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## GREATER CHINA

### Results

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3Q23: Results miss on revenue and margins; downgrade from BUY to HOLD. Cut target price from Rmb36.00 to Rmb18.00.

**ZTE Corporation (763 HK/BUY/HK\$18.04/Target: HK\$28.40)** Page 5  
3Q23: Results missed on weak revenue growth; reduce target price on slower growth.

## INDONESIA

### Sector

**Telecommunications** Page 8  
Data traffic to grow 18% yoy in 2024. Maintain OVERWEIGHT.

## MALAYSIA

### Results

**Globetronics Technology (GTB MK/HOLD/RM1.40/Target: RM1.52)** Page 10  
9M23: Below expectations. Still not fully out of the woods yet, but fruition of its active engagements with potential Chinese and Taiwanese customers could be game changer.

### Update

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Management optimistic on hitting its ROE targets; driven by strong loans growth and NIM recovery.

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### Update

**First Resources (FR SP/BUY/S\$1.42/Target: S\$1.65)** Page 19  
Strong earnings coming in in 3Q23. Upgrade to BUY.

## THAILAND

### Results

**SCGP (SCGP TB/BUY/Bt34.50/Target: Bt50.00)** Page 22  
3Q23: Net profit in line with our expectations.

### Update

**Central Plaza Hotel (CENTEL TB/BUY/Bt43.75/Target: Bt52.00)** Page 25  
Earnings bottom out; expect hotels in upcountry Thailand to outperform. Upgrade to BUY.

## KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33141.4	0.6	(2.5)	(2.4)	(0.0)
S&P 500	4247.7	0.7	(2.9)	(1.7)	10.6
FTSE 100	7389.7	0.2	(3.7)	(3.8)	(0.8)
AS30	7045.6	0.2	(2.7)	(3.2)	(2.4)
CSI 300	3487.1	0.4	(4.2)	(6.1)	(9.9)
FSSTI	3083.9	1.0	(2.8)	(4.1)	(5.1)
HSCEI	5799.4	(1.2)	(4.1)	(5.4)	(13.5)
HSI	16991.5	(1.1)	(3.7)	(4.2)	(14.1)
JCI	6806.8	1.0	(1.9)	(2.7)	(0.6)
KLCI	1435.7	(0.2)	(0.6)	(0.5)	(4.0)
KOSPI	2383.5	1.1	(3.1)	(4.5)	6.6
Nikkei 225	31062.4	0.2	(3.1)	(4.9)	19.0
SET	1391.0	(0.6)	(2.5)	(7.7)	(16.6)
TWSE	16309.8	0.4	(2.0)	(0.9)	15.4
BDI	1949	(3.4)	(5.3)	20.8	28.6
CPO (RM/mt)	3678	(0.4)	(0.8)	0.9	(9.2)
Brent Crude (US\$/bbl)	88	(2.0)	(2.0)	(5.6)	2.5

Source: Bloomberg

## TOP PICKS

	Ticker	CP (1cy)	TP (1cy)	Pot. +/- (%)
BUY				
Ania Sports	2020 HK	90.00	128.00	42.2
BYD	1211 HK	238.60	630.00	164.0
Bank Neo Commerce	BBYB IJ	246.00	390.00	58.5
Bumi Serpong	BSDE IJ	1,010.00	1,420.00	40.6
HM Sampoerna	HMSI IJ	855.00	1,300.00	52.0
My EG Services	MYEG MK	0.79	1.18	49.4
Yinson	YNS MK	2.40	3.75	56.3
OCBC	OCBC SP	12.77	17.65	38.2
CP ALL	CPALL TB	55.75	78.00	39.9
Indorama	IVL TB	24.00	30.00	25.0

## 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
Post 3Q2023 Results Virtual Meeting with Far East Hospitality Trust (FEHT SP)	Singapore	25 Oct	25 Oct
Presentation by Wilmar International (WIL SP)	Malaysia	2 Nov	2 Nov
Virtual Meeting on 1H24 Results with SIA Engineering (SIE SP)	Singapore	6 Nov	6 Nov
1HFY24 Results Virtual Meeting with Singapore Airlines (SIA SP)	Singapore	8 Nov	8 Nov

## COMPANY RESULTS

### Ningbo Xusheng Group (603305 CH)

3Q23: Results Miss On Both Revenue And Margins; Downgrade To HOLD

**NXS posted disappointing 3Q23 results with revenue of Rmb1,215m (-4.4% yoy/+2.3% qoq) and net profit of Rmb171m (-18.8% yoy/-14.9% qoq). The earnings miss lies in both revenue and margins. Given the disappointing 3Q23 results and unclear outlook, we cut 2023-25 net profit forecasts by 15%/18%/26% to Rmb736m/Rmb887m/Rmb1,074m respectively. Downgrade from BUY to HOLD. Cut target price from Rmb36.00 to Rmb18.00.**

#### 3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q23	yoy % chg	qoq % chg	1H23	yoy % chg
Revenue	1,215	(4.4)	2.3	3,575	9.5
Gross profit	307	(5.4)	6.7	898	19.3
Gross margin (%)	25.3	(0.3)	1.0	25.1	8.9
EBIT	213	(16.7)	0.4	651	15.1
EBIT margin (%)	17.5	(2.6)	(0.3)	18.2	5.1
Net profit	171	(18.8)	(14.9)	565	16.4
Net profit (adj.)	163	(21.5)	(14.3)	537	17.3
Net margin (%)	13.4	(2.9)	(2.6)	15.0	7.1

Source: NXS, UOB Kay Hian

#### RESULTS

- 3Q23 earnings miss.** Ningbo Xusheng Group (NXS) posted disappointing 3Q23 net profit of Rmb171m (-18.8% yoy/+14.9% qoq) and 9M23 net profit of Rmb565m (+16.4% yoy), vs our estimated full-year 2023 net profit of Rmb868m (+23.8% yoy) and consensus estimate of Rmb878m (+25.2% yoy). Our and consensus' 2023F net profit forecasts imply 4Q23 net profit of Rmb333m (+54% yoy/+95% qoq) and Rmb343m (+59% yoy/+101% qoq), which is unlikely. The earnings miss lies in both revenue and margins.
- Revenue dropped 4.4% yoy and edged up 2.3% qoq to Rmb1,215m in 3Q23, missing estimates.** This brings 9M23 revenue to Rmb3,575m (+9.5% yoy), compared with management's guidance of not less than 25% revenue growth for 2023.
- Margins miss.** Gross margin dipped 0.3ppt yoy and hiked 1.0ppt qoq to 25.3% in 3Q23. However, EBIT margin plummeted by 2.6ppt yoy and 0.3ppt qoq to 17.5% in 3Q23, as SG&A/revenue rose 1.3ppt yoy/0.6ppt qoq to 3.6% in 3Q23, while R&D expenses/revenue hiked by 0.6ppt yoy/0.3ppt qoq to 3.9% during the quarter.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	3,023	4,454	4,899	5,634	6,761
EBITDA	635	1,003	1,229	1,474	1,786
Operating profit	511	781	892	1,020	1,224
Net profit (rep./act.)	413	701	736	848	1,027
Net profit (adj.)	401	581	736	848	1,027
EPS (fen)	44.3	75.1	78.9	90.8	110.0
PE (x)	42.3	24.9	23.8	20.6	17.0
P/B (x)	4.8	3.1	2.8	2.5	2.2
EV/EBITDA (x)	26.8	17.0	13.8	11.5	9.5
Dividend yield (%)	0.3	0.5	0.5	0.5	0.6
Net margin (%)	13.3	13.0	15.0	15.0	15.2
Net debt/(cash) to equity (%)	8.9	(9.9)	(7.6)	(8.5)	(11.7)
Interest cover (x)	23.1	(59.5)	18.5	21.2	26.1
ROE (%)	11.5	12.5	12.4	12.7	13.7
Consensus net profit	-	-	878	1,170	1,523
UOBKH/Consensus (x)	-	-	0.84	0.72	0.67

Source: NXS, Bloomberg, UOB Kay Hian

## HOLD

(Downgrade)

Share Price	Rmb18.74
Target Price	Rmb18.00
Upside	-3.9%
(Previous:	Rmb36.00)

#### COMPANY DESCRIPTION

Ningbo Xusheng Group manufactures aluminium auto parts and machinery parts, including casings of transmission systems, battery module casings, etc.

#### STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	603305 CH
Shares issued (m):	933
Market cap (Rmbm):	17,488
Market cap (US\$m):	2,257
3-mth avg daily t'over (US\$m):	37.0

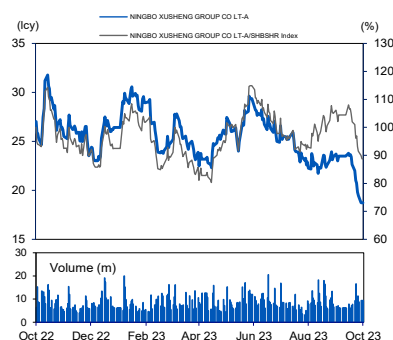
#### Price Performance (%)

52-week high/low		Rmb34.71/Rmb12.70		
1mth	3mth	6mth	1yr	YTD
(11.7)	(12.2)	(8.2)	71.6	0.7

#### Major Shareholders

	(%)
Ningbo Meishan Xusheng Holdings Co., Ltd.	27.30
Hong Kong Xuri Industrial Co., Ltd.	20.55
Mr. Xu Xudong	12.41
FY23 NAV/Share (Rmb)	6.33
FY23 Net Cash/Share (Rmb)	0.55

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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

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

#### STOCK IMPACTS

- **We cut our revenue growth estimates for 2023-25 from 27%/29%/35% to 10%/15%/20%**, vs 9.5% in 9M23 and management guidance of 20-30%/20-30%/>30% for 2023/24/25, based on the disappointing 9M23 revenue growth and the intensifying competition in the integrally casted automotive part industry in China. To deal with the issue, NXS has been expanding from high-pressure casting to stamping and extrusion. NXS signed projects with Chinese automakers for electric powertrain casings, battery casings and bumpers. Additionally, NXS is building a new plant in Mexico to supply casings of energy storage systems for Tesla. However, these new projects will only start in 2H23. As such, revenue will only re-accelerate gradually.
- **We trim our 2023 EBIT margin assumption from 18.6% to 18.2% and keep those for 2024-25 at about 18%**, based on the lower-than-expected EBIT margin of 18.2%/17.5% in 9M23/3Q23.

#### EARNINGS REVISIONS/RISKS

- **Cut our net profit forecasts for 2023-25 by 15%/22%/30% to Rmb736m/Rmb848m/Rmb1,027m respectively**, based on lower revenue estimates and EBIT margin assumption.

#### RECOMMENDATION

- **Downgrade from BUY to HOLD and cut target price from Rmb36.00 to Rmb18.00**, based on lower 2024F EPS and lower 2024F target PE multiple of 20x (vs 32x previously). We cut target 2024F PE multiple from 32x to 20x based on lower 2024-25 earnings growth estimate and 1x 2024F PEG.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	4,454	4,899	5,634	6,761
EBITDA	1,003	1,229	1,474	1,786
Depreciation & amortization	(222)	(337)	(454)	(563)
EBIT	781	892	1,020	1,224
Total other non-operating income	(43)	-	-	-
Associate contributions	31	-	-	-
Net interest income/(expense)	13	(48)	(48)	(47)
Pre-tax profit	782	843	972	1,177
Tax	(82)	(110)	(126)	(153)
Minorities	1	2	3	3
Net profit	701	736	848	1,027
Net profit (recurrent)	581	736	848	1,027

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	3,985	4,609	5,115	5,512
Other LT assets	581	620	660	700
Cash/ST investment	2,061	1,985	2,100	2,435
Other current assets	2,997	3,230	3,659	4,316
<b>Total assets</b>	<b>9,624</b>	<b>10,443</b>	<b>11,533</b>	<b>12,963</b>
ST debt	1,072	1,072	1,072	1,072
Other current liabilities	2,023	2,189	2,515	3,014
LT debt	700	700	700	700
Other LT liabilities	204	204	204	204
Shareholders' equity	5,613	6,268	7,035	7,969
Minority interest	12	10	7	4
<b>Total liabilities &amp; equity</b>	<b>9,624</b>	<b>10,443</b>	<b>11,533</b>	<b>12,963</b>

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>375</b>	<b>1,052</b>	<b>1,245</b>	<b>1,475</b>
Pre-tax profit	782	843	972	1,177
Tax	(82)	(110)	(126)	(153)
Depreciation/amortization	222	337	454	563
Associates	(31)	-	-	-
Working capital changes	(603)	(67)	(103)	(158)
Non-cash items	87	48	48	47
Other operating cashflows	-	-	-	-
<b>Investing</b>	<b>(756)</b>	<b>(986)</b>	<b>(986)</b>	<b>(985)</b>
Capex (growth)	(1,262)	(1,000)	(1,000)	(1,000)
Investments	(2,297)	-	-	-
Proceeds from sale of assets	2,757	-	-	-
Others	45	14	14	15
<b>Financing</b>	<b>597</b>	<b>(142)</b>	<b>(143)</b>	<b>(155)</b>
Dividend payments	(69)	(142)	(143)	(155)
Issue of shares	11	-	-	-
Proceeds from borrowings	1,050	12,000	12,000	12,000
Loan repayment	(654)	(12,000)	(12,000)	(12,000)
Others/interest paid	259	-	-	-
<b>Net cash inflow (outflow)</b>	<b>216</b>	<b>(76)</b>	<b>116</b>	<b>335</b>
Beginning cash & cash equivalent	1,789	2,061	1,985	2,100
Changes due to forex impact	55	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>2,061</b>	<b>1,985</b>	<b>2,100</b>	<b>2,435</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	22.5	25.1	26.2	26.4
Pre-tax margin	17.6	17.2	17.2	17.4
Net margin	13.0	15.0	15.0	15.2
ROA	6.5	7.3	7.7	8.4
ROE	12.5	12.4	12.7	13.7
<b>Growth</b>				
Turnover	47.3	10.0	15.0	20.0
EBITDA	57.9	22.5	20.0	21.2
Pre-tax profit	68.2	7.8	15.2	21.1
Net profit	69.7	4.9	15.2	21.1
Net profit (adj.)	45.0	26.6	15.2	21.1
EPS	69.7	4.9	15.2	21.1
<b>Leverage</b>				
Debt to total capital	18.4	17.0	15.4	13.7
Debt to equity	31.6	28.3	25.2	22.2
Net debt/(cash) to equity	(9.9)	(7.6)	(8.5)	(11.7)
Interest cover (x)	(59.5)	18.5	21.2	26.1

## COMPANY RESULTS

### ZTE Corporation (763 HK)

3Q23: Results Missed On Weak Revenue Growth; Reduce Target Price On Slower Growth

ZTE's 3Q23 results were below expectations, with revenue declining 12.4%. The weakness was due to a combination of delayed revenue recognition, weak recovery in the G&C and consumer businesses, and deterioration in GP server tenders. Sales growth should accelerate in 4Q and margins should remain strong at >40%, but full-year revenue will likely miss our previous estimates and geopolitical risks will remain an overhang on share price. Maintain BUY but cut target price to HK\$28.40.

