

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

GREATER CHINA

Sector

Commodities

Weekly: Israel-Hamas conflict boosts safe-haven appeal.

Page 2

Property

Preview of the 2023 Policy Address: Assessing the impact of easing measures on the property industry.

Page 5

INDONESIA

Update

XL Axiata (EXCL IJ/HOLD/Rp2,360/Target: Rp2,500)

Page 8

Benefits of potential merger with Smartfren might be mostly priced in for now. Downgrade to HOLD.

MALAYSIA

Sector

Oil & Gas

Invest in safe names amid volatile oil price direction, depending on changing narratives of potential escalation of the Israel-Hamas conflict (to Iran) and COP28 conference.

Page 11

SINGAPORE

Update

Frencken Group (FRKN SP/BUY/\$\$1.05/Target: \$1.23)

Page 14

Expect 2024 to be a recovery year; maintain BUY with a 23% higher target price.

THAILAND

Results

Aeon Thana Sinsap (Thailand)

Page 17

(AEONTS TB/BUY/Bt152.00/Target: Bt190.00)

2QFY23: Results above consensus expectation; NPL ratio continues to increase.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33604.7	0.6	0.5	(2.8)	1.4
S&P 500	4335.7	0.6	1.1	(2.7)	12.9
FTSE 100	7492.2	(0.0)	(0.2)	0.2	0.5
AS30	7157.0	0.2	(1.1)	(2.7)	(0.9)
CSI 300	3684.7	(0.1)	(1.4)	(1.5)	(4.8)
FSSTI	3166.5	(0.2)	(1.3)	(1.3)	(2.6)
HSCEI	5998.3	0.4	(2.4)	(5.0)	(10.5)
HSI	17517.4	0.2	(1.6)	(3.8)	(11.4)
JCI	6891.5	0.0	(1.0)	(0.5)	0.6
KLCI	1417.3	0.0	(0.1)	(2.6)	(5.2)
KOSPI	2408.7	0.2	(3.5)	(5.5)	7.7
Nikkei 225	30994.7	(0.3)	(2.7)	(4.9)	18.8
SET	1431.7	(0.5)	(2.6)	(7.5)	(14.2)
TWSE	16520.6	0.4	1.0	(0.3)	16.9
BDI	1991	3.2	14.6	67.9	31.4
CPO (RM/mt)	3570	(1.4)	(3.2)	(6.2)	(11.8)
Brent Crude (US\$/bbl)	88	4.2	(2.8)	(2.8)	2.6

Source: Bloomberg

TOP PICKS

	Ticker	CP (1cy)	TP (1cy)	Pot. +/- (%)
BUY				
BYD	1211 HK	235.00	590.00	151.1
China Duty Free	601888 CH	100.40	138.00	37.5
Bank Neo Commerce	BBYB IJ	298.00	390.00	30.9
Bumi Serpong	BSDE IJ	1,060.00	1,420.00	34.0
HM Sampoerna	HMSF IJ	850.00	1,300.00	52.9
My EG Services	MYEG MK	0.80	1.18	47.5
Yinson	YNS MK	2.35	3.75	59.6
OCBC	OCBC SP	12.88	18.22	41.5
CP ALL	CPALL TB	60.00	78.00	30.0
Indorama	IVL TB	24.40	30.00	23.0

KEY ASSUMPTIONS

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

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Corporate Roadshow with United Overseas Bank (UOB SP)	Thailand	10 Oct	10 Oct
NDR with Galaxy Entertainment (27 HK)	Taiwan	10 Oct	12 Oct
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Investor Luncheon with Crystal International Group Limited (2232 HK)	Hong Kong	11 Oct	11 Oct
Analyst Marketing by Jonathan Koh on Singapore Bank and REITs	Thailand	11 Oct	12 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct
Virtual Meeting with China Overseas Land & Investment Ltd (688 HK)	Hong Kong	18 Oct	18 Oct
Post 3Q2023 Results Virtual Meeting with Keppel Pacific Oak US REIT (KORE:SP)	Singapore	19 Oct	19 Oct

SECTOR UPDATE

Commodities – China

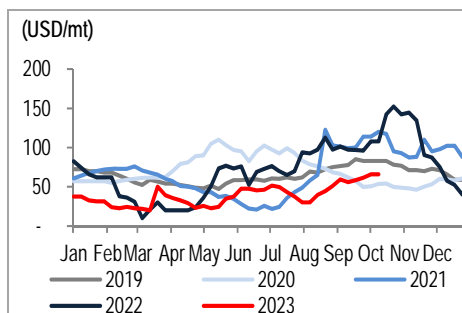
Weekly: Israel-Hamas Conflict Boosts Safe-Haven Appeal

The Israel-Hamas conflict has boosted the appeal of safe-haven assets. Gold has pared some losses in the past few weeks amid a hawkish Fed. US' Aug 23 nonfarm payroll came in well above expectations at +336,000. However, the weaker-than-expected wage growth of 0.2% mom could be a signal of decelerating inflation. Steel inventory was +6.7% wow and ended its seven consecutive weeks of downtrend. Steel's apparent consumption and cement shipment was -15.2%/-8.6% wow during Golden Week holidays.

• **Base metals (maintain MARKET WEIGHT):** The Israel-Hamas conflict boosts the appeal of safe-haven assets.

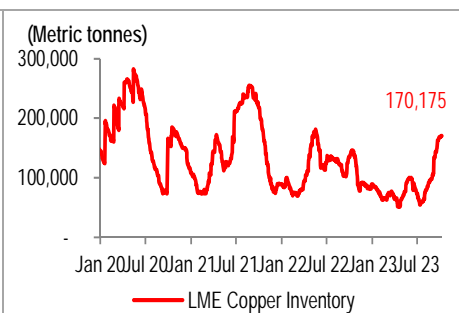
- The attack on Israel is expected to continue to boost the appeal of safe-haven assets like gold and the US dollar. Spot gold prices have rallied over 1% on 10 September, paring some losses in the past few weeks given the rising treasury yield and strengthening USD.
- US' nonfarm payrolls released on 6 October came in well above expectations at +336,000 (consensus: +170,000) while Aug 23's reading was also revised up to +227,000 from +178,000, bolstering bets for another rate hike in 2023. However: a) US' Aug 23 wage growth remained moderate at 0.2% mom (consensus: 0.3% mom), which could be a signal of decelerating inflation; and b) unemployment rate also came in above expectations at 3.80% (consensus: 3.70%).
- COMEX gold/LME copper three-month futures closed -1.0%/-2.7% wow at US\$1,830 per t oz/US\$8,046 per mt as at end last week. The US dollar index has reversed down by 0.1% wow to 106.04 while 10-year treasury yield further climbed to 4.78%.
- According to CME FedWatch Tool, market is still pricing in 72.9% odds of the Fed maintaining interest rate at 5.25-5.50% on 1 Nov 23, and is expecting a first rate cut in Jun 24 with a 61.01% probability.
- The focus this week will be on the: a) US' Sep 23 CPI data releasing on 12 October (consensus: +3.6% yoy/+0.30% mom), and b) FOMC meeting minutes on the same day.

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 9 Oct 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	19.88	28.30	42.4	135,865.6	8.3	7.6	0.5	0.5	8.0	7.2	6.4
Baosteel	600019 CH	BUY	6.14	7.10	15.6	136,689.9	13.2	9.8	0.7	0.6	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	1.94	3.10	59.8	13,546.9	7.2	5.6	0.3	0.3	6.6	5.4	3.8
Zijin Mining	2899 HK	BUY	11.80	15.00	27.1	337,519.8	12.5	10.6	2.7	2.3	10.3	9.1	23.7

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

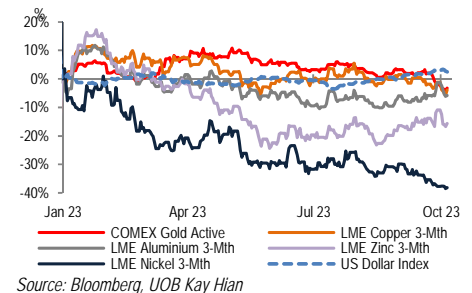
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SECTOR PICKS

Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Anhui Conch	BUY	28.30	19.88

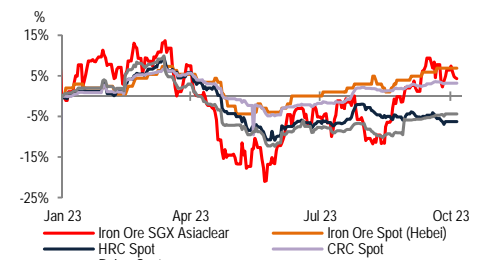
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

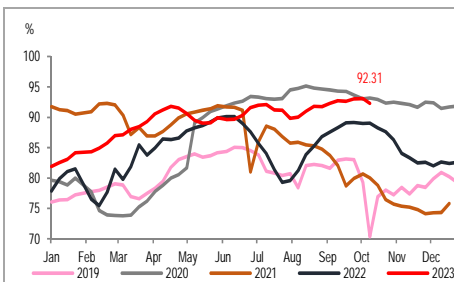
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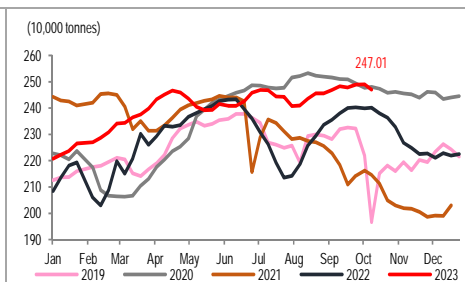
- **Steel (maintain UNDERWEIGHT):** Weak Golden Week home sales data dragged on sentiment.
 - **Iron ore prices corrected on moderating demand outlook.** SGX iron ore futures continued declining, - 5.1% wov to US\$112.25 per mt on 10 September, the lowest in a month. Sentiment was dragged by the data released by China Index Academy, whereby 35-city home sales during the Golden Week holiday (29 September-6 October) were down by close to 20% yoy. Iron ore's demand outlook for the rest of 2023 would hinge on China's potential crude steel output cap.
 - **CMRG in talks with miners over 2024 iron ore supply.** China Mineral Resources Group (CMRG), the central procurement agency established in Jul 22, was reported to be in talks with Rio Tinto Group and other leading miners regarding 2024's iron ore supply. CMRG and major miners were said to be in discussion on preferential terms on transport, grades and delivery arrangements.
 - It was also reported that large steel mills, like Baowu Steel and Ansteel Group, have now delegated all their iron ore term purchases to CMRG. As the largest iron ore buyers globally, we believe this would strengthen Chinese steel mills' bargaining power as a group, and enhance their iron ore supply security amid intensifying geopolitical tensions. This should also help in stabilising steel mills' profitability in view of volatile iron ore prices and expected weak downstream demand ahead.

