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

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33743.8	0.0	1.3	1.6	1.8
S&P 500	4016.2	(0.0)	2.2	4.5	4.6
FTSE 100	7744.9	(0.2)	(1.1)	3.6	3.9
AS30	7688.0	(0.3)	1.0	5.5	6.5
CSI 300	4181.5	0.6	2.6	9.2	8.0
FSSTI	3352.8	1.8	2.1	2.9	3.1
HSCEI	7483.6	2.3	1.3	12.7	11.6
HSI	22044.7	1.8	1.4	12.5	11.4
JCI	6829.9	(0.5)	0.9	(0.1)	(0.3)
KLCI	1499.5	(0.1)	0.4	1.7	0.3
KOSPI	2428.6	1.4	1.2	4.8	8.6
Nikkei 225	27395.0	0.4	2.3	3.7	5.0
SET	1682.1	(0.0)	(0.2)	3.4	0.8
TWSE	14932.9	0.0	0.9	2.8	5.6
BDI	703	(2.5)	(19.6)	(53.6)	(53.6)
CPO (RM/mt)	3902	1.1	1.7	0.2	(3.6)
Brent Crude (US$/bbl)	86	0.0	1.4	2.7	0.3

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	226.40	440.00	94.3
HK Exchange	388 HK	368.40	387.70	5.2
Bumi Serpong	BSDE IJ	905.00	1,200.00	32.6
Mitra Adiperkasa	MAPI IJ	1,335.00	1,600.00	19.9
Genting Malaysia	GENM MK	2.87	3.50	22.0
My EG Services	MYEG MK	0.92	1.30	42.1
OCBC	OCBC SP	12.85	18.32	42.6
CP ALL	CPALL TB	69.75	84.00	20.4
Indorama	IVL TB	41.75	65.00	55.7

KEY ASSUMPTIONS

GDP (% yoy)		2021	2022F	2023F
US		5.9	1.6	-0.5
Euro Zone		5.4	3.1	-0.5
Japan		1.6	1.5	1.0
Singapore		7.6	3.5	0.7
Malaysia		3.1	8.3	4.0
Thailand		1.6	3.2	3.7
Indonesia		3.7	5.4	4.9
Hong Kong		6.3	-2.6	3.0
China		8.1	3.5	4.5
CPO	(RM/mt)	4,407	5,200	4,000
Brent (Average)	(US$/bbl)	71.0	102.0	93.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Knowledge Sharing Session with Puan Sarimah Talib, ESG Industry Expert	Kuala Lumpur	14 Feb	14 Feb
Virtual Meeting with Tianjin Pharmaceutical Da Re Tang Group Corp Ltd (TIAN:SP)	Singapore	14 Feb	14 Feb
Palm Oil Outlook Seminar	Kuala Lumpur	06 Mar	06 Mar

SECTOR UPDATE

Property – Hong Kong

Weak Tourist Data For CNY Holiday; Expecting More Catalysts In 2Q23

The latest CVI index and weekend transactions of major estates pointed to a slight improvement in home-buyers' sentiment. For the first three days of Chinese New Year, the total number of China visitors to Hong Kong was only 34.4% of China visitors to Macau. A sooner-than-expected cancellation of the PCR test requirement will be a positive catalyst. Note that developers' 2H22 financial data might be under pressure due to multiple headwinds. Maintain MARKET WEIGHT. SHKP remains as our top pick.

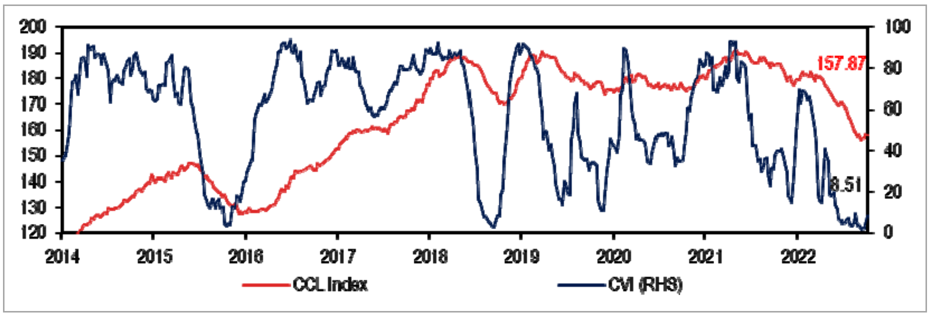
WHAT'S NEW

- Major estates recorded 18 secondary property transactions during the Chinese New Year (CNY) holiday.
- The Hong Kong government released daily data of mainland visitors to Hong Kong.

ESSENTIALS

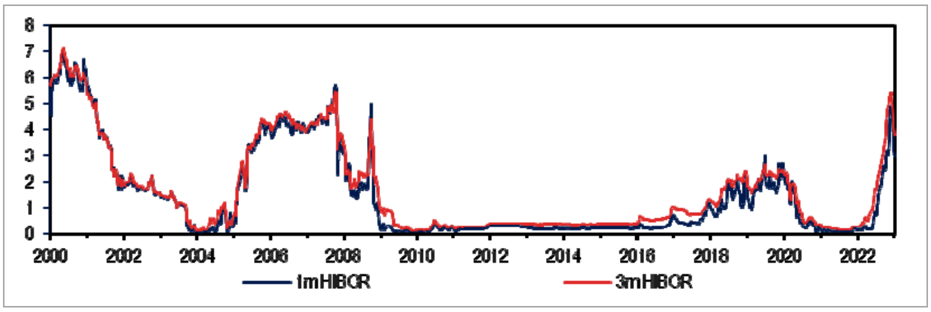
- **Slight improvement in homebuyers' sentiment during CNY.** The CCL index, which reflects secondary property prices, dropped slightly to 157.87 (-0.23% wow) as of 15 January, down 17.5% from the historical high recorded in Aug 21. Meanwhile, the CVI index further rebounded to 8.51 but remained below 10 for the 17th consecutive week, suggesting that home prices may further decline going forward. During the CNY holiday, major estates recorded 18 transactions, higher than <10 during the CNY holidays over the past 10 years, reflecting an improvement in market sentiment.

CCL INDEX VS CVI INDEX



Source: Bloomberg, UOB Kay Hian

1M & 3M HIBOR



Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
SHKP	16 HK	BUY	111.60	123.53

Source: UOB Kay Hian

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PEER COMPARISON

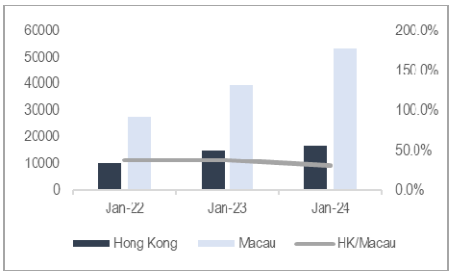
Company	Ticker	Rec	Price @ 25 Jan 23 (HK$)	Target Price (HK$)	Upside/ (Downside) to TP (%)	Market Cap (HK$ m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	Yield 2022F (%)	Yield 2023F (%)
Hysan Development	14 HK	BUY	26.25	29.40	12.0	26,959.0	11.2	10.5	0.4	0.4	5.5	5.6
Sun Hung Kai Properties	16 HK	BUY	111.60	123.53	10.7	323,392.3	11.3	11.1	0.5	0.5	4.4	4.2
New World Development	17 HK	BUY	23.65	26.89	13.7	59,518.4	14.8	13.2	0.3	0.3	8.7	8.7

Source: Bloomberg, UOB Kay Hian

ESSENTIALS

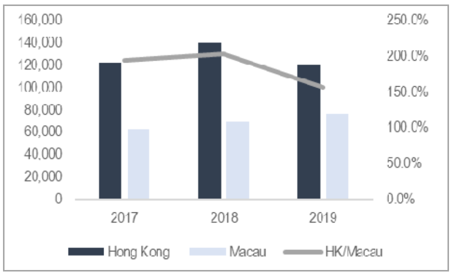
- **Hong Kong tourism data underperformed that of Macau during CNY.** For the first three days of CNY, the total number of China visitors visiting Hong Kong amounted to 41,236, which is equivalent to only 34.4% of the total number of China visitors to Macau. Back in 2017/2018/2019, the total number of mainland tourists to Hong Kong was 1.9x/2.0/1.6x the total number of mainland tourists to Macau. We think stricter crossing border requirements adopted by Hong Kong (eg negative PCR test results for the past 48 hours) is one of the major reasons for the slow recovery in Hong Kong tourism data. Under our neutral scenario: a) we expect the massive COVID-19 infections in China to come under control in 2Q23, and Hong Kong will cancel the PCR test requirement in 2Q23; b) in this case, the number of mainland tourists to Hong Kong will recover to 10%/25%/40%/50% of pre-COVID-19 levels in 1Q/2Q/3Q/4Q of 2023 respectively. During 8 Jan 23 (the first day of border opening with mainland China) to 24 Jan 23, the average number of daily mainland visitors to Hong Kong was 9,694, which is around 8% of pre-COVID-19 level and actually meets our expectations in our neutral case scenario.

MAINLAND VISITORS TO HONG KONG AND MACAU DURING 2023 CNY



Source: Hong Kong Tourism Board, Macau DSEC, UOB Kay Hian

ANNUAL MAINLAND VISITORS TO HONG KONG AND MACAU IN 2017/18/19



Source: Hong Kong Tourism Board, Macau DSEC, UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT on Hong Kong's property sector.** 1MHIBOR has fallen from the peak of 4.9% in Dec 22 to 2.95% as of 20 Jan 23. Looking forward, we expect 1MHIBOR to hover around 3.5-4.0% during 9M23. Thus, high mortgage rates will continue to weigh on home-buyers' sentiment. On the other hand, Hong Kong is expected to further remove restrictions on cross-border tourists, eg increasing the daily quota and officially cancelling PCR requirements. Such moves are expected to support the recovery of Hong Kong retail sales and property sales. Considering both downside and upside risks, we maintain MARKET WEIGHT on Hong Kong's property sector.

- **SHKP (16 HK) remains as our top pick.** We maintain BUY on SHKP with an unchanged target price of HK$123.53, based on a 40% discount to NAV of HK$205.90/share. We expect SHKP's 1HFY23 results to be under pressure, considering: a) SHKP's pace of sales launches as well as revenue booking slowed in 4Q22 when buyers' sentiments were dampened by the surging interest rates; b) SHKP's malls in Beijing, Shanghai and Guangzhou might be negatively affected by the massive COVID-19 infection wave that started in Dec 22. We cut FY23 revenue and underlying net profit forecasts by 6.6% and 5.9% respectively to reflect slower-than-expected revenue recognition. During this CNY Holiday (19-25 Jan 23), SHKP's 15 major malls recorded 25% and 30% yoy increase in aggregate footfall and retail sales respectively. SHKP is expected to launch the sale of Novo Land 2A&2B in Tung Mun after the CNY holiday. We expect positive market responses to be a positive catalyst.

- **Maintain BUY on NWD with an unchanged target price of HK$26.89,** based on a 57% discount to NAV of HK$59.75/share. With strengthened market presence in mainland China, NWD is expected to be a major beneficiary of China's sooner-than-expected removal of its zero-COVID policy. However, we believe NWD will continue to face relatively tight offshore liquidity and downside risks on dividend, considering: a) its weak pipeline of Hong Kong property sales in FY23 - the Wong Chuk Hang is expected to be launched in FY24; b) capex budget remains high at HK$36b for FY23 (vs HK$37b for FY22); c) delivery of The Pavilia Farm Phase II has been delayed to 2HFY23 – hence, the majority of revenue from The Pavilia Farm will be booked in 2HFY23.

- **Maintain BUY on Hysan with an unchanged target price of HK$29.40,** derived from a 2023 targeted dividend yield of 5.0%. Hysan has a solid record of stable dividend payout; with its prime retail portfolio in Hong Kong's core district, we expect Hysan to be a key beneficiary of Hong Kong's border reopening. Note that the upside from retail sales recovery will be partially offset by the impact of asset enhancement works conducted at Lee Gardens (ie the Lee Gardens Rejuvenation project). To factor in slower-than-expected progress of property sales (mainly Villa Lucca) and the impact of the interest rate hikes, we cut FY22/FY23 earnings by 9.8% and 10.0% respectively.

RISKS

- **Upside risks:** Better-than-expected economic recovery in China and/or Hong Kong in 2023.

- **Downside risks:** Faster-than-expected interest rate hike; slower-than-expected recovery of Hong Kong retail sales.

COMPANY UPDATE

WuXi AppTec (2359 HK)

Expects Revenue To Be Relatively Flat In 2023 But Regain Momentum In 2024

WuXi AppTec expects an adjusted net earnings growth of over 75% yoy for 2022. Due to robust service demand, it is maintaining its revenue CAGR target of 34% for 2021-24. We expect the company's revenue growth to be relatively flat in 2023 due to the high base in 2022, but to regain momentum in 2024. In the meantime, WuXi AppTec has also continued to expand its market share. Downgrade to HOLD on a relatively slow growth outlook for 2023. Maintain target price of HK$115.00.

