

Retail Market Monitor

Thursday, 23 November 2023

WHAT HAPPENED LAST NIGHT

US stocks were higher on Wednesday, as gains in the information technology, healthcare and consumer discretionary sectors led shares higher. At the close of the NYSE, the DJIA rose 0.53% while the S&P 500 index was up 0.41%, and the NASDAQ Composite index rose 0.46%. Advancing stocks outnumbered falling ones on the NYSE by 1,813 to 1,012 and 127 ended unchanged; on the Nasdaq Stock Exchange, 1,599 declined and 2,676 advanced, while 188 ended unchanged. (Source: WSJ, Bloomberg)

WHAT'S IN THE PACK

China/HK Company Results:

Kingsoft Corp - 3Q23: Earnings miss; positive on game pipeline and WPS AI.

(3888 HK/BUY/HK\$30.50/Target: HK\$36.00)

Kingsoft's 3Q23 results fell below expectations. Revenue grew 12% yoy to Rmb2.1b, below the street's estimate. Gross margin expanded 2ppt yoy...

Tongcheng Travel Holdings - 3Q23: Earnings beat; 2024 outlook remains intact despite normalising industry growth.

(780 HK/BUY/HK\$15.14/Target: HK\$21.00)

TT reported solid 3Q23 results, with revenue soaring 61% yoy to Rmb3.3b, 3% above consensus expectations. Adjusted net profit was reported at...

China/HK Company Update:

Hansoh Pharmaceutical Group Company - 3Q23: Expects innovative drugs to support significant revenue growth recovery in 2024.

(3692 HK/BUY/HK\$14.54/Target: HK\$17.50)

Hansoh Pharma recently entered into an out-licensing agreement with GSK on B7-H4 directed ADC, expecting to receive an upfront payment income of...

Singapore Company Results:

Frencken Group - 3Q23: Results in line; sequential recovery trend continues.

(FRKN SP/BUY/S\$1.08/Target: S\$1.23)

Frencken's 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) were in line with expectations, with 9M23 earnings accounting for 74% of our...

Singapore Technical Analysis:

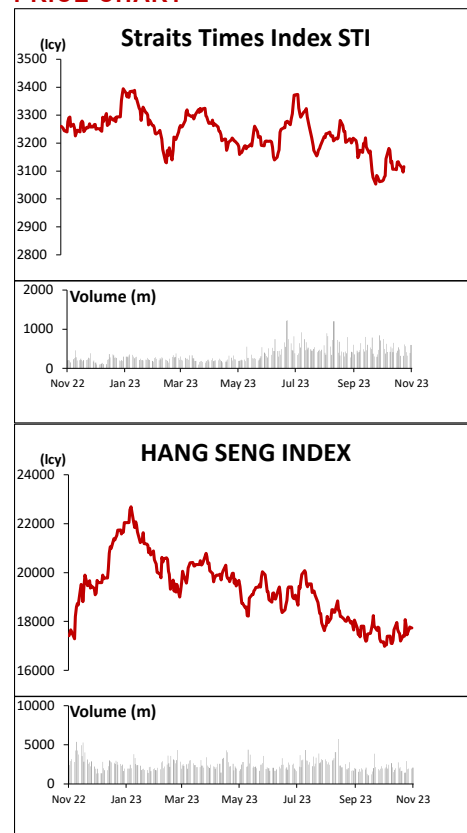
Sembcorp Industries (SCI SP) - Trading BUY

Price is currently consolidating within a pennant continuation pattern. Conversion and base lines remain in a bullish crossover. The MACD is bullish with both of its lines above the zero line...

Frasers Centrepoint Trust (FCT SP) - Trading BUY

The chart outlook is bullish as price is trading far above the cloud. Conversion and base lines remain in a bullish crossover, suggesting potential upside ahead...

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	35273.0	6.5	6.4
S&P 500	4556.6	7.9	18.7
FTSE 100	7469.5	0.9	0.2
AS30	7277.8	3.5	0.8
CSI 300	3544.4	2.0	(8.5)
FSSTI	3114.9	2.0	(4.2)
HSCEI	6074.8	3.5	(9.4)
HSI	17734.6	3.3	(10.3)
JCI	6907.0	2.4	0.8
KLCI	1455.9	1.2	(2.6)
KOSPI	2511.7	6.6	12.3
Nikkei 225	33451.8	7.9	28.2
SET	1414.2	1.1	(15.3)
TWSE	17310.3	6.5	22.4
BDI	1755	(14.2)	15.8
CPO (RM/mt)	3832	3.8	(5.3)
Brent Crude (US\$/bbl)	82	(11.4)	(4.9)

Source: Bloomberg

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YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 18.58pt lower to 3,114.92. Among the top active stocks were Yangzijiang Shipbuilding (+0.7%), Seatrium (+0.9%), Singapore Telecommunications (+1.8%), Top Glove (+4.4%) and Rex International (+0.6%). The FTSE ST Mid Cap Index rose 0.2%, while the FTSE ST Small Cap Index was up 0.2%. The broader market saw 321 gainers and 250 losers with total trading value of S\$760.1m.

