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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33666.3	0.3	(1.2)	(2.6)	1.6
S&P 500	4299.7	0.6	(0.7)	(3.0)	12.0
FTSE 100	7601.9	0.1	(1.0)	3.6	2.0
AS30	7222.5	(0.1)	(0.6)	(1.9)	0.0
CSI 300	3689.5	(0.3)	0.5	(2.7)	(4.7)
FSSTI	3207.0	0.2	0.1	(0.5)	(1.4)
HSCEI	5990.6	(1.3)	(1.8)	(6.2)	(10.7)
HSI	17373.0	(1.4)	(1.6)	(6.0)	(12.2)
JCI	6937.8	0.2	(1.1)	0.2	1.3
KLCI	1440.1	(0.4)	(0.8)	(0.3)	(3.7)
KOSPI	2465.1	0.1	(3.7)	(3.1)	10.2
Nikkei 225	31872.5	(1.5)	(2.1)	(1.1)	22.1
SET	1482.1	(1.0)	(2.1)	(5.5)	(11.2)
TWSE	16353.7	0.3	0.2	(1.6)	15.7
BDI	1716	(2.1)	9.4	58.9	13.3
CPO (RM/mt)	3644	(0.9)	0.4	(4.2)	(10.0)
Brent Crude (US\$/bbl)	95	(1.5)	2.0	12.7	10.7

Source: Bloomberg

TOP PICKS

Ticker	CP (Icy)	TP (Icy)	Pot. +/- (%)	
BUY				
BYD	1211 HK	235.00	590.00	151.1
China Duty Free	601888 CH	105.97	138.00	30.2
Bank Neo Commerce	BBYB IJ	308.00	390.00	26.6
Bumi Serpong	BSDE IJ	1,025.00	1,420.00	38.5
HM Sampoerna	HMSP IJ	865.00	1,300.00	50.3
My EG Services	MYEG MK	0.78	1.18	51.3
Yinson	YNS MK	2.52	4.05	60.7
OCBC	OCBC SP	12.80	18.22	42.3
CP ALL	CPALL TB	60.00	78.00	30.0
Inorama	IVL TB	25.75	37.00	43.7

KEY ASSUMPTIONS

GDP (% yoy)	2022	2023F	2024F
US	2.1	2.0	1.0
Euro Zone	3.5	0.5	0.8
Japan	1.0	1.5	1.0
Singapore	3.6	0.7	3.0
Malaysia	8.7	4.0	4.6
Thailand	2.6	3.1	3.5
Indonesia	5.4	5.1	5.2
Hong Kong	-3.5	4.6	3.0
China	3.0	5.0	4.6
CPO (RM/mt)	5,088	4,000	4,200
Brent (Average) (US\$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct
Post 3Q2023 Results Virtual Meeting with Keppel Pacific Oak US REIT (KORE:SP)	Singapore	19 Oct	19 Oct

SECTOR UPDATE

Automobile – China

Weekly: China's PEV Sales Growth Accelerates To 40% During 18-24 Sep 23

China's PEV retail sales growth accelerated to 40% yoy in the third week of September, driven by seasonality and stimulus measures. CPCA estimates Sep 23 PEV sales at 750,000 units (+22.7% yoy/+7.4% mom), in line with expectations. The top EV companies in China jointly saw 7% mom and 17% wow growth in insurance registrations. BYD's insurance registrations grew 19.8% mom/20.7% wow to 64,700 units during 18-24 Sep 23, hitting a record high. Maintain UNDERWEIGHT. Top picks: BYD, CATL and Li Auto.

WHAT'S NEW

- China's PEV retail sales growth accelerated to 40% in the third week of September with market share reaching a record high of 43%. According to China Passenger Car Association (CPCA), China's retail sales volume and wholesale shipment of passenger vehicles (PV) grew 19%/21% yoy and 14%/19% mom to 452,000/534,000 units respectively during 18-24 Sep 23, mainly driven by passenger electric vehicle (PEV) sales. PEV retail sales volume and wholesale shipment spiked by 40%/76% yoy and 16%/20% mom to 195,000/249,000 units during 18-24 Sep 23, and PEV market share reached a record-high 43.1%/46.6% in retail sales and wholesale shipments respectively during the period. On a weekly basis, the third week of September saw a 38%/40% wow surge in retail sales volume and wholesale shipments of PEVs. The spike in PEV sales last week was due to seasonality and stimulus measures kicking in in more cities and provinces such as Shenzhen.
- Top EV companies in China jointly saw 7% mom and 17% wow growth in insurance registrations in the third week of September. Among these 14 EV companies, eight recorded mom growth in insurance registrations (which is a proxy to retail sales volume). The six companies that registered mom retail sales declines were Tesla, Aion, Changan, NIO, Zeekr and Neta. Since the week ending 17 Sep 23, this was the second week that Tesla has seen a drop in insurance registrations. This was due to the generation transition of Model 3. Tesla's sales will probably recover from October once the deliveries of the revamped Model 3 commence.

BYD remained the biggest EV manufacturer in China with insurance registrations growing 19.3% mom/20.7% wow to 61,700 units during 18-24 Sep 23. Together with Denza, BYD's insurance registrations grew 19.8% mom/20.7% wow to 64,700 units during 18-24 Sep 23, hitting a record high. We keep our estimates on BYD's 2023-25 sales at 3m units/4m units/5.2m units, including 250,000 units/0.5m units/1m units of overseas sales.

PEER COMPARISON

Company	Ticker	Rec	Price @ 27 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (US\$m)	PE				P/B		ROE (%)	Net Gearing (Cash) (%)
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)		
BYD	1211 HK	BUY	235.00	590.00	151.1	87,239	26.1	16.5	4.7	3.8	19.6	(26.7)		
Geely Automobile	175 HK	SELL	9.07	6.50	(28.3)	11,609	21.5	18.0	1.1	1.0	5.0	(26.9)		
Great Wall Motors	2333 HK	SELL	9.22	5.20	(43.6)	10,324	20.3	20.5	1.1	1.0	5.3	(7.7)		
Guangzhou Auto	2238 HK	SELL	3.72	3.20	(14.0)	4,936	7.6	9.2	0.3	0.3	4.1	(14.9)		
Li Auto Inc	2015 HK	BUY	133.50	312.00	133.7	35,555	29.1	17.3	4.7	3.7	17.7	(103.0)		
XPeng	9868 HK	SELL	64.55	18.00	(72.1)	15,242	Loss	Loss	4.2	6.3	(43.3)	(58.3)		
Weichai Power	2338 HK	BUY	10.54	16.00	51.8	11,634	9.9	8.5	1.6	1.4	11.0	(51.1)		
Fuyao Glass	3606 HK	BUY	35.70	42.00	17.6	11,903	17.1	14.7	2.8	2.6	16.6	(18.3)		
Desay SV	002920 CH	HOLD	143.64	135.00	(6.0)	10,915	54.5	41.3	10.4	8.7	20.8	0.5		
Nexteer	1316 HK	SELL	4.18	2.70	(35.4)	1,340	12.7	13.8	0.7	0.6	5.4	(10.1)		
Minth	425 HK	BUY	20.05	33.00	64.6	2,976	10.8	9.0	1.2	1.1	11.0	17.9		
Ningbo Xusheng	603305 CH	BUY	23.49	36.00	53.3	2,143	25.3	20.3	3.4	3.0	16.9	(9.9)		
CATL	300750 CH	BUY	203.03	410.00	101.9	67,667	21.0	13.6	4.4	3.5	21.9	(46.1)		
EVE Energy	300014 CH	BUY	45.12	92.00	103.9	12,596	20.3	15.0	2.7	2.3	10.5	37.2		
Ganfeng Lithium	1772 HK	HOLD	31.55	33.00	4.6	8,122	6.2	8.2	1.1	1.0	14.8	6.5		
GEM	002340 CH	SELL	6.09	4.00	(34.3)	4,245	64.8	75.5	1.7	1.6	2.6	53.0		
Tinci Materials	002709 CH	SELL	27.03	20.00	(26.0)	7,071	19.4	22.1	4.4	4.1	21.9	2.3		
Zhongsheng Group	881 HK	SELL	20.60	14.00	(32.0)	6,347	7.9	8.9	0.9	0.9	13.0	38.8		
Yadea Group	1585 HK	BUY	14.32	20.00	39.7	5,480	15.5	13.2	4.9	4.0	34.7	(139.1)		

Source: Bloomberg, UOB Kay Hian

UNDERWEIGHT

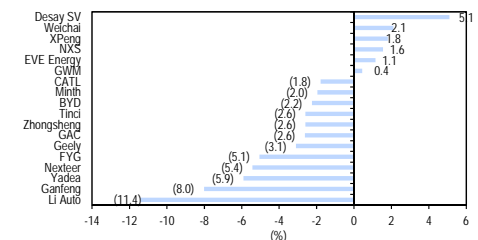
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TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	BUY	235.00	590.00
Li Auto	2015 HK	BUY	133.50	312.00
CATL	300750 CH	BUY	203.03	410.00

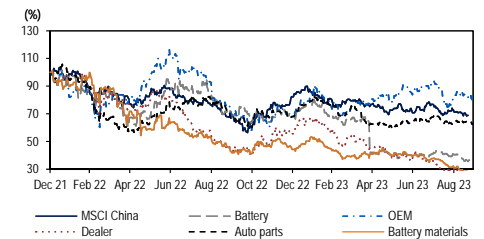
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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Li Auto's insurance registrations remained at a record high of 9,100 units during 18-24 Sep 23, up 18.2% mom, due to increasing capacity and an implicit 2-3% price cut via insurance subsidies. Recently, Li Auto has started to offer Rmb10,000 in insurance subsidies for customers. We believe the modest discount would be mitigated by the growth in volume. The debut of the competing extended range electric vehicle (EREV) M7 by Huawei-backed Aito did not impact sales of Li Auto. We maintain our estimates on Li Auto's 2023-25 sales at 350,000 units/580,000 units/840,000 units respectively.

XPeng's insurance registration also remained flat wow at 3,600 units during 18-24 Sep 23, due to the ramp-up of G6's sales and a price cut. XPeng is offering a 7-11% discount for its new model P7i. Additionally, XPeng will launch the new G9 at Rmb263,900-359,900, 13-19% below the prices of the existing G9, by end-23. XPeng's gross margin had already turned negative in 2Q23, and the substantial price cuts will further squeeze its margins.

- **CPCA estimates September PEV retail sales at 750,000 units (+22.7% yoy/+7.4% mom), in line with expectation.** CPCA estimates September total PV retail sales at 1.98m units (+3% yoy/+3.1% mom), of which 750,000 units are passenger electric vehicles (PEVs) and 1.23m units are ICE-cars (-6.3% yoy/+0.7% mom). Based on CPCA's estimates, China's PV retail sales reached 15.202m units (+2.2% yoy) in 9M23, including 5.177m units of PEVs (+33.8% yoy) and 10.025m units of ICE-cars (-9% yoy).
- **We keep our estimates on China's 2023 PV sales and passenger EV sales at 23.8m (+1% yoy) and 8.5m (+30% yoy) units respectively, implying 36% EV penetration.** We expect China's EV sales to be driven by the country's supportive policies, plug-in hybrid electric vehicles (PHEV) continuously taking market share from ICE-cars, and burgeoning exports. Shenzhen, for example, has given out Rmb10,000/vehicle in EV purchase subsidies effective from this week to the year's end. We project China's 2023 passenger EV wholesale shipment at 8.5m units, comprising 7.5m units in domestic sales and 1.0m units in exports.
- The South China International Auto Show will be held from 29 Sep 23 to 2 Oct 23. A few dozen new car models will be showcased at the auto show, including BYD Seal DM-i, GAC Hyper GT, an all-new Accord, Arcfox Koala, IM LS6, Voyah's new FREE, Dongfeng Honda's all-new M-NV, a South China version of Avalon, Aito's new M7, HiPhi Y, MG Cyberster, Haval Menglong, Neta S 2024, Zeekr 001 FR, and more.