WHAT'S NEW

- WuXi AppTec maintains its 2022 revenue growth guidance of 70-72% yoy, and expects an adjusted net earnings growth of over 75% yoy in 2022.
- It maintains its revenue CAGR target of over 34% for 2021-24. It also expects WuXi ATU's commercial projects to possibly bring in royalty income in 2023.

STOCK IMPACT

- **Guides for adjusted net earnings growth of 75% yoy for 2022.** WuXi AppTec maintains its 2022 revenue growth guidance of 70-72% yoy, and expects its adjusted net earnings to grow by over 75% yoy to reach approximately Rmb9b in 2022. It also expects its adjusted non-IFRS gross profit to grow by over 70% yoy to exceed Rmb14.8b in 2022, and adjusted gross margin to be approximately 38.0% in 2022, flat from 2021. We expect the company's profit margins to gradually improve in the next few years on effective cost control and higher capacity utilisation rate.
- **Expects flat revenue in 2023 given high base in 2022.** WuXi AppTec is maintaining its revenue CAGR target of over 34% for 2021-24, based on the steady growth in backlog and strong demand for contract research, development, and manufacturing organisation (CDRMO) service across all segments. The company believes its non-COVID-19 projects will continue to be key growth drivers, and expects a robust revenue growth of over 30% yoy for the segment in 2023. We estimate the large COVID-19-related projects to have generated approximately Rmb10b for WuXi AppTec in 2022. Assuming limited revenue contribution from the COVID-19 projects in 2023, the non-COVID-19 projects are unlikely to support a robust total revenue growth for the company in 2023. We expect revenue growth to regain momentum in 2024, supported by the steady global demand for CRDMO services.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	16,535.4	22,902.4	39,493.5	39,815.0	51,693.6
EBITDA	4,504.2	7,442.6	12,608.8	13,995.0	18,318.8
Operating profit	3,563.8	6,069.5	10,700.0	11,325.0	15,084.6
Net profit (rep./act.)	2,960.2	5,097.2	9,002.3	9,531.8	12,717.5
Net profit (adj.)	3,637.3	5,131.3	9,002.3	9,531.8	12,717.5
EPS (Fen)	129.1	174.7	306.4	324.5	432.9
PE (x)	71.9	53.1	30.3	28.6	21.4
P/B (x)	8.0	7.0	5.9	5.1	4.3
EV/EBITDA (x)	62.2	37.7	22.2	20.0	15.3
Dividend yield (%)	0.4	0.6	1.0	1.0	1.4
Net margin (%)	17.9	22.3	22.8	23.9	24.6
Net debt/(cash) to equity (%)	(13.3)	(9.4)	(10.4)	(13.0)	(19.0)
Interest cover (x)	43.4	n.a.	n.a.	n.a.	n.a.
ROE (%)	11.9	14.4	21.3	19.3	22.0
Consensus net profit	-	-	8,586	9,520	12,001
UOBKH/Consensus (x)	-	-	1.05	1.00	1.06

Source: WuXi AppTec, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	HK$107.20
Target Price	HK$115.00
Upside	+7.3%

COMPANY DESCRIPTION

A global leading CRO/CDMO company.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	2359 HK
Shares issued (m):	395.3
Market cap (HK$m):	331,190.8
Market cap (US$m):	42,288.0
3-mth avg daily t'over (US$m):	31.8

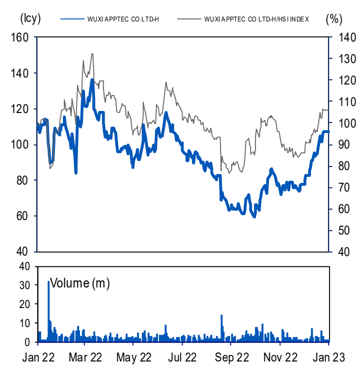
Price Performance (%)

52-week high/low HK$136.60/HK$59.15

1mth	3mth	6mth	1yr	YTD
45.1	61.9	2.2	(14.7)	30.0

Major Shareholders	%
Management team	25.0
-	-
-	-
FY23 NAV/Share (Rmbm)	18.12
FY23 Net Cash/Share (Rmbm)	2.36

PRICE CHART



Source: Bloomberg

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- **Continues to expand market share.** With its successful 'Follow-The-Molecule' and 'Win-The-Molecule' business strategy, the company has continued to expand its customer base and attract an increasing number of new projects. WuXi AppTec saw its clinical-stage new drug pipeline increase from 413 in 2H19 to 744 in 1H22, compared with 3,579 in 2H19 and 4,722 in 1H22 in the global market, respectively. This indicates its global market share of clinical-stage small molecule new drug pipeline has increased rapidly from 12% in 2019 to approximately 16% in 2022. The company has established five platforms (ie WuXi Chemistry, WuXi Biology, WuXi Testing, WuXi ATU and WuXi DDSU) across 32 global sites in nine countries. By leveraging on its strong service capacity of the integrated contract testing and development manufacturing organisation (CTDMO) model, WuXi AppTec expects its technology innovation to continue to evolve and allow the company to better serve global customers and achieve outstanding long-term growth.

- **Possible royalty income from commercial projects of WuXi ATU in 2023.** The The WuXi Advanced Therapies (WuXi ATU, cell and gene therapy) business retained revenue growth momentum and delivered 25.2% yoy growth in 9M22. The company provided development and manufacturing (D&M) services for 67 projects from pre-clinical to Phase III stage, including four projects in biologics licence application (BLA) preparation stage. It has successfully filed for BLAs for two projects in 3Q22, which are a tumour-infiltrating lymphocytes (TILs) project from a US-based client and one Lentiviral vector used for CAR-T product from a China-based client. The company expects these two commercial projects to be granted marketing approvals in 2H23, and they could bring in royalty income. This will likely mark a key milestone for WuXi ATU in commercial projects in 2023.

- **Expected to achieve cash flow breakeven in 2022.** WuXi AppTec's operating cash flow was Rmb7.4b in 9M22, surging by 142% yoy. The company achieved cash flow breakeven in 9M22, and it expects this trend to have continued for the full year of 2022. It maintained its annual capex forecast of Rmb9b-10b for 2022-24 unchanged. The company has terminated the approved issuance of H shares in Oct 22 due to the strong cash flow generated by record-high financial performance and COVID-19 commercial orders. There is a low likelihood of another H-share issuance before end-Aug 23.

- **Continues to expand operating capacity globally.** WuXi AppTec's total number of active clients was over 5,900 as at end-Sep 22. To capture the strong service demand across different segments, it planned to increase its headcount by 31% yoy from 34,912 at the end-21 to 45,646 as at end-22, and will further enhance its global service and manufacturing capacity. The company will continue to invest annual capex of Rmb9b-10b in 2022-24 to maintain high growth momentum. It has established a full supply chain in China, and continues to expand its global drug product (DP) and active pharmaceutical ingredient (API) manufacturing capacity through new site construction or acquisitions in the US, EU and Singapore. Its overseas facilities will account for no more than 10% of its total production capacity.

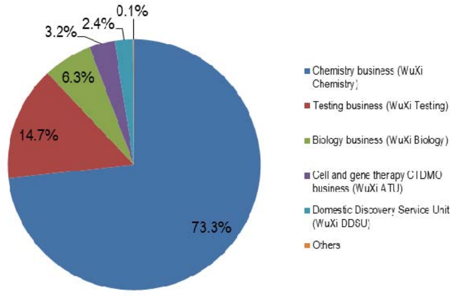
EARNINGS REVISION/RISKS

- We revise our revenue growth estimates from 20.6%/23.3% to 0.8%/29.8% for 2023-24, and revise our adjusted net earnings growth estimates from 26.2%/25.3% to 5.9%/33.4% for 2023-24 to reflect the company's relatively slow growth outlook in 2023. Our 2022 revenue and adjusted net earnings growth estimates remain unchanged.

VALUATION/RECOMMENDATION

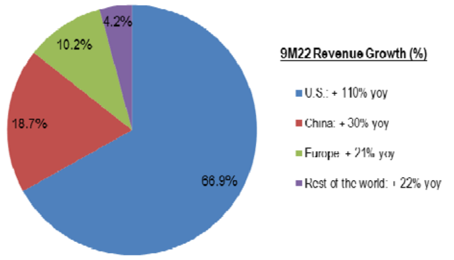
- **Downgrade to HOLD with a target price of HK$115.00** (603259 CH/HOLD/Target: Rmb103.50) based on the company's relatively slow growth outlook in 2023. The target price is based on 32x 2023F PE, or 1x PEG.

SEGMENTAL REVENUE (9M22)



Source: WuXi AppTec, UOB Kay Hian

REGIONAL REVENUE (9M22)



Source: WuXi AppTec, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	22,902.4	39,493.5	39,815.0	51,693.6
EBITDA	7,442.6	12,608.8	13,995.0	18,318.8
Deprec. & amort.	1,373.1	1,908.8	2,670.0	3,234.2
EBIT	6,069.5	10,700.0	11,325.0	15,084.6
Associate contributions	(117.3)	(117.3)	(117.3)	(117.3)
Net interest income/(expense)	63.4	41.7	41.7	41.7
Pre-tax profit	6,015.6	10,624.4	11,249.4	15,009.0
Tax	(879.7)	(1,553.6)	(1,645.0)	(2,194.8)
Minorities	(38.8)	(68.5)	(72.5)	(96.8)
Net profit	5,097.2	9,002.3	9,531.8	12,717.5
Net profit (adj.)	5,131.3	9,002.3	9,531.8	12,717.5

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	17,628.2	25,595.0	30,194.1	34,240.0
Other LT assets	15,513.5	16,382.0	16,382.0	16,382.0
Cash/ST investment	8,175.3	9,671.6	11,520.9	16,776.3
Other current assets	13,810.3	17,369.5	17,390.4	21,623.0
Total assets	55,127.4	69,018.1	75,487.4	89,021.4
ST debt	2,261.5	2,870.9	2,870.9	2,870.9
Other current liabilities	10,723.1	16,552.2	16,368.1	19,696.7
LT debt	2,290.6	2,043.1	1,771.8	2,000.2
Other LT liabilities	1,094.7	1,273.5	1,273.5	1,273.5
Shareholders' equity	38,491.5	45,965.4	52,817.6	62,697.8
Minority interest	266.0	312.9	385.5	482.2
Total liabilities & equity	55,127.4	69,018.1	75,487.4	89,021.4

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	4,378.7	13,083.3	12,219.4	15,294.5
Pre-tax profit	6,015.6	10,624.4	11,249.4	15,009.0
Tax	(879.7)	(1,553.6)	(1,645.0)	(2,194.8)
Deprec. & amort.	1,255.8	1,791.5	2,552.7	3,117.0
Associates	117.3	117.3	117.3	117.3
Working capital changes	(1,775.9)	1,953.8	(205.0)	(904.0)
Other operating cashflows	(354.4)	150.0	150.0	150.0
Investing	(4,628.4)	(9,645.1)	(7,145.1)	(7,145.1)
Capex (growth)	(7,068.8)	(9,632.8)	(7,132.8)	(7,132.8)
Investments	2,440.4	(12.3)	(12.3)	(12.3)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(1,723.9)	(1,942.0)	(3,224.9)	(2,894.0)
Dividend payments	(889.5)	(1,529.3)	(2,679.6)	(2,837.3)
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	(834.4)	(412.7)	(545.3)	(56.7)
Net cash inflow (outflow)	(1,973.6)	1,496.2	1,849.4	5,255.4
Beginning cash & cash equivalent	10,228.1	8,175.3	9,671.6	11,520.9
Changes due to forex impact	(79.1)	0.0	0.0	0.0
Ending cash & cash equivalent	8,175.3	9,671.6	11,520.9	16,776.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	32.5	31.9	35.1	35.4
Pre-tax margin	26.3	26.9	28.3	29.0
Net margin	22.3	22.8	23.9	24.6
ROA	10.1	14.5	13.2	15.5
ROE	14.4	21.3	19.3	22.0
Growth				
Turnover	38.5	72.4	0.8	29.8
EBITDA	65.2	69.4	11.0	30.9
Pre-tax profit	78.5	76.6	5.9	33.4
Net profit	72.2	76.6	5.9	33.4
Net profit (adj.)	41.1	75.4	5.9	33.4
EPS	35.3	75.4	5.9	33.4
Leverage				
Debt to total capital	10.5	9.6	8.0	7.2
Debt to equity	11.8	10.7	8.8	7.8
Net debt/(cash) to equity	(9.4)	(10.4)	(13.0)	(19.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

UOBKayHian

COMPANY RESULTS

Bank Negara Indonesia (BBNI IJ)

4Q22: Steadfast Recovery, Net Profit To Grow 19% In 2023

4Q22 net profit came in at Rp4.6t (-5.5% qoq/+47% yoy), bringing 2022 net profit to Rp18.3t (+68% yoy), exceeding expectations. Despite the reversal in CoF, BBNI could book 4.7% NIM in 2023, which will be driven by loan repricing, while an improvement in LaR and focus on growth on low-risk segments will support the CoC normalisation. We expect 19% NPAT growth in 2023, which will be mainly driven by a 40bp decline in CoC and high single-digit loan growth. We maintain BUY with a target price of Rp11,200.