SINGAPORE

TOP TRADING TURNOVER

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
DBS Group Holdings	32.06	0.8	122.6
Singapore Telecommunications	2.29	1.8	81.5
United Overseas Bank	27.39	0.9	49.8
Oversea-Chinese Banking Corp	12.82	0.7	45.3
CapitaLand Ascendas Reit	2.82	0.0	44.2

TOP GAINERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Top Glove Corp	0.24	4.3	0.7
Golden Agri-Resources	0.27	3.8	4.4
OUE	1.13	2.7	0.1
Hutchison Port Holdings Trust	0.22	2.4	0.0
First Resources	1.45	2.1	2.3

TOP LOSERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Nio Inc-Class A	7.58	(2.2)	1.1
Raffles Medical Group	1.06	(1.9)	1.4
Fraser's Logistics & Commerci	1.09	(1.8)	7.2
Yanlord Land Group	0.59	(1.7)	0.6
Yangzijiang Financial Holding	0.32	(1.5)	0.7

*ADT: Average daily turnover

HONG KONG

TOP TRADING TURNOVER

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Tracker Fund Of Hong Kon-Hkd	17.86	0.1	514,745
Country Garden Holdings Co	0.85	4.9	281,521
Xiaomi Corp-Class B	15.12	(1.7)	192,073
Bank Of China Ltd-H	2.89	0.0	100,421
China Tower Corp Ltd-H	0.83	2.5	93,542

TOP GAINERS

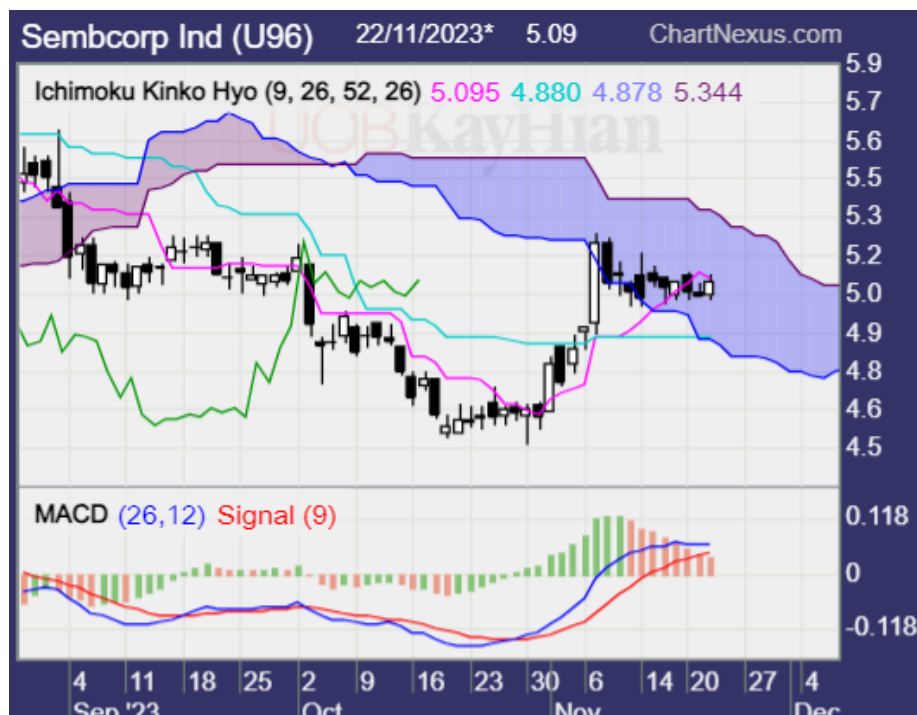
Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Country Garden Holdings Co	0.85	4.9	281,521
Prada S.P.A.	45.40	3.1	941
Kuaishou Technology	60.20	2.9	29,758
China Tower Corp Ltd-H	0.83	2.5	93,542
Country Garden Services Hold	7.67	2.3	22,499

TOP LOSERS

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Gcl Technology Holdings Ltd	1.16	(4.1)	92,434
Sunny Optical Tech	68.60	(4.0)	9,832
Zhongsheng Group Holdings	18.82	(3.0)	2,168
Xinyi Solar Holdings Ltd	4.99	(2.7)	9,163
China Energy Engineering C-H	0.77	(2.5)	8,466

*ADT: Average daily turnover

SINGAPORE TRADERS' CORNER



Sembcorp Industries (SCI SP)

