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Better long-term outlook but under pressure in the short term.

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KEY INDICES

| | Prev Close | 1D % | 1W % | 1M % | YTD % |
|------------------------|------------|-------|-------|-------|--------|
| DJIA | 33670.3 | 0.1 | 0.8 | (2.7) | 1.6 |
| S&P 500 | 4327.8 | (0.5) | 0.4 | (2.8) | 12.7 |
| FTSE 100 | 7599.6 | (0.6) | 1.4 | (1.4) | 2.0 |
| AS30 | 7243.5 | (0.6) | 1.4 | (3.2) | 0.3 |
| CSI 300 | 3663.4 | (1.1) | (0.7) | (1.2) | (5.4) |
| FSSTI | 3185.8 | (1.0) | 0.4 | (2.9) | (2.0) |
| HSCEI | 6115.9 | (2.4) | 2.4 | (3.1) | (8.8) |
| HSI | 17813.5 | (2.3) | 1.9 | (2.0) | (9.9) |
| JCI | 6926.8 | (0.1) | 0.6 | (0.8) | 1.1 |
| KLCI | 1444.1 | 0.0 | 1.9 | (1.0) | (3.4) |
| KOSPI | 2456.2 | (1.0) | 2.2 | (5.6) | 9.8 |
| Nikkei 225 | 32316.0 | (0.5) | 4.0 | (3.6) | 23.8 |
| SET | 1450.8 | (0.4) | (0.1) | (5.5) | (13.1) |
| TWSE | 16782.6 | (0.3) | 3.1 | (0.8) | 18.7 |
| BDI | 1945 | 0.5 | 0.8 | 40.8 | 28.4 |
| CPO (RM/mt) | 3570 | 0.2 | (1.4) | (2.2) | (11.8) |
| Brent Crude (US\$/bbl) | 91 | 5.7 | 7.5 | (1.1) | 5.8 |

Source: Bloomberg

TOP PICKS

| Ticker | CP (1cy) | TP (1cy) | Pot. +/- (%) | |
|-------------------|-----------|----------|--------------|-------|
| BUY | | | | |
| BYD | 1211 HK | 243.40 | 590.00 | 142.4 |
| China Duty Free | 601888 CH | 97.18 | 138.00 | 42.0 |
| Bank Neo Commerce | BBYB IJ | 278.00 | 390.00 | 40.3 |
| Bumi Serpong | BSDE IJ | 1,055.00 | 1,420.00 | 34.6 |
| HM Sampoerna | HMSP IJ | 855.00 | 1,300.00 | 52.0 |
| My EG Services | MYEG MK | 0.82 | 1.18 | 43.9 |
| Yinson | YNS MK | 2.44 | 3.75 | 53.7 |
| OCBC | OCBC SP | 12.98 | 18.22 | 40.4 |
| CP ALL | CPALL TB | 59.50 | 78.00 | 31.1 |
| Indorama | IVL TB | 25.75 | 30.00 | 16.5 |

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 |
|---|-----------|--------|--------|
| Analyst Marketing on Singapore Tech and Mid Caps | Malaysia | 17 Oct | 19 Oct |
| Virtual Meeting with China Overseas Land & Investment Ltd (688 HK) | Hong Kong | 18 Oct | 18 Oct |
| Post 3Q2023 Results Virtual Meeting with Keppel Pacific Oak US REIT (KORE SP) | Singapore | 19 Oct | 19 Oct |
| 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 |

ECONOMICS – CHINA

Inflation

Sep 23 CPI Inflation Lower On Moderating Food Inflation

Both CPI and PPI inflation came in slightly below expectations in September, at 0.0% yoy and -2.5% yoy respectively. However, CPI was still 0.2% higher mom, driven by higher energy cost and apparel prices, but travel-related costs fell as the summer holidays came to an end. The easing decline in upstream inflation was mainly driven by higher global commodity prices and should allay some concerns of renewed deflationary pressure.

OUR VIEWS

- **September consumer price inflation came in at 0.0% yoy**, below Bloomberg consensus forecast of 0.2% yoy and above August's 0.1% yoy. Both services and core inflation held steady on a yoy basis, while goods CPI and food CPI inflation fell to -0.9% yoy and -3.2% yoy respectively. That said, the headline CPI is still up 0.2% mom, driven by higher energy cost and apparel prices, but travel related cost fell mom with the end of summer holidays.
- **PPI fell 2.5% yoy**, over the same period, below Bloomberg consensus forecast of -2.4% yoy, but better than August's -3.0% yoy. The decline in producer goods PPI moderated to -3.0% yoy, helped by smaller yoy declines in global commodity prices. The latter, if sustained, should lead to further moderation in downside pressure on producer goods PPI. On the production end, consumer goods PPI inflation only eased slightly to -0.3% yoy, from -0.2% yoy the month before. Overall, the inflation data points to possible stabilisation of demand, after a series of weaker macro data releases.

CPI

| (yoy % chg) | Sep 23 | ppt chg | Aug 23 | Jul 23 |
|---|--------|---------|--------|--------|
| Headline CPI | 0.0 | -0.1 | 0.1 | -0.3 |
| Food | -3.2 | -1.5 | -1.7 | -1.7 |
| Core CPI | 0.8 | 0.0 | 0.8 | 0.8 |
| Goods | -0.9 | -0.2 | -0.7 | -1.3 |
| Services | 1.3 | 0.0 | 1.3 | 1.2 |
| Food, Tobacco And Liquor | -1.5 | -1.0 | -0.5 | -0.5 |
| Clothing | 1.1 | 0.0 | 1.1 | 1.0 |
| Residence | 0.2 | 0.1 | 0.1 | 0.1 |
| Daily Necessities And Services | -0.4 | 0.1 | -0.5 | -0.2 |
| Transportation And Communication | -1.3 | 0.8 | -2.1 | -4.7 |
| Recreational, Educational And Cultural Articles | 2.5 | 0.0 | 2.5 | 2.4 |
| Medical-Related Articles | 1.3 | 0.1 | 1.2 | 1.2 |
| Other Products And Services | 3.9 | 0.1 | 3.8 | 4.1 |

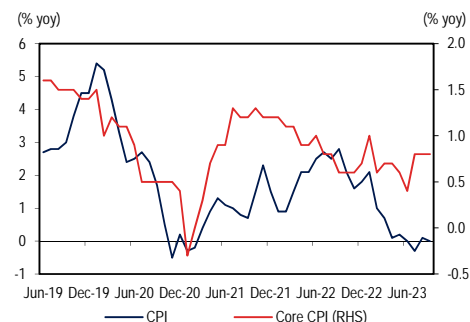
Source: NBS, Wind, UOB Kay Hian

PPI

| (yoy % chg) | Sep 23 | ppt chg | Aug 23 | Jul 23 |
|--|--------|---------|--------|--------|
| Headline PPI | -2.5 | 0.5 | -3.0 | -4.4 |
| Producer Goods | -3.0 | 0.7 | -3.7 | -5.5 |
| Mining And Quarrying | -7.4 | 2.5 | -9.9 | -14.7 |
| Raw Materials | -2.8 | 1.2 | -4.0 | -7.6 |
| Processing | -2.8 | 0.3 | -3.1 | -3.8 |
| Consumer Goods | -0.3 | -0.1 | -0.2 | -0.4 |
| Food | -0.3 | -0.1 | -0.2 | -0.9 |
| Clothing | 0.8 | -0.2 | 1.0 | 1.5 |
| Articles For Daily Use | 0.7 | 0.1 | 0.6 | 0.8 |
| Durable Consumer Goods | -1.2 | 0.0 | -1.2 | -1.5 |
| Purchasing Price Index | -3.6 | 1.0 | -4.6 | -6.1 |
| Fuel And Power | -7.0 | 2.1 | -9.1 | -12.2 |
| Ferrous Metal Materials | -3.4 | 2.2 | -5.6 | -8.1 |
| Non-Ferrous Metal Materials And Wires | 4.2 | 1.6 | 2.6 | -0.1 |
| Chemical Raw Materials | -7.3 | 3.1 | -10.4 | -13.3 |
| Wood And Pulp | -7.1 | -0.5 | -6.6 | -5.9 |
| Building Materials And Non-Metallic | -6.6 | -0.6 | -6.0 | -5.6 |
| Other Industrial Raw Materials And Semi-Products | -1.8 | 0.0 | -1.8 | -1.8 |
| Agricultural And Sideline Products | -4.2 | -0.5 | -3.7 | -5.6 |
| Textile Raw Materials | -1.3 | 1.1 | -2.4 | -3.8 |

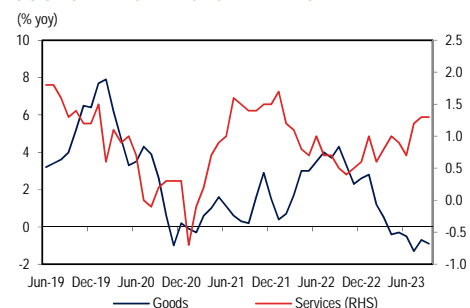
Source: NBS, Wind, UOB Kay Hian

CPI AND CORE CPI



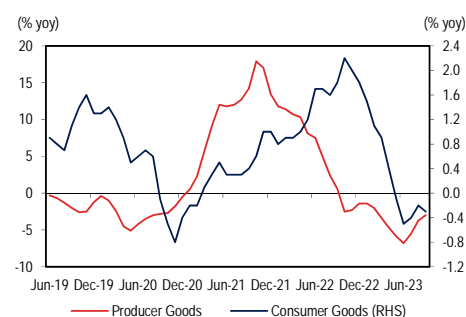
Source: National Bureau of Statistics of China (NBS), Wind, UOB Kay Hian

GOODS AND SERVICES INFLATION



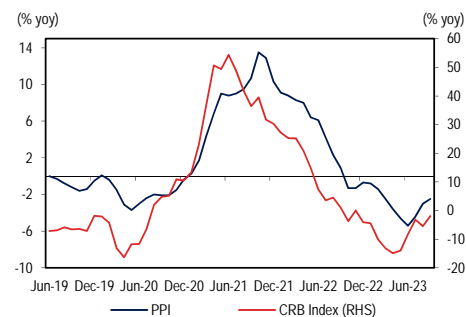
Source: NBS, Wind, UOB Kay Hian

PPI OF CONSUMER AND PRODUCER GOODS



Source: NBS, Wind, UOB Kay Hian

PPI AND CRB COMMODITY INDEX



Source: NBS, Wind, UOB Kay Hian

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ECONOMICS – CHINA

Money Supply

Further Improvement Necessary To Entrench Economic Recovery

Both M1 and M2 money supply growth came in below consensus forecasts, slowing to 2.1% yoy and 10.3% yoy respectively. New loans at Rmb2.31t were also below expectations and outstanding loans growth fell to 10.9% yoy. New TSF was the only beat (due to more government bond issuance) at Rmb4.12t. However, this was only enough to keep the outstanding TSF growth steady at 9.0% yoy. So overall the data are a mixed bag at best; further improvement in liquidity growth is necessary.

OUR VIEWS

- **M1 and M2 money supply growth slowed further in September**, coming in at 2.1% yoy and 10.3% yoy, which are below Bloomberg consensus estimates of 2.4% yoy and 10.6% yoy respectively. Similar to the previous month, the weaker M1 growth points to weak transactional demand for money, while the slowing M2 growth suggests that stronger bank loans growth is needed. New loans are higher mom at Rmb2.31t, but the higher base for comparison led to outstanding loans growth slowing to 10.9% yoy. That said, long-term loans to households saw a net increase of Rmb547b (from Rmb160b), while that to non-financial corporate rose to Rmb1.3t (from Rmb644b), which is encouraging.

KEY MONETARY INDICATORS

| (yoy % chg) | Sep 23 | Consensus | Aug 23 | Jul 23 |
|------------------------------------|--------|-----------|--------|--------|
| M0 Money Supply | 10.7 | - | 9.5 | 9.9 |
| M1 Money Supply | 2.1 | 2.4 | 2.2 | 2.3 |
| M2 Money Supply | 10.3 | 10.6 | 10.6 | 10.7 |
| Outstanding Bank Loans | 10.9 | - | 11.1 | 11.1 |
| Outstanding Total Social Financing | 9.0 | - | 9.0 | 8.9 |
| New Bank Loans (Rmbt) | 2.31 | 2.50 | 1.36 | 0.35 |
| New Total Social Financing (Rmbt) | 4.12 | 3.70 | 3.12 | 0.53 |

Source: Wind, PBOC, UOB Kay Hian

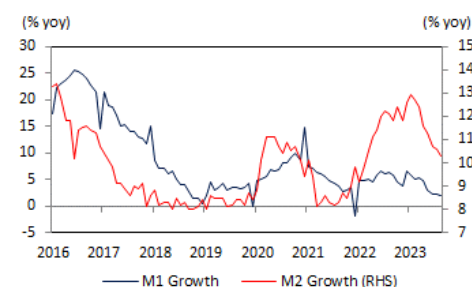
- **New TSF rose to Rmb4.12t**, lifted by better government bond issuance, which grew 12.2% yoy. Corporate bond issuance, equity raising and renminbi loans growth slowed, reflecting the challenges faced by the private sector. Despite the better new TSF, the growth of outstanding TSF growth only held steady at 9.0% yoy. Hence, further improvement in liquidity growth is necessary to entrench the recent improvement we saw in other macro data for September.

OUTSTANDING TSF

| (yoy % chg) | Sep 23 | Aug 23 | Jul 23 | 2022 |
|------------------|--------|--------|--------|-------|
| Renminbi Loans | 10.7 | 10.9 | 11.0 | 10.9 |
| Forex Loans | -19.3 | -16.8 | -17.8 | -17.4 |
| Entrusted Loans | 1.3 | 2.4 | 4.0 | 3.4 |
| Trust Loans | -1.4 | -2.9 | -3.6 | -14.0 |
| Bank Acceptances | -0.3 | -8.2 | 0.0 | -11.6 |
| Corporate Bond | -0.3 | -0.2 | -0.4 | 3.6 |
| Government Bond | 12.2 | 11.5 | 10.1 | 13.4 |
| Equity Issuance | 9.4 | 10.2 | 10.6 | 12.4 |

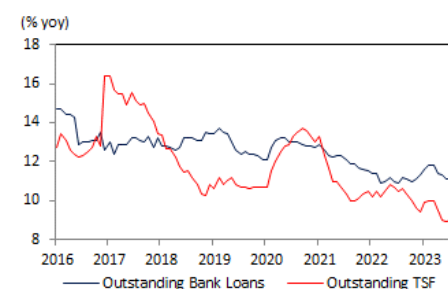
Source: Wind, PBOC, UOB Kay Hian

M1 AND M2 GROWTH



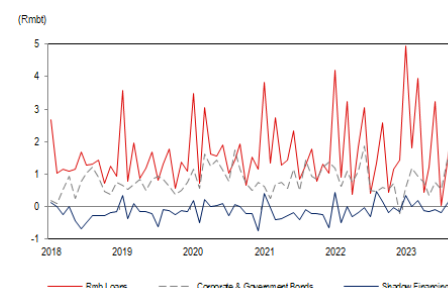
Source: PBOC, UOB Kay Hian

OUTSTANDING CREDIT GROWTH



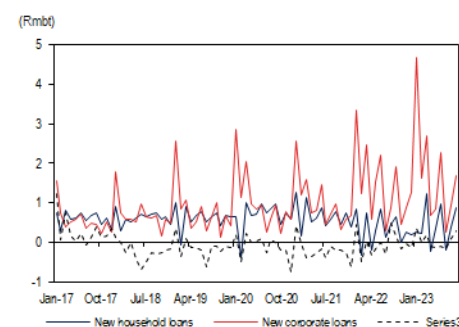
Source: PBOC, UOB Kay Hian

NEW TSF BREAKDOWN



Source: PBOC, UOB Kay Hian

NEW BANK LOANS BREAKDOWN



Source: PBOC, UOB Kay Hian

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ECONOMICS – CHINA

Trade

Trade On the Mend In Sep 23; Less Pressure On The Renminbi

China's trade performance showed further improvement in Sep 23, with both exports and imports growth beating consensus forecasts and coming in at -6.2% yoy. The trade surplus rose to US\$77.7b, compared with US\$68.2b a month earlier. With the manufacturing PMI new export orders showing improvements in Aug 23 and Sep 23, better trade data ahead is likely and near-term pressure on the renminbi should ease.

WHAT'S NEW

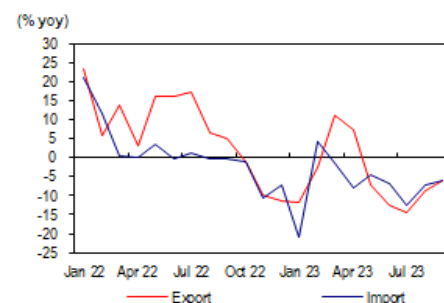
- **September exports decreased 6.2% yoy**, but were above Bloomberg consensus forecast of -8.0% yoy and August's 8.8% yoy drop. This is in line with the improvement in the manufacturing PMI new export orders in August and September. Exports growth to US, EU and Japan improved, but exports to Hong Kong and ASEAN deteriorated. Among the key products, exports of motor vehicles grew 53.2% yoy, reversing the declining trend that started in April.
- **Imports fell by 6.2% yoy in September** and were also better than market expectations of -6.3% yoy and August's -7.3% yoy. Imports of iron ore, copper ore and coal grew at a faster annual pace, but were below that recorded in August value-wise. Overall, the data suggests that the growth momentum may be stabilising and with that the downside pressure on the renminbi should ease.

EXPORTS AND IMPORTS DATA

| | ----- (US\$b) ----- | | ----- yoy % chg ----- | |
|--|---------------------|--------|-----------------------|--------|
| | Sep 23 | Aug 23 | Sep 23 | Aug 23 |
| Exports | 299.1 | 284.8 | -6.2 | -8.8 |
| Imports | 221.4 | 216.6 | -6.2 | -7.3 |
| Trade Surplus | 77.7 | 68.2 | | |
| Exports to Key Markets | | | | |
| US | 46.0 | 45.0 | -9.3 | -9.5 |
| EU | 41.5 | 41.3 | -11.6 | -19.6 |
| Japan | 14.3 | 12.0 | -6.4 | -20.1 |
| Hong Kong | 27.6 | 21.5 | -10.0 | -2.5 |
| ASEAN | 44.0 | 42.8 | -15.8 | -13.4 |
| Imports of Key Commodities | | | | |
| Iron Ore | 10.8 | 11.5 | 17.5 | 10.6 |
| Crude Oil | 28.8 | 30.6 | -3.4 | 6.2 |
| Copper Ore | 4.9 | 5.9 | 31.5 | 28.7 |
| Coal | 4.0 | 4.1 | 7.7 | 2.8 |
| Trade of Key Products | | | | |
| Agricultural Products Imports | 18.0 | 18.7 | -12.0 | -7.9 |
| Integrated Circuits Imports | 32.4 | 29.8 | -17.0 | -10.3 |
| Motor Vehicle Exports | 66.0 | 59.0 | 53.2 | 43.7 |
| High-tech Products Exports | 81.5 | 66.8 | -8.3 | -13.2 |
| Mechanical & Electrical Products Exports | 179.1 | 164.0 | -6.1 | -7.3 |

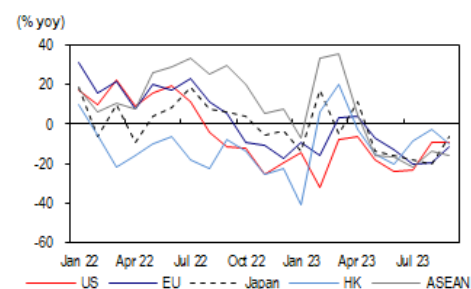
Source: Wind, CEIC, UOB Kay Hian

EXPORTS AND IMPORTS



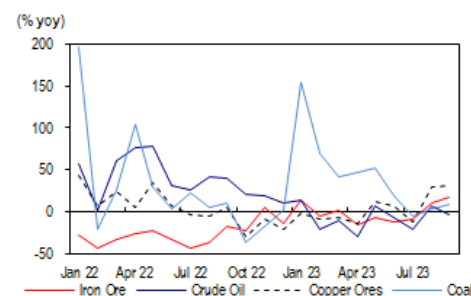
Source: Customs, Wind, UOB Kay Hian

EXPORTS TO KEY MARKETS



Source: Customs, Wind, UOB Kay Hian

IMPORTS OF KEY COMMODITIES



Source: Customs, Wind, UOB Kay Hian

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COMPANY UPDATE

China Overseas Property Holdings (2669 HK)

Acquisition Of Construction Supervision Subsidiary From 830 HK Bringing Both Risks And Opportunities

On 11 Oct 23, COPH announced the acquisition of a construction supervision subsidiary of CSCDHL (830 HK) at HK\$950m, implying 18x PE over the target company's guaranteed 2023 net profit of HK\$50m. The market is worried that the acquisition valuation was too high. However, we think this acquisition brings strategic benefits which could turn into financial benefits in the future. Maintain BUY. Lower target price by 15.9% to HK\$9.83 to factor in a higher beta.

WHAT'S NEW

- COPH announced a acquisition with connect party.** On 11 Oct 23, China Overseas Property Holdings (COPH) announced the acquisition of a construction supervision subsidiary of CSCDHL (830 HK) at HK\$950m, implying 18x PE over the target company's guaranteed 2023 net profit of HK\$50m. The acquisition PE is: a) lower than the PE of COPH as of 11 Oct 23 (17.7x); b) lower than the average PE of A-listed comparable construction supervision companies (34.9x); but c) higher than the PE of 830HK (9.5x). The deal is still pending approval by EGM of 830 HK, and is expected to close by the end of this year.
- Highlights of the target company.** The company: a) holds a Comprehensive Qualification in Engineering Supervision; b) currently has 128 projects under management; c) has been sourcing projects from within CSCEC and from third parties; d) is a national high-tech enterprise (enjoying tax incentives); and e) reported higher GP margin than COPH. At the conference call on 12 Oct 23, the management targets to achieve double-digit growth of the new business in the next few years.