2022 RESULTS

Year to 31 Dec (Rpb)	4Q22	qoq % chg	2022	2021	yoy % chg	Comments
Profit & Loss						
Interest Income	15,389	12.0	54,659	50,026	9.3	
Interest Expenses	4,267	35.5	13,338	11,779	13.2	
Net Interest Income	11,122	5.0	41,321	38,247	8.0	
Non-Interest Income	3,806	-21.2	14,820	13,639	8.7	
Total Income	16,279	5.6	61,472	55,865	10.0	
Operating Expenses	7,698	12.7	27,059	24,801	9.1	
PPOP	8,581	-0.1	34,413	31,064	10.8	
Provision Expenses	2,586	2.4	11,514	18,289	-37.0	Above our and market expectations
Net Profit	4,620	-5.5	18,312	10,898	68.0	

Key Metrics (%)	2022	2021	yoy % chg	4Q22	qoq % chg	Comments
Loan (Rpt)	646	582	10.9		3.8	Slightly above the guidance
Deposit (Rpt)	769	729	5.5		12.3	
Loan/Deposit Ratio	84.0%	79.9	4.1		-6.9	
CASA Ratio	72.4%	69.4	3.0		1.6	
NIM	4.8%	4.7%	0.1	4.85%	-0.2	at upper limit of the guidance
Cost of Fund	1.5%	1.6%	-0.1	1.80%	0.4	
CIR	42.6%	43.3%	-0.7	46.10%	2.9	
NPL Ratio	2.8%	3.7%	-0.9	2.80%	-0.2	
NPL Coverage Ratio	278.3%	233.4%	44.9	278.3%	7.5	
Credit Cost	1.9%	3.3%	-1.4	1.60%	0.0	at lower limit of the guidance
CAR	19.3%	19.7%	-0.4	19.3%	0.4	
ROAE	14.9%	9.4%	5.5	14.3%	-1.1	

Source: BBNI

RESULTS

- **4Q22 net profit down 5.5% qoq, but up 47% yoy and above expectation.** Bank Negara Indonesia's (BBNI) 4Q22 net profit fell 5.5% qoq but rose 47% yoy to Rp4.6t. The solid 4Q22 net profit led 2022 net profit to Rp18.3t, growing 68% yoy, higher than the net profit of Rp15.4t in 2019. It was mainly driven by: a) a 15bp increase in NIM, b) strong non-interest income, and c) a 37% decline in provision expenses. 2022 net profit is above our and market expectations, accounting for 104% and 103% of our and market 2022 net profit estimates.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net interest income	38,247	41,321	44,249	47,989	51,631
Non-interest income	17,619	20,151	21,402	22,642	23,969
Net profit (rep./act.)	10,899	18,312	21,848	24,606	26,652
Net profit (adj.)	10,899	18,312	21,848	24,606	26,652
EPS (Rp)	584.4	981.9	1,171.5	1,319.4	1,429.2
PE (x)	15.5	9.2	7.7	6.9	6.3
P/B (x)	1.4	1.2	1.1	1.0	0.9
Dividend yield (%)	1.6	3.2	3.9	4.4	4.7
Net int margin (%)	4.6	4.6	4.6	4.7	4.6
Cost/income (%)	44.4	44.0	44.0	43.9	44.1
Loan loss cover (%)	233.6	277.1	281.8	249.8	214.8
Consensus net profit	-	-	21,151	24,038	25,182
UOBKH/Consensus (x)	-	-	1.03	1.02	1.06

Source: Bank Negara Indonesia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp9,075
Target Price	Rp11,200
Upside	+23.4%

COMPANY DESCRIPTION

BBNI is a state-owned bank focusing on corporate and SME loans.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	BBNI IJ
Shares issued (m):	18,648.7
Market cap (RMm):	169,236.6
Market cap (US$m):	11,308.8
3-mth avg daily t'over (US$m):	14.7

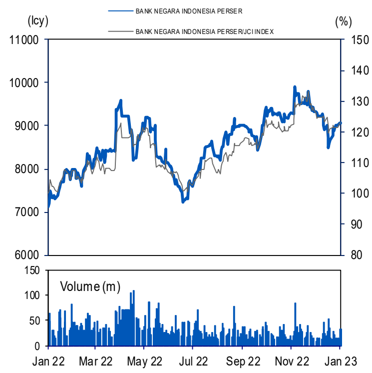
Price Performance (%)

52-week high/low Rp9,900/Rp7,125

1mth	3mth	6mth	1yr	YTD
(2.7)	(3.7)	19.4	33.5	(1.6)

Major Shareholders	%
Republic of Indonesia	60.0
-	-
-	-
FY23 NAV/Share (Rp)	8,368
FY23 CAR Tier-1 (%)	18.18

PRICE CHART



Source: Bloomberg

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- **NIM down 16bp qoq to 4.85% due to higher CoF.** Anticipating FED rate hikes and 7DRR, management raised its deposit rates in 4Q22, bringing the cost of fund (CoF) higher to 35bp qoq. It tapered off the 25bp qoq yield improvement due to the loan repricing and loan at risk (LaR) reduction and led to a 16bp decline in NIM. Despite a declining trend in NIM in 4Q22, management believes NIM could go higher than 4.7% in 2023 which will be supported by the repicing of loans. The first phase of repricing was in 4Q22 and the impact could be seen in 1Q23 while the second phase of repricing would be in 1H23.

- **Healthy loan growth derived from lower-risk segments continues to de-risk its balance sheet.** Loans grew 10.9% yoy (+3.8% qoq) which were supported by lower risk segments; corporate private: +28.9% yoy (+9.8% qoq), large commercial: +29.9% yoy (+7.6% qoq), Kredit Usaha Rakyat- government program (KUR): +19.8% yoy (+2.8% qoq), and personal loan: +20.3% yoy (+4.1% qoq). The lower-risk segment contributed 59% of total loans in Dec 22, up from 52% in Dec 21 while the corporate private segment which comprise of mostly top tier corporate clients contributed 36% of total loans in Dec 22 (Dec 21:31%).

- **De-risking balance sheet and declining LaR, expect CoC to go down.** LaR continued to decline to 16% of loan in Dec 22 (Dec 21:23.3%). The nominal LaR dropped 24.2% yoy (-13.9% qoq) as the restructured loans, special mention loan (SML), and non-performing loan (NPL) were down 25.6% yoy, 17.2% yoy, and 16.2% yoy respectively. Aside from this, BBNI is focusing on lower risk segments which improve the bank's risk-adjusted-NIM, which stood at 3.5% in 2022 (2021: 2.4%). The LaR and NPL coverage came in at 49% and 278% respectively. The economic reopening supports the improvement in its restructured loans for certain industries such as tourism and textiles, which would result in improved loan collectibility. The declining LaR, robust coverage, and de-risking of its balance sheet could lead to lower credit cost (CoC).

- **Fee-based income from business banking grew strongly to support non-interest income.** Non-interest income grew 8.7% yoy, accounting for 24% of operating income. Consumer and business banking posted solid yoy growth of 4.6% and 15.2% respectively. The top contributors in business came from syndication fee (+100.6% yoy), share investment, custodial, and co-operative bank fees (+32.7% yoy) and forex trading, derivatives & revaluation and derivatives (+20.4% yoy). Meanwhile, cost to income ratio (CIR) declined to 42.6% in 2022 from 43.3% in 2021.

EARNINGS REVISION/RISKS

- **No significant earnings revisions.** A minor change in our earnings estimates is due to adjustment of 2022 results to our financial model. Assuming a high single-digit loan growth, NIM of 4.7% and CoC of 1.5%, we project BBNI to deliver 19% net profit growth to Rp21.8t in 2023. In the last three months, market revised up BBNI's 2023 net profit estimate by 4%. Our 2023 net profit estimate is 4% above market's net profit estimate.

- **Risks:** Adverse macro development, worsening asset quality, lower NIM and higher expenses.

NEW AND OLD EARNINGS ESTIMATES

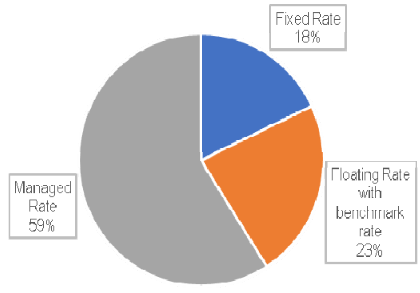
	--------------- New ---------------		--------------- Old ---------------		------------ Changes ------------	
(Rpb)	2023F	2024F	2023F	2024F	2023F	2024F
Operating Income	65,651	70,631	65,113	69,826	0.8%	1.2%
PPOP	36,762	39,613	37,206	39,853	-1.2%	-0.6%
Net Profit	21,848	24,606	21,959	24,459	-0.5%	0.6%

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

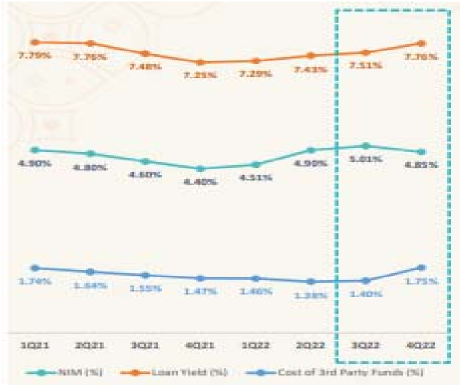
- **Maintain BUY with a target price of Rp11,200.** We arrive at 1.3x 2023F P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.5%, and long-term growth: 5%. BBNI's ROE could recover faster than we expected. ROAE reached 15.2% in 9M22 (9M21:9.2%). Currently, BBNI is trading at 1.1x forward P/B, close to its five-year mean historical forward P/B. BBNI is the cheapest among the Big Four banks, trading at almost 40% discount to Bank Mandiri's (BMRI) P/B. BBNI experiences continuous transformation and aspires to bring back its ROE to 18% from current ROAE of 14.9%. It is higher than 9.4% in 2021 and 13% in 2019.

LOAN COMPOSITION BY PRICING



Source: BBNI

YIELD, COF AND NIM TREND



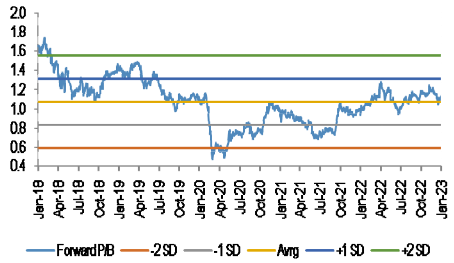
Source: BBNI

ASSET QUALITY BREAKDOWN

(Rpb)	Dec-22	Sep-22	Dec-22	yoy	qoq
Current	532.7	573.6	601.9	13.0%	4.9%
Special Mention	27.3	26.6	22.6	-17.2%	-15.0%
NPL	21.5	18.8	18	-16.3%	-4.3%
Restructured Loan					
Current	86.9	74	62.2	-28.4%	-15.9%
COVID-19	64.2	49.4	42.6	-33.6%	-13.8%
Non COVID-19	22.7	24.6	19.6	-13.7%	-20.3%
Special Mention	24.7	22.6	19.1	-22.7%	-15.5%
NPL	11.3	10.5	10.1	-10.6%	-3.8%
Total Restructured Loan	122.9	107.1	91.4	-25.6%	-14.7%
Total LaR	135.7	119.4	102.8	-24.2%	-13.9%
LaR Ratio	23.3%	19.3%	16.0%	-3.3%	-7.3%
LaR Coverage	37%	42%	49%	6.5%	11.8%
NPL Coverage	233%	271%	278%	7.5%	44.9%

Source: BBNI

FIVE-YEAR FORWARD P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Interest income	54,659	60,661	66,608	72,737
Interest expense	(13,338)	(16,412)	(18,619)	(21,106)
Net interest income	41,321	44,249	47,989	51,631
Fees & commissions	9,738	10,615	11,464	12,381
Other income	10,413	10,787	11,179	11,588
Non-interest income	20,151	21,402	22,642	23,969
Total income	61,472	65,651	70,631	75,600
Staff costs	(12,456)	(13,702)	(15,072)	(16,579)
Other operating expense	(14,603)	(15,187)	(15,947)	(16,744)
Pre-provision profit	34,413	36,762	39,613	42,277
Loan loss provision	(11,514)	(9,110)	(8,420)	(8,496)
Other provisions	0	0	0	0
Associated companies	(0)	n.a.	n.a.	n.a.
Other non-operating income	(212)	(89)	(151)	(157)
Pre-tax profit	22,686	27,563	31,042	33,624
Tax	(4,205)	(5,513)	(6,208)	(6,725)
Minorities	(170)	(202)	(228)	(247)
Net profit	18,312	21,848	24,606	26,652
Net profit (adj.)	18,312	21,848	24,606	26,652

