	(281.1)	(273.7)	(266.7)

BALANCE SHEET

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Fixed assets	999.6	1,058.9	1,108.2	1,146.6
Other LT assets	1,055.3	1,094.9	1,107.1	1,120.4
Cash/ST investment	1,203.0	1,125.8	1,070.0	1,022.7
Other current assets	736.2	827.9	900.5	978.9
Total assets	3,994.1	4,107.5	4,185.7	4,268.5
ST debt	185.4	257.4	257.4	257.4
Other current liabilities	476.7	1,164.9	1,208.1	1,254.7
LT debt	336.7	417.3	417.3	417.3
Other LT liabilities	1,202.6	518.4	518.4	518.4
Shareholders' equity	1,135.0	1,169.1	1,204.2	1,240.3
Minority interest	657.6	580.5	580.5	580.5
Total liabilities & equity	3,994.1	4,107.5	4,185.7	4,268.5

CASH FLOW

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Operating	(616.7)	(1,618.7)	(283.0)	(268.4)
Pre-tax profit	(581.5)	(417.7)	(410.6)	(403.8)
Tax	(6.6)	(15.0)	(14.7)	(14.5)
Deprec. & amort.	178.3	198.2	218.1	238.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	(23.4)	(673.5)	(29.4)	(31.7)
Other operating cashflows	(183.6)	(710.7)	(46.4)	(56.4)
Investing	(196.8)	(173.5)	(176.1)	(177.1)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	(41.5)	5.2	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(155.4)	(178.7)	(176.1)	(177.1)
Financing	262.2	1,715.0	403.3	398.3
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	315.4	305.2	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(53.2)	1,409.8	403.3	398.3
Net cash inflow (outflow)	(551.4)	(77.2)	(55.9)	(47.2)
Beginning cash & cash equivalent	1,754.4	1,203.0	1,125.8	1,070.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	1,203.0	1,125.8	1,070.0	1,022.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(49.7)	(26.5)	(21.6)	(29.2)
Pre-tax margin	(69.2)	(43.2)	(38.7)	(34.6)
Net margin	(51.9)	(29.1)	(25.8)	(22.9)
ROA	n.a.	n.a.	n.a.	n.a.
ROE	n.a.	n.a.	n.a.	n.a.
Growth				
Turnover	8.0	14.9	10.0	9.8
EBITDA	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	n.a.	n.a.	n.a.	n.a.
Net profit	n.a.	n.a.	n.a.	n.a.
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPS	n.a.	n.a.	n.a.	n.a.
Leverage				
Debt to total capital	22.6	27.8	27.4	27.0
Debt to equity	46.0	57.7	56.0	54.4
Net debt/(cash) to equity	(60.0)	(38.6)	(32.8)	(28.1)
Interest cover (x)	(5.3)	(4.1)	(3.7)	(5.4)

COMPANY RESULTS

Weichai Power (2338 HK)

2Q23: Earnings Up 53% YoY And 10% QoQ; In Line

Weichai's 2Q23 net profit came in as expected at Rmb2,043m (+53% yoy/+10% qoq), due to the recovery of China's HDT market and margin recovery. China's HDT shipment growth has turned positive since Feb 23. Looking ahead, we expect Weichai's earnings to be driven by the recovery of China's HDT market, optimisation of sales mix and KION's recovery. We maintain our 2023-25 net profit forecasts. Maintain BUY and raise target price from HK$15.00 to HK$16.00.

2Q23 RESULTS

Year to 31 Dec (Rmbm)	2Q23	yoy % chg	qoq % chg	1H23	yoy % chg	2023F	yoy % chg
Revenue excl. KION	31,019	19.8	(6.0)	63,937	34.3	120,593	25.3
Revenue from KION	21,682	9.9	6.2	42,198	7.8	86,801	10.0
Total revenue	52,701	15.5	(1.4)	106,135	22.3	207,394	18.4
Gross profit	10,639	38.0	6.5	20,632	34.1	39,405	26.5
Gross margin (%)	20.2	3.3	1.5	19.4	1.7	19.0	1.2
EBIT	2,850	129.7	4.7	5,573	128.6	12,044	167.4
EBIT margin (%)	5.4	2.7	0.3	5.3	2.4	5.8	3.2
Net profit	2,043	53.0	10.1	3,899	63.4	8,478	72.8
- Net profit excl. KION	1,793	65.5	10.8	3,411	81.7	7,878	72.6
- KION's profit contribution	250	(0.7)	5.3	488	(4.1)	600	76.7
Net profit (adj)	1,868	161.6	7.2	3,610	124.0	8,478	158.3
Net margin (%)	3.5	2.0	0.3	3.4	1.5	4.1	2.2

Source: Weichai , UOB Kay Hian

RESULTS

- **Weichai Power's (Weichai) 2Q23 net profit came in as expected at Rmb2,043m (+53% yoy/+10% qoq),** compared with the company's guidance of Rmb1,731m-2,209m, our estimate of Rmb2b and consensus estimate of Rmb1.9b. This brings 1H23 to Rmb3,899m (+64% yoy), representing 46% of our 2023 net profit forecast of Rmb8,478m and 52% of consensus 2023 net profit of Rmb7,427m.
- **2Q23 earnings were mainly driven by margins.** Gross margin increased by 3.3ppt yoy and 1.5ppt qoq to 20.2% in 2Q23 and hiked by 1.7ppt yoy to 19.4% in 1H23, vs our 2023 assumption of 19.0%. EBIT margin rose 2.7ppt yoy and 0.3ppt qoq to 5.4% in 2Q23 and soared by 2.4ppt yoy to 5.3% in 1H23, vs our 2023 assumption of 5.8%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	220,215	175,158	207,394	238,299	271,867
EBITDA	24,426	15,653	23,234	24,988	26,902
Operating profit	13,459	4,505	12,044	13,798	15,712
Net profit (rep./act.)	9,493	4,905	8,478	9,870	11,413
Net profit (adj.)	8,316	3,283	8,478	9,870	11,413
EPS (fen)	108.8	56.2	97.2	113.1	130.8
PE (x)	8.5	16.5	9.5	8.2	7.1
P/B (x)	1.1	1.1	1.0	0.9	0.8
EV/EBITDA (x)	1.4	2.2	1.5	1.4	1.3
Dividend yield (%)	2.0	1.7	2.9	3.4	4.0
Net margin (%)	3.8	1.9	4.1	4.1	4.2
Net debt/(cash) to equity (%)	(81.1)	(51.1)	(58.1)	(66.0)	(73.3)
Interest cover (x)	(29.2)	(5.0)	(19.0)	(14.5)	(11.9)
ROE (%)	13.5	4.5	11.0	11.7	12.4
Consensus net profit	-	-	7,496	8,733	9,653
UOBKH/Consensus (x)	-	-	1.13	1.13	1.18

Source: Weichai, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$10.18
Target Price	HK$16.00
Upside	+57.2%
(Previous	*HK$15.00)*

COMPANY DESCRIPTION

Weichai Power specialises in the R&D, manufacturing and sales of vehicles and parts. The company produces engines, heavy vehicles, light vehicles, construction machinery, hydraulic products, automotive electronics and related parts. Weichai Power markets its products worldwide.

STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	2338 HK
Shares issued (m):	1,943
Market cap (HK$m):	19,780
Market cap (US$m):	2,536
3-mth avg daily t'over (US$m):	8.8

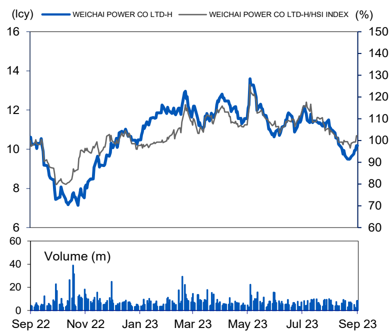
Price Performance (%)

52-week high/low HK$13.34/HK$7.00

1mth	3mth	6mth	1yr	YTD
(11.5)	(4.3)	(12.5)	(3.3)	(2.9)

Major Shareholders	%
Weichai Holding Group	17.72
FY23 NAV/Share (HK$)	7.39
FY23 Net Cash/Share (HK$)	5.88

PRICE CHART



Source: Bloomberg

ANALYST(S)

Ken Lee
+852 2236 6760
ken.lee@uobkayhian.com.hk

Bella Lu
+86 5404 7225 ext. 810
bellalu@uobkayhian.com

- **Revenue also boosted earnings growth.** Revenue in 2Q23 came in at Rmb52.7b (+16% yoy/-1% qoq), bringing 1H23 revenue to Rmb207.4b (+18% yoy), driven by the recovery of the heavy-duty truck (HDT)-related businesses and stabilisation of KION's sales. By segment, the powertrain, vehicle and auto part segment registered a 49% yoy growth in revenue to Rmb44.34b, in light of the recovery of China's HDT market. On the other hand, Weichai's 45%-owned subsidiary KION registered Rmb21.7b in revenue (+10% yoy/+6% qoq), realising reparative growth due to strategic measures taken by Weichai from 4Q22.

STOCK IMPACTS

- **We maintain our estimates on 2023-25 engine sales volume at 700,000 units (+22% yoy), 800,000 units (+14%) and 900,000 units (+13% yoy) respectively,** based on the upbeat 1H23 revenue and the recovery of China's HDT market. Firstly, from a macro prospective, the reopening of China's economy will promote the logistics and engineering demand for HDT. Secondly, the replacement demand from the gradual phasing out of National 4-HDTs (20% of 2023 demand) is also a driving factor. Thirdly, exports are expected to grow (another 20% of 2023 demand). We expect China's HDT shipment to grow 19.0%/12.5%/11.0% yoy to 800,000 units/900,000 units/1m units in 2023/24/25. Weichai will likely take a 30% market share in China's HDT engine market, implying HDT engine sales volume of 240,000 units/270,000 units/300,000 units respectively in 2023/24/25. The remaining 460,000 units/530,000 units/600,000 units in engine sales volume will come from light truck engines and off-road engines (including construction machinery engines, agricultural machinery engines and large-bore engines).

- **We maintain our 2023-25 gross margin assumptions at 19%/19%/19%,** based on the upbeat 2Q23 gross margin. We expect gross margin to remain strong due to continuous enrichment of product lines such as: a) high-horsepower engines. In 1H23, Weichai's market share of over 500 horsepower HDT engine reached 31.7% (+19.7%yoy) in China; and b) high-end products large-bore engine, which grew 77% yoy in revenue at Rmb7.1b in 1H23 and will continue to increase at a high speed from 2023-25 based on management's guidance. Weichai will maintain its high investment in R&D, to ensure the overall layout of product lines, which is beneficial to maintain the high gross margin.

- **Weichai's subsidiary KION is expected to continuously contribute to Weichai's earnings.** The order intake of KION increased by 17% qoq in 2Q23 to €2,864m. Net margin also stabilised at 2.6% in 1Q-2Q23, vs its historical low of -3.4% in 3Q22. The recovery was due to an increase in high-margin customers, and management expects KION's 2023 revenue to double from last year.

EARNINGS REVISION/RISK

- **We maintain our 2023-25 net profit forecasts at Rmb8,478m/Rmb9,870/ Rmb11,413m respectively,** based on higher sales volume.