STOCK IMPACT

- Strategic benefits include** a) establishing COPH's presence in mainland construction supervision & consultancy market; b) preparing COPH for its future expansion into community maintenance/old village redevelopment business; and c) acquisition of high-tech enterprises will have a tax saving effect.

KEY FINANCIALS

| Year to 31 Dec (HK\$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|---------|----------|----------|----------|----------|
| Net turnover | 9,442.0 | 12,689.0 | 16,710.2 | 21,887.8 | 28,344.9 |
| EBITDA | 1,279.0 | 1,640.1 | 2,158.6 | 2,831.7 | 3,594.9 |
| Operating profit | 1,212.9 | 1,554.8 | 2,047.8 | 2,687.7 | 3,407.6 |
| Net profit (rep./act.) | 983.9 | 1,232.5 | 1,589.5 | 2,073.8 | 2,618.9 |
| Net profit (adj.) | (1.9) | (43.7) | 1,589.5 | 2,073.8 | 2,618.9 |
| EPS (Fen) | (0.1) | (1.3) | 48.4 | 63.1 | 79.7 |
| PE (x) | n.m. | n.m. | 13.0 | 10.2 | 9.4 |
| P/B (x) | 7.9 | 6.6 | 5.0 | 3.9 | 3.0 |
| EV/EBITDA (x) | 15.6 | 12.1 | 9.2 | 7.0 | 5.5 |
| Dividend yield (%) | 1.2 | 1.6 | 2.0 | 2.6 | 3.3 |
| Net margin (%) | 10.4 | 9.7 | 9.5 | 9.5 | 9.2 |
| Net debt/(cash) to equity (%) | (109.9) | (102.6) | (84.6) | (68.1) | (77.2) |
| ROE (%) | 38.2 | 37.3 | 38.1 | 38.1 | 36.9 |
| Consensus net profit (HK\$ m) | - | - | 1,668 | 2,110 | 2,634 |
| UOBKH/Consensus (x) | - | - | 0.95 | 0.98 | 0.99 |

Source: China Overseas Property Holdings, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E reflected as "n.m."

BUY

(Maintained)

| | |
|---------------|-----------|
| Share Price | HK\$6.45 |
| Target Price | HK\$9.83 |
| Upside | +34.4% |
| (Previous TP) | HK\$11.69 |

COMPANY DESCRIPTION

China Overseas Property Holdings is a subsidiary of China Overseas Holdings Limited and an avant-garde in the property management industry in China with first-class qualifications.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Real Estate |
| Bloomberg ticker: | 2669 HK |
| Shares issued (m): | 3,286.9 |
| Market cap (HK\$m): | 23,829.7 |
| Market cap (US\$m): | 3,047.0 |
| 3-mth avg daily t'over (US\$m): | 5.6 |

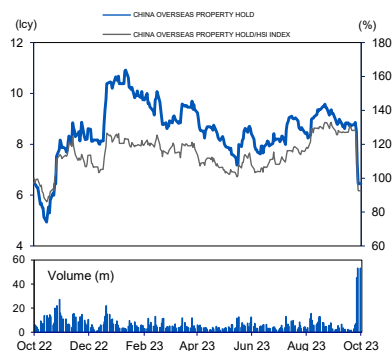
Price Performance (%)

| | | | | |
|------------------|--------------------|--------|-----|--------|
| 52-week high/low | HK\$10.92/HK\$4.94 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (22.1) | (11.2) | (22.7) | 7.1 | (10.8) |

Major Shareholders

| | |
|---------------------------|------|
| - | - |
| - | - |
| - | - |
| FY23 NAV/Share (Hkd) | 1.44 |
| FY23 Net Cash/Share (Hkd) | 1.22 |

PRICE CHART



Source: Bloomberg

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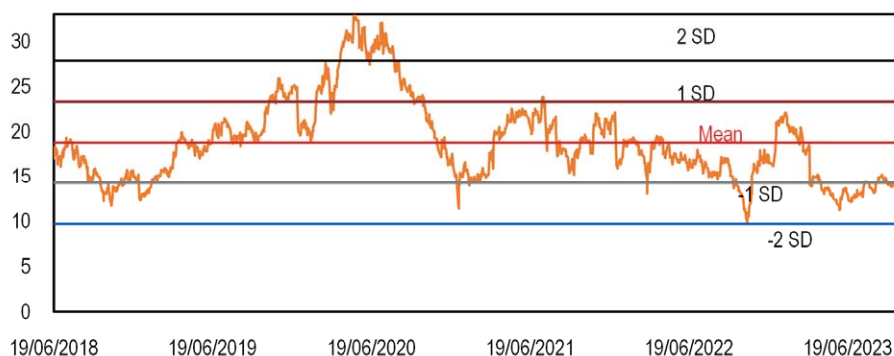
EARNINGS REVISION/RISK

- **Keep our earnings forecast unchanged.** The acquired company is expected to report no less than HK\$50m net profit in 2023, which is approximately 3.1% of COPH's estimated earnings. However, reduction in interest income and increase in inter-segment revenue may partially offset the increase of earnings from the new business. Thus, based on our current information, we keep our earnings forecast unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY with lower target price of HK\$9.83.** We lower our DCF-derived target price to HK\$9.83 on: a) higher beta to reflect higher volatility of COPH; and b) lower net cash after the acquisition. COPH is now trading at 10.2x 2024PE, which is close to 2SD below the mean. We maintain BUY as we believe the company will continue to deliver 30% earnings CAGR in the 14th FYP.
- **Recent stock correction may provide good entry point.** The company's shares have fallen 24.2% cumulatively on the two days after the announcement of the acquisition. However, we believe that although the acquisition price is not low, there are still several important strategic highlights: a) the acquisition target is an asset-light company, which is in line with COPH's business positioning; and b) it will generate synergies with COPH in the field of urban operation services in the future. In addition, considering: a) management's solid track record of beating earnings targets; and b) the ample market room of urban operation services, we expect to see stronger growth of the acquired company once the acquisition and merger is completed.

2FY PE

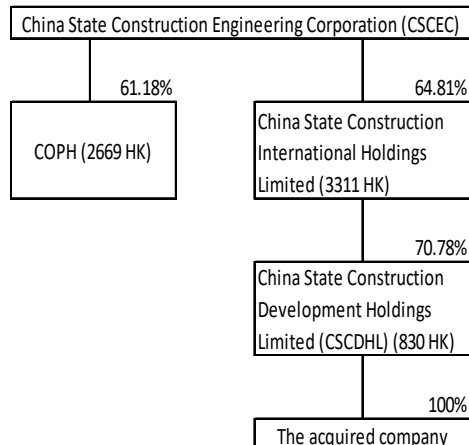


Source: Bloomberg, UOB Kay Hian

SHARE PRICE CATALYST

- Easing of demand-side industry policies.
- Faster-than-expected implementation of Housing Maintenance Fund.

SHAREHOLDING STRUCTURE OF COPH AND CSCDHL



Source: COPH, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (HK\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|----------------|----------------|----------------|----------------|
| Net turnover | 12,689.0 | 16,710.2 | 21,887.8 | 28,344.9 |
| EBITDA | 1,640.1 | 2,158.6 | 2,831.7 | 3,594.9 |
| Deprec. & amort. | 85.3 | 110.8 | 144.1 | 187.3 |
| EBIT | 1,554.8 | 2,047.8 | 2,687.7 | 3,407.6 |
| Total other non-operating income | 62.9 | 62.9 | 62.9 | 62.9 |
| Associate contributions | 4.9 | 6.3 | 8.2 | 10.7 |
| Net interest income/(expense) | 68.8 | 81.1 | 95.5 | 112.3 |
| Pre-tax profit | 1,637.7 | 2,132.4 | 2,782.0 | 3,514.0 |
| Tax | (397.7) | (533.1) | (695.5) | (878.5) |
| Minorities | (7.5) | (9.8) | (12.7) | (16.6) |
| Net profit | 1,232.5 | 1,589.5 | 2,073.8 | 2,618.9 |
| Net profit (adj.) | (43.7) | 1,589.5 | 2,073.8 | 2,618.9 |

CASH FLOW

| Year to 31 Dec (HK\$m) | 2022 | 2023F | 2024F | 2025F |
|---|----------------|------------------|-----------------|-----------------|
| Operating | 1,181.7 | 1,770.2 | 900.1 | 2,852.6 |
| Pre-tax profit | 1,678.3 | 2,132.4 | 2,782.0 | 3,514.0 |
| Tax | (397.7) | (533.1) | (695.5) | (878.5) |
| Deprec. & amort. | 85.3 | 110.8 | 144.1 | 187.3 |
| Associates | 7.5 | 9.8 | 12.7 | 16.6 |
| Working capital changes | (151.2) | 73.9 | (1,304.5) | 66.6 |
| Non-cash items | (40.6) | (23.6) | (38.8) | (53.3) |
| Investing | (202.1) | (1,081.2) | (189.3) | (220.9) |
| Capex (growth) | (87.9) | (1,095.1) | (188.6) | (245.1) |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | (114.2) | 13.9 | (0.8) | 24.2 |
| Financing | (309.8) | (400.1) | (500.5) | (652.9) |
| Dividend payments | (295.8) | (381.9) | (476.8) | (622.1) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (14.0) | (18.2) | (23.7) | (30.8) |
| Net cash inflow (outflow) | 669.7 | 288.9 | 210.2 | 1,978.8 |
| Beginning cash & cash equivalent | 3,298.2 | 3,705.9 | 3,994.8 | 4,205.0 |
| Changes due to forex impact | (262.3) | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 3,705.6 | 3,994.8 | 4,205.0 | 6,183.8 |
| Ending cash & cash equivalent | | | 12,300.1 | 13,649.5 |

BALANCE SHEET

| Year to 31 Dec (HK\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Fixed assets | 323.2 | 420.2 | 546.2 | 710.1 |
| Other LT assets | 270.8 | 1,217.5 | 1,218.1 | 1,221.9 |
| ST debt | n.a. | n.a. | n.a. | n.a. |
| Cash/ST investment | 3,705.9 | 3,994.8 | 4,205.0 | 6,183.8 |
| Other current assets | 5,821.4 | 7,696.2 | 8,730.6 | 11,570.8 |
| Total assets | 10,121.4 | 13,328.6 | 14,699.9 | 19,686.6 |
| Other current liabilities | 6,356.8 | 8,441.6 | 8,348.5 | 11,485.4 |
| LT debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other LT liabilities | 101.6 | 101.6 | 101.6 | 101.6 |
| Shareholders' equity | 3,611.4 | 4,724.0 | 6,175.6 | 8,008.9 |
| Minority interest | 51.6 | 61.4 | 74.2 | 90.7 |
| Total liabilities & equity | 10,121.4 | 13,328.6 | 14,699.9 | 19,686.6 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|---------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 12.9 | 12.9 | 12.9 | 12.7 |
| Pre-tax margin | 12.9 | 12.8 | 12.7 | 12.4 |
| Net margin | 9.7 | 9.5 | 9.5 | 9.2 |
| ROA | 13.4 | 13.6 | 14.8 | 15.2 |
| ROE | 37.3 | 38.1 | 38.1 | 36.9 |
| Growth | | | | |
| Turnover | 34.4 | 31.7 | 31.0 | 29.5 |
| EBITDA | 28.2 | 31.6 | 31.2 | 27.0 |
| Pre-tax profit | 24.3 | 30.2 | 30.5 | 26.3 |
| Net profit | 25.3 | 29.0 | 30.5 | 26.3 |
| Net profit (adj.) | n.a. | n.a. | 30.5 | 26.3 |
| EPS | n.a. | n.a. | 30.5 | 26.3 |
| Leverage | | | | |
| 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 | (102.6) | (84.6) | (68.1) | (77.2) |
| Interest cover (x) | | | 44.0 | 91.1 |

COMPANY UPDATE

JD.com (9618 HK)

Negative Impact On Top-line Growth In 2H23 Due To Restructuring; Recovery In 2024

JD is expecting tempered top-line growth for 2H23 given the adverse impact from restructuring and a sluggish macro backdrop. However, 3Q23 GMV growth is projected be solid at 8-9% after stripping out the impact of reorganisation. In view of the weak visibility of macro improvement, we expect lukewarm consumer sentiment to continue into 4Q23 despite strong seasonality. JD continues to focus on its Low Price Strategy as the core strategic approach for Singles Day 2023. Maintain BUY with a lower target price of HK\$183.00 (US\$48.00).

WHAT'S NEW

- **Top-line growth remains under pressure in 3Q23.** JD.com's (JD) revenue growth is guided at 0-1% yoy in 3Q23 (vs 7.6% in 2Q23) to Rmb246.6b, with -1% to 0% yoy growth from JD Retail (vs Alibaba's CMR growth of 4% yoy). The tempered top-line growth is primarily dampened by: a) lukewarm macro performance in various categories, b) organisational overhaul, c) weak seasonality, and d) high base of 3Q22. In terms of product categories, 3Q23 top-line growth was also hindered by weak air conditioner demand and smartphone sales, with the delayed release of new iPhones and Huawei's supply shortage. The adverse factors were partially offset by positive impacts from the delivery benefits to Plus members and lower free delivery for order values over Rmb59 from Rmb99 previously. After stripping out the impact of restructuring, JD's normalised gross merchandise value (GMV) growth in 3Q23 is forecasted to be high single-digit at 8-9% yoy. We expect JD's 3Q23 gross margin to hold up well at 15.6% (vs 14.9% in 3Q22), attributable to a higher contribution from 3P business. In 3Q23, 3P GMV yoy growth continues to outpace 1P GMV yoy growth. Take rate will remain flattish in 3Q23, underpinned by continuous merchant support in terms of commission rate to develop the 3P ecosystem.
- **Cautious outlook for 4Q23 top-line growth momentum despite strong seasonality.** Top-line growth forecasts in 4Q23 are in line with 3Q23, with revenue growth estimated at 0-1% yoy to reach Rmb299.7 and JD Retail (JDR) revenue growth projected at -1% to 0% yoy. The lacklustre performance in 4Q23 continues to be dragged by reorganisation, but is partially offset by the Singles Day promotion. JD remains conservative given weak visibility on consumption recovery. For full-year 2023, JD's non-GAAP net profit is steadily increasing, while JDR margin remains stable yoy.
- **Stable margin outlook for 3Q23.** With JD's ongoing efforts to streamline investments of new initiatives and prudent cost control, we expect 3Q23/2023 non-GAAP operating profit to come in at Rmb11.4b/Rmb37.9b with operating margin of 4.6%/3.5%. We estimate JD's 3Q23 adjusted net profit to drop 8% yoy, with net margin improving by 77bp yoy to 3.7% mainly due to narrowed losses in new businesses. Meanwhile, JDR's non-GAAP operating margin is projected at 4.5%.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|-----------|-------------|-------------|-------------|-------------|
| Net turnover | 951,592.2 | 1,046,236.0 | 1,077,252.6 | 1,202,544.3 | 1,297,269.6 |
| EBITDA | (720.7) | 684.2 | 49,973.0 | 61,874.0 | 74,085.8 |
| Operating profit | 4,141.0 | 18,344.0 | 30,816.8 | 41,494.0 | 52,314.5 |
| Net profit (rep./act.) | (3,543.2) | 9,009.0 | 24,095.3 | 30,561.8 | 38,737.4 |
| Net profit (adj.) | 17,223.5 | 28,570.0 | 31,935.6 | 38,305.6 | 45,099.7 |
| EPS (Fen) | 553.7 | 899.0 | 1,005.8 | 1,171.3 | 1,338.9 |
| PE (x) | 19.8 | 12.2 | 10.9 | 9.4 | 8.2 |
| P/B (x) | 1.6 | 1.6 | 1.5 | 1.3 | 1.2 |
| EV/EBITDA (x) | n.m. | 524.0 | 7.2 | 5.8 | 4.8 |
| Dividend yield (%) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Net margin (%) | (0.4) | 0.9 | 2.2 | 2.5 | 3.0 |
| Net debt/(cash) to equity (%) | (20.9) | (11.9) | (19.7) | (31.5) | (41.3) |
| Interest cover (x) | n.a. | 0.3 | n.a. | 24.5 | 36.9 |
| ROE (%) | n.a. | 4.2 | 10.7 | 12.1 | 13.4 |
| Consensus net profit | - | - | 32,960 | 38,460 | 45,399 |
| UOBKH/Consensus (x) | - | - | 0.97 | 1.00 | 0.99 |

Source: JD.com, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative EV/EBITDA reflected as "n.m."

BUY

(Maintained)

| | |
|---------------|------------|
| Share Price | HK\$117.70 |
| Target Price | HK\$183.00 |
| Upside | +55.5% |
| (Previous TP) | HK\$199.00 |

COMPANY DESCRIPTION

JD.com is the leading online direct sales player in China.

STOCK DATA

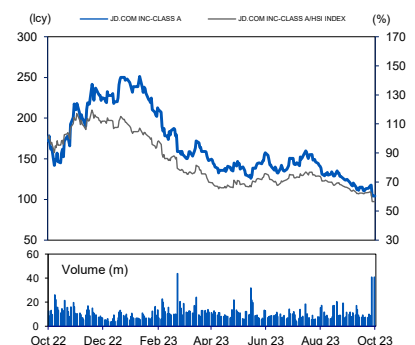
| | |
|---------------------------------|------------------------|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | 9618 HK |
| Shares issued (m): | 2,756.6 |
| Market cap (HK\$m): | 369,933.1 |
| Market cap (US\$m): | 47,301.2 |
| 3-mth avg daily t'over (US\$m): | 156.5 |
| Price Performance (%) | |

| | | | | |
|------------------|-----------------------|--------|--------|--------|
| 52-week high/low | HK\$251.40/HK\$110.30 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (5.6) | (16.9) | (23.1) | (36.5) | (46.5) |

Major Shareholders

| | |
|---------------------------|-------|
| Walmart Inc | 10.5 |
| BlackRock Inc | 3.3 |
| Vanguard Group Inc | 3.1 |
| FY23 NAV/Share (RMB) | 75.09 |
| FY23 Net Cash/Share (RMB) | 14.78 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Overview of macro backdrop in Jul/Aug 23.** Based on NBS data, July/August national online physical goods GMV grew 5.0%/6.1% yoy (vs 12.1% yoy in 2Q23), while two-year CAGR was 6.3% (vs 5.7% in July). Communication equipment delivered resilient yoy growth of 3.0%/8.5% yoy, with home appliances and fast-moving consumer goods (FMCG) remaining soft yoy. Management guided a lacklustre top-line growth in Oct 23 given Golden Week and low seasonality.
- JD's target for 2024.** JD targets to achieve double-digit revenue growth for 2024. We forecast revenue and non-GAAP net profit to grow at 12% yoy and 20% yoy to Rmb1.2t and Rmb38.3b, translating to net margin of 3.2%. JD continues to refine the product categories mix, enhance the sales channel structure and bolster operational capabilities. JD highlighted that the supermarket category remains a key driver for expansion in the long term.
- Upcoming IPO to unlock value for JD.** Jingdong Property focuses on the development and management of logistics and business parks. By end-Dec 22, Jingdong Property's total asset management scale was valued at Rmb93.7b (US\$13.7b). Jingdong Property possessed a total gross floor area (GFA) spanning 23.3m sqm. According to the filing, Jingdong Property's portfolio included 219 logistics parks, 13 business parks and four data centres as of the conclusion of the previous year. Management guided that there is no significant change in value of property or managed assets. The estimated market capitalisation for Jingdong Property and Jingdong Industrials stood at Rmb54.9b and Rmb13.7b respectively.

EARNINGS REVISION/RISK

- We cut our 3Q23/2023 revenue estimates by 6.3%/3.3%, representing revenue growths of 1.3%/3.0% yoy as our previous forecast had not factored in the early release of demand for the electronics & appliances and weaker visibility for consumption recovery. We lower our non-GAAP net profit forecasts for 3Q23/2023 by 9.0%/7.0% in view of the increased merchants support initiatives to capture consumer demand during Singles Day promotion. We expect JD's adjusted net margin for 3Q23/2023 to be 3.7%/3.0% respectively.
- Risks:** a) Consumption and logistics disruption from the pandemic in the coming quarters, b) intensified competition in the fresh produce and FMCG segments from peers, and c) weak consumption sentiment after the pandemic ends.

VALUATION/RECOMMENDATION

- Maintain BUY on JD with a lower target price of HK\$183.00 (US\$48.00)**, based on our SOTP valuation to 2023. Our target price implies 0.4x of 2023F EV/sales, 15x 2023F PE, 1x PEG. We expect there to be room for margin improvement on better operating efficiency in its own ecosystem as well as margin expansion which should be supported by the 3P segment's growth. JD is trading at 0.2x EV/sales, 2SD below its historical mean. The company is currently trading at 8x 2024 PE, against 14% EPS CAGR over the next three years.

SHARE PRICE CATALYST

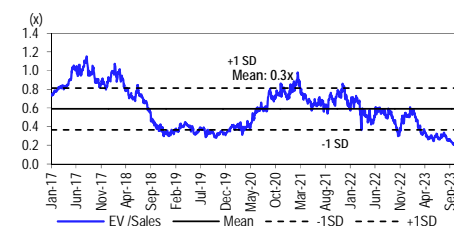
- Strong growth, continued new user margin expansion with improved operating efficiency and further extension of logistics services to internal and external customers.