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Cash with central bank	82,922	58,104	63,375	69,128
Govt treasury bills & securities	121,292	121,882	124,087	125,695
Interbank loans	69,511	123,678	135,128	147,649
Customer loans	595,854	637,348	698,683	766,064
Investment securities	28,556	40,221	43,874	47,861
Derivative receivables	19,597	698	717	797
Associates & JVs	609	639	671	705
Fixed assets (incl. prop.)	26,549	25,035	24,259	23,399
Other assets	84,946	82,732	99,499	115,647
Total assets	1,029,837	1,090,338	1,190,294	1,296,945
Interbank deposits	15,245	16,021	17,476	19,064
Customer deposits	769,269	812,548	886,339	966,885
Derivative payables	775	2,137	2,244	2,356
Debt equivalents	57,764	54,921	58,205	61,791
Other liabilities	46,586	45,036	46,852	48,746
Total liabilities	889,639	930,663	1,011,117	1,098,843
Shareholders' funds	135,816	156,047	174,938	195,089
Minority interest - accumulated	4,382	3,628	4,240	3,013
Total equity & liabilities	1,029,837	1,090,338	1,190,294	1,296,945

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	19.0	18.2	18.7	19.1
Total CAR	17.9	19.4	20.0	20.4
Total assets/equity (x)	7.6	7.0	6.8	6.6
Tangible assets/tangible common equity (x)	7.6	7.0	6.8	6.6
Asset Quality				
NPL ratio	2.9	2.5	2.5	2.5
Loan loss coverage	277.1	281.8	249.8	214.8
Loan loss reserve/gross loans	8.0	7.1	6.2	5.4
Increase in NPLs	(15.6)	(4.3)	7.2	8.6
Credit cost (bp)	195.0	150.0	130.0	120.0
Liquidity				
Loan/deposit ratio *	84.0	84.5	84.1	83.7
Liquid assets/short-term liabilities	34.5	36.3	35.4	34.4
Liquid assets/total assets	26.6	27.9	27.1	26.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	8.0	7.1	8.5	7.6
Fees & commissions, yoy chg	8.9	9.0	8.0	8.0
Pre-provision profit, yoy chg	10.8	6.8	7.8	6.7
Net profit, yoy chg	68.0	19.3	12.6	8.3
Net profit (adj.), yoy chg	68.0	19.3	12.6	8.3
Customer loans, yoy chg *	12.0	7.0	9.6	9.6
Customer deposits, yoy chg	5.5	5.6	9.1	9.1
Profitability				
Net interest margin	4.6	4.6	4.7	4.6
Cost/income ratio	44.0	44.0	43.9	44.1
Adjusted ROA	1.8	2.1	2.2	2.1
Reported ROE	14.1	15.0	14.9	14.4
Adjusted ROE	14.1	15.0	14.9	14.4
Valuation				
P/BV (x)	1.2	1.1	1.0	0.9
P/NTA (x)	1.2	1.1	1.0	0.9
Adjusted P/E (x)	9.2	7.7	6.9	6.3
Dividend Yield	3.2	3.9	4.4	4.7
Payout ratio	30.0	30.0	30.0	30.0

SECTOR UPDATE

Telecommunications – Malaysia

5G Uncertainties To Remain Until End-1Q23

The 5G network policy by DNB with added features will be tabled before the Cabinet by end-1Q23. We expect the single wholesale network to remain with potential changes including a secondary equipment provider. Other possibilities include a dual wholesale network or award of 5G spectrum to telcos. Maintain MARKET WEIGHT on the sector. We project 16% yoy sector growth in the absence of the prosperity tax for 2023. TIME offers lush 13% dividend, including a special dividend of RM1b for 2023.

WHAT'S NEW

- **5G: Uncertainties abound…** The unity government beckons the question of the validity of a single wholesale network (SWN) model under MOF-owned Digital Nasional (DNB). Right after the announcement of Anwar Ibrahim as Malaysia's 10th Prime Minister, wireless players' share prices rallied an average of 7% (ie Axiata, Maxis and Digi). The market seems to expect a reversal of the SWN model in favour of either a dual wholesale network (DWN) or awarding 5G spectrum to the respective telcos. We believe Maxis may be a beneficiary in the case of a DWN. To recap, Maxis recently postponed seeking its shareholders' approval on the entry into a 5G wholesale access agreement with DNB. Maxis, the only major mobile network operator (MNO) who has yet to execute the Access Agreement (AA) for 5G service, said it would wait until the government had finalised the 5G implementation policy.

- **....as new minister to announce added 5G feature by end-Mar 23.** The media reported that the Ministry of Communications and Digital is expected to announce the introduction and implementation of 5G by DNB with added features by end-Mar 23. Minister Fahmi Fadzil said DNB is currently studying and evaluating the available options to ensure the implementation will not just achieve an 80% success but will be expanded throughout the country. The 5G network implementation policy is expected to be tabled before the Cabinet by end-1Q23.

- **Our base case: SWN with potential inclusion of a secondary equipment provider.** On careful consideration, taking into account industry feedback and channel checks, we believe the likely outcome would be:

  a) **DNB to remain the single network provider for 5G.** Rollout is currently underway, achieving 47% population coverage as of end-22.

  b) **Potential introduction of second network equipment provider.** Under the contract signed between DNB and Ericsson, there is a provision to introduce a second network equipment provider. This includes the likes of Huawei, Nokia and ZTE. Maxis is currently utilising Huawei for its 4G rollout.

  c) **Expediting 5G rollout.** In our opinion, potential introduction of a second equipment network provider may lead to two things: a) reduce costs – assuming the likes of Huawei comes in at a discount, and b) expedited 5G rollout.

MARKET WEIGHT

(Maintained)

SECTOR TOP PICKS

Top pick	Rec	Target Price (RM)	EV/ EBITDA (x)	Div Yield (%)
TIME	BUY	6.40	11.0	13.5

Source: Bloomberg, UOB Kay Hian

SALIENT POINTS OF THE 5G WSA WITH DNB

- Five telcos signed – Digi, Celcom, YTL Communications, TM, U Mobile.
- 10-year wholesale agreement (WSA).
- All five Telcos received same offer pricing.
- Min capacity is RM288m for five telcos – 800Gbps/month.
- Telcos who sign in 2023 – min capacity requirement goes up to 1,000Gbps/month.
- MSAP reviewed every 1.5 years – better than expected, meeting telco's demand.
- Five telcos signed – Digi, Celcom, YTL Communications, TM, U Mobile.

Source: UOB Kay Hian

JENDELA CURRENT STATUS AND TARGETS

Targets	Base-line	---------- As At ---------- 30/6/ 22	30/9/ 22	-------- Targeted By -------- End-22 (1st phase)	2025 (2nd phase)
Premises Passed (m)	4.957	7.2	7.44	7.5	9.0
Mobile Broadband Speed (Mbps)	25	47.04	52.48	35	100
4G Coverage (%)	91.8	95.82	n.a.*	96.9	100

** Coverage is measured on a quarterly basis. 4G coverage for 3Q22 will be available by end Oct 2022.*

Source: MCMC, UOB Kay Hian

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PEER COMPARISON

Company	Tickers	Rec	Share Price 20 Jan 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY23F (x)	PE FY24F (x)	EV/EBITDA FY23F (x)	EV/EBITDA FY24F (x)	Dividend Yield FY23F (%)	Dividend Yield FY24F (%)
DiGi.Com	DIGI MK	HOLD	4.18	3.85	49,037.7	25.7	24.3	17.8	17.8	3.9	4.1
Maxis	MAXIS MK	HOLD	3.96	3.65	31,007.4	21.9	20.1	9.9	9.8	4.6	5.0
Axiata	AXIATA MK	HOLD	3.04	3.50	27,898.8	18.1	17.6	3.6	3.6	4.4	6.0
Telekom Malaysia	T MK	BUY	5.20	6.60	19,869.3	13.3	11.8	4.3	4.1	4.1	4.6
TIME dotCom	TDC MK	BUY	5.17	6.40	9,505.4	20.7	18.8	11.3	10.1	13.5	5.3
OCK Group	OCK MK	HOLD	0.400	0.450	421.8	15.7	14.7	4.7	4.6	1.3	1.4

Source: Bloomberg, UOB Kay Hian

- **Possibility of lower telco prices.** In a streamed Facebook programme on 15 Dec 22, Fahmi Fadzil revealed that he had asked the Malaysian Communications & Multimedia Commission (MCMC) and the telcos to conduct a study to fulfil the people's aspiration for cheaper telco services. On the same day, wireless players' share prices dropped 3%. We think this is not essential to the sector due to the fact that: a) current telco prices are already affordable, b) fierce competition within MNOs will drive telco prices down naturally, and c) expanding coverage in rural areas should be the key focus by the minister to offer good quality of service (QOS).
- **A government initiative, JENDELA Phase 2** has set overarching targets for 2023-25, including: a) 9m fixed-broadband premises passed – from 7.44m currently, b) 100% 4G coverage, and c) 100Mbps mobile broadband speed. DNB also revealed that it would be spending RM1.3b in 2023 to achieve 70% 5G population coverage and targets to achieve 80% population coverage by end-24. As of end-22, 5G population coverage was at almost 50% (47%).

ACTION

- **2023 net profit to grow 16% yoy, in the absence of 2022's one-off prosperity tax.** We project a 16% growth in 2023 sector net profit to RM6,140m, reflecting a 2% yoy service revenue growth, good cost discipline and the absence of the one-off prosperity tax for 2022. Stripping out the prosperity tax element, sector pre-tax profit is expected to grow 9% yoy. Fixed-line players will continue to demonstrate robust top-line (mid-teens subscriber growth despite ARPU dilution given more entry-level packages being sold) thanks to strong underlying demand for home broadband services and the expansion of fibre footprint under the JENDELA programme.
- **Maintain MARKET WEIGHT; prefer fixed over wireless.** We note that the sector has underperformed the FBMKLIC by 4% in 2022. This is led by Axiata (-22%), Maxis (-17%) and Digi (-5%). We believe current valuation and share price underperformance have partly reflected: a) the adverse impact from a single wholesale network model for 5G in Malaysia, b) the big telco players - Digi, Celcom and Maxis - losing their superior network coverage, and c) intensifying competition for mobile incumbent mobile players in Malaysia. As such, we maintain MARKET WEIGHT on the sector given a lack of key re-rating catalysts for the sector. We prefer the fixed players over wireless. Our top pick is TIME dotCom (TIME) for its good growth prospects and earnings upside from core retail, DC and wholesale businesses.

ESSENTIALS

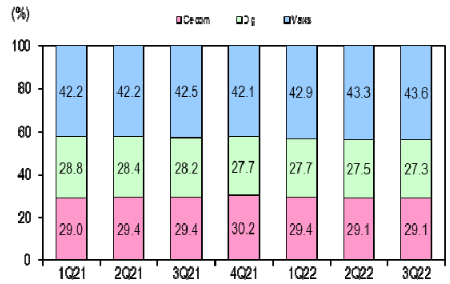
- **Key events to look out for in 1H23 include:** a) rollout of 5G to cover 70% of the population by end-23, b) transition to Phase 2 of JENDELA, c) data price competition to be partly mitigated by innovative product launches to sustain market share, d) synergistic savings from the merger of Celcom and Digi, e) Mandatory Standard Access Pricing (MSAP) details to be announced by the regulator, and f) outcome of the review of 5G rollout via DNB.
- **TIME's special dividend of 54 sen/share (net yield of 11%).** The cash proceeds from TIME's stake sale in AIMS are estimated at RM2b. TIME will utilise the proceeds to: a) declare dividend of up to RM1b, and b) re-invest the remainder in the TIME group for further growth – this will include new growth businesses. The special dividend of RM1b works out to 54 sen/share or net dividend yield of 11%.
- **TIME dotCom (TDC MK/BUY/Target: RM6.40)** offers a three-year earnings CAGR of 10% (vs muted sector growth), underpinned by strong home fibre sales and data centre contribution. We view the 70% stake sale of AIMS positively. Given that the sale is valued at 37x EV/EBITDA while TIME currently trades at 14x EV/EBITDA, the deal is both value- and earnings-accretive. We expect TIME to replenish the loss of revenue from the AIMS stake sale within 18-24 months (or even as soon as a year).