VALUATION/RECOMMENDATION

- **Maintain BUY and raise target price from HK$15.00 to HK$16.00,** as we roll over target PE from 2023F to 2024F.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	175,158	207,394	238,299	271,867
EBITDA	15,653	23,234	24,988	26,902
Deprec. & amort.	(8,908)	(9,000)	(9,000)	(9,000)
EBIT	6,745	14,234	15,988	17,902
Total other non-operating income	(1,811)	(3,090)	(3,190)	(3,290)
Associate contributions	243	240	240	240
Net interest income/(expense)	909	633	952	1,326
Pre-tax profit	6,085	12,017	13,990	16,178
Tax	(403)	(1,803)	(2,098)	(2,427)
Minorities	(778)	(1,736)	(2,022)	(2,338)
Net profit	4,905	8,478	9,870	11,413
Net profit (adj.)	3,283	8,478	9,870	11,413

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	37,894	37,544	37,094	36,544
Other LT assets	87,287	84,787	82,287	79,787
Cash/ST investment	62,761	71,999	83,317	96,106
Other current assets	105,723	119,301	132,179	146,166
Total assets	293,666	313,633	334,878	358,604
ST debt	4,609	4,609	4,609	4,609
Other current liabilities	115,134	126,251	137,978	150,717
LT debt	22,782	22,782	22,782	22,782
Other LT liabilities	47,030	47,030	47,030	47,030
Shareholders' equity	73,184	80,297	87,793	96,443
Minority interest	30,926	32,663	34,684	37,022
Total liabilities & equity	293,666	313,633	334,878	358,604

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	(2,349)	18,970	21,740	23,226
Pre-tax profit	6,085	12,017	13,990	16,178
Tax	8,908	9,000	9,000	9,000
Deprec. & amort.	(19,743)	(2,461)	(1,150)	(1,249)
Working capital changes	2,803	2,217	1,998	1,724
Other operating cashflows	(403)	(1,803)	(2,098)	(2,427)
Investing	(8,545)	(6,661)	(6,342)	(5,968)
Capex (growth)	(6,635)	(9,000)	(9,000)	(9,000)
Investments	(39,404)	(35,000)	(35,000)	(35,000)
Others	34,638	35,000	35,000	35,000
Financing	2,856	2,339	2,658	3,032
Dividend payments	4,852	(3,071)	(4,080)	(4,469)
Issue of shares	4,836	3,071	4,080	4,469
Proceeds from borrowings	1,676	-	-	-
Loan repayment	49,782	40,000	40,000	40,000
Others/interest paid	(51,442)	(46,142)	(48,159)	(48,939)
Net cash inflow (outflow)	(6,043)	9,238	11,318	12,789
Beginning cash & cash equivalent	68,626	62,761	71,999	83,317
Changes due to forex impact	177	-	-	-
Ending cash & cash equivalent	62,761	71,999	83,317	96,106

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.9	11.2	10.5	9.9
Pre-tax margin	3.2	4.9	5.0	5.1
Net margin	2.8	4.1	4.1	4.2
ROA	1.1	2.8	3.0	3.3
ROE	4.5	11.0	11.7	12.4
Growth				
Turnover	(20.5)	18.4	14.9	14.1
EBITDA	(35.9)	48.4	7.6	7.7
Pre-tax profit	(57.9)	97.5	16.4	15.6
Net profit	(48.3)	72.8	16.4	15.6
Net profit (adj.)	(60.5)	158.3	16.4	15.6
EPS	(48.3)	72.8	16.4	15.6
Leverage				
Debt to total capital	11.4	10.7	10.0	9.3
Debt to equity	45.7	41.7	38.1	34.7
Net debt/(cash) to equity	(51.1)	(58.1)	(66.0)	(73.3)
Interest cover (x)	(5.0)	(19.0)	(14.5)	(11.9)

COMPANY RESULTS

Bank Rakyat Indonesia (BBRI IJ)

1H23: Better Loan Mix To Support NIM

With loan growth derived from high-yield segments (KUPEDES, PNM & Pegadaian), BBRI could maintain its NIM at 7.8-7.9% despite the pressure from the high CoF in 2023. Its largest network and exposure to the retail segment allows BBRI to build its CASA franchise. BBRI had large write-offs in 1H23 but NPL coverage remained high at 249% (expected to normalise in the next 12-18 month to pre-COVID-19 levels). ROE and ROA hit 20% and 3.2% while CAR tier 1 ratio was 25.6% in 1H23. Maintain BUY. Target price: Rp6,100.

1H23 RESULTS

Year end 31 Dec (Rpb)	1H23	yoy	2Q23	qoq	yoy	Comment
Profit & Loss						
Interest Income	85,591	11.4%	43,131	1.6%	7.5%	
Interest Expenses	20,050	63.7%	10,369	7.1%	75.1%	
Net Interest Income	65,541	1.4%	32,762	-0.1%	-4.2%	
Non-Interest Income	22,175	21.9%	11,710	11.9%	28.2%	FBI & recovery support the strong
Total Income	87,716	5.9%	44,472	2.8%	2.6%	non-interest income growth
Operating Expenses	36,657	5.6%	18,566	2.6%	2.8%	
PPOP	51,058	6.2%	25,905	3.0%	2.5%	
Provision Expenses	13,821	-18.3%	8,222	46.8%	-13.0%	
Net Profit	29,422	18.7%	13,920	-10.2%	10.3%	
Key Metrics (%)	1H23	yoy	1Q23	qoq		Comment
Loan (Rpt)	1,202	8.8%	1,180	1.9%		Loan growth is below the guidance
Deposit (Rpt)	1,245	9.5%	1,256	-0.8%		
Loan/Deposit Ratio	96.5%	-0.6%	94%	2.6%		
CASA Ratio	65.5%	0.4%	64.5%	1.0%		
NIM	7.9%	-0.4%	7.8%	0.0%		NIM is within upper range of guidance
CIR	41.8%	-0.4%	41.8%	0.0%		
Cost of Fund	2.8%	0.9%	2.7%	0.1%		
NPL Ratio	3.0%	-0.3%	2.9%	0.1%		
NPL Coverage Ratio	248.5%	-17.7%	282.5%	-34.0%		Sizeable write-off in 1H23, CoC is within
Credit Cost	2.3%	-0.8%	2.4%	-0.1%		the guidance
CAR Tier 1	25.6%	1.5%	25.0%	0.6%		ROE stood at 20% and CaR Tier 1 stood
ROE	20.0%	2.5%	21.2%	-1.2%		strong at >25%
ROA	3.2%	7.7%	3.4%	-0.1%		

Source: BBRI, UOB Kay Hian

RESULTS

- **2Q23 net profit dropped 10% qoq, but rose 10% yoy.** Bank Rakyat Indonesia's (BBRI) net profit dropped 10% qoq but rose 10% yoy to Rp13.9t. 1H23 net profit grew 18.7% yoy to Rp29.4t which is within our and consensus expectations, accounting for 48.5% and 50.2% of our and consensus full-year net profit estimate for 2023. The solid net profit growth was primarily driven by: a) efficiencies and b) lower credit cost. ROE and ROA hit 20% and 3.2% while CAR Tier 1 ratio remained elevated at 25.6% in 1H23.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net interest income	114,094	124,597	139,589	152,191	166,920
Non-interest income	42,259	48,880	51,119	53,114	55,675
Net profit (rep./act.)	33,150	51,170	60,678	67,029	76,163
Net profit (adj.)	33,150	51,170	60,678	67,029	76,163
EPS (Rp)	218.7	337.5	400.4	442.3	502.5
PE (x)	25.4	16.4	13.9	12.5	11.0
P/B (x)	2.6	2.8	2.6	2.5	2.3
Dividend yield (%)	3.4	5.2	5.8	6.4	5.9
Net int margin (%)	7.7	7.9	7.9	7.9	8.0
Cost/income (%)	48.6	47.4	45.8	45.5	44.7
Loan loss cover (%)	280.9	306.1	272.1	248.3	230.8
Consensus net profit	-	-	58,683	66,279	73,663
UOBKH/Consensus (x)	-	-	1.03	1.01	1.03

Source: Bank Rakyat Indonesia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp5,550
Target Price	Rp6,100
Upside	+9.9%
(Previous TP	*Rp5,700)*

COMPANY DESCRIPTION

BBRI is a state-owned bank with the largest micro banking business in Indonesia.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	BBRI IJ
Shares issued (m):	151,559.0
Market cap (Rpb):	841,152.5
Market cap (US$m):	55,230.0
3-mth avg daily t'over (US$m):	41.4

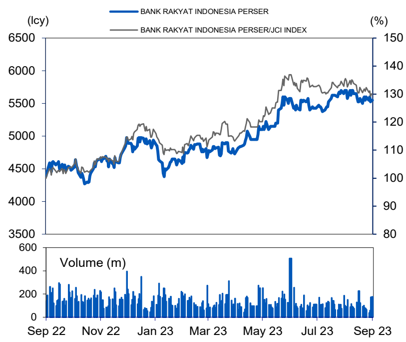
Price Performance (%)

52-week high/low Rp5,700/Rp4,270

1mth	3mth	6mth	1yr	YTD
(1.8)	(0.4)	18.8	27.9	12.3

Major Shareholders	%
Republic of Indonesia	53.19
FY23 NAV/Share (Rp)	2,114
FY23 CAR Tier-1 (%)	21.98

PRICE CHART



Source: Bloomberg

ANALYST(S)

Posmarito Pakpahan
+6221 2993 3990
posmarito@uobkayhian.com

- **Better loan mix supports NIM.** Underpinned by loan yield improvement, BBRI could soften the impact of higher cost of fund (CoF) to its net interest margin (NIM). BBRI's NIM came in at 7.85%, down -39bp yoy (+3bp qoq) despite an 88bp yoy increase (+11bp qoq) in CoF. Loan yield increased to 12.87% in 1H23, the highest since 2018's NIM loan yield of 12.64%. The loan yield improvement was driven by strong loan growth from KUPEDES, Pegadaian, and PNM. In 1H23, KUPEDES grew 43% yoy (+10.3% qoq), accounting for 15% of total loans, up from 12% in 1H22. Pegadaian's and PNM's loans grew 14.2%yoy (+2.8% qoq) and 18.5% yoy (-0.7% qoq) in 1H23, contributing to 9% of total loans (vs 8.5% in 1H22).

- **Building the CASA franchise for flexibility in managing CoF.** Among the big four banks, BBRI has the highest CoF (2.8%) as it has the lowest low-cost funding composition. The bank is committed to improve its funding composition and build its current account savings account (CASA) franchise given its large network and exposure to the retail market. As at Jun 23, BBRI had 162m deposit accounts and 36m borrowers, with only 27.8m users for its mobile banking services. BBRI's CASA ratio has gradually improved to 66% in Jun 23 from 65% in Jun 22 as CASA grew 10% yoy to Rp815t.

- **Building up synergies with subsidiaries to cut costs.** Consolidated opex grew 5.6% yoy in 1H23, below the loan growth rate of 8.8%. Digitalisation of its operations helped support its employees' productivity. Bank-only opex increased 4.5% yoy, bringing its cost-to-income ratio (CIR) to 39% in 1H23. Meanwhile, its subsidiaries' opex grew 9.0% yoy with CIR at 42% in 1H23. Currently, PNM's and Pegadaian's CIR stand at 71% and 55% which can decrease further through digitalisation and cross-selling of products.

- **Large write-off in 2Q23, but the provision coverage remained high.** BBRI conducted a sizeable write-off in 2Q23 amounting to Rp13.1t which mostly came from the micro and small to medium segments. Loans at risk (LaR) ratio declined to 14.9% in Jun 23 as COVID-19 restructured loans trended down to 7.6% of total loans. NPL ratio was down to 2.95% in Jun 23 from 3.3% in Jun 22. Despite the large write-off, the provision coverage remained high with NPL coverage at 249% and LaR coverage at 49% in Jun 23. Management expects NPL coverage to start normalising in 12-18 months back to pre-COVID-19 levels as the bank lifts its COVID-19 restructured loans.

- **Non-interest income grew strongly at 23%.** Recovery income and strong commission and fee income drove the non-interest income growth by 23% yoy to Rp21.1t, accounting for 25% of the net operating income. The **i**mprovement in banking services led to strong fee and commission income, growing 9.1% yoy to Rp10.2t. The growth was mainly driven by loan admission fee and trading finance and wholesale business activities. Meanwhile, the recovery of written-off assets was up 32% yoy to Rp6.7t with recovery rate of 37.9% in 1H23.

EARNINGS REVISION/RISKS

- **No significant change in forecasts.** Our 1H23 net profit forecast was within expectations, accounting for 48.5% of our full-year net profit estimate. We believe BBRI could book solid earnings in 2H23 as loan growth will be driven by its high-yield loans (KUPEDES, PNM, Pegadaian). The management believes it could achieve its loan target of 10-12% this year. Given that its liabilities are more sensitive to the changes in interest rate, BBRI should benefit from rate cuts.

- Risks include adverse macro development, uncertainty of geopolitical issues, changes in regulation, worsening asset quality, lower NIM, heightening competition and higher expenses.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of Rp6,100 as we roll forward our valuation horizon to 2024.** We arrive at 2.67x fair P/B using the Gordon Growth Model with assumptions of ROE of 21%, growth of 6%, and cost of equity of 11.7%. Micro loans will remain the growth engine of the bank and support not only loans growth but also the NIM outlook. In addition, the adoption of technology has supported efficiency, productivity and synergies with the subsidiaries. During a rate cut, BBRI could benefit as its funding side is more sensitive to the changes in interest rate. BBRI could deliver 19-20% ROE in 2023-25. Currently, BBRI is trading at 2.4x forward P/B, slightly close to +1SD of its five-year mean forward P/B.