ACTIONS

- **Maintain UNDERWEIGHT on China's automobile sector, with a preference for the EV segment.** Based on the expected decline in China's ICE-car sales and the intensifying price war in the ICE-car market, we maintain UNDERWEIGHT on China's automobile sector. However, based on the expected faster EV sales CAGR of 30% in 2023-25, we still like the EV segment. Given the declines in battery material prices due to increasing supply, we prefer the leading midstream and downstream EV plays with strong capabilities in cost control.
- **Our top BUYs include BYD (1211 HK/BUY/Target: HK\$590.00), CATL (300750 CH/BUY/Target: Rmb390.00), and Li Auto (2015 HK/BUY/Target: HK\$312.00).** Our BUY calls are in the following order of preference: BYD, CATL, Li Auto, Yadea, Fuyao Glass, Minth, Ningbo Xusheng, EVE Energy, Weichai Power.
- **Maintain SELL on Geely (175 HK/SELL/Target: HK\$6.50), Great Wall Motor (2333 HK/SELL/Target: HK\$5.20), Guangzhou Auto (2238 HK/SELL/Target: HK\$3.20), Nexteer (1316 HK/SELL/Target: HK\$2.70), GEM (002340 CH/SELL/Target: Rmb4.00), Tinci Materials (002709 CH/SELL/Target: Rmb20.00), and Zhongsheng (881 HK/SELL/Target: HK\$14.00).**
- **Upgrade Ganfeng Lithium (1772 HK/HOLD/Target: HK\$33.00) from SELL to HOLD on valuation, as its share price has hit our target price of HK\$33.00.**

UOBK'S FORECASTS ON CHINA AUTO SALES

(m units)	2022	2023F	yoy % chg
EV	6.9	9.0	30.9
- PV	6.5	8.5	30.0
- CV	0.3	0.5	48.4
ICE-car	20.0	18.6	(6.9)
- PV	17.0	15.3	(10.1)
- CV	3.0	3.3	11.4
Total auto	26.9	27.6	2.8
- PV	23.6	23.8	1.0
- CV	3.3	3.8	15.2
EVs' share (%)			
PV	27.8	35.7	8.0
CV	10.2	13.2	2.9
Overall	25.6	32.6	7.0

Source: CAAM, CPCA, UOB Kay Hian

ESTIMATED CHINA'S PV SALES (SEP 23)

	Sep 23	yoy % chg	mom % chg	9M23	yoy % chg
EV	750	22.7	7.4	5,177	33.8
ICE-car	1,230	(6.3)	0.7	10,025	(9.0)
Total	1,980	3.0	3.1	15,202	2.2
EV market share (%)	37.9	6.1	1.5	34.1	8.0

Source: CPCA

WEEKLY PV SALES VOLUME IN CHINA

('000 units)	--- Retail sales ---			-- Wholesale shipment --		
	Total	EV	ICE	Total	EV	ICE
<i>Daily avg sales</i>						
1-10 Sep 23	44	17	27	46	17	29
11-17 Sep 23	52	20	32	67	25	42
18-24 Sep 23	65	28	37	76	36	41
yoy % chg	19	40	7	21	76	(5)
mom % chg	14	16	12	19	20	18
wow % chg	24	38	15	14	43	(3)
<i>Sales volume</i>						
1-10 Sep 23	439	172	267	460	172	288
11-17 Sep 23	365	141	224	467	174	293
18-24 Sep 23	452	195	257	534	249	285
yoy % chg (%)	19	40	7	21	76	(5)
mom % chg (%)	14	16	12	19	20	18
1-24 Sep 23	1,256	508	748	1,461	595	866
yoy % chg (%)	13	33	3	17	40	5
mom % chg (%)	6	11	3	19	17	20

Source: CPCA

WEEKLY INSURANCE REGISTRATIONS BY BRAND

	14-20 Aug	4-10 Sep	11-17 Sep	mom % chg	wow % chg
BYD	45.9	51.1	61.7	19.3	20.7
Tesla	10.6	8.4	13.2	(21.9)	57.1
Aion	8.2	9.8	11.1	(11.2)	13.3
Li Auto	8.5	9.1	9.1	18.2	-
Wuling	7.5	8.0	8.5	9.0	6.3
VW	4.4	4.6	5.5	12.2	19.6
Changan	3.7	4.1	4.1	(4.7)	-
NIO	3.8	3.9	4.0	(20.0)	2.6
Leapmotor	2.7	3.4	4.0	29.0	17.6
Deepal	2.9	3.2	4.0	37.9	25.0
XPeng	2.5	3.6	3.6	9.1	-
Denza	2.5	2.5	3.0	30.4	20.0
Zeekr	1.8	2.4	2.9	(6.5)	20.8
Neta	1.7	2.0	1.5	(34.8)	(25.0)

Source: Dongchedi

BYD SEAL DM-I



Source: Sohu.com

IM LS6



Source: Sohu.com

HIPHI Y



Source: Sohu.com

AITO M7



Source: Sohu.com

GAC HYPER GT



Source: Sohu.com

ARCFOX KOALA



Source: Sohu.com

SPECIFICATIONS OF NEW EV MODELS

	BYD Seal DM-i 2023	Hyper GT 2023	Aito M7 2024	Arcfox Koala	IM LS6	Voyah New FREE	HiPhi Y
MSRP (Rmb'000)	166.8-236.8	219.9-339.9	249.8-379.8	131.8-169.8	230-300	266.9	339-459
Segment	B-segment	C-segment	C-segment	n.a.	C-segment	C-segment	C-segment
Type	Sedan	Sedan	SUV	MPV	SUV	SUV	SUV
Powertrain	PHEV	BEV	EREV	BEV	BEV	EREV	BEV
Length	4,980	4,886	5,020	4,500	4,904	4,905	4,938
Width	1,890	1,885	1,945	1,870	1,988	1,950	1,958
Height	1,495	1,449	1,760	1,655	1,669	1,645	1,658
Wheelbase	2,900	2,920	2,820	2,820	2,950	2,960	2,950
Acceleration 0-100km/h (s)	7.9-8.2	4.9-6.5	4.8-7.8	n.a.	n.a.	4.8	n.a.
CLTC electric-only range (km)	n.a.	560-710	200-240	500	n.a.	210	560-810
WLTC electric-only range (km)	100-160	n.a.	135-200	n.a.	n.a.	160	n.a.
WLTC all-in range (km)	1,300	n.a.	1,000-1,150	n.a.	n.a.	n.a.	n.a.
WLTC overall fuel economy (L/100km)	0.84-1.14	n.a.	0.85-1.09	n.a.	n.a.	0.81	n.a.
Power consumption (kWh/100km)	n.a.	11.9-12.9	n.a.	11.8	n.a.	n.a.	n.a.
Battery type	LFP	LFP/NCM	NCM	LFP	NCM	NCM	LFP/NCM
Battery capacity (kWh)	17.6-30.7	60-80	40	58.86	n.a.	39.2	76.6-115

Note: BEV, PHEV and EREV respectively stand for battery electric vehicle, plug-in hybrid electric vehicle and extended range electric vehicle.
Source: Autohom, UOB Kay Hian

SECTOR UPDATE

Baijiu – China

Weak Retail Growth Expectations; Be Selective; Top Pick: Moutai

Share prices of baijiu companies under our coverage have fallen by 4-9% since early-Sep 23 given the weak environment. We expect mild retail sales growth for baijiu, with low-end to mid-range products (Rmb80-300) recovering faster than sub-premium (Rmb300-800) and the “thousand yuan” products. Moutai remains our top pick given its highest earnings visibility, while other names face intensified competition in the sub-premium category and firm-specific inventory destocking. Maintain OVERWEIGHT on the sector.

WHAT'S NEW

- **Modest demand expectations for upcoming holiday.** According to a survey by China Chain-Store & Franchise Association (CCFA), 47 out of 59 supermarkets (80% of the total) expect alcohol beverages, including baijiu, beer, and red wine, to record positive sales growth during the “Double Festival”. However, the magnitude will be modest, with 38 supermarkets (64% of the total) expecting sales to only rise by 5-10% yoy, while only nine supermarkets (15% of the total) expect higher growths at >10% yoy.
- **Wholesale price trend fell ahead of holidays**, unlike previous years, which reflected the overall weak consumer sentiment. A survey from Jiushuo indicated that only 31% of the distributors saw a rise in baijiu wholesale prices ahead of the Golden Week, while the high-end baijiu only recorded minor price hikes. During the week before the Mid-Autumn Festival, the average wholesale price of Feitian Moutai (2023) boxed/unboxed declined Rmb2/Rmb11 w/w to Rmb2,999/Rmb2,749 per bottle, respectively. The average wholesale price for Puwu stayed stable w/w at Rmb960/bottle. Positively, average wholesale price of Qinghua 20/Qinghua 30 rose Rmb6/Rmb16 w/w to Rmb367/Rmb799 per bottle, respectively, reflecting distributors' more optimistic expectations of demand for gifting and banquets.
- **Multiple marketing activities launched ahead of holidays.** Moutai has launched a series of online and offline events (such as tasting events) and also increased available sales volume for non-Moutai series products. In recent months, Moutai launched the Mid-Autumn Festival gift boxes, Moutai Latte (in collaboration with Luckin Coffee) and Mao Xiaoling liquor-filled chocolate (in collaboration with Dove), with the aim of attracting the younger consumer groups. Wuliangye plans to distribute over Rmb50m worth of gifts during the 2023 Mid-Autumn Festival Gala hosted by China Central Radio and Television. On 16 Sep 23, Wuliangye launched the liquor-filled Mooncake in collaboration with the popular reality show “Chinese Restaurant Season 7” that has been broadcasted since Jul 23.

PEER COMPARISON

Company	Ticker	Rec	Price @ 28 Sep 23 (Rmb)	Target Price (Rmb)	Upside/(Downside) to TP (%)	Market Cap (US\$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE 2023F (%)	Div. yield 2023F (%)
Moutai	600519 CH	BUY	1,798.55	2,520.00	40.1	309,328.4	30.9	26.5	9.5	7.9	19.6	17.0	33.6	1.7
Wuliangye	000858 CH	BUY	156.10	231.40	48.2	82,957.1	19.9	16.9	4.7	4.0	12.7	10.8	25.0	2.5
Fenjiu	600809 CH	BUY	239.50	345.00	44.1	40,002.9	28.4	22.7	10.3	7.9	20.5	16.2	41.3	1.4

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Rmb)	Target Price (Rmb)
Moutai	600519 CH	BUY	1,798.55	2,520.00
Wuliangye	000858 CH	BUY	156.10	231.40
Fenjiu	600809 CH	BUY	239.50	345.00

Source: UOB Kay Hian

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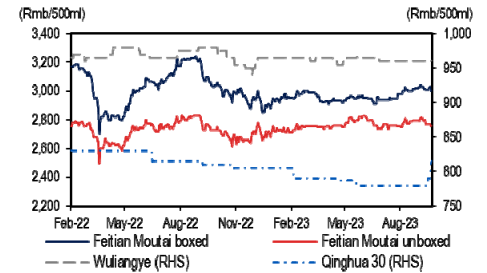
ESSENTIALS

• **Offline retail demand weaker than expected; promotions resulted in strong online sales.** During JD's 9.19 Promotion Day, transaction value of baijiu category rose 180% yoy. Of this, Moutai and Wuliangye's transaction values surged 180% and 200% yoy respectively. However, in offline retail channels, some specialty stores primarily selling products priced around Rmb1,000 recorded a marginal sales improvement compared with last year's Mid-Autumn Festival season, according to Hongxingzibenju. In a survey by Jiushuo, 45% of the dealers expect products priced between Rmb80-300 to be the key contributor to sales during the holidays, as these can be purchased for gifting and banquet entertainment, while there is some demand for products priced Rmb300-600 from the higher-end business banquets and gifting needs.

ACTION

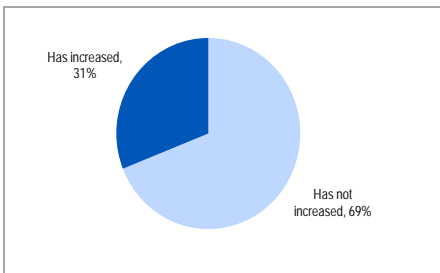
• **Maintain OVERWEIGHT on the sector.** The capital market's overall expectation for baijiu demand during the holiday season has weakened. Channel inventory destocking has been the main priority for some baijiu companies (eg Wuliangye) and we expect the destocking to continue into 4Q23 with the weak consumption sentiment. Hence, we are selective on the sector and prefer companies with strong earnings visibility and solid growth from the companies' expansion plans. Our pecking order is Moutai > Fenjiu > Wuliangye.

BAIJIU WHOLESALE PRICES



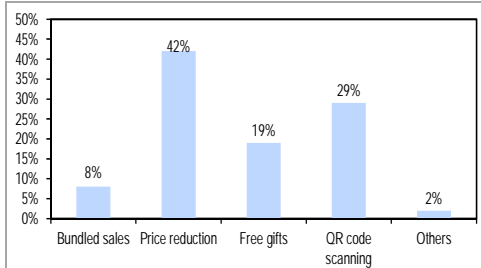
Source: Jinri Jiujiu, UOB Kay Hian

HAVE BAIJIU PRICES INCREASED AHEAD OF THE "DOUBLE FESTIVAL"?



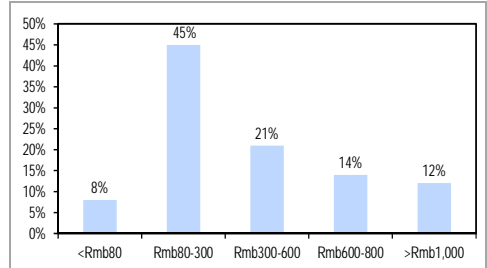
Source: Jiushuo, UOB Kay Hian

WHICH PROMOTION METHODS ARE MORE POPULAR AMONG CONSUMERS DURING THE "DOUBLE FESTIVAL" PERIOD?



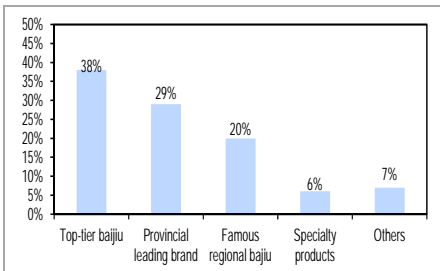
Source: Jiushuo, UOB Kay Hian

WHICH PRICE BAND IS HIGHER IN DEMAND DURING THE "DOUBLE FESTIVAL" PERIOD?



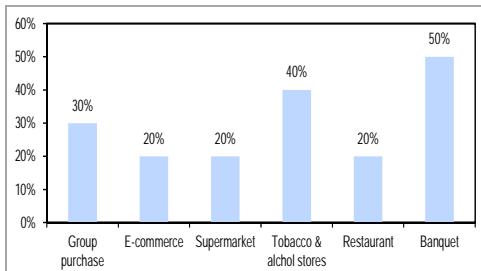
Source: Jiushuo, UOB Kay Hian

WHICH TYPE OF BAIJIU IS MORE POPULAR AMONG CONSUMERS DURING THE "DOUBLE FESTIVAL" PERIOD?