VALUATION

| 2023-24E | Revenue (Rmb m) | EBITDA (Rmb m) | EV/EBITDA (x) | To JD (HK\$) | JD stake | To JD (20% discount) | HK\$/share | % of TP value |
|-----------------------------------|--------------------|-------------------|------------------|-----------------|----------|-------------------------|------------|------------------|
| JD Retail | 972,205 | 34,027 | 5 | 170,136 | Majority | 170,136 | 53 | 29 |
| JD Logistics (mkt cap) | | | | 92,136 | 81% | 59,704 | 19 | 10 |
| JD Digital/Industrial/Real estate | | | | 117,450 | 37% | 34,765 | 14 | 7 |
| JD Health (mkt cap) | | | 3x (PS) | 62,810 | 67% | 33,666 | 11 | 6 |
| Key Investments | | | | | | 30,067 | 9 | 5 |
| Net cash | | | | 228,142 | | 228,142 | 78 | 42 |
| SOTP value | | | | 670,674 | | 556,480 | 183 | |

Source: JD.com, UOB Kay Hian

12-MONTH FORWARD EV/SALES BAND



Source: JD.com, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-----------|-----------|-----------|-----------|
| Net turnover | 1,046,236 | 1,077,253 | 1,202,544 | 1,297,270 |
| EBITDA | 684 | 49,973 | 61,874 | 74,086 |
| Deprec. & amort. | (17,660) | 19,156 | 20,380 | 21,771 |
| EBIT | 18,344 | 30,817 | 41,494 | 52,315 |
| Total other non-operating income | (3,438) | 86 | 0 | 0 |
| Net interest income/(expense) | (2,418) | 1,354 | (2,526) | (2,006) |
| Pre-tax profit | 12,488 | 32,257 | 38,968 | 50,308 |
| Tax | (4,176) | (7,882) | (8,406) | (11,571) |
| Minorities | 697 | (280) | 0 | 0 |
| Net profit | 9,009 | 24,095 | 30,562 | 38,737 |
| Net profit (adj.) | 28,570 | 31,936 | 38,306 | 45,100 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|----------|----------|----------|----------|
| Operating | 57,819 | 37,254 | 61,960 | 68,156 |
| Pre-tax profit | 12,488 | 32,257 | 38,968 | 50,308 |
| Tax | (4,176) | (7,882) | (8,406) | (11,571) |
| Deprec. & amort. | (17,660) | 19,156 | 20,380 | 21,771 |
| Associates | 2 | 3 | 4 | 5 |
| Working capital changes | 28,477 | (6,278) | 11,018 | 7,647 |
| Other operating cashflows | 38,688 | (3) | (4) | (5) |
| Investing | (54,026) | (21,545) | (24,051) | (25,945) |
| Capex (growth) | (4,476) | (21,545) | (24,051) | (25,945) |
| Capex (maintenance) | 0 | 1 | 2 | 3 |
| Investments | (27,484) | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 1 | 2 | 3 |
| Others | (22,066) | (2) | (4) | (6) |
| Financing | 1,180 | (56,659) | (3,200) | (3,200) |
| Dividend payments | 0 | 1 | 2 | 3 |
| Issue of shares | 4,454 | 0 | 0 | 0 |
| Proceeds from borrowings | 26,479 | (56,659) | (3,200) | (3,200) |
| Loan repayment | 0 | 1 | 2 | 3 |
| Others/interest paid | (29,753) | (2) | (4) | (6) |
| Net cash inflow (outflow) | 4,973 | (40,950) | 34,709 | 39,010 |
| Beginning cash & cash equivalent | 70,767 | 78,861 | 43,714 | 78,422 |
| Changes due to forex impact | 8,924 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 78,861 | 43,714 | 78,422 | 117,433 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 55,080 | 57,469 | 61,140 | 65,314 |
| Other LT assets | 189,096 | 189,096 | 189,096 | 189,097 |
| Cash/ST investment | 78,861 | 43,714 | 78,422 | 117,433 |
| Other current assets | 272,213 | 275,016 | 290,772 | 303,221 |
| Total assets | 595,250 | 565,295 | 619,430 | 675,064 |
| ST debt | 0 | 0 | 0 | 0 |
| Other current liabilities | 266,561 | 263,086 | 289,860 | 309,956 |
| LT debt | 53,459 | (3,200) | (6,400) | (9,600) |
| Other LT liabilities | 1,107 | 1,107 | 1,107 | 1,108 |
| Shareholders' equity | 213,956 | 238,331 | 268,893 | 307,632 |
| Minority interest | 60,167 | 60,167 | 60,167 | 60,167 |
| Total liabilities & equity | 595,250 | 565,295 | 619,430 | 675,065 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|---------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 0.1 | 4.6 | 5.1 | 5.7 |
| Pre-tax margin | 1.2 | 3.0 | 3.2 | 3.9 |
| Net margin | 0.9 | 2.2 | 2.5 | 3.0 |
| ROA | 1.7 | 4.2 | 5.2 | 6.0 |
| ROE | 4.2 | 10.7 | 12.1 | 13.4 |
| Growth | | | | |
| Turnover | 9.9 | 3.0 | 11.6 | 7.9 |
| EBITDA | n.a. | 7,204.3 | 23.8 | 19.7 |
| Pre-tax profit | n.a. | 158.3 | 20.8 | 29.1 |
| Net profit | n.a. | 167.5 | 26.8 | 26.8 |
| Net profit (adj.) | 65.9 | 11.8 | 19.9 | 17.7 |
| EPS | 62.4 | 11.9 | 16.5 | 14.3 |
| Leverage | | | | |
| Debt to total capital | 16.3 | (1.1) | (2.0) | (2.7) |
| Debt to equity | 25.0 | (1.3) | (2.4) | (3.1) |
| Net debt/(cash) to equity | (11.9) | (19.7) | (31.5) | (41.3) |
| Interest cover (x) | 0.3 | n.a. | 24.5 | 36.9 |

ASIAN GEMS CORPORATE HIGHLIGHTS

MINISO Group Holding (9896 HK)

Key Takeaways From Asian Gems Conference

MINISO's business operations were on track in Oct 23 mtd, with domestic and overseas GMV growing 50% yoy and 40% yoy respectively. Management emphasised that overseas markets such as North America and Asia have great potential for future growth, especially the US market, of which revenue per store nearly doubled vs 2019's level, with the US market already profitable with net margin reaching 10%.

WHAT'S NEW

- MINISO Group Holding (MINISO) joined our Asian GEMs Conference. Key takeaways are as follows.

STOCK IMPACT

- Business operations in Oct 23 mtd on track.** MINISO achieved 50% GMV yoy growth in domestic market and 40% GMV yoy growth in overseas market mtd. The overall revenue per store has recovered to ~90% vs 2019's level. Average transaction value was up by low-single-digit yoy and the customer traffic has recovered to ~90% vs 2019's level in China.
- Profitability in domestic and overseas markets.** The overall gross margin of the domestic market stands at ~38%. In the domestic market, stores located in lower-tier cities generally achieve better profitability than stores located in Tier 1&2 cities, thanks to lower rents. Management estimates that net margins of stores in Tier-1, Tier-2 and lower tier cities are <7%/7~8%/~10% respectively. In 1H23, management saw that rent ratio in Tier 1&2 cities trended down, which benefited the company's store expansion in these cities. The overall gross margin of overseas market stands at ~45%. Specifically, for directly operated markets, gross margin is in the range of 45-55%, and for distributor markets, gross margin is ~35%.
- US market showed strong performance.** Management views North America and Asia as two regions of high potential. For North America, the US market continued to perform well. Revenue per store in the June quarter nearly doubled vs 2019's level, and profitability improved, recording EBITDA margin of 20% and net margin of 10%. For Asia, management stated that the India and Indonesia markets are cash cows, thanks to the lower expenses. In Indonesia, revenue per store has recovered to ~60% vs 2019's level.
- Dividend payout.** Management states that the company will maintain its 50% dividend payout ratio in the coming years. The company also adopted a new share buyback plan in Sep 23, targeting to repurchase up to US\$200m of shares in 12 months.

KEY FINANCIALS

| Year to 30 Jun (Rmbm) | FY19 | FY20 | FY21 | FY22 | FY23 |
|------------------------|-------|-------|---------|--------|--------|
| Net turnover | 9,395 | 8,979 | 9,072 | 10,086 | 11,473 |
| Gross Profit | 2,511 | 2,732 | 2,431 | 3,070 | 4,443 |
| Operating Profit | 1,017 | 767 | 401 | 882 | 2,223 |
| Net Profit | (291) | (262) | (1,415) | 638 | 1,769 |
| EPS (Rmb) | (0.3) | (0.3) | (1.2) | 0.5 | 1.4 |
| P/E (x) | n.m. | n.m. | n.m. | n.m. | 31.6 |
| Book value per share | (0.1) | (0.3) | 5.4 | 5.7 | 7.0 |
| P/BV (x) | n.m. | n.m. | n.m. | n.m. | 6.3 |
| EBITDA | 1,208 | 1,035 | 666 | 1,272 | 2,614 |
| EV/EBITDA (x) | 44.2 | 51.6 | 80.2 | 42.0 | 20.2 |
| DPS (fen) | n.a. | n.a. | 25.2 | 29.4 | 75.1 |
| Dividend yield (%) | n.m. | n.m. | n.m. | n.m. | 1.7 |
| Net margin (%) | (3.1) | (2.9) | (15.6) | 6.3 | 15.4 |
| Net debt to equity (%) | n.m. | n.m. | (90.9) | (69.7) | (65.1) |
| Interest cover (x) | 21.2 | 13.3 | 7.3 | 26.4 | 64.2 |
| ROE (%) | n.m. | n.m. | (21.3) | 9.1 | 19.9 |

Source: Miniso, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, P/B reflected as "n.m."

NOT RATED

| | |
|--------------|-----------|
| Share Price | HK\$49.70 |
| Target Price | n.a. |
| Upside | n.a. |

COMPANY DESCRIPTION

MINISO Group Holding is a global retailer of design-led lifestyle products. Its MINISO lifestyle brand covers 11 categories including perfumes, cosmetics and toys, while its TOP TOY brand sells collectible toys.

STOCK DATA

| | |
|---------------------------------|------------------|
| GICS sector | Consumer Staples |
| Bloomberg ticker: | 9896 HK |
| Shares issued (m): | 1,263.7 |
| Market cap (HK\$m): | 62,805.4 |
| Market cap (US\$m): | 8,164.7 |
| 3-mth avg daily t'over (US\$m): | 14.1 |

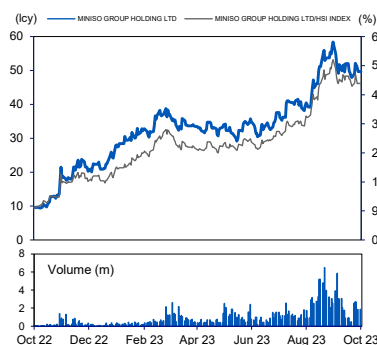
Price Performance (%)

| | | | | |
|------------------|--------------------|-------------|------------|------------|
| 52-week high/low | HK\$59.85/HK\$9.27 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (9.5) | 39.0 | 47.5 | 387.3 | 137.8 |

Major Shareholders

| | % |
|---------------------------|--------|
| Mini Investment Limited | 25.98 |
| YYY MC Limited | 20.40 |
| - | - |
| FY23 NAV/Share (Rmb) | 5.56 |
| FY23 Net Debt/Share (Rmb) | (3.92) |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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VALUATION

- The company trades at 25.4x one-year forward PE, per Bloomberg.

PROFIT & LOSS

| Year to 30 Jun (Rmbm) | FY20 | FY21 | FY22 | FY23 |
|----------------------------------|-------------|---------------|------------|--------------|
| Net turnover | 8,979 | 9,072 | 10,086 | 11,473 |
| EBITDA | 1,035 | 666 | 1,272 | 2,614 |
| Depreciation & amortization | -269 | -265 | -390 | -391 |
| EBIT | 767 | 401 | 882 | 2,223 |
| Total other non-operating income | 654 | 1,602 | 8 | n.m. |
| Associate contributions | - | - | - | - |
| Net interest income/(expense) | 32 | 15 | -33 | n.m. |
| Pre-tax profit | 81 | -1,216 | 907 | 2,334 |
| Tax | 211 | 213 | 267 | 552 |
| Minorities | 2 | -14 | 2 | 13 |
| Net profit | -262 | -1,415 | 638 | 1,769 |
| Net profit (recurrent) | -262 | -1,415 | 638 | 1,769 |

CASH FLOW

| Year to 30 Jun (Rmbm) | FY20 | FY21 | FY22 | FY23 |
|---|--------------|--------------|---------------|--------------|
| Operating | 820 | 915 | 1,472 | 1,811 |
| Pre-tax profit | 81 | -1,216 | 907 | 2,334 |
| Tax | -211 | -213 | -267 | -552 |
| Depreciation/amortization | -269 | -265 | -390 | -391 |
| Associates | - | - | - | - |
| Working capital changes | 411 | 4,039 | -1,432 | 1,735 |
| Non-cash items | 936 | 1,814 | 88 | -349 |
| Other operating cashflows | -128 | -3,244 | 2,566 | -965 |
| Investing | 463 | -519 | -2,192 | -439 |
| Capex (growth) | -57 | -180 | -1,234 | -174 |
| Investments | - | - | - | - |
| Proceeds from sale of assets | - | - | - | - |
| Others | 520 | -339 | -958 | -264 |
| Financing | -115 | 3,522 | -733 | -232 |
| FA | -330 | - | -306 | -371 |
| Issue of shares | 9 | 3 | 1 | 0 |
| Proceeds from borrowings | 411 | 0 | - | 470 |
| Loan repayment | 214 | -632 | -322 | 123 |
| Others/interest paid | -419 | 4,151 | -105 | -455 |
| Net cash inflow (outflow) | 1,168 | 3,918 | -1,453 | 1,141 |
| Beginning cash & cash equivalent | 1,686 | 2,854 | 6,772 | 5,348 |
| Changes due to forex impact | -4 | -16 | - | 94 |
| Ending cash & cash equivalent | 2,854 | 6,772 | 5,348 | 6,489 |

BALANCE SHEET

| Year to 30 Jun (Rmbm) | FY20 | FY21 | FY22 | FY23 |
|---------------------------------------|--------------|---------------|---------------|---------------|
| Fixed assets | 591 | 766 | 2,762 | 3,087 |
| Long term investment | - | - | - | - |
| Other LT assets | 259 | 740 | 447 | 456 |
| Cash/ST investment | 2,854 | 6,772 | 5,348 | 6,489 |
| Other current assets | 2,133 | 2,427 | 2,724 | 3,415 |
| Total assets | 5,836 | 10,705 | 11,282 | 13,448 |
| ST debt | 401 | 14 | 0 | - |
| Other current liabilities | 2,908 | 3,469 | 3,788 | 3,886 |
| Total current liabilities | 3,310 | 3,483 | 3,789 | 3,886 |
| LT debt | 394 | 490 | 400 | 564 |
| Other LT liabilities | 2,456 | 80 | 66 | 80 |
| Total non-current liabilities | 2,850 | 570 | 466 | 644 |
| Shareholders' equity | -337 | 6,659 | 7,032 | 8,901 |
| Minority interest | 14 | -7 | -4 | 17 |
| Total liabilities & equity | 5,836 | 10,705 | 11,282 | 13,448 |

KEY METRICS

| Year to 30 Jun (%) | FY20 | FY21 | FY22 | FY23 |
|-----------------------|-------|--------|-------|-------|
| Profitability | | | | |
| Gross margin | 30.4 | 26.8 | 30.4 | 38.7 |
| Pretax margin | 0.9 | -13.4 | 9 | 20.3 |
| Net margin | -2.9 | -15.6 | 6.3 | 15.4 |
| ROA | -4.7 | -17.1 | 5.7 | 13.2 |
| ROE | n.m. | (21.3) | 9.1 | 19.9 |
| Growth | | | | |
| Turnover | -4.4 | 1 | 11.2 | 13.8 |
| Gross profit | -14.3 | -35.7 | 91 | 105.5 |
| Pre-tax profit | 40.1 | -1.4 | 47.1 | 0.3 |
| Net profit | -24.6 | -47.7 | 119.9 | 152 |
| Net profit (adj) | -4.8 | 145.1 | -99.5 | n.m. |
| EPS (adj.) | (0.3) | (1.2) | 0.5 | 1.4 |
| Leverage | | | | |
| Debt to total capital | 146.4 | 11 | 8.6 | 9.1 |
| Debt to equity | n.m. | 12.4 | 9.4 | 10 |
| Net debt to equity | n.m. | -90.9 | -69.7 | -65.1 |
| Interest cover (x) | 13.3 | 7.3 | 26.4 | 64.2 |

ASIAN GEMS CORPORATE HIGHLIGHTS

Minth Group (425 HK)

Takeaways From Asian Gems Conference

Minth joined our Asian GEM Conference last Friday. During the conference, Minth shared with us its recent business updates and outlook. Management maintains 2023 targets on revenue growth and net profit growth at 20% and 25% respectively. For 2024, they expect revenue growth to remain relatively steady. They also expect margin improvement in 2H23. We maintain 2023-25 net profit forecasts at Rmb1,928m/Rmb2,317m/Rmb2,768m. Maintain BUY. Target price: HK\$33.00.

WHAT'S NEW

- **2023 revenue growth and net profit growth targets kept at 20% and 25%; 2024 revenue growth expected to remain steady.** During the 1H23 results briefing, management reiterated their 2023 revenue growth target of 20%. On the other hand, due to upbeat 1H23 earnings, they raised 2023 net profit growth target from 20% to 25%. During the Asian GEM Conference, they reiterated the revenue growth target of 20% and net profit growth target of 25% for 2023. Looking into 2024, Minth expects to see steady revenue growth based on the discussion with customers.
- **Despite the prospective slowdown of China's auto industry,** Minth's business growth will be driven by the EV-related products. These products include battery housings, aluminium structural chassis parts, exterior and interior parts for electric vehicles (EV). Minth targets to book c.Rmb14.3b in order intakes in 2023, of which Rmb5b or 35% will be those for battery housings. The revenue from battery housing sales is expected to double from Rmb2b in 2022 to Rmb4b in 2023 and more than double that to Rmb10b in 2025. Minth also booked Rmb200m in revenue from sales of aluminium structural chassis parts in 1H23, and the number is expected to reach Rmb500m in 2023 and double that in 2024.
- **Diversified customer base for the EV-related products.** The orders will be coming from leading EV companies such as Tesla and BYD as well as the EV divisions of established incumbents like Volkswagen, BMW and Daimler. As for the EV-related parts and components, Minth has more than 20 customers. Except Tesla and BYD, Minth is the sole supplier of battery housings for other customers.
- **Shorter product development cycle means faster turnover.** The product development cycle and product life cycle of EVs (especially Chinese branded EVs) are both much shorter than those of ICE-cars. In general, it only takes 8-12 months from the signing of orders with an OEM to the launch of the EV product, compared to at least 2-3 years for ICE-cars. Also, the product life cycle of Chinese branded EVs only ranges from three to four years, compared to five years for ICE-cars.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover | 13,919 | 17,306 | 21,300 | 26,000 | 31,000 |
| EBITDA | 3,009 | 3,153 | 3,892 | 4,533 | 5,199 |
| Operating profit | 2,087 | 2,032 | 2,593 | 3,074 | 3,631 |
| Net profit (rep./act.) | 1,497 | 1,501 | 1,928 | 2,317 | 2,768 |
| Net profit (adj.) | 1,078 | 1,494 | 1,928 | 2,317 | 2,768 |
| EPS (fen) | 137.1 | 133.0 | 169.4 | 203.5 | 243.1 |
| PE (x) | 13.7 | 14.1 | 11.1 | 9.2 | 7.7 |
| P/B (x) | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 |
| EV/EBITDA (x) | 8.9 | 8.5 | 6.9 | 5.9 | 5.2 |
| Dividend yield (%) | 2.8 | 3.1 | 3.1 | 3.1 | 3.1 |
| Net margin (%) | 7.7 | 8.6 | 9.1 | 8.9 | 8.9 |
| Net debt/(cash) to equity (%) | 4.5 | 17.9 | 27.4 | 31.2 | 29.1 |
| Interest cover (x) | 7.9 | 7.7 | 8.7 | 9.5 | 10.4 |
| ROE (%) | 7.0 | 9.1 | 11.0 | 12.2 | 13.3 |
| Consensus net profit | - | - | 1,956 | 2,482 | 2,961 |
| UOBKH/Consensus (x) | - | - | 0.99 | 0.93 | 0.93 |

Source: Minth, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|-----------|
| Share Price | HK\$20.10 |
| Target Price | HK\$33.00 |
| Upside | +64.2% |

COMPANY DESCRIPTION

Minth Group manufactures body structural parts, decorative parts and trims of automobiles, and supplies to international automakers.