LOAN BREAKDOWN AND GROWTH

(Rpt)	Jun-23	yoy	qoq	% of loan
Micro	578	11.4%	2.6%	48.1%
Consumer	178	12.3%	2.6%	14.8%
Small	228	5.1%	2.4%	19.0%
Medium	32	22.6%	5.0%	2.6%
Corporate	187	1.0%	-2.0%	15.5%
Total	**1,202**	**8.8%**	**1.9%**	**100.0%**
Micro				
KUR	220	-2.5%	-1.2%	18.3%
Kupedes	183	42.9%	10.3%	15.2%
Briguna	67	-7.1%	-1.9%	5.6%
Total	**470**	**10.4%**	**2.9%**	**39.1%**
Pegadaian	63	14.2%	2.8%	5.2%
PNM	46	18.5%	-0.7%	3.8%

Source: BBRI

LAR AND LAR COVERAGE

Source: BBRI

OPEX BREAKDOWN

(Rpb)	1H23	yoy	2Q23	qoq
Bank-only	**27,577**	**4.5%**	**14,402**	**9.3%**
Personnel Exp	13,532	-6.4%	5919	-22.3%
G&A Exp	10,010	20.7%	5069	2.6%
Other Exp	4,035	10.5%	3414	450.6%
Subsidiaries	**9,080**	**9.0%**	**4,164**	**-15.3%**
Personnel Exp	5,329	16.7%	2258	-26.5%
G&A Exp	3,523	11.6%	1894	16.3%
Other Exp	228	-62.1%	12	-94.4%
Consolidated	**36,657**	**5.6%**	**18,566**	**2.6%**
Personnel Exp	18,861	-0.9%	8,177	-23.5%
G&A Exp	13,533	18.2%	6,963	6.0%
Other Exp	4,263	0.3%	3,426	310.3%

Source: BBRI

FIVE-YEAR FORWARD P/B

Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Interest income	151,875	176,189	199,234	220,865
Interest expense	(27,278)	(36,600)	(47,043)	(53,945)
Net interest income	124,597	139,589	152,191	166,920
Fees & commissions	18,795	20,674	22,742	25,016
Other income	30,085	30,445	30,372	30,659
Non-interest income	48,880	51,119	53,114	55,675
Total income	173,477	190,709	205,305	222,595
Staff costs	(39,390)	(42,147)	(45,098)	(47,804)
Other operating expense	(42,802)	(45,279)	(48,230)	(51,606)
Pre-provision profit	91,285	103,282	111,977	123,185
Loan loss provision	(27,385)	(26,756)	(27,470)	(27,201)
Other provisions	406	0	0	0
Other non-operating income	291	0	0	0
Pre-tax profit	64,597	76,526	84,507	95,984
Tax	(13,188)	(15,624)	(17,254)	(19,597)
Minorities	(238)	(224)	(224)	(224)
Net profit	51,170	60,678	67,029	76,163
Net profit (adj.)	51,170	60,678	67,029	76,163

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Cash with central bank	37,373	93,104	100,570	108,694
Govt treasury bills & securities	0	0	0	0
Interbank loans	91,888	101,104	110,957	120,986
Customer loans	1,139,077	1,255,782	1,386,000	1,519,247
Investment securities	330,242	360,153	389,901	417,820
Derivative receivables	14,487	0	0	0
Fixed assets (incl. prop.)	55,216	57,977	60,876	63,919
Other assets	197,356	171,207	182,377	198,074
Total assets	1,865,639	2,039,326	2,230,680	2,428,740
Interbank deposits	9,335	9,335	9,335	9,335
Customer deposits	1,307,884	1,423,033	1,537,897	1,662,876
Debt equivalents	153,483	176,602	224,051	255,040
Other liabilities	91,543	105,438	115,982	127,581
Total liabilities	1,562,244	1,714,408	1,887,265	2,054,831
Shareholders' funds	299,294	320,407	338,001	367,955
Minority interest - accumulated	4,101	4,511	5,414	5,955
Total equity & liabilities	1,865,639	2,039,326	2,230,680	2,428,740

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	22.3	22.0	21.2	21.3
Total CAR	23.3	23.0	22.2	22.3
Total assets/equity (x)	6.2	6.4	6.6	6.6
Tangible assets/tangible common equity (x)	6.2	6.4	6.6	6.6
Asset Quality				
NPL ratio	2.7	3.0	3.2	3.3
Loan loss coverage	306.1	272.1	248.3	230.8
Loan loss reserve/gross loans	8.2	8.2	8.1	7.7
Increase in NPLs	(2.8)	25.1	18.3	12.8
Credit cost (bp)	236.9	235.0	220.0	200.0
Liquidity				
Loan/deposit ratio *	87.1	88.2	90.1	91.4
Liquid assets/short-term liabilities	9.8	13.6	13.7	13.7
Liquid assets/total assets	6.9	9.5	9.5	9.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	9.2	12.0	9.0	9.7
Fees & commissions, yoy chg	10.2	10.0	10.0	10.0
Pre-provision profit, yoy chg	13.5	13.1	8.4	10.0
Net profit, yoy chg	54.4	18.6	10.5	13.6
Net profit (adj.), yoy chg	54.4	18.6	10.5	13.6
Customer loans, yoy chg *	9.2	10.2	10.4	9.6
Customer deposits, yoy chg	14.9	8.8	8.1	8.1
Profitability				
Net interest margin	7.9	7.9	7.9	8.0
Cost/income ratio	47.4	45.8	45.5	44.7
Adjusted ROA	2.9	3.1	3.1	3.3
Reported ROE	17.4	19.6	20.4	21.6
Adjusted ROE	17.4	19.6	20.4	21.6
Valuation				
P/BV (x)	2.8	2.6	2.5	2.3
P/NTA (x)	2.8	2.6	2.5	2.3
Adjusted P/E (x)	16.4	13.9	12.5	11.0
Dividend Yield	5.2	5.8	6.4	5.9
Payout ratio	85.0	80.0	80.0	65.0

SECTOR UPDATE

Oil & Gas – Malaysia

Petronas 1H23: Juggling In "Heated Market" And Better Collaboration

Petronas' 1H23 results showed the group's concerns on costs, as the vendor/ manpower/vessel costs had spiked up, until Petronas considers "doubling its cash buffer". As the saying "with challenges comes opportunities", the vendors' supply chain is actively negotiating with Petronas for a form of more equitable contracting strategy, contract workarounds and collaborations. Accounting for this potential event, and oil price uptrend, we retain OVERWEIGHT with selective investments.

WHAT'S NEW

- **Petronas' 1H23 profit of RM40b reflected a downtrend of O&G prices** (-13% yoy; 2Q23: RM16b) and entitled production growth was flattish yoy. Unlike in 1H22, when all segments (especially gas) benefitted strongly from inflation and geopolitical events (Russia-Ukraine crisis), the 1H23 lower EBITDA (-15% yoy to RM71b) and FCF (-16% yoy to RM37b) is a direct result of the sharp earnings contraction in the downstream business. It highlighted in particular that group costs surged by 6% yoy to RM134b (domestic group costs: + 11% yoy to RM87b). Note that this was mainly due to the 1Q23 cost base sharply rising by >30% yoy due to anticipation of more O&G maintenance activities in the midst of hiring crew/vessels.

- **Upstream capex slowed yoy, even when domestic capex surged by 48%.** 1H23 capex of RM21b (+13% yoy growth) included Gentari's acquisition of the solar company Wirsol that likely cost RM1.5b in 1Q23. This compares with the global majors' capex, which was up 22% yoy in 1H23. The domestic capex surged by 48% yoy to RM10.5b. However, the actual upstream capex (for domestic and overseas) for 1H23 was at RM10b, below RM12b during 1H22. The gas segment's capex doubled yoy to RM5b, which reflected the progress milestone of Sabah's first nearshore LNG facility (reportedly US$3b). To recap, Petronas guided that 2023-2027 domestic capex is estimated at RM113b (average: RM23b). Some existing infrastructure, like the Sabah Sarawak Gas Pipeline, will be partially shut down.

- **Juggling between "heated market" against positive collaboration with vendors.** The mixed results in 2Q23 showed vendors still facing earnings risk and margin compression, despite the high O&G activity demand. Consistent with our view, this was due to a sharp rise in manpower and vessel costs, and was cited by Petronas CEO for being a "heated market" and may "force Petronas to set aside doubling its cash buffer".

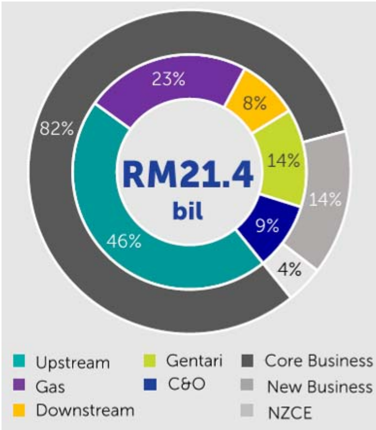
ACTION

- **Retain sector OVERWEIGHT, on potential trading angles.** The 2Q23 results season reiterated our view of the sector's earnings risk. But we still see sector trading upside as oil price sentiment is expected to rise from US$85/bbl to US$90/bbl by end-23. Another trading angle is on the success rate of the MOGSC for locking in measures with Petronas that may improve contractor earnings delivery. We suggest accumulation on bargain on stocks that have proven execution, or with specific earnings catalysts as below:

OVERWEIGHT

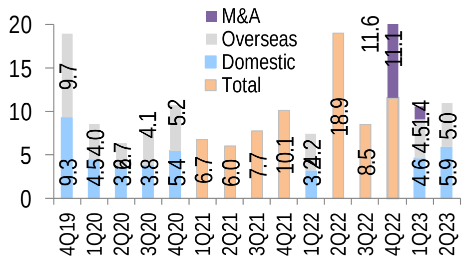
(Maintained)

DETAILED BREAKDOWN OF 1H23 CAPEX



Source: Petronas

PETRONAS' CAPEX (RM BILLION)



Source: Petronas *No domestic/ overseas disclosure since 1Q21

FIVE-YEAR DOMESTIC CAPEX

*Note: 2013-2017: RM183b

**Additional notes: Petros near-term capex is RM2b

Source: Petronas

ANALYST(S)

Kong Ho Meng

+603 2147 1987

homeng@uobkayhian.com

PEER COMPARISON

Company	Ticker	Rec	Share Price 30 Aug 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Interest Cover 2023F (x)	Interest Cover 2024F (x)	Net Debt to Equity 2023F (%)	Net Debt to Equity 2024F (%)	ROE 2023F (%)	ROE 2024F (%)
Bumi Armada	BAB MK	SELL	0.51	0.43	3,020.6	8.0	6.0	0.6	0.5	3.0	4.0	65.4	42.7	7.2	9.0
Dialog Group	DLG MK	BUY	2.05	2.85	11,567.3	22.0	20.1	2.2	2.0	10.0	10.5	12.1	16.3	10.2	10.4
Deleum	DLUM MK	SELL	0.93	0.89	373.4	10.6	8.7	0.9	0.9	116.8	84.0	n.a	n.a	8.9	10.3
MISC	MISC MK	BUY	7.20	8.60	32,139.0	14.8	14.8	0.8	0.8	7.1	7.4	34.1	33.1	5.7	5.6
MMHE	MMHE MK	BUY	0.49	0.70	776.0	30.3	26.5	0.4	0.4	11.1	10.9	n.a	n.a	1.4	1.7
Petronas Dagangan	PETD MK	HOLD	22.20	24.70	22,054.7	20.7	19.8	3.8	3.7	135.0	95.3	n.a	n.a	18.3	18.8
Sapura Energy	SAPE MK	HOLD	0.05	0.04	799.0	(4.5)	(6.2)	(0.8)	(1.7)	1.3	1.3	(682.6)	(945.9)	n.a	n.a
Uzma	UZMA MK	HOLD	0.80	0.68	309.8	9.1	8.7	0.6	0.6	4.4	4.5	96.6	92.5	6.3	6.3
Velesto Energy	VEB MK	HOLD	0.24	0.20	1,930.7	24.5	23.3	1.0	1.0	13.8	14.2	13.4	3.0	4.4	4.3
Yinson Holdings	YNS MK	BUY	2.51	4.05	7,295.8	11.2	9.6	1.9	1.8	3.2	3.2	144.1	155.9	12.6	13.9

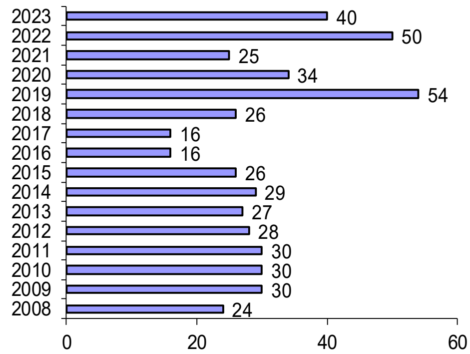
Source: Bloomberg

- **Top Pick:** Yinson (BUY/Target: RM4.05) is still a favoured long-term BUY for the best execution, ESG goals, and highest future growth. For near-term trading picks, we also like MISC (to benefit on more LNG newbuilds, and strong crude tanker earnings), MMHE (strong new contract win prospects and sustainable marine repair earnings), and Dialog (new storage terminals prospects, on the back of peak cycle spot storage fundamentals). Other non-rated stocks that appears to have better execution ability or catalysts, include T7 Global (benefitting from new demand of mobile offshore production platforms) and Dayang Enterprise (Sarawak's largest maintenance O&G player).
- **Bumi Armada: Retain SELL.** While FPSO Kraken's operational recovery is promising, we think the stock is not out of the woods yet as hurdles remain ie delayed startup of FPSO Armada Sterling V, lack of engineering jobs and subsea contracts for Caspian Sea.