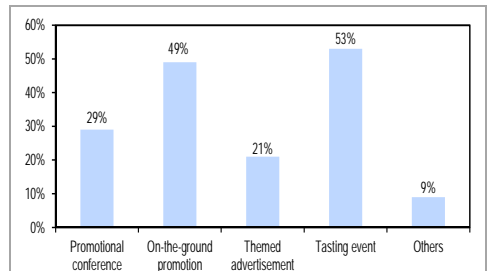
Source: Jiushuo, UOB Kay Hian

WHICH CHANNELS HAVE GREATER BAIJIU DEMAND DURING THE "DOUBLE FESTIVAL" PERIOD?



Source: Jiushuo, UOB Kay Hian

WHICH PROMOTION TYPE IS MORE EFFECTIVE DURING THE "DOUBLE FESTIVAL" PERIOD?



Source: Jiushuo, UOB Kay Hian

SECTOR UPDATE

Telecommunications – Indonesia

Fixed Broadband Remains Attractive Despite Starlink's Potential Entry

Although Starlink, a satellite internet provider, might aim to operate directly as a business-to-consumer (B2C) player in Indonesia, we think the potential impact to the telco sector is still relatively minor for now. This considers our observation that the prices of certain Indihome and XL Satu Fiber products are still way more attractive (52-65% cheaper) than Starlink's standard plan prices for two other Southeast Asian countries. Maintain OVERWEIGHT on the sector with ISAT and TOWR as our top picks.

WHAT'S NEW

- **Starlink reportedly expressed interest in entering Indonesia's telco industry.** According to Antara news (20 Sep 23), Communication and Informatics Ministry (Kominfo) said Starlink showed an interest to develop its business and (directly) become one of the players in Indonesia's telecommunications (telco) industry. Thus, Kominfo requires Starlink to follow existing procedures regarding operational permit for telco service, as well as the Investment Ministry's (BKPM) regulations, despite Starlink's initial preference to operate as an over-the-top (OTT) player.
- **Telcos' partnership with Starlink.** PT Telkom Satelit Indonesia (Telkomsat) already promoted one of its low-Earth-orbit (LEO) satellite communication service (using Starlink's satellite), named VSAT Star, in an industry exhibition (Jul 23). Telkomsat is fully owned by Telkom Indonesia (TLKM). Smartfren (FREN) collaborates with Telkomsat to enhance FREN's products for enterprises, while Indosat Ooredoo Hutchinson (ISAT) and XL Axiata (EXCL) are also open to cooperate with Starlink, based on recent news reports (Sep 23). Satellite, very small aperture terminal (VSAT) and other services are part of TLKM's wholesale and international business (WIB) segment. 1H23 WIB segment revenue contributed 11% to TLKM's 1H23 revenue (excluding inter-segment revenues).
- **Local telcos' fixed broadband might remain more attractive** compared with Starlink for areas with available fixed connectivity network. We observed that TLKM's Indihome Paket Jitu Satu product and XL Satu Fiber's product (unlimited internet and 8GB quota for two phone numbers) are still cheaper (52-59% for Indihome and 65% for XL Satu) than the average Starlink's standard plan price of Rp731,000 in Malaysia and the Philippines (excluding Starlink's hardware cost of about Rp7mn). We think the actual impact would depend on the regulation's implementation and actual pricing of Starlink's products, among other factors.

ACTION

- **Maintain OVERWEIGHT.** We continue to like the telco sector given more rational data pricing, rising smartphone adoption, and telco companies benefitting from economic recovery.
- **Our top picks: Indosat (ISAT IJ/BUY/Target: Rp10,400) and...** This is on the back of: a) ISAT's ability to increase its market share, b) its strong earnings growth prospects in 2023 and 2024, and c) good balance sheet quality. ISAT trades at 5.0x EV/EBITDA (average EBITDA in 2023-24), implying around 4% discount to +1SD.

PEER COMPARISON

Company	Ticker	Rec	Price 27 Sep 23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US\$m)	3M Avg Turnover (US\$m)	PE 2023F (x)	2024F (x)	EV/EBITDA 2023F (x)	2024F (x)	ROE 2023F (%)	2024F (%)	Net Gearing (%)
Telkom Indonesia*	TLKM	BUY	3,720	4,700	26.3	23,744	22.6	14.5	14.2	6.4	6.2	18.9	18.5	15.6
XL Axiata	EXCL	BUY	2,360	2,500	5.9	1,996	3.4	38.1	42.6	4.1	3.9	4.0	4.2	9.6
Indosat	ISAT	BUY	9,675	10,400	7.5	5,026	2.3	78.3	62.0	5.3	4.9	6.2	5.2	28.4
Sarana Menara Nusantara	TOWR	BUY	960	1,200	25.0	3,156	1.7	13.0	13.9	9.5	9.0	20.8	19.2	273.2

Source: Bloomberg, UOB Kay Hian

*) EV/EBITDA is adjusted to ownership in Telkomsel.

OVERWEIGHT

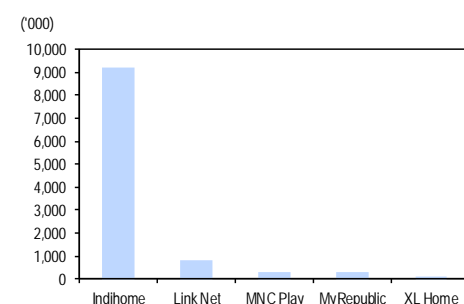
(Maintained)

SECTOR PICKS

Ticker	Rec	Price 27-Sep-23 (Rp)	Target Price (Rp)	Potential Upside (%)
Indosat	ISAT IJ	9,675	10,400	7.5
Sarana Menara Nusantara	TOWR IJ	960	1,200	25.0

Source: UOB Kay Hian

FIXED BROADBAND: SUBSCRIBERS



Source: Respective companies, Kantan, UOB Kay Hian

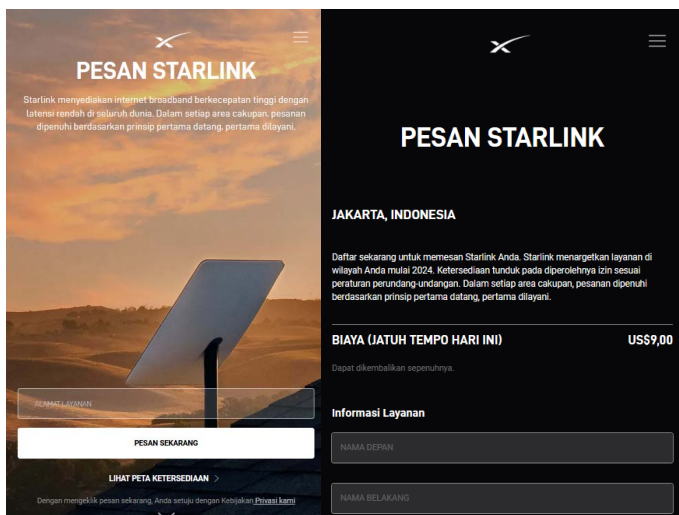
ANALYST(S)

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• **...Sarana Menara Nusantara (TOWR IJ/BUY/Target: Rp1,200)**, considering several factors: a) 2023/24 fibre to the tower (FTTT) and connectivity revenue surging 29%/24%, b) potentially higher demand for fibre optic services, c) revenue contribution from big telcos rising to 76% in 1H23 vs 58% in 2021, implying better quality in tenancies, and d) 2024 core profit growth recovering to +4% yoy (2023: -7% yoy). TOWR trades at 2023/24 EV/EBITDA of 9.5/9.0x, 5/10% cheaper than its historical average.

• **Starlink allowed to support TLKM's network.** Starlink is a LEO satellite constellation providing broadband access. Starlink is owned by Space Exploration Technologies Corp (SpaceX), a provider of launch service founded by Elon Musk. In Jun 22, Kominfo gave the anchoring right (Hak Labuh) of Starlink's satellite to PT Telkom Satelit Indonesia (Telkomsat) as a licence for Telkomsat to give services on intermediary networks. This right only applies for a closed fixed network operation, not for direct internet access services for retail customers. TLKM commented that broadband satellites service with a more affordable price is needed to fulfil the need for broadband in rural areas, while fixed and mobile broadband could cover urban, suburban, and a small number of rural areas.

STARLINK'S WEBSITE IS AVAILABLE IN BAHASA INDONESIA



Source: Starlink (Sep 23)

• **Fixed broadband pricing comparison: Starlink vs local telcos.** Based on our observation, the average service cost of Starlink's standard plan in two Southeast Asian countries (Malaysia and the Philippines) is Rp731,000 per month. This is higher than the following local telcos' products with fixed broadband access: a) Indihome's Paket Jitu Satu (up to 50Mbps) priced at Rp299,000 to Rp350,000/month with Rp150,000 installation cost (discounted), b) XL Satu Fiber (30-50Mbps) priced at Rp259,000/month with unlimited internet, 8GB quota for two phone numbers, and free installation cost.

STARLINK'S STANDARD PLAN IN SEVERAL COUNTRIES

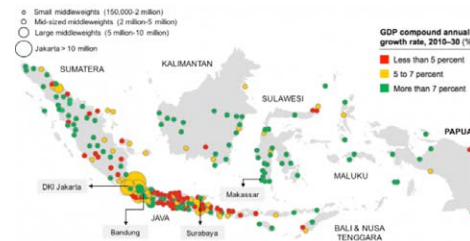
Country	Area	Est. Availability for the Area (According to Starlink)	First Order's Total Cost*			Monthly Service Cost			Hardware Cost	Deposit
			(In Rupiah)	(In USD)	(In Rupiah)	(In USD)	(In Rupiah)	(In USD)		
Malaysia	Kuala Lumpur	Immediately	MYR 2,300	Rp7,581,988	\$489	MYR 220	Rp725,234	\$47	MYR 2,300	-
Philippines	Manila	2023	MYR 28,000	Rp7,633,770	\$492	PHP 2,700	Rp736,114	\$47	PHP 28,000	PHP 2,700
Indonesia	Jakarta	2024 (subject to regulatory approval)	NA	NA	NA	NA	NA	NA	NA	\$9

* Calculated from hardware cost added with service cost for one month.
Source: Starlink, Bloomberg, UOB Kay Hian.

RISK

• **Downside risks include:** a) intensifying competition from existing and/or new players, b) worsening macroeconomic conditions, and c) additional costs.

INDONESIA'S POPULATION DENSITY VARIES BETWEEN REGIONS, WHICH MIGHT PARTLY CAUSE UNEVEN NETWORK ROLLOUT



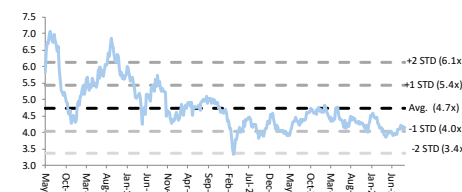
Source: Asia Green Real Estate, UOB Kay Hian

TLKM: EV/EBITDA BAND



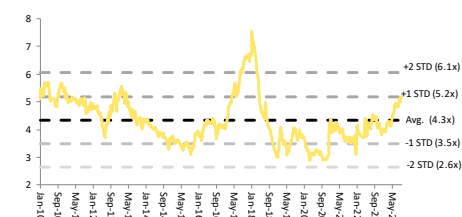
* Adjusted to ownership in Telkomsel
Source: TLKM, Bloomberg, UOB Kay Hian

EXCL: EV/EBITDA BAND



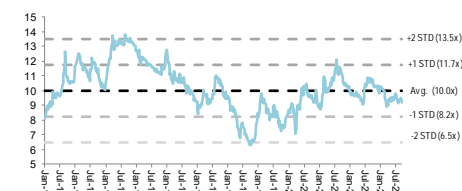
* Including financial lease.
Source: EXCL, Bloomberg, UOB Kay Hian

ISAT: EV/EBITDA BAND



* Including financial lease.
Source: EXCL, Bloomberg, UOB Kay Hian

TOWR: EV/EBITDA BAND



* Including financial lease.
Source: EXCL, Bloomberg, UOB Kay Hian

VALUATION

- **Indosat (ISAT IJ/BUY/Target: Rp10,400)**. Our target price is based on 5.2x EV/EBITDA applied to average 2023 and 2024 EBITDA, pegged to ISAT's historical +1SD EV/EBITDA.
- **Telkom Indonesia (TLKM IJ/BUY/Target: Rp4,700)**. We base our target price on 7.8x EV/EBITDA applied to TLKM's 2023 EBITDA (adjusted for ownership in Telkomsel).
- **XL Axiata (EXCL IJ/BUY/Target: Rp2,500)**. Our target price is derived by applying EV/EBITDA of 4x, lower than ISAT's (5x), to EXCL's 2023-24 average EBITDA.
- **Sarana Menara Nusantara (TOWR IJ/BUY/Target: Rp1,200)**. Our target price is based on 10.5x EV/EBITDA (slightly higher than TOWR's historical average; below Tower Bersama's valuation), applied to 2023-24 average EBITDA.