Trading buy range: S\$5.08-5.09

Last price: S\$5.09

Target price: S\$5.62

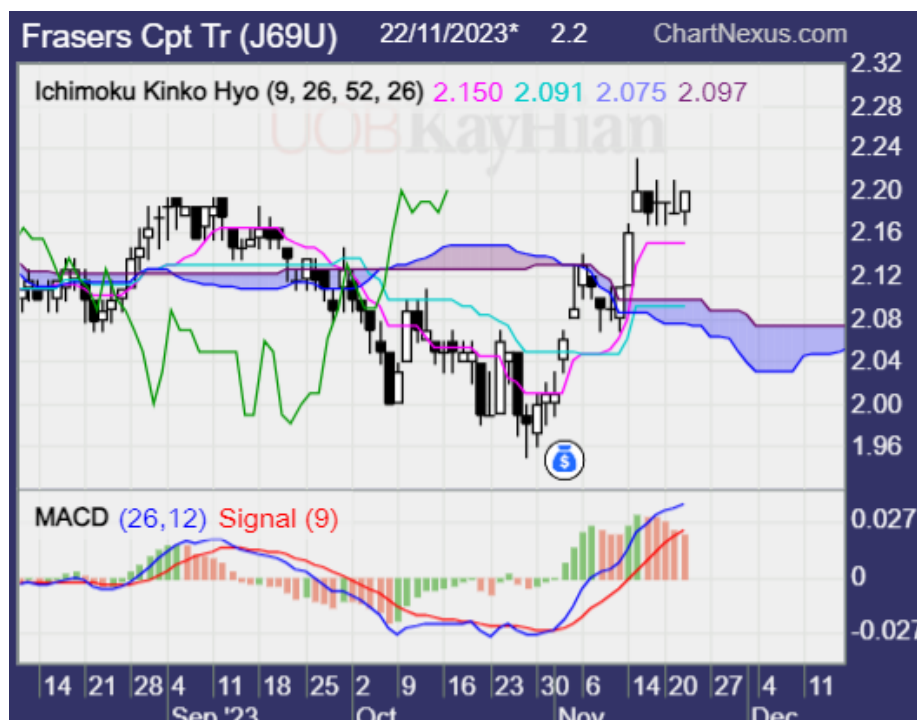
Protective stop: S\$4.94

Price is currently consolidating within a pennant continuation pattern. Conversion and base lines remain in a bullish crossover. The MACD is bullish with both of its lines above the zero line. These could increase chances of the stock price continuing to move higher.

We see increasing odds of stock price testing S\$5.62. A stop could be placed at S\$4.94.

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

Our institutional research has a fundamental BUY and target price of S\$7.20.



Fraser's Centrepont Trust (FCT SP)

Trading buy range: S\$2.18-2.19

Last price: S\$2.20

Target price: S\$2.34

Protective stop: S\$2.15

The chart outlook is bullish as price is trading far above the cloud. Conversion and base lines remain in a bullish crossover, suggesting potential upside ahead. The MACD is strong and bullish. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$2.34. A stop could be placed at S\$2.15.

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

Our institutional research has a fundamental BUY and target price of S\$2.52.

ANALYST(S)

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FROM THE REGIONAL MORNING NOTES...
Kingsoft Corp (3888 HK)

3Q23: Earnings Miss; Positive On Game Pipeline And WPS AI

Kingsoft's 3Q23 results fell below expectations. Revenue grew 12% yoy to Rmb2.1b, below the street's estimate. Gross margin expanded 2ppt yoy to 81.4%, in line with the street's expectation. Non-IFRS operating profit rose 14% yoy to Rmb449m, while operating margin remained flattish yoy at 22%, driven by improved operating efficiency. Net profit was Rmb28m, down 50% qoq, below our expectation. Maintain BUY with a lower target price of HK\$36.00.

3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	2Q23	3Q23	qoq % chg	yoy % chg	UOB	Var	Cons	Var
TOTAL REVENUE	1,837	2,193	2,060	(6.1%)	12.1%	2,176	(5.3%)	2,126	(3.1%)
Online Game	832	1,073	961	(10.4%)	15.5%	982	(2.1%)		
Office Software & Others	1,005	1,121	1,098	(2.0%)	9.3%	1,193	(8.0%)		
Cost of services	-371	-362	-383	(5.9%)	(3.2%)	-392	2.2%		
Gross profit	1,466	1,832	1,677	(8.5%)	14.4%	1,784	(6.0%)	1,731	(3.1%)
online game GPM	71%	77%	76%	(1.1 ppt)	4.7 ppt	77%	-1 ppt		
WPS GPM	87%	90%	86%	(3.5 ppt)	(0.7 ppt)	86%	0 ppt		
online game OPM	4%	22%	-7%	(28.6 ppt)	(10.7 ppt)	12%	-18 ppt		
WPS OPM	30%	39%	40%	0.8 ppt	16.4 ppt	30%	10 ppt		
Non-IFRS Operating profit	395	767	449	(41.4%)	13.5%	555	(19.1%)	503	(10.8%)
Non-IFRS OPM	22%	35%	22%	(13.2 ppt)	0.3 ppt	26%	(3.7 ppt)		
Net profit	-6,055	57	28	(50.2%)	n.a.	162	-82%		
Diluted EPS (RMB)	-4.44	0.04	0.02	(50.0%)	n.a.	0.00	n.a.		
GPM	79.8%	83.5%	81.4%	(2.1 ppt)	1.6 ppt	82.0%	-1 ppt	81.4%	(0.0 ppt)
Non-IFRS Net margin	26.9%	11.4%	4.0%	(7.4 ppt)	(22.9 ppt)	10.9%	-7 ppt		

Source: Kingsoft Corp Ltd, UOB Kay Hian

RESULTS

- **Online games' revenue growth momentum remains intact.** Kingsoft Corp's (Kingsoft) online games' revenue ramped up by 15% yoy to Rmb961m (vs 2Q23: 17%, 3Q22: -8%) in 3Q23. This was mainly supported by JX3 Online and revenue contribution from Snowbreak: Containment Zone launched in July. However, this was partially offset by a decline in revenue from the existing mobile games such as JX World III and JX I: Gui Lai. The company expects positive growth in games revenue in the following quarters. Full-year guidance for online games' revenue remains unchanged at single-digit yoy growth in view of the intense competitive environment. Operating margin for 2023 is guided to be flat yoy. We forecast 2023/24 online game revenue growth to be 10%/13% respectively, mainly underpinned by solid games pipeline.
- **Subdued Kingsoft Office (KO, or WPS) performance.** KO revenue growth decelerated to 9% yoy at Rmb1.1b (vs 2Q23: +21%. 3Q22: +25%), primarily dragged by a decline in revenue from the domestic institutional licensing business due to a reduction in new purchase orders and localisation solutions. For the individual subscription business, the company's monthly active devices of key products grew 2% yoy to 589m. In 3Q23, Kingsoft invested in independently-developed small- and medium-sized models and formed strategic partnerships with Alibaba Cloud and iFlytek to co-build a digital and intelligent service ecosystem. 3Q23 net profit remained flattish yoy at Rmb28m, attributed to stringent cost control, offset by a rise in AI-related costs.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	6,371	7,637	8,704	10,305	11,777
EBITDA	1,668	2,215	2,495	2,738	3,852
Operating profit	1,361	1,869	2,079	2,130	3,043
Net profit (rep./act.)	395	(6,050)	520	954	1,617
Net profit (adj.)	(228)	711	868	1,318	2,033
EPS (Fen)	(16.3)	49.6	63.5	96.4	148.0
PE (x)	n.m.	56.3	44.0	29.0	18.9
P/B (x)	1.2	1.6	1.5	1.5	1.4
EV/EBITDA (x)	10.2	7.6	6.8	6.2	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	2.9
Net margin (%)	6.2	(79.2)	6.0	9.3	13.7
Net debt/(cash) to equity (%)	(49.4)	(73.9)	(82.4)	(83.8)	(83.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	1.2	n.a.	2.1	3.7	6.0
Consensus net profit	-	-	643	1,165	1,512
UOBKH/Consensus (x)	-	-	1.35	1.13	1.34

