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

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34006.9	0.1	(1.8)	(1.0)	2.6
S&P 500	4337.4	0.4	(2.6)	(1.5)	13.0
FTSE 100	7624.0	(0.8)	(0.4)	3.9	2.3
AS30	7278.6	0.1	(2.0)	(0.7)	0.8
CSI 300	3714.6	(0.7)	(0.4)	0.1	(4.1)
FSSTI	3215.4	0.3	(1.5)	0.8	(1.1)
HSCEI	6130.3	(2.1)	(1.3)	(0.7)	(8.6)
HSI	17729.3	(1.8)	(1.1)	(1.3)	(10.4)
JCI	6998.4	(0.3)	0.9	1.5	2.2
KLCI	1443.5	(0.5)	(1.0)	(0.1)	(3.5)
KOSPI	2495.8	(0.5)	(3.1)	(0.9)	11.6
Nikkei 225	32678.6	0.9	(2.5)	3.3	25.2
SET	1507.4	(1.0)	(1.3)	(3.4)	(9.7)
TWSE	16452.2	0.7	(1.5)	(0.2)	16.4
BDI	1614	1.3	12.2	49.4	6.5
CPO (RM/mt)	3645	0.2	(2.2)	(5.6)	(10.0)
Brent Crude (US$/bbl)	93	0.0	(1.2)	10.4	8.6

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	247.80	590.00	138.1
China Duty Free	601888 CH	107.72	138.00	28.1
Bank Neo Commerce	BBYB IJ	322.00	390.00	21.1
Bumi Serpong	BSDE IJ	1,030.00	1,420.00	37.9
HM Sampoerna	HMSP IJ	880.00	1,300.00	47.7
My EG Services	MYEG MK	0.80	1.18	47.5
Yinson	YNS MK	2.51	4.05	61.4
OCBC	OCBC SP	12.72	18.22	43.2
CP ALL	CPALL TB	61.00	78.00	27.9
Indorama	IVL TB	27.50	37.00	34.5

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 Malaysia Outlook and Technology Sector	Singapore	26 Sep	27 Sep
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct

SECTOR UPDATE

Commodities – China

Weekly: Hawkish Fed And Gloomy China Recovery Outlook Weigh On Metals Prices

The Fed maintained interest rates last week but guided for one more rate hike by end-23. The Fed's hawkish guidance and China's gloomy recovery outlook have weighed on the demand outlook of base metals. Steel mills' margin erosion and the upcoming steel production curbs are expected to drag on iron ore consumption. The rebound in cement prices continues to be supported by demand recovery. Guangdong is seeing an intensifying price war given the influx of products from Guangxi.

- **Base metals (maintain MARKET WEIGHT):** A hawkish Fed and high inventories have weighed on copper prices.
  - COMEX gold/LME copper three-month futures were flat/-2.2% wow to US$1,927 per t oz/US$8,222 per mt. The US dollar index strengthened to 105.58 on 22 September while 10-year Treasury yield spiked to 4.49% on 21 September, the highest since 2007.
  - **The Fed maintained interest rates at 5.25-5.50%; guided for one more rate hike by end-23.** Fed officials have guided at least one more rate hike by the end of the year and expect rates to stay high for a longer duration that they had initially anticipated.
  - The prolonged high interest rate environment will weighs on global economic growth while the continuous climb of LME copper inventory, which has reached the highest level since May 22, is also concerning to the market. The high-paced growth of new energy industries was insufficient to offset the contraction in copper demand from global manufacturing industries.
  - **Market reassessing Fed rate path.** According to CME FedWatch Tool, the market is still pricing in 74.5% odds of the Fed maintaining interest rate at 5.25-5.50% on 1 Nov 23, and is expecting a first rate cut in Jun 24 with a 43.15% probability.
  - The focus this week will be on the US' core PCE inflation (29 Sep 23), with consensus looking at +3.50% yoy.

MARKET WEIGHT

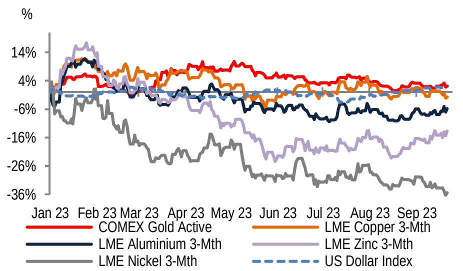
(Maintained)

SECTOR PICKS

Company	Rec	Target Price (HK$)	Share Price (HK$)
Anhui Conch	BUY	28.30	20.75

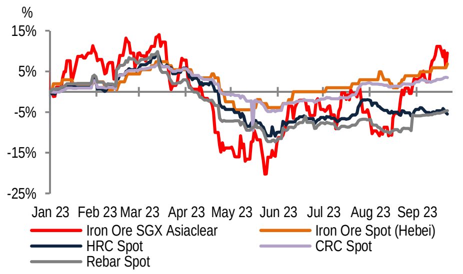
Source: UOB Kay Hian

METALS – YTD PRICE PERFORMANCE



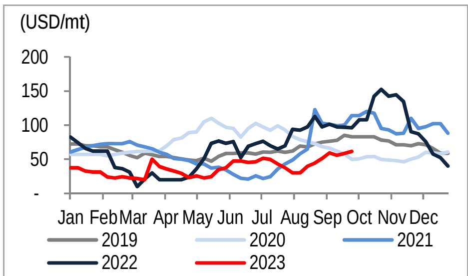
Source: Bloomberg, UOB Kay Hian

STEEL – YTD PRICE PERFORMANCE



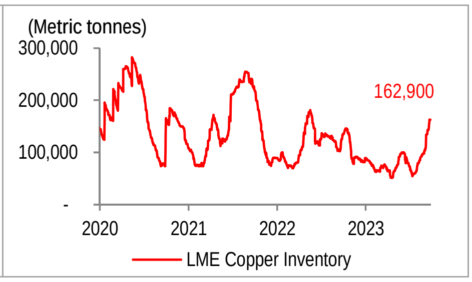
Source: Bloomberg, UOB Kay Hian

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

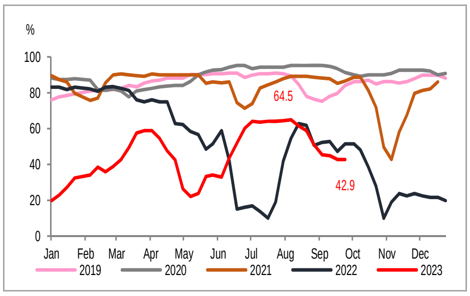
Company	Ticker	Rec	Price @ 25 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	20.75	28.30	36.4	140,089.8	8.7	8.0	0.5	0.5	8.2	7.4	6.4
Baosteel	600019 CH	BUY	6.24	7.10	13.8	138,916.1	13.4	10.0	0.7	0.7	5.6	4.8	5.2
CR Cement	1313 HK	HOLD	2.13	3.10	45.5	14,873.7	7.9	6.1	0.3	0.3	6.9	5.6	3.8
Zijin Mining	2899 HK	BUY	12.60	15.00	19.0	353,108.6	13.4	11.4	2.9	2.4	10.7	9.4	23.7

Source: Bloomberg, UOB Kay Hian

- **Steel (maintain UNDERWEIGHT):** Steel mills are maintaining high production activities despite moderate downstream demand.
  - **Iron ore pared earlier gains.** SGX iron ore futures pared earlier gains last week, dropping 1.4% wow to US$121.18, but still increasing 15.1% mom. Iron ore prices were supported by steel mills' robust restocking demand prior to the Golden Week holidays, which took

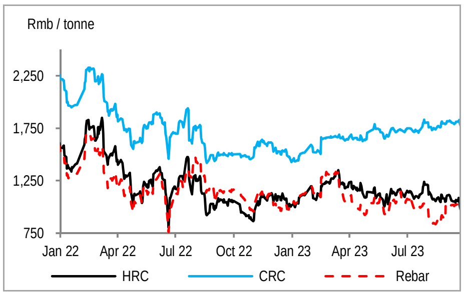
place at a higher pace compared with the past two years. Spot prices of rebar/rot-rolled coil (HRC)/cold-rolled coil (CRC) were rather flattish with wow changes of +0.1%/-0.4%/-0.1%.

247 SAMPLED STEEL MILLS PROFIT-MAKING RATIO



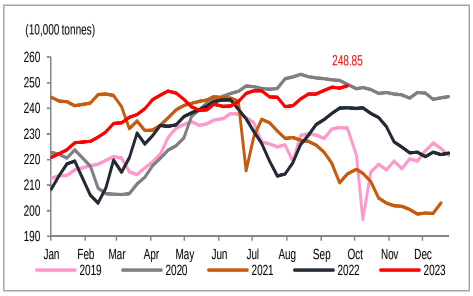
Source: Wind, UOB Kay Hian

STEEL-RAW MATERIAL SPREADS



Source: Bloomberg, UOB Kay Hian

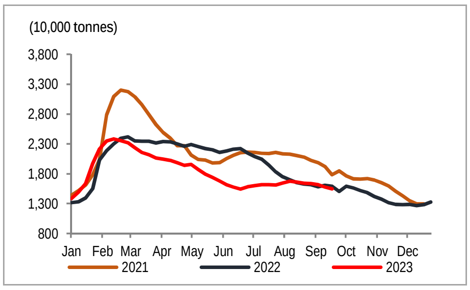
247 SAMPLED STEEL MILLS AVERAGE DAILY MOLTEN IRON PRODUCTION



Source: Wind, UOB Kay Hian

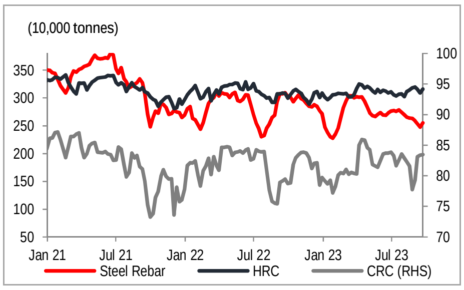
- **Spike in raw materials prices compressed margins.** The recent spikes in iron ore, coke and scrap steel prices have all weighed on steel mills' production margins, with respective average price changes of +0.4%/+1.8%/+0.8% wow. Weekly average HRC steel-raw materials spread was down 1.34% wow. Mysteel's survey indicated that 42.86% of steel mills are currently profit-making (flat wow).
- **Molten iron production hit highest level since Sep 20.** Steel mills' production activities remained high, with weekly average daily molten iron production hitting the highest level since Sep 20 at 2.4885m tonnes (+0.01m tonnes wow), boosted by the growing number of blast furnace resuming operations. Weekly output of five major steel products slowed to 9.1694m tonnes (+1.5% wow) this week.
- **Steel inventory down for sixth consecutive week.** Overall steel inventory based on Mysteel's survey was down 1.9%% wow to 15.49m tonnes (-2.6% yoy). Steel apparent consumption remained flattish at 9.4699m tonnes (+0.7% wow). The weekly average apparent consumption of rebar/HRC/CRC in Sep 23 was -12.9%/-0.4%/+5.9% yoy.
- Based on Mysteel's survey, restocking demand of construction materials before the long holidays remained weak, with only 42% of the 92 sampled entities indicating that they plan to restock before the long holidays. Some 84% of the respondents expect steel prices to stay flattish or fall after the holidays, which explains the delay in the restocking timeline.