DNB 5G ROLLOUT AT 47% AS OF END-22

State	Coverage of Populated Areas (COPA %)	
	End-2022 (Planned)	End-2022 (Actual)
KUALA LUMPUR	97.1%	97.5%
PUTRAJAYA	97.3%	97.1%
SELANGOR	85.0%	89.5%
MELAKA	55.0%	51.3%
NEGERI SEMBILAN	49.5%	49.7%
JOHOR	30.0%	52.3%
PULAU PINANG	30.8%	41.1%
PERAK	16.8%	37.7%
SARAWAK	34.7%	32.4%
SABAH	21.9%	27.9%
PAHANG	0.0%	18.2%
TERENGGANU	0.0%	10.8%
KELANTAN	0.0%	11.7%
KEDAH	0.0%	13.1%
PERLIS	0.0%	9.5%
W.P. LABUAN	0.0%	0.0%
Total	37.9%	47.1%

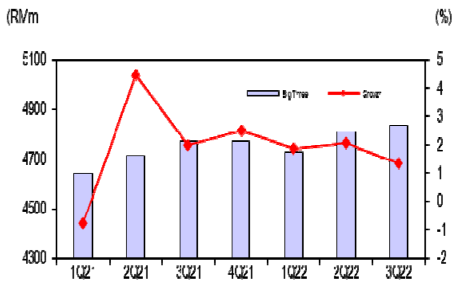
Source: DNB

MOBILE SUBSCRIBERS' MARKET SHARE



Source: Respective companies

BIG THREE'S QUARTERLY SERVICE REVENUE



Source: Respective companies

SECTOR UPDATE

Banking – Singapore

4Q22 Results Preview: Continued Double-Digit NIM Expansion

The pace of NIM expansion has moderated but remains significant at double-digit. DBS and OCBC grew net interest income by a hefty 53% and 49% yoy respectively. Asset quality remains benign. We forecast net profit of S$2,151m for DBS (+54% yoy but -4% qoq) and S$1,510m for OCBC (+55% yoy but -6% qoq). DBS could provide a positive surprise by declaring a special dividend. BUY DBS (Target: S$45.35) and OCBC (Target: S$17.75) for 2023 dividend yields of 4.7%. Maintain OVERWEIGHT.

WHAT'S NEW

- DBS will be announcing its 4Q22 results on 13 February, followed by UOB on 23 February and OCBC on 24 February.

DBS Group Holdings (DBS SP/BUY/S$35.51/Target: S$45.35)

- We forecast net profit to grow 54% yoy but recede 4% qoq to S$2,151m in 4Q22. The strong growth was powered by continued NIM expansion.
- **Slower but still significant NIM expansion.** We expect loans to grow 4.8% yoy but remain flat qoq in 4Q22. The anaemic loan growth was caused by large Chinese corporations switching from borrowing US dollar offshore, such as trade finance facilities, to borrowing renminbi onshore. NIM expanded by a significant 15bp qoq to 2.05%. NIM expansion has moderated from the 32bp registered in 3Q22 as cost of deposits has crept up due to competition for fixed deposits. Net interest income grew by a massive 53% yoy.
- **Fees & commission declined 3% yoy.** Contribution from wealth management remains lacklustre at S$335m (-12% yoy) as high-net-worth clients continue to adopt a risk-off approach and remained on the sidelines. Fees from loan-related sources and transaction services are expected to be flat. Contribution from cards increased 15% yoy due to resumption of business and leisure travel.
- **Other non-interest income higher yoy due to low base.** We expect other non-interest income to increase 13% yoy in 4Q22 with healthy increases in both net trading income and gains from investment securities.
- We expect operating expenses to increase 10% yoy and cost-to-income ratio at 42.8%.
- **Asset quality remains benign.** We expect NPL formation to be benign and NPL ratio to be stable at 1.2%. DBS has ample management overlay for general provisions of S$2.1b set aside previously due to the COVID-19 pandemic. Thus, we expect 4Q22 credit cost to come in at 14bp, marginally lower than the 16bp in 3Q22.
- We expect DBS to maintain its quarterly dividend at 36 S cents for 4Q22.
- **Review of dividend policy.** The implementation of Basel 4 is expected to improve DBS' CET-1 CAR by 1-2ppt to 15-16% once it is implemented on 24 January, which is significantly above its comfortable operating range of 12.5-13.5%. Management could return the surplus capital to shareholders in the form of a special dividend. We have conservatively assumed that DBS rewards its shareholders with a special dividend of S$0.80 per share, which would deplete CET-1 CAR by 0.6ppt.
- Our target price of S$45.35 is based on 1.95x 2023F P/B, derived from Gordon Growth model (ROE: 16.1%, COE: 8.5%, Growth: 0.5%).

OVERWEIGHT

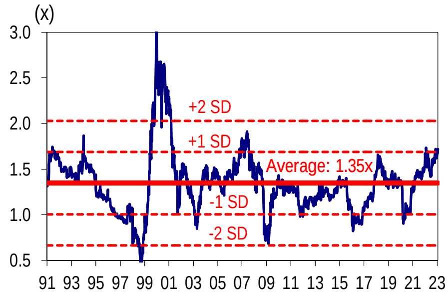
(Maintained)

TOP BUYS

Company	Rec	Share Price (S$)	Target Price (S$)
DBS	BUY	35.51	45.35
OCBC	BUY	12.85	17.75

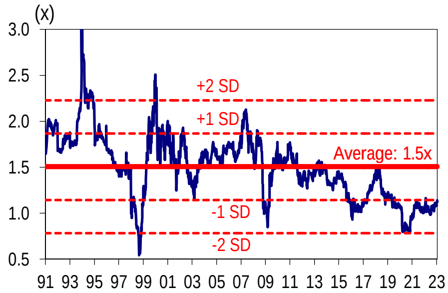
Source: UOB Kay Hian

P/B – DBS



Source: UOB Kay Hian

P/B – OCBC



Source: UOB Kay Hian

P/B – UOB

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 25 Jan 23 (S$)	Target Price (S$)	Market Cap (US$m)	FY	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	P/PPOP 2023F (x)	P/PPOP 2024F (x)	Yield 2023F (%)	Yield 2024F (%)	ROE 2023F (%)	ROE 2024F (%)
DBS	DBS SP	BUY	35.51	45.35	69,475	12/2021	9.9	9.1	1.55	1.42	7.7	7.1	4.7	5.1	15.6	16.0
OCBC	OCBC SP	BUY	12.85	17.75	43,904	12/2021	8.9	8.5	1.02	0.95	7.9	7.7	4.7	5.0	11.5	11.2
UOB*	UOB SP	NR	29.91	n.a.	38,077	12/2021	9.1	8.4	1.09	1.02	7.2	6.7	5.3	5.6	12.5	12.8
Average							9.3	8.7	1.22	1.13	7.6	7.2	4.9	5.2	13.2	13.3

*Source: Bloomberg, UOB Kay Hian *Based on consensus estimate*

PROFIT & LOSS – FORECAST FOR DBS (4Q22)

Profit & Loss (S$m)	4Q22F	4Q21	yoy % Chg	3Q22	qoq % Chg
Net Interest Income	3,268	2,140	52.7	3,020	8.2
Fees & Commissions	791	815	-3.0	771	2.5
Other Operating Income	500	442	13.1	753	-33.6
Total Income	4,558	3,397	34.2	4,544	0.3
Operating Expenses	(1,951)	(1,771)	10.2	(1,825)	6.9
PPoP	2,607	1,626	60.3	2,719	-4.1
Provisions	(152)	(33)	361.3	(178)	-14.5
PBT	2,455	1,593	54.1	2,541	-3.4
Net Profit	2,151	1,393	54.4	2,236	-3.8
EPS (S cents)	82.5	53.0	55.7	85.3	-3.2
DPS (S cents)	116	36	222.2	36	222.2
BVPS (S$)	21.73	21.47	1.2	20.66	5.2

Source: UOB Kay Hian

Oversea-Chinese Banking Corporation (OCBC SP/BUY/S$12.81/Target: S$17.75)

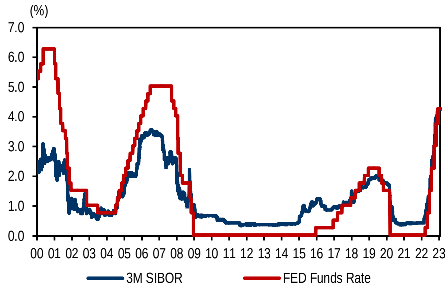
- We forecast net profit of S$1,510m for 4Q22, representing a 55% yoy growth but a 6% qoq decline. The strong growth was powered by continued NIM expansion.
- **On track to achieve mid-single-digit loan growth.** We expect loan growth to be slow at 4.2% yoy and 0.5% qoq in 4Q22, driven mainly by network customers expanding overseas to acquire logistics, data centre and student accommodation properties and sustainable finance. We expect NIM to expand by 13bp qoq to 2.19%. NIM expansion has moderated from the 35bp registered in 3Q22 as cost of deposits has crept up due to competition for fixed deposits. OCBC also revised interest rates for its flagship 360 saving accounts to 4.65% in Nov 22. Net interest income grew by a massive 49% yoy.
- **Contribution from wealth management remains lacklustre.** We expect fee income to drop 14% yoy in 4Q22. Wealth management fees are expected to decline 19% yoy as investors gravitate towards low-risk assets, such as fixed deposits and treasury bills. Contributions from loans & trade related fees remain stable.
- **Great Eastern incurred mark-to-market losses.** Yield for 20-year Singapore government bond yield compressed 77bp qoq to 2.60% in 4Q22. As such, we expect contributions from life insurance to be lower at S$190m (4Q21: S$249m) due to mark-to-market losses from revaluing life insurance liabilities higher. We expect net trading income to be seasonally softer at S$175m (3Q22: S$194m).
- **Asset quality remains stable.** We expect NPL ratio to be stable at 1.3%. OCBC has to set aside additional general provisions after reviewing its macro-economic variable (MEV) model. We have factored in higher credit costs of 22bp in 4Q22 (9M22: 9bp), bringing credit costs for the full year to 15bp, which is in line with management's guidance of mid-teens for 2022.
- Our target price of S$17.75 is based on 1.40x 2023F P/B, derived from the Gordon growth model (ROE: 11.7%, COE: 8.5%, Growth: 0.5%).

PROFIT & LOSS – FORECAST FOR OCBC (4Q22)

Profit & Loss (S$m)	4Q22F	4Q21	yoy % Chg	3Q22	qoq % Chg
Net Interest Income	2,229	1,492	49.4	2,099	6.2
Fees & Commissions	455	528	-13.9	453	0.4
Insurance	240	299	-19.7	370	-35.1
Net Trading Income	175	152	15.1	194	-9.8
Other Non-Interest Income	72	79	-8.9	36	100.0
Total Income	3,171	2,550	24.3	3,152	0.6
Operating Expenses	(1,452)	(1,315)	10.4	(1,295)	12.1
PPOP	1,719	1,235	39.2	1,857	-7.4
Provisions	(166)	(317)	-47.6	(154)	7.8
Associates	218	198	10.0	256	-14.9
PBT	1,771	1,116	58.7	1,959	-9.6
Net Profit	1,510	973	55.2	1,605	-5.9
EPS (S cents)	33.6	21.3	58.2	35.0	-4.0
DPS (S cents)	28.0	28.0	0.0	0.0	n.m.
BVPS (S$)	11.79	11.46	2.8	11.29	4.4

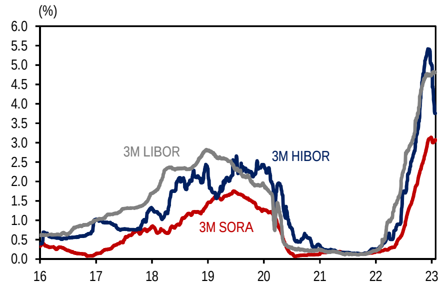
Source: UOB Kay Hian

US FED FUNDS RATE VS 3M SIBOR



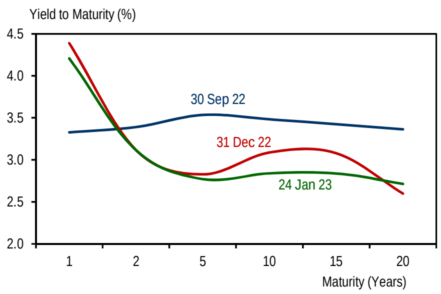
Source: Bloomberg

THREE-MONTH COMPOUNDED SORA



Source: Bloomberg

YIELD CURVE – SINGAPORE



Source: Bloomberg

ACTION

- **Recovery in Europe and China.** The US economy has decelerated with retail sales contracting 1.1% mom in Dec 22 on a seasonally adjusted basis. Industrial production has declined with weakness in manufacturing. Home sales fell 18% in 2022, while housing starts and building permits remain soft. On the other hand, the outlook for the European economy has improved. Fiscal stimulus has limited the impact of higher energy prices on businesses and consumers. European countries have overcome the energy crisis due to a mild winter and efforts to curb usage. China has switched from zero-tolerance to living with COVID-19 as an endemic disease. The reopening of the Chinese economy and recent refocus on pro-growth policies would engender recovery in 2H23.

- **Attractive dividend payout draws investors to banks.** Shareholders would be rewarded with higher dividends in tandem with the strong growth in earnings. We expect DBS and OCBC to increase DPS by 17% and 7% respectively to S$1.68 (42 S cents per quarter) and S$0.60 (30 S cents each for 1H23 and 2H23) in 2023. DBS and OCBC each provide 2023 dividend yield of 4.7%.

- **Maintain OVERWEIGHT.** Banks benefit from the ongoing hikes in interest rates and NIM expansion on a full-year basis in 2023, with DBS the most sensitive to higher interest rates. BUY DBS (Target: S$45.35) and OCBC (Target: S$17.75).