Source: Kingsoft Corp Ltd, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

Retail Market Monitor

Thursday, 23 November 2023

STOCK IMPACT

- **Margin performance.** Total opex as a percentage of total revenue edged up to 63% in 3Q23 vs 62% in 3Q22, attributed to increased personnel-related expenses. Sales & marketing (S&M) expenses grew 24% yoy, primarily due to the marketing campaigns for newly-launched games.
- **Key highlights for online games in 3Q23...** a) In 3Q23, JX Online III underwent updates constantly. In October, it launched the beta test with ultimate graphic quality and a new expansion pack to ensure the ongoing success of the intellectual property (IP); b) World of Sword Origin was released in China in September and received recognition from players. This mobile game was transformed from PC game through optimising and upgrading the graphics and gameplay details while maintaining traditional 2D graphics and classic gameplay; and c) optimisation of the anime game Snowbreak: Containment Zone on an ongoing basis.
- **...and solid pipeline in 2024.** a) The mobile version of JX3 Ultimate has received licence approval and is expected to be launched in 1H24 to achieve accessibility through all platforms. This mobile version of JX Online III will be seamlessly connected with Kingsoft's PC version, expanding the user base and enhancing the overall gaming experience; b) World of Sword Origin has been approved by regulators and is currently slated to launch in 1H24 on PC. We expect this new handheld game to facilitate the activity and online hours of core IP players in 2024; c) a new mecha game titled Code B.R.E.A.K is set to be launched in 2024; and d) in addition to the JX Online III mobile version in 2024, there is another game planned under the JX series, with the exact title yet to be announced.
- **WPS business' progress in AIGC monetisation.** KO is set to commence monetisation testing for WPS AI products in Dec 23. KO plans to adopt a differentiated pricing strategy for the products based on testing in mid-December and user feedback for further refinement throughout 1Q/2Q24. KO will progressively unveil all product functions to users and continue to open other co-pilot and insight functions.
- **Cloud overview.** For 3Q23, Kingsoft Cloud generated negative revenue growth of 17.5% yoy. public cloud services revenue declined 24.5% yoy, attributed to proactive scaling down of content delivery network services. Enterprise cloud services revenue dropped 2.2% yoy in 3Q23 vs +9.5% yoy in 2Q23, primarily dragged by a continuous focus on selected verticals and high-quality projects. Non-IFRS net loss was Rmb313m in 3Q23, narrowing from a net loss of Rmb315m in 2Q23.

EARNINGS REVISION/RISK

- We keep our 4Q23 revenue forecast largely unchanged but lowered 2023/24 revenue estimates by 1%/5% respectively in view of weaker-than-expected top-line performance from JX III Online and Kingsoft Office in 3Q23. We expect Kingsoft to deliver adjusted net profit of Rmb313m in 4Q23, which should translate to net margin of 13% vs 4% in 4Q22. We forecast 2023/24 revenue to grow 14%/18% yoy, translating to non-IFRS net margin of 10%/13%.
- **Risk.** Obsolescence of its flagship PC games and delays in the government software localisation project.

VALUATION/RECOMMENDATION

- **Maintain BUY with a slightly lower target price of HK\$36.00.** We remain cautiously optimistic on the company due to the promising game pipeline coupled with intensified market competition. Our target price implies 34x 2024F PE. The company is currently trading at 24x 12-month forward PE, lower than its historical mean of 47x.

SHARE PRICE CATALYST

- a) Continued launch of expansion packs to support online games growth, and b) growth in WPS revenue from licensed software and subscription services.

SOTP VALUATION

HK\$(m)	FY2024F revenue	FY24-26F revenue CAGR	FY2024F non-GAAP earnings	Assumed FY2024F PER	Assumed FY2024F EV/SALES	Fair value HK\$(m)	Kingsoft's holding (or share of total revenue)	Fair value per share (HK\$)
Online games	5,148	7%	1,030	5x		5,148	84%	3
WPS	6,175	10%	1,667	28x	9x	55,579	53%	17
Cheetah						473	47%	0
Cloud						9,556	52%	3
Total EV with 20% discount								19
2024F cash per share						21,867		18
Target price (HK\$)								36.00

Source: Kingsoft, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Tongcheng Travel Holdings (780 HK)

3Q23: Earnings Beat; 2024 Outlook Remains Intact Despite Normalising Industry Growth

TT reported solid 3Q23 results, with revenue soaring 61% yoy to Rmb3.3b, 3% above consensus expectations. Adjusted net profit was reported at Rmb621m, well above our and consensus estimates. Non-IFRS net margin was 18.8% vs 12.3% in 3Q22, above our and consensus estimates of 18%. 4Q23 revenue is expected to grow 41-46% vs 2019's level (in line with consensus of 44% above 2019), anchored by the Golden Week holidays. Maintain BUY. Target price: HK\$21.00.