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



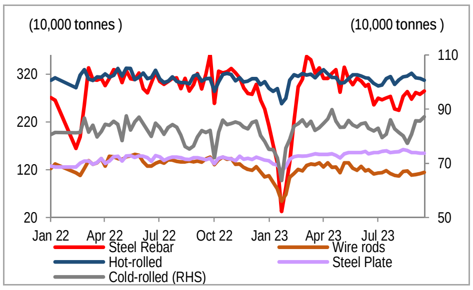
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

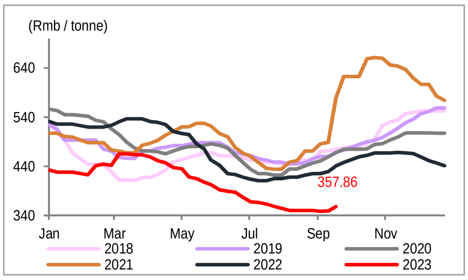
STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



Source: Wind, UOB Kay Hian

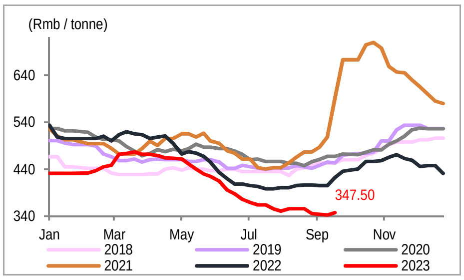
- **Cement (maintain MARKET WEIGHT):** The rebound of cement prices was backed by demand recovery and an uptick in coal prices; the price war in Guangdong is intensifying.
  - **Rebound in cement prices continues.** National average PO42.5 cement prices (bulk) continued its uptrend, rising 0.4% wow to Rmb356.67 per tonne. Average cement prices for the eastern/central/southern regions saw changes of +2.5%/+5.2%/-1.8% wow. Guangdong is seeing an intensifying price war, largely due to the influx of cement products from Guangxi and the high inventory level in the region. Cement-coal spread recovered to Rmb248.64 per tonne (+0.5% wow/-3.5% yoy) due to the recent rebound of cement prices.

AVERAGE CEMENT PRICES – EAST



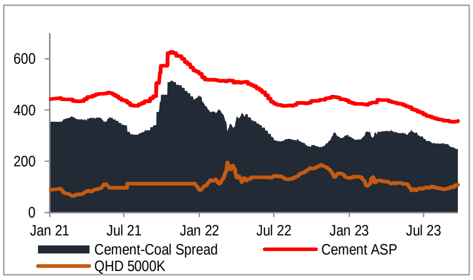
Source: CEIC, UOB Kay Hian

AVERAGE CEMENT PRICES – CENTRAL-SOUTH



Source: CEIC, UOB Kay Hian

CEMENT-COAL SPREAD

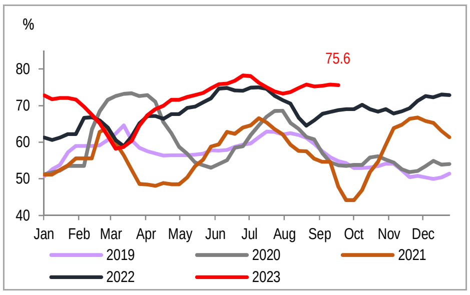


Source: CEIC, Wind, UOB Kay Hian

- **Third consecutive week of shipment recovery.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 13-19 Sep 23 was 5.8855m tonnes (+1.5% wow;-31.4% yoy). By region, the eastern/central/southern regions' shipment volume was -0.9%/+1.3%/+4.8% wow (-36.5%/-28.4%/-41.9% yoy) respectively. Eastern region shipments were dragged by the rainy weather. Shipment for infrastructure projects totalled 2.28m tonnes (+1.3% wow/-10.6% yoy).

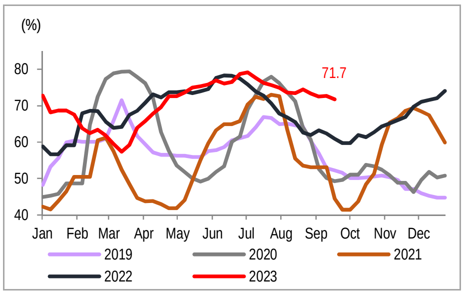
- **Inventory pressure moderated.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation declined to 61.54% last week (-2.98ppt wow). National average cement storage capacity ratio was down 0.13ppt wow to 75.6%. Eastern and southern regions saw a contrasting trend, with changes of -0.92ppt/+1.11ppt to 71.7%/79.0% respectively.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



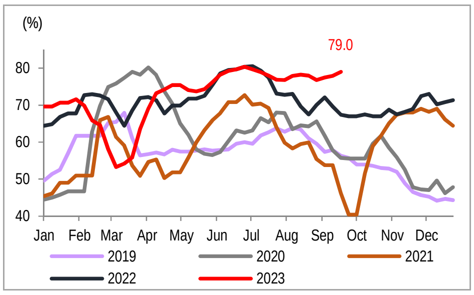
Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: CEIC, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: CEIC, UOB Kay Hian

ESSENTIALS

- **We maintain MARKET WEIGHT on the base metals sector.** A hawkish Fed and strong US dollar will continue to weigh on metal prices in the short to medium term. We are concerned about the global copper demand given the prospect of a prolonged high interest rate environment and gloomy global economic outlook. Copper prices are likely to fall below US$8,000 by the end of the year and the downcycle is likely to last until 2H24, while the rebound in crude oil prices would also inflate miners' production costs and erode margins.

- **We maintain MARKET WEIGHT on the cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves. We are still concerned about the high inventory level as it could cap the upside of price recovery. Aug 23's LGSB issuance was the highest of the year at Rmb2,945b, completing 77.5% of the annual quota, but still 16.3% lower yoy. The annual quota should be fully utilised by end-Sep 23, and we should see acceleration in construction progress for infrastructure projects in 4Q23.

- **We maintain UNDERWEIGHT on the steel sector.** Iron ore prices were boosted by robust steel production activities, but the rally will not be sustainable without a meaningful recovery in the property sector. We expect more production curbs to be announced in the following weeks in order to improve air quality. The stronger price performance of raw materials against steel end products would also see steel mills moderating production.

SECTOR UPDATE

Cement – Indonesia

Expecting Bullish Momentum As Sales Volume Growth Turns Positive

The growth in national cement demand has continued to show positive improvement up till Aug 23. In 8M23, SMGR's and INTP's sales volumes grew 6.5% yoy and 8.5% yoy respectively. The outlook remains positive with expected sales volume growth of 2% yoy in 2023. For 2023 and 2024, we expect SMGR to record NPAT growth of 30.9% yoy and 11.6% yoy respectively and INTP to post 18.9% yoy and 12.6% yoy NPAT growth respectively. Maintain OVERWEIGHT on the cement sector with SMGR as our top pick.

WHAT'S NEW

- **National cement demand improved in 8M23 with 1.3% yoy contraction.** The growth in national cement demand continued to show positive improvement up till Aug 23. In 8M23, the contraction in cement demand improved to -1.3% yoy vs -4.9% yoy in 6M23. In 8M23, positive demand growth came from Kalimantan with 15.3% yoy growth, followed by Nusa Tenggara with 11.7% yoy growth. Demand for bag cement continued to contract 4.4% yoy while demand for bulk cement expanded 7.5%, with demand mostly coming from Kalimantan (the Ibu Kota Nusantara (IKN) project).

- **Positive growth in 8M23 sales volumes, above industry's average growth.** In 8M23, both Semen Indonesia's (SMGR) and Indocement Tunggal Prakarsa's (INTP) cement sales volumes showed positive growth of 6.5% yoy and 8.5% yoy respectively. SMGR and INTP are still experiencing pressure in Java's bag market due to tight competition, while bulk market maintained its growth with Western Java as the biggest contributor in 8M23. For the outside Java region, INTP's sales volume growth was supported by the bag segment, particularly in Sulawesi and East Indonesia, and the bulk segment, particularly in Kalimantan where the IKN project is. Meanwhile, SMGR's sales volume growth was supported by the bulk segment, particularly in Kalimantan (the IKN project).

- **Export sales grew significantly in 8M23.** SMGR reported an 8M23 clinker export sales volume of 4.3m tonnes, surging 74.6% yoy from 8M22 volume of 2.5m tonnes as it has allocated more quota for the export market in 2023. Securing coal supply at DMO prices has given SMGR the flexibility to increase its export sales to 7.8m-7.9m tonnes in 2023. INTP recorded an export sales volume of 393,000 tonnes in 8M23, up significantly by 96.5% yoy from 200,000 tonnes in 8M22. It expects 2023 export sales volumes of 900,000-1m tonnes.