COMPANY RESULTS

Gamuda (GAM MK)

4QFY23: Record-high Earnings Again In FY23

Gamuda reported 4QFY23 core net profit of RM237.2m (+6.25 qoq, -9.6% yoy) which brought FY23 core net profit to RM799.5m (+11.5% yoy) on better earnings from the construction and property development divisions. We like the company for its superior earnings visibility backed by a robust orderbook coupled with progressive new property launches. Gamuda is also primed to benefit from the upcoming rollout of mega projects. Maintain BUY with a higher target price of RM5.64.

4QFY23 RESULTS

Year to 31 Jul (RMm)	4QFY23 (RMm)	qoq chg (%)	yoy chg (%)	FY23 (RMm)	yoy chg (%)
Revenue	3,416.8	65.3	84.2	8,233.6	68.0
Engineering & Construction	2,532.3	84.9	196.8	5,498.8	136.0
Property Dev & Club Operations	884.5	26.8	(11.7)	2,734.7	6.3
EBIT	344.5	35.2	46.1	912.8	43.8
Engineering & Construction	158.7	13.5	118.3	440.3	166.3
Property Dev & Club Operations	185.8	77.0	13.9	472.4	0.7
Water Concession	-	-	-	41.2	(49.3)
Others	0.0	(100.0)	100.0	(41.2)	49.3
Finance costs	(25.7)	(241.0)	(27.5)	(78.4)	9.5
Associates and joint ventures	24.6	(60.5)	(77.8)	233.2	(33.3)
PBT	343.3	10.9	5.3	1,067.6	18.9
Taxation and minority interests	(91.5)	(6.3)	(48.0)	(252.9)	(47.0)
PATAMI	251.7	12.7	(4.7)	814.7	12.3
Core PATAMI	237.2	6.2	(9.6)	799.5	11.5
Margin (%)	%	+ppt	+ppt	%	+ppt
EBIT	10.1	(2.2)	(2.6)	11.1	(1.9)
EBIT - Construction	6.3	(3.9)	(2.3)	8.0	0.9
EBIT - Prop Dev	21.0	6.0	4.7	17.3	(1.0)
Core PATAMI	6.9	(3.9)	(7.2)	9.7	(4.9)

Source: Gamuda Berhad, UOB Kay Hian

RESULTS

- **4QFY23 earnings within expectations.** Gamuda reported a commendable 4QFY23 core net profit of RM237.2m (+6.2 qoq, -9.6% yoy) on revenue of RM3.4b (+65.3% qoq, +84.2% yoy). Sequentially, FY23 core net profit of RM799.5m (+11.5% yoy) came in within expectations, making up 99% of our forecasts and 102% of consensus estimates. The qoq improvement mainly stemmed from better earnings from both the construction and property development divisions. However, the lower earnings yoy was due to lower results of associates and JVs as well as higher tax expenses.

KEY FINANCIALS

Year to 31 Jul (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	4,902	8,234	12,914	17,514	18,640
EBITDA	746	1,032	1,670	2,065	2,195
Operating profit	635	913	1,493	1,863	1,892
Net profit (rep./act.)	726	815	977	1,290	1,305
Net profit (adj.)	726	815	977	1,290	1,305
EPS (sen)	28.4	30.2	34.3	45.3	45.8
PE (x)	15.2	14.3	12.6	9.5	9.4
P/B (x)	1.1	1.1	1.1	1.0	0.9
EV/EBITDA (x)	19.5	14.1	8.7	7.0	6.6
Dividend yield (%)	2.8	2.8	2.8	2.8	2.8
Net margin (%)	14.8	9.9	7.6	7.4	7.0
Net debt/(cash) to equity (%)	20.1	24.4	26.8	25.3	16.7
Interest cover (x)	8.6	13.2	13.4	16.6	17.7
ROE (%)	7.6	8.0	9.1	11.2	10.5
Consensus net profit	-	-	901	986	927
UOBKH/Consensus (x)	-	-	1.08	1.31	1.41

Source: Gamuda Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.31
Target Price	RM5.64
Upside	+30.8%
(Previous TP)	RM5.14

COMPANY DESCRIPTION

Civil engineering construction with exposure in property development and water concessions.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	GAM MK
Shares issued (m):	2,696.5
Market cap (RMm):	11,621.9
Market cap (US\$m):	2,468.5
3-mth avg daily t'over (US\$m):	4.5

Price Performance (%)

52-week high/low	RM4.57/RM3.23			
1mth	3mth	6mth	1yr	YTD
(3.8)	(2.9)	3.4	23.2	14.9

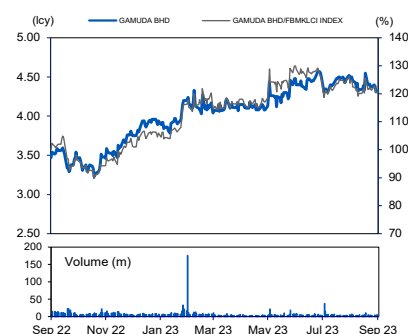
Major Shareholders

Employees Provident Fund	13.6
Skim Amanah Saham Bumiputera	12.0
Kumpulan Wang Persaraan	4.9

FY24 NAV/Share (RM) 3.87

FY24 Net Debt/Share (RM) 1.04

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Orderbook set to improve further going into FY24.** The construction and engineering division recorded a higher EBIT of RM158.7m (+13.5% qoq, +118.3% yoy) in 4QFY23, driven by the surge in overseas construction revenue by four-fold amid significant progress made for Sydney Metro West, Coffs Harbour and M1 projects in Australia. Gamuda's orderbook currently stands at RM20.6b as of end-4QFY23 which translates into a cover ratio of 2.5x. Note that a majority of the orderbook is contributed by projects in Australia (55%), followed by Malaysia (29%), Taiwan (9%) and Singapore (7%). In addition, the orderbook is set to improve further on the back of another A\$0.4b (around RM1.2b) ongoing contracts novation from DT Infrastructure's acquisition.
- Enormous replenishment opportunities ahead.** The group also anticipates ample replenishment opportunities ahead with around six large projects coming into fruition in the coming three to 15 months. Management targets to secure new jobs amounting to RM25b in FY24-25, averaging RM12.5b per annum. Of these, we believe the group stands a good chance in clinching new jobs from MRT3, Penang LRT and Australia's Suburban Rail Loop (SRL) Phase 2. The group also highlighted that the rollout of MRT3 has been delayed further, having seen the validity of tenders being extended to end-23 (from end-Sep 23) by the government. Nevertheless, it is optimistic that the project will eventually kick off once the cost and funding issues have been resolved.
- Property division to see QTP projects bearing fruit.** The property segment also posted a higher EBIT of RM185.8m (+77.0% qoq, 13.9% yoy) in 4QFY23, largely underpinned by strong contributions from both local and overseas projects. The group also achieved presales of RM4.1b in FY23, which are evenly split between domestic (52%) and overseas (48%) projects. Its quick turnaround projects (QTP) have also grown to about RM1b in FY23 (27% of presales) compared with virtually zero last year. For FY24, management has set a presales target of RM5.6b (+37% yoy from FY23) mainly driven by sales growth in overseas projects and QTPs.
- Meanwhile, its unbilled sales now stand at RM6.7b which suggests steady earnings in the next two to three years. Moving forward, the group is expecting the segment's revenue to double RM6b in FY24 (compared with RM2.7b in FY23) backed by the progressive recognition of unbilled sales. Note that it is expecting lumpy contributions from projects in Singapore, the UK and Australia as property revenue in these countries will only be booked in upon the completion of construction works.

EARNINGS REVISION/RISK

- Raise FY24/25 earnings by 14%/18% respectively,** upon raising a higher revenue growth for both construction and property divisions. We also introduce FY26 earnings.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher SOTP-based target price of RM5.64,** upon updating the latest net debt and raising earnings projections. Our target price implies 17x FY24F PE (+1SD to the five-year historical average). Gamuda stands to be the prime beneficiary of the upcoming mega infrastructure projects both locally and regionally. We also like the company for its superior earnings visibility backed by a robust orderbook coupled with progressive new property launches.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> - Commits to reduce greenhouse gas emission intensity by 30%/45% in 2025/30. Social <ul style="list-style-type: none"> - Well-diversified workforce in terms of gender: female (43%) and male (57%). Governance <ul style="list-style-type: none"> - Independent directors make up 57% of its board composition.

ORDERBOOK AS OF END-4Q23

Projects	Value Rmb	Progress %
Malaysia:		
Silicon Island Phase 1	3.7	0
Rasau WTP Phase 1	1.9	2
Pan Borneo Sarawak (65% share)	0.0	99
Second Trunk Road Sarawak	0.0	50
Residential building works	0.1	88
Data centre and others	0.2	n.m.
Australia:		
SMW-WTP	4.1	37
Coffs Harbour Bypass (50% share)	1.8	11
M1 Motorway (40% share)	1.1	4
DTI projects	4.4	various
Taiwan:		
Marine bridge (70% share)	0.1	84
Seawall reclamation (70% share)	0.2	65
Transmission line (50% share)	0.2	9
Marine bridge ext (70% share)	0.1	65
Tao Yuan underground (60% share)	1.3	0
Singapore:		
Bus depot	0.5	42
Defu station (60% share)	0.9	7
Total Orderbook	20.6	

Source: Gamuda, UOB Kay Hian

SEGMENTAL FORECAST

Revenue (Rmb)	FY24F	FY25F	FY26F
Engineering & Construction	7.82	11.49	13.21
Property Dev & Club Operations	5.09	6.02	5.43
Water Concession	0.00	0.00	0.00
Total	12.91	17.51	18.64
Operating Profit (Rmb)			
Engineering & Construction	0.72	0.95	0.88
Property Dev & Club Operations	0.73	0.87	0.97
Water Concession	0.04	0.04	0.04
Total	1.49	1.86	1.89

Source: Gamuda, UOB Kay Hian

SUM-OF-PARTS VALUATION

	RmM	Remarks
Construction	11,528	17x FY24 PE
Property (Malaysia)	5,458	30% discount to RNAV
Water concession	350	
Vietnam landbank	1,552	40% discount to RNAV
Proceeds from SPLASH	933	
Less Net Debt	(3,754)	
Total SOTP value	16,067	
Diluted no. of shares (m)	2,849	
Target Price (RM)	5.64	

Source: Gamuda, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (Rm)	2023	2024F	2025F	2026F
Net turnover	8,234	12,914	17,514	18,640
EBITDA	1,032	1,670	2,065	2,195
Deprec. & amort.	119	177	202	303
EBIT	913	1,493	1,863	1,892
Total other non-operating income	227	113	163	147
Associate contributions	6	6	6	7
Net interest income/(expense)	(78)	(124)	(124)	(124)
Pre-tax profit	1,068	1,487	1,908	1,921
Tax	(231)	(367)	(428)	(424)
Minorities	(22)	(143)	(189)	(192)
Net profit	815	977	1,290	1,305
Net profit (adj.)	815	977	1,290	1,305

CASH FLOW

Year to 31 Jul (Rm)	2023	2024F	2025F	2026F
Operating	32	223	576	1,511
Pre-tax profit	1,068	1,487	1,908	1,921
Tax	(231)	(367)	(428)	(424)
Deprec. & amort.	119	177	202	303
Associates	(6)	(6)	(6)	(7)
Working capital changes	(769)	(1,080)	(1,061)	(260)
Non-cash items	(233)	(119)	(169)	(153)
Other operating cashflows	84	131	131	131
Investing	(180)	(180)	(180)	(180)
Capex (growth)	(180)	(180)	(180)	(180)
Investments	(233)	(119)	(169)	(153)
Proceeds from sale of assets	0	0	0	0
Others	233	119	169	153
Financing	(402)	(466)	(466)	(466)
Dividend payments	(324)	(342)	(342)	(342)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	(78)	(124)	(124)	(124)
Net cash inflow (outflow)	(550)	(423)	(71)	865
Beginning cash & cash equivalent	1,985	1,435	1,012	942
Changes due to forex impact	810	810	810	809
Ending cash & cash equivalent	2,245	1,822	1,751	2,616

BALANCE SHEET

Year to 31 Jul (Rm)	2023	2024F	2025F	2026F
Fixed assets	1,013	1,013	1,373	2,064
Other LT assets	6,257	6,376	6,545	6,698
Cash/ST investment	2,245	1,822	1,751	2,616
Other current assets	12,869	16,275	19,237	19,674
Total assets	22,384	25,485	28,906	31,052
ST debt	1,535	1,535	1,535	1,535
Other current liabilities	6,465	8,788	11,071	11,630
LT debt	3,245	3,245	3,245	3,245
Other LT liabilities	432	432	432	432
Shareholders' equity	10,392	11,027	11,976	12,939
Minority interest	371	515	704	896
Total liabilities & equity	22,384	25,485	28,906	31,052

KEY METRICS

Year to 31 Jul (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	12.5	12.9	11.8	11.8
Pre-tax margin	13.0	11.5	10.9	10.3
Net margin	9.9	7.6	7.4	7.0
ROA	3.8	4.1	4.7	4.4
ROE	8.0	9.1	11.2	10.5
Growth				
Turnover	68.0	56.8	35.6	6.4
EBITDA	38.2	61.9	23.6	6.3
Pre-tax profit	18.9	39.3	28.2	0.7
Net profit	12.3	19.9	32.1	1.1
Net profit (adj.)	12.3	19.9	32.1	1.1
EPS	6.3	13.5	32.1	1.1
Leverage				
Debt to total capital	30.8	29.3	27.4	25.7
Debt to equity	46.0	43.3	39.9	36.9
Net debt/(cash) to equity	24.4	26.8	25.3	16.7
Interest cover (x)	13.2	13.4	16.6	17.7

COMPANY RESULTS

Sapura Energy (SAPE MK)

1HFY24: EBITDA Generation Not Yet Steady

SAPE's 1HFY24 core loss and EBITDA were on track. However, 2QFY24 performance was rather weak, plagued by further project slippages, although the profit margins can still be claimed back via any successful rescoping negotiations. While market rates for tender rigs are finally rising, SAPE's rig utilisation is not yet optimised (as one rig is warm stacked in 3QFY24). We retain forecasts, but advise not to peg oil price and rig rate sentiment on the stock. Retain HOLD and target price of RM0.04.