247 SAMPLED STEEL MILLS BLAST FURNACE UTILISATION RATIO



Source: Bloomberg, UOB Kay Hian

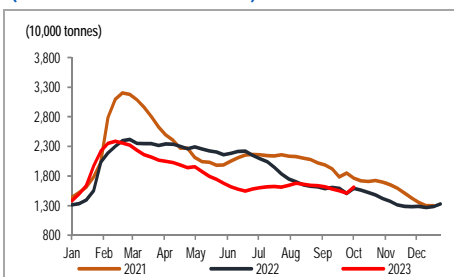
247 SAMPLED STEEL MILLS DAILY AVERAGE MOLTEN IRON OUTPUT



Source: Wind, UOB Kay Hian

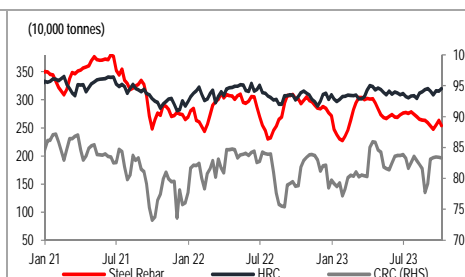
- **Steel production activities reversed down.** According to Mysteel's survey on 247 sampled steel mills, daily average molten iron production (for the week ended 6 October) was 2.4701m tonnes (-0.0198m tonnes wov), blast furnace capacity utilisation ratio was down 0.77ppt wov to 92.31%. Some of the blast furnaces which were loss-making have commenced maintenance work and halted productions. Weekly output of five major steel products slowed to 9.2341m tonnes (-0.74% wov) this week.
- **Downtrend of steel inventory ended; sharp decline in consumption of construction-related steel products.** Overall steel inventory based on Mysteel's survey was up 6.73% wov to 16.13 tonnes (+1.2% yoy), ending its seven-consecutive weeks of contraction. Weekly steel apparent consumption slumped 15.2% wov to 8.2169m tonnes (-6.4% yoy). The decline was led by rebar/wire rods with weekly consumption falling 33.8%/20.0% wov amid slower construction activities.

INVENTORY OF FIVE MAJOR STEEL PRODUCTS (TRADERS & STEEL MILLS)



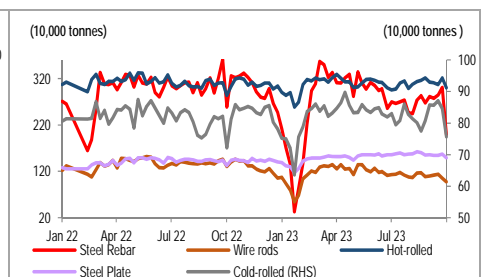
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



Source: Wind, UOB Kay Hian

- **Cement (maintain MARKET WEIGHT):** The rainy weather and long holidays dragged on cement demand.
 - **Weekly shipment -8.6% wow during Golden Week holidays.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 27 Sep-3 Oct 23 was 5.22m tonnes (-8.6% wow/-38.4% yoy). By region, the eastern/central/southern regions' shipment volume was -9.7%/-9.9%/+8.7% wow (-44.4%/-39.1%/-46.8% yoy) respectively. Shipment for infrastructure projects was 2.06m tonnes (-8.0% wow/-18.9% yoy). The rainy weather coupled with slower construction activities during the Golden Week holidays has dragged on cement demand.
 - **Inventory level declined further on slowing production output.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation has slowed further to 49.15% (-1.28ppt wow). The same survey also indicated that clinker storage capacity trimmed slightly to 72.35% (-1.37ppt wow).

ESSENTIALS

- **We maintain MARKET WEIGHT on the base metals sector.** A hawkish Fed and strong US dollar have continued to weigh on metal prices. We are concerned on global copper demand given the prospect of a prolonged high interest rate environment and gloomy global economic outlook. Partly due to the high pace expansion of inventory level, copper prices fell below US\$8,000 on 4 and 5 October. The downcycle is likely to last until 2H24, while the rebound in crude oil prices would also inflate miners' production costs and erode margins.
- **We maintain MARKET WEIGHT on the cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves and construction activities resume after the long holidays. We are still concerned about the high inventory level as it could cap the upside of the price recovery. With the acceleration of local government special purpose bond issuance, we should see a ramp up in construction activities in 4Q23.
- **We maintain UNDERWEIGHT on the steel sector.** We expect more production curbs to be announced in the following weeks with the authorities' intention to improve air quality. Steel production activities are expected to remain active in Oct 23 based on the current known production schedule, but we expect the growing inventory pressure and recent steep deterioration of profitability to continue to help in moderating the production output in the following weeks.

SECTOR UPDATE

Property – Hong Kong

Preview Of 2023 Policy Address: Assessing Impact Of Easing Measures On Property Industry

With Paul Chan softening his tone, when/how to ease cooling measures on non-PR buyers again becomes a market focus. We expect the government to marginally relax BSD/NRSD rules in the 2023 Policy Address. However, it may still be a bit too early to bet on the complete removal of cooling measures, as: a) the CCL index is still flat ytd, and b) Hong Kong has a very large pool of non-PR talents waiting to apply for PR and possibly buying property. Maintain MARKET WEIGHT. SHPK remains our top pick.

WHAT'S NEW

- On 8 Oct 23, Paul Chan said the government would pragmatically review property policies.
- The CCL and CVI index were released on 6 Oct 23.

ESSENTIALS

- CCL index flat ytd and 18% lower than peak.** The CCL index stood at 156.79 on 6 Oct 23, flat ytd and 18% lower than the peak level reached in Aug 21. The CVI index, which reflects banks' view on the property market, fell to 11.23 as of 6 Oct 23; it has been staying below 20 for four consecutive months. High interest rates (ie 1M HIBOR standing above 4% in the last month) continued to weigh on the sentiment of home-buyers.
- Rising possibility of easing cooling measures on property sector.** Hong Kong Financial Secretary Paul Chan said on 27 September that "we see that the current property market situation is different from when we introduced the management measures". This is the first time government official hinted on easing cooling measures on non-HK PR buyers, although his overall tone remains prudent as he said that "recent property price correction was still manageable". On 8 Oct 23, Paul Chan again said to pragmatically review property policies.

COOLING MEASURES ON HONG KONG PROPERTY MARKET

Tax	Rate	Effective date
Buyers Stamp Duty (BSD)	15% on transaction value for non-PR buyers	Oct 2012
New Residential Stamp Duty (NRSD)	15% on transaction value for non-PR buyers	Nov 2016
Special Stamp Duty (SSD)	10%/15%/20% on transaction value, if property is sold within 12-36 months/6-12 months/6months after purchasing	Oct 2012

Source: Hong Kong Immigration, UOB Kay Hian

- Assessing impact of easing measures on property sector.** Despite the negative impact of high interest rates and tighter capital control of mainland China, we think easing policy measures will have a notable impact on demand and will change the market equilibrium in the short term, considering the big talent pool of Hong Kong.

- a) During 2016-22, Hong Kong Immigration approved 55,800-81,400 HK PR applications annually. Assuming all one-way permit (OWP) holders will apply for HK PR, the number of talents that successfully receive HK PR is estimated to be 10,800-26,800 annually, which is equivalent to 19-48% of the total number of property transactions.

PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Oct 23 (HK\$)	Target Price (HK\$)	Upside/(Downside) to TP (%)	Market Cap (HK\$m)	PE Y1 (x)	PE Y2 (x)	P/B Y1 (x)	P/B Y2 (x)	Yield Y1 (%)	Yield Y2 (%)
Hysan Development	14 HK	BUY	14.88	26.18	75.9	15,281.9	7.9	6.8	0.2	0.2	9.7	9.7
Sun Hung Kai Properties	16 HK	BUY	83.90	112.64	34.3	243,123.8	9.5	9.1	0.4	0.4	5.2	5.5
New World Development	17 HK	HOLD	14.96	16.03	7.1	37,648.8	7.0	7.0	0.2	0.2	5.1	5.1
Wharf Real Estate Investment Co Ltd	1997 HK	HOLD	29.05	40.30	38.7	88,202.4	13.4	11.9	0.5	0.5	4.6	5.2
Link REIT	823 HK	BUY	36.90	50.70	37.4	94,236.9	14.5	13.6	0.5	0.5	6.9	7.4

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
SHKP	16 HK	BUY	83.90	112.64