ESSENTIALS

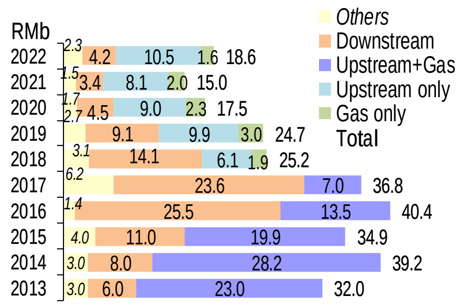
- Petronas relooking at capital allocation: Overseas projects remain a priority. Petronas is forking out an extra RM5b to pay RM40b dividends for 2023 (2022: RM50b), and will continuously refine its capital allocation, which may likely mean potentially doubling its cash buffer, due to challenges in securing financing. CEO Tan Sri Taufik gave an example of a project's working capital doubling due to the "heated market of upstream activities and cost inflation". Currently, the plan is a RM300b capex (RM60b p.a.) with 20-25% allocation for energy transition. However, to recap, for Malaysia, Petronas expects peak oil production of 2m bpd by 2024 (current: 1.6m bpd), which implies that the long-term Malaysia O&G capex will be heavily-centered on maintenance and production. But Petronas also wants 0.7m bpd of overseas production, and more importantly long-term LNG output of 52MTPA (vs about 30MTPA currently). Updates on key overseas projects:
- a) LNG Canada (25% stake). The US$40b project is now 84% completed (1H22: 75%) and should start deliveries by Jul 24. This, if true, appears to be ahead of industry expectations of 2025 startup. The first phase involves a capacity of 14MTPA, and Petronas is interested to develop the second phase (to double capacity to 28MTPA). In addition, a 670km pipeline dubbed the Coastal GasLink project to supply natural gas to LNG Canada, is 93% completed.
- b) Masela Block/Abadi LNG Indonesia. Its entry as 15% stake partner, also marks Petronas' serious entry into the Indonesia O&G market while this project allows Petronas to enhance its global LNG offerings. The potentially >US$20b LNG project (9.5MTPA) final investment decision is still expected for 2024, which may involve a floating LNG facility (FLNG). Inpex, the main owner, saw its development plan (using FLNG) being disapproved in 2016 as President Jokowi favoured an onshore plant for the benefit of the local economy.
- c) YPF Argentina: A high priority LNG project with rumoured initial investment involving US$5b-6b for 5MTPA LNG capacity, to US$60b and 25MTPA capacities across five phases. Petronas now hopes "by 1Q24 at the latest" that Argentina's Congress will decide on the LNG legislative
- Oil & Gas Asia (OGA) Conference may reveal progress of Petronas-vendor collaboration. The manpower/vessel shortage will become a recurring issue for the sector's earnings margins, while increasing ESG requirements (which had moved too fast) as the shortage already created a big vacuum and longer-term struggle for the industry. Many local service players have no resources to build up ESG expertise and diversification. In the spirit of encouraging Petronas to work closely in hand with its contractors, to ensure the 2m bpd of local peak production by 2025, MOGSC is pursuing measures like: a) banking/funding liquidity to the sector must not be compromised despite ESG demands, b) Petronas broadly reviewing its procurement strategy and licensing, and c) friendlier contracting strategy, especially payment during monsoon or non-performance downtime periods.
- Also, MOGSC had been discussing on a potential memorandum of understanding (MOU) with Petronas, that focuses on three pillars ie Engineering and Technical Delivery Excellence, Capability and Technology Innovation and Project Delivery Digital Transformation. The MOU, if successful, will be revealed in the OGA Asia during 13-15 Sep 23. MOGSC is also working with its clients to identify challenges across nine specific segments to form a workaround. If

PETRONAS DIVIDENDS (RM BILLION)



Source: Petronas

PETRONAS LOCAL CAPEX *



*Note: Gas became standalone segment eff 2018 accounts

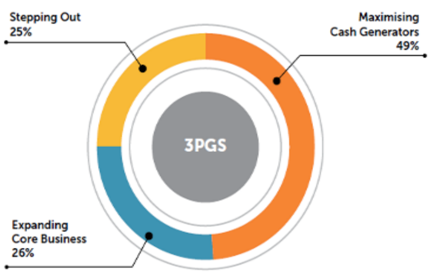
Source: Petronas Integrated/ Annual Reports

PETRONAS COSTS ANALYSIS

	2Q23	1Q23	2022	2021
Total	65.7	68.6	280.7	202.0
- % of revenue	*75%*	*76%*	*75%*	*81%*
Strategic	*51.3*	*52.1*	*226.9*	*158.5*
- Product costs	30.1	31.6	123.0	81.9
- Tax, SST, duty	8.5	11.6	56.2	33.6
- Non price sensitive (D&A)	12.5	8.9	50.7	43.0
Operational	*14.4*	*16.4*	*53.8*	*43.5*
- Procurement	8.5	8.9	24.9	20.5
- Other opex	5.9	7.5	28.9	23.0

Source: Petronas Integrated/ Annual Reports

PETRONAS 3PG STRATEGY

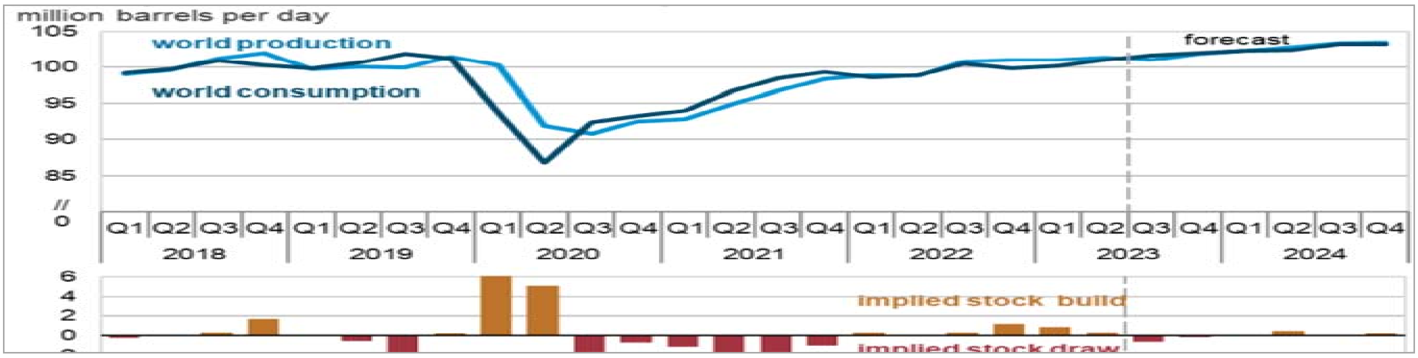


Source: Petronas Integrated Report 2022

such MOU and resolution were successful with structural improvements in future contracts terms, it may prompt us to be more bullish on sector earnings execution and

- ESG: Petronas achieved commendable emission caps in 1H23 of 23.0 tCO_2e. This is promising as Petronas has an official emission target of a 49.5m tCO_2e by 2024 (2021/22: 51m/ 54m tCO_2e), and b) cut methane emissions by 50% for group-wide natural gas assets by 2025. How these targets can be met, will highly depend on the rollout of decarbonisation projects (especially Kasawari CCUS for 2025 rollout), or face a risk that production will need to be curtailed.

WORLD CRUDE DEMAND SUPPLY BALANCE



Source: Energy Information Administration, Short Term Energy Outlook Aug 2023

COMPANY RESULTS

CIMB Group (CIMB MK)

2Q23: Solid Cost Dicipline And Non-interest Income

CIMB reported 2Q23 earnings that were in line, underpinned by solid operating cost discipline and strong non-interest income growth. Pre-provision operating profit grew a commendable 14% yoy. The group has also raised its dividend payout ratio to 55% from 50% given its improved CET1 ratio of 14.2%. Maintain BUY and target price of RM6.00 (0.93x 2023F P/B, 9.8% ROE). To illustrate the potential for further fair value upside, rolling over our target price would lift our fair value to RM6.45.

RESULTS

- **In line.** CIMB Group (CIMB) reported 2Q23 net profit of RM1,644.6m (+38.5% yoy, +6.5% qoq) bringing 1H23 earnings to RM3,417.9m (+20.8% yoy). Results were broadly in line with 1H23 earnings comprising 52% of our full-year estimates. 1H23 earnings grew 38.5% yoy, underpinned by: a) absence of the prosperity tax, b) a 29% yoy growth in non-interest income on strong treasury income growth, and c) solid opex discipline leading to positive operating Jaws (revenue: +7.3% yoy vs opex growth +4.5% yoy), partially offset by a 22bp NIM compression.
- **2Q23 qoq trend.** 2Q23 earnings expanded 6.5% qoq on the back of: a) a 17% qoq growth in non-interest income despite having already grown sequentially by 21% in 1Q22 on sustained treasury income growth, and b) lower provisions, partly offset by a 2bp NIM compression and negative operating Jaws.
- **2Q23 yoy trend.** 2Q23 earnings rose 38.5% yoy, driven by: a) absence of the prosperity tax, b) solid cost discipline resulting in positive operating Jaws with opex expanding at a slower 4.6% yoy pace vs revenue growth of 9.4% yoy, c) a 36.9% yoy growth in non-interest income on the back of narrower financial derivative losses.
- **Loans growth gains traction.** The group's loans grew by a strong 8.3% in 1H23, and this momentum accelerated in 2Q23 with a robust 3.3% qoq growth, up from 1.5% in 1Q23. Geographically, growth rates (excluding forex impact) were: a) Malaysia: 4.7% yoy (22: 6.0% yoy), b) Indonesia: 8.6% yoy (22: 8.3% yoy), c) Singapore: +5.3% yoy (22: 6.5% yoy), and d) Thailand: 10.8% yoy (22: 11.3% yoy). Our 2023 loan growth projection remains conservative at 5%, at the lower end of management's 5-6% guidance.
- **NIM compression eases.** NIM compressed 2bp qoq in 2Q23 vs a 31bp qoq slippage in 1Q23 as deposit competition eases. We anticipate a full-year 2023 NIM compression of 18bp compared with a 22bp compression in 1H23, with a slight recovery expected in 4Q23. This is broadly aligned with management's forecast (-15bp to -20bp), indicating an expected recovery in NIM starting from the end of 3Q23.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	10,936	11,623	11,292	11,787	12,458
Non-interest income	3,955	4,198	4,452	4,671	4,908
Net profit (rep./act.)	4,357	5,433	6,421	7,072	7,615
Net profit (adj.)	4,357	5,433	6,421	7,072	7,615
EPS (sen)	43.5	52.6	61.0	65.9	69.7
PE (x)	13.0	10.7	9.2	8.5	8.1
P/B (x)	1.0	0.9	0.9	0.8	0.8
Dividend yield (%)	4.1	4.6	5.4	5.9	6.2
Net int margin (%)	2.5	2.6	2.4	2.4	2.4
Cost/income (%)	51.1	47.2	48.2	47.8	47.1
Loan loss cover (%)	100.3	93.1	98.2	110.0	114.1
Consensus net profit	-	-	6,412	6,935	7,367
UOBKH/Consensus (x)	-	-	1.00	1.02	1.03