#### 3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	2Q23	3Q23	yoy % chg	qoq % chg	9M22	9M23	yoy % chg
Revenue	32,741	31,562	28,689	(12.4)	(9.1)	92,559	89,393	(3.4)
Gross profit	12,486	13,269	12,804	2.5	(3.5)	34,641	39,039	12.7
EBIT	2,516	2,463	2,674	6.3	8.6	7,176	8,303	15.7
Net profit	2,254	2,830	2,369	5.1	(16.3)	6,820	7,841	15.0
<b>Margins (%)</b>								
GPM	38.1	42.0	44.6	6.5	2.6	37.4	43.7	6.2
OPM	7.7	7.8	9.3	1.6	1.5	7.8	9.3	1.5
NPM	6.9	9.0	8.3	1.4	(0.7)	7.4	8.8	1.4

Source: ZTE, UOB Kay Hian

#### WHAT'S NEW

- 3Q23 results missed on revenue.** ZTE Corporation's (ZTE) 3Q23 net profit declined 16.3% qoq to Rmb2,369m, which is ~7% below our estimates. The miss was due to a worse-than-expected 12.4% yoy and 9.1% qoq decline in revenue to Rmb28.7b, as: a) revenue recognition of the 5G base station business was delayed to 4Q23-1Q24 as a result of late tenders; b) domestic telcos slowed down purchase of general purpose servers for the upcoming investments into AI servers; and c) sluggish recovery in government & corporate (G&C) and consumer businesses. This was partially offset by a recovery in overseas' carrier network business, another historically high gross margin at 44.6%, and stringent opex controls (opex dropped 6.3% qoq).

#### STOCK IMPACT

- ZTE now targets a flattish yoy revenue growth for 2023 (~Rmb123b)**, implying 4Q23 revenue of Rmb33.6b (+10.4% yoy and +17.0% qoq), which we believe will be relatively challenging to achieve given the sluggish recovery of the G&C and consumer businesses, and the structural investment transition from GP servers to AI servers. Nevertheless, this will be partially offset by a solid margin guidance of 40-45%, which is in line with our expectations.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	114,522	122,954	121,333	132,257	142,399
EBITDA	10,775	12,364	13,335	15,183	16,966
Operating profit	6,593	8,668	9,804	10,906	12,783
Net profit (rep./act.)	6,813	8,080	9,654	10,596	12,215
EPS (Fen)	143.9	170.7	203.9	223.8	258.0
PE (x)	11.7	9.9	8.3	7.5	6.5
P/B (x)	1.8	1.6	1.6	1.4	1.3
EV/EBITDA (x)	9.0	7.7	6.8	5.4	4.3
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
Net margin (%)	5.9	6.6	8.0	8.0	8.6
Net debt/(cash) to equity (%)	(23.0)	(3.4)	(10.5)	(23.1)	(31.7)
Interest cover (x)	6.8	53.1	n.a.	n.a.	n.a.
ROE(%)	14.4	14.7	16.8	17.4	17.6
Consensus net profit	-	-	9,942	11,130	12,426
UOBKH/Consensus (x)	-	-	0.97	0.95	0.98

Source: ZTE, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$18.04
Target Price	HK\$28.40
Upside	+57.4%
(Previous TP:	HK\$33.50)

#### COMPANY DESCRIPTION

ZTE Corporation develops and markets switches, access servers, videoconferencing systems, mobile communication systems, data communication devices, and optical communication devices.

#### STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	763 HK
Shares issued (m):	755.5
Market cap (HK\$m):	126,508
Market cap (US\$m):	16,174
3-mth avg daily t'over (US\$m):	18.2

#### Price Performance (%)

52-week high/low HK\$31.95/HK\$13.86

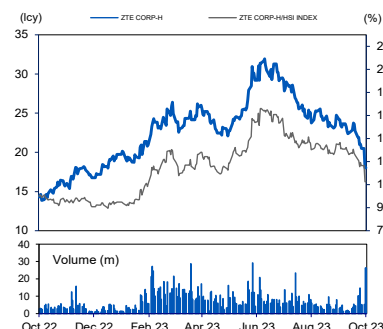
1mth	3mth	6mth	1yr	YTD
(27.1)	(38.8)	(30.6)	28.9	4.9

#### Major Shareholders

	%
Zhongxingxin	35.1

FY23 NTAV/Share (Rmb)	11.99
FY23 Net Cash/Share (Rmb)	1.27

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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

- **R&D expenses could remain elevated, but SG&A will be well-controlled.** Due to a lower operating scale, ZTE's opex ratio rose 1.0ppt qoq to 34.3% in 3Q23. However, in absolute values, the expenses were well-controlled and declined 6.3% qoq. Going forward, while R&D expenses may remain elevated, we expect SG&A to be well-controlled and total opex ratio to moderate thanks to better operating scale.
- **ZTE recently launched its H800 based GPU server, but US export restrictions add more uncertainty to the development of AI businesses.** In mid-Oct 23, ZTE officially launched its first long-awaited H800 server. However, due to the new AI chip export rules from the US, most Chinese AI server manufacturers/users, including ZTE, are still evaluating the impact, and any potential workarounds (eg looking for substitutes from domestic manufacturers). As such, we believe the new US export rules will remain a major overhang to the development of ZTE's AI business going forward.

#### EARNINGS REVISION/RISK

- **Trim net profit estimates by 3.4%/4.3% for 2023-24.** We have factored in: a) a lower revenue assumption given the sluggish G&C and consumer businesses, the slowdown in GP server procurement and the risks from US export rules; b) a higher carrier network business margin assumption; and c) more stringent opex controls in 2023-25. Our 2025 estimates are largely unchanged.

#### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK\$28.40,** now based on a lower 2024F PE multiple of 11.8x, pegged to 0.5SD below its five-year average historical mean. We use a lower PE multiple to factor in the slower-than-expected revenue growth, as well as the uncertainties in its AI business' development.

**PROFIT & LOSS**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	122,954	121,333	132,257	142,399
EBITDA	12,364	13,335	15,183	16,966
Deprec. & amort.	(3,696)	(3,531)	(4,277)	(4,182)
EBIT	8,668	9,804	10,906	12,783
Total other non-operating income	1,893	1,100	1,893	1,100
Associate contributions	94	94	94	94
Net interest income/(expense)	(163)	127	171	219
Pre-tax profit	8,752	11,031	12,177	14,102
Tax	(960)	(1,655)	(1,827)	(2,115)
Minorities	289	278	245	227
Preferred dividends	8,080	9,654	10,596	12,215
Net profit	8,080	9,654	10,596	12,215

**CASH FLOW**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	7,578	6,957	12,574	11,944
Pre-tax profit	8,752	11,031	12,177	14,102
Tax	(9,002)	(9,002)	(9,002)	(9,002)
Depreciation/amortization	3,696	3,531	4,277	4,182
Associates	(94)	(94)	(94)	(94)
Working capital changes	(9,058)	9,837	(2,357)	(1,987)
Non-cash items	13,283	(8,347)	7,573	4,742
Other operating cashflows	-	-	-	-
Investing	(1,291)	(1,681)	(2,100)	(2,565)
Capex (growth)	(4,952)	(5,135)	(5,327)	(5,542)
Investments	5,726	5,726	5,726	5,726
Proceeds from sale of assets	-	-	-	-
Others	(2,065)	(2,271)	(2,499)	(2,748)
Financing	1,455	(1,302)	(1,316)	(1,324)
Dividend payments	(3,688)	(1,302)	(1,316)	(1,324)
Issue of shares	-	-	-	-
Net proceeds from borrowings	5,406	-	-	-
Others/interest paid	(264)	-	-	-
Net cash inflow (outflow)	7,741	3,974	9,158	8,055
Beginning cash & cash equivalent	39,071	47,072	51,045	60,203
Changes due to forex impact	260	-	-	-
Ending cash & cash equivalent	47,072	51,045	60,203	68,258

**BALANCE SHEET**

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	12,913	13,133	13,178	13,112
Other LT assets	30,166	33,090	32,718	32,688
Cash/ST investment	47,718	51,691	60,849	68,904
Other current assets	90,156	77,394	83,685	88,437
Total assets	180,954	175,309	190,430	203,141
ST debt	9,962	9,962	9,962	9,962
Other current liabilities	68,458	61,062	67,646	72,871
LT debt	35,126	35,126	35,126	35,126
Other LT liabilities	7,864	11,930	11,930	11,930
Shareholders' equity	58,641	56,605	65,388	73,101
Minority interest	902	624	379	151
Total liabilities & equity	180,954	175,309	190,430	203,141

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
Gross margin	37.1	42.5	40.3	40.3
Pretax margin	7.1	9.1	9.2	9.9
Net margin	6.6	8.0	8.0	8.6
ROA	4.5	5.5	5.6	6.0
ROE	14.7	16.8	17.4	17.6
Growth				
Turnover	7.4	(1.3)	9.0	7.7
Gross profit	13.3	12.7	3.5	7.5
Pre-tax profit	3.0	26.0	10.4	15.8
Net profit	18.6	19.5	9.8	15.3
Net profit (adj)	18.6	19.5	9.8	15.3
EPS	18.6	19.5	9.8	15.3
Leverage				
Debt to total capital	24.9	25.7	23.7	22.2
Debt to equity	76.9	79.7	69.0	61.7
Net debt to equity	(3.4)	(10.5)	(23.1)	(31.7)
Interest cover (x)	53.1	n.a	n.a.	n.a.



## SECTOR UPDATE

### Telecommunications – Indonesia

Data Traffic To Grow 18% yoy In 2024; Maintain OVERWEIGHT

We expect data revenue to rise 10%/9% yoy in 2023/24, mainly due to data traffic growth. The upcoming Election Day in Feb 24 may also help increase data traffic by at least 7% vs a normal day. We also believe fixed broadband revenue could accelerate slightly by 10% yoy in 2024 (2023: 9% yoy). For tower companies, fibre-to-the-tower could become an additional growth driver. We expect TOWER's revenue from FTTT and connectivity services to grow 29%/24% yoy in 2023/24 respectively. Maintain OVERWEIGHT.

#### WHAT'S NEW

- **Data traffic may increase by 7-24% on Election Day compared with a normal day.** We expect the increase in data traffic from the upcoming Election Day in 1Q24 (14 Feb 24) to be similar or slightly lower than that seen during the previous Election Day in 2Q19 (17 Apr 19). This takes in consideration that telcos' performance in 1Q is usually not as strong as 2Q (Eid al-Fitr). During the 2019 Election Day, telcos saw the following increases in data traffic: XL Axiata 24% (highest between 16-18 April), Telkomsel 16% (17 April), and Indosat 7% (17 April), based on news report from Liputan 6.
- **Fixed broadband revenue for 2023/24 to rise 9%/10% yoy (vs mobile broadband: 11%/9% yoy).** We expect fixed broadband revenue, including fixed mobile convergence (FMC) to grow faster than mobile broadband. This is partly because Indonesia's fibre penetration rate (8%) is still below the average of Southeast Asian countries (23%) based on the report by Arthur D. Little, GlobalData, and FTTH Council Asia-Pacific.
- **Attractive growth in FTTT and connectivity revenue for TOWER (29%/24% yoy in 2023/24).** We expect Indonesian telcos to continue to fiberise their sites and strengthen their network to effectively manage the surging data traffic growth in the country. For the top three telcos (Telkomsel, Indosat and XL Axiata), we forecast the combined data traffic growth to reach 21% yoy in 2023 and 18% yoy in 2024. We expect Sarana Menara Nusantara (TOWER) to be able to grow its non-tower segment (fibre-to-the-tower (FTTT) and connectivity services) by 29%/24% yoy in 2023/24, contributing 27%/32% of its total revenue.
- **Potential industry consolidation might help to sustain healthy data pricing.** We see the possibility of another M&A in the telco industry between XL Axiata and Smartfren based on Bloomberg news on 5 September, which quoted anonymous source (details in our previous report dated 10 October). On 17 Oct 23, FREN also announced its plan to conduct a pre-emptive rights issue for a maximum of 234b shares. If the right price is Rp50 (6% discount to FREN's closing price on 16 October) with additional shares at its maximum limit, the estimated total proceeds would reach Rp11.7t. Assuming 70% of the estimated proceeds is realized, with all else remaining the same, we estimate the current price of EXCL and FREN would imply a post-merger valuation of 4.4x EV/EBITDA in 2024 (excluding potential synergies), lower than Indosat's valuation (4.8x)

#### ACTION

- **Maintain OVERWEIGHT.** We continue to like the telco sector given its strong data traffic growth, healthier pricing environment, and additional growth driver from expansion in fixed broadband.