3Q23 RESULTS

(Rmbm)	3Q22	2023	3Q23	qoq % chg	yoy % chg	UOB	Var	Cons	Var
Total Revenue	2,048	2,866	3,299	15.1%	61.1%	3,245	1.7%	3,215	2.6%
Transportation ticketing	987	1,495	1,680	12.4%	70.3%	1,687	(0.4%)		
Accommodation	819	1,055	1,127	6.8%	37.7%	1,097	2.8%		
Others	243	316	492	55.5%	102.8%	461	6.7%		
Cost of services	-503	-703	-840	(19.4%)	(67.0%)	-811	(3.5%)		
Gross profit	1,545	2,163	2,460	13.7%	59.2%	2,434	1.1%	2,412	2.0%
Non-IFRS OPM	5%	17%	20%	2.6 ppt	15.3 ppt	18%	0.1 ppt		
Net profit	-90	356	510	43.3%	664.5%	414	23.3%	387	31.9%
Non-IFRS net profit	252	592	621	4.8%	146.5%	569	9.2%	578	7.4%
Non-IFRS diluted EPS	0.11	0.26	0.26	(0.2%)	131.5%	0.23	10.7%	0.17	56.2%
GPM	75.4%	75.5%	74.5%	(0.9 ppt)	(0.9 ppt)	75.0%	(0.5 ppt)	75%	(0.5 ppt)
Non-IFRS NPM	12.3%	20.7%	18.8%	(1.9 ppt)	6.5 ppt	17.5%	1.3 ppt	18.0%	0.8 ppt

Source: Tongcheng Travel, Bloomberg, UOB Kay Hian

RESULTS

- **Strong top-line growth trajectory.** Tongcheng Travel Holdings' (TT) 3Q23 revenue jumped 61% yoy (+60% vs 2019), better than its previous guidance of 53-58%. Transportation ticketing revenue surged 70% yoy (+47% vs 2019) to Rmb1.7b, attributable to a spike in total ticketing volume and improvement in value-added service (VAS) and product offerings. Accommodation reservation revenue ramped up by 38% yoy (63% above 2019) to Rmb1.1b, vs 2Q23's 94% yoy growth, driven by a surge in domestic room nights (+100% growth vs 2019). Average daily rate (ADR) improved from 3Q22, while blended take rate was lower than that of 2022. Revenue from other segments soared by 103% yoy to Rmb492m (+115% vs 2019), propelled by enhanced synergies and optimised marketing promotions.
- **4Q23 outlook remains intact.** TT's top-line is estimated to grow 41-46% in 4Q23 compared with 2019's level to Rmb2.76b-2.85b. The sequential moderation in revenue growth stems from low seasonality and normalised domestic travel demand. We forecast 4Q23/2024 revenue to grow 89%/22% yoy and 45%/92% vs 2019's level. We estimate non-IFRS net profit in 4Q23/2024 at Rmb479m/Rmb2.5b, with net margin of 17%/18%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	7,538	6,585	11,587	14,169	16,989
EBITDA	1,242	292	2,252	2,669	3,396
Operating profit	895	(24)	1,870	2,280	2,973
Net profit (rep./act.)	723	(146)	1,574	1,893	2,468
Net profit (adj.)	1,313	646	2,196	2,512	3,087
EPS (Fen)	58.4	28.8	94.9	105.4	125.7
PE (x)	23.7	48.2	14.6	13.2	11.0
P/B (x)	2.0	1.9	3.0	2.5	2.0
EV/EBITDA (x)	22.6	96.1	12.5	10.5	8.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	9.6	(2.2)	13.6	13.4	14.5
Net debt/(cash) to equity (%)	(12.7)	(7.9)	(34.7)	(52.4)	(66.7)
Interest cover (x)	n.a.	3.7	n.a.	n.a.	n.a.
ROE (%)	4.9	n.a.	12.2	16.8	17.8
Consensus net profit	-	-	2,127	2,546	3,034
UOBKH/Consensus (x)	-	-	1.03	0.99	1.02