Source: CIMB Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM5.63
Target Price	RM6.00
Upside	+6.6%

COMPANY DESCRIPTION

CIMB Group is Malaysia's largest investment bank and second-largest consumer bank and one of Southeast Asia's leading universal banking groups

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	CIMB MK
Shares issued (m):	10,665.1
Market cap (RMm):	60,044.5
Market cap (US$m):	12,944.8
3-mth avg daily t'over (US$m):	14.9

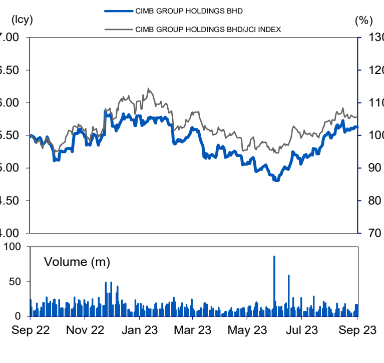
Price Performance (%)

52-week high/low RM5.87/RM4.81

1mth	3mth	6mth	1yr	YTD
2.4	15.1	0.4	4.8	(2.9)

Major Shareholders	%
Khazanah Nasional Berhad	25.6
EPF	15.6
Amanah Saham Nasional	9.9
FY23 NAV/Share (RM)	6.48
FY23 CAR Tier-1 (%)	16.24

PRICE CHART



Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong
+603 2147 1981
keithwee@uobkayhian.com

- **Gross impaired loans remain benign.** 2Q23 group GIL ratio ticked up by 10bp qoq to 3.3%, in line with peers while loans loss coverage ratio (LLC) declined marginally to 92% from 94% in 1Q23.
- **Credit cost outlook improves.** 2Q23 net credit costs came in at 39bp, compared with 37bp in 1Q23 and 49bp in 2Q22, bringing 1H23 net credit cost to 38bp. Management has lowered its 2023 net credit cost guidance to 40-50bp from 45-55bp, after considering a favorable GIL outlook and the strategic allocation of most management overlays across various accounts. Rather than reversing its excess overlays, it had redistributed the majority of its RM2.0b overlays as of end-Dec 22 to its various portfolios. Our 2023 net credit cost assumption remains at 40bp.
- **2023 outlook.** Management has retained its 2023 ROE guidance of 10.2-11.0%. However, it has tweaked downwards its net credit cost assumption to 40-50bp from 45-55bp and upwards it loans growth guidance to 6-7% from 5-6%, offset by steeper-than-expected NIM compression.

EARNINGS REVISION/RISK

- **Unchanged.**

VALUATIONS AND RECOMMENDATIONS

- **Maintain BUY and target price of RM6.00 (0.93x 2023F P/B, 9.8% ROE).** We remain optimistic on CIMB, given the potential for positive ROE upside surprise, driven by lower credit costs and robust loans growth. The company has already increased its ROE from the pre-pandemic level of 8-9% to the current 10%. Despite the stock's recent P/B re-rating from -1.0SD to -0.5SD to its historical mean in recent months, we maintain our positive outlook underpinned by solid earnings growth momentum. To provide a sense of potential target price upside, if we were to roll over our valuations into 2024, our target price would rise to RM6.45.

KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	5.0	6.0	6.2
Credit Cost (bp)	40.0	39.0	38.0
ROE	9.8	10.1	10.2

Source: UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- **Environmental**
  - **Green loan commitment.** To provide RM30b in sustainable financing by 2040.
  - **Zero new coal financing.** Transition all stakeholders to zero carbon emission by 2050.
- **Social**
  - **Board and upper management gender diversity.** Maintained 30% female directors on the Board.
  - **Enhanced financial inclusion to B40.** Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers.
- **Governance**
  - **Non-independent board of directors composition.** Composition of Independent Non-Executive Directors (INED) – 60%.

Source: UOB Kay Hian

2Q23 RESULTS

Profit & Loss (RMm)	2Q23	2Q22	yoy % chg	1H23	qoq % chg	Remarks
Net Interest Income	2,756.8	2,813.6	(2.0)	5,470.1	(1.2)	Impacted by NIM compression
Islamic Banking	1,061.5	954.4	11.2	2,050.6	7.8	
Fees & Commissions	522.5	576.0	(9.3)	1,037.3	(7.2)	
Net Trading	2,265.3	2,408.8	(6.0)	2,707.0	(21.3)	
Other Income	(1,271.6)	(1,877.0)	(32.3)	(933.5)	(60.8)	
Total Income	5,334.5	4,875.8	9.4	10,331.5	7.5	
Operating Expenses	(2,405.1)	(2,299.5)	4.6	(4,748.6)	3.7	
PPOP	2,929.5	2,576.3	13.7	5,582.9	10.8	
Allowance for impairment on loans	(558.1)	(455.4)	22.5	(864.0)	16.4	Lower recoveries
Other impairments	123.0	(26.1)	(571.8)	(15.7)	(90.4)	
PBT	2,482.1	2,096.3	18.4	4,718.2	13.8	
Net Profit	1,773.7	1,280.7	38.5	3,418.3	20.8	In line
EPS (sen)	19.6	14.1	38.4	37.8	26.2	
DPS (sen)	17.5	13.0	34.6	17.5	34.6	
BVPS (RM)	6.28	5.76	9.1	5.86	1.8	
Financial Ratios (%)	**2Q23**	**2Q22**	**yoy ppt chg**	**1Q23**	**qoq ppt chg**	
NIM	2.24	2.47	(0.23)	(0.23)	(0.02)	
Loan Growth, yoy	8.3	6.8	1.5	1.5	0.9	
Deposit Growth, yoy	8.9	4.6	4.2	4.2	4.1	
Loan/Deposit Ratio	87.8	87.8	(0.0)	(0.0)	(0.6)	
Cost/Income Ratio	45.1	47.2	(2.1)	(2.1)	(1.8)	
Reported ROE	10.7	8.5	2.2	2.2	0.4	
NPL Ratio	3.3	3.5	(0.2)	(0.2)	0.1	
Credit Costs (bp)	52.3	46.2	6.1	6.1	22.7	
Loan Loss Coverage	91.6	99.6	(8.0)	(8.0)	(2.6)	
CET-1 CAR	14.2	14.1	0.1	0.1	(0.1)	

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	18,639	19,695	21,151	22,801
Interest expense	(7,016)	(8,403)	(9,364)	(10,344)
Net interest income	11,623	11,292	11,787	12,458
Fees & commissions	2,227	2,383	2,454	2,602
Other income	1,971	2,069	2,217	2,307
Non-interest income	4,198	4,452	4,671	4,908
Income from islamic banking	4,000	4,520	5,107	5,771
Total income	19,820	20,263	21,566	23,137
Staff costs	(5,539)	(5,767)	(6,228)	(6,728)
Other operating expense	(3,806)	(3,999)	(4,071)	(4,169)
Pre-provision profit	10,475	10,498	11,267	12,240
Loan loss provision	(1,953)	(1,709)	(1,766)	(1,824)
Other provisions	(209)	(350)	(200)	(398)
Associated companies	40	71	72	73
Other non-operating income	10	0	0	0
Pre-tax profit	8,364	8,510	9,372	10,091
Tax	(2,778)	(1,957)	(2,156)	(2,321)
Minorities	(153)	(131)	(144)	(155)
Net profit	5,433	6,421	7,072	7,615
Net profit (adj.)	5,433	6,421	7,072	7,615

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	10,905	14,956	15,853	16,804
Govt treasury bills & securities	15,602	15,914	16,232	16,557
Interbank loans	3,096	3,378	3,686	4,021
Customer loans	394,557	413,196	437,067	462,419
Investment securities	140,808	158,269	177,767	199,539
Derivative receivables	18,072	20,241	22,670	25,390
Associates & JVs	2,467	2,590	2,720	2,856
Fixed assets (incl. prop.)	2,656	2,545	2,431	2,315
Other assets	78,557	83,174	89,496	97,595
Total assets	666,721	714,263	767,922	827,497
Interbank deposits	34,189	36,413	38,793	41,340
Customer deposits	446,634	468,966	492,414	517,035
Derivative payables	53,384	55,694	58,105	60,621
Debt equivalents	20,933	20,933	20,933	20,933
Other liabilities	47,797	62,843	84,177	109,606
Total liabilities	602,937	644,849	694,422	749,536
Shareholders' funds	62,691	68,190	72,132	76,438
Minority interest - accumulated	1,093	1,224	1,368	1,523
Total equity & liabilities	666,721	714,263	767,922	827,497

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	0.0	16.2	16.9	17.5
Total CAR	0.0	21.2	21.8	22.4
Total assets/equity (x)	10.6	10.5	10.6	10.8
Tangible assets/tangible common equity (x)	12.1	11.8	11.9	12.0
Asset Quality				
NPL ratio	3.3	3.4	3.2	3.2
Loan loss coverage	93.1	98.2	110.0	114.1
Loan loss reserve/gross loans	3.0	3.3	3.5	3.7
Increase in NPLs	0.3	7.8	0.5	7.4
Credit cost (bp)	49.5	40.0	39.0	38.0
Liquidity				
Loan/deposit ratio	88.3	88.1	88.8	89.4
Liquid assets/short-term liabilities	6.1	6.7	6.7	6.7
Liquid assets/total assets	4.4	4.8	4.7	4.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	6.3	(2.9)	4.4	5.7
Fees & commissions, yoy chg	6.4	7.0	3.0	6.0
Pre-provision profit, yoy chg	16.3	0.2	7.3	8.6
Net profit, yoy chg	24.7	18.2	10.1	7.7
Net profit (adj.), yoy chg	24.7	18.2	10.1	7.7
Customer loans, yoy chg	8.2	4.7	5.8	5.8
Customer deposits, yoy chg	3.2	5.0	5.0	5.0
Profitability				
Net interest margin	2.6	2.4	2.4	2.4
Cost/income ratio	47.2	48.2	47.8	47.1
Adjusted ROA	0.8	0.9	1.0	1.0
Reported ROE	8.9	9.8	10.1	10.3
Adjusted ROE	8.9	9.8	10.1	10.3
Valuation				
P/BV (x)	0.9	0.9	0.8	0.8
P/NTA (x)	1.1	1.0	0.9	0.9
Adjusted P/E (x)	10.7	9.2	8.5	8.1
Dividend Yield	4.6	5.4	5.9	6.2
Payout ratio	49.4	50.0	50.0	50.0

COMPANY RESULTS

Farm Fresh (FFB MK)

1QFY24: Earnings Hard Hit. Worst Is Over But Valuations Remain Lofty

1QFY24 earnings were a disappointment. Decent top-line growth was derailed by softer gross margins. The worst is over as margins should improve here on out with raised ASPs, margin-accretive Inside Scoop acquisition and lower hedged input cost. Maintain HOLD as Farm Fresh's exciting prospects are balanced by impending stiff domestic competition kicking in over the medium term, which could unravel its dominance. Maintain HOLD with an adjusted target price of RM1.10.