2QFY24 RESULTS

Year to 31 Jan (RMm)	2QFY24	qoq % chg	yoy % chg	Ytd FY24 (RMm)	yoy % chg	Comments
Revenue	1,143.2	20.1	(2.5)	2,094.9	1.7	
- E&C*	718.1	24.9	1.3	1,292.9	(0.3)	Higher percentage of completion
- O&M*	149.8	3.7	15.7	294.2	17.5	
- Drilling	321.4	9.1	(11.5)	616.0	3.5	Higher rig utilisation, but lower IRDC contract
PBT	64.5	(62.8)	155.9	237.9	95.0	1Q and 1HFY24 EBITDA: RM237m/ RM341m
- E&C	26.4	(63.0)	(54.9)	97.7	(8.3)	Lower qoq, likely reflecting project slippage risk
- O&M	(1.6)	5632.1	(103.6)	(1.6)	(102.3)	Higher costs for certain projects
- Drilling	5.7	568.0	(86.8)	6.5	(204.2)	Rig fleet dropped qoq from 11 to 10
Finance cost	(202.2)	9.3	Na	(387.3)	Na	
Associates	151.5	28.6	Na	269.3	(7.9)	E&P: RM62m/ RM106m for 2Q/1HFY24
Pre-tax profit	64.5	(62.8)	Na	237.9	Na	
Income tax	(27.0)	(8.8)	43.4	(56.5)	Na	
Reported profit	42.8	(70.7)	69.9	188.9	54.8	
Core profit	(91.7)	28.1	(57.7)	(163.2)	349.1	2Q/1HFY24 forex gains : RM134m/ RM352m

Source: Sapura Energy * E&C : Engineering and Construction; O&M: Operation and Maintenance; E&P: Exploration and Production

RESULTS

- 1HFY24 core loss, and EBITDA of RM341m are on track vs our/consensus forecasts.** Despite meeting 76%/ 69% of our/consensus' full-year loss forecasts, we still deem Sapura Energy's (SAPE) 1HFY24 results on track, in anticipation of a stronger rig utilisation towards 4Q. 2QFY24 PBT and EBITDA fell qoq however, which reflected the ongoing industry challenges: a) the high cost inflation that caused O&M to report a loss, b) E&C's lower PBT qoq may reflect further rescoping of several key contracts (which may be due to client changes) that will delay project completion, and c) higher finance costs.
- EBITDA must remain steady to generate RM4.75b funds to pay off debt.** This plan is from a combination of RM1.8b injection from a white knight (but the identity and the outcome are still unknown), an indicative RM2.3b sale of the upstream associate unit SapuraOMV, and continuous EBITDA RM250m p.a.. We note that SAPE benefitted from a RM208m repayment of shareholder advances (likely for a Brazil JV project), and this may be a one-off relief against the poor 2QFY24 EBITDA.

KEY FINANCIALS

Year to 31 Jan (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	4,100	4,551	4,017	4,145	4,272
EBITDA	(2,279)	642	707	754	801
Operating profit	(2,801)	93	47	142	108
Net profit (rep./act.)	(9,051)	(3,204)	(216)	(155)	(175)
Net profit (adj.)	(3,441)	(124)	(216)	(155)	(175)
EPS (sen)	(17.8)	(0.6)	(1.1)	(0.8)	(0.9)
PE (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/B (x)	12.5	(0.4)	(0.9)	(1.8)	(0.8)
EV/EBITDA (x)	n.m.	16.5	15.0	14.1	13.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(220.7)	(70.4)	(5.4)	(3.7)	(4.1)
Net debt/(cash) to equity (%)	11,698.2	(333.7)	(682.6)	(945.9)	(402.5)
Interest cover (x)	(4.5)	1.1	1.3	1.3	1.7
ROE (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Consensus net profit	-	-	(238)	(281)	(324)
UOBKH/Consensus (x)	-	-	0.91	0.55	0.54

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

HOLD

(Maintained)

Share Price	RM0.05
Target Price	RM0.04
Upside	-25.0%

COMPANY DESCRIPTION

Integrated engineering, procurement, construction, installation and commissioning (EPCIC) oil & gas player

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	SAPE MK
Shares issued (m):	15,979.1
Market cap (RMm):	878.8
Market cap (US\$m):	186.7
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

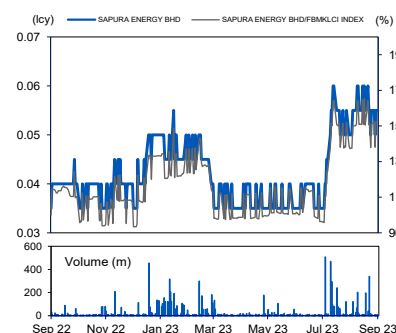
52-week high/low	RM0.060/RM0.035			
1mth	3mth	6mth	1yr	YTD
0.0	57.1	37.5	22.2	57.1

Major Shareholders

Skim Amanah Saham Bumiputera	36.0
STSB	12.5

FY24 NAV/Share (RM)	(0.06)
FY24 Net Debt/Share (RM)	0.40

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Won another RM1.4b new contracts, which boosted its orderbook to RM6.3b** (from RM5.8b qq). SAPE announced a sizeable US\$0.3b new E&C contract secured from Azure Energy for Angola, Africa. The E&C works are for the Quiluma and Maboqueiro platforms, and will last until end-FY26. Of its current orderbook, about RM4.1b are attributable to JV projects, and >60% of the mix is overseas.
- **Tender rig rates in the market finally catching up...** Peculiarly, the market charter rates for the tender rig segment (of which SAPE controls >50% of global market share), lagged far behind vs those of the jackup rigs and drillships, even though the rig industry has been facing an acute tightness for more than a year. This was until recently (after Jun 23), when tender rig rates suddenly spiked. A very recent tender rig contract awarded was for E-Drill's tender rig T-15 for PTTEP Thailand. At its contract value of US\$120m, this indicated a high dayrate of US\$110,000, even far exceeding Velesto Energy's average rig rates of US\$94,000 in 2Q23, and this gives hope for negotiations of future tender rig rates.
- **...but rig utilisation not yet 100%.** It appears SAPE has successfully disposed one rig (likely T-19), leaving behind a 10-rig fleet. However, reliable channel checks confirmed that tender-assist rig T-9 had been demobilised in Aug 23, and in mid-Sep 23 the rig had reached the Dermaga Barat West Wharf in the Kemmam Supply Base (KSB). T-9 may likely be unavailable for a few months as it undergoes rig stacking and maintenance. This means that only nine out of its 10 rigs will be utilised in 3QFY24.
- **Rescoping of E&C and O&M projects.** SAPE hinted that further project slippages from these projects had affected the 2QFY24 margins and increased the foreseeable losses (for E&C), which is also a similar trend reported by peers like MMHE and Seatrium. But if SAPE is successful at negotiating the rescope values, it is possible for E&C positive claims in future. One key E&C project that we highlighted before is the ONGC Central Processing Platform project, which was still in the Sapura yard as of recent months. ONGC's KG-98/2 field has had its first production date delayed multiple times to the current expectation of Oct 23.
- **Further extension of PN17 regularisation plan (by six months) to Nov 23.** Also, SAPE obtained an extension of the moratorium (by nine months) for the restraining orders to 10 Mar 24, which means the first court-convened meetings with the creditors is targeted for Oct 23. With these extensions, SAPE aims to finalise an agreement in principle with its financiers by end-23, and remains committed for the SapuraOMV divestment and securing the RM1.8b funding from a white knight. Meanwhile, SAPE continues to push forward its umbrella "Reset plans", and its national contribution for talent training and recruitment (ie programmes such as the Occupational Framework for O&G, and TVET).

EARNINGS REVISION/RISK

- **Retain forecasts of RM0.2b-0.3b losses, and EBITDA of RM0.7b.**

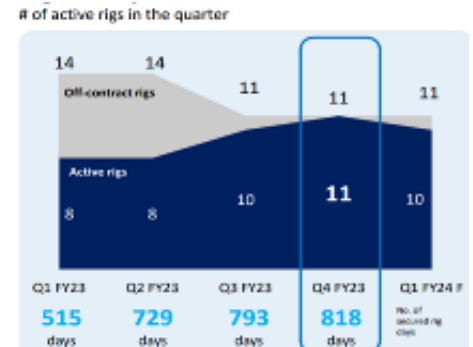
VALUATION/RECOMMENDATION

- **Retain HOLD, and diluted target price of RM0.04.** Even though the 2023 equity deteriorated substantially to loss of RM0.16/share, our valuation already assumes a successful scenario of the white knight entry and SapuraOMV sale, to raise proceeds of RM4b, of which an assumed RM2.3b is the minimum price for the SapuraOMV valuation.
- Having said, we note that share price had moved up further in tandem with the sector. We do not think that a high oil price sentiment (for 4Q23 horizon) and rising global O&G asset values/charter rig rates should be the main sentiments for SAPE's share price. Rather, it is more crucial for SAPE to generate high EBITDA levels for its reset plans (noting that 2QFY24 EBITDA is considered to be weak), complete the divestment and have a white knight's entry, which may be challenging in today's fragile global economy situation. Hence, conservative investors with a lower entry price may consider taking profit.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

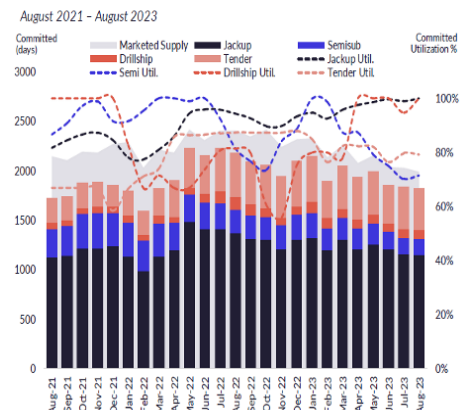
<ul style="list-style-type: none"> • Environmental - SAPE strives to report on its greenhouse gas emissions and reduction target.
<ul style="list-style-type: none"> • Social - Diversity. 28% of total staff are female; staff comprises 37 nationalities as of FY21.
<ul style="list-style-type: none"> • Governance - 55% of its board members are independent.

RIG UTILISATION TREND (AS OF 1QFY24)



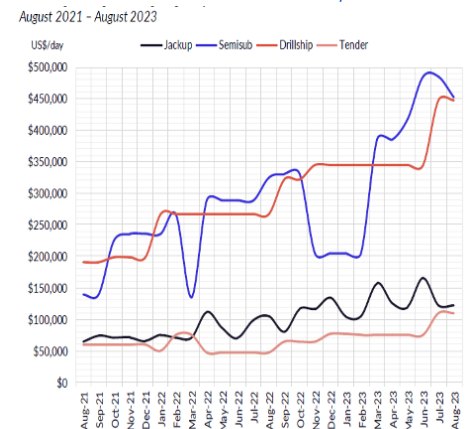
Source: Sapura Energy

RIG UTILISATION WORLDWIDE



Source: Westwood Global

TENDER RIG RATES VS OTHERS, SE ASIA



Source: Westwood Global

KEY TARGETS MOVING FORWARD

- Targeted asset deployments and bids
- >85% rig utilisation: Nine rigs secured in Southeast Asia (SEA), one in West Africa;
- Expand O&M positioning into SEA region
- E&C: Maintain Atlantic and SEA market share, expand decommissioning works
- E&C: >65% utilisation for key vessels S1200, S2000 and Constructor; >95% utilisation for six Brazilian JV vessels
- 70% of FY24 revenues are secured
- 0.8x book-to-bill ratio
- B.R.E.D: Bid Right, Execute, Discipline

Source: Sapura Energy

PROFIT & LOSS

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Net turnover	4,551	4,017	4,145	4,272
EBITDA	642	707	754	801
Deprec. & amort.	549	660	612	693
EBIT	93	47	142	108
Total other non-operating income	n.a.	0	0	0
Associate contributions	(39)	357	332	281
Net interest income/(expense)	(609)	(540)	(560)	(479)
Pre-tax profit	(3,149)	(137)	(85)	(90)
Tax	(72)	(97)	(88)	(103)
Minorities	18	18	18	18
Net profit	(3,204)	(216)	(155)	(175)
Net profit (adj.)	(124)	(216)	(155)	(175)

CASH FLOW

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Operating	389	19	138	868
Pre-tax profit	(3,149)	(137)	(85)	(90)
Tax	(62)	(97)	(88)	(103)
Deprec. & amort.	549	660	612	693
Working capital changes	(192)	(591)	(528)	170
Other operating cashflows	3,243	183	228	198
Investing	143	1,952	1,752	752
Capex (growth)	(235)	(270)	(270)	(270)
Investments	0	0	0	0
Proceeds from sale of assets	349	0	0	0
Others	28	2,222	2,022	1,022
Financing	(279)	(2,373)	(873)	(1,373)
Dividend payments	0	0	0	0
Proceeds from borrowings	(391)	(2,000)	(500)	(1,000)
Loan repayment	(373)	(373)	(373)	(373)
Others/interest paid	485	0	0	0
Net cash inflow (outflow)	252	(402)	1,017	247
Beginning cash & cash equivalent	718	851	851	449
Changes due to forex impact	(119)	0	0	0
Ending cash & cash equivalent	851	449	1,868	696