Source: Tongcheng Travel Holdings Limited, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Operating metrics and margin performance.** During 3Q23, about 87% of TT's total registered users were from non-first-tier cities in China, and 71% of new paying users on the Weixin platform were from Tier 3 and below cities. 3Q23 average monthly active users (MAU) dropped 20.2% yoy to 224.7m; average monthly paying users (MPU) grew 20% yoy to 44.2m, representing a paying ratio of 19.7% vs 13.1% in 3Q22. Domestic room nights spiked 100% vs 2019's level given the increased popularity of booking hotel stays for a wider range of occasions, such as music festivals and concerts and e-sports events. Air ticketing volume increased more than 30% vs 2019, with international air ticket volume recovering significantly and surpassing that of 2019. TT's gross merchandise value (GMV) rose by 75% yoy to Rmb71b in 3Q23. Gross profit margin inched down 1ppt yoy to 75% while adjusted net margin expanded 6.5ppt yoy to 18.8% on operating leverage.
- **4Q23 segmental breakdown.** For 4Q23, accommodation reservations are expected to surge 35-40% vs 2019's level, moderating from 3Q23, as hotel booking and revenue growth during the Golden Week had been included into 3Q23's figures. In 4Q23, hotel ADR is declining by 2ppt vs 2019, while hotel take rate remains stable at 8.0-8.5%. Transportation ticketing revenue is guided to grow 25-30% from pre-pandemic level. Transportation take rate has elevated to above 3.5%, given TT's shift of focus from ticket booking volume to revenue growth. Revenue from the others segment is guided to soar by 200% vs pre-pandemic levels. Gross margin is expected to maintain at 74-75% in 4Q23. Selling and marketing expense ratio will edge up sequentially to 40% in 4Q23, especially on app store marketing and quality e-portal that will capture emerging growth opportunities. Adjusted net profit is projected at Rmb450m-500m, implying non-IFRS net margin of 17%. Management expects the strong travel demand momentum to sustain into 2024.
- **For 2024,** with travel industry growth rate is expected to normalise to 7-8%. TT remains confident in achieving 2-3x of industry growth, mainly driven by: a) increasing online penetration especially with its advantage and large user base in lower tier cities; b) ample growth room for cross-selling products given its 10% cross-selling rate vs TCOM's 20%; and c) upside from outbound travel, which currently only accounts for 1% of total revenue vs 5% in 2019. TT anticipates a faster recovery in outbound travel in 2024. As of end-September, TT's flight capacity had only reached slightly over 15% of 2019's level, representing significant room for growth in 2024. TT is actively exploring untapped markets such as Europe and America.
- **Progress in venture into packaged tours.** After TT's acquisition of Tongcheng International Travel Service early this year, continuous efforts are underway to diversify and enhance product offerings. In 3Q23, the domestic package tour revenue growth had recovered to over 60%, with a slight price increase vs 2019. On the other hand, the urban packaged tour revenue only recovered to 20% of 2019's level, but with a significant average package price increase of nearly Rmb0.35.

EARNINGS REVISION/RISK

- We raise our 4Q23/2023 revenue estimates by 4.5%/1.6% respectively due to the continuous rapid recovery trajectory and penetration into lower-tier cities. We estimate 2023/2024 revenue growth of 76%/22% yoy (57%/92% vs 2019's level) and adjusted net profit margin of 19%/18%.
- **Risks:** a) price war and competition may arise given growing market demand, and b) normalisation of domestic travel demand.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of HK\$21.00,** pegged at 23x 2024F PE. Our target price implies PEG of 1x against EPS CAGR of 27% from 2024-27. TT currently trades at 14x 12-month forward PE, 1.3SD below its historical mean of 27x.

SHARE PRICE CATALYST

- **Catalysts:** a) Strong macro recovery, b) 1H24 travel market continues to exhibit strong growth, and c) increasing ARPU driven by long haul travel.

FROM THE REGIONAL MORNING NOTES...

Hansoh Pharmaceutical Group Company (3692 HK)

Expects Innovative Drugs To Support Significant Revenue Growth Recovery In 2024

Hansoh Pharma recently entered into an out-licensing agreement with GSK on B7-H4 directed ADC, expecting to receive an upfront payment income of US\$85m. Our channel check indicates that the company also achieved satisfactory results in this round of NRDL price negotiation. The NRDL inclusion of Saint Luolai is expected to support a stronger revenue growth in 2024. Maintain BUY and target price of HK\$17.50.

WHAT'S NEW

- Hansoh Pharmaceutical Group Company (Hansoh Pharma) recently entered into a licence agreement with GlaxoSmithKline Intellectual Property (No. 4) (GSK) on B7-H4 directed antibody-drug conjugate (ADC) for an upfront payment of US\$85m, milestone payments based on relevant milestone events, and tiered royalty income upon commercialisation of the product.
- Our channel check indicates that Hansoh Pharma's three drugs participants of National Reimbursement Drug List (NRDL) price negotiation have all successfully been included in the new edition of NRDL.

WHAT'S NEW

- **Entered into licence agreement with GSK on HS-20089.** Hansoh Pharma recently entered into an agreement with GSK, to grant GSK an exclusive worldwide licence (excluding Mainland China, Hong Kong, Macau, and Taiwan) to develop, manufacture, and commercialise HS-20089. HS-20089 is a novel B7-H4 directed ADC with a topoisomerase inhibitor (TOPOi) payload. The product is under development for the treatment of advanced solid tumour in a phase I clinical study in China. Hansoh Pharma expects to receive an upfront payment of US\$85m and milestone payments of up to US\$1.485b subject to achievement of relevant milestone events with respect to the product. Upon commercialisation of the product, Hansoh Pharma will also receive tiered royalties based on global net sales derived from the territory outside of Mainland China, Hong Kong, Macau and Taiwan. The company has been actively seeking business development (BD) opportunities for its early stage pipelines as part of its globalisation strategy. The HS-20089 deal recognises the potential of the ADC platform and innovation capability of Hansoh Pharma.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	9,935	9,382	9,823	11,030	12,557
EBITDA	3,631	3,389	3,590	4,066	4,653
Operating profit	3,353	3,007	3,181	3,630	4,190
Net profit (rep./act.)	2,713	2,584	2,718	3,102	3,580
Net profit (adj.)	2,713	2,584	2,718	3,102	3,580
EPS (Fen)	45.2	43.6	45.9	52.4	60.4
PE (x)	29.5	30.6	29.1	25.5	22.1
P/B (x)	3.9	3.5	3.2	2.9	2.6
EV/EBITDA (x)	19.4	20.8	19.6	17.3	15.1
Dividend yield (%)	0.5	0.7	0.7	0.8	0.9
Net margin (%)	27.3	27.5	27.7	28.1	28.5
Net debt/(cash) to equity (%)	(33.5)	(37.0)	(35.0)	(40.9)	(46.5)
Interest cover (x)	68.8	58.3	n.a.	n.a.	n.a.
ROE (%)	14.3	12.1	11.4	11.9	12.4
Consensus net profit	-	-	2,758	3,038	3,431
UOBKH/Consensus (x)	-	-	0.99	1.02	1.04