1QFY24 RESULTS

Year to 31 Mar (RMm)	1QFY23	4QFY23	1QFY24	qoq % chg	yoy % chg	Comments
Revenue	144.0	161.4	185.5	14.9	28.8	Sequential growth driven by 7.5% volume sales.
Gross profit	37.7	32.8	32.9	0.3	-12.8	
EBITDA	24.3	16.3	19.5	19.5	-19.8	
Pretax profit	14.2	4.5	5.9	30.1	-58.6	
Core PATAMI	19.0	8.3	6.1	-27.3	-68.0	Well below expectations.
	(%)	(%)	(%)	qoq ppt chg	yoy ppt chg	
Gross margin (%)	26.2	20.3	17.7	-2.6	-8.5	Margins weighed by input cost.
Opex as % of revenue	-16.8	-15.9	-15.4	0.4	1.4	
EBITDA margin (%)	16.9	10.1	10.5	0.4	-6.4	
Effective tax rate (%)	8.0	-0.5	-4.4	-3.9	-12.4	
Core margin (%)	13.2	5.2	3.3	-1.9	-9.9	

Source: Farm Fresh, UOB Kay Hian

RESULTS

- **1QFY24 earnings well below expectations.** Farm Fresh registered a 1QFY24 core net profit of RM6.1m (-27% qoq, -68% yoy). This only accounted for a mere 11% and 13% of our and consensus full-year earnings estimates respectively. The negative deviation arose from the worse-than-expected margins from the depletion of more costly inventory and high input cost.

- **Sequential growth chugs along with expanded processing line.** 1QFY24 sales grew 14.9% on a qoq basis (+28.8% yoy). Sales were driven by 7.5% volume sales. Primary segments, chilled category and UHT commercial grew by 7.7% and 4.6% qoq respectively. This was enabled by the expanded processing capacity at its Muadzam Shah facility in Apr 23. Apart from that, the acquisition of Inside Scoop that was completed in Jun 23, was estimated to contribute to 2% of the quarter's revenue.

KEY FINANCIALS

Year to 31 Mar (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	502	630	739	857	981
EBITDA	86	88	113	180	192
Operating profit	61	54	71	133	140
Net profit (rep./act.)	86	59	65	126	137
Net profit (adj.)	86	59	65	126	137
EPS (sen)	4.6	3.2	3.5	6.8	7.4
PE (x)	26.0	37.5	34.1	17.7	16.3
P/B (x)	3.6	3.5	3.2	2.8	2.5
EV/EBITDA (x)	29.7	29.2	22.7	14.2	13.3
Dividend yield (%)	0.2	0.7	0.7	1.4	1.5
Net margin (%)	17.1	9.4	8.8	14.7	13.9
Net debt/(cash) to equity (%)	42.0	49.3	42.3	32.1	24.3
Interest cover (x)	9.4	7.7	6.1	10.5	12.1
ROE (%)	20.1	9.5	9.9	17.0	16.2
Consensus net profit	-	-	77	109	133
UOBKH/Consensus (x)	-	-	0.85	1.16	1.02

Source: Farm Fresh, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.20
Target Price	RM1.10
Upside	-8.3%
(Previous TP	RM1.05)

COMPANY DESCRIPTION

Homegrown Farm Fresh is the largest integrated dairy producer in Malaysia. Farm Fresh commands more than half of the RTD fresh milk segment. It also looks to expand its exports to the likes of Singapore, Indonesia and the Philippines.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	FFB MK
Shares issued (m):	1,858.0
Market cap (RMm):	2,917.0
Market cap (US$m):	637.6
3-mth avg daily t'over (US$m):	0.7

Price Performance (%)

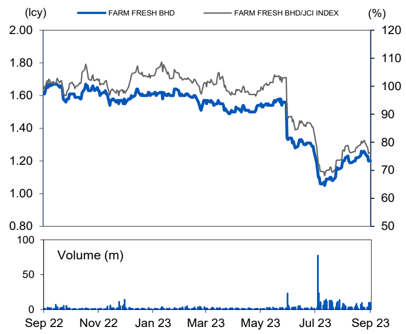
52-week high/low RM1.79/RM1.35

1mth	3mth	6mth	1yr	YTD
(3.7)	(6.5)	(7.1)	n.a.	n.a.

Major Shareholders	%
Loi Tuan Ee and family	44.5
Agrifood Resources	11.8
EPF	5.4

FY23 NAV/Share (RM)	0.36
FY23 Net Debt/Share (RM)	0.19

PRICE CHART



Source: Bloomberg

ANALYST(S)

Philip Wong
+603 2147 1996
philipwong@uobkayhian.com

- **Exciting pipeline to fuel growth.** Going forward, Farm Fresh is on track to commence its Philippines processing facility, launch of its growing-up milk, full quarter's Inside Scoop contribution and additional production capacity with its Taiping factory to drive top-line growth. These initiatives should underpin our 17.3% revenue growth assumption for FY24.

- **Gross margins soften yet again.** Overall 1QFY24 gross margin declined marginally by 2.5ppt qoq to 17.7%. This was due to: a) escalating farmgate milk and whole milk powder (WMP) prices, and b) Australia operation's gross profit margin dipping to -0.4% from 8.3% qoq due to deliberately depleting inventories with higher milk cost. However, with its higher economies of scale from volume sales, operating margins fully recovered to 5.0% or +0.4ppt on a qoq basis. The quarter recognised a higher effective tax rate of 4.4% (4QFY23: 0.5%), resulting in earnings contracting on a qoq basis.

STOCK IMPACT

- **Easing cost pressures.** Heading into the subsequent quarter, margins should improve on the back of raised ASPs and lower input, raw milk and WMP costs. WMP accounts for close to 49% of FY24 milk requirements. The WMP hedge is at US$3,240/MT or 15% lower vs its previously hedged cost. This hedge is between Jun to Oct 23. Positively, WMP is now close to US$2,450/MT or an additional 25% lower vis-à-vis its current hedge. Global demand, driven by China is only expected to firm up in 2H24 and therefore bodes well for Farm Fresh at this juncture when it rolls over its WMP hedge in late-23. Meanwhile, Farm Fresh had only managed to lock-in raw milk Australian farmgate ASPs at A$9.74/kg or 4% lower vis-à-vis its 1H23 ASP cost. Given the duration of its hedge, till mid-24, Farm Fresh may not be able to fully capitalise on dampened milk prices.

- **Competition on the horizon.** F&N and a JV between Baladna (largest dairy group in Qatar), FGV Holdings and Touch Group are expected to make significant investments into upstream dairy activity. Over the next 10 years, both these initiatives target to produce 200m and 300m litres of fresh milk respectively, a combined 500m litres of fresh milk locally.

EARNINGS REVISION/RISK

- **We cut our FY24 earnings by 25%** to account for lower margins but raise FY25-26 earnings by 13% and 8% respectively as we anticipate Farm Fresh to enjoy input cost when it rolls over its hedge. Downside risks: Elevated raw material prices as well as milk quality and yield.

VALUATION/RECOMMENDATION

- **Maintain HOLD with an adjusted target price of RM1.10** (from RM1.05) on the back of FY25's raised earnings which more than offset FY24's. However, we throw caution to the wind as WMP could swiftly rebound off multi-year lows and place Farm Fresh's earnings at risk. While Farm Fresh offers more exciting growth relative to its domestic peers, it is balanced by impending competition kicking in over the medium term. Our valuation PE is pegged to 18.3x based on 2024. The current PE peg is based on the average valuations of its direct peers.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• **Environmental**
- **Climate action.** A target for a reduction of 25% of greenhouse gas emissions in five years. Also a target of 21% total Scope 1 and Scope 2 emissions reduction by 2026, primarily through the use of renewable energy. Scope 3 emissions represent less than 1% of its GHG emissions and therefore its environmental impact is considered less significant.
• **Social**
- **Animal health and welfare.** Farm Fresh is the first dairy farm operator in Asia who has earned the internationally recognised Certified Humane certification by Humane Farm Animal Care for its on-farm operations.
• **Governance**
- **Board balance and composition.** 4 of 7 directors are independent directors, amounting to 57% of its board members.

KEY ASSUMPTIONS

	2023F	2024F	2025F
Revenue (RMm)	621.3	726.4	837.7
Growth yoy (%)	23.8	16.9	15.3
PATAMI (RMm)	74.8	99.4	120.4
Growth yoy (%)	-12.6	32.9	21.1
3-yr CAGR (%)	36.6	11.8	12.0
Gross margin (%)	26.8	28.1	28.2
EBITDA margin (%)	20.3	22.5	22.6
ASPs - Malaysia (dairy) (RM/litre)	6.35	6.41	6.47
ASPs - Malaysia (Plant based) (RM/litre)	7.06	7.13	7.21
Volume (m litres)	98	113	129
Growth yoy (%)	15.0	15.8	14.2

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Net turnover	502	621	726	838
EBITDA	86	116	150	175
Deprec. & amort.	26	33	42	47
EBIT	61	82	108	127
Total other non-operating income	14	11	13	14
Associate contributions	0	0	0	0
Net interest income/(expense)	(9)	(16)	(18)	(17)
Pre-tax profit	66	77	103	125
Tax	13	(6)	(8)	(10)
Minorities	1	4	5	6
Net profit	86	75	99	120
Net profit (adj.)	86	75	99	120

BALANCE SHEET

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Fixed assets	340	487	537	561
Other LT assets	141	160	168	177
Cash/ST investment	28	14	16	8
Other current assets	502	485	517	552
Total assets	1,010	1,145	1,237	1,298
ST debt	52	62	62	62
Other current liabilities	94	88	101	116
LT debt	232	302	302	252
Other LT liabilities	20	21	21	21
Shareholders' equity	611	671	751	847
Total liabilities & equity	1,010	1,145	1,237	1,298

CASH FLOW

Year to 31 Mar (RMm)	2022	2023F	2024F	2025F
Operating	49	131	136	158
Pre-tax profit	66	77	103	125
Tax	(28)	(6)	(8)	(10)
Deprec. & amort.	26	33	42	47
Associates	0	0	0	0
Working capital changes	(21)	11	(19)	(21)
Other operating cashflows	8	16	18	17
Investing	(357)	(190)	(90)	(70)
Capex (growth)	(366)	(190)	(90)	(70)
Proceeds from sale of assets	9	0	0	0
Others	0	0	0	0
Financing	339	45	(43)	(97)
Dividend payments	(5)	(19)	(25)	(30)
Issue of shares	293	0	0	0
Proceeds from borrowings	200	0	0	0
Loan repayment	(83)	70	0	(50)
Others/interest paid	(65)	(7)	(19)	(17)
Net cash inflow (outflow)	31	(14)	3	(9)
Beginning cash & cash equivalent	12	28	14	16
Changes due to forex impact	(14)	0	0	0
Ending cash & cash equivalent	28	14	16	8

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.2	18.6	20.7	20.9
Pre-tax margin	13.1	12.3	14.1	14.9
Net margin	17.1	12.0	13.7	14.4
ROA	10.5	6.9	8.3	9.5
ROE	20.1	11.7	14.0	15.1
Growth				
Turnover	2.3	23.8	16.9	15.3
EBITDA	(3.8)	34.1	29.9	16.3
Pre-tax profit	(2.8)	16.7	33.9	21.4
Net profit	18.2	(12.6)	32.9	21.1
Net profit (adj.)	18.2	(12.6)	32.9	21.1
EPS	18.2	(12.6)	32.9	21.1
Leverage				
Debt to total capital	31.8	35.2	32.7	27.1
Debt to equity	46.6	54.3	48.6	37.1
Net debt/(cash) to equity	42.0	52.3	46.4	36.3
Interest cover (x)	9.4	7.1	8.2	10.2

COMPANY RESULTS

Malayan Banking (MAY MK)

2Q23: Risk To Reward Well Balanced

Maybank's 2Q23 net profit was in line, underpinned by the absence of the prosperity tax, lower provisions and strong non-interest income recovery. However, opex surged, resulting in negative operating Jaws. Limited opportunities for credit cost write-back and a restrained NIM recovery are balanced by a relatively enticing dividend yield surpassing 6%. Maintain HOLD and target price of RM9.00 (1.15x 2023F P/B, 10.2% ROE).