- **Outlook remains positive with expected sales volume growth of 2% yoy in 2023.** We maintain our 2023 national cement sales volume growth at 2% yoy. Cement companies believe the market outlook for the rest of 2023 remains positive with Kalimantan as the main growth driver for the bulk segment. The IKN project construction in Kalimantan is being pushed as the government plans to move to IKN in 2024. Cement companies also expect the bag market to recover progressively in both Java and outside Java regions.

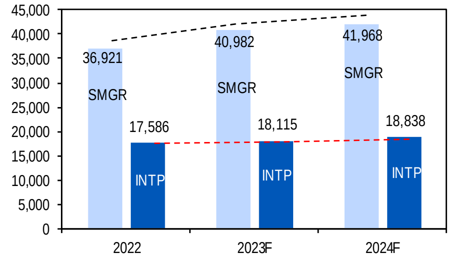
ACTION

- **Maintain OVERWEIGHT** as sales volume has grown positively with SMGR (BUY/Target: Rp9,200) as our top pick as it: a) has a more undemanding valuation of below -1SD 2023F EV/EBITDA, b) has secured 100% of its 2023 coal supply at DMO prices, and c) could potentially see stronger export sales volume in 2023. Currently, SMGR is trading at below -1SD to its five-year EV/tonne and -1SD to its five-year EV/EBITDA, which is attractive.

OVERWEIGHT

(Maintained)

VOLUME GROWTH



Source: UOB Kay Hian

EARNINGS FORECAST

	2021	2022	2023F	2024F
INTP	1,788	1,842	2,191	2,468
SMGR	2,021	2,365	3,095	3,453

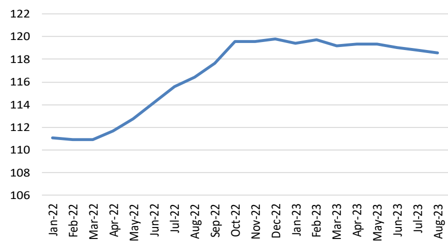
Source: Respective company, UOB Kay Hian

8M23 CEMENT SALES

('000 tonnes)	8M23	8M22	YoY
Western Java	9,810	10,028	-2.2%
Central Java	5,005	5,517	-9.3%
East Java	5,234	5,366	-2.5%
Sumatera	8,585	8,503	1.0%
Kalimantan	2,980	2,586	15.3%
Sulawesi	3,819	4,191	-8.9%
Nusa Tenggara	2,373	2,125	11.7%
East Indonesia	1,374	1,401	-1.9%
Indonesia	39,181	39,716	-1.3%

Source: ASI, UOB Kay Hian

NATIONAL CEMENT WHOLESALE PRICE INDEX (2018=100)



Source: BPS, UOB Kay Hian

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PEER COMPARISON

Ticker	Rec	Price 25-Sep-23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US$m)	3M Avg Turnover (US$m)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	P/E 2023F (x)	P/E 2024F (x)	ROE 2023F (%)	ROE 2024F (%)	Net Gearing (%)
INTP	BUY	10,025	13,500	34.7%	2,396	2.2	9.2	8.2	16.8	15.0	11.1	12.4	(12.4)
SMGR	BUY	6,650	9,200	38.3%	2,926	4.4	6.3	6.1	14.5	13.0	7.0	7.4	14.0

Source: Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Maintain our 2023-24 net profit growth forecasts for both SMGR and INTP.** We expect SMGR to record 2023-24 NPAT growth of 30.9% yoy and 11.6% yoy respectively and INTP to record 18.9% yoy and 12.6% yoy growth respectively.
  a) We project SMGR's 2023-24 sales volume to increase 2% yoy to 40.9m tonnes and 2.7% yoy to 42.0m tonnes respectively. SMGR's revenue could grow 10.5% yoy to Rp40.2t in 2023, and 2.6% yoy to Rp41.2t in 2024. EBITDA is expected to grow 14.5% yoy to Rp9.1t in 2023, and 2.6% yoy to Rp9.3t in 2024. All in all, NPAT is expected to grow 30.9% yoy to Rp3.1t in 2023 and 11.6% yoy to Rp3.4t in 2024.
  b) Meanwhile, we forecast INTP's 2023 NPAT at Rp2.2t (+18.9% yoy) and 2024 NPAT at Rp2.5t (+12.6% yoy). INTP's cement sales are expected to grow 3% yoy in 2023 with sales volume of 18.1m tonnes, and grow 4% yoy in 2024 with sales volume of 18.8m tonnes. INTP's 2023-24 revenue could grow 7.2% yoy to Rp17.5t in 2023, and grow 5.6% yoy to Rp18.5t in 2024. EBITDA is expected to grow 29.5% yoy to Rp3.7t in 2023, and grow 11.9% yoy to Rp4.2t in 2024.
- **Minimal impact from the recent coal price hikes.** Recently, global coal prices edged up to US$160/tonne due to increasing demand from China ahead of winter. However, domestically, the current coal price for low calorific value (LCV) coal is still much lower at US$52/tonne than last year's US$90/tonne. Coal DMO price regulation of US$45/tonne is still in place, so we believe the impact of the recent coal price hike would be minimal to the domestic cement industry. The increased coal production from domestic producers also provides ample coal supply to the cement industry. The normalising coal prices and ample coal availability provide more options for cement companies to procure their coal requirements.
- **A sizeable capex to reduce carbon emissions.** As part of their initiatives to reduce carbon emissions, SMGR and INTP have invested a sizeable capex totalling Rp3.0t for their green facilities and alternative energy used in the cement production process. SMGR has allocated Rp2.0t to support decarbonisation initiatives by using alternative fuels such as industrial and agriculture waste to replace coal, while INTP has prepared funds of around Rp1t over the last five years to build facilities for various alternative fuels and materials. Both companies expect to reduce their carbon emission scope 1 to below 520kg of CO_2/tonne cement equivalent (International Energy Agency standard) by 2030.

EARNINGS REVISION/RISK

- No earnings revisions for both SMGR and INTP.

VALUATION/RECOMMENDATION

- **Semen Indonesia (SMGR/BUY/Target: Rp9,200)** is attractively priced, trading at slightly below -1SD to its five-year average EV/tonne and -1SD to its five-year average EV/EBITDA. We still expect SMGR to record higher sales volume, net profit and margin growth in 2023-24 as cement demand is improving and coal has been fully secured at DMO prices. We base our target price on the stock's -0.5SD to its 2023-24 blended forward EV/EBITDA of 7.7x and its 2023-24 blended forward EV/tonne of Rp1.9m/tonne.
- **Indocement Tunggal Prakarsa (INTP/BUY/Target: Rp13,500)** is attractively priced, trading at -0.75SD to its five-year average EV/tonne, or slightly above -1SD to its five-year average EV/EBITDA. We like INTP for its potential EBITDA and NPAT growth of 25.9% and 18.9% respectively in 2023, on the back of lower energy costs and potential sales growth from IKN projects, and the East Indonesia and export markets. We base our target price on -0.5SD to the stock's 2023-24 blended forward EV/EBITDA of 11.8x, and its 2023-24 blended forward mean EV/tonne of Rp2.4m/tonne.

SMGR FORWARD EV/TONNE

Source: Bloomberg, UOB Kay Hian

SMGR FORWARD EV/EBITDA

Source: Bloomberg, UOB Kay Hian

INTP FORWARD EV/TONNE

Source: Bloomberg, UOB Kay Hian

INTP FORWARD EV/EBITDA

Source: Bloomberg, UOB Kay Hian

COMPANY RESULTS

Astro Malaysia (ASTRO MK)

2QFY24: Below Expectations, 75% Dividend Policy Terminated

Astro booked 2QFY24 core net profit of RM42m (-60% yoy, -32% qoq), due to lower revenue contributions from all segments as well as higher-than-expected operating costs. 1HFY24 net profit accounts for 31% of our full-year estimate – below expectation. We revised our dividend payout to 50-60% for FY24-25, in line with the group's decision to abolish its 75% dividend policy. We downgrade earnings by 9-33% for FY24-26. Maintain HOLD with a lower target price of RM0.44.

2QFY24 RESULTS

Year to 31 Jan (RMm)	2QFY23	1QFY24	2QFY24	qoq % chg	yoy % chg
Revenue	921.1	891.1	869.8	(2.4)	(5.6)
-Subscription/others	721.8	692.5	680.5	(1.7%)	(5.7%)
-Adex	87.1	99.0	87.4	(11.7)	0.3
-Home shopping	46.2	33.8	32.3	(4.4)	(30.1)
Gross Profit	316.3	281.0	253.4	(9.8)	(19.9)
EBITDA	283.2	247.9	224.7	(9.4)	(20.7)
EBITDA Margin (%)	30.7	27.8	25.8	(7.1)	(16.0)
EBIT	175.9	130.4	96.7	(25.8)	(45.0)
PBT	127.2	20.6	29.6	43.7	(76.7)
Net Profit	98.5	15.9	23.6	48.4	(76.0)
Core Net Profit	104.0	62.0	42.0	(32.3)	(59.6)
	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
TV ARPU (RM)	97.4	97.4	98.2	98.7	99.1
Subscribers	5,541	5,501	5,490	5,458	5,417

Source: Astro, UOB Kay Hian

RESULTS

- **2QFY24 results below expectations.** Astro Malaysia (Astro) delivered a sequentially weaker 2QFY24 core net profit of RM42m (-60% yoy, -32% qoq) mainly due to: a) lower revenue contribution from all segments; b) higher content costs; c) higher staff-related costs; d) higher broadband costs; e) higher marketing and distribution expenses; and f) higher license, copyright and royalty fees. This brings 1HFY24 core net profit to RM105m, down 53% yoy. Accounting for 31% of our full-year earnings, the results are below expectations.
- **Dividends.** Due to a consistently weak consumer climate, no interim dividend was declared this quarter. Coupled with ongoing forex fluctuations, the group has decided to abolish its 75% dividend policy. We forecast FY24 net DPS at 2.2 sen/share, translating to a dividend yield of 4.9%.