STOCK DATA

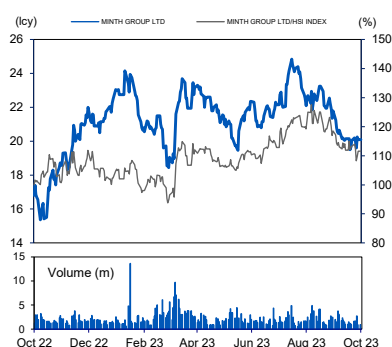
| | |
|---------------------------------|---------------------|
| GICS sector | Automobile |
| Bloomberg ticker: | 425 HK |
| Shares issued (m): | 1,162 |
| Market cap (HK\$m): | 23,353 |
| Market cap (US\$m): | 3,013 |
| 3-mth avg daily t'over (US\$m): | 5.4 |
| Price Performance (%) | |
| 52-week high/low | HK\$25.40/HK\$15.10 |

| 1mth | 3mth | 6mth | 1yr | YTD |
|-------|-------|--------|------|-------|
| (8.2) | (9.9) | (11.6) | 22.9 | (5.0) |

Major Shareholders

| | % |
|----------------------------|-------|
| Chin Jong Hwa | 38.74 |
| - | - |
| - | - |
| FY23 NAV/Share (HK\$) | 16.62 |
| FY23 Net Cash/Share (HK\$) | 4.59 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Margin improvement in 2H23.** Minth expects gross margin to improve from 1H23 to 2H23 based on the decline in raw material cost and the ramp-up of the battery housing business. Operating margin will probably improve even more than gross margin, due to economies of scale. Looking into 2024, Minth expects 2024 margins to remain steady vs 2H23.
- **Capex peaked in 2022.** Minth cut guidance on capex for 2023 to Rmb2.5b-3.0b, lower than Rmb3.4b in 2022. Looking into 2024, they expect capex to fall further to Rmb2.0b-2.5b. The capex for 2025 will pretty much depend on whether there are new product lines to add. If not, capex will probably remain flat yoy in 2025.
- **UAW's strike would probably cause a delay in the recognition of 8% of revenue,** based on the experience from UAW's previous strike in 2019. The strike would only cause suspension of production at the Big Three's plants in the US rather than cancellation of orders from customers. The Big Three's US plants jointly contribute 8% of Minth's total revenue.

STOCK IMPACT

- We maintain our estimates on 2023-25 revenue at Rmb21.3b/Rmb26.0b/Rmb31.0b, implying 21% CAGR.
- We maintain 2023-25 gross margin assumptions at 26.6%/26.6%/26.6%, vs 26.3% in 1H23.

EARNINGS REVISIONS/RISKS

- **We maintain our 2023-25 net profit forecasts** at Rmb1,928/Rmb2317m/Rmb2,768m, based on intact guidance.

VALUATION/RECOMMENDATION

- **Maintain BUY with target price of HK\$33.00,** based on 15x 2024F PE, on a par with historic mean one-year forward PE.

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 17,306 | 21,300 | 26,000 | 31,000 |
| EBITDA | 3,153 | 3,892 | 4,533 | 5,199 |
| Depreciation & amortization | (1,121) | (1,298) | (1,459) | (1,568) |
| EBIT | 2,032 | 2,593 | 3,074 | 3,631 |
| Total other non-operating income | - | - | - | - |
| Associate contributions | 10 | 20 | 30 | 40 |
| Net interest income/(expense) | (263) | (298) | (323) | (348) |
| Pre-tax profit | 1,779 | 2,315 | 2,781 | 3,323 |
| Tax | (249) | (347) | (417) | (498) |
| Minorities | (30) | (39) | (47) | (56) |
| Net profit | 1,501 | 1,928 | 2,317 | 2,768 |
| Net profit (recurrent) | 1,501 | 1,928 | 2,317 | 2,768 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|--|----------------|----------------|----------------|----------------|
| Operating | (3,037) | (3,395) | (2,934) | (2,430) |
| Pre-tax profit | 1,779 | 2,315 | 2,781 | 3,323 |
| Tax | (270) | (347) | (417) | (498) |
| Depreciation/amortization | 1,121 | 1,298 | 1,459 | 1,568 |
| Associates | (10) | (20) | (30) | (40) |
| Working capital changes | (1,190) | (900) | (1,171) | (1,246) |
| Non-cash items | (4,467) | (5,741) | (5,555) | (5,536) |
| Other operating cashflows | - | - | - | - |
| Investing | (3,037) | (3,395) | (2,934) | (2,430) |
| Capex (growth) | (3,432) | (3,630) | (3,130) | (2,630) |
| Investments | 368 | 235 | 196 | 200 |
| Proceeds from sale of assets | 27 | - | - | - |
| Others | - | - | - | - |
| Financing | (125) | (35) | (513) | (43) |
| Dividend payments | (616) | (672) | (673) | (674) |
| Issue of shares | 8 | - | - | - |
| Proceeds from borrowings | 27,551 | 28,500 | 29,000 | 30,000 |
| Loan repayment | (26,907) | (27,551) | (28,500) | (29,000) |
| Others/interest paid | (161) | (312) | (340) | (369) |
| Net cash inflow (outflow) | (1,306) | (1,014) | (690) | 792 |
| Beginning cash & cash equivalent | 5,492 | 4,221 | 3,207 | 2,516 |
| Change due to forex impact | 35 | - | - | - |
| Ending cash & cash equivalent | 4,221 | 3,207 | 2,516 | 3,309 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets | 13,435 | 15,727 | 17,356 | 18,375 |
| Other LT assets | 3,844 | 3,898 | 3,961 | 4,034 |
| Cash/ST investment | 4,221 | 3,207 | 2,516 | 3,309 |
| Other current assets | 11,774 | 14,190 | 16,968 | 19,923 |
| Total assets | 33,274 | 37,021 | 40,802 | 45,641 |
| ST debt | 7,211 | 8,161 | 8,661 | 9,661 |
| Other current liabilities | 6,102 | 7,619 | 9,225 | 10,935 |
| LT debt | 1,087 | 1,087 | 1,087 | 1,087 |
| Other LT liabilities | 1,175 | 1,175 | 1,175 | 1,175 |
| Shareholders' equity | 16,918 | 18,174 | 19,818 | 21,912 |
| Minority interest | 780 | 806 | 836 | 872 |
| Total liabilities & equity | 33,274 | 37,021 | 40,802 | 45,641 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|-------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 18.2 | 18.3 | 17.4 | 16.8 |
| Pre-tax margin | 10.3 | 10.9 | 10.7 | 10.7 |
| Net margin | 8.6 | 9.1 | 8.9 | 8.9 |
| ROA | 4.7 | 5.5 | 6.0 | 6.4 |
| ROE | 9.1 | 11.0 | 12.2 | 13.3 |
| Growth | | | | |
| Turnover | 24.3 | 23.1 | 22.1 | 19.2 |
| EBITDA | 4.8 | 23.4 | 16.5 | 14.7 |
| Pre-tax profit | (3.6) | 30.1 | 20.1 | 19.5 |
| Net profit | 0.3 | 28.5 | 20.1 | 19.5 |
| Net profit (adj.) | 38.6 | 29.0 | 20.1 | 19.5 |
| EPS | (3.1) | 27.4 | 20.1 | 19.5 |
| Leverage | | | | |
| Debt to total capital | 24.9 | 25.0 | 23.9 | 23.5 |
| Debt to equity | 49.1 | 50.9 | 49.2 | 49.0 |
| Net debt/(cash) to equity | 17.9 | 27.4 | 31.2 | 29.1 |
| Interest cover (x) | 7.7 | 8.7 | 9.5 | 10.4 |

COMPANY UPDATE

Merdeka Copper Gold (MDKA IJ)

A Transformational Growth Phase To Capture Future Profit Potential

We expect a lower 2023 and 2024 net income of US\$8.9m (-84.8% yoy) and US\$73m (+714% yoy) respectively due to a lower nickel ASP and higher interest expenses. 2Q23 NPAT came in at a loss of US\$53.2m. We believe MDKA's long-term prospects are still promising with its nickel downstreaming business. Maintain HOLD with a lower target price of Rp2,700 due to weak 1H23 results as well as changes in nickel prices, NPI sales volume and interest expenses assumptions.

WHAT'S NEW

- **Expect a lower 2023 and 2024 net income** of US\$8.9m (-84.8% yoy) and US\$73m (+714% yoy) respectively as we assume a lower nickel ASP and higher interest expenses. We assume MDKA's 2023 gold sales volume of 125,868 oz with ASP of US\$1,900/oz, copper sales volume of 17,280 tonnes with ASP of US\$3.9/lb, nickel pig iron (NPI) sales volume of 60,000 tonnes with ASP of US\$14,641/tonne, and nickel matte sales volume of 28,000 tonnes with ASP of US\$16,218/tonne. MDKA's 2023 and 2024 EBITDA is expected to come in at US\$216m and US\$373m respectively. We also foresee further margin compression could happen in 2H23 as nickel prices have softened to US\$18,000/tonne recently.
- **Maintain 2023 production assumptions in line with management guidance.** We maintain our 2023 production assumptions in line with management guidance as MDKA is optimistic on achieving its 2023 production target. MDKA targets to produce 120,000-140,000 oz of gold with all in sustainable cost (AISC) of US\$1,100-1,300/oz net of silver credits, 16,000-20,000 tonnes of copper with AISC of US\$3.7-4.7/lb, and 57,000-65,000 tonnes of NPI with AISC of US\$13,000-15,000/tonne.
- **Long-term prospect still promising despite poor short-term performance.** We believe MDKA's long-term prospect is still promising with its nickel downstreaming business through Merdeka Battery Materials (MBMA) and future projects such as the Acid Iron Metal (AIM) project, Tujuh Bukit (TB) Copper project, and Pani Gold project.
 - MBMA will continue to ramp up its nickel ore production through Sulawesi Cahaya Mineral (SCM) and gradually supply saprolite ore to Bukit Smelter Indonesia (BSI), Cahaya Smelter Indonesia (CSI) and Zhao Hui Nickel (ZHN) RKEF smelters.
 - MDKA has also been producing high grade nickel matte after the acquisition of nickel matte converter company Huaneng Metal Industry (HNMI) in Jun 23. HNMI has a capacity to produce 50,000 tonnes of nickel matte p.a.
 - MBMA has also signed an agreement with GEM Co., Ltd (GEM) to construct a US\$600m HPAL processing plant with a nameplate capacity of 30,000 tonnes p.a. of nickel in Mixed Hydroxide Precipitate (MHP) and is expected to start commissioning in late-24. The project will be constructed and operated under ESG New Energy Material (ESG), with MBMA holding a 55% stake and GEM holding a 45% stake in ESG.

KEY FINANCIALS

| Year to 31 Dec (US\$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 381 | 870 | 1,720 | 2,550 | 2,772 |
| EBITDA | 198 | 228 | 216 | 373 | 518 |
| Operating profit | 91 | 112 | 117 | 264 | 396 |
| Net profit (rep./act.) | 36 | 58 | 9 | 73 | 180 |
| Net profit (adj.) | 36 | 58 | 9 | 73 | 180 |
| EPS (US\$ cent) | 0.2 | 0.2 | 0.0 | 0.3 | 0.7 |
| PE (x) | 98.4 | 67.0 | 439.6 | 54.0 | 21.8 |
| P/B (x) | 4.7 | 3.9 | 3.9 | 3.6 | 3.1 |
| EV/EBITDA (x) | 19.8 | 17.2 | 18.2 | 10.5 | 7.6 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net margin (%) | 9.5 | 6.7 | 0.5 | 2.8 | 6.5 |
| Net debt/(cash) to equity (%) | 25.5 | 96.5 | 144.5 | 162.2 | 143.4 |
| Interest cover (x) | 17.2 | 5.4 | 2.0 | 2.7 | 3.9 |
| ROE (%) | 5.6 | 6.6 | 0.9 | 6.9 | 15.3 |
| Consensus net profit | - | - | 42 | 118 | 212 |
| UOBKH/Consensus (x) | - | - | 0.21 | 0.62 | 0.85 |

Source: Merdeka Copper Gold, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|---------------|---------|
| Share Price | Rp2,550 |
| Target Price | Rp2,700 |
| Upside | +5.9% |
| (Previous TP) | Rp3,300 |

COMPANY DESCRIPTION

Gold, copper, and nickel producer in Indonesia. The company is the first greenfield mining company listed on the JCI in 2016 and started production in 2017.

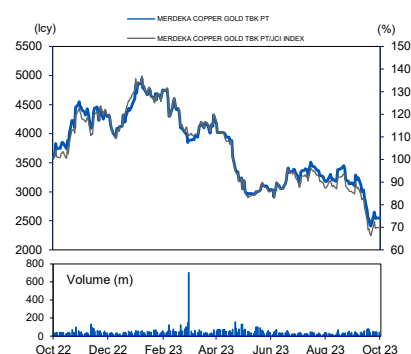
STOCK DATA

| | | | | |
|---------------------------------|-----------------|-------------|------------|------------|
| GICS sector | Materials | | | |
| Bloomberg ticker: | MDKA IJ | | | |
| Shares issued (m): | 24,110.9 | | | |
| Market cap (Rpb): | 61,482.7 | | | |
| Market cap (US\$m): | 3,916.1 | | | |
| 3-mth avg daily t'over (US\$m): | 6.1 | | | |
| Price Performance (%) | | | | |
| 52-week high/low | Rp4,950/Rp2,410 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (18.8) | (24.8) | (38.7) | (31.6) | (38.1) |

Major Shareholders

| | |
|----------------------------|------|
| | % |
| Saratoga Investama Sedaya | 18.6 |
| Mitra Daya Mustika | 12.1 |
| Garibaldi Thohir | 7.4 |
| FY23 NAV/Share (US\$) | 0.04 |
| FY23 Net Debt/Share (US\$) | 0.06 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

2023 RESULTS

| Year to 31 Dec (US\$m) | 6M23 | 6M22 | yoy (%) | 2Q23 | 1Q23 | qoq (%) | yoy (%) |
|------------------------|-------|-------|-----------|-------|------|-----------|-----------|
| Revenue | 520 | 341 | 52.3 | 306 | 214 | 42.8 | 40.1 |
| Gross Profit | 46.1 | 104 | -55.8 | 14.6 | 31.5 | -53.7 | -75.2 |
| EBITDA | 74.5 | 182.8 | -59.2 | 30.9 | 43.6 | -29.2 | -74.2 |
| Operating Profit | 18.4 | 75.2 | -75.5 | 0.4 | 18.0 | -97.7 | -99.1 |
| Net Income | -49.2 | 96.8 | n.a. | -52.3 | 3.1 | n.a. | n.a. |
| Profitability | 6M23 | 6M22 | yoy (bps) | 2Q23 | 1Q23 | qoq (bps) | yoy (bps) |
| GPM (%) | 8.9 | 30.6 | -2,171 | 4.8 | 14.7 | -995 | -2,215 |
| EBITDA margin (%) | 14.3 | 53.5 | -3,922 | 10.1 | 20.4 | -1,026 | -4,474 |
| OPM (%) | 3.5 | 22.0 | -1,847 | 0.1 | 8.4 | -826 | -2,076 |
| NPM (%) | -9.5 | 28.4 | -3,781 | -17.1 | 1.5 | -1,856 | -2,954 |

Source: MDKA, UOB Kay Hian

• **2Q23 net loss of US\$52.3m brought 1H23 NPAT to net loss of US\$49.2m, below estimates.** MDKA reported another disappointing result in 2Q23 with net loss of US\$52.3m compared to a net profit US\$3.1m in 1Q23. The 2Q23 net profit decline was due to lower overall ASP, higher COGS, and a jump in finance expenses. 1H23 NPAT achievement missed our and consensus' expectations as it booked a net loss while we and consensus expected US\$71m and US\$64.9m of 2023 net profit respectively.

• **2Q23 revenue came in at US\$306m, up 42.8% qoq and 40.1% yoy** due to material rises in gold and nickel sales with shipment normalising and additional NPI production coming from ZHN smelter. The qoq revenue rose due to higher sales volume of gold, copper and nickel.

- The 2Q23 gold sales volume was 29,544 oz (+47.7% qoq; -17.1% yoy) with average selling price (ASP) of US\$2,000/oz (+6.0% qoq and +7.1% yoy).
- The 2Q23 copper sales volume was 4,273 tonnes (+18.6% qoq; -20.5% yoy) with ASP of US\$8,700/tonne (-1.1 qoq and -10.2% yoy).
- Meanwhile, the NPI sales volume was 11,052 tonnes (+35.3% qoq) with ASP of US\$14,118/tonne (-19.2% qoq). MDKA has also recognised nickel matte sales of 3,036 tonnes with ASP of US\$17,196/tonne as it acquired HNMI in Jun 23.

EARNINGS REVISION/RISK

• **Earnings revision.** We lowered 2023-24 earnings following MDKA's weak 1H23 results as well as changes in nickel prices, NPI sales volume, and interest expenses assumptions. We have also incorporated potential revenue from HNMI nickel matte converter.

EARNINGS REVISION

| Year to 31 Dec (US\$m) | New | | Old | | chg (%) | | Consensus | | Difference (%) | |
|------------------------------|--------|--------|--------|--------|---------|-------|-----------|-------|----------------|-------|
| | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F |
| Gold sales vol (oz) | 126 | 151 | 126 | 151 | 0.0 | 0.0 | | | | |
| Gold price (US\$/oz) | 1,900 | 1,900 | 1,900 | 1,900 | 0.0 | 0.0 | | | | |
| Copper sales vol (ton) | 17,280 | 17,280 | 17,280 | 17,280 | 0.0 | 0.0 | | | | |
| Copper price (US\$/lbs) | 3.86 | 3.86 | 3.86 | 3.86 | 0.0 | 0.0 | | | | |
| NPI sales vol (ton) | 60,000 | 88,000 | 60,000 | 80,000 | 0.0 | 10.0 | | | | |
| Nickel matte sales vol (ton) | 28,000 | 50,000 | n.a. | n.a. | n.a. | n.a. | | | | |
| LME nickel price (US\$/ton) | 22,525 | 20,000 | 21,000 | 20,000 | 7.3 | 0.0 | | | | |
| Revenue | 1,720 | 2,550 | 1,399 | 1,953 | 22.9 | 30.6 | 1,449 | 2,083 | 18.7 | 22.4 |
| EBITDA | 216 | 373 | 353 | 471 | -38.9 | -20.7 | 330 | 589 | -34.6 | -36.6 |
| Net income | 8.9 | 73 | 110 | 145 | -91.9 | -50.0 | 42 | 118 | -78.7 | -38.3 |
| EBITDA Margin (%) | 12.5 | 14.6 | 25.2 | 24.1 | -12.7 | -9.5 | 22.8 | 28.3 | -10.2 | -13.6 |
| Net Margin (%) | 0.5 | 2.8 | 7.8 | 7.4 | -7.3 | -4.6 | 2.9 | 5.6 | -2.4 | -2.8 |

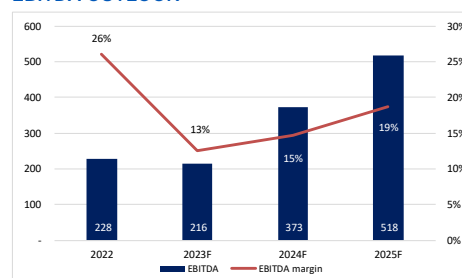
Source: UOB Kay Hian

• **Risks.** We see some risks on MDKA: lower-than-expected commodity prices, slower-than-expected project development, higher-than-expected production costs, higher interest rates.

VALUATION/RECOMMENDATION

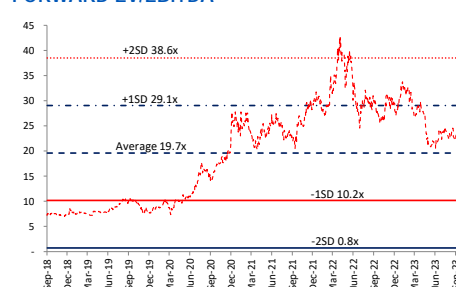
• **Maintain HOLD with a lower target price of Rp2,700**, based on its SOTP valuation. MDKA is trading at 18.5x 2023-24F EV/EBITDA or near its five-year average EV/EBITDA. Our SOTP valuation of Rp2,700 implies average five-year EV/EBITDA of 19.7x. Maintain HOLD for its promising long-term prospects as it continues to expand its nickel downstreaming business through MBMA and future projects.