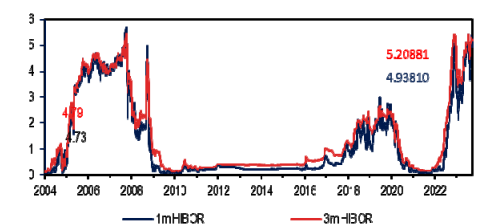
Source: UOB Kay Hian

CCL INDEX VS CVI INDEX



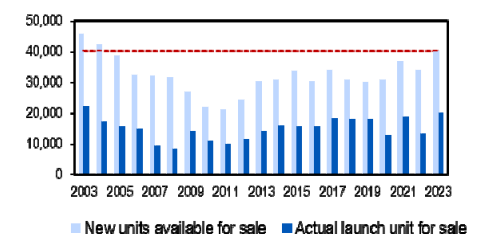
Source: Bloomberg, UOB Kay Hian

1M & 3M HIBOR



Source: Bloomberg, UOB Kay Hian

SUPPLY OF NEW HOME UNITS IN 2023



Source: Ricacorp Properties, UOB Kay Hian

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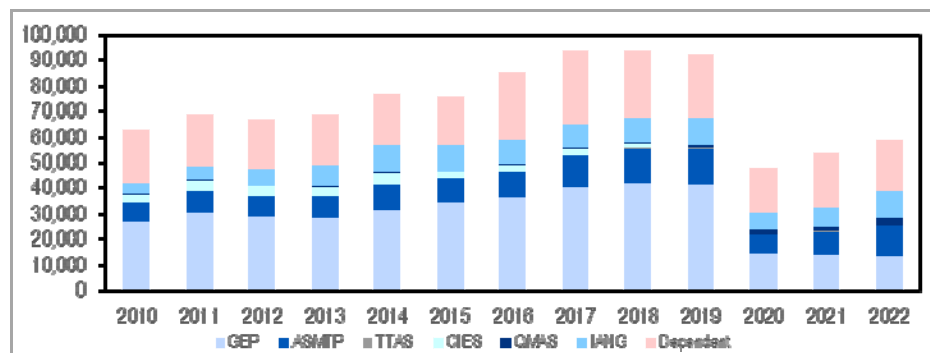
NO. OF POTENTIAL NEW BUYERS (NEW HK PR) VS NO. OF TRANSACTIONS

	2017	2018	2019	2020	2021
No. of primary home transactions	18,501	15,458	20,685	15,013	17,469
No. of secondary home transactions	39,744	38,782	35,893	41,353	51,928
Approved HKPR application (excl. OWP)	21,009	25,832	26,790	10,799	16,046
Approved HKPR application (incl. OWP)	63,609	69,232	81,390	55,799	56,546
No. of new PR (excl. OWP) vs no. home transactions	36%	48%	47%	19%	23%

Source: Hong Kong Immigration, UOB Kay Hian

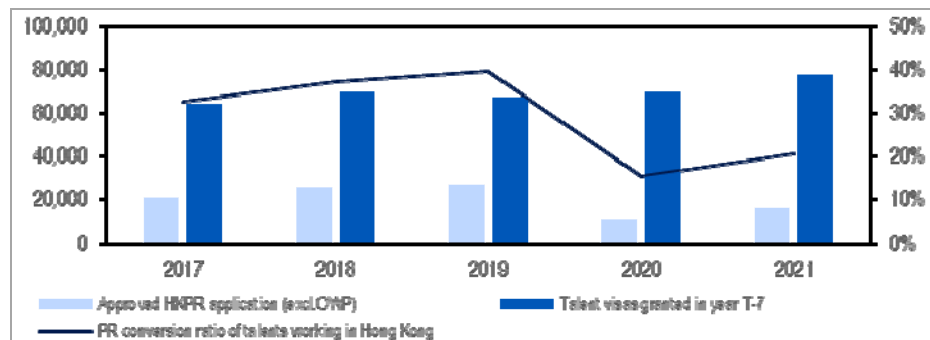
b) From 2016 to 2022, Hong Kong immigration issued a total number of 359,789 talent visas, of which we conservatively estimate that roughly 25% will apply for their HK PR once their conditions are fulfilled. That means Hong Kong currently has roughly 90,000 potential PR applicants from its talent pool. We expect this sizeable group to be the key beneficiaries if the Hong Kong government eases measures on the property sector.

NO. OF VARIOUS TALENT VISAS GRANTED DURING 2010-22



Source: Hong Kong Immigration, UOB Kay Hian. Note: CEP: General Employment Policy; ASMP: Admission Scheme for Mainland Talents and Professionals; TTAS: Technology Talent Admission Scheme; CIES: Capital Investment Entrant Scheme; QMAS: Quality Migrant Admission Scheme; IANG: Immigration Arrangements for Non-local Graduates.

% OF ELIGIBLE TALENTS APPLYING FOR HK PR



Source: Hong Kong Immigration, UOB Kay Hian

- **Key points to watch out for during the coming policy address on 25 October.** In the 2022 Policy Address, the government marginally eased policies that for non-PR talents purchasing properties. With greater downward pressure on property market, we expect further easing of measures in the 2023 Policy Address, which may include: a) shortening the number of years for non-PR talents to become PR, b) lowering Buyer's Stamp Duty (BSD) and New Residential Stamp Duty (NRSD) tax rates, c) adopting the practice of exempting BSD and NRSD for non-PR talents when they buy property and asking for tax payments if they sell their property before becoming HKPR. A complete removal of BSD and NRSD is of low possibility at the moment. On the other hand, the government's target of private and government housing supply will be another focus.

RECAP: KEY TAKEAWAYS FROM 2022 HONG KONG POLICY ADDRESS

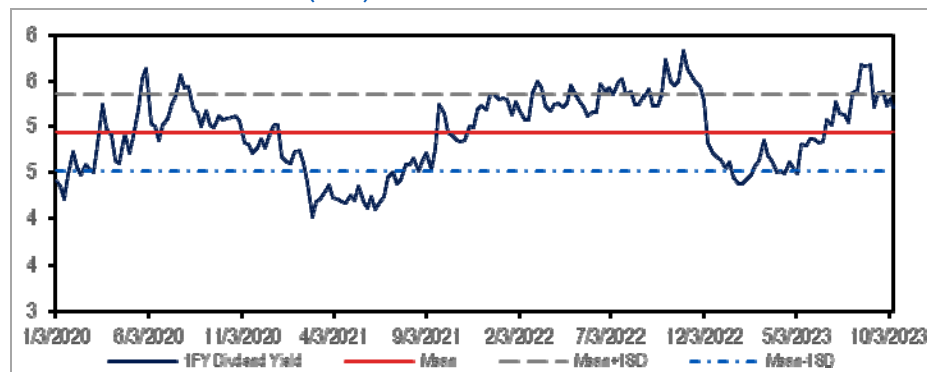
Subject	Details
Refunding the extra stamp duty paid by eligible incoming talents.	Eligible talents will receive a refund on extra stamp duty if they have stayed seven years to become permanent residents while still holding property by then. The amount talents end up paying will be equal to first-home PR buyers in the city (from HK\$100 to 4.25% of transaction value), as compared with 30% stamp duty charged for non-PR residents.
Accelerating private housing supply in next five years.	The government vows to get sufficient land ready to provide no less than 72,000 residential units in the next five years. This is a more aggressive supply plan as compared with the target of 2021 Policy Address of providing land for 100,000 residential units in the next 10 years.
Increasing public housing supply in next five years	The government targets to provide 158,000 units of public housing in the next five years, including 30,000 units of light public housing (LPH) units, representing an increase of approximately 50% compared with 105,000 units provided in the previous five-year period.
Continuing to push forward the development of Northern Metropolis and other major infrastructures	Construction of Northern Metropolis remains as one of the government's top agenda. For the next five years, the government targets to commence all land resumption procedures for development projects. In the subsequent 10 years, the government targets to form 40% of the new development land and complete 40% of the new flats. Specifically, the government guides that the Northern Metropolis will adopt higher plot ratios, ie 6.5 for residential sites (higher than 5 for earlier generations of new towns like Sha Tin) and 9.5 for commercial sites.

Source: 2022 Hong Kong Policy Address, UOB Kay Hian

ACTION

- **Maintain MARKET WEIGHT on Hong Kong's property sector.** During this earnings season, major developers guided down their dividend payout ratios in order to better position themselves amid a high interest rate environment. Stock prices of major Hong Kong developers have corrected by 11~30% ytd. In the short term, we think that major negative factors have been fully priced in. Looking forward, we expect the Hong Kong government to set a more supportive tone for the property industry during the upcoming policy address, which is expected to be a key catalyst for the sector. SHKP remains our top pick for its abundant saleable resources and balanced product mix in Hong Kong.
- **SHKP remains our top pick.** Stock prices of SHKP have corrected by over 20% ytd, dragged by: a) weak sentiment of property market in the high interest rate environment, and b) normalised dividend payout ratio of 40-50% since FY24 from 60% in FY23. We think most near-term negative factors have been priced in. Potential policy easing will offer upside on margin and valuation. SHKP is currently trading at 5.2% FY24 dividend yield, which is close to 1SD above its three-year mean.

1FY DIVIDEND YIELD OF SHKP (16HK):2020-2023



Source: Bloomberg, UOB Kay Hian

RISKS

- **Upside risks:** Stronger-than-expected policy easing at 2023 Policy Address.
- **Downside risks:** Longer-than-expected interest rate hike cycle.

COMPANY UPDATE

XL Axiata (EXCL IJ)

Benefits Of Potential Merger With Smartfren Might Be Mostly Priced In For Now

We expect a positive impact from the potential merger of EXCL and FREN as it could raise EXCL's 2024 EBITDA by 33% vs our estimates, along with additional spectrum and other operational improvements. However, we maintain our target price at Rp2,500 and downgrade EXCL to HOLD, partly because the current valuations of FREN and EXCL already imply post-merger valuation of 5x, similar to that of Indosat (the second-largest telco in Indonesia).

WHAT'S NEW

- **Potential merger with FREN could increase EXCL's spectrum by 113%.** We expect the potential merger between XL Axiata (EXCL) and Smartfren Telecom (FREN) to complement EXCL's spectrum allocation with additional spectrum on the 850MHz band (supporting coverage) and 2300MHz band (supporting capacity) from FREN. The actual impact on the merged entity's spectrum allocation is conditional to the regulator's approval.
- **EXCL-FREN's total subscriber numbers are 62% higher than EXCL's.** A merger with FREN could help EXCL strengthen its market share by boosting its subscriber base. The combined number of subscribers from EXCL and FREN is estimated at 96m. Thus, the merger could help EXCL narrow the gap with Indosat (ISAT) to 6% from the previous 42%. EXCL-FREN's subscriber base is 39% lower than that of market leader Telkomsel.
- **EBITDA could rise 33%, but merged entity's bottom-line will depend on FREN's profit turnaround.** If EXCL becomes the surviving entity and is merged with FREN starting early-24, and all else remains the same, EXCL's 2024 revenue and EBITDA could rise 35% and 33% respectively vs our estimates. The potential merger could also raise EXCL's net profit by 75%, based on consensus estimate for FREN (Rp838b profit in 2024 vs Rp123b loss in 2023). We note FREN's profit (loss) is also affected by the share price movement of Mora Telematika Indonesia, a fibre optic company, as FREN owns 18% of the latter.
- **Lack of clarity on transaction details.** We believe most of the positives might have already been priced in given the lack of clarity on the timeline, pricing, synergies, and other details regarding the potential merger. We calculate that the current valuations of FREN and EXCL already imply a post-merger valuation of 5x, which is comparable to that of Indosat, the second-largest telco in Indonesia. This is partly because FREN already trades at 8.1x 2024 EV/EBITDA, higher than its industry peers (TLKM 6X, ISAT 5x, and EXCL 4x).