#### PEER COMPARISON

Company	Ticker	Rec	Price 24 Oct 23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US\$m)	3M Avg Turnover (US\$m)	PE 2023F (x)	2024F (x)	EV/EBITDA 2023F (x)	2024F (x)	ROE 2023F (%)	2024F (%)	Net Gearing (%)
Telkom Indonesia*	TLKM	BUY	3,650	4,700	28.8	22,814	21.9	14.3	13.9	6.3	6.1	18.9	18.5	15.6
XL Axiata	EXCL	HOLD	2,190	2,500	14.2	1,814	3.2	35.3	39.5	4.0	3.8	4.0	4.2	9.6
Indosat	ISAT	BUY	9,625	11,100	15.3	4,896	2.5	77.9	33.6	5.2	4.8	6.2	5.2	28.4
Sarana Menara Nusantara	TOWR	BUY	900	1,200	33.3	2,897	1.5	12.1	13.0	9.2	8.7	20.8	19.2	273.2

Source: Bloomberg, UOB Kay Hian

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

## OVERWEIGHT

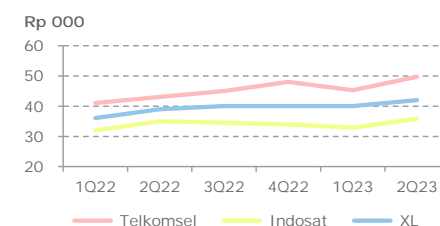
(Maintained)

#### SECTOR PICKS

Ticker	Ticker	Rec	Price 24-Oct-23 (Rp)	Target Price (Rp)
Indosat	ISAT IJ	BUY	9,625	11,100

Source: UOB Kay Hian

#### CELLULAR: BLENDED ARPU



Source: Respective Companies, UOB Kay Hian

#### ANALYST(S)

**Paula Ruth**  
+6221 2993 3876  
paula@uobkayhian.com



- **Our top pick: Indosat (ISAT IJ/BUY/Target: Rp11,100).** We upgrade ISAT to BUY from HOLD as its share price has already declined 5% since our last report. Our recommendation considers: a) a gradual increase of ISAT's ARPU (2024: 7% yoy), implying possible continuation of data monetisation, b) its strong core earnings growth of 27% yoy in 2024, and c) good balance sheet quality (2Q23 net debt/EBITDA of 0.45x). ISAT trades at EV/EBITDA of 5.2x for 2023 and 4.8x for 2024 (8% discount to +1SD).

## ESSENTIALS

- **FREN's rights issue plan.** On 17 Oct 23, FREN announced its plan to conduct a pre-emptive rights issue for a maximum of 234b shares. This plan is subject to EGM's approval scheduled on 24 Nov 23. Below are several details in the announcement:
  - The rights issue's execution could be done in form of cash using rupiah or the equivalent in foreign currency, and/or compensation on "claim right" (hak tagih) to FREN in the form of shares deposit.
  - FREN aims to use the proceeds for debt repayment and/or working capital of the company and/or its subsidiaries.
  - FREN also intends to seek approval in the EGM for an increase in authorised capital to Rp107t (vs Rp63t previously) and the issued and paid-up capital to Rp59t (vs Rp39t previously).

If we assume a rights price of Rp50 (6% discount to FREN's closing price on 16 October) with additional shares at its maximum limit, the estimated total proceeds would reach Rp11.7t. We will monitor the EGM and any further announcements from the company regarding standby buyer and final right's price.

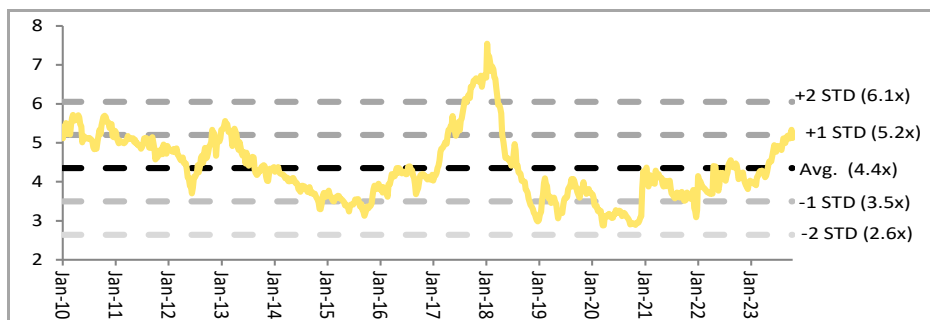
## RISK

- **Downside risks include:** a) intensifying competition from existing and/or new players, b) worse-than-expected macroeconomic conditions, c) additional costs, and d) unfavourable changes in regulation.

## VALUATION

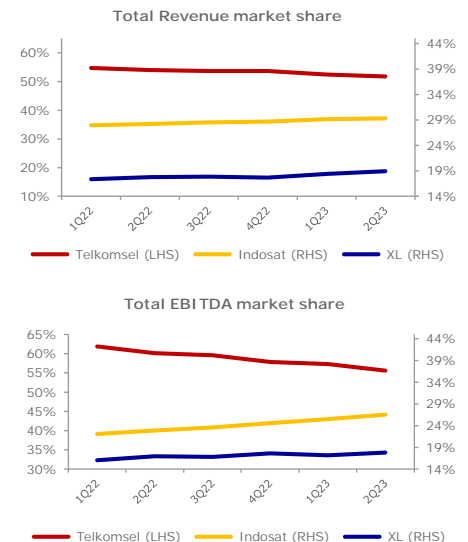
- **Indosat (ISAT IJ/BUY/Target: Rp11,100).** Our target price is based on 5.4x EV/EBITDA applied to average 2023 and 2024 EBITDA, implying 4% premium to ISAT's historical +1SD EV/EBITDA.
- **Telkom Indonesia (TLKM IJ/BUY/Target: Rp4,700).** We base our target price on 7.8x EV/EBITDA applied to TLKM's 2023 EBITDA (adjusted for ownership in Telkomsel).
- **XL Axiata (EXCL IJ/HOLD/Target: Rp2,500).** Our target price is derived by applying EV/EBITDA of 4x, lower than ISAT's (5x), to EXCL's 2023-24 average EBITDA. We will monitor 3Q23 results and company updates on its fixed broadband business and synergy with Linknet (LINK).
- **Sarana Menara Nusantara (TOWR IJ/BUY/Target: Rp1,200).** Our target price is based on 10.5x EV/EBITDA (slightly higher than TOWR's historical average; below Tower Bersama's valuation), applied to 2023-24 average EBITDA.

### ISAT: EV/EBITDA BAND



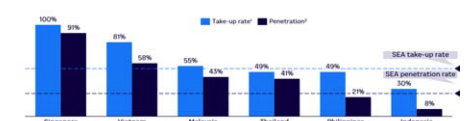
\* Including financial lease.  
Source: ISAT, Bloomberg, UOB Kay Hian

### BIG 3 TELCOS MARKET SHARE BY QUARTERLY REVENUE AND EBITDA



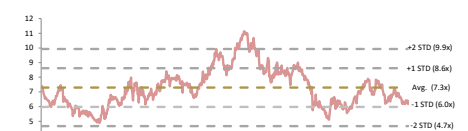
Source: Respective companies, UOB Kay Hian

### FIBRE'S TAKE-UP AND PENETRATION RATE IN SOUTHEAST ASIAN COUNTRIES (2022)



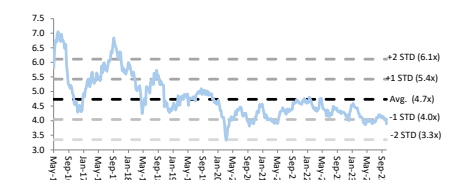
Source: Arthur D. Little, GlobalData, FTTH Council Asia-Pacific

### TLKM: EV/EBITDA BAND



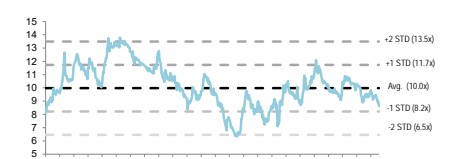
\* Adjusted to ownership in Telkomsel  
Source: TLKM, Bloomberg, UOB Kay Hian

### EXCL: EV/EBITDA BAND



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

### TOWR: EV/EBITDA BAND



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

## COMPANY RESULTS

### Globetronics Technology (GTB MK)

9M23: Below Expectations; Trudging Across Choppy Waters

We expect a soft 4Q23 performance amid weaker seasonality in Dec 23 alongside the sluggish ramp-up in its sensor segment. Cut 2023/24 earnings by 18%/8%. The company is rationalising its lower-margin business and pursuing new programmes with its existing and new customers. While Globetronics is still not fully out of the woods yet, the game changer could be the fruition of its active engagements with potential Chinese and Taiwanese customers. Maintain HOLD. Target price: RM1.52.

#### 9M23 RESULTS

Year to 31 Dec (RMm)	3Q23	qoq% chg	yoy % chg	9M23	yoy % chg
Revenue	34.6	9.9	(24.8)	99.3	(27.2)
Gross profit	15.5	40.9	(8.2)	37.9	(29.6)
EBITDA	13.6	18.3	(30.4)	33.0	(36.9)
Operating profit	10.2	26.4	(30.8)	22.6	(37.5)
Finance cost	0.0	nm	nm	0.0	nm
Pre-tax profit	11.3	26.8	(25.0)	25.5	(31.2)
Tax	(1.8)	(3.6)	(22.7)	(5.5)	55.4
Net Profit	9.5	34.7	(25.4)	19.9	(40.4)
Core Net Profit	9.0	136.8	(20.5)	15.9	(48.4)
Margins (%)	qoq ppt chg		yoy ppt chg	yoy ppt chg	
Gross	44.7	9.8	8.1	38.1	(1.3)
EBITDA	39.3	2.8	-3.2	33.2	(5.1)
PBT	32.6	4.3	-0.1	25.6	(1.5)
Core net profit	26.1	14.0	1.4	16.0	(6.6)

Source: Globetronics, UOB Kay Hian

#### RESULTS

- **Below expectations.** Globetronics Technology (Globetronics) reported a soft 3Q23 net profit of RM9.0m (+137% qoq, -21% yoy), bringing 9M23 core net profit to RM15.9m (-48%) which made up 50%/56% of our/consensus' full-year estimates respectively. The negative deviations came mainly from lower volume loadings across its sensor segments. Note that core net profit has been adjusted for unrealised forex gains and assets disposal gains.
- **9M23 sales decreased 27% yoy** on soft volume loadings across its sensor segment (-33%). Meanwhile, the quartz crystal and LED segments were down 64% and 21% respectively amid the slowdown of the semiconductor cycle. As a result of lower operational efficiency coupled with higher electricity tariff (+41%) and higher tax expense (on expired pioneer status), core net profit dropped by 48%.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	206	180	136	190	196
EBITDA	81	71	55	70	68
Operating profit	54	49	29	49	50
Net profit (rep./act.)	53	45	27	44	45
Net profit (adj.)	51	45	27	44	45
EPS (sen)	7.7	6.8	4.0	6.6	6.8
PE (x)	18.3	20.7	34.8	21.2	20.7
P/B (x)	3.1	3.1	3.1	3.1	3.1
EV/EBITDA (x)	9.2	10.5	13.6	10.6	10.9
Dividend yield (%)	5.4	5.0	2.7	4.5	4.6
Net margin (%)	25.7	25.3	19.9	23.2	23.1
Net debt/(cash) to equity (%)	(64.8)	(67.1)	(64.0)	(65.9)	(68.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.7	15.1	8.9	14.6	14.9
Consensus net profit	-	-	28	39	44
UOBKH/Consensus (x)	-	-	0.95	1.13	1.03

Source: Globetronics Technology, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM1.40
Target Price	RM1.52
Upside	+8.6%
(Previous TP)	RM1.63)

#### COMPANY DESCRIPTION

Globetronics is an OSAT vendor, well-known for its sensors for smartphone, and focuses on quartz crystal & timing devices and LED products.

#### STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	GTB MK
Shares issued (m):	671.5
Market cap (RMm):	940.1
Market cap (US\$m):	196.5
3-mth avg daily t'over (US\$m):	0.6

#### Price Performance (%)

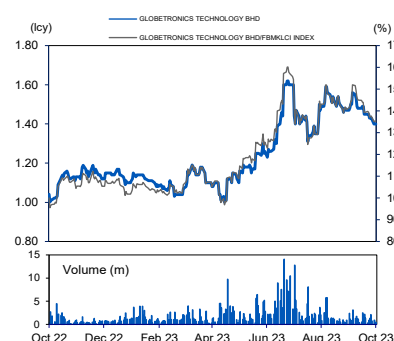
52-week high/low		RM1.62/RM1.00		
1mth	3mth	6mth	1yr	YTD
(4.8)	(12.5)	27.3	35.7	21.8

#### Major Shareholders

	%
Employees Provident Fund Board	14.8
General Produce Agency Sdn Bhd	7.1
Ooi Keng Thye	5.8

FY23 NAV/Share (RM)	0.45
FY23 Net Cash/Share (RM)	0.29

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Desmond Chong**  
+603 2147 1980  
desmondchong@uobkayhian.com

- Qoq, while revenue rebounded 10% sequentially on the seasonal ramp-up, particularly in the sensor segment (22%), core net profit soared by 137% on better product mix alongside better operational efficiency.