RESULTS

- **In line.** Malayan Banking (Maybank) reported 2Q23 net profit of RM2,338.6m (+45.4% yoy, +3.2% qoq) bringing 1H23 earnings to RM4,603.9m (+26.0% yoy). Results were in line, representing 50.6% and 49.4% of our and consensus full-year estimates. 1H23 earnings grew 26.0% yoy underpinned by: a) absence of the prosperity tax, b) a three-fold rise in non-interest income on a strong recovery in treasury income to RM1.3b from a loss of RM900m in 1H22, and c) a 50% yoy decline in provisions partly offset by negative operating Jaws as opex outpaced revenue growth by 6ppt.
- **Qoq.** 2Q23 earnings rose 3.2% qoq, boosted by a 45% qoq jump in non-interest income due to an 85% surge in treasury income and narrowing off net insurance losses. However, qoq earnings growth was tempered by a 95% rise in provisions and further NIM compression.
- **Yoy.** 2Q23 earnings surged 45.3% yoy attributed to: a) absence of the prosperity tax, b) an eight-fold rise in non-interest income on a strong recovery in treasury income to RM1.1b from a loss of RM1.3b in 2Q22, and c) a 59% yoy decline in provisions partly offset by a slight negative operating Jaws as opex outpaced revenue growth by 2ppt.
- **NIM compression eases but management widens compression guidance.** NIM declined 5bp qoq which is a significant reduction from a -20bp qoq compression in 1Q23 as deposit competition abates. Management expects NIM to stabilise at 2Q23 levels into 2H23. That said, given the slower-than-expected recovery in NIM, management has widened its full-year 2023 NIM compression guidance to 20bp vs the earlier 10bp guidance. Consequently, we have pencilled in a 20bp compression vs our initial 14bp assumption.
- **Loans growth gains traction.** Loans expanded more rapidly at 2.4% qoq in 2Q23 compared with 0.8% qoq in 1Q23, resulting in a 1H23 growth of 5.3%, slightly surpassing our conservative estimate of 5.0%. Notably, consumer banking in Malaysia and Singapore operations, particularly business banking and auto loans, demonstrated robust growth.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	12,034	13,834	12,524	12,834	13,297
Non-interest income	5,842	6,367	7,700	8,115	8,524
Net profit (rep./act.)	8,066	8,235	9,091	9,606	10,136
Net profit (adj.)	8,066	8,235	9,091	9,606	10,136
EPS (sen)	71.7	73.2	80.9	85.4	90.2
PE (x)	12.7	12.4	11.3	10.7	10.1
P/B (x)	1.2	1.2	1.2	1.1	1.1
Dividend yield (%)	6.4	6.4	6.7	7.0	7.4
Net int margin (%)	2.4	2.5	2.3	2.3	2.3
Cost/income (%)	45.3	46.4	50.1	50.3	50.5
Loan loss cover (%)	107.8	127.4	125.5	136.8	150.0
Consensus net profit	-	-	9,330	9,849	10,399
UOBKH/Consensus (x)	-	-	0.97	0.98	0.97

Source: Malayan Banking, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM9.11
Target Price	RM9.00
Upside	-2.1%

COMPANY DESCRIPTION

The largest banking group in Malaysia in terms of asset size. Maybank also has sizeable exposure to foreign markets, with foreign loans, mainly in Singapore and Indonesia, making up 33% of its loan base

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	MAY MK
Shares issued (m):	12,054.1
Market cap (RMm):	109,813.1
Market cap (US$m):	23,674.3
3-mth avg daily t'over (US$m):	16.6

Price Performance (%)

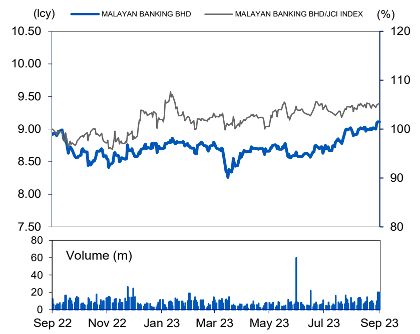
52-week high/low RM9.11/RM8.26

1mth	3mth	6mth	1yr	YTD
1.3	6.1	3.5	1.6	4.7

Major Shareholders	%
AmanahRaya Trustees Berhad	38.1
Employees Provident Fund Board	13.0
Permodalan Nasional Berhad	6.9

FY23 NAV/Share (RM)	7.90
FY23 CAR Tier-1 (%)	17.74

PRICE CHART



Source: Bloomberg

ANALYST(S)

Keith Wee Teck Keong

+603 2147 1981

keithwee@uobkayhian.com

STOCK IMPACT

- **Asset quality stable.** 2Q23 group GIL ratio edged downwards to 1.47% (1Q23: 1.50%) due to recoveries and write-offs in Indonesia and Malaysia. Domestically, GIL ratio declined to 1.34% in 2Q23 from 1.37% in 1Q23. Loans under repayment assistance continued to improve in Malaysia: end-July 23; Malaysia: 0.8% (0.9% end-Apr 23) but experienced an uptick in Indonesia: 7.9% (7.1% end Apr 23), and Singapore to 2.7% (2.4% end-Apr 23).
- **Credit cost normalises.** Net credit cost has normalised to 37bp in 2Q23 from 24bp in 1Q22 as recoveries tapered off. This brings 1H23 net credit cost to 31bp which remains below its initial 35-40bp guidance and our 37bp assumption. Given its relatively substantial management overlays of RM1.7b and relatively stable GIL trends, management has revised its net credit cost guidance to 30-35bp (previously 35-40bp) and suggested possible write-back of excess overlays from 2024 onwards. Consequently, we have adjusted our 2023 net credit cost assumption to 32bp from 37bp while retaining 30bp/29bp for 2024-25.
- **Opex remains elevated.** In 2Q23, opex surged by 18.2% yoy (1H23: +15% yoy), primarily due to a personnel cost increase of 20.9%, including collective agreement adjustments for union staff (normalised growth: 11.3%). Management has already incorporated most of the collective adjustments in 1H23 and anticipates a decline in opex during 2H23. Overall, we anticipate opex growth to remain high at 10% yoy in 2023 before returning to more sustainable levels of 5-6% in 2024-25.
- **Outlook.** Management has retained its 2023 ROE guidance of 10.5-11.0%. However, on a granular level, it tweaked upwards NIM compression guidance to 20bp from 10bp while offsetting it with a lower net credit cost guidance of 30-35bp from 35-40bp.

EARNINGS REVISION

- Unchanged as lower NIM assumption was offset by lower credit cost assumption in 2023.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM9.00 (1.15x 2023F P/B, 10.2% ROE).** The stock is currently trading at -0.5SD from its historical mean P/B which we deem to be fair. Minimal scope for credit cost write-back in 2023 coupled with weaker insurance income and compression in NIM is offset by a relatively attractive dividend yield in excess of 6%.

KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	4.8	5.0	5.2
Credit Cost (bp)	32.0	30.0	29.0
ROE	10.2	10.6	11.0

Source: Maybank, UOB Kay Hian

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- **Environmental**
  - **Green loan commitment•** To provide RM50b in sustainable financing by 2025
  - **Zero new coal financing.** Transition all stakeholders to zero carbon emission by 2050
- **Social**
  - **Board and upper management gender diversity.** Maintained 25% female directors on the Board and 40% female senior management
  - **Enhanced financial inclusion to B40.** Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers
- **Governance**
  - **Composition of independent directors.** Composition of Independent Directors (INED) – 75 %

Source: Maybank, UOB Kay Hian

2Q23 RESULTS

Profit & Loss (RMm)	2Q23	2Q22	yoy % chg	1H23	qoq % chg	Remarks
Net Interest Income	3,207.6	3,510.9	(8.6)	6,436.0	(5.9)	NIM compression on elevated deposit competition
Islamic Banking	1,850.9	1,765.5	4.8	3,642.1	6.0	
Fees & Commissions	822.7	850.7	(3.3)	1,626.2	(1.6)	
Net insurance income	(254.5)	736.0	(134.6)	(669.2)	(169.1)	
Net trading income	1,186.8	(1,211.6)	(197.9)	1,339.0	(246.9)	
Other Operating Income	496.4	654.9	(24.2)	1,260.1	118.8	Higher trading and forex income
Total Income	7,309.8	6,306.5	15.9	13,634.1	8.6	
Operating Expenses	(3,420.4)	(2,894.1)	18.2	(6,472.6)	15.1	
PPOP	3,889.4	3,412.4	14.0	7,161.5	3.3	
Provisions	(561.7)	(837.5)	(32.9)	(921.7)	(28.0)	Benefitting from write-backs
Writeback/(Impairment)	(12.8)	(318.6)	(96.0)	54.4	(111.5)	
Associate	55.0	43.5	26.3	131.5	41.4	
PBT	3,369.8	2,299.8	46.5	6,425.6	21.8	
Net Profit	2,338.6	1,608.4	45.4	4,604.0	26.0	In line
Core Net Profit	2,338.6	1,608.4	45.4	4,604.0	26.0	
EPS (sen)	20.8	14.3	45.3	40.9	25.9	
DPS (sen)	29.0	28.0	3.6	29.0	3.6	
BVPS (RM)	7.49	7.08	5.8	7.49	5.8	
Financial Ratios (%)	**2Q23**	**2Q22**	**yoy chg (ppt)**	**1Q23**	**qoq chg (ppt)**	
Loan Growth, yoy	2.3	2.4	(0.0)	0.8	1.5	
Deposit Growth, yoy	0.6	0.6	(0.0)	1.6	(1.0)	
Loan/Deposit Ratio	94.7	92.6	2.1	92.9	1.8	
Cost/Income Ratio	46.8	45.9	0.9	48.3	(1.5)	
ROE	10.6	7.6	3.0	10.5	0.1	
Gross Impairment Loan Ratio	1.5	1.8	(0.3)	1.5	(0.0)	
Credit Costs (bp)	37.1	58.2	(21.1)	24.3	12.8	
CET-1 CAR	2.3	2.4	(0.0)	0.8	1.5	

Source: Maybank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	21,628	22,669	23,813	25,103
Interest expense	(7,793)	(10,145)	(10,979)	(11,806)
Net interest income	13,834	12,524	12,834	13,297
Fees & commissions	3,343	3,543	3,685	3,795
Other income	3,024	4,157	4,430	4,729
Non-interest income	6,367	7,700	8,115	8,524
Income from islamic banking	7,414	7,933	8,647	9,425
Total income	27,615	28,157	29,596	31,246
Staff costs	(7,504)	(8,629)	(9,233)	(9,972)
Other operating expense	(5,304)	(5,474)	(5,645)	(5,821)
Pre-provision profit	14,808	14,054	14,717	15,453
Loan loss provision	(2,189)	(1,969)	(1,942)	(1,980)
Other provisions	(596)	0	0	0
Associated companies	131	139	147	156
Other non-operating income	0	0	0	0
Pre-tax profit	12,153	12,224	12,922	13,629
Tax	(3,780)	(2,880)	(3,050)	(3,211)
Minorities	(138)	(252)	(267)	(281)
Net profit	8,235	9,091	9,606	10,136
Net profit (adj.)	8,235	9,091	9,606	10,136

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	13,777	18,459	19,419	20,487
Govt treasury bills & securities	49,540	50,531	51,541	52,572
Interbank loans	16,096	16,257	16,420	16,584
Customer loans	575,387	600,455	631,364	665,839
Investment securities	181,550	194,701	208,761	223,793
Derivative receivables	24,687	24,687	24,687	24,687
Associates & JVs	2,207	2,207	2,207	2,207
Fixed assets (incl. prop.)	3,319	3,485	3,659	3,842
Other assets	81,249	85,717	90,565	95,839
Total assets	947,813	996,498	1,048,622	1,105,849
Interbank deposits	51,894	53,451	55,054	56,706
Customer deposits	639,396	672,645	709,640	748,670
Derivative payables	27,874	27,874	27,874	27,874
Debt equivalents	13,067	13,067	13,067	13,067
Other liabilities	126,664	137,466	147,767	160,932
Total liabilities	858,896	904,503	953,403	1,007,250
Shareholders' funds	85,957	88,782	91,739	94,838
Minority interest - accumulated	2,960	3,213	3,480	3,761
Total equity & liabilities	947,813	996,497	1,048,622	1,105,849

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	15.5	17.7	17.1	16.4
Total CAR	15.2	23.5	23.0	22.5
Total assets/equity (x)	10.9	11.1	11.3	11.6
Tangible assets/tangible common equity (x)	11.8	12.0	12.2	12.4
Asset Quality				
NPL ratio	1.6	1.9	1.8	1.7
Loan loss coverage	127.4	125.5	136.8	150.0
Loan loss reserve/gross loans	2.3	2.4	2.5	2.5
Increase in NPLs	(16.6)	28.5	(1.6)	(2.4)
Credit cost (bp)	37.3	32.0	30.0	29.0
Liquidity				
Loan/deposit ratio	90.0	89.3	89.0	88.9
Liquid assets/short-term liabilities	11.5	11.7	11.4	11.1
Liquid assets/total assets	8.4	8.6	8.4	8.2

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	15.0	(9.5)	2.5	3.6
Fees & commissions, yoy chg	(8.1)	6.0	4.0	3.0
Pre-provision profit, yoy chg	6.3	(5.1)	4.7	5.0
Net profit, yoy chg	2.1	10.4	5.7	5.5
Net profit (adj.), yoy chg	2.1	10.4	5.7	5.5
Customer loans, yoy chg	6.2	4.4	5.1	5.5
Customer deposits, yoy chg	3.5	5.2	5.5	5.5
Profitability				
Net interest margin	2.5	2.3	2.3	2.3
Cost/income ratio	46.4	50.1	50.3	50.5
Adjusted ROA	0.9	0.9	0.9	0.9
Reported ROE	9.6	10.4	10.6	10.9
Adjusted ROE	9.6	10.4	10.6	10.9
Valuation				
P/BV (x)	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.3	1.2	1.2
Adjusted P/E (x)	12.4	11.3	10.7	10.1
Dividend Yield	6.4	6.7	7.0	7.4
Payout ratio	79.2	75.0	75.0	75.0

SECTOR UPDATE

Retail – Thailand

Less Policy Overhang On The Retail Sector

Although 3Q23's SSSG was slower compared with 1H23, we still expect yoy earnings growth in 3Q23, led by COM7 and CPALL. Key positive drivers are from sales and gross margin improvement. Given the current cabinet poll, we expect a positive outlook for the retail sector. The sector will benefit from stimulus packages, lower electricity costs, and a lower possibility of the minimum wage hike policy being implemented. Our top pick: CPALL. Maintain OVERWEIGHT.