KEY FINANCIALS

Year to 31 Jan (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	4,176	3,800	3,322	2,986	2,734
EBITDA	1,286	1,046	1,117	993	1,047
Operating profit	754	417	418	399	535
Net profit (rep./act.)	461	259	226	209	303
Net profit (adj.)	476	312	226	209	303
EPS (sen)	9.1	6.0	4.3	4.0	5.8
PE (x)	5.6	8.5	11.8	12.7	8.8
P/B (x)	2.4	2.5	2.4	2.3	2.1
EV/EBITDA (x)	4.5	5.6	5.2	5.9	5.6
Dividend yield (%)	15.0	6.7	4.9	5.5	9.9
Net margin (%)	11.0	6.8	6.8	7.0	11.1
Net debt/(cash) to equity (%)	226.1	294.4	235.1	224.1	213.0
Interest cover (x)	7.9	8.2	6.4	5.6	5.6
ROE (%)	41.8	23.6	20.6	18.1	24.9
Consensus net profit	-	-	316	287	328
UOBKH/Consensus (x)	-	-	0.72	0.73	0.93

Source: Astro Malaysia, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.51
Target Price	RM0.44
Upside	-13.7%
(Previous TP	*RM0.60)*

COMPANY DESCRIPTION

Pay-TV operator.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	ASTRO MK
Shares issued (m):	5,219.0
Market cap (RMm):	2,661.7
Market cap (US$m):	568.0
3-mth avg daily t'over (US$m):	0.6

Price Performance (%)

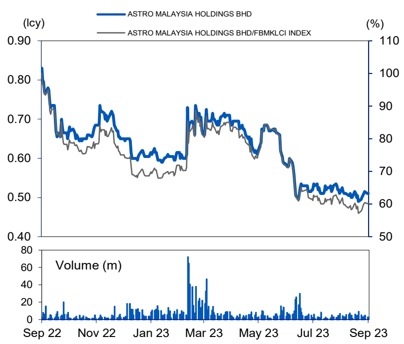
52-week high/low RM0.830/RM0.490

1mth	3mth	6mth	1yr	YTD
0.0	(13.6)	(23.9)	(38.9)	(21.5)

Major Shareholders	%
Pantan Cahaya Bulan Ventures Sdn	20.7
All Asia Media Equities Limited	19.4
East Asia Broadcast Network MV	8.1

FY23 NAV/Share (RM)	0.22
FY23 Net Debt/Share (RM)	0.51

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **2QFY24 revenue fell 6% yoy and 2% qoq to RM870m.** Astro experienced both yoy and qoq declines across all segments. TV subscription revenue fell 6% yoy and 2% qoq to RM681m. Subscriber base fell 2% yoy to 5.42m. Positively, 2QFY24 ARPU rose 1% both yoy and qoq to RM99.1/month as Astro managed to upsell its packages with better value.
- **Soft consumer market affecting home shopping segment.** GoShop revenue (-30% yoy, -5% qoq) saw the steepest decline among the segments due to weak consumer sentiment in the rising interest rate environment.
- **Weak advertising revenue in 2QFY24.** Advertising revenue declined 12% qoq mainly due to weak consumer sentiment, which caused corporates to cut their advertising spending. Management launched Astro addressable advertising in Jun 22 to offer targeted advertising based on AI data analytics. We believe Astro can monetise data well enough to diversify its revenue stream.
- **Astro has launched the Astro Fibre plan** which allows customers to sign up for stand-alone broadband or content plus broadband bundles. Due to a low base, broadband customers increased by 27% yoy. Astro believes that the bundle packages offered to customers will provide better value and encourage take-up in the longer run.
- **Capex outlook.** For FY24, Astro expects capex spending at around RM300m-400m. Key investments in FY23 include: a) technology infrastructure across OOT & digital, TV and video-on-demand, b) customer experience, c) product and service upgrades, and d) set-top boxes (STBs) provided to customers.

EARNINGS REVISION/RISK

- Downgrade FY24-26 core net profit forecasts by 9-33% to account for lower revenue contribution from all segments and higher operating cost due to the rising interest rate environment.
- We revised our dividend payout forecast from 75% to 50-60% for FY24-25, in line with the change in dividend policy by the group.

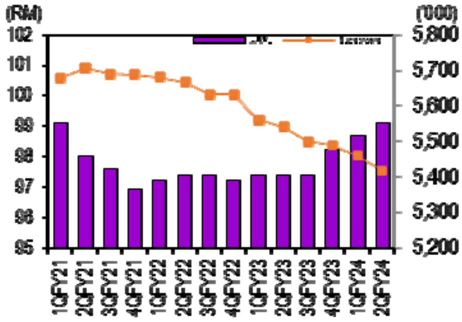
VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower DCF-based target price of RM0.44** (discount rate: 10%, terminal growth rate: -3%) in tandem with our earnings downgrade. Our target price implies 10x FY24F PE, from -1SD five-year mean PE of 15x.
- **Key re-rating catalysts** include: a) higher-than-expected dividend payout for FY24, b) higher-than-expected pay-TV ARPU, and c) favourable regulatory outlook in light of the crackdown on piracy.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

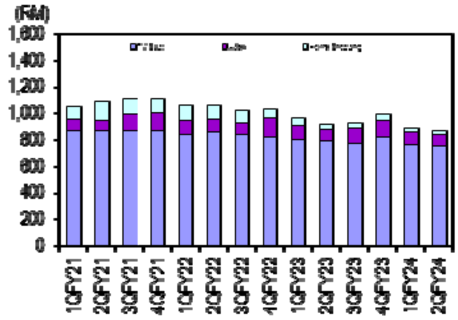
- **Environmental**
  - Harvested 1.7m kWh of photovoltaic energy from 4,780 solar panels, saving 964 tCO2e carbon, which is equivalent to planting 24,718 trees. This also helped reduce greenhouse gas emissions by 2% to 25,423 tCO2e in FY21.
- **Social**
  - Broadcasted over 16,000 hours of public service announcements in FY21.
  - Produced and commissioned over 9,000 hours of content, worth over RM320m.
- **Governance**
  - Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.

ARPU AND SUBSCRIBERS



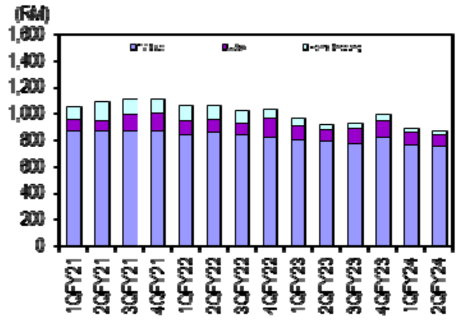
Source: Astro, UOB Kay Hian

REVENUE AND EBITDA



Source: Astro, UOB Kay Hian

REVENUE BREAKDOWN



Source: Astro, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Net turnover	3,800	3,322	2,986	2,734
EBITDA	1,046	1,117	993	1,047
Deprec. & amort.	629	698	594	511
EBIT	417	418	399	535
Net interest income/(expense)	(128)	(175)	(178)	(186)
Pre-tax profit	289	244	220	350
Tax	(79)	(66)	(60)	(95)
Minorities	49	49	49	49
Net profit	259	226	209	303
Net profit (adj.)	312	226	209	303

BALANCE SHEET

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Fixed assets	2,238	1,888	1,607	1,383
Other LT assets	2,124	2,124	2,370	2,370
Cash/ST investment	159	215	65	34
Other current assets	1,180	1,113	1,066	1,239
Total assets	5,701	5,340	5,107	5,026
ST debt	712	894	894	894
Other current liabilities	961	837	757	648
LT debt	2,601	1,973	1,816	1,816
Other LT liabilities	329	329	329	329
Shareholders' equity	1,071	1,128	1,180	1,256
Minority interest	27	180	131	83
Total liabilities & equity	5,701	5,340	5,107	5,026

CASH FLOW

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Operating	1,308	994	900	878
Pre-tax profit	289	244	220	350
Tax	(79)	(66)	(60)	(95)
Deprec. & amort.	629	698	594	511
Associates	0	0	0	0
Working capital changes	(68)	(56)	(33)	(73)
Other operating cashflows	128	175	178	186
Investing	(466)	(334)	(302)	(283)
Capex (maintenance)	(316)	(349)	(313)	(287)
Others	(150)	15	11	4
Financing	(847)	(605)	(748)	(626)
Dividend payments	(156)	(169)	(157)	(227)
Issue of shares	0	0	0	0
Proceeds from borrowings	604	0	(157)	0
Others/interest paid	(1,294)	(435)	(435)	(398)
Net cash inflow (outflow)	(5)	56	(150)	(30)
Beginning cash & cash equivalent	166	159	215	65
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	160	215	65	34

KEY METRICS

Year to 31 Jan (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	27.5	33.6	33.3	38.3
Pre-tax margin	7.6	7.3	7.4	12.8
Net margin	6.8	6.8	7.0	11.1
ROA	4.7	4.1	4.0	6.0
ROE	23.6	20.6	18.1	24.9
Growth				
Turnover	(9.0)	(12.6)	(10.1)	(8.4)
EBITDA	(18.7)	6.8	(11.1)	5.4
Pre-tax profit	(51.0)	(15.7)	(9.6)	58.6
Net profit	(43.8)	(12.8)	(7.5)	45.0
Net profit (adj.)	(34.5)	(27.5)	(7.5)	45.0
EPS	(34.5)	(27.5)	(7.5)	45.0
Leverage				
Debt to total capital	75.1	68.7	67.4	66.9
Debt to equity	309.3	254.2	229.6	215.8
Net debt/(cash) to equity	294.4	235.1	224.1	213.0
Interest cover (x)	8.2	6.4	5.6	5.6

COMPANY UPDATE

Malakoff Corporation (MLK MK)

Driving Growth Through Green Initiatives In The Medium Term

We came away from a recent meeting more sanguine on Malakoff's prospects. The share price has retracted 10% (relative to FBMKLCI) ytd, as negative fuel margins are largely priced in. We upgrade the stock to BUY with a fair value of RM0.70/share. Key re-rating catalysts include: a) stronger 2H23 earnings, b) potential energy exports to Singapore, and c) a new waste-to-energy power plant to be awarded. The stock offers an attractive 7-8% dividend yield.