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net turnover	26,754	29,142	31,245	33,896	36,216
EBITDA	13,287	14,235	15,058	15,929	16,874
Operating profit	3,331	3,658	3,855	4,207	4,575
Net profit (rep./act.)	1,288	1,109	1,027	1,121	1,170
Net profit (adj.)	791	814	727	821	1,045
EPS (Rp)	60.2	62.0	55.4	62.5	79.6
PE (x)	39.2	38.1	42.6	37.7	29.6
P/B (x)	1.5	1.2	1.2	1.2	1.1
EV/EBITDA (x)*	4.7	4.4	4.1	3.9	3.7
Dividend yield (%)	1.8	1.9	1.7	1.9	2.0
Net margin (%)	4.8	3.8	3.3	3.3	3.2
Net debt/(cash) to equity (%)	37.9	27.0	9.6	(5.8)	(22.0)
Interest cover (x)	5.8	5.3	5.4	5.2	5.4
ROE (%)	6.6	4.9	4.0	4.2	4.3
Consensus net profit	-	-	1,349	1,594	1,910
UOBKH/Consensus (x)	-	-	0.54	0.52	0.55

* Including lease liabilities.

Source: XL Axiata, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	Rp2,360
Target Price	Rp2,500
Upside	+5.9%

COMPANY DESCRIPTION

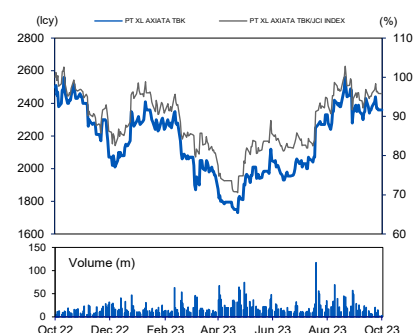
A telecommunications service provider, with cellular and mobile internet services as its main businesses.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	EXCL IJ
Shares issued (m):	13,128.4
Market cap (Rpb):	30,983.1
Market cap (US\$m):	1,974.5
3-mth avg daily t'over (US\$m):	3.2
Price Performance (%)	
52-week high/low	Rp2,560/Rp1,730

1mth	3mth	6mth	1yr	YTD
0.9	14.6	20.4	(6.3)	10.3
Major Shareholders				
				%
Axiata Investments Bhd				66.2
FY23 NAV/Share (Rp)				1,992
FY23 Net Debt/Share (Rp)				192

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Potential merger with FREN.** Bloomberg reported on 5 September that Axiata Group and Sinar Mas Group have revived talks that might lead to a merger of their telecommunications (telco) operations in Indonesia and other options could include network sharing agreements and partnerships, according to unnamed sources.

EXCL-FREN POTENTIAL MERGER: OPERATIONAL PERFORMANCE

Description	Measure	----- Before Merger -----		--- After Potential Merger ---		Note
		FREN	EXCL (EXCL+FREN)*	Diff vs. EXCL		
Subscribers	(mn)	36.0	58.0	94.0	62.1%	
ARPU	(Rp 000)	25.8	41.0	40.6	-1.0%	Est. ARPU after merger = Avg. monthly revenue divided by post-merger's number of subscribers.
BTS total		43,537	151,487	195,024	28.7%	
2G BTS		0	53,136	53,136	0.0%	
3G BTS		0	1,226	1,226	0.0%	
4G BTS		43,537	97,125	140,662	44.8%	
Total spectrum	(MHz)	51	45	96	113.3%	Total spectrum assumes regulator would allow both companies' spectrum to be allocated to the merged entity.

* Excluding impact from synergies.

Note: For FREN, we use FY22 operational figure as we have not found 1H23 operational data. For EXCL, we use 1H23 operational figures from the Company.

Sources: Respective companies, Bloomberg, UOB Kay Hian.

- **Impact from FREN's debt might remain manageable.** We expect the merger to lower EXCL's balance sheet quality, at least in the short term, but the impact might remain manageable (net debt/EBITDA at less than 1x). We calculate 2024 net debt/EBITDA (without lease liabilities) could reach 0.5x after the merger, higher than -0.1x previously.

EXCL-FREN POTENTIAL MERGER: FINANCIAL PERFORMANCE

Description	Measure	----- Before Merger -----		--- After Potential Merger ---		Note
		FREN	EXCL (EXCL+FREN)*	Diff vs. EXCL		
2024F						
Revenue	(Rp bn)	11,880	33,896	45,776	35.0%	
EBITDA	(Rp bn)	5,287	15,929	21,216	33.2%	
Net Profit (Loss)	(Rp bn)	838	1,121	1,959	74.8%	
EBITDA margin		44.5%	47.0%	46.3%		
Net Margin		7.1%	3.3%	4.3%		
Net debt	(Rp bn)	24,361	31,442	55,803	77.5%	Incl. lease liabilities. FREN's figure is based on 1H23 disclosure.
Cash	(Rp bn)	199	13,666	13,865	1.5%	FREN's figure is based on 1H23 disclosure.
Net debt / Equity (incl. lease liab.)	x	1.6	1.2	NA	NA	
Net debt / EBITDA (incl. lease liab.)	x	4.6	2.0	2.6	33.3%	
Net debt / Equity	x	0.7	(0.1)	NA	NA	
Net debt / EBITDA	x	2.1	(0.1)	0.5	NM	
Last price	(Rp/sh)	55	2,360	NA		Based on closing price as of Oct 9
Number of shares outstanding	(mn)	335,388	13,128	NA		
Market cap.	(Rp bn)	18,446	30,983	49,429	59.5%	
EV	(Rp bn)	42,807	62,426	105,233	68.6%	
EV/EBITDA	x	8.1	3.9	5.0	26.6%	

* Excluding impact from synergies.

Note: FREN's revenue, EBITDA margin, and Net Profit forecast are based on Bloomberg's consensus estimates. FREN's number of outstanding warrants (Oct 6) is around 72bn.

Sources: Respective companies, Bloomberg, UOB Kay Hian.

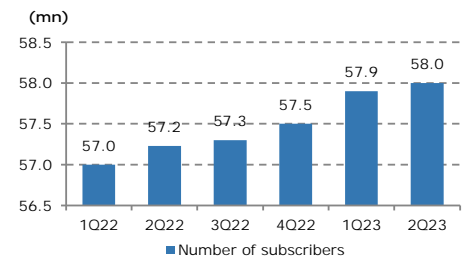
VALUATION/RECOMMENDATION

- **Earnings revision.** None.
- **Upside risks:** a) Stronger-than-expected improvement in macroeconomic conditions and telcos' monetisation, b) better-than-expected 3Q23 performance, c) positive synergies from Linknet and other potential M&A and partnerships.

VALUATION/RECOMMENDATION

- **Maintain target price at Rp2,500; downgrade to HOLD.** Our target price is derived by applying EV/EBITDA of 4x, lower than ISAT's EV/EBITDA of 5x, to EXCL's average EBITDA in 2023 and 2024. Our target valuation is similar to EXCL's historical -1SD. EXCL trades at EV/EBITDA of 4.1x for 2023 and 3.9x for 2024.

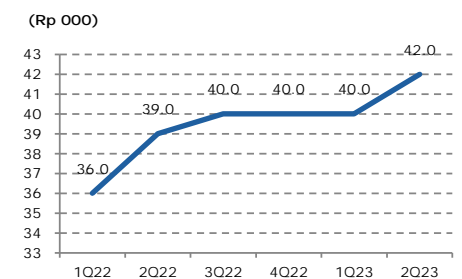
EXCL: CELLULAR SUBSCRIBERS



Note: 2Q23: +1.4% yoy/+0.2% qoq.

Source: EXCL, UOB Kay Hian

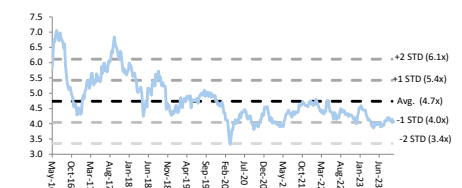
EXCL: BLENDED ARPU



Note: 2Q23: +5% yoy/8% qoq

Source: EXCL, UOB Kay Hian

EXCL: EV/EBITDA BAND



Source: EXCL, Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Net turnover	29,142	31,245	33,896	36,216
EBITDA	14,235	15,058	15,929	16,874
Deprec. & amort.	10,577	11,204	11,722	12,299
EBIT	3,658	3,855	4,207	4,575
Total other non-operating income	361	358	362	136
Net interest income/(expense)	(2,666)	(2,811)	(3,043)	(3,120)
Pre-tax profit	1,353	1,401	1,526	1,592
Tax	(232)	(350)	(382)	(398)
Minorities	(12)	(23)	(24)	(24)
Net profit	1,109	1,027	1,121	1,170
Net profit (adj.)	814	727	821	1,045