#### STOCK IMPACT

- **Still expecting a soft 4Q23.** For 4Q23, while we expect the seasonal ramp-up to partially spillover into Oct 23, volume loadings for the light and motion sensors in Dec 23 could be lower than the run-rate of 24m-25m/month. Similarly for gesture sensors, we expect monthly volume loadings to be lower than 17m/month on seasonal weakness. For quartz crystal timing devices, volume loadings are expected to drop further.
- **Earmarked RM35m capex in 2023 for new growth engines.** The group has freed up capacity from low-margin quartz crystal timing devices (volume loadings are expected to drop further from 8m/month in 4Q21) alongside an upcoming build-up of 30,000sf floor space to take on new business from MNC customers. We believe the new business development could be accelerated in 1H24 upon the cyclical recovery. The group is currently creating a business portfolio that integrates its new generation sensors with LED, laser and optical devices, which will be done via collaboration with several partners in 2024. Meanwhile, it has also invested RM10m in a clean room facility at its Bayan Lepas plant, which has commenced mass production since 2H22, with meaningful earnings to come in 1H24. Note that we have yet to account for any earnings from such ventures, as we are waiting further details from management.
- **Starting on a clean slate.** Aside from the linearisation of the low-margin quartz crystal business, the group remains relevant as it is a proxy to 5G/IoT/VCSEL deployment with its Outsourced Semiconductor Assembly and Test (OSAT) capabilities. Further impetus could also come from the introduction of new sensors, which the group is working on with the same major customer with commercialisation to take place meaningfully in 2024. We have yet to account for this in our earnings estimates. Meanwhile, the group is in talks with new customers for new programme qualifications while having active engagement with potential China and Taiwan customers which could be the game changer. Qualification programmes for other automobile laser light devices are ongoing with this segment still being one of the key focuses going forward. Meanwhile, the expansion of factory space (30,000sf) has been completed.

#### EARNINGS REVISION/RISK

- After the model updates, we lower our 2023 and 2024 earnings by 18% and 8% respectively to account for lower loadings across all segments.

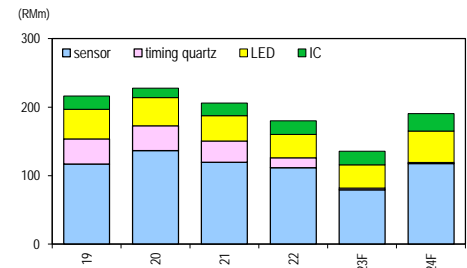
#### VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.52**, still based on 23.0x 2024F PE, which is at its -0.5SD below its five-year mean PE.
- Outlook-wise, mass production of new-generation light and gesture sensors with enhanced functionality, alongside new sensors for various applications, could drive sales volumes. Globetronics benefits from 5G/IoT/VCSEL deployment with its growing relevance in high-end smartphones. In the long term, we remain hopeful of the group's ability to improve its relevance in high-tech sensor products for various applications, which would continue to spearhead earnings growth. Meanwhile, the game changers could come from any form of new business collaboration or advanced packaging manufacturing solution.

#### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- Globetronics has taken various initiatives that have resulted in an energy reduction of about 10% below the theoretical usage in 2020.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Aligned to the Responsible Business Alliance Code of Conduct and will use the principles to ensure a safe and conducive working environment for all employees.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Implemented anti-corruption and bribery prevention programme in view of the Corporate Liability Provision Section 17(A) of MACC 2009 (Amendment 2018) to further enhance transparency.</li> </ul> </li> </ul>

#### REVENUE BREAKDOWN



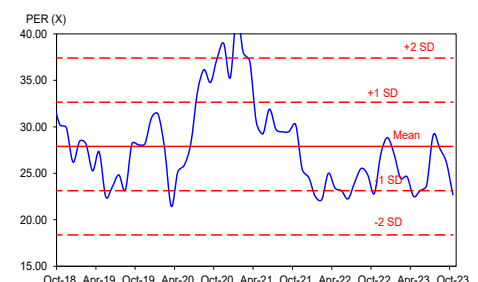
Source: Globetronics, UOB Kay Hian

#### TIMELINE: NEW PRODUCT COMMERCIALISATION

Type	Timeline
Bio & environmental sensor	Commenced in 2022
New generation light sensor	Commenced in 2023
New generation of gesture sensor	Commenced in 2023
Co-development of next gen sensors	2024
New sensors (unknown)	2024

Source: UOB Kay Hian

#### FIVE-YEAR FORWARD PE CHART



Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	180	136	190	196
EBITDA	71	55	70	68
Deprec. & amort.	22	26	21	18
EBIT	49	29	49	50
Associate contributions	0	0	0	0
Net interest income/(expense)	2	1	1	1
<b>Pre-tax profit</b>	<b>51</b>	<b>30</b>	<b>50</b>	<b>51</b>
Tax	(6)	(3)	(6)	(6)
Minorities	0	0	0	0
<b>Net profit</b>	<b>45</b>	<b>27</b>	<b>44</b>	<b>45</b>
Net profit (adj.)	45	27	44	45

**BALANCE SHEET**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	58	67	56	48
Other LT assets	26	26	26	26
Cash/ST investment	201	193	200	210
Other current assets	41	38	52	54
<b>Total assets</b>	<b>327</b>	<b>325</b>	<b>335</b>	<b>338</b>
ST debt	0	0	0	0
Other current liabilities	26	23	31	32
LT debt	0	0	0	0
Other LT liabilities	0	0	0	0
Shareholders' equity	300	302	304	306
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>327</b>	<b>325</b>	<b>335</b>	<b>338</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>58</b>	<b>52</b>	<b>59</b>	<b>63</b>
Pre-tax profit	51	30	50	51
Tax	(5)	(3)	(6)	(6)
Deprec. & amort.	22	26	21	18
Working capital changes	(8)	0	(6)	(1)
Other operating cashflows	(1)	0	0	0
<b>Investing</b>	<b>(6)</b>	<b>(35)</b>	<b>(10)</b>	<b>(10)</b>
Capex (growth)	(11)	(35)	(10)	(10)
Investments	(1)	0	0	0
Proceeds from sale of assets	3	0	0	0
Others	2	0	0	0
<b>Financing</b>	<b>(47)</b>	<b>(26)</b>	<b>(42)</b>	<b>(43)</b>
Dividend payments	(47)	(26)	(42)	(43)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>6</b>	<b>(8)</b>	<b>7</b>	<b>10</b>
Beginning cash & cash equivalent	195	201	193	200
Changes due to forex impact	1	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>201</b>	<b>193</b>	<b>200</b>	<b>210</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	39.5	40.5	36.8	34.8
Pre-tax margin	28.5	22.4	26.2	26.0
Net margin	25.3	19.9	23.2	23.1
ROA	13.7	8.3	13.4	13.5
ROE	15.1	8.9	14.6	14.9
<b>Growth</b>				
Turnover	(12.6)	(24.6)	40.4	3.1
EBITDA	(12.6)	(22.8)	27.7	(2.7)
Pre-tax profit	(7.6)	(40.7)	64.2	2.5
Net profit	(14.1)	(40.7)	64.2	2.5
Net profit (adj.)	(11.7)	(40.5)	64.2	2.5
EPS	(11.7)	(40.5)	64.2	2.5
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(67.1)	(64.0)	(65.9)	(68.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

## COMPANY UPDATE

### CIMB Group (CIMB MK)

Resilient In The Face Of Challenges

Management remains fairly optimistic of the group's overall outlook despite the potential negative impact of inflationary pressure and normalisation in interest rates on asset quality. This stems from the group's large stock of pre-emptive provisions. Meanwhile, strong loans growth momentum and potential cost optimisation could provide potential earnings tailwinds. Maintain BUY and target price of RM6.00 (0.93x 2023F P/B, 9.8% 2023 ROE).

#### WHAT'S NEW

- **Asset quality remains stable with possibility of improvement.** CIMB Group (CIMB) is confident about navigating the current economic challenges, including the impact of higher interest rates on asset quality. This confidence stems from the group's proactive measures to reduce risk in its loans in recent years, particularly in Indonesia and Thailand. These efforts are evident in its gross impaired loan (GIL) ratio, which has only increased by 8bp since 4Q22 to 3.35% in 2Q23. Management anticipates that the group's GIL ratio will remain stable and improve going forward. Furthermore, there are no specific large corporate accounts under significant asset quality stress, according to management.
- **Sufficient management overlays to withstand potential asset quality headwinds.** Management is confident that CIMB has ample pre-emptive provisions to address any potential GIL deterioration. Instead of reversing their surplus overlays, they have redistributed most of their RM2.0b in overlays across various portfolios.
- **Credit cost to remain stable.** With ample management overlays in place, there are no foreseen upside risks to the credit cost guidance. Recently, management revised its 2023 net credit cost guidance down to 40-50bp from 45-55bp, taking into account the positive GIL outlook and strategic allocation of overlays. We are maintaining our 40bp assumption for 2023 net credit costs, with a slight expected increase in the second half of 2023 to the 40-50bp range, compared to 38bp in the first half.
- **More rational deposit competition.** CIMB has reduced the rates for new fixed deposit campaigns in Malaysia by 25bp since Apr 23, signaling a more rational deposit competition.
- **Sequential recovery in NIM in 3Q23.** The easing of deposit competition and positive impact of the 25bp overnight policy rate (OPR) hike in May 23 has resulted in a slight overall qoq improvement in group NIM, with the gain in Malaysia more than compensating for slight NIM pressure in Indonesia. Nevertheless, we still expect a full-year 2023 NIM compression of 18bp, compared to a 22bp compression in the first half of the year. This aligns with management's forecast of -15bp to -20bp, implying a projected NIM recovery starting from 3Q23. In 2024, we project a flattish NIM trend.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	10,936	11,623	11,292	11,787	12,458
Non-interest income	3,955	4,198	4,452	4,671	4,908
Net profit (rep./act.)	4,357	5,433	6,421	7,072	7,615
Net profit (adj.)	4,357	5,433	6,421	7,072	7,615
EPS (sen)	43.5	52.6	61.0	65.9	69.7
PE (x)	13.1	10.8	9.3	8.6	8.2
P/B (x)	1.0	0.9	0.9	0.8	0.8
Dividend yield (%)	4.0	4.6	5.4	5.8	6.1
Net int margin (%)	2.5	2.6	2.4	2.4	2.4
Cost/income (%)	51.1	47.2	48.2	47.8	47.1
Loan loss cover (%)	100.3	93.1	98.2	110.0	114.1
Consensus net profit	-	-	6,512	6,975	7,531
UOBKH/Consensus (x)	-	-	0.99	1.01	1.01

Source: CIMB Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM5.68
Target Price	RM6.00
Upside	+10.6%

#### COMPANY DESCRIPTION

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

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	CIMB MK
Shares issued (m):	10,665.1
Market cap (RMm):	60,911.5
Market cap (US\$m):	12,661.3
3-mth avg daily t'over (US\$m):	14.7

#### Price Performance (%)

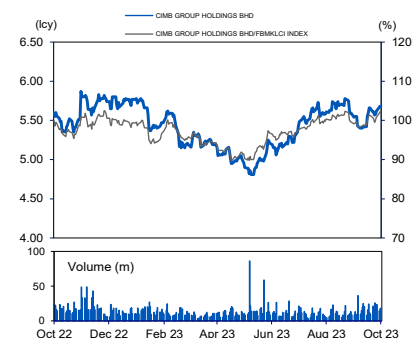
52-week high/low				RM5.87/RM4.81
1mth	3mth	6mth	1yr	YTD
1.6	6.2	9.4	2.7	(2.1)

#### Major Shareholders

	%
Khazanah Nasional Berhad	24.1
Amanah Saham Nasional	13.5
Employees Provident Fund Board	13.2

FY23 NAV/Share (RM)	6.48
FY23 CAR Tier-1 (%)	16.23

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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



## ESSENTIALS

- **Non-interest income normalising downwards sequentially.** Given the high base effect of 2Q23 non-interest income, due to the strong NPL recovery from CIMB Niaga, management expects non-interest income to normalise downwards in 3Q23. Additionally, trading and forex income has decreased qoq, but this has been partly offset by stronger fee income. Our forecast incorporates the high base effect of non-interest income in 1H23, and we anticipate a 41.6% qoq contraction in non-interest income for 2H23.
- **Investment and trading income to face weakness in 4Q23.** Tracking higher US Treasury yields, the 10-year MGS has climbed from 3.92% at end-Aug 23 to the current rate of 4.22%. This increase may result in a possibility of weakness in investment and trading income into 4Q23.
- **Loans growth momentum continues to track above guidance.** With no significant disbursements of large corporate loans, the momentum in loans growth for 3Q23 has slowed. However, it is worth noting that despite this slowdown, it remains in line with management's 6-7% growth guidance for 2023 and above our relatively conservative forecast of 5%. To recap, in the first half of 2023, the group achieved robust loans growth at 8.3%, driven by a strong 11.2% growth in wholesale banking loans and commendable growth of 8.0% and 6.7% in commercial and consumer banking respectively.
- **Slight uptick in opex growth.** We anticipate opex growth to increase to around 6% yoy in 2H23, compared to 4% in the first half, primarily due to higher IT and marketing expenses. This is expected to result in a full-year opex growth of approximately 5%, which is commendable considering the current inflationary environment.
- **Opex to creep upwards in 2024.** Looking ahead to 2024, we project opex growth of 6%, compared to the past four-year average of 2.4% per annum. This higher growth assumption is to account for an anticipated salary increase for unionised staff, even though negotiations have not yet commenced. Management has indicated their intention to start accruing this cost in 2024. Overall, we anticipate a slight improvement in the group's operating Jaws into 2024. Notably, despite the significant pressure on net interest margin (NIM) in 1H23, the group still managed to achieve positive operating Jaws.
- **Outlook.** Management has far and large retained its key 2023 guidance of: a) ROE: 10.0-11.0%, b) cost-to-income ratio of <46.5%, c) net credit cost range of 45-55bp, d) loans growth of 5-6%, and e) 15-20bp NIM slippage. In comparison, we have assumed a slightly more conservative ROE of 9.8% as inherent in management's ROE target is a non-interest income growth in excess of 10% vs our 6% growth assumption.

## EARNINGS REVISION/RISK

- Unchanged.