EBITDA OUTLOOK



Source: MDKA, UOB Kay Hian

FORWARD EV/EBITDA



Source: Bloomberg, MDKA, UOB Kay Hian

MDKA'S SOTP

| Assets | Method | Ownership | EV (US\$m) |
|----------------------------|------------|-----------|--------------|
| TB Gold & Wetar | DCF | 100% | 342 |
| BSI, CSI, ZHN, HNMI, AIM | DCF | 30% | 1,953 |
| SCM | EV/Reserve | 31% | 1,148 |
| Tujuh Bukit Copper Project | DCF | 100% | 2,202 |
| Pani Gold Project | EV/Reserve | 70% | 242 |
| Total EV | | | 5,887 |
| Net cash (debt) | | | (1,609) |
| SOTP | | | 4,278 |
| Share Outstanding (m) | | | 24,111 |
| SOTP / share (US\$) | | | 0.18 |
| SOTP / share (Rp) | | | 2,662 |
| Final TP | | | 2,700 |

Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (US\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------|---------|---------|---------|
| Net turnover | 869.9 | 1,719.9 | 2,549.7 | 2,772.3 |
| EBITDA | 227.5 | 215.7 | 373.3 | 517.7 |
| Deprec. & amort. | 115.9 | 99.0 | 109.0 | 121.6 |
| EBIT | 111.6 | 116.7 | 264.2 | 396.0 |
| Total other non-operating income | 20.2 | 15.0 | (14.6) | (3.1) |
| Net interest income/(expense) | (41.9) | (109.1) | (139.6) | (133.3) |
| Pre-tax profit | 89.9 | 22.7 | 110.0 | 259.7 |
| Tax | (25.1) | (5.7) | (27.5) | (64.9) |
| Minorities | (6.4) | (8.1) | (10.0) | (15.0) |
| Net profit | 58.4 | 8.9 | 72.5 | 179.7 |
| Net profit (adj.) | 58.4 | 8.9 | 72.5 | 179.7 |

CASH FLOW

| Year to 31 Dec (US\$m) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-----------|---------|---------|---------|
| Operating | 463.0 | (126.2) | (33.4) | 274.7 |
| Pre-tax profit | 89.9 | 22.7 | 110.0 | 259.7 |
| Tax | (25.1) | (5.7) | (27.5) | (64.9) |
| Deprec. & amort. | 115.9 | 99.0 | 109.0 | 121.6 |
| Working capital changes | (23.3) | (234.1) | (215.0) | (26.7) |
| Other operating cashflows | 305.5 | (8.1) | (10.0) | (15.0) |
| Investing | (1,127.1) | (371.3) | (278.2) | (343.6) |
| Capex (growth) | (1,807.3) | (371.3) | (263.4) | (328.8) |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 680.2 | 0.0 | (14.8) | (14.8) |
| Financing | 931.6 | 417.2 | 285.4 | 36.1 |
| Dividend payments | 0.0 | 0.0 | 0.0 | 0.0 |
| Issue of shares | 237.5 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 1,034.0 | 412.3 | 270.6 | 21.3 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (339.9) | 4.9 | 14.8 | 14.8 |
| Net cash inflow (outflow) | 267.5 | (80.3) | (26.2) | (32.9) |
| Beginning cash & cash equivalent | 185.5 | 443.9 | 363.6 | 337.4 |
| Changes due to forex impact | (9.0) | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 443.9 | 363.6 | 337.4 | 304.5 |

BALANCE SHEET

| Year to 31 Dec (US\$m) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 1,205.9 | 1,496.2 | 1,674.5 | 1,905.7 |
| Other LT assets | 1,775.1 | 1,751.2 | 1,727.2 | 1,703.3 |
| Cash/ST investment | 443.9 | 363.6 | 337.4 | 304.5 |
| Other current assets | 451.8 | 808.0 | 1,121.5 | 1,161.4 |
| Total assets | 3,876.7 | 4,418.9 | 4,860.7 | 5,074.8 |
| ST debt | 334.3 | 259.0 | 508.4 | 29.7 |
| Other current liabilities | 270.3 | 392.4 | 491.0 | 504.1 |
| LT debt | 1,077.6 | 1,565.1 | 1,586.4 | 2,086.4 |
| Other LT liabilities | 169.7 | 169.7 | 169.7 | 169.7 |
| Shareholders' equity | 1,003.2 | 1,011.0 | 1,083.5 | 1,263.2 |
| Minority interest | 1,021.6 | 1,021.6 | 1,021.6 | 1,021.6 |
| Total liabilities & equity | 3,876.7 | 4,418.9 | 4,860.7 | 5,074.8 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|-------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 26.2 | 12.5 | 14.6 | 18.7 |
| Pre-tax margin | 10.3 | 1.3 | 4.3 | 9.4 |
| Net margin | 6.7 | 0.5 | 2.8 | 6.5 |
| ROA | 2.3 | 0.2 | 1.6 | 3.6 |
| ROE | 6.6 | 0.9 | 6.9 | 15.3 |
| Growth | | | | |
| Turnover | 128.3 | 97.7 | 48.2 | 8.7 |
| EBITDA | 15.0 | (5.2) | 73.1 | 38.7 |
| Pre-tax profit | 58.6 | (74.8) | 385.1 | 136.0 |
| Net profit | 61.7 | (84.8) | 713.9 | 147.9 |
| Net profit (adj.) | 61.7 | (84.8) | 713.9 | 147.9 |
| EPS | 46.8 | (84.8) | 713.9 | 147.9 |
| Leverage | | | | |
| Debt to total capital | 41.1 | 47.3 | 49.9 | 48.1 |
| Debt to equity | 140.7 | 180.4 | 193.3 | 167.5 |
| Net debt/(cash) to equity | 96.5 | 144.5 | 162.2 | 143.4 |
| Interest cover (x) | 5.4 | 2.0 | 2.7 | 3.9 |

STRATEGY – MALAYSIA

Malaysia Budget 2024: Fiscally Reforms Unfolding

Budget 2024 embraced fiscal consolidation by raising the SST rate, introducing a slew of new taxes and a targeted fuel subsidy reduction. The effectively slight expansionary budget is market-neutral. Meanwhile, the loosening of the MM2H criteria, along with upcoming events in October (including Malaysia-Singapore joint leader's retreat), would support the Iskandar 2.0 theme. Despite various external headwinds, we maintain our view for FBMKLCI to close the year higher.

WHAT'S NEW

- Budget 2024 signals the unfolding of gradual fiscal reforms.** Themed "Madani Economy: Empowering the People," Budget 2024 underscores the government's commitment to further accelerate the pace of fiscal consolidation without burdening vulnerable groups. Budget 2024 is slightly expansionary (excluding 2013's RM13.2b 1MDB bond redemption), and features a significantly lower fiscal deficit of 4.3%. While fiscal consolidation points to slower domestic consumption growth, the country's fiscal discipline supports our view for a stronger ringgit in 2024.
- Moderate impact on domestic consumption.** Fiscal reforms such as wider coverage and increased service tax (SST) from 6% to 8%, introduction of new taxes (luxury) and removal of chicken and egg price ceilings imply rising cost of living which will dampen consumption. Nevertheless, there are also mitigating factors such as higher cash aid to the needy, flexibility for EPF contributors to withdraw 5% of account values and higher tax deductions.
- More catalytic events later this month supporting the Iskandar 2.0 investment theme.** Besides the loosening of the Malaysia My Second Home (MM2H) criteria (details have not yet been revealed), some prominent events unfolding in October would further uplift the Iskandar 2.0 investment theme. They include the planned Malaysia-Singapore leaders' retreat at end-Oct 23 (to sort out details of the Malaysia-Singapore Special Economic Zone) and the council of rulers meeting (when the new Agong is expected to be selected).
- Mega infra projects: opportunities in LRT3 and Pan Borneo Sabah Highway.** The project value for LRT3 has been upsized by RM5b (reinstatement of five stations) while the award of Pan Borneo Sabah Highway (PBSH) has been indicated to be in November. The beneficiaries are MRCB for the former project, and potentially Gabungan AQRS for the latter project. The expected rollout of new mega projects in 2024 (MRT3, PBSH) also implies improving demand for the building material (particularly cement) sector.
- Sin sector: no news is good news.** No additional indirect tax burden was imposed on the casino segment as feared, which should positively pave the way for gradual stock price recoveries, although the sector lacks strong re-rating catalysts in the near term.

ACTION

- Strategy: Still position for a higher year-end closing.** By year-end, Malaysian equities should be pricing in positive expectations for 2024 such as: a) globally, easing inflation pressures, interest rate downcycle, semiconductor cycle recovery, and some economic recovery in China, and b) domestically, improving outlook for the ringgit and a pick-up in corporate earnings (FBMKLCI's earnings expected to rise to 10% from 2023's 3%).
- Maintaining our end-23 FBMKLCI target of 1,540** (based on 15.6x 2023F PE or -0.50SD to the historical mean). Our top picks are Hume Cement, Inari Amertron, IOI Corporation, Malaysia Airports, My EG Services, NationGate Holdings and Yinson Berhad. We dropped MrDIY as a top pick given the expected consumption slowdown.

STOCK PICKS

| Company | Ticker | Rec | Share Price (RM) | Target Price (RM) | Net Profit | | | EPS | | | PE | | | Yield (2024F) | ROE (2024F) | Market Cap (US\$m) | P/B (2024F) |
|----------------------------|------------|-----|------------------|-------------------|------------|-------------|-------------|------------|-------------|-------------|----------|-----------|-----------|---------------|-------------|--------------------|-------------|
| | | | | | 2022 (RMm) | 2023F (RMm) | 2024F (RMm) | 2022 (sen) | 2023F (sen) | 2024F (sen) | 2022 (x) | 2023F (x) | 2024F (x) | | | | |
| Hume Cement | HUME MK | BUY | 1.78 | 2.54 | 121.5 | 136.3 | 123.7 | 16.9 | 18.9 | 17.2 | 10.5 | 9.4 | 10.3 | n.a | 24.0 | 192.5 | 1.1 |
| Inari Amertron | INRI MK | BUY | 2.95 | 3.80 | 319.5 | 405.8 | 450.1 | 8.6 | 10.9 | 12.1 | 34.4 | 27.1 | 24.4 | 3.3 | 15.4 | 2335.7 | 4.1 |
| IOI Corporation | IOI MK | BUY | 3.91 | 4.80 | 1519.4 | 1651.2 | 1847.0 | 24.2 | 26.3 | 29.4 | 16.2 | 14.9 | 13.3 | 3.5 | 14.0 | 5130.1 | 2.0 |
| Malaysia Airports Holdings | MAHB MK | BUY | 7.39 | 8.11 | 163.5 | 416.9 | 701.1 | 9.9 | 25.1 | 42.3 | 75.0 | 29.4 | 17.5 | 1.9 | 6.6 | 2607.8 | 2.1 |
| My EG Services Bhd | MYEG MK | BUY | 0.82 | 1.18 | 413.0 | 433.5 | 466.7 | 5.6 | 5.9 | 6.3 | 14.7 | 14.0 | 13.0 | 2.1 | 18.2 | 1294.0 | 2.4 |
| NationGate | NATGATE MK | BUY | 1.23 | 1.83 | 85.3 | 76.2 | 151.6 | 4.1 | 3.7 | 7.3 | 30.0 | 33.2 | 16.8 | n.a | 19.8 | 539.5 | 3.3 |
| Yinson | YNS MK | BUY | 2.44 | 3.75 | 467.2 | 623.8 | 797.8 | 13.6 | 18.2 | 23.3 | 17.9 | 13.4 | 10.5 | 4.1 | 10.4 | 1500.0 | 1.9 |

Source: Bloomberg, UOB Kay Hian

CURRENT FBMKLCI: 1,444
 TARGET END-23 FBMKLCI: 1,540
 HIGHLIGHTS OF BUDGET 2024

- Effectively a modest expansionary Budget (excluding 1MDB repayment distortion)
- Fiscal consolidation (a narrower fiscal deficit of 4.3%)
- The introduction of a slew of consumption taxes and capital gains tax for non-listed entities
- Sales & Service Taxes raised to 8% from 6% (except for F&B and telco) and coverage extended to more service activities
- RM52.8b in subsidies (2023e: RM81b)
- A narrow fuel subsidy rationalisation
- EPF: a flexible account that can be withdrawn from at will

| | 2022 | 2023P | 2024F |
|--------------------------------------|------|---------|---------|
| GDP growth (%) | 8.7 | -4.0 | 4.0-5.0 |
| Inflation (%) | 3.3 | 2.5-3.0 | 2.1-3.6 |
| Unemployment (%) | 3.5 | 2.5-3.0 | 3.4 |
| Fiscal deficit (% of GDP) | -5.6 | -5.0 | -4.3 |
| Current account balance (% of GNI) | 2.6 | 3.4 | 3.2 |
| Global oil price (US\$/bbl, average) | 100 | 80 | 85 |

Source: MoF, BNM, Economic/Fiscal Outlook 2023

REAL GDP GROWTH

| (yoy %) | 2022 | 2023P | 2024F |
|---------------------|------|-------|-------|
| Domestic Demand | 9.2 | 4.9 | 5.3 |
| Private expenditure | 10.3 | 5.3 | 5.6 |
| Consumption | 11.2 | 5.6 | 5.7 |
| Investment | 7.2 | 4.3 | 5.4 |
| Public expenditure | 4.7 | 2.8 | 4.1 |
| Consumption | 4.5 | 1.0 | 2.6 |
| Investment | 5.3 | 8.2 | 8.3 |
| External Sector | -1.0 | 1.1 | 5.5 |
| Exports | 14.5 | (6.2) | 4.1 |
| Imports | 15.9 | (6.8) | 3.9 |

Source: Economic/Fiscal Outlook 2023

FEDERAL GOVERNMENT FINANCE

| (Rmb) | 2022 | 2023P | 2024F |
|-------------------------|--------|--------|--------|
| Total Revenue | 294.4 | 303.2 | 307.6 |
| Operating Expenditure | 292.7 | 300.1 | 303.8 |
| Current Account Balance | 1.7 | 3.1 | 3.8 |
| Net Dev Expenditure | 70.2 | 96.3 | 89.2 |
| COVID-19 Fund | 31.0 | - | - |
| Overall Budget Balance | (99.5) | (93.2) | (85.4) |
| Deficit (% of GDP) | (5.6) | (5.0) | (4.3) |

Source: Economic/Fiscal Outlook 2023

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BUDGET 2023 MEASURES

| Sector | Measures | Stock Impact/Comments |
|---------------|---|---|
| Macro/General | <p>Revenue: Up 1.5% to RM307.6b from RM303.2b</p> <ul style="list-style-type: none"> - Tax revenue expected to grow 6.4%, fuelled by improving economic conditions and higher tax from SST and newly imposed taxes. - Lower Petronas dividends of RM32b (2023F RM40b). <p>Total Expenditure: Down 0.8% to RM393.8b</p> <ul style="list-style-type: none"> - Operating expenditure (OE) +1.2% to RM303.8b, reflecting higher allocation for emoluments, debt service charges, retirement charges and supplies and services; offset partially by a reduction in subsidies - Development expenditure (DE) -7.2% to RM90.0b. The economic sector will receive 50.3%, social sector 31.5%, security sector 13.9% and general administration 4.3%. Adjusted DE is actually up 7.4% yoy after excluding the RM13.2b 1MDB bond redemption in 2023. - RM2b in contingency savings. <p>Fiscal Deficit: 4.3%, down from 2023F of 5.0%.</p> <ul style="list-style-type: none"> - Medium-term target is for fiscal deficit to reduce to 3% overall. | |
| Taxes | <p>Service tax increased to 8% from 6%</p> <ul style="list-style-type: none"> - Not applicable to F&B, telcos. - Service tax expanded to cover logistics, brokerage (excluding trading of securities), underwriting and karaoke. <p>New 10 % capital gains tax on unlisted company shares</p> <ul style="list-style-type: none"> - Considering exemptions for IPOs, internal restructuring and venture capital. <p>New luxury goods tax set at 5%-10%</p> <p>Global minimum tax by 2025</p> <ul style="list-style-type: none"> - Targeting to impose global minimum tax for companies with global income exceeding €750m (RM3.76b) per annum. | <p>Higher effective taxes coupled with the removal of price controls on chickens and eggs would soften overall domestic consumption trends, although the impact would be mitigated by higher direct cash aid to the needy. The new EPF structure features a new flexible account that can be withdrawn from at will, and higher tax deductions on individual income tax.</p> |
| Sector | | |
| Automotive | <p>No significant new incentives to boost EV adoption except:</p> <ol style="list-style-type: none"> Extension of income tax relief for EV charging expenses above RM2,500 for an additional four years Tax deductions for EV rental costs for an additional four years (from 2024 till 2027), Introduction of Electric Motorcycle Adoption Incentive Scheme for people with annual incomes of RM120,000 or less, and offering rebates up to RM2,400 to buyers | <p>NEUTRAL. The sales contribution of electric vehicles (EVs) cars remains insignificant but is showing improvement from a low base number. Continuous launches of new EV brands and models as well as previous incentives, may support the upfront demand.</p> <p>EV car distributors like Bermaz Auto (Mazda, Kia, and Peugeot) and Sime Darby (BMW and BYD) stand to benefit due to their established presence in the Malaysian market.</p> |
| Banking | <p>Total value of loan guarantee and financing for SME and micro SME amounting to Rm44b.</p> <p>BNM to provide RM900m funding allocation to SME to encourage increase productivity.</p> <p>Government to increase Skim Jaminan perumahan to RM10b.</p> | <p>NEUTRAL. The cumulative funding of RM55b is equivalent to less than 3% of system loans growth. However, as every 1% incremental improvement in loans growth will only impact sector earnings by 0.5% we see the overall impact to be fairly marginal.</p> |
| Construction | <p>Lower development expenditure of RM90b (-9.1% yoy vs RM99b under the revised budget 2023)</p> <p>Sabah and Sarawak to receive higher development expenditure of RM6.6b and RM5.8b respectively</p> <p>RM23.1b allocated for the Pan Borneo Sabah Highway Phase 1B and Sarawak-Sabah Link Road</p> <p>RM10b cost for Penang LRT is confirmed</p> <p>Resumption of the proposed construction of five LRT3 stations at a cost of RM4.7b</p> <p>33 high-priority flood mitigation projects with a total cost of RM11.8b will be implemented in 2024</p> <p>RM8.2b allocation for the repair and maintenance of roads and bridges</p> <p>RM2.5b allocated for the execution of low-cost house projects</p> | <p>NEUTRAL. Budget allocated is mainly for ongoing infra projects and development of rural infrastructure.</p> <p>While feeling positive with the honourable mention of Penang LRT and the revival of the proposed construction of five LRT3 stations, we were surprised by the lack of clarity on MRT3 despite it being highlighted earlier in the re-tabled Budget 2023.</p> <p>Potential beneficiaries of mega projects:</p> <p>MRT3: Gamuda, MMC Corp, MRCB, IJM, Sunway Construction, YTL, WCT, GAQRS, HSS</p> <p>PBH Sabah Phase 1B: Suria Capital, GAQRS, WCT</p> <p>Flood mitigation projects: Gamuda, IJM, MRCB</p> <p>For Sarawak: Hock Seng Lee and KKB Engineering followed by CMS and SCIB. HSS may also benefit from project management jobs for infra work in Sabah and Sarawak</p> <p>For Sabah: GAQRS, Suria Capital</p> <p>Rural infrastructure roads: Protasco, Vizione, Cahya Mata, Hock Seng Lee</p> <p>Potential beneficiaries of affordable and low-cost housing include Inta Bina, Vizione, and Vertice</p> |
| Consumer | <p>RM58.1b (Budget 2023: RM64b) is provided to finance various forms of government grants to the people including subsidies, incentives and assistance. Allocation for targeted cash handouts increased to RM10b (Budget 2023: RM8b), which will benefit 9m recipients (Budget 2023: 9m) under the Bantuan Keluarga Malaysia (BKM) programme or 60% of the Malaysian adult population. In totality,</p> | <p>NEUTRAL. As expected, there were no revisions to excise duties on alcohol and tobacco (excise duty introduction on chewing tobacco products is the exception). However, the new developments are positive for the brewers. While BAT offers oral products, we estimate that chewing tobacco products represent a minimal or insignificant contribution to overall revenue.</p> |

| | | |
|------------|--|---|
| | <p>the government is allocating RM12.4b for both BKM and the Department of Social Welfare assistance in 2024 (Budget 2023: RM10b).</p> <p>Tobacco and breweries</p> <p>a) From 1 Jan 24, the government will tighten smuggling control measures. Transshipment activities for liquor products will be limited to certain ports only.</p> <p>b) Bukit Immigration, Customs, Quarantine and Security Complex Kayu Hitam will be used as a single exit for northern region.</p> <p>c) Import activities for cigarettes for the domestic market should done as a full container load (full container loads).</p> <p>d) Excise duty is introduced on chewing tobacco products at a rate of 5% plus 27 ringgit per kilogram.</p> <p>Egg and chicken subsidy. Since Feb 22, the government has borne RM3.8b for egg and chicken subsidy. However, since market prices have fallen below the price control ceiling, the price control ceiling will be removed.</p> <p>Sugar tax. Excise duty rate for sugary drinks is increased from RM0.40 to RM0.50 per litre. This applies to non-alcoholic beverages containing added sugars of more than 5g per 100ml drink; and for fruit or vegetable juice containing added sugars of more than 12gm per 100ml drink.</p> | <p>We had earlier anticipated for pricing to eventually revert to market driven and therefore this development does not affect our outlook for poultry operators under coverage.</p> <p>More than 90% of F&N products are below the threshold applicable to excise duty. Therefore, we estimate that the increased sugar tax has a minimal impact on F&N.</p> |
| Gaming | <p>Nothing major announced. The sector may be impacted by SST hike from 6% to 8% as they are unable to pass through the extra 2% to consumers, but earnings impact is not significant.</p> | <p>POSITIVE. The absence of punitive indirect tax measures being imposed or duty hikes is seen as a positive.</p> <p>In addition for NFO subsector, there are no changes to special draw days of 8 draws annually.</p> <p>The casino subsector should benefit from the government's plan to improve Visa-On-Arrival and offer Multiple Entry Visa for China and India tourists</p> |
| Healthcare | <p>Budget 2024 saw an increased 13.4% yoy allocation to the Ministry of Health (MoH) at RM41.2b (Budget 2023: RM36.3b). It accounts for 10.5% (Budget 2023: 9.1%) of the total budget. Meanwhile RM5.5b has been allocated to obtain supplies of medicine, materials consumables, reagents and vaccines.</p> | <p>NEUTRAL. We believe the allocation for procurement could be in-line with the overall increased allocation to the MoH. The relatively sizeable increase should help ease concerns over government pharmaceutical tenders, especially for the likes of Duopharma and Pharmaniaga.</p> |
| Plantation | <p>RM2.4b allocated to FELDA, FELCRA, and RISDA to further boost agri-commodity activities and improve the socio-economic status of smallholders.</p> <p>Oil Palm Replanting Incentive Program with an allocation of RM100m. This incentive will be offered in the form of grants and loans to 7,000 small private oil palm farmers.</p> <p>RM70m allocation to enhance the sustainability of the palm oil industry and intensify the campaign to address the anti-palm oil sentiment on the international stage.</p> <p>To increase the productivity of plantation products and reduce dependence on foreign labour through mechanization and automation, the scope of incentive for automation will be expanded to cover the commodity sector.</p> | <p>NEUTRAL. The allocation for oil palm replanting and for sustainability purpose mirrors the previous allocation level from previous budget</p> |
| Property | | <p>NEUTRAL as the highly anticipated Johor-themed incentives (such as special economic zones) are not mentioned.</p> <p>The government will establish a high-technology industrial area in Kerian, Northern Perak.</p> <p>The government has also agreed to relax the existing conditions for Malaysia My Second Home (MM2H) applications to increase the arrival of foreign tourists and investors in Malaysia</p> <p>The government has agreed to resume the construction plans for the five previously cancelled LRT3 stations, namely Tropicana, Raja Muda, Temasya, Bukit Raja, and Bandar Botanik.</p> <p>Pengerang Integrated Petroleum Complex (PIPC) to be developed into a hub for the chemical and petrochemical sector with the provision of tax incentives in the form of special tax rates or investment tax allowances.</p> <p>The Penang LRT to Seberang Perai will be as planned by the State Government A special guarantee fund of RM1b is provided to encourage reputable developers to revive identified abandoned projects.</p> <p>The government will increase the Home Credit Guarantee Scheme to RM10b for the benefit of 40,000 borrowers.</p> <p>As a measure to control property prices, the government intends to impose a flat 4% stamp duty on property transfer instruments by non-citizens and foreign-owned companies, except for permanent residents in Malaysia.</p> |
| Technology | <p>RM10m will be set aside for the E&E sector under MIMOS, Aeronautical sector under MYSA and drone technology and robotics under MRANTI to foster</p> | <p>Based on our channel checks, none of the developers under our coverage have landbank in Kerian, Perak.</p> <p>Although specific details are yet to be provided, we are optimistic about the prospects of the MM2H relaxation in spurring demand, particularly in Johor.</p> <p>We expect townships like Setia Alam which near to Raja Muda proposed LRT3 (SP Setia Bhd), Bukit Raja (Sime Darby Property) and Bandar Botanik (Gamuda Bhd) to benefit from these new stations.</p> <p>This should benefit Mah Sing's Meridin East, Johor township (1,008 acres with GDV of RM3.7b).</p> <p>This should benefit E&O for its Andaman Island development</p> <p>We think this should benefit NCT Alliance on its expertise of revival of abandoned projects.</p> <p>We believe this should benefit affordable housing players like Lagenda, Mah Sing and Matrix Concept</p> <p>While this measure discourage speculative property purchases by non-residents and foreign entities (which can sometimes contribute to rising property prices in the country), it could also be seen as to make property ownership and investment less attractive to non-residents compared to local residents and permanent residents.</p> <p>LONG TERM POSITIVE to Malaysia technology/semiconductor sectors. Initiatives as stated in the form of investment funds, grants, tax</p> |