WHAT'S NEW

- **A better 2H, thanks to a potentially narrowing of fuel margins.** We expect negative fuel margin to narrow in 2H23. This indicates better 2H23 earnings, assuming the decline in global coal prices are gradual and/or stable from current levels. Essentially, the gap between average coal price (ACP) and fuel cost has narrowed since Jul 23. The negative fuel margin may even dissipate in 4Q23 as coal prices generally inch up during the cold winter period. We understand the bulk of negative fuel margin comes from Tanjung Bin Power (TBP) given the mix of bituminous and non-bituminous coal mix for its power plant. For 1H23, the negative fuel margin was RM676m vs 1H23 group net loss of RM349m.
- **Attractive dividend yield.** Against a backdrop of a stronger 2H23 and healthy cashflow at company level, we believe Malakoff Corporation (Malakoff) may pay out an absolute dividend of 4.5-5 sen/share. This translates to an attractive net dividend yield of 7-8%.
- **Going green with a bang: Biomass co-firing in TBP…** Under the National Energy Transition Roadmap (NeTR), Malaysia is committed to increase renewable energy (RE) energy mix from 40% to 70% by 2050. One way Malakoff is supporting Malaysia's energy transition is by decarbonising its existing plants using biomass co-firing. As part of this effort, the 2,100MW TBP plant will blend biomass with coal in its operations. Malakoff aims to achieve 15% of generation from biomass by 2027.
- **…and a potential waste-to-energy plant in Peninsular Malaysia.** In addition, we expect Malakoff to participate in building a waste-to-energy (WTE) plant with a potential generation capacity of 20-25MW (with a waste collection of 800 tonnes/day). This project is expected to deliver high single-digit IRRs. More importantly, Malakoff will be able to tap onto the expertise of its wholly-owned Alam Flora is waste collection, recycling and waste management.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	6,463	10,355	10,097	9,795	9,790
EBITDA	2,514	2,955	1,203	2,051	2,051
Operating profit	1,271	1,707	150	1,032	1,064
Net profit (rep./act.)	260	302	(196)	278	325
Net profit (adj.)	486	750	(196)	278	325
EPS (sen)	9.9	15.3	(4.0)	5.7	6.7
PE (x)	6.1	3.9	n.m.	10.6	9.1
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	4.0	3.4	8.3	4.9	4.9
Dividend yield (%)	8.4	8.7	7.4	7.9	8.3
Net margin (%)	4.0	2.9	(1.9)	2.8	3.3
Net debt/(cash) to equity (%)	133.6	113.3	113.8	97.1	80.9
Interest cover (x)	4.4	5.7	2.4	3.6	3.9
ROE (%)	4.2	4.8	n.a.	4.7	5.4
Consensus net profit	-	-	(124)	267	294
UOBKH/Consensus (x)	-	-	1.59	1.04	1.11

Source: Malakoff Corporation, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	RM0.605
Target Price	RM0.70
Upside	+15.7%

COMPANY DESCRIPTION

Independent power producer.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	MLK MK
Shares issued (m):	4,887.0
Market cap (RMm):	2,956.6
Market cap (US$m):	630.5
3-mth avg daily t'over (US$m):	0.2

Price Performance (%)

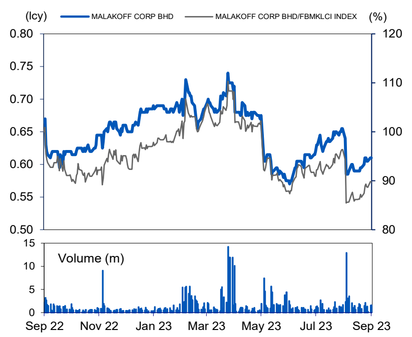
52-week high/low RM0.74/RM0.57

1mth	3mth	6mth	1yr	YTD
(6.9)	4.3	(11.0)	(9.)	(6.9)

Major Shareholders	%
Anglo Oriental Annuities Sdn Bhd	20.1
Employees Provident Fund	18.4
MMC Corp Bhd	10.2

FY23 NAV/Share (RM)	1.35
FY23 Net Debt/Share (RM)	1.08

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Potential energy exports to Singapore.** As part of its future sustainable plan, Malakoff is participating in Singapore's proposal to export energy into Singapore. To recap, Singapore is calling interested parties to submit bid to export up to 4GW of energy into Singapore by 2035. The tender process will close by Dec 23 and evaluation will be done in 1H24 by the Singapore authority (EMA). A key advantage of Malakoff's Johor site includes proximity to intake point, and hence a shorter transmission line to Singapore (approximately 5-15km, depending on the export point).

- **Mini hydro power plant in Kelantan.** Separately, Malakoff is developing three small hydropower plants with a total capacity of 84mw in Kelantan. The company has just done its financial closing in July, and this project is a key growth area in its RE portfolio which is aligned with the Malaysia Renewable Energy Roadmap to leverage hydropower's full potential as one of the technology-specific pillars towards achieving a low-carbon economy.

- **An understanding of fuel margin.** Two key takeaways from management on fuel margin: a) it is not within Malakoff's control as prices are dictated by offtaker TNB, and b) negative fuel margin may potentially narrow in 2H23. We gathered from the company that negative fuel margin is the difference between fuel income and fuel cost (see RHS). The fuel income is unfortunately, controlled by TNB via the ACP while the fuel cost is the weighted average cost of coal in Malakoff's stockyard. The current coal stock pile is approximately one month (well within the mandate of the power purchase agreement, PPA). When coal prices dropped dramatically in Mar 23, TBP had to book in a negative fuel margin because the average cost of the stockpile is higher than the ACP given by TNB.

- **Alam Flora – A healthy concession.** The group aims to achieve a 15-20% recycling rate from waste collected by Alam Flora. The company also aims to reduce its greenhouse gas emissions intensity by 30% by 2031 and, ultimately, become a net-zero emissions organisation by 2050. Based on a projected net profit of RM100m annually, Alam Flora is worth at least RM2b, based on PE of 20x (accounting for 70% of Malakoff's market cap). Alam Flora has been dishing out dividends in the past two years and will likely support dividends in 2023-24.

EARNINGS REVISION/RISK

- We have adjusted 2023 net loss to RM200m (from a net profit of RM250m) after incorporating net fuel margin loss for full-year 2023. To recap, 1H23 fuel margin loss from TBP and TBE was RM676m.

VALUATION/RECOMMENDATION

- **Upgrade to BUY with a fair value of RM0.70/share.** The stock trades at an attractive single digit PE of 10x vs five-year average PE of 13x. This is 2SD below the stock's mean PE valuation in the past five years.

- Key re-rating catalysts: a) export of power to Singapore, b) new WTE award, and c) stronger 2H23 results.

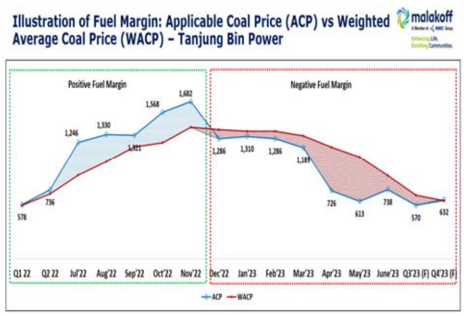
ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• **Environmental**
- No further plant up of coal fired power plants for Malakoff. Committed to achieving net-zero carbon by 2050, in line with the government's ambition. With Alam Flora as the largest waste management company in Malaysia, Malakoff is in a better position to grow its environmental services.
• **Social**
- Cultivate an inclusive culture in an organisation with equal opportunities for all people to grow professionally within a safe and healthy work environment.
• **Governance**
- Observe the highest corporate compliance standards in all units and activities of the group (goal: zero misconduct).

FUEL MARGIN FOR MALAKOFF

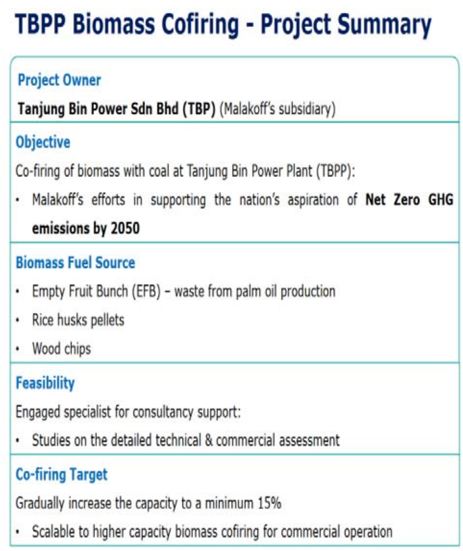
Source: Malakoff

DECLINING NEGATIVE FUEL MARGIN



Source: Malakoff

TBP BIOMASS CO-FIRING PROJECT



Source: Malakoff

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	10,355	10,097	9,795	9,790
EBITDA	2,955	1,203	2,051	2,051
Deprec. & amort.	1,249	1,053	1,019	986
EBIT	1,707	150	1,032	1,064
Associate contributions	0	0	50	50
Net interest income/(expense)	(523)	(506)	(577)	(523)
Pre-tax profit	737	(356)	505	592
Tax	(351)	107	(151)	(178)
Minorities	(84)	53	(76)	(89)
Net profit	302	(196)	278	325
Net profit (adj.)	750	(196)	278	325