## VALUATIONS AND RECOMMENDATIONS

- **Maintain BUY and target price of RM6.00 (0.93x 2023F P/B, 9.8% ROE).** Our optimism for CIMB is grounded in the potential for a positive ROE upside surprise, primarily fueled by reduced credit costs, strong loan growth and cost optimisation. The company has successfully elevated its ROE from the pre-pandemic range of 8-9% to its current level of 10%. To offer a glimpse of the potential for upside in our target price, if we were to extend our valuations into 2024, our target price would elevate to RM6.45.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Green loan commitment.</b> To provide RM30b in sustainable financing by 2040.</li> <li>- <b>Zero new coal financing.</b> Transition all stakeholders to zero carbon emission by 2050.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Board and upper management gender diversity.</b> Maintained 30% female directors on the Board.</li> <li>- <b>Enhanced financial inclusion to B40.</b> Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Non-independent board of directors composition.</b> Composition of Independent Non-Executive Directors (INED) – 60 %.</li> </ul> </li> </ul>
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## KEY ASSUMPTIONS

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

Source: UOB Kay Hian

## PROFIT & LOSS

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

## OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Capital Adequacy</b>				
Tier-1 CAR	15.1	16.2	16.9	17.5
Total CAR	19.5	21.2	21.8	22.4
Total assets/equity (x)	10.6	10.5	10.6	10.8
Tangible assets/tangible common equity (x)	12.1	11.8	11.9	12.0
<b>Asset Quality</b>				
NPL ratio	3.3	3.4	3.2	3.2
Loan loss coverage	93.1	98.2	110.0	114.1
Loan loss reserve/gross loans	3.0	3.3	3.5	3.7
Increase in NPLs	0.3	7.8	0.5	7.4
Credit cost (bp)	49.5	40.0	39.0	38.0
<b>Liquidity</b>				
Loan/deposit ratio	88.3	88.1	88.8	89.4
Liquid assets/short-term liabilities	6.1	6.7	6.7	6.7
Liquid assets/total assets	4.4	4.8	4.7	4.5

## BALANCE SHEET

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

## KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Growth</b>				
Net interest income, yoy chg	6.3	(2.9)	4.4	5.7
Fees & commissions, yoy chg	6.4	7.0	3.0	6.0
Pre-provision profit, yoy chg	16.3	0.2	7.3	8.6
Net profit, yoy chg	24.7	18.2	10.1	7.7
Net profit (adj.), yoy chg	24.7	18.2	10.1	7.7
Customer loans, yoy chg	8.2	4.7	5.8	5.8
Customer deposits, yoy chg	3.2	5.0	5.0	5.0
<b>Profitability</b>				
Net interest margin	2.6	2.4	2.4	2.4
Cost/income ratio	47.2	48.2	47.8	47.1
Adjusted ROA	0.8	0.9	1.0	1.0
Reported ROE	8.9	9.8	10.1	10.3
Adjusted ROE	8.9	9.8	10.1	10.3
<b>Valuation</b>				
P/BV (x)	0.9	0.9	0.8	0.8
P/NTA (x)	1.1	1.0	1.0	0.9
Adjusted P/E (x)	10.8	9.3	8.6	8.2
Dividend Yield	4.6	5.4	5.8	6.1
Payout ratio	49.4	50.0	50.0	50.0



**COMPANY UPDATE**
**PPB Group (PEP MK)**
**Strong Earnings Contribution From Its Core Business**

We reiterate **BUY** on PPB on the back of strong earnings recovery from its core business, with operating profit expected to surge 314% yoy in 2023 mainly on the back of higher margin for its grains and agribusiness and strong earnings from the film exhibition and distribution segment. We have revised our earnings and target price lower mainly to reflect lower projected earnings and target price for its associate Wilmar. Maintain **BUY** with a lower target price of RM17.00.

**WHAT'S NEW**

- **PPB Group (PPB) would have a strong recovery in its core businesses** with operating earnings expected to soar by more than 314% yoy, resulting in improved margins. Notably, Wilmar International (Wilmar), an associate of PPB, played a significant role in the earnings, contributing 70-80% historically. This contribution surged to nearly 100% of PPB's earnings during 2020-22 due to heightened raw material costs and COVID-19-related restrictions. Anticipated for 2023 is a return to a more balanced composition, with PPB's core segments expected to contribute around 30% of earnings, while the remainder is projected to come from Wilmar. This is mainly on the back of:

a) **Grains and agribusiness' margin continue to grow**, thanks to the weakening wheat prices. Wheat prices have dropped by 21% since its latest peak in Mar 23. Note that, wheat is the main cost of production for flour and usually takes up 60-80% of the total cost of production, depending on the raw material prices.

b) **Strong earnings from film exhibition and distribution segment**. We expect the film exhibition and distribution segment to continue to deliver good earnings, supported by strong movie titles in 2H23, eg Barbie, Oppenheimer, No More Bets etc. On top of that, GSC is also one of the producers for some local movies, which may result in higher film distribution income.

- **Positive news from Budget 2024**. The Malaysian government had also recently announced in the Budget 2024 to phase out the price control on eggs which would benefit PPB Group as it has a livestock farming sub-segment under the grain and agribusiness segment. It operates a layer farm, producing more than 20m eggs a month under the Seri Murni brand,

**KEY FINANCIALS**

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	4,653	6,151	6,977	7,561	7,910
EBITDA	(3)	151	402	371	358
Operating profit	(3)	151	402	371	358
Net profit (rep./act.)	1,585	2,261	1,060	1,414	1,668
Net profit (adj.)	1,689	2,372	1,060	1,414	1,668
EPS (sen)	118.7	166.6	74.5	99.4	117.2
PE (x)	13.0	9.2	20.6	15.5	13.1
P/B (x)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (x)	n.m.	151.1	56.7	61.5	63.7
Dividend yield (%)	2.1	2.6	1.7	2.4	3.0
Net margin (%)	34.1	36.8	15.2	18.7	21.1
Net debt/(cash) to equity (%)	(0.8)	(0.9)	0.6	0.2	(0.5)
Interest cover (x)	n.a.	8.0	9.7	7.5	7.5
Consensus net profit	-	-	1,364	1,719	1,748
UOBKH/Consensus (x)	-	-	0.78	0.82	0.95

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

**BUY**
**(Maintained)**

Share Price	RM15.38
Target Price	RM17.00
Upside	+10.5%
(Previous TP)	RM19.10)

**COMPANY DESCRIPTION**

Core businesses are grains trading, flour trading and animal feed milling as well as downstream activities such as livestock farming, food processing, bakery, and marketing and distribution of consumer products.

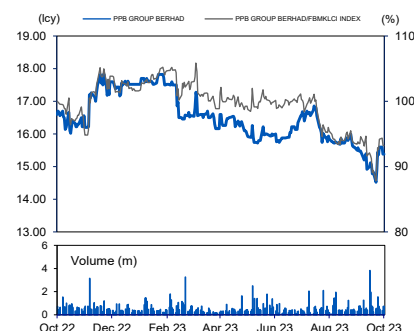
**STOCK DATA**

GICS sector	Consumer Staples
Bloomberg ticker:	PEP MK
Shariah Compliant:	Yes
Shares issued (m):	1,422.6
Market cap (RMm):	21,879.6
Market cap (US\$m):	4,573.0
3-mth avg daily t'over (US\$m):	2.1

**Price Performance (%)**

52-week high/low				RM17.84/RM14.52
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(1.4)	(7.1)	(4.8)	(8.5)	(11.8)

<b>Major Shareholders</b>	<b>%</b>
Kuok Brothers Sdn Berhad	50.2
Employees Provident Fund Board	7.2
Kumpulan Wang Persaraan	3.5
FY23 NAV/Share (RM)	18.76
FY23 Net Debt/Share (RM)	0.10

**PRICE CHART**


Source: Bloomberg

**ANALYST(S)**

**Jacquelyn Yow Hui Li**  
+603 2147 1995  
jacquelyn@uobkayhian.com

**Leow Huey Chuen**  
+603 2147 1990  
hueychuen@uobkayhian.com

### EARNINGS REVISION/RISK

- **Adjusted earnings forecast** for 2023-25 by -15%/-7%/-7% to RM1,060m, RM1,414m and RM1668m respectively, factoring in lower earnings contribution from Wilmar.
- Note that we have adjusted our in-house Wilmar earnings forecasts by 18%, 9% and 8% for 2023/24/25 due to lower palm downstream processing and soybean crushing margin.

Refer here for our report on Wilmar:

[https://research.uobkayhian.com/content\\_download.jsp?id=75669&h=3529a11e71e87beb51d0191d65638c50](https://research.uobkayhian.com/content_download.jsp?id=75669&h=3529a11e71e87beb51d0191d65638c50)

### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM17.00 (previous: RM19.10)** after lowering Wilmar's contribution. We still like PPB on the back of the strong recovery from its core business. Our target price is based on SOTP valuation.

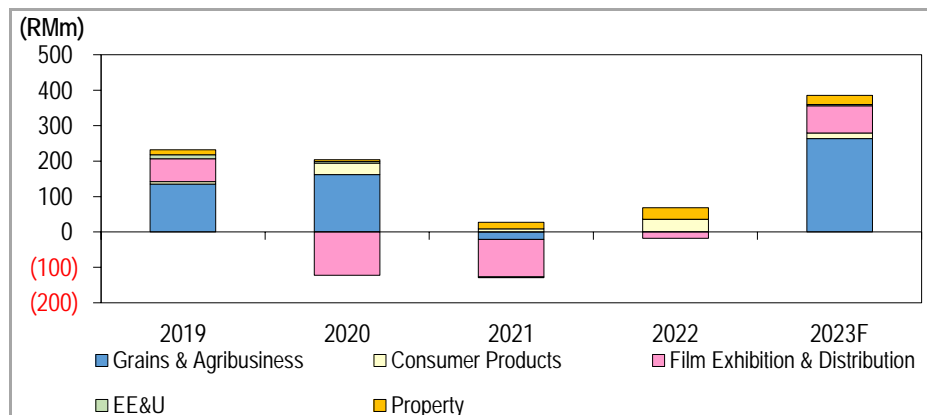
### SHARE PRICE CATALYST

- Higher-than-expected operation margin, especially from its grains and agribusiness segment.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<b>• Environmental</b> <ul style="list-style-type: none"> <li>- Five-year target to reduce the energy-use intensity for flour and feed production by 5% by 2023.</li> <li>- Target to reduce GHG emission of flour and feed mills by 3% by 2025 and 5% by 2031.</li> </ul>
<b>• Social</b> <ul style="list-style-type: none"> <li>- Commenced implementation of Group's Human Rights Policy in its supply chain.</li> <li>- Zero fatalities in all business divisions.</li> </ul>
<b>• Governance</b> <ul style="list-style-type: none"> <li>- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.</li> </ul>

### SEGMENT OPERATING EARNINGS



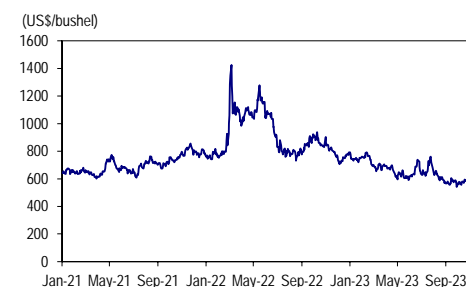
Source: Companies reports, UOB Kay Hian

### SOTP VALUATION

SOTP	PE	(RM/share)
Grains & Agribusiness	38	5.60
Consumer products	38	0.40
Film exhibition & distribution	25	1.30
Property	8	0.10
<b>Stakes in Associates</b>		
Wilmar International		9.70
Malaysian Bulk Carriers		0.04
Fair Value (RM) (rounding off)		17.00

Source: UOB Kay Hian

### WHEAT PRICES ARE SOFTENING



**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	6,151	6,977	7,561	7,910
EBITDA	151	402	371	358
Deprec. & amort.	0	0	0	0
EBIT	151	402	371	358
Associate contributions	2,182	753	1,164	1,442
Net interest income/(expense)	(19)	(42)	(50)	(48)
Pre-tax profit	2,314	1,114	1,486	1,752
Tax	(30)	(15)	(20)	(23)
Minorities	(23)	(38)	(51)	(61)
Net profit	2,261	1,060	1,414	1,668
Net profit (adj.)	2,372	1,060	1,414	1,668

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	(64)	220	233	249
Pre-tax profit	2,250	1,114	1,486	1,752
Tax	(30)	(15)	(20)	(23)
Deprec. & amort.	0	0	0	0
Working capital changes	(116)	(147)	(85)	(51)
Other operating cashflows	(2,169)	(732)	(1,148)	(1,429)
Investing	437	18	159	257
Capex (growth)	(210)	(210)	(210)	(210)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	647	228	369	467
Financing	(400)	(300)	(300)	(299)
Dividend payments	(400)	(300)	(300)	(299)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(27)	(62)	92	207
Beginning cash & cash equivalent	1,292	1,264	1,202	1,296
Changes due to forex impact	323	0	1	2
Ending cash & cash equivalent	1,587	1,202	1,296	1,504

**BALANCE SHEET**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,323	1,533	1,743	1,953
Other LT assets	23,694	24,633	25,083	25,490
Cash/ST investment	1,587	1,202	1,296	1,504
Other current assets	2,329	2,249	2,432	2,542
Total assets	28,933	29,618	30,553	31,489
ST debt	1,279	1,279	1,279	1,279
Other current liabilities	517	299	321	333
LT debt	69	72	73	74
Other LT liabilities	500	500	500	500
Shareholders' equity	25,831	26,693	27,554	28,416
Minority interest	738	776	827	888
Total liabilities & equity	28,933	29,618	30,553	31,489

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	2.5	5.8	4.9	4.5
Pre-tax margin	37.6	16.0	19.6	22.2
Net margin	36.8	15.2	18.7	21.1
Net profit (adj.)	40.5	(55.3)	33.4	17.9
Leverage				
Debt to total capital	4.8	4.7	4.5	4.4
Debt to equity	5.2	5.1	4.9	4.8
Net debt/(cash) to equity	(0.9)	0.6	0.2	(0.5)
Interest cover (x)	8.0	9.7	7.5	7.5