BALANCE SHEET

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Fixed assets	5,080	4,690	5,350	4,960
Other LT assets	4,823	4,581	2,252	1,813
Cash/ST investment	851	449	1,868	696
Other current assets	1,958	1,978	2,041	1,987
Total assets	12,712	11,697	11,510	9,455
ST debt	10,616	8,243	7,370	5,997
Other current liabilities	4,924	4,445	4,571	4,624
LT debt	0	0	0	0
Other LT liabilities	125	178	178	178
Shareholders' equity	(2,926)	(1,142)	(582)	(1,317)
Minority interest	(27)	(27)	(27)	(27)
Total liabilities & equity	12,712	11,697	11,510	9,455

KEY METRICS

Year to 31 Jan (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	14.1	17.6	18.2	18.7
Pre-tax margin	(69.2)	(3.4)	(2.1)	(2.1)
Net margin	(70.4)	(5.4)	(3.7)	(4.1)
ROA	n.a.	n.a.	n.a.	n.a.
ROE	n.a.	n.a.	n.a.	n.a.
Growth				
Turnover	11.0	(11.7)	3.2	3.1
EBITDA	n.a.	10.0	6.7	6.2
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	138.5	116.5	109.0	128.9
Debt to equity	(362.8)	(721.9)	(1,267.1)	(455.3)
Net debt/(cash) to equity	(333.7)	(682.6)	(945.9)	(402.5)
Interest cover (x)	1.1	1.3	1.3	1.7

COMPANY UPDATE

VS Industry (VSI MK)

Back To Growth Trajectory; Strategic Acquisition For A Wider Portfolio Offering

After a gestation period in FY23, VS' main customers have started to replenish inventories again, which could fuel VS' growth in FY24. Additionally, it has also acquired a strategic stake in HTPW to fortify its manufacturing capabilities and achieve a wider customer reach, which would see earnings contribution in FY24. It is still the frontrunner in the US-China trade diversion, with discussions on prospective contracts at different stages of evaluation. Maintain BUY. Target price: RM1.18.

WHAT'S NEW

- **At the inflection point of earnings spurt; expect a much stronger FY24.** After a gestation period in FY23 amid customers' inventory adjustment, management noted that most of its key customers have ramped up orders (inventory replenishment) followed by the launch of new models from both its US customers and coffee brewer customers. Meanwhile, demand indication from its key UK customer remains healthy, with orders to remain stable for FY24. Likewise, customer Y and its pool cleaner customers have seen a stable order ramp-up post gestation period in FY23. Country-wise, while sales from Indonesia is picking up steam on the back of trade diversion-related orders, VS Industry (VS) will continue to streamline its business in China. All in all, we expect a much better sales in FY24 on the back of solid order visibility.
- **From mundane to magnificent; a win-win synergy with the acquisition of HTPW.** Ever since VS acquired a 40% stake in HT Press Work on May 23, the group has played a pivotal role in elevating the latter's CSR standards and manufacturing capabilities. Note that HTPW (a specialist in metal stamping, tool and die design and fabrication, machining and anodising and surface finishing of aluminium product) is also serving the common UK customer and customers in the home appliances and consumer electronics segments (of which one is a Fortune 500 company). Subsequently, VS has also proposed to acquire an additional 11% stake (effectively to 51%) in Sep 23, in tandem of the crystallising synergistic benefits which could result in better margin improvement alongside wider customer reach.
- **Sunshine after the rain.** Beyond the current slowdown, we see bright spots stemming from: a) order rechanneling that would cushion the general weakness, b) a relief in systemic disruption ie labour shortage and supply chain disruption, and c) undemanding valuation with de-rating catalysts being sufficiently priced in. Note that VS is still benefitting from the fallout of its peer on the common customer's business engagement, where it has secured three various segments of new models. This would rake in at least >RM500m in revenue, with earnings potential of >RM25m (better margins) to cushion the demand softness from other key customers.

KEY FINANCIALS

Year to 31 Jul (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	3,914	4,600	5,336	5,788	5,928
EBITDA	330	394	505	570	593
Operating profit	212	274	383	444	462
Net profit (rep./act.)	166	184	268	314	327
Net profit (adj.)	201	189	268	314	327
EPS (sen)	5.2	4.9	6.9	8.1	8.5
PE (x)	19.1	20.3	14.3	12.2	11.7
P/B (x)	1.8	1.8	1.7	1.6	1.5
EV/EBITDA (x)	12.5	10.5	8.2	7.2	7.0
Dividend yield (%)	2.0	2.2	3.2	3.8	3.9
Net margin (%)	4.3	4.0	5.0	5.4	5.5
Net debt/(cash) to equity (%)	15.5	7.7	3.2	(0.4)	(6.7)
Interest cover (x)	34.1	13.3	19.3	21.8	22.6
ROE (%)	8.1	8.7	12.0	13.2	12.8
Consensus net profit	-	-	240	284	310
UOBKH/Consensus (x)	-	-	1.12	1.10	1.06

Source: VS Industry, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.995
Target Price	RM1.18
Upside	+18.7%

COMPANY DESCRIPTION

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	VSI MK
Shares issued (m):	3,844.3
Market cap (RMm):	3,825.1
Market cap (US\$m):	812.5
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

52-week high/low	RM1.05/RM0.765			
1mth	3mth	6mth	1yr	YTD
5.3	10.6	25.9	6.4	13.1

Major Shareholders

	%
Kumpulan Wang Persaraan Diperbadankan	9.1
Beh Kim Ling	7.7
Beh Hwee See	7.3

FY23 NAV/Share (RM)	0.60
FY23 Net Cash/Share (RM)	0.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• Clear beneficiary of trade-diversion play; secured six new customers since 2019.

Beyond the acquisition of Ipark Development lands (close to 413,700sf) for customer Y (fifth new order won since early-19) in Oct 20, the group had acquired an additional three parcels of adjacent land in end-Nov 21. These lands, measuring 386,400sf (or 8.9 acres), will be used for future capacity expansion. After the acquisition, VS' land size in Malaysia has now increased to around 2.1m sf (or close to 60 acres) which makes it the largest land size owner among all listed EMS players.

• While it is still early to gauge the potential revenue, it is interesting to note that the total size of these lands is at 89% of iPark facilities' size. Recall that the group racked in RM230m revenue from customer Y on its first year of operations. Meanwhile, the maximum revenue potential (in a blue-sky scenario) that could be derived from the iPark facilities is around RM1.2b. The recent synergistic move of this customer with an e-commerce giant could also be a door-opening opportunity for the group to venture into the new ecosystem.

• **Eyeing new contracts; discussions still in infancy stage.** We understand that VS is still being approached by new MNC customers, with discussions of prospective contracts at the early stages of evaluation. Based on the recent customer acquisition trend, we believe any prospective contracts could carry better margins. We are not assuming any new customer wins for now. Assuming that a RM500m contract is secured with full contribution in FY24 on a net margin of 5.7%, the earnings accretion would be 9%.

EARNINGS REVISION/RISK

• No changes to our earnings.

VALUATION/RECOMMENDATION

• **Maintain BUY with an unchanged target price of RM1.18** as we peg our valuation back to mean valuation of 17x. VS is now back to its high-growth cycle again, offering a two-year net profit CAGR of 29% (from FY23-25), notwithstanding the new meaningful contract pipeline for VS.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

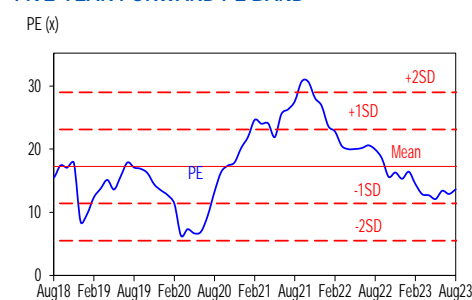
<p>• Environmental</p> <ul style="list-style-type: none"> - VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.
<p>• Social</p> <ul style="list-style-type: none"> - VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce. - It is engaging with migrant worker rights specialists and independent auditor proactively for the betterment migrant workers' welfare in Malaysia.
<p>• Governance</p> <ul style="list-style-type: none"> - The Company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

SALES ASSUMPTION

(RMm)	FY22	FY23	FY24F	FY25F
Sales	3,914	4,600	5,336	5,788
Key customer	1,730	2,454	2,760	2,790
Customer Z	470	400	439	483
China	80	72	72	72
Indonesia	328	344	327	311
New key customers	1020	1000	1300	1650
Others	287	329	438	482
Core net margin (%)	5.1%	4.1%	5.0%	5.4%

Source: UOB Kay Hian

FIVE-YEAR FORWARD PE BAND



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Jul (RMM)	2023	2024F	2025F	2026F
Net turnover	4,600	5,336	5,788	5,928
EBITDA	394	505	570	593
Deprec. & amort.	120	122	126	131
EBIT	274	383	444	462
Associate contributions	2	2	2	2
Net interest income/(expense)	(30)	(26)	(26)	(26)
Pre-tax profit	246	359	420	438
Tax	(71)	(95)	(111)	(116)
Minorities	9	4	5	5
Net profit	184	268	314	327
Net profit (adj.)	189	268	314	327

CASH FLOW

Year to 31 Jul (RMM)	2023	2024F	2025F	2026F
Operating	428	305	364	454
Pre-tax profit	246	359	420	438
Tax	(42)	(95)	(111)	(116)
Deprec. & amort.	120	122	126	131
Working capital changes	38	(114)	(104)	(32)
Non-cash items	28	28	28	28
Other operating cashflows	38	6	6	6
Investing	(135)	(100)	(100)	(100)
Capex (growth)	(136)	(100)	(100)	(100)
Investments	0	0	0	0
Proceeds from sale of assets	5	0	0	0
Others	(4)	0	0	0
Financing	134	(123)	(180)	(186)
Dividend payments	(77)	(123)	(144)	(150)
Issue of shares	13	0	0	0
Proceeds from borrowings	n.a.	n.a.	n.a.	n.a.
Loan repayment	212	0	0	0
Others/interest paid	(15)	0	(36)	(36)
Net cash inflow (outflow)	427	82	84	168
Beginning cash & cash equivalent	279	689	781	865
Changes due to forex impact	(16)	9	0	0
Ending cash & cash equivalent	689	781	865	1,033

BALANCE SHEET

Year to 31 Jul (RMM)	2023	2024F	2025F	2026F
Fixed assets	985	1,154	1,127	1,097
Other LT assets	271	38	40	42
Cash/ST investment	689	781	865	1,033
Other current assets	2,102	2,309	2,483	2,538
Total assets	4,047	4,281	4,516	4,710
ST debt	270	270	270	270
Other current liabilities	843	936	1,006	1,028
LT debt	585	585	585	585
Other LT liabilities	64	64	64	64
Shareholders' equity	2,154	2,298	2,468	2,644
Minority interest	132	128	123	118
Total liabilities & equity	4,047	4,281	4,516	4,710

KEY METRICS

Year to 31 Jul (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	8.6	9.5	9.9	10.0
Pre-tax margin	5.3	6.7	7.3	7.4
Net margin	4.0	5.0	5.4	5.5
ROA	4.7	6.4	7.1	7.1
ROE	8.7	12.0	13.2	12.8
Growth				
Turnover	17.5	16.0	8.5	2.4
EBITDA	19.2	28.2	13.0	3.9
Pre-tax profit	22.0	46.1	17.0	4.2
Net profit	10.5	45.7	17.0	4.2
Net profit (adj.)	(6.0)	42.0	17.0	4.2
EPS	(6.0)	42.0	17.0	4.2
Leverage				
Debt to total capital	27.2	26.1	24.8	23.6
Debt to equity	39.7	37.2	34.6	32.3
Net debt/(cash) to equity	7.7	3.2	(0.4)	(6.7)
Interest cover (x)	13.3	19.3	21.8	22.6

COMPANY UPDATE

Sea (SE US)

Recent Developments Are Positive For The Company

We reiterate **BUY** on SEA amid the recent positive developments. The revised Regulation of Minister of Trade in Indonesia favours Shopee's competitive standing, while Garena's Free Fire re-entry into the Indian market (which previously accounted for 10% of its monthly active users) signals additional growth avenues. We believe there is room for share price to re-rate further, primarily due to lower-than-anticipated sales and marketing costs. Target price remains at **US\$94.34**.

WHAT'S NEW

- We reiterate BUY on Sea Limited (SEA) on the back of the recent positive development and newsflow which would benefit SEA directly. Below are some of the newsflow and impact:

- The Indonesian government has banned goods transactions on social media platforms** as it aims to protect small businesses from e-commerce competition, based on the latest regulation of Minister of Trade. Other key highlights from the revised regulation regarding e-commerce sector include: a) imported goods must meet the same criteria as local products regarding standards, certification, permits etc, b) e-commerce and social commerce must operate independently to safeguard personal data, c) e-commerce platforms cannot act as goods manufacturers, and d) sales of imported items under US\$100 are banned on e-commerce sites.