CASH FLOW

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Operating	14,104	13,213	13,554	14,768
Pre-tax profit	1,353	1,401	1,526	1,592
Tax	(232)	(350)	(382)	(398)
Deprec. & amort.	10,577	11,204	11,722	12,299
Working capital changes	1,364	982	712	1,299
Other operating cashflows	1,042	(23)	(24)	(24)
Investing	(11,495)	(8,257)	(8,958)	(9,758)
Capex (growth)	(8,831)	(8,257)	(8,958)	(9,758)
Others	(2,664)	0.0	0.0	0.0
Financing	(91)	134	(1,205)	(1,645)
Dividend payments	(544)	(552)	(514)	(561)
Issue of shares	5,000	0.0	0.0	0.0
Proceeds from borrowings	1,847	686	(691)	(1,084)
Others/interest paid	(6,394)	0.0	0.0	0.0
Net cash inflow (outflow)	2,518	5,090	3,392	3,366
Beginning cash & cash equivalent	2,664	5,184	10,274	13,666
Changes due to forex impact	2.1	0.0	0.0	0.0
Ending cash & cash equivalent	5,184	10,274	13,666	17,032

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Fixed assets	60,474	57,484	54,823	52,528
Other LT assets	16,396	14,489	17,641	19,889
Cash/ST investment	5,184	10,274	13,666	17,032
Other current assets	5,224	5,886	6,501	6,964
Total assets	87,278	88,133	92,632	96,412
ST debt	5,622	691	1,084	2,419
Other current liabilities	20,728	22,372	23,699	25,461
LT debt	6,488	12,105	11,021	8,601
Other LT liabilities	28,665	26,654	29,932	32,427
Shareholders' equity	25,643	26,157	26,717	27,302
Minority interest	131	155	178	202
Total liabilities & equity	87,278	88,133	92,632	96,412

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	48.8	48.2	47.0	46.6
Pre-tax margin	4.6	4.5	4.5	4.4
Net margin	3.8	3.3	3.3	3.2
ROA	1.4	1.2	1.2	1.2
ROE	4.9	4.0	4.2	4.3
Growth				
Turnover	8.9	7.2	8.5	6.8
EBITDA	7.1	5.8	5.8	5.9
Pre-tax profit	(20.8)	3.5	9.0	4.3
Net profit	(13.9)	(7.4)	9.1	4.4
Net profit (adj.)	2.9	(10.7)	12.9	27.3
EPS	2.9	(10.7)	12.9	27.3
Leverage				
Debt to total capital	32.1	32.8	31.2	28.8
Debt to equity	47.2	48.9	45.3	40.4
Net debt/(cash) to equity	27.0	9.6	(5.8)	(22.0)
Interest cover (x)	5.3	5.4	5.2	5.4

SECTOR UPDATE

Oil & Gas – Malaysia

Volatile Oil Price And Risk Premium Towards 4Q23

The Israel-Hamas conflict may lead to more volatility in the form of a potential conflict extension to Iranian barrels (~2m bpd exports), which may be of material impact to oil prices, or a knee-jerk reaction as they can be absorbed by demand centres like China. While a bullish oil sentiment for 4Q23 was almost a certainty, future volatility is now greater depending on oil demand and transition pathways. We maintain sector **OVERWEIGHT**, but advise to be selective on companies that are nimble towards changes.

WHAT'S NEW

- **Upside risk of oil prices reflects market speculation of a potential Iranian risk.** The surprising Israel-Hamas conflict, while reminiscent of the Russia-Ukraine crisis in many ways, has a key contrast in energy importance. This is given Russia's major role as an oil and gas (LNG) exporter against Israel which does not control the global market share in any major commodity, save for fertiliser and potash. However, the oil price upside reflects speculation of a potential escalation towards an Iranian conflict, involving ~2m bpd of crude exports. Although oil price may have a knee-jerk reaction, we assume that the impact is muted simply by recalibrating the supply to other centres like China and India like in the previous Russia-Ukraine crisis.
- **Our bullish sector trading angle call for 4Q23 remains...** Even without the conflict, consensus was already turning more bullish on 4Q23 oil prices, amid OPEC+ countries' more aggressive voluntary supply cuts. For example, Energy Information Administration (EIA) upgraded recently its 4Q23 oil price view from US\$86/bbl to US\$93/bbl. UOB Economics & Market Research raised Brent price forecast by US\$5/bbl to US\$95/bbl for 4Q23 and 1Q24, and to US\$100/bbl for 2Q-3Q24 (this assumes US\$/RM rate of 4.5-4.7).
- **...but see greater volatility and more divergent views of longer-term oil prices.** For oil prices in 2024, some Wall Street forecasters are predicting prices as high as US\$150/bbl, while EIA is forecasting oil price to trend lower yoy from US\$88/bbl to US\$84/bbl for 2024. Some oil consultants took the bearish long-term view. Wood Mackenzie expects oil price at US\$40/bbl by 2030, while Rystad Energy cuts one-third of its price forecast to assume an US\$60/bbl oil price view by 2027 (2024F: US\$91/bbl). Officially, both consultants highlighted a slowing oil demand growth (to <2m bpd). Unofficially, the fact that the COP28 climate conference will take place in end-Nov 23, ironically in Dubai (a key oil-producing nation), it is possible that the social impact of Hamas-Israel and global warming may again change the narrative of energy transition, and consequently the transition risks on stock valuations.

ACTION

- **Maintain sector OVERWEIGHT, on potential trading angles.** We still assume that the sector valuations will still enjoy positive near-term trading upside, underpinned by a more unified bullishness in consensus oil price sentiment for 4Q23. This will also support high O&G activities especially for production and maintenance works, though execution and favourable contract terms remain crucial.

PEER COMPARISON

Company	Ticker	Rec	Share Price 6 Oct 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Interest Cover 2023F (x)	Interest Cover 2024F (x)	Net Debt to Equity 2023F (%)	Net Debt to Equity 2024F (%)	ROE 2023F (%)	ROE 2024F (%)
Bumi Armada	BAB MK	SELL	0.54	0.43	3,168.6	8.4	6.3	0.6	0.5	3.0	4.0	65.4	42.7	7.2	9.0
Dialog Group	DLG MK	BUY	2.05	2.85	11,567.3	22.0	20.1	2.2	2.0	10.0	10.5	12.1	16.3	10.2	10.4
Deleum	DLUM MK	HOLD	1.00	0.89	399.5	11.3	9.3	1.0	0.9	116.8	84.0	n.a	n.a	8.9	10.3
MISC	MISC MK	BUY	7.09	8.60	31,648.0	14.6	14.6	0.8	0.8	7.1	7.4	34.1	33.1	5.7	5.6
MMHE	MMHE MK	BUY	0.53	0.70	840.0	95.7	35.2	0.5	0.5	9.0	9.9	n.a	n.a	0.5	1.4
Petronas Dagangan	PETD MK	HOLD	22.50	24.70	22,352.7	21.0	20.0	3.8	3.7	135.0	95.3	n.a	n.a	18.3	18.8
Sapura Energy	SAPE MK	HOLD	0.05	0.04	799.0	(4.5)	(6.2)	(0.8)	(1.7)	1.3	1.3	n.a	n.a	n.a	n.a
Uzma	UZMA MK	BUY	0.75	0.92	290.4	8.5	9.4	0.5	0.5	4.7	4.5	86.4	118.0	6.4	5.7
Velesto Energy	VEB MK	HOLD	0.25	0.20	2,012.8	40.1	27.2	1.1	1.0	12.3	13.2	14.7	4.9	2.9	3.9
Yinson Holdings	YNS MK	BUY	2.37	3.75	6,889.0	13.0	10.2	1.9	1.8	3.0	3.1	149.8	165.8	10.4	12.8

Source: Bloomberg

OVERWEIGHT

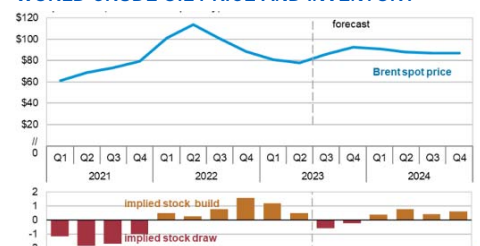
(Maintained)

BENEFICIARIES OF OIL PRICES AND GEOPOLITICAL RISK PREMIUM EVENTS

Sub segments	Stocks
Direct oil price beneficiary	Hibiscus Petroleum (NR)
Storage	Dialog Group
Crude transportation	MISC Berhad

Source: UOBKayHian

WORLD CRUDE OIL PRICE AND INVENTORY



Source: EIA Short Term Energy Outlook Sep 2023

SEVERAL OIL PRICE FORECASTS, IN US\$/BBL

Forecasters	4Q23	1Q24	2Q24	2024
UOB Economics & Markets Research	95	95	100	100
EIA	93	91	88	87
Bloomberg Consensus	87	83	81	79

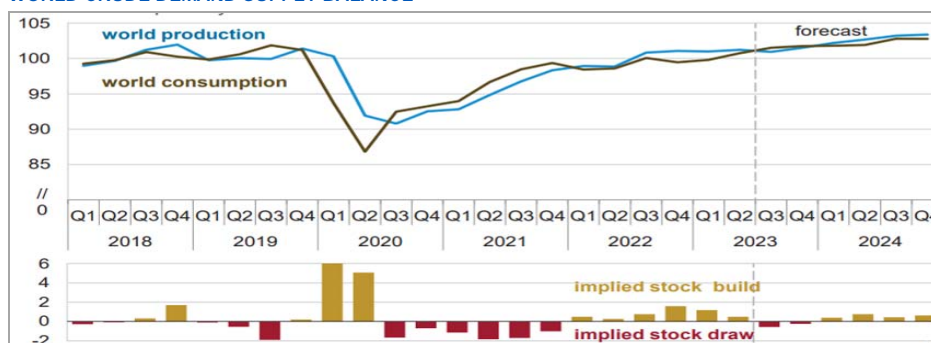
Source: Various, UOB Kay Hian

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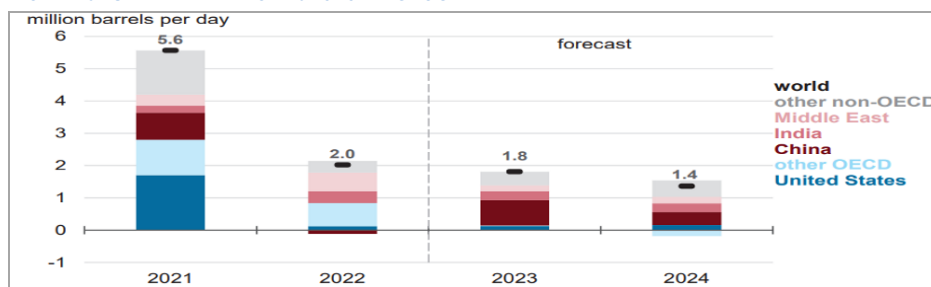
- **Top pick: Yinson (BUY/Target: RM3.75) is still a favoured long-term BUY** for the best execution, ESG goals and highest future growth. As transition risks will be a long-term consideration, Yinson and Uzma (small-cap pick) are our choices for being nimble and ahead of the game in non-O&G diversification and ESG developments while preserving high O&G growth.
- **Other themes.** Hibiscus Petroleum (NR) is the direct oil price beneficiary, with potential dividend/cash upside given its strong >RM1b FCF generation vs RM0.5b capex p.a. under >US\$80/bbl oil price. Like the Russia-Ukraine crisis, we think this geopolitical event may again spur higher demand for energy security and crude flows, which should benefit MISC (high long-term crude/LNG vessel charters) and Dialog Group (storage demand).