WHAT'S NEW

- **Less exciting consumption growth but still in a positive trend.** Although the retail sector's same-store-sales (SSS) growth momentum in 3Q23 was slower on a yoy basis compared with 1H23, most of the grocery and essential products like IT still showed flattish to positive SSS. The home-related modern trade was the weakest in the retail sector. Looking forward to 2H23, the Office of the National Economic and Social Development Council (NESDC) recently revised the 2023 GDP forecasts to 2.5-3.0% yoy (projection as of Aug 23) from 2.7-3.7% yoy (projection as of May 23), pressured by lower government spending and investment assumption in 2023. However, NESDC has revised up 2023's private consumption to 5.0% yoy from 3.7% yoy to reflect the better-than-expected consumption, and improvement in the labour market and non-agricultural segments.

- **Positive earnings growth led by COM7 and CPALL.** 3Q23's retail sector earnings are expected to continue to improve on a yoy basis, led by COM7 and CPALL. The key drivers will be from the positive 3Q23 SSS growth and gross profit margin improvement following better products mix and products margin. Although we expect Berri Jucker (BJC) and Home Product Center (HMPRO) to deliver higher yoy gross profit margin in 3Q23, these would be offset by higher SGA-to-sales and unexciting top-line growth momentum.

- **Updates on the new government.** The market expects the cabinet members to be finalised on 1 Sep 23 and the official policy statement will be announced in parliament on 8 Sep 23. The first cabinet meeting will be held on 12 Sep 23. Based on the latest news, the prime minister and minister of Finance and Commerce will be from Pheu Thai party. Therefore, we expect Pheu Thai's economic policy will be the core theme including Bt10,000 digital wallets for everyone, and lower diesel and electricity prices.

- **Less policy overhang on the retail sector.** Not only benefitting from economic stimulus packages and lower electricity costs, the sector will also benefit from less pressure on the minimum wage hike policy as the Ministry of Labour is under Bhum Jai Thai party which does not have this policy. We look at Bt10,000 digital wallets in two ways: a) the best case is the application is allowed to be used in modern trade. However, given the limited use of the Bt10,000 digital wallet in a four-kilometer radius around the registered household, we expect less impact compared to the co-payment policy. We expect CP Axtra (CPAXT) to benefit in both scenarios via Makro wholesales.

OVERWEIGHT

(Maintained)

OUR TOP PICKS

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
CP ALL	CPALL TB	BUY	65.25	78.00

Source: UOB Kay Hian

ANALYST(S)

Kampon Akaravarinchai
+66 2659 8031
Kampon@uobkayhian.co.th

PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	EPS CAGR 2022-24F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Berli Jucker Pcl	BJC TB	BUY	33.75	43.00	27.4	3,832	27.0	23.7	21.3	12.6	1.7	1.1	2.5	4.5
COM7	COM7 TB	BUY	32.50	41.00	26.2	2,210	25.7	22.1	19.7	14.3	1.4	8.3	2.7	42.1
CP All	CPALL TB	BUY	65.25	78.00	19.5	16,605	44.2	35.2	29.2	23.1	1.4	5.3	1.4	5.6
Home Product Center	HMPRO TB	BUY	13.80	17.00	23.2	5,141	29.2	27.4	25.8	6.4	4.3	7.0	2.9	26.3
Sector						27,787	37.6	31.1	26.7			5.3	2.0	12.2

Source: UOB Kay Hian

ACTION

- **Maintain OVERWEIGHT.** We expect only short-term pressure from Bt10,000 digital wallets and also less impact compared with the co-payment policy. Although the short-term yoy consumption in 2H23 seems to slow down compared with 1H23, we expect a gradual recovery in consumer spending on the back of the easing of the political overhang, resumption of tourists, incoming stimulus packages, and government spending. Also, we expect lower pressure on the costs side. We like CPALL the most following its resilient earnings improvement and COM7 from benefitting from the new iPhone release.

3Q23 SAME-STORE-SALES GROWTH TREND

Company	Description	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	July	Aug
Home & Construction Material Sellers										
DOHOME	Home improvement and Construction material	40.6%	25.1%	12.6%	6.6%	-9.8%	-9.0%	-9.9%	-7-8%	-3-4%
ILM inc.elec	Furniture	18.2%	11.0%	13.4%	34.3%	4.3%	9.3%	9.1%	4.9%	> July
HMPRO	Home improvement	11.0%	4.0%	-1.0%	16.5%	2.9%	5.8%	4.9%	-2.5%	flat
Mega Home			8.6%	-4.8%	6.0%	flat	-1.0%	-2.0%	+7-8%	flat
Malaysia			-11.0%	66.0%	100.0%	12.0%	7.0%	-11.0%	-2.5%	-11-12%
Retailers & Wholesalers										
MAKRO	Wholesalers	4.1%	1.0%	7.4%	8.9%	8.0%	10.8%	6.0%	+3-4%	+4-5%
Lotus	Hypermarket and Convenience store	-5.5%	-1.3%	-2.1%	-0.6%	2.5%	0.5%	-0.9%	flat	flat
CPALL	Convenience Store	1.3%	13.0%	14.2%	22.1%	15.0%	8.0%	7.9%	+2-3%	+2-3%
BJC exc B2B	Hypermarket, Convenience store and Manufacturer	-1.5%	2.8%	4.4%	-0.5%	6.1%	5.8%	4.8%	-1-2%	+1-2%

Source: Respective companies, UOB Kay Hian

- **What we know about Bt10,000 digital wallets so far.** 56m people nationwide with ages over 16 years are eligible for the Bt10,000 digital wallets which are expected to launch before the Songkran festival in mid-Apr 24 (the earliest will be in early-24). The key conditions are as follows: a) the area of usage is a four-kilometer radius around the person's registered household, and b) the entire Bt10,000 budget needs to used within six months.

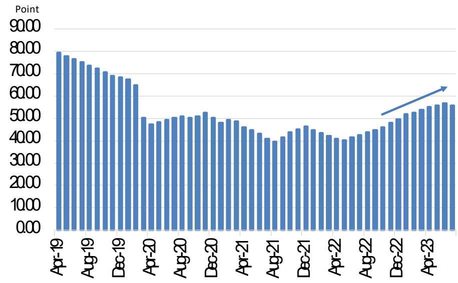
- **Digital wallet "a cause for concern but not a panic".** The Bt10,000 digital wallets could bring either a best or worst case screnario to the retail sector. The best case is if this policy is allowed to be used in modern trade companies as well as street vendors. Given the higher competitive advantages of modern trade players, we expect retail companies to benefit the most in this scenario following nationwide store coverage, pricing and promotion. The worst case is that the digital wallet is not allowed to be used in modern trade stores. We expect to see some impact on CPALL, BJC, and Lotus as consumers have a Bt10,000 digital wallet to spend on non-modern trade stores. However, we expect less impact to companies compared with the co-payment policy in the past given the limited coverage of four kilometers. For example, this will limit the daily usage of 50% of the population in Bangkok whose household registrations are not in Bangkok. We expect CPAXT to benefit in both scenarios via Makro wholesales which are suppliers to street food vendors and traditional trade.

- **Positive on long-term competition.** In the longer-term, we still need to see the success of this policy and the digital wallet. However, we expect a positive tone to modern trade players as the legalisation of local traditional trade shops in the tax system will lower the price competitiveness of traditional vendors.

- **All eyes on Apple's Wanderlust event.** Apple announced the yearly event to release its new iPhone product called Wanderlust this year. The event will be held on 12 Sep 23. We expect the brand-new iPhone to be available in Thailand within 1-2 weeks after the launch. The total number of days to sell the new iPhone model will be almost equal to last year. However, we expect better growth momentum this year following: a) less Apple supply chain hiccup from China's reopening, and b) supplier production diversification in India. These could lead to more available iPhone products, compared with the lack of iPhones in 4Q22. Currently, COM7 has 18% shares in the total domestic smartphone market, and we expect the company to continue to gain market share from traditional trade vendors.

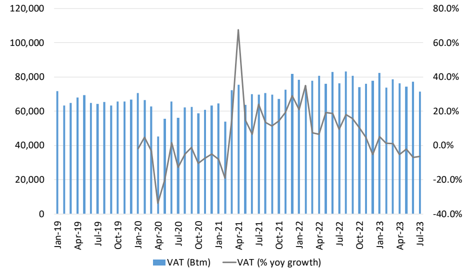
- **BRC listing to be postponed.** Big C Retail Corporation's (BRC, BJC's subsidiary company) top management said that the plan to list BRC in the stock exchange of Thailand (SET) will be postponed, citing uncertainties in the global and domestic equity market and economics. The news was released a few days after there was rumour on the dual-listing in Hong Kong

THAILAND CONSUMER CONFIDENCE INDEX (CCI)



Source: UTCC

THAILAND VAT VALUE AND GROWTH



Source: Ministry of Finance

% CHANGE OF THAILAND'S FT RATE

Bt/Unit	Jan - Apr 22	May - Aug 22	Sep - Dec 22	Avg. 2022
	3.78	4.03	4.72	4.18
FT rate	**Jan - Apr 23**	**May - Aug 23**	**Sep - Dec 23F**	**Avg. 2023F**
	5.33	4.70	4.25	4.76
% chg	41.0%	16.6%	-10.0%	14.0%

Source: UOB Kay Hian

IPHONE DAY SALES IN THAILAND

Release date	First day to sell in Thailand	Total day sales	iPhone edition
12-Sep-18	26-Oct-18	67	XR, XS, XS Max
11-Sep-19	18-Oct-19	75	11, 11 Pro, 11 Pro Max
13-Oct-20	27-Nov-20	35	12 Mini, 12, 12 Pro, 12 Pro Max
15-Sep-21	8-Oct-21	85	13 Mini, 13, 13 Pro, 13 Pro Max
7-Sep-22	16-Sep-22	107	14, 14 Plus, 14 Pro, 14 Pro Max
13-Sep-23	20-Sep-23F	103	14, 14 Plus, 14 Pro, 14 Pro Max or Ultra

Source: UOB Kay Hian

stock market. He also mentioned the fundraising concern given the current market conditions. Overall, we expect the key factor to be valuation and proceed amount given the limitation on stock valuation following the competition in the hypermarket segments. However, we still need to monitor its dual-listing plan given the cheaper PE valuation in the Hong Kong stock market, compared to SET.

- **Short-term overhang on BJC.** Although we expect BJC's 2H23 yoy earnings growth momentum to be stronger compared with 1H23, we expect short-term negative sentiment on BJC due to the delay in BRC's listing. The positive factors including value unlocking and organisation restructuring will be delayed. Therefore, there will be an unclear business expansion plan in the short term.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://research.uobkayhian.com

RCB Regn. No. 197000447W