| | | |
|------------------|--|--|
| | <p>innovation among the industrial players.</p> <p>The government will establish a new high-technology industrial area in Kerian, Northern Perak to build a broader ecosystem for the E&E cluster in the northern region.</p> <p>Allocation up to 10% of the total NIMP investment to support NIMP mission with an initial funding of RM200m in 2024.</p> <p>Manufacturing companies undertaking expansion, diversification, automation and modernization projects are eligible for Reinvestment Allowance (RA). These companies are eligible to claim RA of 60% of the capital expenditure incurred and can be set-off against up to 70% of statutory income for 15 consecutive years of assessment.</p> <p>To encourage existing companies that have exhausted their RA eligibility period and to increase capacity and investment in high-value activities under the NIMP 2030, the eligible investment tax allowance rate of a) both 100% for Tier 1 and b) 60%/70% for Tier 2 - qualifying capex and statutory income to be set-off, will be determined by an outcome-based approach.</p> <p>Manufacturing, services and agricultural companies that incurred capex for automation equipment including the adaptation of 4.0 elements are given 100% Accelerated Capital Allowance (ACA) on the first RM10m of the qualifying capital expenditure and can be fully absorbed within one year. Companies are also eligible for income tax exemption equivalent to 100% on the same capital expenditure.</p> | <p>allowances, incentives and tax deductions which aim to attract the +1 policy and trade diversion into Malaysia would continue to support the sector vibrancy.</p> |
| Telco | <p>SST maintained at 6% - neutral on the telco sector.</p> <p>DNB has achieved 70% population coverage. This will benefit consumers. Government proposes to develop a 5G Cyber Security Testing Framework to increase preparedness against the threat of cyber attacks. RM60m has been allocated for this goal.</p> | NEUTRAL. No winner or loser arising from Budget announcement. |
| Utilities | <p>Focus on National Energy Transition Roadmap (NETR) goal of achieving 70% renewable energy generation mix by 2050.</p> | No new measures were announced in Budget 2024. |

Source: UOB Kay Hian

COMPANY RESULTS

IGB REIT (IGBREIT MK)

3Q23: Results Beat Expectations On Higher Turnover Rent

IGB REIT recorded a strong 3Q23 performance driven by sustained consumer spending. While 3Q23 utilities expenses were higher yoy, the lower ICPT charges since Jul 23 helped reduce utilities expenses qoq, thus improving its NPI margin. 4Q23 should see higher qoq revenue and net profit with a seasonally stronger quarter, contributed by higher turnover rent from the festive season. Maintain HOLD with a higher target price of RM1.80.

3Q23 RESULTS

| Year to 31 Dec (RMm) | 3Q23 | 2Q23 | qoq % chg | yoy % chg | 9M23 | yoy % chg |
|----------------------|--------|--------|----------------|----------------|---------|----------------|
| Revenue | 149.7 | 141.5 | 5.8 | 6.8 | 445.8 | 9.4 |
| Property Expenses | (38.4) | (38.7) | (0.9) | (7.4) | (113.2) | 21.6 |
| Net Property Income | 111.3 | 102.8 | 8.3 | 10.0 | 332.6 | 5.7 |
| Other Income | 1.7 | 1.1 | 55.2 | (66.2) | 3.8 | (35.5) |
| Trust expenses | (10.4) | (9.4) | 10.3 | 11.5 | (29.8) | 4.8 |
| Finance costs | (13.6) | (13.5) | 1.1 | 1.6 | (40.4) | 1.8 |
| PAT | 88.9 | 81.0 | 9.9 | 6.7 | 266.1 | 5.5 |
| EPU (sen) | 2.5 | 2.3 | 9.9 | 5.3 | 7.4 | 4.1 |
| DPU (sen) | 2.6 | 2.4 | 9.7 | 6.6 | 7.8 | 5.0 |
| Margins (%): | | | ppt chg | ppt chg | | ppt chg |
| Net property income | 74.4 | 72.6 | 2.4 | 3.0 | 74.6 | (2.6) |
| PAT | 59.4 | 57.2 | 3.9 | (0.1) | 59.7 | (2.2) |

Source: IGB REIT, UOB Kay Hian

RESULTS

- **Results beat expectations.** IGB REIT reported 3Q23 revenue of RM149.7m (+5.8% qoq, +6.8% yoy) and core net profit of RM88.9m (+9.9% qoq, 6.7% yoy). Cumulatively, 9M23 net profit of RM266m (+5.5% yoy) accounted for 76% and 74% of our and consensus' full-year estimates respectively. Despite the traditionally weaker/flattish 3Q in the retail space due to absence of festivities, IGB REIT achieved resilient results thanks to a boost in turnover rent (comprising 12-15% of total rent). This was primarily driven by sustained consumer spending, buoyed by its unique retail offerings.
- We exclude RM162m in exceptional items (from net fair value changes) from 9M23's reported net profit of RM428m.
- **Declared 2.6 sen dividend for 3Q23** (+9.7% qoq, +6.6% yoy), which brought 9M23 dividend to 7.8 sen (9M22: 7.4 sen), representing annualised yield of 6.1%.

KEY FINANCIALS

| Year to 31 Dec (RMm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|------------------------------|------|------|-------|-------|-------|
| Net turnover | 400 | 556 | 609 | 635 | 658 |
| EBITDA | 246 | 382 | 406 | 420 | 436 |
| Operating profit | 245 | 382 | 406 | 420 | 436 |
| Net profit (rep./act.) | 200 | 396 | 359 | 373 | 388 |
| Net profit (adj.) | 200 | 336 | 359 | 373 | 388 |
| EPU (sen) | 5.6 | 9.5 | 10.1 | 10.5 | 11.0 |
| DPU (sen) | 6.0 | 9.9 | 10.5 | 10.9 | 11.4 |
| PE (x) | 30.3 | 17.9 | 16.8 | 16.2 | 15.5 |
| P/B (x) | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| DPU Yld (%) | 3.5 | 5.8 | 6.2 | 6.4 | 6.7 |
| Net margin (%) | 50.1 | 71.2 | 59.0 | 58.7 | 59.0 |
| Net debt/(cash) to asset (%) | 26.1 | 24.7 | 25.9 | 26.7 | 28.3 |
| Interest cover (x) | 5.5 | 8.3 | 8.7 | 8.9 | 9.1 |
| ROE (%) | 5.3 | 10.3 | 9.3 | 9.8 | 10.3 |
| Consensus DPU (sen) | n.a. | n.a. | 10.2 | 10.6 | 11.1 |
| UOBKH/Consensus (x) | - | - | 1.03 | 1.03 | 1.03 |

Source: IGB REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|---------------|---------|
| Share Price | RM1.70 |
| Target Price | RM1.80 |
| Upside | +5.7% |
| (Previous TP) | RM1.75) |

COMPANY DESCRIPTION

IGB REIT is a real estate investment trust. Its portfolio consists of the Mid Valley Megamall and The Gardens Mall in Malaysia.

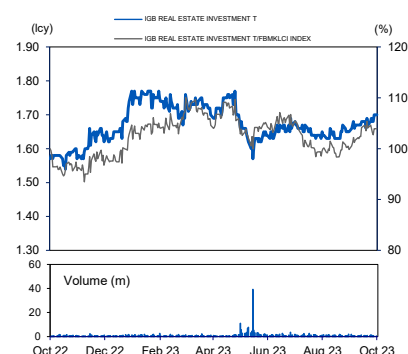
STOCK DATA

| | | | | |
|---------------------------------|---------------|-------------|------------|------------|
| GICS sector | Real Estate | | | |
| Bloomberg ticker: | IGBREIT MK | | | |
| Shares issued (m): | 3,597.8 | | | |
| Market cap (RMm): | 6,116.3 | | | |
| Market cap (US\$m): | 1,293.5 | | | |
| 3-mth avg daily t'over (US\$m): | 0.3 | | | |
| Price Performance (%) | | | | |
| 52-week high/low | RM1.77/RM1.54 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 3.0 | 2.4 | (1.2) | 7.6 | 3.0 |

Major Shareholders

| | |
|--------------------------|------|
| IGB Corp Berhad | 48.2 |
| Employees Provident Fund | 11.6 |
| Kumpulan Wang Persaraan | 7.4 |
| FY23 NAV/Share (RM) | 1.08 |
| FY23 Net Debt/Share (RM) | 0.28 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

Nazira Abdullah
+603 2147 1934
nurulnazira@uobkayhian.com

STOCK IMPACT

- **NPI margin was compressed on higher utilities charges.** 9M23 net property income (NPI) margin fell to 74.6% (9M22: 77.2%, 2022: 76%) on higher utility expenses. However, qoq wise, 3Q23 NPI margin was higher by 2.4ppt mainly on lower utility costs (-6%) from lower ICPT charges (from Jul 23 onwards). 3Q23 NPI margin was also higher by 3.0ppt yoy on lower maintenance expenses (-10%) and other expenses (-16% on lower upgrading cost) despite higher utilities (+22%).
- **4Q23 should see higher revenue and net profit qoq on seasonally stronger quarter,** contributed by higher turnover rent from festive season such as school holidays and Christmas. We forecast 4Q23 to post a 9% increase in revenue qoq (on higher turnover rent from higher tenants' sales) while net profit is expected to grow slightly slower at 5%. This is because we anticipate that other expenses and maintenance expenses will normalise, with utility charges to remain relatively stable.
- **Occupancy remained resilient** with Mid Valley and The Gardens at almost 100%. On lease expiry, about 30-40% of NLA is due for renewal in 2023. With tenants' sales continuously improving and consumer spending remaining relatively resilient, we believe IGB REIT will be able to achieve positive rental reversion for any renewals this year.
- **Well-managed debt; minimal impact from interest rate hike.** We continue to like IGB REIT due to its lean balance sheet with a low gearing level of 0.24x, which is well below the 0.5x threshold set by the Securities Commission. In terms of its debt structure, almost all its debt is on fixed financing rate.

EARNINGS REVISION/RISK

- We increased our net profit forecast by largely 6% for 2023F-25F to account for higher rental income from higher turnover rent.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM1.80 (from RM1.75)** as we increase our earnings base. Our target price is based on a dividend discount model (required rate of return: 7.9%, terminal growth: 2.0%), with an implied dividend yield of 5.9% for 2023F. We reckon the current valuation now is fair given that its forward yield spread to MGS of 2.1ppt has already narrowed to its historical mean (2.0ppt).

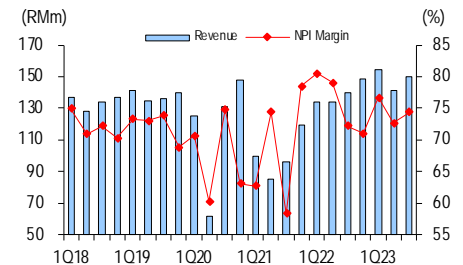
SHARE PRICE CATALYST

- Higher-than-expected rental reversions and consumer spending.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

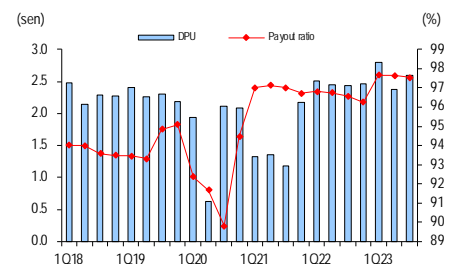
| |
|--|
| <ul style="list-style-type: none"> • Environmental - Remains committed to exploring ways to continue to reduce energy consumption and monitor total electricity consumed monthly. Electricity consumption has been on a downtrend since 2016 (base year). |
| <ul style="list-style-type: none"> • Social - Regular cybersecurity training through e-portals as well as ad hoc social engineering tests throughout the year. - Both malls continued practicing many of the health and safety initiatives implemented during the height of the pandemic, even as many COVID-19 restrictions and standard operating procedures were relaxed. These include frequent cleaning of high touch surfaces such as those in common areas, toilets, and car parks, the use of ultraviolet (UV) light to sterilise smaller enclosed areas such as elevators and suraus, and the use of high-performance UV light to purify the air in all Air Handling Units. |
| <ul style="list-style-type: none"> • Governance - The Board comprises four independent directors and five non-independent directors. There are four Board Committees – Audit Committee, Nomination Committee, Remuneration Committee and Sustainability Committee. - Subscribes to IGB Group's Anti-Bribery and Corruption Policy, which adheres to the Malaysian Anti-Corruption Commission Act 2018. |

REVENUE AND NPI MARGIN



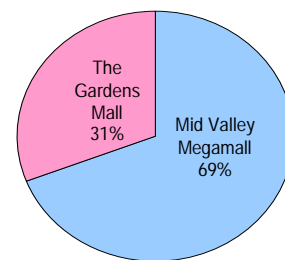
Source: IGB REIT, UOB Kay Hian

DPU AND PAYOUT RATIO



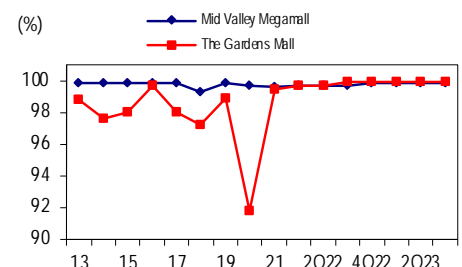
Source: IGB REIT, UOB Kay Hian

3Q23 REVENUE CONTRIBUTION



Source: IGB REIT, UOB Kay Hian

OCCUPANCY RATE



Source: IGB REIT, UOB Kay Hian

ASSUMPTIONS

| | 2023F | 2024F | 2025F |
|--|-------|-------|-------|
| Mid Valley Megamall | | | |
| Occupancy (%) | 99.9 | 99.9 | 99.9 |
| Blended rental step-up (%) | +6.0 | +5.0 | +5.0 |
| Rental Income – including car park income (RM m) | 417.3 | 436.6 | 453.4 |
| The Gardens Mall | | | |
| Occupancy (%) | 99.9 | 99.9 | 99.9 |
| Blended rental step-up (%) | +5.0 | +4.0 | +4.0 |
| Rental Income – including car park income (RM m) | 191.3 | 198.4 | 204.3 |

Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|------|-------|-------|-------|
| Net turnover | 556 | 609 | 635 | 658 |
| EBITDA | 382 | 406 | 420 | 436 |
| Deprec. & amort. | 0 | 0 | 0 | 0 |
| EBIT | 382 | 406 | 420 | 436 |
| Associate contributions | 0 | 0 | 0 | 0 |
| Net interest income/(expense) | (46) | (46) | (47) | (48) |
| Pre-tax profit | 396 | 359 | 373 | 388 |
| Tax | 0 | 0 | 0 | 0 |
| Minorities | 0 | 0 | 0 | 0 |
| Net profit | 396 | 359 | 373 | 388 |
| Net profit (adj.) | 336 | 359 | 373 | 388 |

CASH FLOW

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|-------|-------|-------|-------|
| Operating | 425 | 439 | 441 | 429 |
| Pre-tax profit | 336 | 359 | 373 | 388 |
| Tax | 0 | 0 | 0 | 0 |
| Deprec. & amort. | 0 | 0 | 0 | 0 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | 35 | 33 | 20 | (7) |
| Other operating cashflows | 54 | 46 | 47 | 48 |
| Investing | 6 | (3) | (3) | (3) |
| Capex (growth) | 0 | (3) | (3) | (3) |
| Investments | 0 | 0 | 0 | 0 |
| Others | 7 | 0 | 0 | 0 |
| Financing | (397) | (442) | (457) | (473) |
| Distribution to unitholders | (343) | (389) | (403) | (420) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | 0 | 0 | 0 | 0 |
| Others/interest paid | (54) | (53) | (53) | (53) |
| Net cash inflow (outflow) | 35 | (7) | (19) | (47) |
| Beginning cash & cash equivalent | 193 | 228 | 222 | 203 |
| Changes due to forex impact | 30 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 258 | 222 | 203 | 155 |

BALANCE SHEET

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 5,020 | 5,020 | 5,020 | 5,020 |
| Other LT assets | 2 | 5 | 8 | 11 |
| Cash/ST investment | 258 | 222 | 203 | 155 |
| Other current assets | 37 | 78 | 67 | 65 |
| Total assets | 5,318 | 5,324 | 5,298 | 5,251 |
| ST debt | 15 | 15 | 15 | 15 |
| Other current liabilities | 232 | 280 | 296 | 294 |
| LT debt | 1,199 | 1,199 | 1,199 | 1,199 |
| Other LT liabilities | 0 | 0 | 0 | 0 |
| Shareholders' equity | 3,871 | 3,830 | 3,787 | 3,743 |
| Minority interest | 0 | 0 | 0 | 0 |
| Total liabilities & equity | 5,318 | 5,324 | 5,298 | 5,251 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|--------------------------|------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 68.6 | 66.7 | 66.2 | 66.3 |
| Pre-tax margin | 71.2 | 59.0 | 58.7 | 59.0 |
| Net margin | 71.2 | 59.0 | 58.7 | 59.0 |
| ROA | 7.5 | 6.8 | 7.0 | 7.4 |
| ROE | 10.3 | 9.3 | 9.8 | 10.3 |
| Growth | | | | |
| Turnover | 39.3 | 9.4 | 4.3 | 3.6 |
| EBITDA | 55.4 | 6.3 | 3.6 | 3.8 |
| Pre-tax profit | 97.9 | (9.3) | 3.8 | 4.1 |
| Net profit | 97.9 | (9.3) | 3.8 | 4.1 |
| Net profit (adj.) | 68.0 | 6.9 | 3.8 | 4.1 |
| EPU | 69.0 | 6.9 | 3.8 | 4.1 |
| Leverage | | | | |
| Debt to total capital | 23.9 | 24.1 | 24.3 | 24.5 |
| Debt to total asset | 31.4 | 31.7 | 32.1 | 32.4 |
| Net debt/(cash) to asset | 24.7 | 25.9 | 26.7 | 28.3 |
| Interest cover (x) | 8.3 | 8.7 | 8.9 | 9.1 |

ASIAN GEMS CORPORATE HIGHLIGHTS

SATS (SATS SP)

Gradually Improving Outlook With Stablisng Global Air Cargo Demand

During UOB Kay Hian's Asian Gem Conference, management updated that the integration of SATS and WFS has been progressing well and the global air cargo demand appears to be stabilising. We expect SATS to show sequential earnings improvement in the next few quarters but the realisation of its full earnings potential may only happen in FY26 (2025). Maintain BUY. Target price: S\$2.99.

WHAT'S NEW

- Gradually improving outlook.** We attended an investor meeting with SATS Ltd (SATS) during our Asian Gem Conference on 13 Oct 23 with 14 institutional investors. During the meeting, management shared an update about SATS' integration with Worldwide Flight Services (WFS) and their insights about global air cargo sectors. We believe that SATS' overall outlook is gradually improving, but it may take another 1.5-2 years before SATS can realise its full earnings potential.
- Integration with WFS progressing well.** With the major acquisition of WFS (completed in early-Apr 23), SATS has since transformed itself to become the world's largest air cargo handler (leading shares of volume across major global airports). Management updated that the integration of SATS and WFS has been progressing very well. The integration efforts have been centered around enhancing productivity through operation excellence and effective cost management. Leveraging the enlarged network, SATS has also won new contracts of in excess of S\$15m p.a. and is working closely with a major global freight forwarder customer to explore cross-border services to enhance speed, streamline processes and harness the potential of multimodal logistics.
- Focusing on restoring profitability.** Management reiterated that SATS' key priority is to accelerate the synergy realisation and to return to profitability in order to be able to resume dividend payment to shareholders.
- Stabilising global cargo demand.** Management noted that although air cargo demand has been lacklustre in the past 12-15 months, the company is seeing positive signs that the contraction of cargo volume is reducing. We note that management's observation is in line with the IATA (International Air Transport Association) air cargo data. According to IATA, global air cargo volume (measured by cargo tonne-kilometers, or CTk) declined 6.0% yoy in 8M23 but on a monthly basis the yoy contraction has been narrowing for the past few months and in Aug 23 the yoy growth returned to a positive 1.5% (although Aug 23 absolute cargo volume was still 1.3% lower than the pre-pandemic 2019 levels). Management remains hopeful that cargo volume would pick up further as global economic outlook improves.
- Releasing 2QFY24 results on 10 Nov 23.** SATS is expected to release its 2Q/1HFY24 results on 10 Nov 23. Management noted that SATS' auditors have finished a preliminary review about the accounting treatment (purchase price allocation and IFRS conversion) for WFS, the impacts (non-cash) of which will be reflected in SATS' 2QFY24 results.