WORLD CRUDE DEMAND SUPPLY BALANCE



Source: EIA Short Term Energy Outlook Sep 2023

WORLD CRUDE DEMAND FORECASTS BY GEOGRAPHY



Source: EIA Short Term Energy Outlook Sep 2023

ASSESSMENT OF ISREAL-PALESTINE CRISIS IMPACT TO OIL PRICES

Factors	Details/ Our take	Our assessment on risk to Oil Price
Crude Supply/ demand	Unlikely to impact oil supply in the short term, as both Israel and Palestine are not major oil producers. Also, minimal impact to crude demand (ie direct impact likely on flight cancellations into and out of Israel) which is expected to decline sequentially.	Upside risk because global inventories are already low due to OPEC+ coalition management.
Geopolitical risk premium: Potential escalation of conflict / timeline	<p>Both regions lie in the wider key oil producing region and thus have the potential to escalate the conflict further in the Middle East, involving Iran, Saudi Arabia, and United Arab Emirates (UAE).</p> <p>A major risk factor is that the potential conflict with Iran is not a zero chance, as Iran is reported to be behind Hamas' attacks on Israel. Over the last six months, Iranian supply had been quietly increasing, due to weak enforcement of sanctions.</p> <p>Reuters reported that Iranian crude exports in Aug 23 surged to 1.5m bpd, the highest level in a decade, making its total production hitting close to 4m bpd.</p>	<p>Upside risk on both oil prices and geopolitical risk premium in the mid-term, but if anything, such high levels are not expected to sustain over the long term.</p> <p>The US administration may reintroduce Iranian export sanctions. Markets may experience another spike in oil price in this case but – much like the Russian crude sanctions – oil price movement may be a knee-jerk reaction as there will be other demand centres to absorb Iranian crude. >80% of recent Iranian crude loadings were shipped to China, based on shipping data.</p>

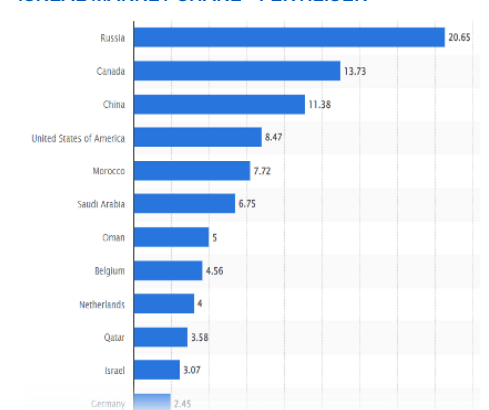
IRANIAN EXPORTS AND FORECAST



Note: In m bpd

Source: Platts

ISREAL MARKET SHARE - FERTILISER



Note: In US\$ billion in value terms

Source: statista.com

Factors	Details/ Our take	Our assessment on risk to Oil Price
OPEC+ response vs supply chain impact	Saudi and Russia said on 8 Oct 23 that they will continue to voluntarily cut 1.3m bpd of additional supply through Dec 23, but are ready to take additional measures if necessary . OPEC+ will be expected to perform another monthly review in the OPEC+ ministerial meeting on 26 Nov 23.	Downside risk to oil price , given OPEC+ reassurance to cushion geopolitical supply shocks, but upside on supply chain risks/ costs and a prolonged spike in energy security considerations and recalibration of trade flows. This will benefit then value chains of crude tankers (MISC) and storage (Dialog Group).
Gas markets	Israel has become a major gas producing nation in recent years with a total gas production of 21.9Bcm (~16MTPA) in 2022. But Israel is not a major gas exporter , with about 9Bcm of exports to Egypt and Jordan in 2022. In comparison, Malaysia's gas exports were around ~40Bcm (27MTPA) in 2022 and total gas production was nearly double of that amount.	Minor impact to gas markets/ prices , except for European gas price benchmarks. In the worst-case war scenarios, Israel's gas production may be severely impaired. While it does have major gas development projects, none of the Malaysian O&G stocks have direct contract exposure .
Other market impact	Israel is an exporter of other commodities like bromine, diamonds, and magnesium metal. However, it may be regarded as a major (Top 10) exporter of fertilisers and potash (a critical mineral used in fertilisers) globally.	Downside, indirect risk . Given global inflation and food security risk is already high and sticky, any further global risk of critical commodities and food security, may drive up inflation further, and is negative to long-term economy and oil demand .
ESG impact	The social impact of the Palestine-Israel crisis will no doubt be compared against other major apartheid history events worldwide. This, coupled with the global heatwaves worldwide in 2023, may possibly set a major change in narratives in the upcoming climate change conference, the COP28 in end-Nov 23 to Dec 23 .	Volatile risk of oil prices - We would advise for a near term and take profit strategy of oil themes prior to COP28. COP28 may set again a global battle between the narratives of prioritising net-zero emissions and energy transition (ie to invest heavily in low return, greener projects) against energy security (balanced investments in green and fossil fuel projects).

Source: Various

COMPANY UPDATE

Frencken Group (FRKN SP)

Expect 2024 To Be A Recovery Year; Maintain BUY With A 23% Higher Target Price

Frencken's semiconductor segment is expected to recover in 2024, backed by an improvement in semiconductor fab equipment spending and the recent increase in revenue guidance by its key customers. Frencken's earnings appear to have bottomed in 1H23, based on its latest guidance of a stable 2H23 vs 1H23, with only one out of five segments expected to show a revenue decline. We raise our target price by 23% to S\$1.23 after raising our 2024 earnings forecast. Maintain BUY.

WHAT'S NEW

- **Largest semiconductor segment expected to recover in 2024.** Frencken Group's (Frencken) biggest segment, which contributed around 40% of 2022 earnings, is expected to perform better hoh from 2H23 onwards, based on Frencken's latest revenue guidance. Also, Frencken's two largest semiconductor customers have raised their revenue guidance in their latest results. ASML has raised its 2023 yoy revenue growth guidance from 25% to 30% in its 2Q23 results and expects 3Q23 revenue of €6.8b (+0% qoq/+17% yoy). ASML highlighted that the overall demand for its systems continues to be strong, resulting in record bookings in 3Q23 of around €8.9b. On the other hand, Applied Materials (AMAT) reported earnings that beat analyst estimates in Aug 23, and also guided for earnings in the coming quarter to be around 10% above analyst estimates. This was mainly due to improving demand from AI-related chips and rising orders from customers in China who are looking to increase purchases of equipment that are capable of older manufacturing processes.
- **SEMI expects global fab equipment spending to recover in 2023.** In the 12 Sep 23 quarterly World Fab Forecast Report by Semiconductor Equipment and Materials International (SEMI), global fab equipment spending for front-end facilities in 2023 is expected to decline 15% yoy before rebounding 15% yoy in 2024. Next year's fab equipment spending recovery will be partly driven by the end of the semiconductor inventory correction in 2023 and strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments. The trend suggests that the semiconductor industry is turning the corner and on a path back to growth.
- **Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23 and there is potential for more new business in Asia.** Frencken expects to post stable revenue in 2H23 vs 1H23. The company's outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, Frencken is seeing more new business opportunities in Asia than in Europe, especially in Malaysia.

KEY FINANCIALS

Year to 31 Dec (\$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)	7.6	8.6	17.5	10.8	9.8
P/B (x)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (x)	4.1	4.4	6.6	4.8	4.5
Dividend yield (%)	3.9	3.5	1.7	2.8	3.1
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	39	49
UOBKH/Consensus (x)	-	-	1.02	1.06	0.94

Source: Frencken, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.05
Target Price	S\$1.23
Upside	+17.1%
(Previous TP)	S\$1.00

COMPANY DESCRIPTION

Frencken is a global integrated technology solutions company. The group provides ODM and OEM services for the automotive, healthcare, industrial, analytical & life sciences and semiconductor industries.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	FRKN SP
Shares issued (m):	427.0
Market cap (S\$m):	448.4
Market cap (US\$m):	327.5
3-mth avg daily t'over (US\$m):	3.3

Price Performance (%)

52-week high/low S\$ 1.23/S\$ 0.765

1mth	3mth	6mth	1yr	YTD
2.9	19.3	(7.1)	7.7	11.1

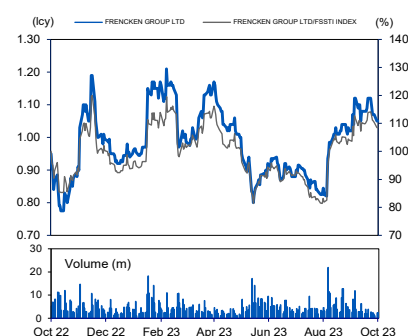
Major Shareholders

	%
Dato' Gooi Soon Chai	23.5

FY23 NAV/Share (S\$) 0.94

FY23 Net Cash/Share (S\$) 0.22

PRICE CHART



Source: Bloomberg

ANALYST(S)

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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 it is well-positioned to capitalise on a recovery in the global economy and technology sector. Frencken has continued strong new product introduction (NPI) and first article (FA) engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

EARNINGS REVISION/RISK

- We raised our 2024/2025 earnings forecasts by 17%/8% after increasing our revenue estimates by 5% to account for improved revenue outlook by Frencken's key customers. We also raised our gross margin assumptions by 0.5%/0.1% to account for better operating leverage from higher revenue.