Source: Hansoh Pharma, Bloomberg, UOB Kay Hian

STOCK IMPACT

- Achieved satisfactory results in 2023 NRDL price negotiation.** Hansoh Pharma has three innovative products, namely, Hengmu, Mailingda, and Saint Luolai, which participated in the 2023 NRDL price negotiation. According to our channel check, the company achieved satisfactory results in this round of NRDL price negotiation. Hengmu and Mailingda renewed their NRDL status with nil or minor price pressure. Saint Luolai (Pegmolesatide), which obtained market approval from NMPA on 30 Jun 23, is a long-acting peptide-based erythropoiesis-stimulating agent (ESA), which promotes the proliferation of red blood cells in the body and is indicated to treat anaemia in chronic kidney disease (CKD) adult patients who have not received ESA and are not on dialysis, as well as who are receiving short-acting erythropoietin treatment and on dialysis. The product was also successfully included in the NRDL with a reasonable price. Currently, all of the seven innovative drugs of the company have been enlisted in 2023 NRDL, which will broaden market access for these products and fuel revenue growth of the company for the next few years.
- Expects innovative drug revenue to grow at over 25% yoy in 2024.** Impacted by GPO price pressure, Hansoh Pharma's generic products saw significant revenue decrease of 18% yoy in 1H23. However, the growth of innovative drug sales remained strong at over 20% yoy in 1H23. We believe the anti-corruption campaign may disrupt drug sales growth in 2H23 and anticipate Hansoh Pharma to report relatively mild overall revenue growth of about 4.7% in 2023. The newly-launched potential blockbuster, Saint Luolai is expected to reach peak sales of Rmb1.5b in the next 4-5 years. Moreover, the company has also collaborated with Antengene Corporation (6996 HK) and obtained the exclusive China commercial rights of Selinexor (XPOVIO, for the treatment of various haematological malignancies and solid tumours) in Aug 23. The new product launches of Saint Luolai and Selinexor are expected to boost revenue from 2H23 and contribute to stronger revenue growth of over 25% yoy for innovative products from 2024.
- Smooth R&D progress, expects innovative products to generate over 80% of total revenue in 2025.** Hansoh Pharma had achieved significant progress in R&D in 1H23. Aside from the successful market launch of Pegmolesatide in 1H23, it also pushed forward various clinical trials into late stage clinical trials. For example, Hansoh Pharma sees smooth progress of Aumolertinib and expects to receive market approval for its adjuvant therapy in postoperative EGFR-mutated non-small cell lung cancer in 2024. It has quickly moved HS-20094 (the dual GLP-1/GIP receptor agonists for the treatment of type-2 diabetes and obesity) to phase II trials and expects to get market approval in 2026/27. The company targets to have 15 innovative drugs (including new indications) in 2025. It continues to guide for innovative products to contribute approximately 65% of total revenue in 2023, and over 80% in 2025.

EARNINGS REVISION/RISKS

- We expect revenue growth to accelerate from 4.7% yoy in 2023 to 12.3% yoy in 2024 and 13.8% yoy in 2025. We also forecast net earnings growth to increase from 5.2% yoy in 2023, to 14.1% yoy in 2024 and further to 15.4% yoy in 2025.
- Key risks include: a) possible failure in R&D and delays in new product launches, b) possible lower-than-expected growth, c) intensifying competition, and d) policy risks, eg, GPO price pressure etc.

VALUATION/RECOMMENDATION

- Maintain BUY and target price of HK\$17.50** based on SOTP valuation, comprising: a) HK\$8.10/share at 14x 2023F PE for existing drugs, and b) NAV-derived pipeline value of HK\$9.40/share (10.8% WACC, 3.5% perpetual growth rate).

SHARE PRICE CATALYSTS

- a) Stronger revenue and earnings growth for 2024, b) continued efforts in R&D and innovative drug launches, and c) productive BD programmes.

FROM THE REGIONAL MORNING NOTES...

Frencken Group (FRKN SP)

3Q23: Results In Line; Sequential Recovery Trend Continues

Frencken's 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) were in line with expectations, with 9M23 earnings accounting for 74% of our full-year estimate. 3Q23 revenue grew 3% qoq but fell 6% yoy as all segments saw revenue declines, except for medical (+20% yoy) and analytical & life sciences (+22% yoy). Frencken expects stable revenue in 2H23 vs 1H23 and will continue focusing on its programmes for customers to ensure it is well-positioned to recover. Maintain BUY. Target: S\$1.23.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	% chg (yoy)	2Q23	% chg (qoq)
Revenue	184.4	195.3	(5.6)	178.5	3.3
Net Profit	7.1	11.0	(35.5)	6.9	2.9
Gross margin (%)	12.4	13.7	(1.3ppt)	12.4	-
Net margin (%)	3.9	5.6	(1.7ppt)	3.9	-