- Positive for incumbents such as Shopee.** The revised Indonesian rules favour dominant players like Shopee in Indonesia as they increase barriers to market entry given Shopee's (SEA's e-commerce business) market leadership in the ASEAN region. Note that Indonesia is the largest contributor to ASEAN gross merchandise value (GMV), accounting for 52% of the ASEAN region with Shopee taking the lead at 36% of total GMV in Indonesia. The new regulation will give SEA a competitive edge, and aligns well with management's focus on strengthening its e-commerce segment due to existing market rivalry. Its ongoing investment in livestream e-commerce will also likely: a) boost its market share, b) attract more influencers, and c) allow it to capitalise on this shopping trend.

- Potentially higher-than-expected earnings for e-commerce segment.** In light of the recent regulation of Minister of Trade, we expect Shopee's sales and marketing expenses in the upcoming quarters to be lower than market expectations. This stands in contrast to market expectations of elevated costs, driven by a competitive landscape peppered with new entrants, as discussed in the Aug 23 analyst briefing and corroborated by Shopee's internal memo in early-Sep 23.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	9,955	12,450	13,765	15,742	17,860
EBITDA	(1,583)	(1,133)	1,343	1,791	2,679
Operating profit	(1,583)	(1,133)	1,343	1,791	2,679
Net profit (rep./act.)	(2,045)	(1,496)	959	1,272	2,059
Net profit (adj.)	(2,045)	(1,496)	959	1,272	2,059
EPS (US\$ cent)	(383.4)	(268.1)	167.4	205.6	319.9
PE (x)	n.m.	n.m.	25.1	20.5	13.2
P/B (x)	3.0	4.1	3.3	2.5	1.9
EV/EBITDA (x)	n.m.	n.m.	13.7	10.3	6.9
Dividend yield (n.a.)	n.a.	n.a.	n.a.	n.a.	n.a.
Net margin (%)	(20.5)	(12.0)	7.0	8.1	11.5
Net debt/(cash) to equity (%)	(98.2)	(73.0)	(75.1)	(72.8)	(72.5)
Interest cover (x)	(15.7)	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	14.6	14.3	16.6
Consensus net profit	-	-	1,044	1,105	1,554
UOBKH/Consensus (x)	-	-	0.92	1.15	1.32

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

BUY

(Maintained)

Share Price	US\$42.09
Target Price	US\$94.34
Upside	+124.1%

COMPANY DESCRIPTION

Sea has developed an integrated platform consisting of digital entertainment, e-commerce and digital financial services, each localised to meet the unique characteristics of its markets.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	SE US
Shares issued (m):	521.2
Market cap (US\$m):	23,854.9
Market cap (US\$m):	23,854.9
3-mth avg daily t'over (US\$m):	341.5

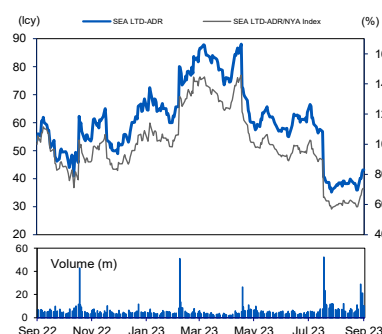
Price Performance (%)

52-week high/low	US\$88.07/US\$35.21			
1mth	3mth	6mth	1yr	YTD
14.1	(26.3)	(48.5)	(24.5)	(19.1)

Major Shareholders

	%
Forrest Li	25.2
Tencent	18.6
FY23 NAV/Share (US\$)	12.91
FY23 Net Cash/Share (US\$)	9.69

PRICE CHART



Source: Bloomberg

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- **Garena has announced the reintroduction of Free Fire to the Indian market**, following a ban by the government that lasted over 18 months. However, the relaunch of Free Fire India has been postponed due to the overwhelmingly enthusiastic response in India and Garena is refining the gameplay for a better gaming experience. No date has been officially announced. Note that that India used to make up around 10% of Garena's monthly active users. If we assume a similar rate of growth in the gaming segment's EBITDA, this would lift EBITDA by about 5%.

STOCK IMPACT

• We expect SEA to continue to post resilient earnings in 2H23 on the back of:

a) E-commerce segment to remain resilient amid competition. In our assessment, Shopee exhibits resilience in a competitive e-commerce landscape, underpinned by a stable margin outlook. Our projections indicate a 15% yoy revenue growth for 2023, driven by higher transaction-based fees and augmented contributions from value-added logistics services. This is further complemented by a cost leadership strategy in logistics, which involves increased capacity and automation. Additionally, Shopee is set to expand its footprint, as signalled by a new warehouse in Jakarta aimed at boosting MSME exports. While pursuing growth in current and prospective markets may exert downward pressure on margins, Shopee Brazil is expected to achieve breakeven soon with its strong growth and marked presence.

b) Strong growth from digital financial services. As previously emphasised, we expect SEA's digital financial arm, encompassing e-wallets, digital banking, and credit operations, to serve as a significant growth catalyst. The substantial earnings uptick in the credit business for 2Q23, coupled with the synergistic relationship between Shopee and SeaMoney, underscores this outlook. With impending digital banking licences set to be owned by Shopee in multiple countries such as Singapore and Malaysia, we believe this segment is well-positioned to further unlock growth avenues.

c) Resilient earnings for digital entertainment. The number of monthly active users has continued to grow, and there is also long-term stabilisation of its self-developed game, Free Fire.

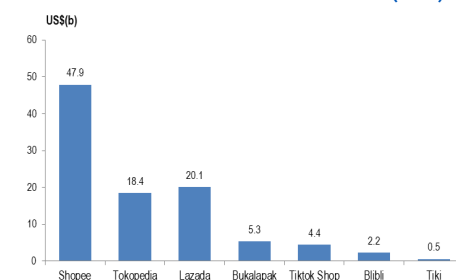
EARNINGS REVISION/RISK

• **Maintain earnings.** We maintain our earnings forecast for SEA at US\$935m, US\$1.27b and US\$2.06b for 2023-25 respectively, where 2023 may be its first ever annual net profit.

VALUATION/RECOMMENDATION

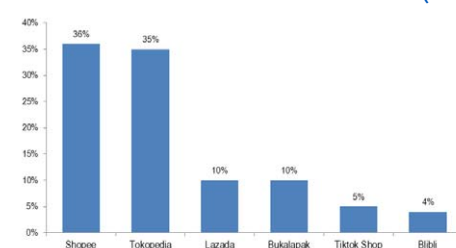
• **Maintain BUY with a target price US\$94.34** buoyed by SEA's unparalleled profitability in the ASEAN region. Anticipated earnings for upcoming quarters are projected to outperform market expectations. SEA's unique position as the sole profitable entity in both e-commerce and digital financial services within the ASEAN area should not be underestimated. Specifically, the robust market standing of SeaMoney and the exceptional efficiency of its digital finance segment further endorse this optimistic outlook.

E-COMMERCE GMV IN SOUTHEAST ASIA (2022)



Source: Momentum Works, UOB Kay Hian

E-COMMERCE GMV % SHARE IN INDONESIA (2022)



Source: Momentum Works, UOB Kay Hian

SOTP VALUATION SUMMARY

	2023F net profit/ sales (US\$m)	Valuation Method	Valuation (x)	Fair Value (US\$)
Digital Entertainment	1,833 (net profit)	PE	9.0	30.07
E-Commerce	9,821 (sales)	PS	2.5	37.44
Digital Financial Services	579 (net profit)	PE	25.0	26.82
Total				94.34

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	12,450	13,765	15,742	17,860
EBITDA	(1,133)	1,343	1,791	2,679
Deprec. & amort.	0	0	0	0
EBIT	(1,133)	1,343	1,791	2,679
Associate contributions	11	0	0	0
Net interest income/(expense)	70	0	28	79
Pre-tax profit	(1,334)	1,136	1,612	2,550
Tax	(168)	(184)	(347)	(500)
Minorities	6	7	7	8
Net profit	(1,496)	959	1,272	2,059
Net profit (adj.)	(1,496)	959	1,272	2,059

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	(2,124)	1,889	2,481	2,209
Pre-tax profit	(1,501)	1,136	1,612	2,550
Tax	(168)	(184)	(347)	(500)
Deprec. & amort.	0	405	417	423
Associates	11	0	0	0
Working capital changes	(616)	(263)	(963)	(1,079)
Non-cash items	149	794	1,762	814
Other operating cashflows	n.a.	n.a.	n.a.	n.a.
Investing	(201)	(449)	(438)	(449)
Capex (growth)	0	(416)	(397)	(398)
Investments	(201)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	(33)	(41)	(51)
Financing	(329)	644	4	1,028
Dividend payments	0	0	0	1
Issue of shares	0	619	567	643
Proceeds from borrowings	(12)	(88)	0	0
Loan repayment	0	0	0	1
Others/interest paid	(317)	113	(563)	383
Net cash inflow (outflow)	(2,654)	2,083	2,048	2,788
Beginning cash & cash equivalent	10,838	7,597	9,681	11,728
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
Ending cash & cash equivalent	7,597	9,698	11,746	14,534

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	1,388	1,418	1,422	1,428
Other LT assets	2,909	2,940	2,982	3,031
Cash/ST investment	7,597	9,698	11,746	14,534
Other current assets	5,109	3,818	4,259	4,716
Total assets	17,003	17,873	20,408	23,709
ST debt	88	0	0	0
Other current liabilities	6,847	5,328	4,832	4,240
LT debt	3,339	4,148	4,148	4,148
Other LT liabilities	918	918	918	918
Shareholders' equity	5,716	7,392	10,430	14,330
Minority interest	95	88	81	73
Total liabilities & equity	17,003	17,873	20,408	23,709

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	(9.1)	9.8	11.4	15.0
Pre-tax margin	(10.7)	8.3	10.2	14.3
Net margin	(12.0)	7.0	8.1	11.5
ROA	n.a.	5.5	6.6	9.3
ROE	n.a.	14.6	14.3	16.6
Growth				
Turnover	25.1	10.6	14.4	13.5
EBITDA	n.a.	n.a.	33.3	49.5
Pre-tax profit	n.a.	n.a.	41.9	58.2
Net profit	n.a.	n.a.	32.7	61.8
Net profit (adj.)	n.a.	n.a.	32.7	61.8
EPS	n.a.	n.a.	22.8	55.6
Leverage				
Debt to total capital	37.1	35.7	28.3	22.4
Debt to equity	60.0	56.1	39.8	28.9
Net debt/(cash) to equity	(73.0)	(75.1)	(72.8)	(72.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

SECTOR UPDATE

Banking – Thailand

3Q23 Results Preview: Weak Investment Gains And Rising Credit Cost Undermine qoq Earnings Growth

We expect the sector’s earnings to grow 4% yoy but decline 11% qoq in 3Q23. The qoq earnings reduction can be attributed to softening investment gains due to unfavourable market conditions and a sharp increase in Thailand’s bond yields. In addition, credit cost would be a key overhang on the sector’s asset quality in 3Q23. We maintain MARKET WEIGHT on the sector and BUY on banks that are still laggards. Our top picks are SCB and KKP.

WHAT’S NEW

- **Expect 3Q23 earnings to grow yoy but decline qoq.** We expect banks under our coverage to report an aggregated net profit of around Bt47b in 3Q23, up 4% yoy but down 11% qoq. The decline in net profit on a quarterly basis can be primarily attributed to a significant increase in credit costs, brought about by a weaker-than-expected economic recovery. Additionally, we project a qoq decrease in the sector’s non-interest income (non-II) in 3Q23. This decline is largely driven by sluggish investment gains. On a positive note, the sector’s net interest margin (NIM) is expected to continue its upward trend.
- **Expect weak investment gains in 3Q23.** While it can be difficult to accurately predict investment gains or losses for banks as they do not disclose detailed information regarding their investment portfolios, several indicators suggest that investment gains/losses for banks in 3Q23 may be weak. One key indicator is the significant 72bp increase in Thailand’s 10-year government bond yield qtd, which suggests that banks may face significant losses caused by lower bond prices. Additionally, the negative 4% return qtd in the S&P 500 index and the negative 0.4% return from the SET index indicate that equity markets experienced a downturn during 3Q23, which could negatively impact banks’ investment portfolios.
- **Smaller banks continued to post the highest yoy loan growth.** Banks under our coverage reported aggregate net loans of Bt12.5t in Aug 23, which increased 0.6% mom but contracted 0.6% yoy. Kiatnakin Phatra’s (KKP) loans expanded the most by 11.9% yoy. Tisco Financial Group (TISCO) posted the second-highest loan growth of 10.7% yoy. Meanwhile, the two highest contractions in yoy loan growth were Bangkok Bank (BBL, -4.5% yoy) and Kasikorn Bank (KBANK, -3.9% yoy). Small banks like KKP and TISCO continued to pump their loan growth to counteract the NIM contraction from rising funding costs. Conversely, big banks that benefitted from the policy rate hike cycle prioritised improving asset quality rather than loan growth amid the uneven economic recovery.

ACTION

- **Maintain MARKET WEIGHT.** In terms of price performance, the banking sector has outperformed the SET index by a significant margin of 10% ytd. Currently, the sector trades at 0.7x 2023F P/B, which is equivalent to its historical five-year mean. We maintain our MARKET WEIGHT recommendation for the banking sector. However, we suggest adopting a BUY strategy for banks that are still considered laggards in terms of price performance. Among the banks under our coverage, our top picks are SCB and KKP.