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	11,082	10,549	10,050	9,585
Other LT assets	4,874	4,554	4,284	4,014
Cash/ST investment	1,538	1,615	2,207	2,754
Other current assets	4,485	4,370	4,193	4,191
Total assets	21,979	21,089	20,735	20,544
ST debt	942	942	942	942
Other current liabilities	2,231	2,170	2,057	2,056
LT debt	7,801	7,441	7,081	6,722
Other LT liabilities	4,309	4,309	4,309	4,309
Shareholders' equity	6,361	5,945	5,988	6,069
Minority interest	335	281	357	446
Total liabilities & equity	21,979	21,089	20,735	20,544

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	57	858	1,386	1,352
Pre-tax profit	737	(356)	505	592
Tax	(351)	107	(151)	(178)
Deprec. & amort.	1,249	1,053	1,019	986
Working capital changes	(1,961)	54	64	1
Other operating cashflows	383	0	(50)	(50)
Investing	1,812	(200)	(200)	(201)
Capex (growth)	(298)	(200)	(200)	(201)
Proceeds from sale of assets	0	0	0	0
Others	2,110	0	0	0
Financing	(1,900)	(580)	(595)	(604)
Dividend payments	(257)	(220)	(235)	(244)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1,102)	(360)	(360)	(359)
Others/interest paid	(541)	0	0	0
Net cash inflow (outflow)	(31)	78	592	547
Beginning cash & cash equivalent	1,569	1,538	1,615	2,207
Ending cash & cash equivalent	1,538	1,615	2,207	2,754

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	28.5	11.9	20.9	20.9
Pre-tax margin	7.1	(3.5)	5.2	6.0
Net margin	2.9	(1.9)	2.8	3.3
ROA	1.3	n.a.	1.3	1.6
ROE	4.8	n.a.	4.7	5.4
Growth				
Turnover	60.2	(2.5)	(3.0)	(0.0)
EBITDA	17.5	(59.3)	70.5	0.0
Pre-tax profit	56.9	(148.4)	n.a.	17.2
Net profit	16.1	(164.9)	n.a.	17.2
Net profit (adj.)	54.4	(126.1)	n.a.	17.2
EPS	54.4	(126.1)	n.a.	17.2
Leverage				
Debt to total capital	56.6	57.4	55.8	54.1
Debt to equity	137.5	141.0	134.0	126.3
Net debt/(cash) to equity	113.3	113.8	97.1	80.9
Interest cover (x)	5.7	2.4	3.6	3.9

SECTOR UPDATE

Offshore Marine – Singapore

Oil Price Recovery And Asset Demand Strength Seen In The Sector

Demand across the offshore marine asset classes has continued since our last update in Jul 23. Company managements' comments during the 1H23 reporting season in the US and Europe indicated a strong belief that the current cycle will be resilient and have a long duration. With oil prices likely to remain at elevated levels in the medium term, sentiment towards the sector should be positive, in our view. Maintain OVERWEIGHT on the sector. Key stock pick is Seatrium.

WHAT'S NEW

- **The offshore marine sector continues to see strong demand across asset classes** with higher dayrates and utilisation rates for jack-up rigs, deepwater semi-submersibles and drillships, eg new contract negotiations for high-spec drillships are close to US$500,000/day for 2024. The number of active offshore rigs registered yet another mom increase in Jul 23, and there are now 9% more active rigs compared to the year-ago period (see chart on RHS) as more jack-ups and drillships have been taken out of warm-stack status.
- **1H23 results season saw positive comments from oilfield services CEOs,** which bolster our positive view on the offshore marine sector. SLB stated that the offshore market is being driven by "resilient long-cycle offshore developments, production capacity expansions, (and) the return of global exploration and appraisal". This was echoed by Subsea 7 which stated that "there is a very long cycle in oil and gas coming, there are a number of good years ahead of us". TechnipFMC meanwhile commented that many projects are "in advanced stages (and) moving towards final investment decision".
- **Oil prices should be supported in the near to medium term** by Saudi Arabia's and Russia's joint decision in Sep 23 to extend voluntary oil production cuts to the year-end. This is despite a rally in oil prices that has seen Brent rise by nearly 30% since its lows in Jun 23. For the longer term, we note Rystad's research that has shown that despite rising investments, discovered volumes are falling to new lows (see chart on RHS). In particular, 1H23 saw only 2.6 billion boe discovered, or 42% lower than the same period last year. This clearly has ramifications in the longer term on the world's ability to supply energy for its economic growth.
- **Oil demand expected to grow, but forecasts face heightened uncertainty.** In its latest Sep 23 update, the US Energy Information Administration (EIA) left its 2023 oil demand unchanged vs its Jun 23 estimates but downgraded 2024 demand by 0.4% to 1.4mmbpd. The agency highlighted that low levels of global oil inventories would support a higher Brent oil price into the end of 2023, however it expects oil prices to moderate in early-24 due to slowing oil demand growth. Note that China is expected to account for more than two-fifths of global oil demand growth in 2023.

ACTION

- **Maintain OVERWEIGHT on the sector.** We continue to like STM as we believe that the company will benefit from stronger offshore marine dynamics as well as demand for offshore vessels and structures related to the renewables industry. In addition, the normalisation of economic activity should result in a greater volume of shipping activities thus positively impacting its repairs/upgrades segment.

PEER COMPARISON

Company	Ticker	Rec	----- Price (lcy) ----- 25 Sep	Target	Upside to TP (%)	Market Cap (US$m)	------ PE (x) ------ 2023F	2024F	------ P/B (x) ------ 2023F	2024F	--- EV/EBITDA (x) --- 2022F	2023F	ROE% 2023F	Yield (%) 2023F
Seatrium	STM SP	BUY	0.133	0.190	42.9	6,637.6	NA	57.3	1.1	1.1	43.8	22.4	NA	NA
Yangzijiang	YZJSGD SP	BUY	1.71	1.88	10.2	4,942.2	10.3	9.2	1.4	1.2	5.9	5.2	16.5	4.0
Average – Spore-listed														
Hanwha Ocean Co	042660 KS	NR	31,050	NA	NA	5,646.0	NA	27.9	2.8	2.5	NA	16.0	-17.6	NA
Samsung Heavy Ind	010140 KS	NR	7900	NA	NA	5,193.8	59.8	18.7	1.8	1.6	22.0	12.7	3.1	NA
HD Korea Shipbldg	009540 KS	NR	116,300	NA	NA	6,149.3	28.5	8.2	0.8	0.8	9.7	4.5	2.9	1.1
Average – Sector							32.9	24.3	1.6	1.4	20.4	12.2	1.2	2.6

Note: NR = Not Rated, based on Bloomberg consensus
Source: Bloomberg, UOB Kay Hian

OVERWEIGHT

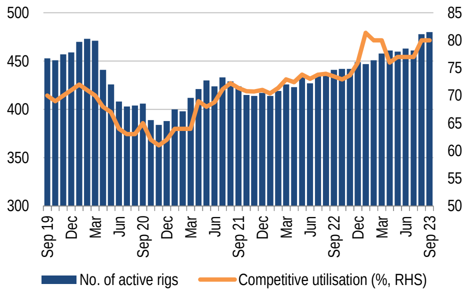
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	------ Price (S$) ------ 25 Sep	Target
Seatrium	STM SP	BUY	0.133	0.190
Yangzijiang	YZJSGD SP	BUY	1.71	1.88

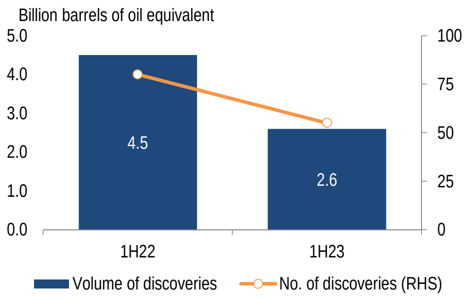
Source: Bloomberg, UOB Kay Hian

NO. OF ACTIVE OFFSHORE RIGS VS. UTILISATION



Note: Excludes rigs in repair/special survey which number c.2-3 per year
Source: Esgian

DISCOVERED VOLUMES OF OIL AND GAS



Source: Rystad

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KEY STOCK CALLS

Seatrium (STM SP/BUY/Target: S$0.19)

- **Outlook for new orders still remains strong.** Seatrium believes that there are numerous tenders in the market for production assets, floating LNG production and storage as well as renewables projects. While it has seen enquiries for drilling assets, given that day rates and utilisation rates for all types of assets have hit or are approaching multi-year highs, it said that these early enquiries are opportunistic in nature and thus it will be patient, conservative and selective in which orders it accepts.

- **It's not just oil and gas and renewables.** Seatrium's S$20b orderbook comprises 40% in the renewable energy space (with the remainder related to oil and gas projects). However, its addressable market is arguably much larger when taking into account carbon capture usage and storage, floating LNG, and ammonia storage and transport which feed into the hydrogen energy chain. At present, the company has 37 projects under execution with deliveries until 2030.

- **We maintain our BUY rating on Seatrium with a P/B-based target price of S$0.19.** Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x and is pegged to its 2024 book value of S$0.125. Our positive view on the stock reflects our belief that the company will benefit from bullish trends in the offshore marine space. These include: a) the tailwinds from increased construction in the renewables space, and b) the current offshore marine upcycle. Risks include higher-than-expected provisions for 2023, negative newsflow regarding its CPIB case, and volatile oil prices.

Yangzijiang Shipbuilding (YZJSGD SP/BUY/Target: S$1.88)

- **1H23 margins exceeded expectations.** YZJ saw overall improvements in margins in 1H23, led by its core shipbuilding segment with a gross profit margin of 17.7% (+4.9ppt yoy) which surpassed our full-year forecast of 14.5%. This was due to lower material costs and favourable US$/Rmb foreign exchange rates.