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	DBS			OCBC			UOB*		
Price (S$)	35.51			12.85			29.91		
Year to 31 Dec	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
EPS (S ¢)	307	359	392	132	145	151	277	330	354
DPS (S ¢)	144	168	180	56	60	64	135	159	167
Payout Ratio (%)	46.9	46.8	45.9	42.3	41.4	42.4	48.7	48.0	47.2
Dividend Yield (%)	4.1	4.7	5.1	4.4	4.7	5.0	4.5	5.3	5.6

** Based on consensus estimate*
Source: UOB Kay Hian

ASSUMPTION CHANGES

- We trim our 2023 earnings forecast for DBS by 3% after toning down our expectations on NIM expansion.

KEY ASSUMPTIONS – DBS

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	4.2	9.9	4.8	6.7	4.9
NIM (%)	1.63	1.45	1.75	2.26	2.29
Fees, % Chg	0.2	15.2	(8.6)	13.8	8.8
NPL Ratio (%)	1.60	1.27	1.21	1.43	1.46
Credit Costs (bp)	79.7	1.3	10.1	27.5	27.2
Net Profit (S$m)	4,721	6,805	8,003	9,352	10,203
% Chg	(26.1)	44.1	17.6	16.9	9.1

Source: UOB Kay Hian

- We trim our 2023 earnings forecast for OCBC by 3% after toning down our expectations on NIM expansion.

KEY ASSUMPTIONS – OCBC

	2020	2021	2022F	2023F	2024F
Loan Growth (%)	0.6	8.6	4.2	4.0	4.8
NIM (%)	1.62	1.55	1.88	2.15	2.13
Fees, % Chg	(5.6)	12.0	(15.1)	0.7	6.1
NPL Ratio (%)	1.47	1.45	1.19	1.46	1.45
Credit Costs (bp)	76.7	31.3	14.7	27.1	27.7
Net Profit (S$m)	3,588	4,858	5,952	6,505	6,768
% Chg	(26.3)	35.4	22.5	9.3	4.0

Source: UOB Kay Hian

SECTOR CATALYSTS

- NIM expansion in 2023 driven by upcycle in interest rates.
- Economic recovery driven by the reopening and easing of COVID-19 restrictions.
- Banks paying more dividends as risks emanating from COVID-19 pandemic recede.

RISKS

- Escalation of the Russia-Ukraine war beyond Ukraine.
- Geopolitical tension and trade conflict between the US, China and Russia.

COMPANY UPDATE

Wilmar International (WIL SP)

4Q22 Results Preview: Earnings Could Beat Expectation

Wilmar is scheduled to release its 2H22 results on 21 Feb 23. Based on our 2022 core earnings forecast of US$2.2b, 4Q22 core net profit could be US$450m-460m and again be driven by palm-related operations. However, based on our channel checks, palm downstream margins and volume could come in higher than our expectations. As such, we foresee Wilmar's 4Q22 core profit beating our and market expectations again. Maintain BUY. Target price: S$5.50.

WHAT'S NEW

- **4Q22 results preview.** Wilmar International (Wilmar) is scheduled to release its 2H22 results on 21 Feb 23 after market closes. Based on our 2022 core earnings forecast of US$2.2b, 4Q22 core net profit could be US$450m-460m, driven by palm-related operations. For 9M22, Wilmar reported net profit and core net profit (exclude listing gain from Adani Wilmar) of US$1.93b and US$1.78b respectively vs US$1.32b and US$1.30b in 9M21. Our 2022 core earnings are close to consensus earnings forecast.
- **Potential earnings upside.** Based on the latest data points and channel checks, we believe there is a possibility for Wilmar to beat our and consensus earnings by 10-15%. The upside surprise will come from:
  - **Better-than-expected palm oil refining margins.** Referring to the estimated palm refining margin chart (next page), 4Q22 margin is well expected to be lower qoq but the margin contraction is not as severe as expected. In addition, exports from Indonesia and Malaysia are also above expectations with strong shipments to China and India in 4Q22.
  - **Contribution from Yihai Kerry Arawana (YKA) could be better** on higher soybean crushing volume and margin. Despite better 4Q22 earnings on the back of Chinese New Year (CNY) demand (2023 CNY falls on the 3rd week of January) and some earnings recovery from soybean crushing, YKA's 2H22 performance is unlikely to be better than its 1H22 performance of Rmb1.97b (3Q22: Rmb0.4b).
- **Sugar contributions spread into 1Q23 as sugar cane harvesting in Australia is delayed due to high rainfall.** This will lead to lower sugar milling and merchandising volume for 4Q22. Earnings contribution from the sugar division is not as significant compared with YKA and palm oil operations, thus the slight earnings delays from sugar will be compensated by better profit from the palm oil division.

KEY FINANCIALS

Year to 31 Dec (US$m)	2020	2021	2022F	2023F	2024F
Net turnover	50,527	65,794	64,891	70,798	77,406
EBITDA	3,323	3,943	4,912	4,293	4,197
Operating profit	2,340	2,800	3,670	3,003	2,887
Net profit (rep./act.)	1,534	1,890	2,408	1,853	2,155
Net profit (adj.)	1,486	1,842	2,233	1,853	2,155
EPS (US$ cent)	23.2	28.8	34.9	28.9	33.7
PE (x)	13.5	10.9	9.0	10.8	9.3
P/B (x)	1.1	1.0	1.0	1.0	0.9
EV/EBITDA (x)	13.3	11.2	9.0	10.3	10.6
Dividend yield (%)	4.3	3.4	4.9	4.8	4.8
Net margin (%)	3.0	2.9	3.7	2.6	2.8
Net debt/(cash) to equity (%)	91.2	114.3	108.4	104.8	101.6
Interest cover (x)	14.4	15.6	15.8	8.4	n.a.
ROE (%)	8.6	9.7	12.0	9.1	10.2
Consensus net profit	-	-	2,184	1,950	2,071
UOBKH/Consensus (x)	-	-	1.02	0.95	1.04

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$4.11
Target Price	S$5.50
Upside	+33.8%

COMPANY DESCRIPTION

Wilmar's business encompassing the entire value chain of the agricultural commodity business, from origination, processing, merchandising to manufacturing of a wide range of branded consumer products.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	WIL SP
Shares issued (m):	6,242.6
Market cap (S$m):	25,656.9
Market cap (US$m):	19,508.0
3-mth avg daily t'over (US$m):	15.8

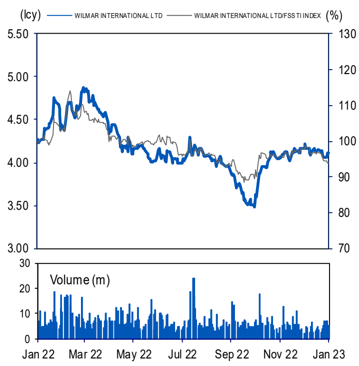
Price Performance (%)

52-week high/low S$4.87/S$3.48

1mth	3mth	6mth	1yr	YTD
(1.2)	18.1	2.8	(1.4)	(1.4)

Major Shareholders	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY23 NAV/Share (US$)	3.23
FY23 Net Debt/Share (US$)	3.39

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **2023 earnings may see a reversal trend in terms of segmental contributions.** Contributions from the palm oil-related business were the best in 2022 and offset the weak profit before tax (PBT) contributions from YKA. Moving into 2023, YKA could regain the top position in terms of PBT contributions to Wilmar as we expect China's reopening to boost the sales volume and PBT margins should recover with the easing of commodity prices. The good palm refining margin achieved in 2022 is unlikely to sustain into 2023. Recall that 2022 palm oil market was distorted by the extreme polices from Indonesia which led to a one-month ban of exports and a few months of levy holidays to speed up exports in 2H22. That created that big price distortion between Indonesia's domestic prices vs global prices, which resulted in a widened price gap between crude and refined palm oil. At this point of time, we do not foresee this situation repeating again in 2023.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** Our net profit forecasts remain at US$2,233m, US$1,853m and US$2,155m for 2022-24 respectively.

VALUATION/RECOMMENDATION

- We maintain BUY on Wilmar even though its 2023 earnings may be lower than 2022 as its integrated business model enables Wilmar to extract the best value from the business value chain. This integrated business model has delivered a stellar three-year CAGR of 21% of core net profit for 2019-22.

- **Maintain BUY with a target price of S$5.50.** Our target price is derived using the SOTP valuation by pegging a 2023F PE of 17x for the China operations and a blended 11x PE for the non-China operations. The fair value of S$5.50 translates to a blended 2023F PE of 15.3x

SHARE PRICE CATALYST

- Stronger-than-expected performance from its China operations.

- Surprise margin upside with its strategic procurement activities.

SOTP VALUATION

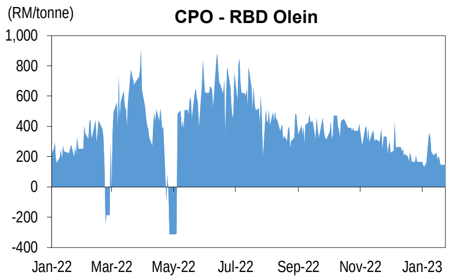
	PE(X)	S$/Share
China operation	17	3.73
Non-China operation	11	1.47
Associates and others	-	0.30
Total		5.50

Source: UOB Kay Hian

CHINA SOYBEAN CRUSHING MARGINS IMPROVED IN 4Q22

Source: JCI, Bloomberg

PRICE GAP BETWEEN CRUDE AND REFINED PALM PRODUCTS NARROWED IN 4Q22



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (US$m)	2021	2022F	2023F	2024F
Net turnover	65,794	64,891	70,798	77,406
EBITDA	3,943	4,912	4,293	4,197
Deprec. & amort.	1,143	1,243	1,290	1,310
EBIT	2,800	3,670	3,003	2,887
Total other non-operating income	0	0	0	0
Associate contributions	219	224	242	261
Net interest income/(expense)	(253)	(311)	(510)	33
Pre-tax profit	2,766	3,582	2,735	3,181
Tax	(700)	(906)	(692)	(805)
Minorities	(176)	(268)	(190)	(221)
Net profit	1,890	2,408	1,853	2,155
Net profit (adj.)	1,842	2,233	1,853	2,155

BALANCE SHEET

Year to 31 Dec (US$m)	2021	2022F	2023F	2024F
Fixed assets	14,192	15,049	15,306	15,515
Other LT assets	12,711	12,501	11,743	11,102
Cash/ST investment	6,342	9,797	10,644	11,142
Other current assets	25,473	24,842	26,286	28,377
Total assets	58,718	62,189	63,980	66,136
ST debt	22,292	23,292	23,292	23,292
Other current liabilities	6,101	6,374	6,996	7,648
LT debt	6,823	8,423	9,023	9,623
Other LT liabilities	900	930	861	796
Shareholders' equity	19,924	20,225	20,672	21,421
Minority interest	2,678	2,946	3,136	3,357
Total liabilities & equity	58,718	62,189	63,980	66,136

CASH FLOW

Year to 31 Dec (US$m)	2021	2022F	2023F	2024F
Operating	(45)	5,137	1,733	1,903
Pre-tax profit	2,766	3,582	2,735	3,181
Tax	(687)	(906)	(692)	(805)
Deprec. & amort.	1,084	1,243	1,290	1,310
Working capital changes	(3,100)	1,422	(1,378)	(1,542)
Other operating cashflows	(108)	(204)	(222)	(241)
Investing	(2,418)	(1,931)	(1,431)	(1,430)
Capex (maintenance)	(2,532)	(2,045)	(1,545)	(1,544)
Investments	86	86	86	86
Proceeds from sale of assets	62	62	62	62
Others	28	28	28	28
Financing	(1,198)	1,789	2,405	962
Dividend payments	(462)	(699)	(1,050)	(679)
Issue of shares	0	23	41	41
Proceeds from borrowings	794	685	6,339	1,600
Others/interest paid	(1,530)	1,780	(2,925)	0
Net cash inflow (outflow)	(3,661)	4,994	2,707	1,435
Beginning cash & cash equivalent	2,583	2,588	6,817	7,144
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	(1,077)	7,582	9,525	8,580

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	6.0	7.6	6.1	5.4
Pre-tax margin	4.2	5.5	3.9	4.1
Net margin	2.9	3.7	2.6	2.8
ROA	3.4	4.0	2.9	3.3
ROE	9.7	12.0	9.1	10.2
Growth				
Turnover	30.2	(1.4)	9.1	9.3
EBITDA	18.6	24.6	(12.6)	(2.2)
Pre-tax profit	19.7	29.5	(23.7)	16.3
Net profit	23.2	27.4	(23.1)	16.3
Net profit (adj.)	23.9	21.2	(17.0)	16.3
EPS	23.9	21.2	(17.0)	16.3
Leverage				
Debt to total capital	56.3	57.8	57.6	57.1
Debt to equity	146.1	156.8	156.3	153.7
Net debt/(cash) to equity	114.3	108.4	104.8	101.6
Interest cover (x)	15.6	15.8	8.4	n.a.

COMPANY RESULTS

Siam Cement (SCC TB)

4Q22: Results Way Below Our And Consensus Estimates; Expect Better Outlook In 1Q23

SCC posted a slim net profit of Bt157m for 4Q22, way below our and consensus estimates on the lower-than-expected earnings performances of all business units as they were impacted by China's zero-COVID policy. However, we expect petrochemical demand, prices and spreads to improve on China's relaxation of lockdown measures, which will also drive positive sentiment on SCC. Maintain HOLD. Target price: Bt350.00.