VALUATION/RECOMMENDATION

- Maintain BUY with a 23% higher 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 Frencken's earnings cycle, which is approaching a trough, and improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencken has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

SHARE PRICE CATALYST

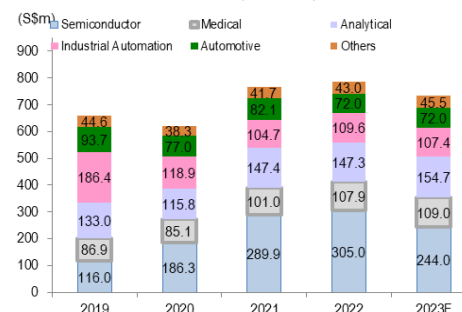
- Higher-than-expected factory utilisation rates and better cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 9 Oct 23 (TC)	Market Cap (USD)	PE 2023F (x)	PE 2024F (x)	PB 2023F (x)	PB 2024F (x)	EV/EBITDA 2023F (%)	EV/EBITDA 2024F (x)	ROE 2023F (%)	Yield 2023F (%)
Frencken	FRKN SP	SGD	1.05	328	17.5	10.8	1.1	1.0	6.6	4.8	6.5	1.7
SGX-listed peers												
Venture	VMS SP	SGD	12.34	2,621	12.8	12.3	1.2	1.2	7.5	7.2	9.8	6.1
AEM	AEM SP	SGD	3.37	760	n.a.	11.8	2.1	1.9	44.9	8.8	0.2	0.0
UMS	UMSH SP	SGD	1.29	632	14.4	11.2	2.4	2.1	9.4	7.5	17.0	4.2
Average					13.6	11.8	1.9	1.7	20.6	7.8	9.0	3.4
Semiconductor (39% of Frencken's 2022 sales)												
Asml Hol	ASML NA	EUR	559.7	237,934	28.8	26.1	19.2	16.5	23.5	21.1	73.1	1.2
Intel Corp	INTC US	USD	36.19	151,564	64.5	21.0	1.5	1.4	17.5	10.8	2.1	2.1
Kulicke & Soffa	KLIC US	USD	47.31	2,672	27.3	23.6	n.a.	n.a.	17.7	13.2	8.6	n.a.
Benchmark Elec	BHE US	USD	24.14	861	12.0	10.1	0.8	0.8	n.a.	n.a.	6.9	2.7
Average					33.2	20.2	7.1	6.2	19.6	15.0	22.7	2.0
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	66.05	13,698	n.a.	98.9	n.a.	n.a.	97.6	20.2	n.a.	4.2
Western Digital	WDC US	USD	46.4	15,040	n.a.	n.a.	1.4	1.5	n.a.	n.a.	(15.0)	0.0
Average					n.a.	98.9	1.4	1.5	97.6	20.2	(15.0)	2.1
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	498.55	192,415	22.3	20.3	4.1	3.8	20.0	18.4	18.2	0.3
Oxford Instruments	OXIG LN	GBp	1980	1,395	18.0	17.4	0.0	0.0	n.a.	n.a.	17.2	1.0
Koninklijke Philips	PHIA NA	EUR	17.626	17,260	15.5	12.7	1.3	1.3	8.5	7.8	4.3	4.8
Siemens Healthineers	SHL GR	EUR	47.22	56,167	23.6	20.7	2.7	2.5	17.0	14.5	10.8	1.8
Average					19.8	17.8	2.0	1.9	15.2	13.6	12.6	2.0
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	14.63	3,757	10.7	6.0	0.9	0.8	3.3	2.9	9.2	3.3
Visteon	VC US	USD	132.77	3,744	20.0	13.9	5.0	4.0	9.0	7.4	25.4	0.0
Thyssenkrupp	TKA GR	EUR	6.584	4,322	26.0	8.8	0.3	0.3	1.0	0.9	1.1	2.6
Bosch	BOS IN	INR	19215.75	6,808	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.4
Denso	6902 JP	JPY	2303.5	48,683	14.2	12.9	1.5	1.4	7.5	6.9	10.7	2.2
Johnson Contr	JCI US	USD	52.35	35,615	14.9	13.2	2.1	2.0	11.3	10.5	14.0	2.8
Average					17.2	11.0	2.0	1.7	6.4	5.7	12.1	2.0

Source: Bloomberg, UOB Kay Hian

REVENUE BY SEGMENT (2019-23)



Source: Frencken, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	786.1	732.5	791.7	828.3
EBITDA	82.2	54.3	75.1	80.4
Deprec. & amort.	27.8	29.8	31.2	32.6
EBIT	54.3	24.5	43.9	47.8
Total other non-operating income	12.3	10.4	10.5	11.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(3.6)	(3.4)	(3.6)	(3.8)
Pre-tax profit	63.0	31.6	50.8	55.9
Tax	(11.4)	(5.7)	(9.1)	(10.1)
Minorities	0.2	(0.2)	(0.1)	(0.1)
Net profit	51.9	25.6	41.5	45.8

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	37.8	74.7	60.0	70.1
Pre-tax profit	63.0	31.6	50.8	55.9
Tax	(8.9)	(9.4)	(6.9)	(9.2)
Deprec. & amort.	27.8	29.8	31.2	32.6
Working capital changes	(16.6)	22.8	(15.1)	(9.1)
Non-cash items	(27.5)	0.0	0.0	0.0
Investing	(44.5)	(22.7)	(22.7)	(22.7)
Capex (growth)	(42.6)	(23.0)	(23.0)	(23.0)
Proceeds from sale of assets	1.2	0.0	0.0	0.0
Others	(3.1)	0.3	0.3	0.3
Financing	(30.4)	(45.9)	(5.1)	(10.1)
Dividend payments	(17.6)	(15.5)	(7.7)	(12.5)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	11.6	(26.5)	6.8	6.7
Others/interest paid	(24.4)	(3.9)	(4.2)	(4.4)
Net cash inflow (outflow)	(37.1)	6.1	32.2	37.3
Beginning cash & cash equivalent	192.6	167.0	177.0	212.5
Changes due to forex impact	11.5	4.0	3.3	3.6
Ending cash & cash equivalent	167.0	177.0	212.5	253.4

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	166.5	159.7	151.5	142.0
Other LT assets	26.3	26.6	26.9	27.2
Cash/ST investment	167.0	177.0	212.5	253.4
Other current assets	365.4	322.9	357.1	374.5
Total assets	725.2	686.2	748.0	797.1
ST debt	107.7	81.2	88.1	94.8
Other current liabilities	182.2	172.4	189.8	194.9
LT debt	1.1	1.1	1.1	1.1
Other LT liabilities	37.7	24.1	27.9	32.1
Shareholders' equity	391.9	402.9	436.7	470.0
Minority interest	4.5	4.5	4.5	4.5
Total liabilities & equity	725.2	686.2	748.2	797.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	10.5	7.4	9.5	9.7
Pre-tax margin	8.0	4.3	6.4	6.8
Net margin	6.6	3.5	5.2	5.5
ROA	7.3	3.6	5.8	5.9
ROE	13.5	6.5	9.9	10.1
Growth				
Turnover	2.5	(6.8)	8.1	4.6
EBITDA	(5.9)	(33.9)	38.3	7.0
Pre-tax profit	(10.6)	(49.9)	61.0	10.1
Net profit	(11.7)	(50.6)	62.0	10.3
Net profit (adj.)	(11.7)	(50.6)	62.0	10.3
EPS	(11.7)	(50.6)	62.0	10.3
Leverage				
Debt to total capital	21.5	16.8	16.8	16.8
Debt to equity	27.8	20.4	20.4	20.4
Net debt/(cash) to equity	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	22.8	16.2	20.7	21.2

COMPANY RESULTS

Aeon Thana Sinsap (Thailand) (AEONTS TB)

2QFY23: Results Above Consensus Expectation; NPL Ratio Continues To Increase

AEONTS posted a 2QFY23 net profit of Bt842m, down 7% yoy but up 36% qoq. The results are higher than consensus expectation by 30%. Lower-than-expected provision expenses were the primary cause of the key earnings surprise. Nevertheless, NPL ratio continued to increase. Management mentioned that the NPL ratio will stay high for the rest of the year and will see an improvement in asset quality in 1HFY24. Maintain **BUY** with a lower target price of Bt190.00.

2QFY23 RESULTS

Year to 28 Feb (Btm)	2QFY23	1QFY23	2QFY22	qoq chg (%)	yoy chg (%)
Total gross loans	94,675	94,443	94,533	0.2	0.1
Net interest income	4,196	4,199	4,292	(0.1)	(2.2)
Non-interest income	907	734	715	23.6	26.8
Loan loss provision	(1,949)	(2,094)	(1,851)	(6.9)	5.3
Non-Interest Expenses	(2,071)	(2,033)	(1,986)	1.9	4.3
Pre-provision operating profit	3,031	2,899	3,021	4.6	0.3
Net income	842	617	904	36.4	(6.8)
EPS (Bt)	3.37	2.47	3.61	36.4	(6.8)
Ratio (%)					
NPL Ratio	6.2%	5.9%	5.5%		
Loan loss coverage ratio (%)	174%	184%	207%		
Net interest margin (NIM %)	17.9%	17.9%	18.4%		
Credit cost (bp)	824	886	788		
Cost to income (%)	41%	41%	40%		

Source: Aeon Thana Sinsap (Thailand) Pcl, UOB Kay Hian

RESULTS

- **2QFY23 results above consensus estimates.** Aeon Thana Sinsap (Thailand) (AEONTS) posted a 2QFY23 net profit of Bt842m, down 7% yoy but up 36% qoq. The results are higher than consensus expectation by 30%. The key earnings surprise came from lower-than-expected provision expenses. Provision expenses declined 7% qoq. Meanwhile, NPL ratio continued to increase to 6.2%. Excluding provisioning, the company's pre-provision operating profit was flat yoy and rose 5% qoq.