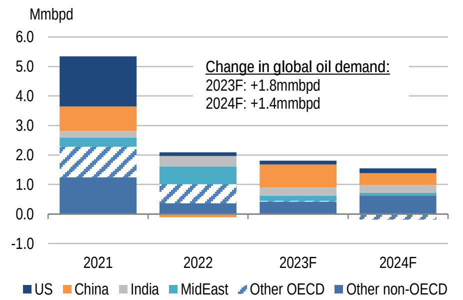
- **Regulatory factors should continue to boost new order wins.** Clean-energy vessels accounted for 56% of YZJ's orderbook value of US$14.7b in 1H23 (1H22: 23%). During 1H23, YZJ also secured its first-ever methanol dual-fuel containership order. The company believes that the global fleet-renewal trend will be boosted by the International Maritime Organisation's (IMO) revised 2023 Strategy on Reduction of Greenhouse Gas Emissions from Ships which accelerated greenhouse gas reduction in the shipping industry. As a result, YZJ believes that the focus will be on methanol rather than LNG-fuelled vessels.

- **Maintain BUY with a PE-based target price of S$1.88.** Our target PE multiple of 9.9x remains at 1.5SD above the company's five-year average of 6.6x with the upgrade coming from higher 2023/24 EPS estimates after the company's strong 1H23 results. We believe the premium to its average PE is justified given the company's earnings visibility into 2027 as well as its strong track record of safe and efficient shipbuilding for its international customer base. YZJ has an outstanding orderbook for 181 vessels worth US$14.7b as at end-1H23. We maintain our 2023 orderbook win target at US$7b.

RISKS TO OUR THESIS

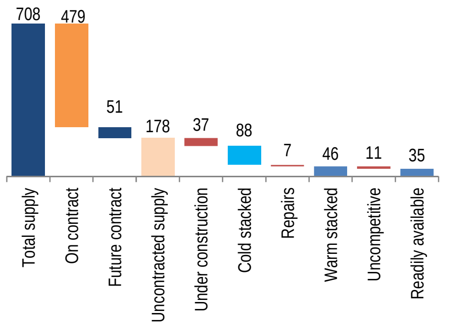
- Delays in project sanctioning due to supply chain issues; lack of financing for fossil fuel-related industries; global recession leading to lower capex.

INCREMENTAL OIL DEMAND GROWTH PER YEAR



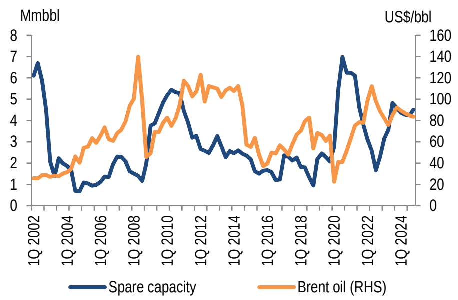
Source: US Energy Information Administration (Sep 23)

TOTAL SUPPLY OF RIGS IN THE GLOBAL MARKET



Source: Esgian

OPEC SPARE CAPACITY VS BRENT OIL PRICE



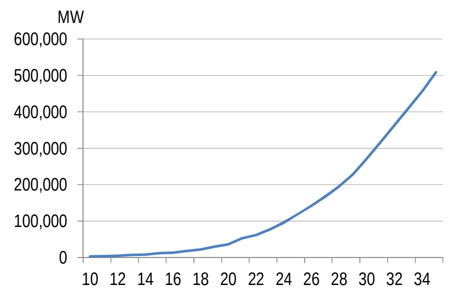
Source: Bloomberg, US Energy Information Administration

OFFSHORE WIND CAPACITY: FORECAST GROWTH RATES

Source	Capacity (GW)	Terminal year	Implied CAGR
BloombergNEF	504	2035	16.0%
McKinsey	207	2030	14.1%
Global Wind Energy Council	316	2030	19.6%

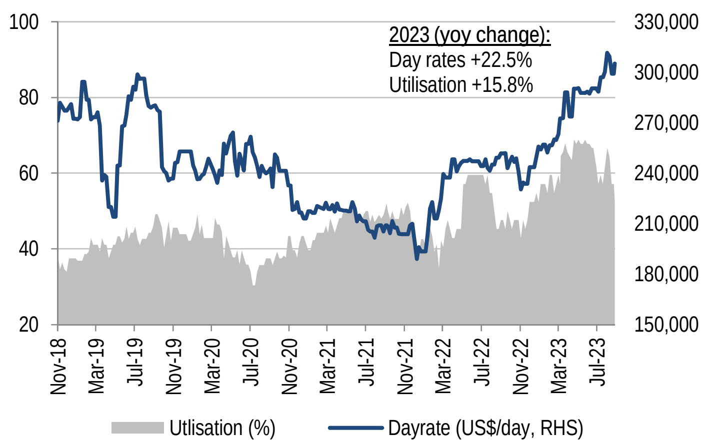
Source: BloombergNEF, McKinsey & Co, Global Wind Energy Council

GLOBAL OFFSHORE WIND CAPACITY FORECAST



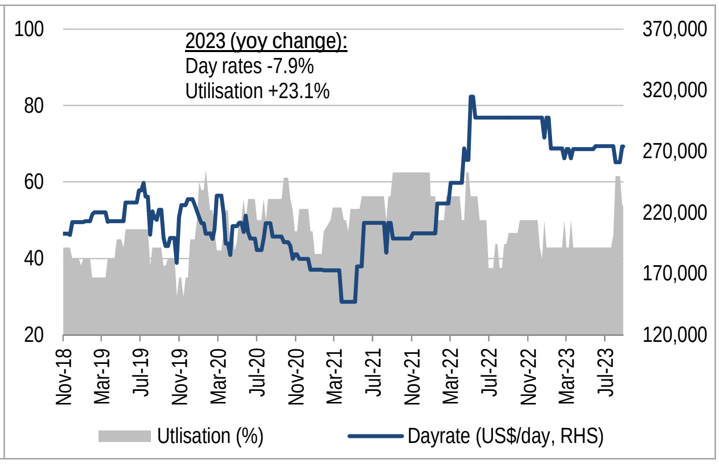
Source: BloombergNEF

DAYRATE & UTILISATION: SEMISUB 8000'



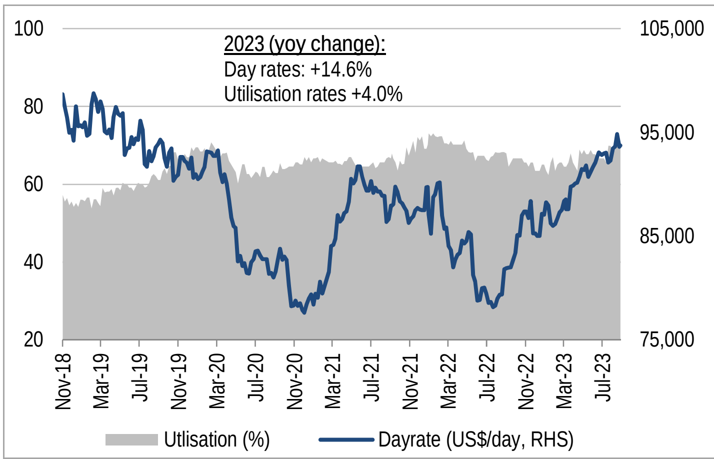
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: SEMISUB 5000-8000'



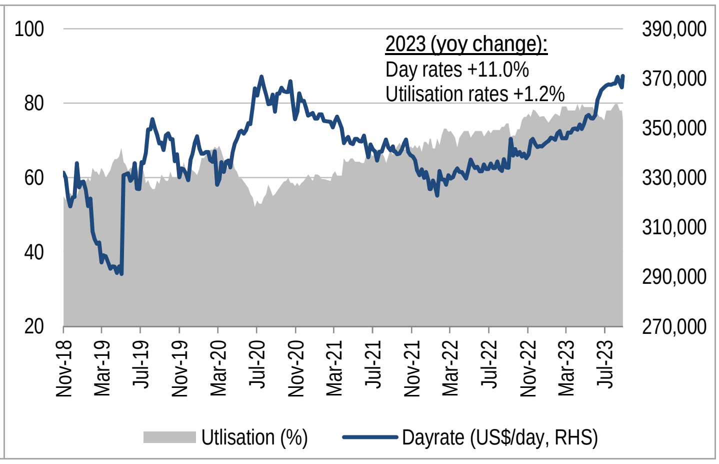
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: JACKUP 300+ INDEPENDENT CANTILEVERED