4Q22 RESULTS

Year to 31 Dec (Btm)	4Q21	3Q22	4Q22	yoy% change	qoq% change
Revenue	131,825	142,392	122,189	(14.4)	(14.2)
COGS	-108,182	-124,800	-108,513	(9.4)	(13.1)
SG&A	-15,864	-18,057	-16,445	4.1	(8.9)
EBITDA	16,450	9,322	10,122	(43.3)	8.6
Interest expenses	-1,681	-1,899	-2,262	33.8	19.1
Net income	6,817	2,444	157	(98.1)	(93.6)
- Cement	1,385	530	-717	(151.8)	(235.3)
- Chemical	4,500	-339	-1,052	(123.4)	210.3
- Packaging	1,525	1,325	122	(92.0)	(90.8)
EPS (Bt)	5.7	2.0	0.1	(98.1)	(93.6)
Inventory gain/ (loss)	490	-1,080	-510	(204.1)	52.8
Other non-recurring items	0	334	-403	(181.5)	(220.6)
Recurring Income	6,327	3,190	1,070	(85.4)	(66.5)
SG&A/Sales (%)	12.0%	12.7%	13.5%		
EBITDA margin (%)	12.5%	6.5%	8.3%		
Net profit margin (%)	5.2%	1.7%	0.1%		

Source: Siam Cement, UOB Kay Hian

RESULTS

- **4Q22 results below our and consensus' estimates.** Siam Cement (SCC) posted net profit of Bt157m in 4Q22, down 93.6% qoq and 98.1% yoy. This is significantly below our and consensus estimates of around Bt1.2b due to the worse-than-expected performances of its chemical, cement and packaging businesses.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	530,112	569,609	691,787	776,279	791,251
EBITDA	81,138	52,922	80,977	87,125	90,333
Operating profit	52,851	19,195	45,209	49,317	50,486
Net profit (rep./act.)	47,174	21,382	38,731	39,463	40,337
Net profit (adj.)	44,460	22,043	38,731	39,463	40,337
EPS (Bt)	37.1	18.4	32.3	32.9	33.6
PE (x)	9.3	18.8	10.7	10.5	10.3
P/B (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	9.5	14.5	9.5	8.8	8.5
Dividend yield (%)	4.4	5.3	3.3	4.2	4.3
Net margin (%)	8.9	3.8	5.6	5.1	5.1
Net debt/(cash) to equity (%)	45.6	81.9	77.0	74.5	69.0
Interest cover (x)	12.0	7.0	11.7	12.5	12.8
ROE (%)	14.2	6.0	10.3	10.2	9.9
Consensus net profit	-	-	25,019	33,946	42,433
UOBKH/Consensus (x)	-	-	1.14	0.93	-

Source: Siam Cement, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt345.00
Target Price	Bt350.00
Upside	+1.4%

COMPANY DESCRIPTION

SCC operates as a holding company which is engaged in the industrial supplies and construction industries. The company operates six core businesses - chemical, paper, cement, building materials, distribution and investment.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCC TB
Shares issued (m):	1,200.0
Market cap (Btm):	414,000.0
Market cap (US$m):	12,606.6
3-mth avg daily t'over (US$m):	21.5

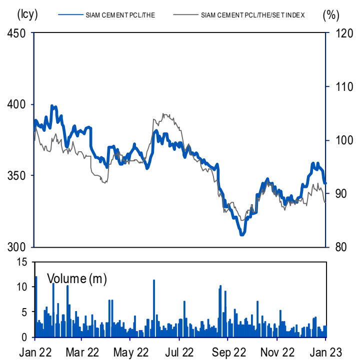
Price Performance (%)

52-week high/low Bt399.00/Bt308.00

1mth	3mth	6mth	1yr	YTD
3.3	5.5	(7.0)	(8.7)	0.9

Major Shareholders	%
Maha Vajiralongkorn	33.3
Stock Exchange of Thailand	10.0
STATE STREET Corp	4.3
FY23 NAV/Share (Bt)	312.38
FY23 Net Debt/Share (Bt)	240.43

PRICE CHART



Source: Bloomberg

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- **Results weaker qoq due to China's zero-COVID policy.** SCC's 4Q22 core earnings declined 66.5% qoq due to: a) very weak chemical spreads (high density polyethylene (HDPE) spread: US$361/tonne in 4Q22 vs US$390/tonne in 3Q22, and polypropylene (PP) spread: US$322 in 4Q22 vs US$371 in 3Q22); b) a 22% qoq decline in PE and PP production volume after it decided to temporarily shut down its Rayong Olefins Complex (ROC) plant given the ROC's operations turning uneconomical. As a result, the chemical business unit turned to a net loss of Bt1.1b in 4Q22 (second consecutive quarter); c) the cement business which also turned to net loss of Bt717m in 4Q22 on the one-time impairment expenses from its subsidiary SCG Ceramics (COTTO TB) as overall cost remained high and was impacted by high coal cost; and d) softened earnings of its packaging business (SCG Packaging, SCGP TB/HOLD/Target: Bt60.00) due to lower packaging margin in 4Q22.

- **Non-recurring items during the quarter.** SCC recorded an inventory loss of Bt510m in 4Q22 (3Q22: Bt1.0b loss) along with slightly lower naphtha cost as well as the impairment loss of its subsidiary (COTTO) of Bt403m. As a result, SCC reported a net profit of Bt157m in 4Q22, down 93.6% qoq and 98.1% yoy.

- **Chemical business' core earnings performance saw significant qoq and yoy declines.** The chemical business' core loss (excluding inventory gain/loss) of Bt542m came on the back of lower production volume, chemical prices and spreads, as these were impacted by lower demand caused by China's prolonged Zero-COVID policy during the quarter and new additional capacity entering the market amid the oversupply situation.

- **The cement business turned to a net loss in 4Q22** on the one-time impairment loss of its subsidiary COTTO (Bt403m), seasonally low demand (fewer working days in 4Q22 compared with 3Q22) and the impact of high coal and electricity costs. The cement business's earnings turned to a net loss of B717m in 4Q22 compared with a net loss of Bt339m in 3Q22. SCC's strategy is to continue to raise its cement ASP to cover the higher cost, which had already increased by Bt50-100 per tonne in 4Q22.

STOCK IMPACT

- **Positive on petrochemical price outlook as China relaxes lockdown measures.** We expect HDPE/PP prices and spreads to improve in the next couple of quarters on the back of China's reopening plans which would drive overall petrochemical demand and offset the oversupply situation. China is the world's biggest driver of polyolefins' global demand. The latest data suggests that China's net HDPE imports will be 5.5m tonnes in 2022. China's net polypropylene (PP) imports look set to be at 2.4m tonnes for 2022.

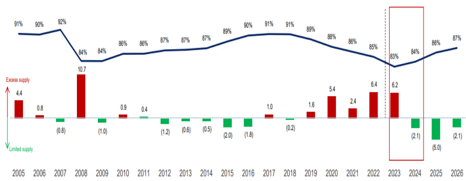
EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

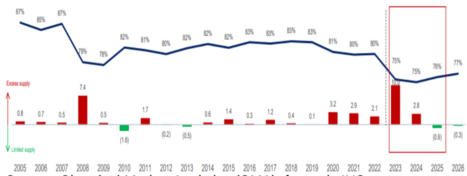
- **Maintain HOLD with a target price of Bt350.00,** based on SOTP valuation and pegged to the chemical, cement, and packaging businesses' respective regional five-means of 14x, 12x and 31x.

WORLD POLYETHYLENE NET CAPACITY-DEMAND ADDITION



Source: Chemical Market Analytics (CMA), formerly IHS

WORLD POLYPROPYLENE NET CAPACITY-DEMAND ADDITION



Source: Chemical Market Analytics (CMA), formerly IHS

EARNINGS/ASSUMPTIONS IN 2023

(Btm)	2023F
Chemical	21,159
Cement	6,954
Paper	9,859
Others	759.5
Total net profit	38,731
Total core profit	38,731
Key Assumption Changes (US$/tonne)	
HDPE spread	447
PP spread	447
PE sale volume (k tonnes)	1100
PP sale volume (k tonnes)	882
FX (Bt/US$)	35.00

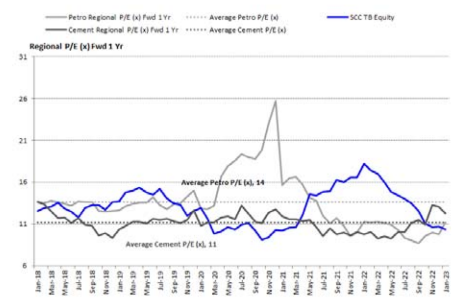
Source: UOB Kay Hian

SOTP-BASED VALUATION

	Equity value	Bt/share	Methodology
Chemical	305,829	255	14x PE
Cement	83,445	70	12x PE
Paper	220,426	184	31x PE
Other	116,931	97	10x PE
Net debt	(306,333)	-255	
Total	420,299	350	

Source: Bloomberg, UOB Kay Hian

REGIONAL PE MEAN



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	569,609	691,787	776,279	791,251
EBITDA	52,922	80,977	87,125	90,333
Deprec. & amort.	33,728	35,768	37,808	39,848
EBIT	19,195	45,209	49,317	50,486
Total other non-operating income	0	0	0	0
Associate contributions	10,703	12,309	12,432	12,556
Net interest income/(expense)	(7,523)	(6,896)	(6,965)	(7,035)
Pre-tax profit	22,375	50,622	54,784	56,007
Tax	(4,650)	(6,103)	(6,658)	(6,816)
Minorities	3,658	(5,787)	(8,663)	(8,854)
Preferred dividends	0	0	0	0
Net profit	21,382	38,731	39,463	40,337
Net profit (adj.)	22,043	38,731	39,463	40,337

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	425,052	435,592	438,881	439,109
Other LT assets	231,389	244,623	252,127	260,644
Cash/ST investment	57,530	75,352	78,408	94,558
Other current assets	192,520	153,382	184,256	196,279
Total assets	906,490	908,949	953,672	990,591
ST debt	68,017	68,017	78,018	88,020
Other current liabilities	64,299	76,924	86,738	88,886
LT debt	295,845	295,845	295,845	295,845
Other LT liabilities	25,904	25,904	25,904	25,904
Shareholders' equity	374,255	374,854	396,725	419,109
Minority interest	78,169	67,405	70,442	72,827
Total liabilities & equity	906,490	908,949	953,672	990,591

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	20,625	53,544	60,648	74,102
Pre-tax profit	22,375	44,834	46,121	47,153
Tax	(4,650)	(6,103)	(6,658)	(6,816)
Deprec. & amort.	29,461	35,768	37,808	39,848
Associates	(10,703)	(12,309)	(12,432)	(12,556)
Working capital changes	(15,985)	(14,433)	(12,854)	(2,381)
Non-cash items	0	0	0	0
Other operating cashflows	127	5,787	8,663	8,854
Investing	(32,134)	(60,000)	(60,000)	(60,000)
Capex (growth)	(32,947)	(60,000)	(60,000)	(60,000)
Capex (maintenance)	0	0	0	0
Investments	813	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	33,046	6,475	2,408	2,048
Dividend payments	(22,055)	(13,526)	(17,594)	(17,955)
Issue of shares	0	0	0	0
Proceeds from borrowings	55,101	20,001	20,002	20,003
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	21,537	20	3,056	16,150
Beginning cash & cash equivalent	67,610	57,530	75,352	78,408
Changes due to forex impact	(31,617)	17,803	n.a.	n.a.
Ending cash & cash equivalent	57,530	75,352	78,408	94,558

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	9.3	11.7	11.2	11.4
Pre-tax margin	3.9	7.3	7.1	7.1
Net margin	3.8	5.6	5.1	5.1
ROA	2.7	4.3	4.2	4.1
ROE	6.0	10.3	10.2	9.9
Growth				
Turnover	7.5	21.4	12.2	1.9
EBITDA	(34.8)	53.0	7.6	3.7
Pre-tax profit	(64.8)	126.2	8.2	2.2
Net profit	(54.7)	81.1	1.9	2.2
Net profit (adj.)	(50.4)	75.7	1.9	2.2
EPS	(50.4)	75.7	1.9	2.2
Leverage				
Debt to total capital	44.6	45.1	44.5	43.8
Debt to equity	97.2	97.1	94.2	91.6
Net debt/(cash) to equity	81.9	77.0	74.5	69.0
Interest cover (x)	7.0	11.7	12.5	12.8

COMPANY UPDATE

Supalai (SPALI TB)

Earnings To Reach All-Time High Again In 2022; Solid Outlook In 2023

We expect SPALI's 2022 earnings to increase 17% yoy to hit a record high. As for 2023, SPALI announced an achievable business plan, and we expect its earnings to remain solid. In addition, we have raised our 2022-24 earnings forecasts by 14-16% to reflect a better-than-expected outlook. We expect dividend yield of 3-4% for 2H22. Maintain BUY. Target price: Bt30.90.