KEY FINANCIALS

| Year to 31 Mar (S\$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|--------|--------|-------|-------|-------|
| Net turnover | 1,177 | 1,758 | 5,165 | 5,469 | 5,664 |
| EBITDA | 77 | 128 | 783 | 950 | 981 |
| Operating profit | (43) | (48) | 208 | 369 | 395 |
| Net profit | 20 | (27) | 90 | 252 | 286 |
| EPS (S\$ cent) | 1.7 | (2.2) | 6.0 | 16.9 | 19.1 |
| PE (x) | 148.3 | n.m. | 43.1 | 15.3 | 13.5 |
| P/B (x) | 1.8 | 1.7 | 1.6 | 1.4 | 1.3 |
| EV/EBITDA (x) | 60.3 | 28.6 | 11.4 | 8.9 | 8.6 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 2.6 | 3.0 |
| Net margin (%) | 1.7 | (1.5) | 1.7 | 4.6 | 5.0 |
| Net debt/(cash) to equity (%) | (15.0) | (39.8) | 87.3 | 72.2 | 62.5 |
| ROE (%) | 1.3 | n.a. | 3.8 | 9.9 | 10.3 |

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

BUY

(Maintained)

| | |
|--------------|----------|
| Share Price | S\$ 2.59 |
| Target Price | S\$ 2.99 |
| Upside | +15.3% |

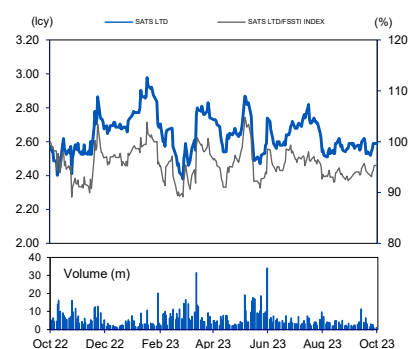
COMPANY DESCRIPTION

A leading food solutions provider in Asia and a global leader in aviation gateway services.

STOCK DATA

| | | | | |
|---------------------------------|-------------------|-------------|------------|------------|
| GICS sector | Industrials | | | |
| Bloomberg ticker: | SATS SP | | | |
| Shares issued (m): | 1,490.6 | | | |
| Market cap (S\$ m): | 3,860.7 | | | |
| Market cap (US\$m): | 2,820.3 | | | |
| 3-mth avg daily t'over (US\$m): | 6.8 | | | |
| Price Performance (%) | | | | |
| 52-week high/low | S\$ 2.98/S\$ 2.38 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 1.2 | (4.1) | (5.5) | 0.3 | (3.6) |
| Major Shareholders | | | | |
| | | | | % |
| Temasek Hldgs | | | | 39.7 |
| - | | | | - |
| - | | | | - |
| FY24 NAV/Share (S\$) | | | | 1.63 |
| FY24 Net Debt/Share (S\$) | | | | 2.47 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Not fully out of the woods yet, more patience needed.** We expect the profitability of SATS' food division to continue to recover in the next few quarters, driven by the continued recovery of regional air traffic. As for SAT's air cargo business, despite the recent stabilisation of air cargo volume, a number of leading economic indicators for global trade still indicate a largely cautious near-term outlook. Global manufacturing PMI new export order sub-index of 47.7 in Sep 23 was still in contractionary territory. The inventory destocking process in the US took longer than expected with retail and wholesale inventory to sales ratios still on the high side. EU retail confidence has been weak in recent months, with more retailers indicating they have sufficient inventory stocks on hand hence the less urgent need to place new orders with their suppliers. As such, while we still expect air cargo demand to firm up in the seasonally strong Oct-Nov period this year, we think more meaningful air cargo recovery may only be seen in FY25 (2024). We expect SATS to only realise its full-earnings potential in FY26 (2025).
- 2QFY24 results preview.** Factoring in a moderate qoq operating improvement of SATS and WFS in 2QFY24, our best guesstimate is that SATS' core earnings could break even in 2QFY24, with a tolerance of \pm \$10m. This is compared to S\$17.4m core net loss in 1QFY24 and S\$6.0m core net loss in 2QFY23.

EARNINGS REVISION/RISK

- No change.** Given the gradually improving but still-lacklustre air cargo outlook to date, our FY24 net profit forecast of S\$90m could be on the optimistic side. We will do a holistic review pending more clarity from SATS' 2Q/1HFY24 results.

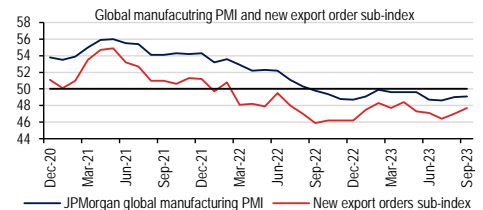
VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of S\$2.99.** Our target price remains based on 9.7x FY25F EV/adjusted EBITDA (same as SATS' acquisition multiple for WFS). The 9.7x multiple applied is at 1.7SD below SATS FY14-19 mean EV/EBITDA of 12.8x. SATS' current price implies an undemanding FY25F EV/adjusted EBITDA multiple of 8.9x, 2.1SD below its historical mean.

SHARE PRICE CATALYST

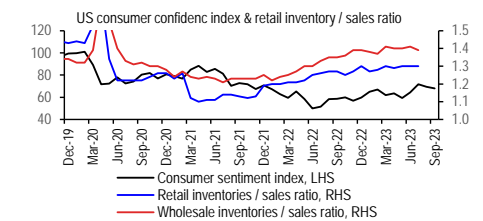
- Key re-rating catalysts include:** a) sequential earnings improvement as regional air traffic recovers further and global air cargo outlook improves and b) delivery of SATS' forecasted synergies for the WFS consolidation.

GLOBAL MANUFACTURING PMI NEW EXPORT ORDERS INDEX IMPROVED TO 47.7 IN SEP 23



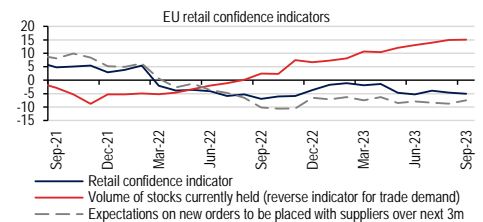
Source: JP Morgan, S&P Global

US INVENTORY DESTOCKING STILL ONGOING WITH WHOLESALE AND RETAIL INVENTORY TO SALES LEVELS ON THE HIGH SIDE



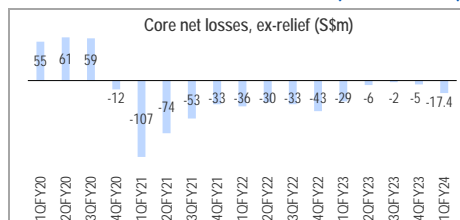
Source: US Census Bureau, University of Michigan

EU RETAIL CONFIDENCE STILL WEAK IN SEP 23 WITH RISING INVENTORY STOCK



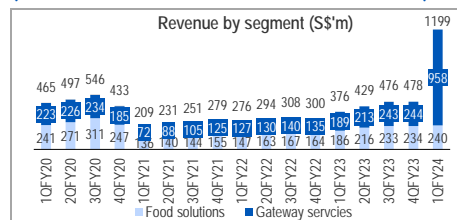
Source: Eurostat

SATS' EX-RELIEF CORE EARNINGS (QUARTERLY)



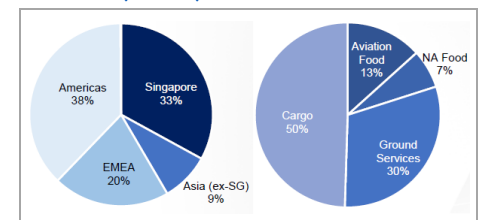
Source: SATS, UOB Kay Hian

SATS' QUARTERLY REVENUE PERFORMANCE (1QFY24 BOOSTED BY WFS CONSOLIDATION)



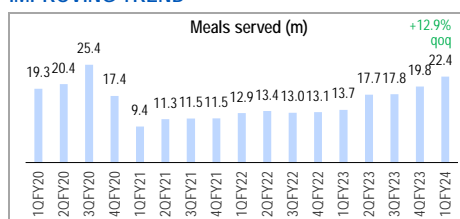
Source: SATS, UOB Kay Hian

REVENUE BREAKDOWN BY GEOGRAPHY AND BUSINESS (1QFY24)



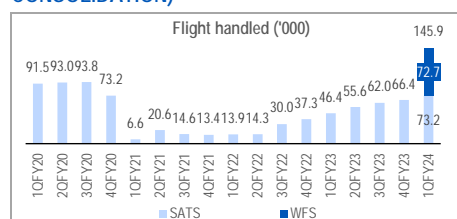
Source: SATS, UOB Kay Hian

QUARTERLY NUMBER OF MEALS SERVED ON AN IMPROVING TREND



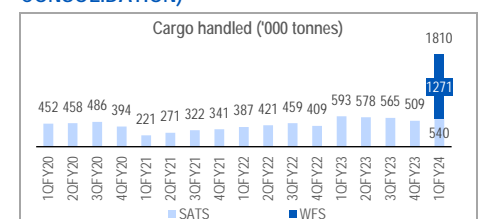
Source: SATS, UOB Kay Hian

SATS' QUARTERLY NUMBER OF FLIGHTS HANDLED (1QFY24 BOOSTED BY WFS CONSOLIDATION)



Source: SATS, UOB Kay Hian

SATS' QUARTERLY CARGO VOLUME HANDLED (1Q24 FIGURE BOOSTED BY WFS CONSOLIDATION)



Source: SATS, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Mar (S\$m) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|---------------|--------------|--------------|--------------|
| Net turnover | 1,758.3 | 5,165.3 | 5,468.5 | 5,663.5 |
| EBITDA | 127.8 | 783.5 | 949.9 | 980.9 |
| Deprec. & amort. | 175.8 | 575.6 | 580.4 | 586.0 |
| EBIT | (48.0) | 207.9 | 369.5 | 395.0 |
| Total other non-operating income | (32.5) | (12.6) | 0.0 | 0.0 |
| Associate contributions | 45.4 | 83.5 | 85.2 | 86.9 |
| Net interest income/(expense) | (8.7) | (158.0) | (148.5) | (139.3) |
| Pre-tax profit | (43.8) | 120.8 | 306.2 | 342.6 |
| Tax | 5.2 | (28.1) | (46.9) | (48.9) |
| Minorities | 12.1 | (3.1) | (7.2) | (8.1) |
| Net profit | (26.5) | 89.6 | 252.1 | 285.6 |

CASH FLOW

| Year to 31 Mar (S\$m) | 2023 | 2024F | 2025F | 2026F |
|---|----------------|------------------|----------------|----------------|
| Operating | 79.6 | 517.4 | 737.0 | 774.9 |
| Pre-tax profit | (43.8) | 120.8 | 306.2 | 342.6 |
| Tax | (2.7) | (28.1) | (46.9) | (48.9) |
| Deprec. & amort. | 175.8 | 575.6 | 580.4 | 586.0 |
| Associates | (45.4) | (83.5) | (85.2) | (86.9) |
| Working capital changes | 8.0 | (1.4) | (11.5) | (11.9) |
| Non-cash items | (33.9) | (72.6) | 0.0 | 0.0 |
| Other operating cashflows | 21.6 | 6.6 | (6.0) | (6.0) |
| Investing | (57.9) | (2,127.4) | (235.5) | (216.9) |
| Capex (maintenance) | (119.4) | (298.6) | (298.6) | (281.1) |
| Investments | (0.1) | (1,890.7) | 0.0 | 0.0 |
| Proceeds from sale of assets | 28.6 | 0.0 | 0.0 | 0.0 |
| Others | 33.0 | 61.9 | 63.1 | 64.2 |
| Financing | 1,340.0 | (205.6) | (494.6) | (600.3) |
| Dividend payments | 0.0 | 0.0 | 0.0 | (100.8) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 752.9 | 720.0 | 0.0 | 0.0 |
| Loan repayment | (106.4) | (635.7) | (200.0) | (200.0) |
| Others/interest paid | 693.5 | (289.9) | (294.6) | (299.5) |
| Net cash inflow (outflow) | 1,361.7 | (1,815.5) | 6.8 | (42.3) |
| Beginning cash & cash equivalent | 786.0 | 2,148.4 | 332.9 | 339.7 |
| Changes due to forex impact | 0.7 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 2,148.4 | 332.9 | 339.7 | 297.4 |

BALANCE SHEET

| Year to 31 Mar (S\$m) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 900.2 | 2,315.1 | 2,380.1 | 2,426.9 |
| Other LT assets | 1,050.7 | 4,070.4 | 4,046.4 | 4,022.9 |
| Cash/ST investment | 2,148.4 | 332.9 | 339.7 | 297.4 |
| Other current assets | 574.4 | 1,140.5 | 1,162.8 | 1,185.6 |
| Total assets | 4,673.7 | 7,858.9 | 7,929.0 | 7,932.8 |
| ST debt | 54.1 | 101.1 | 101.1 | 101.1 |
| Other current liabilities | 552.3 | 1,109.9 | 1,120.7 | 1,131.6 |
| LT debt | 1,424.3 | 3,912.2 | 3,712.2 | 3,512.2 |
| Other LT liabilities | 128.2 | 128.2 | 128.2 | 128.2 |
| Shareholders' equity | 2,333.6 | 2,423.2 | 2,675.3 | 2,860.1 |
| Minority interest | 181.2 | 184.3 | 191.5 | 199.6 |
| Total liabilities & equity | 4,673.7 | 7,858.9 | 7,929.0 | 7,932.8 |

KEY METRICS

| Year to 31 Mar (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|---------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 7.3 | 15.2 | 17.4 | 17.3 |
| Pre-tax margin | (2.5) | 2.3 | 5.6 | 6.0 |
| Net margin | (1.5) | 1.7 | 4.6 | 5.0 |
| ROA | n.a. | 1.4 | 3.2 | 3.6 |
| ROE | n.a. | 3.8 | 9.9 | 10.3 |
| Growth | | | | |
| Turnover | 49.4 | 193.8 | 5.9 | 3.6 |
| EBITDA | 65.8 | 513.1 | 21.2 | 3.3 |
| Pre-tax profit | n.a. | n.a. | 153.4 | 11.9 |
| Net profit | (229.9) | n.a. | 181.4 | 13.3 |
| EPS | (226.8) | n.a. | 181.4 | 13.3 |
| Leverage | | | | |
| Debt to total capital | 31.4 | 27.8 | 26.9 | 25.7 |
| Debt to equity | 45.6 | 100.0 | 84.0 | 72.2 |
| Net debt/(cash) to equity | (39.8) | 87.3 | 72.2 | 62.5 |

COMPANY RESULTS

TISCO Financial Group (TISCO TB)

3Q23: Decent Results; Several Headwinds Ahead

TISCO posted a net profit of Bt1,874m in 3Q23 (+6% yoy, +1% qoq). The results were 7% above our forecasts but in line with consensus. However, we revise TISCO's 2024-25F earnings projections down by 9.4% and 15.2% respectively due to normalisation in funding and credit costs. We maintain HOLD on TISCO with a lower target price of Bt97.00.

3Q23 RESULTS

| Year to 31 Dec (Btm) | 3Q23 | 2Q23 | 3Q22 | qoq chg (%) | yoy chg (%) |
|---------------------------------------|---------|---------|---------|-------------|-------------|
| Total gross loans | 231,794 | 230,494 | 213,188 | 0.6 | 8.7 |
| Net interest income | 3,557 | 3,420 | 3,221 | 4.0 | 10.4 |
| Non-interest income | 1,217 | 1,289 | 1,221 | (5.6) | (0.3) |
| Loan loss provision | (147) | (63) | (119) | 132.4 | 23.6 |
| Non-Interest Expenses | (2,329) | (2,378) | (2,155) | (2.1) | 8.0 |
| Pre-provision operating profit | 2,478 | 2,366 | 2,323 | 4.8 | 6.7 |
| Net income | 1,874 | 1,854 | 1,771 | 1.1 | 5.8 |
| EPS (Bt) | 2.34 | 2.32 | 2.21 | 1.1 | 5.8 |
| Ratio (%) | | | | | |
| NPL Ratio | 2.3 | 2.2 | 2.1 | | |
| Loan loss coverage ratio (%) | 206 | 224 | 248 | | |
| Net interest margin (NIM %) | 5.2 | 5.0 | 5.2 | | |
| Credit cost (bp) | 25 | 11 | 23 | | |
| Cost to income (%) | 48.8 | 50.5 | 48.5 | | |
| Common equity tier 1 (CET1) ratio (%) | 17.0 | 19.5 | 20.2 | | |

Source: TISCO Financial Group, UOB Kay Hian

RESULTS

- 3Q23 results were flat yoy and qoq.** TISCO Financial Group (TISCO) recorded a net profit of Bt1,874m, up 6% yoy and 1% qoq. The bank's loan portfolio expanded by 9% yoy and 1% qoq, primarily supported by corporate loans, which grew by 30% yoy. NPLs rose slightly from 2.2% in the previous quarter to 2.3%. However, TISCO's substantial loan loss reserves allowed for a provision of only Bt147m, resulting in a credit cost of 25bp. The loan loss coverage (LLC) ratio declined from 224% in the second quarter to 206% but remains healthy.
- Well-managed liquidity led to a NIM expansion in 3Q23.** Although TISCO's loan yield increased 22bp qoq, the bank's loan spread experienced a decrease of 3bp on a qoq basis as the pace at which funding costs rose outstripped the yields generated from the loans. Despite the reduction in loan spread, the bank managed to improve its net interest margin (NIM) by 12bp qoq as it had offloaded a significant portion of debts in 3Q23 that were used to facilitate the dividend payment.

KEY FINANCIALS

| Year to 31 Dec (Btm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|------------------------|--------|--------|--------|--------|--------|
| Net interest income | 12,460 | 12,734 | 13,774 | 14,051 | 15,268 |
| Non-interest income | 6,369 | 5,607 | 5,400 | 6,144 | 6,645 |
| Net profit (rep./act.) | 6,781 | 7,222 | 7,436 | 7,335 | 7,347 |
| Net profit (adj.) | 6,781 | 7,222 | 7,436 | 7,335 | 7,347 |
| EPS (Bt) | 8.5 | 9.0 | 9.3 | 9.2 | 9.2 |
| PE (x) | 11.8 | 11.1 | 10.8 | 10.9 | 10.9 |
| P/B (x) | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 |
| Dividend yield (%) | 6.3 | 7.1 | 7.7 | 8.0 | 8.1 |
| Net int margin (%) | 4.8 | 5.0 | 5.1 | 4.9 | 5.0 |
| Cost/income (%) | 44.0 | 47.1 | 49.0 | 48.3 | 49.0 |
| Loan loss cover (%) | 236.7 | 258.8 | 193.5 | 164.0 | 150.0 |
| Consensus net profit | - | - | 7,424 | 7,699 | 8,192 |
| UOBKH/Consensus (x) | - | - | 1.00 | 0.95 | 0.90 |

Source: TISCO Financial Group, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|---------------|----------|
| Share Price | Bt100.00 |
| Target Price | Bt97.00 |
| Upside | -3.0% |
| (Previous TP) | Bt106.00 |

COMPANY DESCRIPTION

A small bank with roughly 2% of the credit market. The bank's strong focus is on auto HP lending, which accounts for 64% of its loan book.

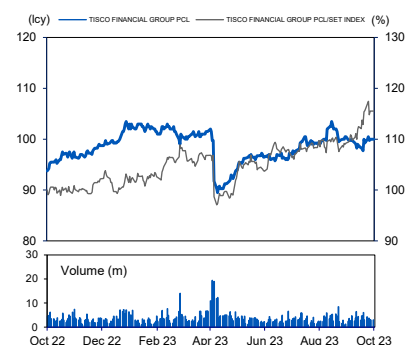
STOCK DATA

| | | | | |
|---------------------------------|------------------|-------------|------------|------------|
| GICS sector | Financials | | | |
| Bloomberg ticker: | TISCO TB | | | |
| Shares issued (m): | 800.6 | | | |
| Market cap (Btm): | 80,064.6 | | | |
| Market cap (US\$m): | 2,198.7 | | | |
| 3-mth avg daily t'over (US\$m): | 9.2 | | | |
| Price Performance (%) | | | | |
| 52-week high/low | Bt103.50/Bt89.50 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 0.0 | 3.9 | (1.5) | 6.7 | 0.8 |

Major Shareholders

| | |
|--------------------------------------|-------|
| Thai NVDR | 10.9 |
| CDIB & Partners Investment Holding | 10.0 |
| South East Asia Uk (Type C) Nominees | 8.0 |
| FY23 NAV/Share (Bt) | 52.95 |
| FY23 CAR Tier-1 (%) | 17.28 |

PRICE CHART



Source: Bloomberg

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ASSISTANT ANALYST(S)

Thanawat Thangchadakorn

STOCK IMPACT

- Anticipated repricing in deposit rates poses challenges for TISCO's NIM outlook.** Despite TISCO's commendable increase in its NIM in 3Q23, primarily due to efficient funding management, we foresee a potential downturn in the bank's NIM over the next 12 months. This is due to the anticipated repricing in deposit interest rates. The management predicts a rise in funding costs to the normalised level of 2.9%, up from 2.02% in 3Q23. Although TISCO is actively pursuing a high-yield strategy, we are skeptical about its ability to offset the impending increase in funding costs adequately. This skepticism stems from our belief that the escalating funding costs could eclipse the benefits garnered from their current high-yield strategy.
- Normalised credit costs ahead.** An additional challenge that could drag TISCO's earnings outlook for 2024-25 is the issue of credit costs. Despite the bank's successful efforts in maintaining its credit costs below the 30bp mark during 9M23, its existing excess loan loss reserves are beginning to dwindle. Looking ahead, management projections for 2024 suggest an increase to approximately 50bp, with the potential to escalate to 100bp by 2025 as it approaches a normalised level. The management aims to reduce its loan loss coverage (LLC) ratio to 150%, allowing for a certain degree of flexibility from the existing level of 206% recorded in 3Q23.