**COMPANY UPDATE**
**First Resources (FR SP)**

3Q23 Preview: Strong Earnings Coming Through

**Upgrade to BUY with the same target price of S\$1.65 given the softer share price performance. We recommend investors to BUY with the CPO uptrend in 4Q23-2024 as we expect FR's 3Q23 earnings to come in strongly at US\$70m-80m. This is on the back of higher upstream margins, thanks to high production, sales volume and lower fertiliser costs. Refining and processing margins may be at breakeven with better pricing and good sales volume.**

**WHAT'S NEW**

• **3Q23 results preview.** We anticipate First Resources (FR) will make a substantial earnings contribution in 2H23, accounting for 60% of our full-year forecast for 2023. This projection is based on anticipated improvements in upstream margins and a decrease in fertiliser pricing. We expect robust earnings in 3Q23, with net profit estimated to be in the range of US\$70m-80m, representing a qoq increase but a yoy decrease (2Q23 core net profit: US\$52m; 3Q22: US\$116m). This positive outlook is primarily attributed to:

- Peak production in 3Q23:** We anticipate that FR's peak production will likely occur in 3Q23, contrary to market expectations of 4Q23. Despite the recent dryness and haze in Indonesia, FR may experience a smaller impact compared with its peers, as the affected areas are primarily located in South Sumatra, South Kalimantan, and Central Kalimantan whereas FR's estates are predominantly situated in Riau (64%), West Kalimantan (25%), and East Kalimantan (11%). With this, we still stick with our FFB production for FR at flat yoy which is in line with management's previous guidance of 0-5% yoy FFB production growth for 2023.
- Lower fertiliser cost:** Fertiliser prices have witnessed a significant decline of approximately 50% compared with Dec 22. This downward trend in fertiliser costs contributes to our expectation of improved operating margins. Furthermore, FR slowed down fertiliser application starting Aug 23 due to drier weather conditions.
- Refining and processing margins improvement:** Recall that FR's refining margin in 1H23 was negative, primarily due to intense pricing competition and domestic market obligations (DMO) commitments. We anticipate that the refining margin in 3Q23 will improve, driven by better selling prices and reduced DMO commitments post Lebaran. Additionally, we expect an enhanced contribution from biodiesel sales volume with higher domestic consumption, owing to a widening palm oil-gasoil spread.

**KEY FINANCIALS**

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,032	1,225	1,250	1,425	1,455
EBITDA	344	425	332	408	361
Operating profit	260	346	258	340	300
Net profit (rep./act.)	161	251	172	229	205
Net profit (adj.)	161	266	172	229	205
EPS (US\$ cent)	10.2	16.7	10.9	14.4	12.9
PE (x)	10.2	6.2	9.6	7.2	8.1
P/B (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	4.4	3.6	4.6	3.7	4.2
Dividend yield (%)	6.6	14.0	7.3	9.7	8.7
Net margin (%)	15.6	20.5	13.8	16.1	14.1
Net debt/(cash) to equity (%)	2.1	(11.0)	(15.1)	(33.5)	(35.7)
Interest cover (x)	25.9	58.4	95.2	186.4	n.a.
ROE (%)	14.3	20.0	12.7	15.8	13.1
Consensus net profit	-	-	178	192	194
UOBKH/Consensus (x)	-	-	0.97	1.19	1.05

Source: First Resources, Bloomberg, UOB Kay Hian

**BUY**

(Upgraded)

Share Price	S\$1.42
Target Price	S\$1.65
Upside	+16.2%

**COMPANY DESCRIPTION**

Business activities include plantation, palm oil mill, refinery, fractionation, biodiesel and kernel crushing plants

**STOCK DATA**

GICS sector	Consumer Staples
Bloomberg ticker:	FR SP
Shares issued (m):	1,566.3
Market cap (S\$m):	2,224.1
Market cap (US\$m):	1,627.8
3-mth avg daily t'over (US\$m):	1.2

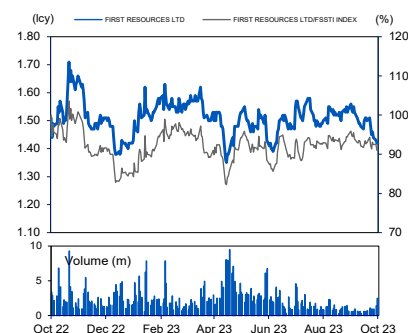
**Price Performance (%)**

52-week high/low S\$1.71/S\$1.35

1mth	3mth	6mth	1yr	YTD
(7.8)	(3.4)	(7.2)	(2.7)	(4.1)

**Major Shareholders**

	%
Eight Capital	66.2
FY23 NAV/Share (US\$)	0.88
FY23 Net Cash/Share (US\$)	0.13

**PRICE CHART**


Source: Bloomberg

**ANALYST(S)**

**Jacquelyn Yow Hui Li**  
 +603 2147 1995  
 jacquelyn@uobkayhian.com

**Leow Huey Chuen**  
 +603 2147 1990  
 hueychuen@uobkayhian.com

### STOCK IMPACT

- **Better sales volume in 2H23.** With the attractive widening of palm oil - gasoil spread, we expect better biodiesel demand in 2H23 and hence higher utilisation rate of FR's biodiesel plant. We expect FR's biodiesel plant to run close to 100%, thanks to strong domestic consumption. On top of that, we expect the CPO sales volume to be high in 2H23, given its attractive pricing. Note that Indonesia's CPO pricing has been very attractive as compared with its Malaysia peers, and the Indonesian domestic CPO pricing has been trading relatively firm thanks to the lower-than-market-expectation supply. With FR selling both crude and refined palm oil products domestically and internationally, we believe that FR would be benefitting directly.
- **4Q23 to be strongest quarter.** Despite 3Q23 having the highest CPO production, we reckon that 4Q23 earnings would be the strongest with higher sales volume and CPO prices being more attractive as compared with other vegoil prices. We also expect higher CPO ASP in 4Q23 with the anticipated worsening of El Nino in Nov/Dec 23.
- **Share buybacks.** FR has been buying 161,500 of its own shares at the purchase price of S\$1.44; such a move signifies the company's confidence in its intrinsic value and its commitment to enhancing shareholder value.

### EARNINGS REVISION/RISK

- **Maintain earnings forecast.** Our net profit forecasts for 2023-25 are at US\$173m, US\$229m and US\$205m respectively.

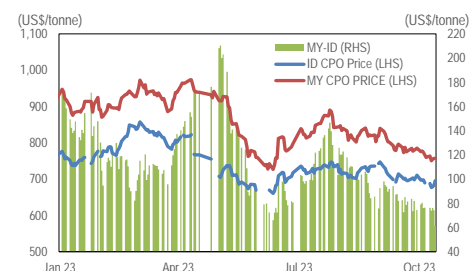
### VALUATION/RECOMMENDATION

- **Upgrade to BUY with the same target price of S\$1.65** with the recent share price correction. FR's share price has dropped by 10% from its recent peak in end-Sep 23 along with the weakening CPO prices (dragged by weak sunflower oil prices and other vegoil prices.)
- We recommend investors to BUY with the upcoming strong earnings as well as our in-house view of the upcoming CPO price uptrend in Nov/Dec 23 towards 2024. We peg our valuation at 8x 2024F PE.

### SHARE PRICE CATALYST

- Stronger-than-expected CPO price recovery.
- Higher-than-expected FFB and CPO production.

### FIRMER INDONESIA CPO SPOT PRICES



Source: UOB Kay Hian, Bloomberg

**PROFIT & LOSS**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	1,225	1,250	1,425	1,455
EBITDA	425	332	408	361
Deprec. & amort.	79	73	67	62
EBIT	346	258	340	300
Total other non-operating income	15	0	0	0
Net interest income/(expense)	(7)	(3)	(2)	3
<b>Pre-tax profit</b>	<b>353</b>	<b>255</b>	<b>338</b>	<b>302</b>
Tax	(88)	(71)	(95)	(85)
Minorities	(14)	(11)	(15)	(13)
<b>Net profit</b>	<b>251</b>	<b>172</b>	<b>229</b>	<b>205</b>
Net profit (adj.)	266	172	229	205

**BALANCE SHEET**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	395	360	330	305
Other LT assets	695	722	733	760
Cash/ST investment	440	492	771	827
Other current assets	302	249	279	295
<b>Total assets</b>	<b>1,833</b>	<b>1,824</b>	<b>2,114</b>	<b>2,188</b>
ST debt	93	93	93	93
Other current liabilities	106	58	63	64
LT debt	202	187	172	157
Other LT liabilities	32	(11)	160	133
Shareholders' equity	1,310	1,396	1,510	1,613
Minority interest	89	100	115	128
<b>Total liabilities &amp; equity</b>	<b>1,833</b>	<b>1,824</b>	<b>2,114</b>	<b>2,188</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>326</b>	<b>282</b>	<b>311</b>	<b>294</b>
Pre-tax profit	428	255	338	302
Tax	(99)	(71)	(95)	(85)
Deprec. & amort.	79	73	67	62
Working capital changes	(99)	2	(25)	(16)
Other operating cashflows	18	23	25	31
<b>Investing</b>	<b>(56)</b>	<b>(43)</b>	<b>(43)</b>	<b>(43)</b>
Capex (growth)	(58)	(44)	(43)	(42)
Capex (maintenance)	(19)	(19)	(19)	(19)
Investments	0	0	0	0
Proceeds from sale of assets	4	5	6	7
Others	21	20	19	18
<b>Financing</b>	<b>(217)</b>	<b>(71)</b>	<b>(100)</b>	<b>(87)</b>
Dividend payments	(87)	(86)	(115)	(102)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	30	30	30
Loan repayment	(114)	(15)	(15)	(15)
Others/interest paid	(16)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>53</b>	<b>167</b>	<b>168</b>	<b>163</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>381</b>	<b>434</b>	<b>601</b>	<b>771</b>
Changes due to forex impact	(4)	(114)	(4)	(114)
<b>Ending cash &amp; cash equivalent</b>	<b>440</b>	<b>492</b>	<b>771</b>	<b>827</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	34.7	26.5	28.6	24.8
Pre-tax margin	28.8	20.4	23.7	20.8
Net margin	20.5	13.8	16.1	14.1
ROA	13.5	9.4	11.6	9.5
ROE	20.0	12.7	15.8	13.1
<b>Growth</b>				
Turnover	18.7	2.0	14.0	2.1
EBITDA	23.3	(21.9)	22.9	(11.3)
Pre-tax profit	43.6	(27.9)	32.8	(10.6)
Net profit	55.8	(31.3)	32.8	(10.6)
Net profit (adj.)	64.8	(35.1)	32.8	(10.6)
EPS	64.8	(35.1)	32.7	(10.7)
<b>Leverage</b>				
Debt to total capital	17.5	15.8	14.1	12.6
Debt to equity	22.6	20.1	17.6	15.5
Net debt/(cash) to equity	(11.0)	(15.1)	(33.5)	(35.7)
Interest cover (x)	58.4	95.2	186.4	n.a.

## COMPANY RESULTS

### SCGP (SCGP TB)

3Q23: Net Profit In Line With Our Expectations

SCGP's 3Q23 net profit decreased both qoq and yoy, in line with our expectations. This decline can be attributed to a reduction in ASP and increased maintenance costs. However, production costs fell, allowing for a stable and high gross profit margin. We have adjusted our net profit forecasts for 2023-24 downwards. We maintain a positive outlook on 4Q23 net profit, and expect it to increase qoq and yoy due to seasonal demand. Maintain BUY. Target price: Bt50.00.

#### 3Q23 RESULTS

Year to 31 Dec	3Q22 (Btm)	2Q23 (Btm)	3Q23 (Btm)	% chg yoy	% chg qoq	9M22	9M23	% chg yoy
Revenue	37,943	32,216	31,573	-17%	-2%	112,559	97,517	-13%
EBITDA	4,826	4,405	3,994	-17%	-9%	14,313	12,484	-13%
Operating Profit	2,348	2,112	1,784	-24%	-16%	7,124	5,624	-21%
Interest expenses	404	510	496			1,001	1,503	
Norm. Income	1,532	1,370	1,413	-8%	3%	5,160	3,966	-23%
Net Income	1,837	1,485	1,324	-28%	-11%	5,351	4,030	-25%
EPS	0.43	0.73	0.65	52%	-11%	1.25	1.66	33%
<b>Financial ratio (%)</b>								
Gross Profit Margin	17%	18%	18%			17%	18%	
EBITDA Margin	13%	14%	13%			13%	13%	
SG&A Exp. / Sales	11%	12%	12%			11%	12%	
Net profit margin	5%	5%	4%			5%	4%	

Source: SCGP, UOB Kay Hian

## RESULTS

• **SCGP's reported 3Q23 net profit decreased both qoq and yoy.** SCGP reported a 3Q23 net profit of Bt1.3b, in line with our expectations, down 11% qoq and 28% yoy. Adverse influences impacting the operational outcomes stem from reduced average selling prices (ASP) across both the Integrated Packaging Business (IPB) and Fibrous Business (FB). Consequently, the ASP of products for 3Q23 stood at Bt23.4/kg, down 3% qoq and 16% yoy. Additionally, operating expenses escalated due to the planned major annual maintenance in the FB, amounting to Bt110m. Nonetheless, production costs continued to fall due to lower recycled paper and coal prices. Consequently, SCGP maintained a gross profit margin (GPM) of 18%, (vs 17% in 3Q22 and 2Q23). Sales remained stable both qoq and yoy, totalling 1.35m tonnes. 9M23 net profit amounted to Bt4.0b, a 25% yoy decrease.

## KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	124,223	146,068	135,815	142,903	156,459
EBITDA	20,833	19,259	21,194	22,870	22,635
Operating profit	12,518	9,560	9,173	10,584	11,429
Net profit (rep./act.)	8,294	5,801	5,546	6,504	7,104
Net profit (adj.)	7,977	5,658	5,546	6,504	7,104
EPS (Bt)	1.9	1.3	1.3	1.5	1.7
PE (x)	18.6	26.2	26.7	22.8	20.8
P/B (x)	2.6	2.5	2.4	2.2	2.1
EV/EBITDA (x)	7.9	8.6	7.8	7.2	7.3
Dividend yield (%)	1.9	1.7	1.6	2.0	2.1
Net margin (%)	6.7	4.0	4.1	4.6	4.5
Net debt/(cash) to equity (%)	33.4	40.2	27.3	26.2	25.5
Interest cover (x)	17.7	13.1	13.9	13.2	13.0
Consensus net profit	-	-	5,966	7,208	8,393
UOBKH/Consensus (x)	-	-	0.93	0.90	0.85

Source: SCGP, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Bt34.50
Target Price	Bt50.00
Upside	+44.9%
(Previously	Bt59.00)

## COMPANY DESCRIPTION

SCGP is Holding Company, operating core business as an integrated packaging solutions provider, which is organized into three main businesses: Integrated Packaging Business, Fibrous Business, and Recycling Business.

## STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCGP TB
Shares issued (m):	4,292.9
Market cap (Btm):	148,105.7
Market cap (US\$m):	4,094.8
3-mth avg daily t'over (US\$m):	12.7

## Price Performance (%)

52-week high/low Bt60.00/Bt34.50

1mth	3mth	6mth	1yr	YTD
(15.9)	(10.4)	(18.8)	(34.6)	(39.5)

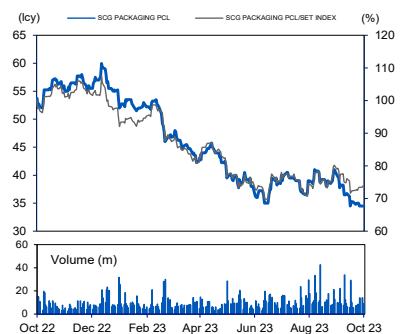
## Major Shareholders

	%
-	-
-	-
-	-

FY23 NAV/Share (Bt) 14.61

FY23 Net Debt/Share (Bt) 3.99

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

**Tanaporn Visaruthaphong**

+662 659 8305

tanaporn@uobkayhian.co.th

**Benjaphol Suthwanish**

+662 659 8301

benjaphol@uobkayhian.co.th



## KEY PERFORMANCE

	3Q22	2Q23	3Q23	% chg yoy	% chg qoq	9M22	9M23	% chg yoy
Sales Volume (mTons)	1.36	1.34	1.35	-0.7%	0.9%	4.45	4.09	-8.0%
Spread (US\$/Ton) - Testliner - AOCC	280	239	203	-27.5%	-15.1%	260	229	-12.1%
Average selling Price (US\$/Ton)	27.9	24.1	23.4	-16.2%	-2.9%	25	24	-6.2%
Coal Price (US\$/Tons)	120	87	72	-40.0%	-17.2%	128	86	-32.7%

Source: SCGP, UOB Kay Hian

• **IPB's net profit continued to increase both qoq and yoy.** The IPB reported a total EBITDA of Bt1.4b, stable qoq but declining by 7% yoy. Total revenue decreased both qoq and yoy, primarily attributed to lower sales prices of packaging paper, particularly in Indonesia, where intense price competition is prevalent. Despite this, total sales increased by 2% qoq. Production costs for both recovered paper (RCP) and fuel costs continued to decrease, resulting in the IPB Business achieving an EBITDA margin of 15.4%, (vs 13.4% in 3Q22 and 15.0% in 2Q23). Furthermore, the IPB secured a net profit of Bt1.4b, up 11% qoq and 8% yoy.

• **Sales in FB declined while expenses increased.** The total income declined 4% both qoq and yoy due to a decrease in selling prices, in line with the global market. Additionally, sales decreased because SCGP had to temporarily halt machinery for annual maintenance, resulting in increased expenses of approximately Bt110m in 3Q23. This situation led to the FB having an EBITDA margin of 13.0% (vs 18.7% in 3Q22 and 16.1% in 2Q23). In contrast, the FB remained profitable, with a net profit of Bt228m, down 46% qoq and 60% yoy.

## STOCK IMPACT

• **The recovery in regional demand is expected to support 4Q23 net profit, enabling it to rebound both qoq and yoy.** We anticipate that in 4Q23, sales volume and ASP will increase in response to seasonal demand. This growth is expected especially in the consumer packaging group, encompassing both fibre and polymer packaging, particularly in the food and beverage product category, as well as consumer products in the region. The recovery of the tourism sector is also expected to contribute to this trend. Furthermore, total sales will benefit from the absence of production capacity shutdowns and maintenance expenses, as experienced in 3Q23. As an initial projection, we expect the 4Q23 net profit to range from Bt1.45b to Bt1.50b, increasing both qoq and yoy.

• **Total sales in 2023 could fall short of SCGP's sales target.** Previously, SCGP had initially set a total sales target of Bt160b for 2023. However, due to a slower-than-expected demand recovery and intense price competition in Indonesia, it is now anticipated that total sales for 2023 will not meet the sales target. Nevertheless, the recovery of total income is being bolstered by robust regional demand. As a result, SCGP remains optimistic that total revenue in 2024 will bounce back, approaching the 2022 figure of Bt146b.

## EARNINGS REVISION/RISK

• **We have revised our net profit projections for 2023 and 2024,** lowering them by 14% and 15% respectively. Our forecast for total sales and ASP in 2023-24 has been revised. As a result, we anticipate a net profit of Bt5.5b for 2023, down 4.4% yoy, and a net profit of Bt6.5b for 2024, up 17% yoy. We anticipate that the total revenue for 2023 will amount to Bt136b and reach Bt143b for 2024. Notably, the net profit for 9M23 is expected to make up 73% of the total net profit estimate for 2023.

## VALUATION/RECOMMENDATION

• **We maintain BUY with a new target price of Bt50.00 (previously: Bt59.00),** based on SCGP's forward PE of 33x.

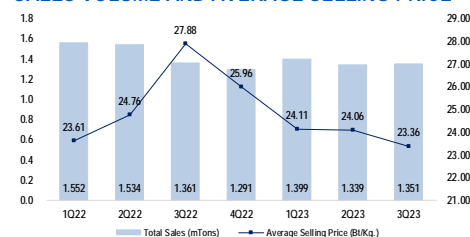
• We maintain an optimistic outlook on SCGP for several reasons. Firstly, we anticipate a return to qoq and yoy net profit growth in 4Q23, and further expect a 17% yoy increase in net profit for 2024. This is driven by SCGP's advantageous business structure as an IPB and its expansion through mergers and partnerships (M&P) both domestically and internationally to enhance its competitive capabilities. This is particularly notable in regions with high growth potential like Thailand and Vietnam. Secondly, the stock price in 2023 has experienced a decline of over 40% ytd, presenting a current upside potential of more than 45%, making it an attractive valuation prospect.

## KEY ASSUMPTION

	--- 2023 ---		%Chg.	--- 2024 ---		%Chg.
	Old	New		Old	New	
Total Sales (m. tons)	5.8	5.4	-7%	6.2	5.8	-6%
Average Selling Price (Bt/Kg.)	25.6	23.6	-8%	26.6	25.0	-6%
Net Profit (MB)	6,448	5,546	-14%	7,689	6,504	-15%

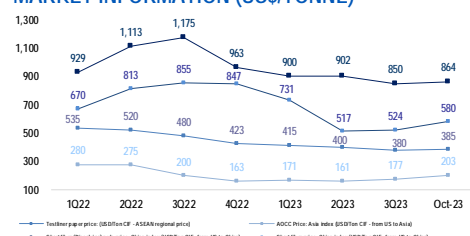
Source: SCGP and UOB Kay Hian

## SALES VOLUME AND AVERAGE SELLING PRICE



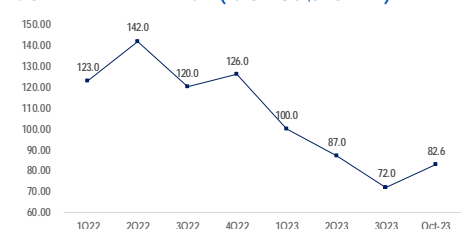
Source: SCGP and UOB Kay Hian

## MARKET INFORMATION (US\$/TONNE)



Source: SCGP and UOB Kay Hian

## COAL MARKET PRICE (IC13\*: US\$/TONNE)



\*Indonesian Coal Price Index (IC13 - FOB Indonesian port)

Source: SCGP, Bloomberg and UOB Kay Hian

## FORWARD PE



Source: Bloomberg and UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	146,068	135,815	142,903	156,459
EBITDA	19,259	21,194	22,870	22,635
Deprec. & amort.	9,699	12,021	12,286	11,206
EBIT	9,560	9,173	10,584	11,429
Associate contributions	55	50	50	50
Net interest income/(expense)	(1,468)	(1,523)	(1,726)	(1,748)
<b>Pre-tax profit</b>	<b>8,289</b>	<b>7,700</b>	<b>8,908</b>	<b>9,731</b>
Tax	(1,550)	(1,309)	(1,514)	(1,654)
Minorities	(939)	(845)	(889)	(973)
<b>Net profit</b>	<b>5,801</b>	<b>5,546</b>	<b>6,504</b>	<b>7,104</b>
Net profit (adj.)	5,658	5,546	6,504	7,104

**CASH FLOW**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>17,234</b>	<b>31,052</b>	<b>20,683</b>	<b>19,512</b>
Pre-tax profit	8,289	7,700	8,908	9,731
Tax	(1,550)	(1,309)	(1,514)	(1,654)
Deprec. & amort.	9,699	12,021	12,286	11,206
Working capital changes	(326)	12,640	1,003	229
Other operating cashflows	1,122	0	0	0
<b>Investing</b>	<b>(3,119)</b>	<b>(20,413)</b>	<b>(16,145)</b>	<b>(4,707)</b>
Investments	(6,862)	(22,644)	(14,603)	(1,757)
Others	3,742	2,231	(1,542)	(2,950)
<b>Financing</b>	<b>(11,602)</b>	<b>(5,889)</b>	<b>(6,900)</b>	<b>(17,394)</b>
Dividend payments	(3,612)	(2,576)	(2,400)	(2,894)
Issue of shares	0	0	0	0
Proceeds from borrowings	(7,990)	(3,313)	(4,500)	(14,500)
<b>Net cash inflow (outflow)</b>	<b>2,513</b>	<b>4,750</b>	<b>(2,363)</b>	<b>(2,589)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>7,310</b>	<b>9,966</b>	<b>14,716</b>	<b>12,353</b>
Changes due to forex impact	143	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>9,966</b>	<b>14,716</b>	<b>12,353</b>	<b>9,764</b>

**BALANCE SHEET**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	94,585	105,208	107,525	98,076
Other LT assets	42,540	39,679	41,657	45,440
Cash/ST investment	9,966	14,716	12,353	9,764
Other current assets	50,189	35,828	35,752	37,275
<b>Total assets</b>	<b>197,280</b>	<b>195,431</b>	<b>197,287</b>	<b>190,555</b>
ST debt	2,158	2,000	2,000	2,000
Other current liabilities	31,321	28,445	26,873	16,124
LT debt	31,856	29,856	27,856	25,856
Other LT liabilities	8,979	8,348	8,784	9,617
Shareholders' equity	59,769	62,739	66,844	71,053
<b>Total liabilities &amp; equity</b>	<b>197,280</b>	<b>195,431</b>	<b>197,287</b>	<b>190,555</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	13.2	15.6	16.0	14.5
Pre-tax margin	5.7	5.7	6.2	6.2
Net margin	4.0	4.1	4.6	4.5
Net profit (adj.)	(29.1)	(2.0)	17.3	9.2
<b>Leverage</b>				
Debt to total capital	21.7	20.1	18.5	16.9
Debt to equity	56.9	50.8	44.7	39.2
Net debt/(cash) to equity	40.2	27.3	26.2	25.5
Interest cover (x)	13.1	13.9	13.2	13.0

## COMPANY UPDATE

### Central Plaza Hotel (CENTEL TB)

Earnings Bottom Out; Expect Hotels In Upcountry Thailand To Outperform

**3Q23 earnings should come in at Bt132m (+2,127% yoy, +47% qoq), driven by RevPar growing 38% yoy and 6% qoq, 3% above pre-COVID-19 levels. Looking ahead, hotels in upcountry Thailand will outperform in 4Q23 and 1Q24, benefitting from seasonal factors and changes in the mix of tourist nationalities. We believe the stock price has limited downside risk due to expectations of a strong earnings performance in the next two quarters. Upgrade to BUY. Target price: Bt52.00.**

#### 3Q23 EARNINGS PREVIEW

Year to 31 Dec (Btm)	3Q22	2Q23	3Q23F	yoy (%)	qoq (%)
Hotel revenue	1,489	1,892	2,006	34.7	6.0
Food revenue	2,941	3,166	3,150	7.1	(0.5)
Total revenue	4,430	5,057	5,156	16.4	1.9
Gross profit	1,760	2,012	2,109	19.8	4.8
SG&A	1,605	1,800	1,814	13.0	0.8
Operating EBIT	254	327	395	55.8	20.9
Operating EBITDA	1,047	1,096	1,215	16.1	10.9
Core profit	6	90	132	2,126.8	46.5
Net profit	(78)	121	132	269.4	9.6
(%)	3Q22	2Q23	3Q23F	yoy (ppts)	qoq (ppts)
Gross margin	39.7	39.8	40.9	1.2	1.1
SG&A to sales	36.2	35.6	35.2	(1.1)	(0.4)
EBIT margin	5.7	6.5	7.7	1.9	1.2
EBITDA margin	23.6	21.7	23.6	0.0	1.9
Core profit margin	0.1	1.8	2.6	2.4	0.8
Net profit margin	(1.8)	2.4	2.6	4.3	0.2

Source: CENTEL, UOB Kay Hian

#### WHAT'S NEW

- **Improvement in 3Q23 earnings.** We expect Central Plaza Hotel (CENTEL) to report 3Q23 earnings at Bt132m, (+2,127% yoy, +47% qoq). The substantial yoy earnings growth is primarily attributed to the robust hotel performance, thanks to the easing of COVID-19 restrictions and improved travel mobility. Additionally, the expected qoq earnings growth should be driven by: a) an increase in international tourists visiting Thailand, resulting in a strong hotel performance, especially in Bangkok; and b) the impressive performance of a new hotel in Japan; therefore, hotel operation should reach breakeven in 3Q23.

#### KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	11,528.5	18,036.3	22,506.6	25,292.6	28,123.5
EBITDA	2,007.7	4,184.3	5,753.8	6,775.5	7,536.6
Operating profit	(1,159.8)	1,051.7	2,440.8	3,266.1	3,785.2
Net profit (rep./act.)	(1,733.2)	398.1	1,335.2	1,965.0	2,328.6
Net profit (adj.)	(1,733.2)	398.1	1,335.2	1,965.0	2,328.6
EPS (Bt)	(1.3)	0.3	1.0	1.5	1.7
PE (x)	n.m.	153.5	45.8	31.1	26.2
P/B (x)	3.4	3.3	3.1	2.9	2.7
EV/EBITDA (x)	42.8	20.5	14.9	12.7	11.4
Dividend yield (%)	0.0	0.0	0.9	1.3	1.5
Net margin (%)	(15.0)	2.2	5.9	7.8	8.3
Net debt/(cash) to equity (%)	115.5	104.4	122.7	118.2	108.1
Interest cover (x)	3.3	7.7	6.8	7.4	7.7
ROE (%)	n.a.	2.2	7.0	9.6	10.6
Consensus net profit	-	-	1,487	2,137	2,552
UOBKH/Consensus (x)	-	-	0.90	0.92	0.91

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

## BUY

(Upgraded)

Share Price	Bt43.75
Target Price	Bt52.00
Upside	+18.9%
(Previous TP)	Bt50.00)

#### COMPANY DESCRIPTION

CENTEL is a leading hotel operator both in Thailand and overseas, as well as in the quick service restaurant industry in Thailand. CENTEL is part of the Central Group.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	CENTEL TB
Shares issued (m):	1,350.0
Market cap (Btm):	61,087.5
Market cap (US\$m):	1,683.2
3-mth avg daily t'over (US\$m):	7.1

#### Price Performance (%)

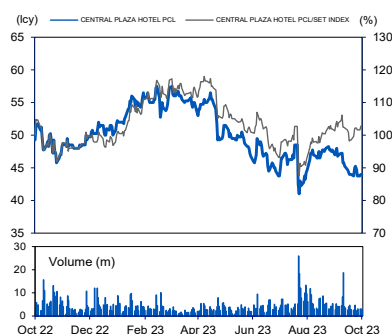
52-week high/low			Bt57.50/Bt41.00	
1mth	3mth	6mth	1yr	YTD
(6.2)	(0.5)	(17.4)	(8.6)	(10.0)

#### Major Shareholders

	%
Chirathivat Family	64.0
Local Investors	26.0
Foreign Investors	10.0

FY23 NAV/Share (Bt)	14.71
FY23 Net Debt/Share (Bt)	18.05

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Kochakorn Sutaruksanon**  
+662 090 8303  
kochakorn@uobkayhian.co.th

- **The key driver comes from hotel operations.** We expect total sales will reach Bt5.2b (+16% yoy, +2% qoq), primarily driven by the hotel operation. Hotel sales are expected to show yoy and qoq growth, reaching Bt2.0b (+35% yoy, +6% qoq). Despite the weak hotel performance in Maldives (accounting for 18% of hotel revenue contribution in 1H23), this is offset by improved hotel performance in Thailand, especially in Bangkok. Additionally, the performance of a new hotel in Japan (opened on 1 Jul 23) has been impressive, with an occupancy rate of 67% (vs typical occupancy rate of 80-85%). Therefore, RevPar of the hotel portfolio should increase by 38% yoy and 6% qoq, 3% above pre-COVID-19 levels. Meanwhile, food sales are projected to increase slightly yoy and remain flat qoq, reaching Bt3.2b (+7% yoy, 0% qoq). We expect the same-store-sales growth (SSSG) to remain flat yoy and the total same-store-sales growth (TSSG) to rise marginally by 3% yoy.

#### KEY STATISTICS

Hotel Stats	3Q19	3Q22	4Q22	1Q23	2Q23	3Q23	yoy chg	qoq chg	To 2019
Occ (%) - BKK	78.3%	66.0%	71.0%	73.0%	72.0%	77.0%	11.0 ppt	5.0 ppt	-1.3 ppt
Occ (%) - Upcountry	72.6%	46.0%	64.0%	78.0%	62.0%	64.0%	18.0 ppt	2.0 ppt	-8.6 ppt
Occ (%) - Maldives	77.0%	52.0%	68.0%	89.0%	56.0%	70.0%	18.0 ppt	14.0 ppt	-7.0 ppt
Occ (%) - Japan						67.0%			
Occ (%) - Avg	74.7%	55.0%	66.3%	77.2%	64.6%	68.3%	13.3 ppt	3.7 ppt	-6.4 ppt
ADR - BKK	2,811	3,559	4,028	3,882	3,791	3,832	7.7%	1.1%	36.3%
ADR - Upcountry	3,190	3,646	4,065	4,703	3,957	4,074	11.7%	3.0%	27.7%
ADR - Maldives	14,880	12,627	15,634	16,151	12,361	9,558	-24.3%	-22.7%	-35.8%
ADR - Japan						6,582			
ADR - Avg	3,825	4,122	4,728	5,223	4,314	4,330	5.0%	0.4%	113.2%
RevPar - BKK	2,200	2,331	2,844	2,849	2,733	2,951	26.6%	8.0%	134.1%
RevPar - Upcountry	2,317	1,684	2,595	3,654	2,462	2,607	54.8%	5.9%	112.5%
RevPar - Maldives	11,461	6,556	10,615	14,295	6,896	6,691	2.1%	-3.0%	58.4%
RevPar - Japan						4,410			
RevPar - Avg	2,858	2,148	3,122	4,025	2,792	2,956	37.6%	5.9%	103.4%
Food Stats	3Q19	3Q22	4Q22	1Q23	2Q23	3Q23	yoy chg	qoq chg	
SSSG (%)	-8%	43%	12%	8%	5%	0%	-43.0 ppt	-5.0 ppt	
TSSG (%)	-1.0%	51.0%	18.0%	15.0%	10.0%	3.0%	-48.0 ppt	-7.0 ppt	
No. of outlets	1,029	1,439	1,472	1,599	1,590	1,590	10.5%	0.0%	

Source: CENTEL, UOB Kay Hian

#### STOCK IMPACT

- **Increasing popularity of hotels in upcountry Thailand during 4Q23 and 1Q24.** According to the Ministry of Tourism and Sports in Thailand, the recovery rate of foreign visitors in Bangkok slightly declined from 7% above pre-COVID-19 levels in 2Q23 to 5% below pre-COVID-19 levels in Jul and Aug 23. On the other hand, the recovery rate of foreign visitors in upcountry Thailand continued to rise, from 21% below pre-COVID-19 levels in 2Q23 to just 6% below pre-COVID-19 levels in Jul and Aug 23. This can be attributed to the seasonal impact and the change in the mix of tourist nationalities. Therefore, it is likely that foreign tourists will choose to travel in upcountry Thailand during 4Q23 and 1Q24, resulting in outperformance for hotels in upcountry.

#### EARNINGS REVISION/RISK

- **None**

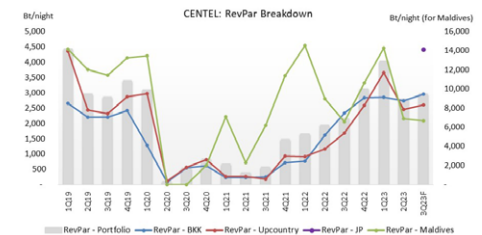
#### VALUATION/RECOMMENDATION

- **Upgrade to BUY with a higher target price of Bt52.00.** We roll over our target price to 2024 and de-rate the EV/EBITDA multiple to 14x, or at mean historical trading levels, to reflect the slower growth rate due to the high base (2023 earnings growth: +235% yoy, 2024 earnings growth +47% yoy). Stock price declined by 22% after we downgraded the recommendation. We believe the stock price has already factored in the negatives, and therefore, the downside risk is limited. Furthermore, we believe its earnings already reached its bottom in 2Q23 and are likely to outperform in 4Q23 and 1Q24, thanks to seasonal impacts and the increasing popularity of hotels in upcountry.

#### SHARE PRICE CATALYST

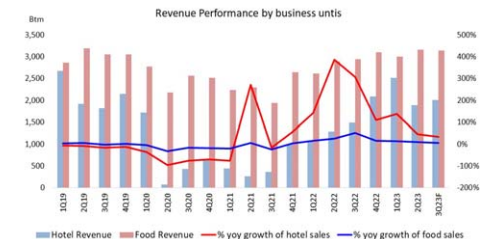
- Weak performance of hotels in Maldives; the end of the travel revenge trend, sluggish travel demand from China; and the Israel-Hamas conflict.

#### REVPAR PERFORMANCE



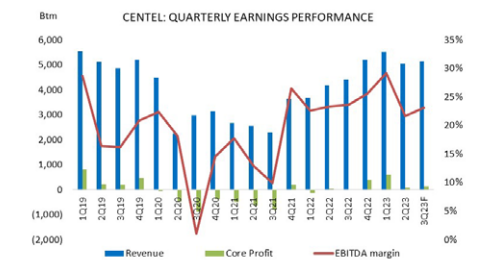
Source: CENTEL, UOB Kay Hian

#### REVENUE BREAKDOWN



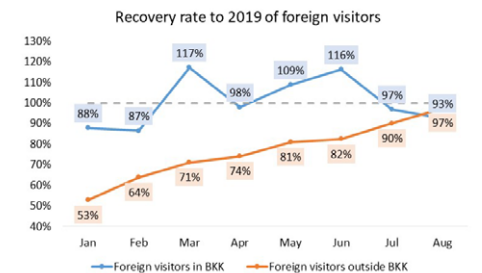
Source: CENTEL, UOB Kay Hian

#### EARNINGS PERFORMANCE



Source: CENTEL, UOB Kay Hian

#### FOREIGN VISITOR'S RECOVERY RATE



Source: MOTs, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	18,036	22,507	25,293	28,123
EBITDA	4,184	5,754	6,776	7,537
Deprec. & amort.	3,133	3,313	3,509	3,751
EBIT	1,052	2,441	3,266	3,785
Total other non-operating income	0	0	0	0
Associate contributions	(44)	40	70	72
Net interest income/(expense)	(547)	(851)	(913)	(983)
Pre-tax profit	552	1,629	2,423	2,874
Tax	(138)	(238)	(377)	(448)
Minorities	(16)	(56)	(82)	(97)
Net profit	398	1,335	1,965	2,329
Net profit (adj.)	398	1,335	1,965	2,329

**CASH FLOW**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	3,602	4,882	5,439	6,463
Pre-tax profit	552	1,629	2,423	2,874
Tax	(138)	(238)	(377)	(448)
Deprec. & amort.	3,133	3,313	3,509	3,751
Working capital changes	88	91	(63)	388
Non-cash items	(34)	88	(54)	(102)
Other operating cashflows	1	(1)	0	0
Investing	(2,101)	(9,917)	(5,692)	(5,192)
Capex (growth)	(1,274)	(9,977)	(5,659)	(5,754)
Investments	(815)	(16)	(28)	(29)
Others	(12)	76	(5)	591
Financing	(1,719)	4,126	841	424
Dividend payments	0	0	(534)	(786)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1,762)	4,126	1,375	1,210
Others/interest paid	44	0	0	0
Net cash inflow (outflow)	(218)	(909)	588	1,695
Beginning cash & cash equivalent	3,370	3,152	2,243	2,831
Ending cash & cash equivalent	3,152	2,243	2,831	4,527

**BALANCE SHEET**

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	35,867	42,531	44,681	46,684
Other LT assets	5,984	6,056	6,219	6,571
Cash/ST investment	3,152	2,243	2,831	4,527
Other current assets	3,163	2,776	3,091	3,744
Total assets	48,166	53,607	56,823	61,525
ST debt	7,325	5,210	5,210	5,210
Other current liabilities	3,843	3,635	3,833	4,771
LT debt	15,156	21,397	22,772	23,982
Other LT liabilities	2,952	3,084	3,215	4,129
Shareholders' equity	18,518	19,853	21,284	22,827
Minority interest	373	427	509	606
Total liabilities & equity	48,166	53,607	56,823	61,525

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	23.2	25.6	26.8	26.8
Pre-tax margin	3.1	7.2	9.6	10.2
Net margin	2.2	5.9	7.8	8.3
ROA	0.8	2.6	3.6	3.9
ROE	2.2	7.0	9.6	10.6
Growth				
Turnover	56.4	24.8	12.4	11.2
EBITDA	108.4	37.5	17.8	11.2
Pre-tax profit	n.a.	195.0	48.7	18.6
Net profit	n.a.	235.4	47.2	18.5
Net profit (adj.)	n.a.	235.4	47.2	18.5
EPS	n.a.	235.4	47.2	18.5
Leverage				
Debt to total capital	54.3	56.7	56.2	55.5
Debt to equity	121.4	134.0	131.5	127.9
Net debt/(cash) to equity	104.4	122.7	118.2	108.1
Interest cover (x)	7.7	6.8	7.4	7.7



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