PEER COMPARISON

Company	Last Price 27 Sep 23	Rec.	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit 2023F (Btm)	2024F (Bt m)	PE 2023F (x)	2024F (x)	Net EPS Growth 2023F(%)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
BBL TB	164.00	HOLD	164.00	0.0	8,689	40,778	41,621	7.7	7.5	39.1	0.6	3.2	7.8
KBANK TB	124.50	HOLD	145.00	16.5	8,187	41,131	43,514	7.2	6.8	15.0	0.6	3.0	7.9
KKP TB	55.25 (Previous)	BUY	69.00 78.00	24.9	1,298	6,269	6,953	7.5	6.7	(17.5)	0.8	5.0	10.5
KTB TB	18.80	HOLD	21.50	14.4	7,293	39,102	41,139	6.7	6.4	16.0	0.6	3.6	10.0
SCB TB	103.00	BUY	130.00	26.2	9,626	41,725	45,614	8.3	7.6	11.7	0.7	6.1	8.9
TISCO TB	98.25	HOLD	106.00	7.9	2,183	7,355	8,099	10.7	9.7	1.8	1.8	7.3	16.9
TTB TB	1.72	HOLD	1.65	(4.1)	4,613	17,069	18,862	9.7	8.8	20.2	0.7	3.1	7.6
Banking					41,888	193,429	205,802	7.8	7.3	16.9	0.7	4.2	9.0

Source: UOB Kay Hian.

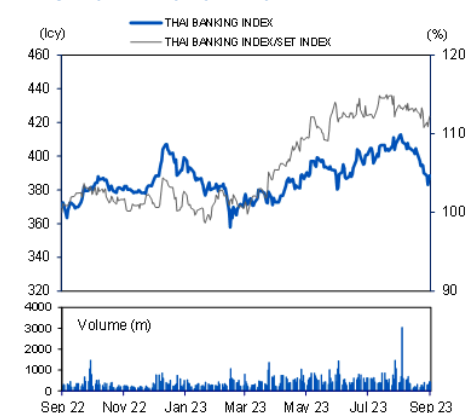
MARKET WEIGHT
(Maintained)

OUR TOP PICK

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
Kiatnakin Phatra	KKP	BUY	55.25	69.00
SCB X	SCB	BUY	103.00	130.00

Source: Respective companies, UOB Kay Hian

RETURNS: BANKS VS THE SET



Source: UOB Kay Hian

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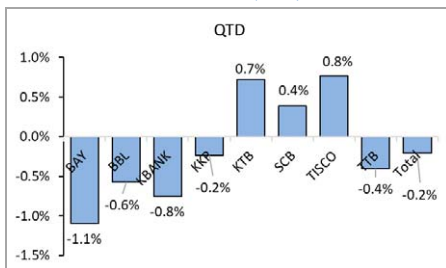
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Thanawat Thangchadakorn

ESSENTIALS

- The policy rate is now at a neutral level.** On 27 Sep 23, The Bank of Thailand (BOT) slashed its GDP forecast for 2023 down from 3.6% to 2.8%. The downward revision was primarily attributed to lower-than-anticipated tourist arrivals and export figures. Also, the headline inflation rate in Aug 23 was kept low at 0.88%. However, the BOT made an unexpected move by increasing the policy rate by 25bp to 2.5%. The BOT justified this rate hike by stating that their decisions are based on future economic outlooks. They expressed confidence in the country's economic prospects for 2024, projecting a GDP growth rate of 4.4%, up from the previous estimate of 3.8%. This anticipated growth is largely expected to be fuelled by government spending. Despite the surprising rate hike, the BOT has indicated that the current policy rate of 2.5% is likely to remain stable for some time. They believe this rate is appropriate for supporting the country's long-term economic growth.
- Implications of policy rate for banks' NIM.** Given the dovish tone adopted by the BOT, it is likely that the current rate hike cycle has come to an end. Big banks would continue to benefit from the latest rate hike over the next 12 months. However, it is important to note that funding costs will eventually catch up, leading to a stabilisation or potential reduction in NIMs. On the other hand, the normalisation of policy rates signifies the beginning of a potential bottoming out of NIMs for small banks.

LOAN GROWTH IN AUG 23 (QTD)



Source: Respective companies, BOT, UOB Kay Hian

LOAN GROWTH IN AUG 23 (YOY)



Source: Respective companies, BOT, UOB Kay Hian

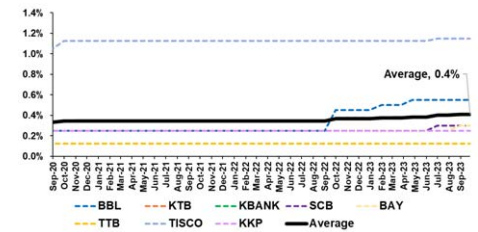
EARNINGS REVISION

Net profit (Btm)	2023F			2024F			2025F		
	New	Old	% Chg	New	Old	% Chg	New	Old	% Chg
BBL	40,778	38,369	6.3	41,621	42,115	(1.2)	42,749	44,468	(3.9)
KBANK	41,131	41,131	0.0	43,514	43,514	0.0	48,923	48,923	0.0
KKP	6,269	7,154	(12.4)	6,953	8,770	(20.7)	8,445	10,427	(19.0)
KTB	39,102	38,424	1.8	41,139	39,500	4.1	42,418	41,083	3.3
SCB	41,725	40,129	4.0	45,614	43,712	4.4	49,758	50,820	(2.1)
TISCO	7,355	7,355	0.0	8,099	8,099	0.0	8,661	8,661	0.0
TTB	17,069	17,069	0.0	18,862	18,862	0.0	20,085	20,085	0.0
Total	193,429	189,631	2.0	205,802	204,572	0.6	221,039	224,467	(1.5)

Source: Respective companies, UOB Kay Hian

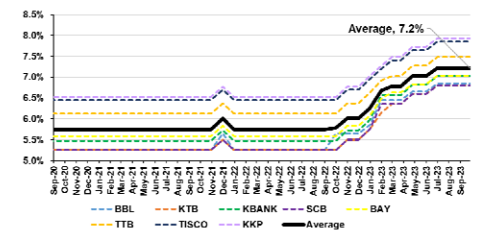
- We have adjusted our sector's earnings forecast for the 2023-25 period by a negative 1.5% to positive 2.0%, taking into account the recent policy rate hike. It is important to note that we have specifically revised the earnings forecast for KKP for the 2023-25 period downwards by 12-19%. This adjustment is primarily driven by our revised assumptions regarding credit costs, which have been influenced by the significant decline observed in used-vehicle prices.

CASA INTEREST RATES



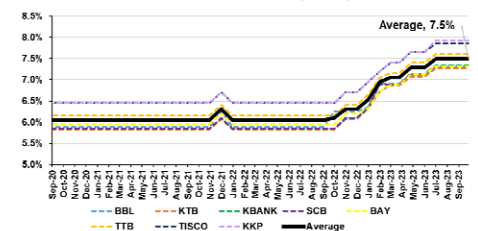
Source: BOT, UOB Kay Hian

MINIMUM LOAN RATES (MLR)



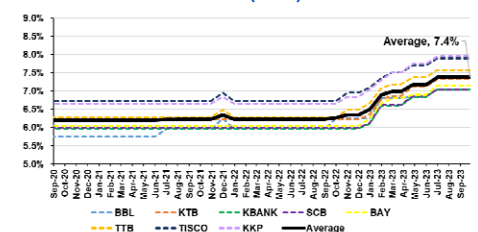
Source: BOT, UOB Kay Hian

MINIMUM OVERDRAFT RATES (MOR)



Source: BOT, UOB Kay Hian

MINIMUM RETAIL RATES (MRR)



Source: BOT, UOB Kay Hian

3Q23 EARNINGS PREVIEW

	3Q23F	2Q23	3Q22	qoq (%)	yoy (%)	2023F	2022	yoy (%)
Net profit (Btm)								
BBL	10,373	11,294	7,657	(8.1)	35.5	40,778	29,306	39.1
KBANK	10,217	10,994	10,574	(7.1)	(3.4)	41,131	35,769	15.0
KKP	1,229	1,408	2,083	(12.7)	(41.0)	6,269	7,602	(17.5)
KTB	9,267	10,156	8,450	(8.8)	9.7	39,102	33,698	16.0
SCB	9,467	11,868	10,309	(20.2)	(8.2)	41,725	37,546	11.1
TISCO	1,752	1,854	1,771	(5.5)	(1.1)	7,256	7,222	0.5
TTB	4,234	4,566	3,715	(7.3)	14.0	17,069	14,195	20.2
Total	46,540	52,141	44,559	(10.7)	4.4	193,330	165,338	16.9
Pre-provision operating profit (Btm)								
BBL	21,527	22,333	19,701	(3.6)	9.3	84,313	69,876	20.7
KBANK	26,748	27,223	23,484	(1.7)	13.9	105,927	98,505	7.5
KKP	3,515	3,632	3,698	(3.2)	(4.9)	14,585	14,526	0.4
KTB	20,671	21,686	17,276	(4.7)	19.7	84,953	70,620	20.3
SCB	25,566	27,300	22,815	(6.4)	12.1	102,458	84,547	21.2
TISCO	2,389	2,366	2,323	1.0	2.9	9,689	9,711	(0.2)
TTB	9,832	9,897	8,902	(0.7)	10.5	39,104	35,900	8.9
Total	110,249	114,437	98,197	(3.7)	12.3	441,029	383,685	14.9
Total loans (Btb)								
BBL	2,701	2,710	2,806	(0.3)	(3.8)	2,619	2,693	(2.7)
KBANK	2,471	2,465	2,480	0.2	(0.4)	2,478	2,511	(1.3)
KKP	416	406	370	2.4	12.4	430	384	11.9
KTB	2,603	2,596	2,634	0.3	(1.2)	2,630	2,618	0.4
SCB	2,463	2,446	2,365	0.7	4.1	2,529	2,397	5.5
TISCO	232	230	213	0.5	8.6	235	219	7.4
TTB	1,370	1,372	1,401	(0.2)	(2.3)	1,389	1,384	0.4
Total	12,255	12,226	12,271	0.2	(0.1)	12,309	12,206	0.8
NIM (%)								
BBL	2.9	2.9	2.5	0bp	38bp	2.9	2.4	52bp
KBANK	3.8	3.8	3.5	1bp	36bp	3.7	3.4	32bp
KKP	4.5	4.6	4.3	-7bp	18bp	4.5	4.5	0bp
KTB	3.4	3.2	2.6	19bp	75bp	3.3	2.6	64bp
SCB	3.9	3.8	3.4	8bp	41bp	3.7	3.4	33bp
TISCO	4.8	5.0	5.2	-29bp	-43bp	4.7	5.0	-33bp
TTB	3.3	3.2	2.9	11bp	34bp	3.2	2.9	22bp
Average	3.8	3.8	3.5	0bp	28bp	3.7	3.5	24bp
Credit cost (bp)								
BBL	120	133	145	-13bp	-25bp	124	123	0bp
KBANK	213	207	160	7bp	54bp	207	210	-3bp
KKP	193	188	122	6bp	71bp	166	144	22bp
KTB	124	119	86	5bp	38bp	121	92	29bp
SCB	215	199	131	16bp	85bp	197	144	54bp
TISCO	33	11	23	22bp	10bp	26	34	-9bp
TTB	127	124	125	3bp	3bp	127	133	-6bp
Average	147	140	113	7bp	34bp	138	126	13bp
NPL ratio (%)								
BBL	3.1	2.9	3.5	15bp	-35bp	3.2	3.1	14bp
KBANK	3.2	3.2	3.1	3bp	16bp	3.2	3.2	1bp
KKP	3.5	3.6	3.0	-8bp	52bp	3.5	3.3	19bp
KTB	3.0	3.1	3.3	-7bp	-28bp	3.0	3.3	-23bp
SCB	3.2	3.3	3.3	-8bp	-17bp	3.2	3.3	-17bp
TISCO	2.4	2.2	2.1	16bp	28bp	2.3	2.1	22bp
TTB	2.8	2.6	2.7	13bp	4bp	2.7	2.7	1bp
Average	3.0	3.0	3.0	5bp	3bp	3.0	3.0	2bp

Source: Respective companies, UOB Kay Hian

STOCK PRICES RETURN

Companies	3-mth	6-mth	9-mth	12-mth
BBL	3%	8%	11%	20%
KBANK	-4%	-6%	-16%	-14%
KKP	-8%	-13%	-25%	-20%
KTB	-3%	14%	6%	13%
SCB	-3%	0%	-4%	-1%
TISCO	1%	-2%	-1%	6%
TTB	11%	21%	22%	42%

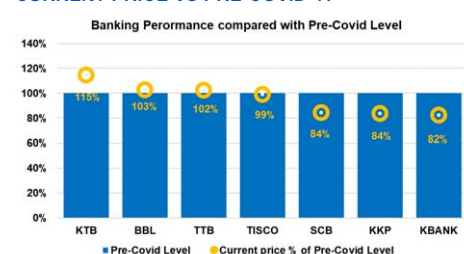
Source: UOB Kay Hian

INDEX RETURNS AND US BOND YIELD

	Date			Return (%)	
	27-Sep-23	31-Aug-23	30-Jun-23	MTD	QTD
SET	1,497	1,566	1,503	-4.4%	-0.4%
S&P500	4,275	4,508	4,450	-5.2%	-4.0%
TH10Y	3.24%	2.60%	2.52%	+64bp	+72bp

Source: Bloomberg, UOB Kay Hian

CURRENT PRICE VS PRE-COVID-19



Source: UOB Kay Hian

SECTOR P/B BAND



Source: UOB Kay Hian

SECTOR PE BAND



Source: UOB Kay Hian

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