EARNINGS REVISION/RISK

NET PROFIT FORECASTS

| | 2023F | 2024F | 2025F |
|-------|-------|-------|-------|
| Old | 7,355 | 8,099 | 8,661 |
| New | 7,436 | 7,335 | 7,347 |
| % chg | +1.1 | -9.4 | -15.2 |

Source: UOB Kay Hian

- We finetune 2023F earnings forecast by +1.1%**, owing to the better-than-expected 9M23 results. However, we slashed the 2024-25 earnings projections by 9.4% and 15.2% because of normalisation in funding and credit costs.

VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of Bt97.00** using the Gordon Growth Model (cost of equity: 11.5%, long-term growth: 2%). Our target price implies 1.8x 2023F P/B, which is slightly higher than its historical five-year P/B mean.

SHARE PRICE CATALYST

- Upgrade in dividend payout.**

PE BAND



Source: TISCO, UOB Kay Hian

P/B BAND



Source: TISCO, UOB Kay Hian

CAR SALES



Source: Bloomberg, UOB Kay Hian

USED VEHICLE PRICE INDEX



Source: Bank of Thailand, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|-------------------------|---------------|---------------|---------------|---------------|
| Interest income | 14,904 | 17,958 | 20,458 | 22,656 |
| Interest expense | (2,171) | (4,183) | (6,407) | (7,388) |
| Net interest income | 12,734 | 13,774 | 14,051 | 15,268 |
| Fees & commissions | 5,081 | 4,959 | 5,675 | 6,134 |
| Other income | 526 | 441 | 470 | 511 |
| Non-interest income | 5,607 | 5,400 | 6,144 | 6,645 |
| Total income | 18,341 | 19,174 | 20,196 | 21,913 |
| Staff costs | (6,107) | (6,449) | (6,877) | (7,608) |
| Other operating expense | (2,523) | (2,947) | (2,884) | (3,132) |
| Pre-provision profit | 9,711 | 9,779 | 10,434 | 11,173 |
| Loan loss provision | (723) | (529) | (1,310) | (2,034) |
| Pre-tax profit | 8,988 | 9,250 | 9,124 | 9,138 |
| Tax | (1,766) | (1,813) | (1,788) | (1,791) |
| Minorities | 0 | (1) | (1) | (1) |
| Net profit | 7,222 | 7,436 | 7,335 | 7,347 |
| Net profit (adj.) | 7,222 | 7,436 | 7,335 | 7,347 |

BALANCE SHEET

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Cash with central bank | 1,005 | 1,172 | 1,238 | 1,312 |
| Govt treasury bills & securities | 3,990 | 10,547 | 11,146 | 11,807 |
| Interbank loans | 40,272 | 36,328 | 38,392 | 40,669 |
| Customer loans | 208,881 | 225,716 | 239,680 | 254,131 |
| Investment securities | 2,172 | 2,344 | 2,477 | 2,624 |
| Derivative receivables | 147 | 0 | 0 | 0 |
| Associates & JVs | 873 | 895 | 895 | 895 |
| Fixed assets (incl. prop.) | 2,820 | 2,966 | 2,669 | 2,485 |
| Other assets | 5,253 | 6,238 | 6,478 | 6,742 |
| Total assets | 265,414 | 286,206 | 302,976 | 320,665 |
| Interbank deposits | 6,195 | 9,375 | 9,908 | 10,495 |
| Customer deposits | 188,266 | 192,189 | 203,108 | 215,153 |
| Derivative payables | 0 | 0 | 0 | 0 |
| Debt equivalents | 15,757 | 28,640 | 32,472 | 36,046 |
| Other liabilities | 12,405 | 13,607 | 14,166 | 14,783 |
| Total liabilities | 222,623 | 243,811 | 259,653 | 276,477 |
| Shareholders' funds | 42,788 | 42,391 | 43,319 | 44,183 |
| Minority interest - accumulated | 3 | 3 | 4 | 4 |
| Total equity & liabilities | 265,414 | 286,206 | 302,976 | 320,665 |

OPERATING RATIOS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|--|-------|-------|-------|-------|
| Capital Adequacy | | | | |
| Tier-1 CAR | 19.6 | 17.3 | 17.2 | 16.6 |
| Total CAR | 23.3 | 20.7 | 20.6 | 19.9 |
| Total assets/equity (x) | 6.2 | 6.8 | 7.0 | 7.3 |
| Tangible assets/tangible common equity (x) | 6.3 | 6.9 | 7.2 | 7.4 |
| Asset Quality | | | | |
| NPL ratio | 2.1 | 2.3 | 2.4 | 2.6 |
| Loan loss coverage | 258.8 | 193.5 | 164.0 | 150.0 |
| Loan loss reserve/gross loans | 5.4 | 4.5 | 4.0 | 3.8 |
| Increase in NPLs | (7.7) | 18.0 | 11.0 | 12.1 |
| Credit cost (bp) | 34.3 | 23.3 | 54.3 | 79.8 |
| Liquidity | | | | |
| Loan/deposit ratio | 111.0 | 117.4 | 118.0 | 118.1 |
| Liquid assets/short-term liabilities | 23.2 | 23.8 | 23.8 | 23.8 |
| Liquid assets/total assets | 17.1 | 16.8 | 16.8 | 16.8 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|-------|-------|-------|-------|
| Growth | | | | |
| Net interest income, yoy chg | 2.2 | 8.2 | 2.0 | 8.7 |
| Fees & commissions, yoy chg | (9.4) | (2.4) | 14.4 | 8.1 |
| Pre-provision profit, yoy chg | (7.9) | 0.7 | 6.7 | 7.1 |
| Net profit, yoy chg | 6.5 | 3.0 | (1.4) | 0.2 |
| Net profit (adj.), yoy chg | 6.5 | 3.0 | (1.4) | 0.2 |
| Customer loans, yoy chg | 8.3 | 8.1 | 6.2 | 6.0 |
| Profitability | | | | |
| Net interest margin | 5.0 | 5.1 | 4.9 | 5.0 |
| Cost/income ratio | 47.1 | 49.0 | 48.3 | 49.0 |
| Adjusted ROA | 2.8 | 2.7 | 2.5 | 2.4 |
| Reported ROE | 17.2 | 17.5 | 17.1 | 16.8 |
| Adjusted ROE | 17.2 | 17.5 | 17.1 | 16.8 |
| Valuation | | | | |
| P/BV (x) | 1.9 | 1.9 | 1.8 | 1.8 |
| P/NTA (x) | 1.9 | 1.9 | 1.9 | 1.9 |
| Adjusted P/E (x) | 11.1 | 10.8 | 10.9 | 10.9 |
| Dividend Yield | 7.1 | 7.7 | 8.0 | 8.1 |
| Payout ratio | 79.3 | 83.4 | 87.4 | 88.2 |

ASIAN GEMS CORPORATE HIGHLIGHTS

Home Product Center (HMPRO TB)

Better Long-term Outlook But Under Pressure In The Short Term

We are still positive on HMPRO's long-term outlook. Although we expect to see some short-term pressures following its Mega Home store ramp-up plan, we foresee fewer pressures in 2024. We expect 3Q23 to be flattish on a yoy basis following higher SGA-to-sales. 2023-24 earnings are still expected to grow by 6.4% per year. Maintain BUY. Target price: Bt17.00.

WHAT'S NEW

- Marching on the Mega Home expansion.** Home Product Center (HMPRO) is still committing to its plan to reach 150 total stores in 2026 from 127 at end-23, equivalent to around 7-8 additional stores per year. We expect the new stores for each year to be divided into 1-2 and 6-7 stores of Home Pro and Mega Home respectively.
- We expect continuous improvement in Mega Home profitability.** As Mega Home stores were up from 14 stores at end-21 to 27 stores at end-23, we expect the company to see more benefit from better economies of scale. Mega Home's current gross margin is expected to be around 18-20%, compared to Home Pro at 27% and its peers such as Global House (GLOBAL) and DOHOME at 25% and 15-20% respectively. Also, we expect to see more synergy between Home Pro and Mega Home such as online sales channels, product cross-selling and database of customers.
- Hard work starting to pay off.** Although there was some pressure on HMPRO's earnings following the Mega Home stores ramping up expenses in 2022-23, we expect to see better Mega Home operations. The key drivers on Mega Home will be the new stores which were opened in 2022-23 and are starting to make profit as it normally takes around 1.5 years on average for stores to break even. Therefore, even though the company plans to aggressively add new Mega Home stores in 2024-26, we expect Mega Home's worst performance to be over.
- An update on HMPRO's overseas expansion plan.** HMPRO's management is still positive on Vietnam's outlook on the back of country development, growing urbanisation rate and similar customer behavior to Thailand. However, HMPRO is still behind in terms of paperwork like store operating licenses. Therefore, the first store in Vietnam might only come in late-24 at the soonest or even 2025. For Home Pro Malaysia, we do not expect to see the store ramping up in these 1-2 years as management is still keen to improve its internal efficiency first.

KEY FINANCIALS

| Year to 31 Dec (Btm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover | 61,791 | 66,811 | 70,946 | 73,544 | 76,218 |
| EBITDA | 8,139 | 8,666 | 9,701 | 10,452 | 11,200 |
| Operating profit | 4,931 | 5,510 | 6,201 | 6,660 | 7,168 |
| Net profit (rep./act.) | 5,441 | 6,217 | 6,614 | 7,039 | 7,525 |
| Net profit (adj.) | 5,441 | 6,217 | 6,614 | 7,039 | 7,525 |
| EPS (Bt) | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 |
| PE (x) | 29.49 | 25.81 | 24.26 | 22.79 | 21.32 |
| P/B (x) | 7.01 | 6.62 | 6.18 | 5.81 | 5.47 |
| EV/EBITDA (x) | 22.5 | 21.6 | 19.6 | 18.2 | 17.1 |
| Dividend yield (%) | 2.6 | 3.1 | 3.3 | 3.5 | 3.8 |
| Net margin (%) | 8.8 | 9.3 | 9.3 | 9.6 | 9.9 |
| Net debt/(cash) to equity (%) | 60.8 | 65.6 | 66.5 | 60.7 | 54.7 |
| Interest cover (x) | 19.9 | 20.3 | 18.7 | 19.3 | 20.7 |
| Consensus net profit | - | - | 6,747 | 7,500 | 8,254 |
| UOBKH/Consensus (x) | - | - | 0.98 | 0.94 | 0.91 |

Source: Home Product Center, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|---------|
| Share Price | Bt12.20 |
| Target Price | Bt17.00 |
| Upside | +39.34% |

COMPANY DESCRIPTION

Thailand's largest home improvement centre with a nearly 40% market share of the modern trade segment.

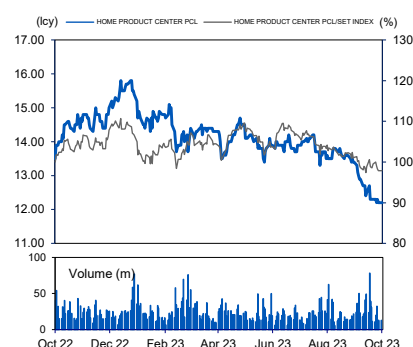
STOCK DATA

| | | | | |
|---------------------------------|------------------------|-------|-----|-------|
| GICS sector | Consumer Discretionary | | | |
| Bloomberg ticker: | HMPRO TB | | | |
| Shares issued (m): | 13,151.2 | | | |
| Market cap (Btm): | 160,444.6 | | | |
| Market cap (US\$m): | 4,456.8 | | | |
| 3-mth avg daily t'over (US\$m): | 8.3 | | | |
| Price Performance (%) | | | | |
| 52-week high/low | Bt15.80/Bt13.20 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 1.4 | 2.9 | (2.8) | 6.8 | (9.0) |

Major Shareholders

| | |
|--------------------------|-------|
| | % |
| Land and House | 30.23 |
| Quality House | 19.87 |
| Thai NVDR | 6.76 |
| FY23 NAV/Share (Bt) | 1.98 |
| FY23 Net Debt/Share (Bt) | 1.31 |

PRICE CHART



Source: Bloomberg

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3Q23 EARNINGS PREVIEW

| Year to 31 Dec (Btm) | 3Q22 | 2Q23 | 3Q23F | yoy (%) | qoq (%) |
|----------------------|--------|--------|--------|------------|------------|
| Sales and services | 16,337 | 18,252 | 16,699 | 2.2 | (8.5) |
| Gross profit | 4,515 | 4,943 | 4,626 | 2.5 | (6.4) |
| Operating EBIT | 1,384 | 1,477 | 1,387 | 0.2 | (6.1) |
| Net profit | 1,533 | 1,620 | 1,507 | (1.7) | (6.9) |
| Percent | 3Q22 | 2Q23 | 3Q23F | yoy (ppts) | qoq (ppts) |
| Gross margin | 27.6 | 27.1 | 27.7 | 0.1 | 0.6 |
| SG&A to sales | 19.2 | 19.0 | 19.4 | 0.2 | 0.4 |
| Net profit margin | 9.4 | 8.9 | 9.0 | (0.4) | 0.2 |

Source: HMPRO, UOB Kay Hian

STOCK IMPACT

- Unexciting 3Q23 earnings.** We expect HMPRO to report 3Q23 earnings of Bt1,507m, down 1.7% yoy and 6.9% qoq. The key pressure on 3Q23 is expected to be from the higher SGA-to-sales which offset the revenue increase in 3Q23.
- Slight improvement in 3Q23 top-line.** HMPRO is expected to report 3Q23 revenue growth of 2.2% yoy. Although 3Q23 same-store-sales (SSS) growth is expected to decrease 2-3% yoy, this will be offset by the sales from new stores and Market Village's rental income growth following the recovery in tourist areas.
- Short-term pressure from new stores ramping up.** We expect SGA-to-sales in 3Q23 to increase to 19.4% from 19% and 19.2% in 2Q23 and 3Q22 respectively. The higher SGA-to-sales is mainly due to increased operating expenses and depreciation costs from new stores. We expect 3Q23 gross profit margin to be flattish on a yoy basis.

STOCK IMPACT

- Some short-term setback but good for the long term.** Although there might be a temporary setback in the short term, the future looks promising for HMPRO. We anticipate flattish 3Q23 earnings for HMPRO due to increased operating expenses and depreciation costs from new stores, as well as a minor decrease in SSS. The SSS in mtd Oct 23 was at -2% yoy to -3% yoy, slightly better compared to -5% yoy to -6% yoy in Sep 23. We still maintain our projection of HMPRO's 2023 earnings at Bt6.6b, up 6.4% yoy. We expect the company 2024's earnings to grow by 6.4% yoy on the back of consumption improvement and the government stimulus packages.

EARNINGS REVISION/RISK

- None.**

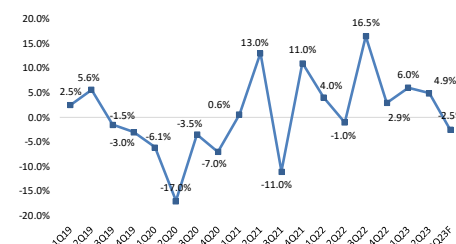
VALUATION/RECOMMENDATION

- Maintain BUY with a target price of Bt17.00.** Our 2023 target price is based on 2023F PE of 33.4x, equivalent to HMPRO's five-year mean. Although there is short-term pressure regarding the additional expenses on new stores opening, we are still positive on HMPRO's mid- to long-term business development.

SHARE PRICE CATALYST

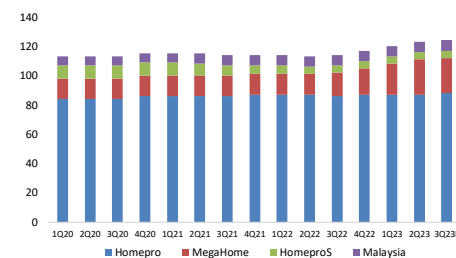
- a) Strong gross profit margin expansion, b) better-than-expected Mega Home's operation improvement, and c) positive progress in overseas businesses such as in Malaysia and Vietnam.

SAME-STORE SALES



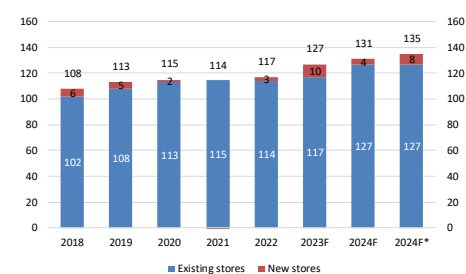
Source: HMPRO, UOB Kay Hian

NUMBER OF STORES BY QUARTER



Source: HMPRO, UOB Kay Hian

NUMBER OF STORES BY YEAR



Source: HMPRO, UOB Kay Hian *company plan

PROFIT & LOSS

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 66,811 | 70,946 | 73,544 | 76,218 |
| EBITDA | 8,666 | 9,701 | 10,452 | 11,200 |
| Deprec. & amort. | 3,156 | 3,500 | 3,792 | 4,032 |
| EBIT | 5,510 | 6,201 | 6,660 | 7,168 |
| Total other non-operating income | 2,578 | 2,586 | 2,681 | 2,779 |
| Associate contributions | (2) | 0 | 0 | 0 |
| Net interest income/(expense) | (428) | (520) | (543) | (542) |
| Pre-tax profit | 7,658 | 8,267 | 8,799 | 9,406 |
| Tax | (1,441) | (1,653) | (1,760) | (1,881) |
| Minorities | 0 | 0 | 0 | 0 |
| Net profit | 6,217 | 6,614 | 7,039 | 7,525 |
| Net profit (adj.) | 6,217 | 6,614 | 7,039 | 7,525 |

CASH FLOW

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|----------------|----------------|----------------|----------------|
| Operating | 9,937 | 10,513 | 11,494 | 11,640 |
| Pre-tax profit | 7,658 | 8,267 | 8,799 | 9,406 |
| Tax | (1,441) | (1,653) | (1,760) | (1,881) |
| Deprec. & amort. | 3,156 | 3,500 | 3,792 | 4,032 |
| Working capital changes | 387 | 597 | 394 | 40 |
| Non-cash items | 176 | (197) | 269 | 44 |
| Other operating cashflows | 0 | 0 | 0 | 0 |
| Investing | (7,064) | (6,992) | (5,559) | (5,148) |
| Capex (growth) | (7,416) | (6,694) | (5,593) | (5,218) |
| Investments | (67) | 0 | 0 | 0 |
| Others | 419 | (298) | 34 | 70 |
| Financing | (1,998) | (2,878) | (5,427) | (5,787) |
| Dividend payments | (4,866) | (4,878) | (5,427) | (5,787) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 2,863 | 2,000 | 0 | 0 |
| Others/interest paid | 4 | 0 | 0 | 0 |
| Net cash inflow (outflow) | 874 | 643 | 508 | 706 |
| Beginning cash & cash equivalent | 4,546 | 5,420 | 6,063 | 6,571 |
| Ending cash & cash equivalent | 5,420 | 6,063 | 6,571 | 7,277 |

BALANCE SHEET

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets | 42,178 | 45,372 | 47,174 | 48,359 |
| Other LT assets | 1,576 | 1,982 | 1,976 | 1,986 |
| Cash/ST investment | 5,420 | 6,063 | 6,571 | 7,277 |
| Other current assets | 16,010 | 15,937 | 16,458 | 17,100 |
| Total assets | 65,185 | 69,355 | 72,179 | 74,723 |
| ST debt | 6,437 | 6,437 | 6,437 | 6,437 |
| Other current liabilities | 18,048 | 18,375 | 19,559 | 20,285 |
| LT debt | 14,897 | 16,897 | 16,897 | 16,897 |
| Other LT liabilities | 1,557 | 1,665 | 1,693 | 1,773 |
| Shareholders' equity | 24,246 | 25,981 | 27,594 | 29,331 |
| Minority interest | 0 | 0 | 0 | 0 |
| Total liabilities & equity | 65,185 | 69,355 | 72,179 | 74,723 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 13.0 | 13.7 | 14.2 | 14.7 |
| Pre-tax margin | 11.5 | 11.7 | 12.0 | 12.3 |
| Net margin | 9.3 | 9.3 | 9.6 | 9.9 |
| Net profit (adj.) | 14.3 | 6.4 | 6.4 | 6.9 |
| Leverage | | | | |
| Debt to total capital | 46.8 | 47.3 | 45.8 | 44.3 |
| Debt to equity | 88.0 | 89.8 | 84.6 | 79.6 |
| Net debt/(cash) to equity | 65.6 | 66.5 | 60.7 | 54.7 |
| Interest cover (x) | 20.3 | 18.7 | 19.3 | 20.7 |

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