KEY FINANCIALS

Year to 28 Feb (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	16,158	17,151	17,250	18,441	19,977
Non-interest income	2,888	3,277	3,402	3,381	3,522
Net profit (rep./act.)	3,553	3,815	3,010	3,538	4,019
Net profit (adj.)	3,553	3,815	3,010	3,538	4,019
EPS (Bt)	14.2	15.3	12.0	14.2	16.1
PE (x)	10.7	10.0	12.6	10.7	9.5
P/B (x)	1.9	1.7	1.5	1.4	1.3
Dividend yield (%)	3.4	3.4	1.9	3.3	3.7
Net int margin (%)	18.1	18.5	17.8	17.8	18.0
Cost/income (%)	41.2	40.2	41.6	40.9	40.8
Loan loss cover (%)	247.4	189.6	160.0	167.0	172.0
Consensus net profit	-	-	3,403	3,833	4,464
UOBKH/Consensus (x)	-	-	0.88	0.92	0.90

Source: Aeon Thana Sinsap (Thailand) Pcl, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt152.00
Target Price	Bt190.00
Upside	+25.0%
(Previous TP)	Bt211.00)

COMPANY DESCRIPTION

AEONTS is a non-bank consumer finance operator that mainly provides personal loans and credit cards to customers. The company principally focuses on the middle- to lower-income groups.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	AEONTS TB
Shares issued (m):	250.0
Market cap (Btm):	38,000.0
Market cap (US\$m):	1,027.5
3-mth avg daily t'over (US\$m):	1.5

Price Performance (%)

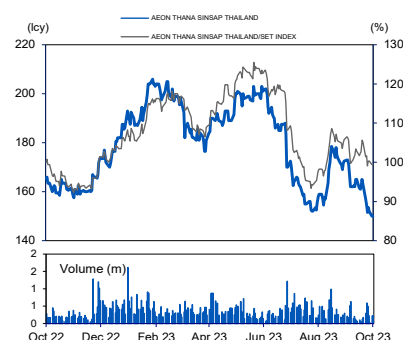
52-week high/low			Bt206.00/Bt151.50	
1mth	3mth	6mth	1yr	YTD
(10.1)	(10.6)	(13.9)	(9.3)	(16.5)

Major Shareholders

	%
AEON Financial Service Co., Ltd. / Japan	35.1
ACS Capital Corporation Limited	19.2
AEON Holdings (Thailand) Co., Ltd	8.8

FY24 NAV/Share (Bt)	109.87
FY24 Solvency Ratio (%)	

PRICE CHART



Source: Bloomberg

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ASSISTANT ANALYST(S)

Thanawat Thangchadakorn

STOCK IMPACT

• Loan growth moderated to deal with NPL problem amid uneven economic recovery.

The company's loan growth was flat yoy and qoq. According to management, the company intends to provide loans cautiously, focusing on asset quality. Meanwhile, the industry's personal loans outstanding contracted 11% yoy in Jul 23, a negative growth yoy for three consecutive months. The industry credit card outstanding expanded by 1.4% yoy in Jul 23. Overall, AEONTS' loan growth aligned with the market's loan growth outlook.

• Credit costs fell while NPL ratio continued to rise. Despite a record-high NPL ratio of 6.2% in 2QFY23, AEONTS reported a surprisingly low credit cost of 824bp, down 62bp qoq and lower than our forecast by 21%. We believe the reason is AEONTS tried to reduce its excess loan loss reserves accumulated since the outbreak of COVID-19. As a result, its loan loss coverage (LCR) ratio dropped from 184% in 1QFY23 to 174% in 2QFY23. Management reiterated in the analyst meeting that it maintains its focus primarily on asset quality by cautiously providing loans. Although we expect AEONTS' asset quality will continue to deteriorate for the next two quarters, the new NPL formation should decelerate gradually.

• Higher funding costs pressure earnings outlook. The funding cost outlook was pressured not only by an increase in policy interest rate by the Bank of Thailand (BOT) by 25bp but also a spike in government bond yield. A fund outflow caused by a lack of confidence in government stimulus, such as the 10,000 digital money policy, resulted in the government bond yield spiking by around 63bp mom. The default on corporate debentures in 2023 also caused the overall cost of funding to be higher. Effectively, we reflect a higher cost of funding outlook in our assumption, resulting in lower earnings forecasts.

EARNINGS REVISION/RISK

- We revised AEONTS' FY23-25 earnings forecasts down by 16.2%, 14.7%, and 10.5% respectively, on the back of higher cost of funds and a worsening bad debt outlook.

NET PROFIT FORECASTS

(Btm)	2023F	2024F	2025F
Old	3,591	4,148	4,492
New	3,010	3,538	4,019
% chg	-16.2%	-14.7%	-10.5%

Source: UOB Kay Hian

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of Bt190.00.** We use the Gordon Growth Model with cost of equity at 13.0% and long-term growth rate at 3.0%. The stock trades at FY23F PE of 9.4x, which is approximately -1SD to its five-year mean, and FY23F P/B of 1.4x, which is approximately -1.5SD to its five-year mean.

SHARE PRICE CATALYST

- A recovery of domestic economy.
- NPL ratio peaking.
- A stimulus package from government will improve domestic spending.

TH BOND YIELD

	----- Date -----			----- Return (%) -----	
	6-Oct-23	6-Sep-23	6-Jul-23	1M	3M
TH10Y	3.36%	2.73%	2.46%	+63bp	+90bp

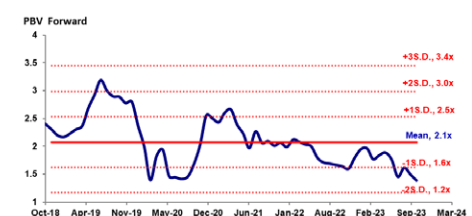
Source: Bloomberg, UOB Kay Hian

PE BAND



Source: AEONTS, UOB Kay Hian

P/B BAND



Source: AEONTS, UOB Kay Hian

PROFIT & LOSS

Year to 28 Feb (Btm)	2022	2023F	2024F	2025F
Interest income	19,055	19,589	21,079	22,548
Interest expense	(1,904)	(2,339)	(2,637)	(2,571)
Net interest income	17,151	17,250	18,441	19,977
Fees & commissions	915	997	1,161	1,305
Other income	2,362	2,405	2,221	2,217
Non-interest income	3,277	3,402	3,381	3,522
Total income	20,428	20,652	21,823	23,499
Staff costs	(8,061)	(8,401)	(8,745)	(9,396)
Other operating expense	(155)	(180)	(189)	(199)
Pre-provision profit	12,213	12,071	12,889	13,904
Loan loss provision	(7,263)	(8,196)	(8,352)	(8,750)
Other provisions	0	0	0	0
Associated companies	0	0	0	0
Other non-operating income	0	0	0	0
Pre-tax profit	4,950	3,875	4,537	5,154
Tax	(996)	(777)	(907)	(1,031)
Minorities	(139)	(89)	(92)	(104)
Net profit	3,815	3,010	3,538	4,019
Net profit (adj.)	3,815	3,010	3,538	4,019

BALANCE SHEET

Year to 28 Feb (Btm)	2022	2023F	2024F	2025F
Cash with central bank	3,816	3,809	4,097	4,390
Govt treasury bills & securities	0	0	0	0
Interbank loans	0	0	0	0
Customer loans	83,812	89,286	95,984	102,944
Investment securities	0	0	0	0
Derivative receivables	0	0	0	0
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	523	341	211	192
Other assets	7,055	7,056	7,451	7,869
Total assets	95,207	100,491	107,743	115,395
Interbank deposits	0	0	0	0
Customer deposits	0	0	0	0
Derivative payables	0	0	0	0
Debt equivalents	9,580	8,969	9,648	10,337
Other liabilities	62,278	65,783	70,166	74,604
Total liabilities	71,859	74,752	79,813	84,941
Shareholders' funds	22,821	25,187	27,468	30,097
Minority interest - accumulated	527	553	461	357
Total equity & liabilities	95,207	100,492	107,743	115,395

OPERATING RATIOS

Year to 28 Feb (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Total assets/equity (x)	4.2	4.0	3.9	3.8
Tangible assets/tangible common equity (x)	4.3	4.1	4.0	3.9
Asset Quality				
NPL ratio	5.6	6.1	5.9	5.7
Loan loss coverage	189.6	160.0	167.0	172.0
Loan loss reserve/gross loans	7.7	8.2	7.8	7.6
Increase in NPLs	20.6	13.8	4.0	3.5
Credit cost (bp)	780.1	844.1	807.5	788.1
Liquidity				
Loan/deposit ratio	141.2	142.8	144.0	145.0
Liquid assets/short-term liabilities	6.8	6.4	6.4	6.5
Liquid assets/total assets	4.0	3.8	3.8	3.8

KEY METRICS

Year to 28 Feb (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	6.1	0.6	6.9	8.3
Fees & commissions, yoy chg	2.6	9.1	16.4	12.4
Pre-provision profit, yoy chg	9.0	(1.2)	6.8	7.9
Net profit, yoy chg	7.4	(21.1)	17.5	13.6
Net profit (adj.), yoy chg	7.4	(21.1)	17.5	13.6
Customer loans, yoy chg	4.7	6.5	7.5	7.3
Profitability				
Net interest margin	18.5	17.8	17.8	18.0
Cost/income ratio	40.2	41.6	40.9	40.8
Adjusted ROA	4.1	3.1	3.4	3.6
Reported ROE	17.9	12.5	13.4	14.0
Adjusted ROE	17.9	12.5	13.4	14.0
Valuation				
P/BV (x)	1.7	1.5	1.4	1.3
P/NTA (x)	1.7	1.6	1.4	1.3
Adjusted P/E (x)	10.0	12.6	10.7	9.5
Dividend Yield	3.4	1.9	3.3	3.7
Payout ratio	34.2	24.6	35.5	34.6

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