Source: Frencken, UOB Kay Hian

RESULTS

- 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) are in line with expectations.** Frencken Group (Frencken) reported earnings that are in line with our forecast, with 9M23 earnings of S\$19m (-48% yoy) accounting for 74% of our full-year estimate. 3Q23 earnings saw a qoq recovery of around 3%, as Frencken continues its sequential recovery trend since 2Q23.
- Revenue declined across four segments, while that for medical and analytical & life sciences rose.** Frencken's 3Q23 revenue grew 3% qoq but the drop of 6% yoy was led by declines in the industrial automation (-64% yoy), semiconductor (-11% yoy), consumer & industrial electronics (-4% yoy) and automobile (-6% yoy) segments. In the semiconductor space, sales to a key customer in Europe was higher yoy in 1H23. However, this was insufficient to compensate for the decline in sales in Asia. Sales in the medical (+20% yoy) segment grew due to higher sales to a significant European customer, while sales of the analytical & life science segment rose 22% yoy.
- Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23 and it continues to focus on programmes for existing and new customers.** Frencken expects to post stable revenue in 2H23 vs 1H23. Its outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: higher revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, Frencken will continue to focus on its programmes for existing and new customers to ensure it is well-positioned for a recovery in the global economy and technology sector.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	792	828
EBITDA	87	82	54	75	80
Operating profit	64	54	24	44	48
Net profit (rep./act.)	59	52	26	42	46
Net profit (adj.)	59	52	26	42	46
EPS (S\$ cents)	13.8	12.1	6.0	9.7	10.7
PE (x)	7.9	8.9	18.0	11.1	10.1
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	4.3	4.5	6.8	4.9	4.6
Dividend yield (%)	3.8	3.4	1.7	2.7	3.0
Net margin (%)	7.7	6.6	3.5	5.2	5.5
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	62.2	22.8	16.2	20.7	21.2
ROE (%)	16.5	13.5	6.5	9.9	10.1
Consensus net profit	-	-	25	40	49
UOBKH/Consensus (x)	-	-	1.02	1.03	0.93

Source: Frencken, Bloomberg, UOB Kay Hian

Retail Market Monitor

Thursday, 23 November 2023

STOCK IMPACT
• Long-term growth supported by diversified segments and new programmes.

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

EARNINGS REVISION/RISK

- We maintain our financial forecasts.

VALUATION/RECOMMENDATION

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

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 22 Nov 23 (TC)	Market Cap (USD)	PE		PB		EV/EBITDA		ROE	Yield
					2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (x)	2023F (%)	2023F (%)
Frencken	FRKN SP	SGD	1.08	344	18.0	11.1	1.1	1.1	8.9	6.4	6.5	1.7
SGX-listed peers												
Venture	VMS SP	SGD	13.05	2,826	14.1	13.5	1.3	1.3	8.5	8.2	9.4	5.7
AEM	AEM SP	SGD	3.49	804	78.5	14.2	2.2	2.0	28.4	10.3	2.8	0.3
UMS	UMSH SP	SGD	1.26	630	14.1	10.9	2.3	2.1	9.2	7.3	17.0	4.3
Average					35.6	12.9	1.9	1.8	15.3	8.6	9.7	3.5
Semiconductor (39% of Frencken's 2022 sales)												
Asml Hol	ASML NA	EUR	622.2	273,257	31.9	31.8	20.1	18.1	26.2	25.9	70.4	1.0
Intel Corp	INTC US	USD	43.64	183,986	45.9	23.3	1.8	1.8	18.3	12.6	2.7	1.6
Kulicke & Soffa	KLIC US	USD	49.64	2,816	49.1	24.3	2.4	n.a.	26.6	17.2	4.8	1.5
Benchmark Elec	BHE US	USD	25.33	904	12.5	11.8	0.8	0.8	7.5	7.0	6.9	2.6
Average					34.9	22.8	6.3	6.9	19.7	15.7	21.2	1.7
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	76.06	15,911	n.a.	293.7	n.a.	n.a.	108.2	28.0	n.a.	3.7
Western Digital	WDC US	USD	46.24	14,993	n.a.	n.a.	1.4	1.5	n.a.	251.5	(15.0)	0.0
Average					n.a.	293.7	1.4	1.5	108.2	139.8	(15.0)	1.8
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	482.39	186,382	22.4	21.9	4.0	3.7	19.9	19.8	18.4	0.3
Oxford Instruments	OXIG LN	GBP	2140	1,551	20.2	19.0	0.0	0.0	n.a.	n.a.	17.1	0.9
Koninklijke Philips	PHIA NA	EUR	19.256	19,481	15.4	13.2	1.4	1.4	8.7	8.2	4.1	4.5
Siemens Healthineers	SHL GR	EUR	50.66	62,253	37.5	22.8	3.2	2.8	19.5	15.5	8.0	1.9
Average					23.9	19.2	2.1	2.0	16.0	14.5	11.9	1.9
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	13.125	3,498	10.7	5.9	0.8	0.7	3.2	2.9	7.3	3.6
Visteon	VC US	USD	118.23	3,288	17.4	12.8	4.4	3.7	7.7	6.6	26.5	0.0
Thyssenkrupp	TKA GR	EUR	6.99	4,741	n.a.	9.7	n.a.	0.3	n.a.	1.1	n.a.	2.1
Bosch	BOS IN	INR	20851.4	7,380	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.3
Denso	6902 JP	JPY	2374.5	50,153	14.5	13.1	1.5	1.4	7.7	7.0	10.5	2.2
Johnson Contr	JCI US	USD	52.53	35,737	14.8	13.3	2.1	2.0	11.3	10.5	14.0	2.7
Average					14.3	10.9	2.2	1.6	7.5	5.6	14.6	2.0

Source: Bloomberg, UOB Kay Hian

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