WHAT'S NEW

- **4Q22 results preview and 2023 business plan.** We expect Supalai (SPALI) to report decent earnings in 4Q22, which would be higher than our previous forecast, and also create another all-time high for the company. SPALI remains optimistic about the housing market, and has announced an achievable business plan for 2023.

STOCK IMPACT

- **Plans to launch new projects worth Bt41b.** SPALI plans to launch 37 projects worth Bt41b (+8% yoy) in 2023, of which 80% will be in the low-rise segment and 20% in high-rise segment. Most projects will be launched in 2H23. 42% of these launches would be in the provincial area, as SPALI plans to expand to new provinces (Nakhon Pathom, Ratchaburi, Chantaburi, Lamphun and Lampang).

- **Targets presales of Bt36b for 2023.** SPALI reported impressive total presales of Bt32.4b (+35% yoy) in 2022, vs its target of Bt28b. In 2023, SPALI targets presales at Bt36b (+11% yoy), of which 70% would be from the low-rise segment. Management believes that presales of low-rise in Bangkok will likely increase due to numerous projects launched in 4Q22 as well as solid demand. Meanwhile, presales of high-rise products would be driven by ready-to-move-in projects.

- **Expecting solid earnings outlook.** SPALI targets total revenue at Bt36b for 2023, with a single-digit yoy growth, in which the low-rise segment remains the key contributor. Meanwhile, condo transfers would be driven by existing projects and two newly-completed projects in 2023, including Loft Sathorn-Ratchapruk (Bt1.46b, 97% sold) and Premier Si Phraya-Samyan (Bt2.3b, 100% sold). In addition, management expects better transfers from projects in Australia. Gross margin is expected to drop in 2023 on lower contribution from condo transfers as well as abnormal margins of its projects in Australia (lower than its average). However, we expect SPALI to maintain its margins at a healthy level. Initially, we had expected SPALI's earnings to increase slightly in 2023.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net turnover	20,588.1	29,160.1	34,418.8	35,444.6	35,825.0
EBITDA	5,363.0	8,437.9	9,740.6	9,887.2	9,995.7
Operating profit	5,245.7	8,321.2	9,617.8	9,758.9	9,862.0
Net profit (rep./act.)	4,251.2	7,070.3	8,286.3	8,377.4	8,482.0
Net profit (adj.)	4,251.2	7,070.3	8,286.3	8,377.4	8,482.0
EPS (Bt)	2.2	3.6	4.2	4.3	4.3
PE (x)	10.9	6.5	5.6	5.5	5.5
P/B (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	12.0	7.6	6.6	6.5	6.4
Dividend yield (%)	4.2	4.9	7.2	7.2	7.3
Net margin (%)	20.6	24.2	24.1	23.6	23.7
Net debt/(cash) to equity (%)	54.8	43.4	37.1	32.2	28.2
Interest cover (x)	22.1	32.6	41.4	34.9	33.9
ROE (%)	11.5	18.0	18.5	16.7	15.4
Consensus net profit	-	-	7,381	7,246	7,246
UOBKH/Consensus (x)	-	-	1.12	1.16	1.17

Source: Supalai, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt23.70
Target Price	Bt30.90
Upside	+30.4%
(Previous TP	*Bt28.20)*

COMPANY DESCRIPTION

Property developer who focused on low-rise properties and condominiums in mid to low-end.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SPALI TB
Shares issued (m):	1,953.1
Market cap (Btm):	46,287.4
Market cap (US$m):	1,409.5
3-mth avg daily t'over (US$m):	7.9

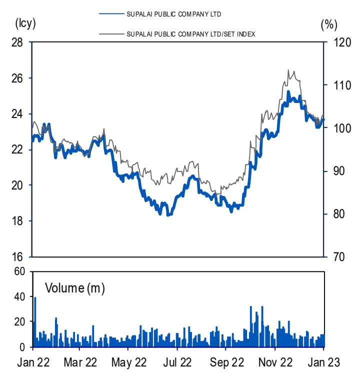
Price Performance (%)

52-week high/low Bt25.25/Bt18.30

1mth	3mth	6mth	1yr	YTD
(4.0)	16.7	22.8	5.8	(2.5)

Major Shareholders	%
Mr. Prateep Tangmatitham	25.9
Thai NVDR Company Limited	9.9
Mrs. Achara Tangmatitham	5.7
FY23 NAV/Share (Bt)	26.95
FY23 Net Debt/Share (Bt)	8.69

PRICE CHART



Source: Bloomberg

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ASSISTANT ANALYST(S)

Kasemsun Koonnara

- **Capex of Bt23.6b.** SPALI has set a capex of Bt23.6 (+42% yoy) for 2023, of which Bt8b will be used for land and Bt15.6b will be used for construction, and mainly for low-rise project developments in Bangkok.

4Q22 & 2022 RESULTS PREVIEW

Year to 31 Dec (Btm)	4Q21	3Q22	4Q22F	yoy %	qoq %	2021	2022F	yoy %
Residential revenue	10,883	11,068	9,594	(11.8)	(13.3)	28,938	34,170	18.1
Cost of sales	6,530	6,728	5,913	(9.4)	(12.1)	17,518	20,912	19.4
Operating EBIT	3,307	3,281	2,634	(20.4)	(19.7)	8,321	9,618	15.6
Equity income	169	85	175	3.6	106.3	533	400	(24.9)
Net profit	2,879	2,749	2,285	(20.7)	(16.9)	7,070	8,286	17.2
Percent	4Q21	3Q22	4Q22F	yoy ppt	qoq ppt	2021	2022F	yoy ppt
Residential gross margin	40.4	39.6	38.8	(1.6)	(0.8)	40.0	39.3	(0.7)
SG&A to sales	10.1	10.1	11.5	1.4	1.4	11.4	11.3	(0.1)
EBIT margin	30.2	29.5	27.3	(3.0)	(2.2)	28.5	27.9	(0.6)
Net margin	26.3	24.7	23.7	(2.7)	(1.0)	24.2	24.1	(0.2)

Source: SPALI, UOB Kay Hian

- **Expect 2022 earnings to create a new record high again.** SPALI's 2022 earnings should hit a new record high at Bt8.3b (+17% yoy), despite a yoy and qoq drop in 4Q22 earnings. We expect SPALI to report a net profit of Bt2.3b (-21% yoy, -17% qoq) for 4Q22. Residential revenue is estimated to come in at Bt9.6b (-12% yoy, -13% qoq) in 4Q22 due to the absence of newly-completed condo projects. Gross margin will likely drop to 38.8% (-1.6 ppt yoy, -0.8 ppt qoq) in 4Q22 due to a lower proportion of condo transfers. SG&A-to-sales is likely increase to 11.5%. SPALI's share of profit from JV projects is expected to come in at about Bt175m (4Q21: Bt169m, 3Q22: Bt85m) due to better performance in Australia.

EARNINGS REVISION

	---------------- 2022F----------------			---------------- 2023F ----------------			---------------- 2024F ----------------		
(Btm)	New	Old	Change	New	Old	Change	New	Old	Change
Gross revenue	34,419	32,070	7.3%	35,445	31,914	11.1%	35,825	32,403	10.6%
Gross profit	13,507	12,644	6.8%	13,693	12,580	8.9%	13,839	12,771	8.4%
EBIT	9,618	8,860	8.6%	9,759	8,814	10.7%	9,862	8,948	10.2%
Net profit	8,286	7,270	14.0%	8,377	7,226	15.9%	8,482	7,357	15.3%

Source: UOB Kay Hian

EARNINGS REVISION

- **We raise our 2022-24 earnings forecasts by 14-16%.** We revise our 2022-24 earnings forecasts up by 14-16% as we have been too conservative in residential revenue, and also to reflect an improved assumption on its projects in Australia.

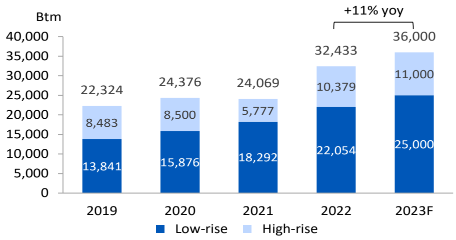
VALUATION/RECOMMENDATION

- **Maintain BUY with a new target price of Bt30.90.** Our earnings revision has resulted in a new target price. Our target price of Bt30.90 is based on 7.2x 2023F PE, or around its 10-year historical mean. The valuation is undemanding; SPALI's share price is trading at PE of 5.5x. Also, we expect dividend yield of 3-4% for 2H22 and yield of 7.2% in 2023.

SHARE PRICE CATALYST

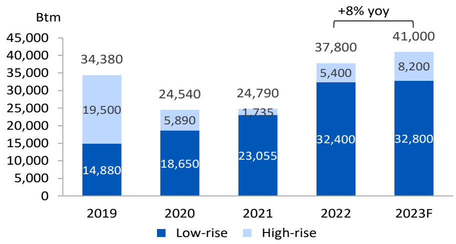
- a) Better-than-expected presales and faster-than-expected transfers, and b) improvement in gross margin and SG&A-to-sales ratio.

PRESALES TARGET



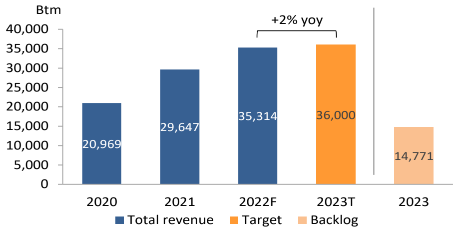
Source: SPALI, UOB Kay Hian

LAUNCH PLAN



Source: SPALI, UOB Kay Hian

TOTAL REVENUES & BACKLOG



Source: SPALI, UOB Kay Hian

PRESALES BY AREA

Source: SPALI

2023 LAUNCH PLAN BY QUARTER

Source: SPALI

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Net turnover	29,160	34,419	35,445	35,825
EBITDA	8,438	9,741	9,887	9,996
Deprec. & amort.	117	123	128	134
EBIT	8,321	9,618	9,759	9,862
Total other non-operating income	487	855	860	870
Associate contributions	533	400	420	450
Net interest income/(expense)	(259)	(235)	(284)	(295)
Pre-tax profit	9,083	10,638	10,755	10,887
Tax	(1,943)	(2,223)	(2,248)	(2,275)
Minorities	(69)	(128)	(130)	(130)
Net profit	7,070	8,286	8,377	8,482
Net profit (adj.)	7,070	8,286	8,377	8,482

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Fixed assets	1,666	1,717	1,739	1,755
Other LT assets	4,579	8,792	9,023	9,256
Cash/ST investment	1,626	1,742	1,944	2,132
Other current assets	63,562	67,013	71,137	75,125
Total assets	71,432	79,265	83,844	88,267
ST debt	15,913	12,432	8,932	5,932
Other current liabilities	7,904	10,670	10,633	10,389
LT debt	3,976	6,977	9,977	12,477
Other LT liabilities	713	688	709	717
Shareholders' equity	42,070	47,593	52,638	57,748
Minority interest	857	905	955	1,005
Total liabilities & equity	71,432	79,265	83,844	88,267

CASH FLOW

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Operating	3,821	7,852	4,475	4,514
Pre-tax profit	9,083	10,638	10,755	10,887
Tax	(1,943)	(2,223)	(2,248)	(2,275)
Deprec. & amort.	117	123	128	134
Working capital changes	(2,122)	(1,992)	(4,319)	(4,291)
Non-cash items	(1,397)	1,307	159	59
Other operating cashflows	84	0	0	0
Investing	(349)	(4,412)	(360)	(375)
Capex (growth)	(86)	(174)	(150)	(150)
Investments	(769)	(200)	(210)	(225)
Others	505	(4,038)	0	0
Financing	(3,181)	(3,323)	(3,913)	(3,952)
Dividend payments	(2,007)	(2,857)	(3,413)	(3,452)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1,488)	(480)	(500)	(500)
Others/interest paid	314	15	0	0
Net cash inflow (outflow)	291	116	203	187
Beginning cash & cash equivalent	1,334	1,626	1,742	1,944
Ending cash & cash equivalent	1,626	1,742	1,944	2,132

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	28.9	28.3	27.9	27.9
Pre-tax margin	31.1	30.9	30.3	30.4
Net margin	24.2	24.1	23.6	23.7
ROA	10.1	11.0	10.3	9.9
ROE	18.0	18.5	16.7	15.4
Growth				
Turnover	41.6	18.0	3.0	1.1
EBITDA	57.3	15.4	1.5	1.1
Pre-tax profit	62.4	17.1	1.1	1.2
Net profit	66.3	17.2	1.1	1.2
Net profit (adj.)	66.3	17.2	1.1	1.2
EPS	66.3	16.9	1.1	1.2
Leverage				
Debt to total capital	31.7	28.6	26.1	23.9
Debt to equity	47.3	40.8	35.9	31.9
Net debt/(cash) to equity	43.4	37.1	32.2	28.2
Interest cover (x)	32.6	41.4	34.9	33.9

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