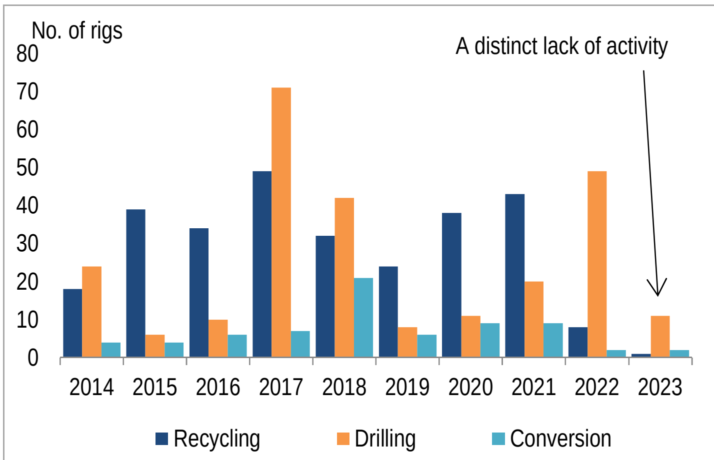
Source: Rigzone, Bloomberg

DAYRATE & UTILISATION: DRILLSHIP



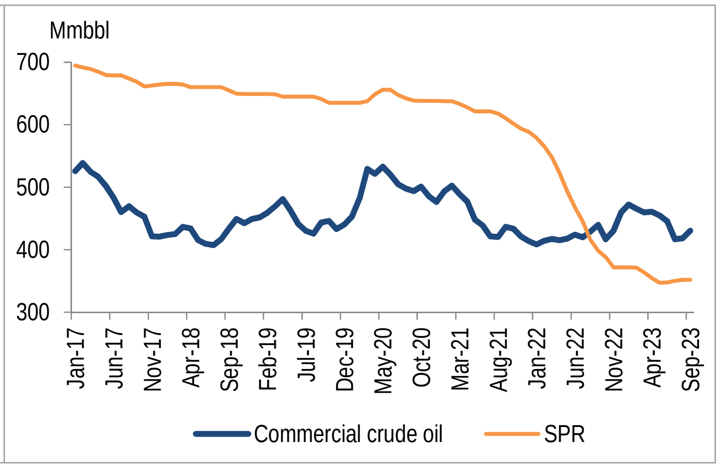
Source: Rigzone, Bloomberg

RIG SALES BY TYPE AS OF SEP 23



Source: Esgian

US INVENTORIES: COMMERCIAL OIL VS STRATEGIC PETROLEUM RESERVE



Source: US Energy Information Administration

OFFSHORE MARINE COMPANIES IN ASEAN: 1H23 RESULTS COMPARISON

Name of company/ ticker	Mkt cap (US$m)	Revenue (l.c.)	Net profit (l.c.)	----- Margins (%) ----- Gross	Net	ND/equity	Free cashflow	--- 2023E (x) --- PE	P/B	Description and comments
MALAYSIA (MYRm)										
Dayang Enterprise (DEHB MK)	464.4	418.1	48.9	37.7%	11.7%	26.3%	79.2	13.6	1.4	Provides maintenance services, fabrication operations, hook-up and commissioning and charter of marine vessels. Still low vessel utilisation rates at 49% but guiding for better 2H23 outlook and better-than-expected margins for its core operations. Key clients: Petronas, Sarawak Shell, ExxonMobil
Perdana Petroleum (PETR MK)	125.9	111.3	31.8	0.3%	28.6%	0.2%	12.6	18.5	1.9	Subsidiary of Dayang providing offshore marine support services for the upstream oil & gas industry. Strong 1H23 performance with revenue +89% yoy due to high vessel utilisation and charter rates.
Coastal Contracts* (COCO MK)	220.2	226.8	389.7	35.1%	171.8%	-26.7%	68.0	6.6	0.5	Owns >40 offshore vessels, two onshore gas processing plants in Mexico and two shipyards in Malaysia. Strong balance sheet; looking to enter renewables energy market; loss in 4Q23 due to loss on disposal of JV.
SINGAPORE (SGDm)										
ASL Marine* (ASL SP)	24.8	335.8	3.6	8.8%	1.1%	226.4%	92.4	9.6	0.5	Shipbuilding, ship repair/conversion, marine engineering, owns 229 vessels. Strong free cash flow in FY23, +43% yoy revenue growth, generated profits in FY23 vs losses in FY22. Small market cap, highly leveraged.
Atlantic Navigation (ATL SP)	115.1	43.6	10.5	37.8%	24.1%	120.2%	1.6	10.3	1.4	Provides marine logistics services (vessel chartering and chandlery services), ship repair/fabrication. Relatively illiquid stock (7% free float); guiding for stronger outlook in 2024 after full servicing of fleet; strong ties with local bank with good borrowing rates
CH Offshore (CHO SP)	44.9	8.5	-4.4	-15.0%	-51.4%	-1.5%	0.8	NA	1.0	Owns 6 x 12,240bhp offshore vessels for heavier deepwater work. Small market cap; constant net losses for past seven years and disappointing revenue decline of 10% yoy in 1H23.
Kim Heng (KHOM SP)	43.3	44.3	1.9	33.0%	4.4%	58.0%	1.2	0.4	1.0	Specialises in engineering, procurement, construction and installation support; owns 40 vessels and two shipyards. Small market cap; relatively high debt levels but recent expansion into renewable energy construction has growth potential.
Baker Tech (BTL SP)	82.2	39.4	1.5	29.7%	3.8%	-62.5%	18.3	13.3	0.5	Specialist in design and construction of offshore equipment. Weak 1H23 performance with net profit declining 84% yoy. Cash of S$68m comprises nearly 60% of its market capitalisation.
Marco Polo (MPM SP)	128.8	55.9	5.8	31.6%	10.4%	-30.7%	-6.8	11.6	1.2	Marine logistics group that provides ship chartering of offshore support vessels, ship building and maintenance. Plans to deploy its first CSOV in 2024 which is in short supply – guiding for strong demand to continue driving up charter rates. Net cash is c.25% of market capitalisation.
Dyna-Mac (DMHL SP0	280.1	182.3	10.2	13.5%	5.6%	-87.5%	53.4	18.5	6.1	Specialist engineering and construction focused on FPSOs. Large net cash position; strong net orderbook of S$543m; has leased land along Gul Road for further expansion. Net cash of S$129m is one-third of market cap.
INDONESIA										
Wintermar (USDm) (WINS IJ)	173.5	31.2	1.2	17.5%	4.0%	22.3%	6.2	39.6	1.3	Owns 65 offshore support vessels to assist oil & gas companies in offshore exploration and development. Low gearing ratio; strong 1H23 revenue growth of 24%yoy; potential for greater utilisation (67% in 1Q23). Guiding for stronger 2H23 performance on the back of higher rates and utilisation. Orderbook (end 1H23): US$79m
Temas (IDR b) (TMAS IJ)	635.8	2,105.5	418.0	27.1%	19.9%	191.7%	376.2	8.5	4.4	Port, warehousing and logistics solutions, container management. Owns 50 ships throughout Indonesia. Large market cap; yoy decline in revenues and margins
Sillo Maritime (USDm) (SHIP IJ)	231.6	74.4	14.6	37.0%	19.5%	1076.0%	-52.3	10.0	1.8	Shipping services to support oil & gas exploration and production activities. Committed to spend on capex to grow via expansion of its fleet of Indonesian-flagged LNG vessels.

** Denotes FY23 results*
Source: UOB Kay Hian, Bloomberg

COMPANY UPDATE

Star Petroleum Refining (SPRC TB)

GRM Improvement In 3Q23 To Benefit SPRC

We preliminarily estimate SPRC's 3Q23 core profit at Bt1.6b. Including inventory gains, net profit could come in at Bt3.1b (reversing from a net loss of Bt2.1b in 2Q23), higher than our previous estimate. However, we believe core profit will soften in 4Q23 due to a weaker GRM outlook despite a higher run rate. We think there is limited upside to share price. Maintain HOLD. Target price: Bt9.00.

WHAT'S NEW

- **GRM improvement in 3Q23.** Like ESSO Thailand (ESSO), Star Petroleum Refining (SPRC) should continue to benefit from the strength of the gasoline crack spread, which has risen by US$3.00/bbl to average US$19.80/bbl qtd. This is a significant increase from the average of US$16.60/bbl in 2Q23 due to: a) strong demand during the driving seasons in the US, and b) an improving economic outlook in the US. The benchmark Singapore gross refinery margin (GRM) has jumped to US$9.81/bbl qtd, up from US$4.10/bbl in 2Q23. We expect SPRC's GRM to rise to US$9.00/bbl from US$1.34/bbl in 3Q23. Our GRM projection also takes into account ship-to-ship expenses of US$1.50/bbl resulting from last year's oil spill.
- **Run rate back to normal.** SPRC has completed a 20-day scheduled maintenance to integrate a new catalyst into the diesel unit for the Euro 5 Project. SPRC's IR team has confirmed that SPRC's production rate has normalised to 160kbd in Sep 23, following the completion of its scheduled maintenance shutdown. We expect SPRC's production level to remain at 160kbd until end-23. Despite the shutdown, management guided that run rate remained healthy at 140-145kbd in Jul-Aug 23. This suggests an average production rate of 150kbd in 3Q23 (2Q23: 158kbd).
- **Positive on the deal to acquire a retail gas station business.** In the long term, we remain positive on SPRC and believe the 100% acquisition of the retail gas station business (under the Caltex brand) from Chevron (Thailand) (CTL) is strategically important for SPRC. This allows SPRC to expand into the oil retail business in Thailand and also reduces exposure to PTT (SPRC sold around 40% of its refined products to PTT in 2Q23). We foresee SPRC aggressively expanding the oil retail business after completing the deal.
- **Could potentially book a huge inventory gain.** This is due to the 16% increase in crude oil prices in Sep 23 compared with Jun 23's average price of US$77.00/bbl.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	172,484	285,264	199,621	215,003	218,165
EBITDA	8,781	12,243	6,511	7,913	8,044
Operating profit	6,137	9,640	3,311	4,713	4,845
Net profit (rep./act.)	4,746	7,674	2,757	4,122	4,227
Net profit (adj.)	(336)	10,021	2,757	4,122	4,227
EPS (Bt)	(0.1)	2.3	0.6	1.0	1.0
PE (x)	n.m.	3.9	14.1	9.4	9.2
P/B (x)	1.1	1.0	1.2	1.1	1.0
EV/EBITDA (x)	5.5	3.9	7.4	6.1	6.0
Dividend yield (%)	2.0	12.4	4.5	4.5	15.6
Net margin (%)	2.8	2.7	1.4	1.9	1.9
Net debt/(cash) to equity (%)	14.9	24.9	28.9	17.2	9.3
Interest cover (x)	41.5	38.7	20.7	98.9	99.3
ROE (%)	15.6	21.0	7.8	12.2	11.2
Consensus net profit	-	-	4,169	5,263	6,133
UOBKH/Consensus (x)	-	-	0.66	0.78	0.69

Source: Star Petroleum Refining, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt8.95
Target Price	Bt9.00
Upside	+0.6%

COMPANY DESCRIPTION

SPRC is one of the leading refineries in Asia Pacific. It operates a complex 175,000 bpd refinery in Rayong (13.2% of Thailand's refining capacity), which has a high Nelson complexity index of 6.3.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	SPRC TB
Shares issued (m):	4,335.9
Market cap (Btm):	38,806.3
Market cap (US$m):	1,077.4
3-mth avg daily t'over (US$m):	6.4

Price Performance (%)

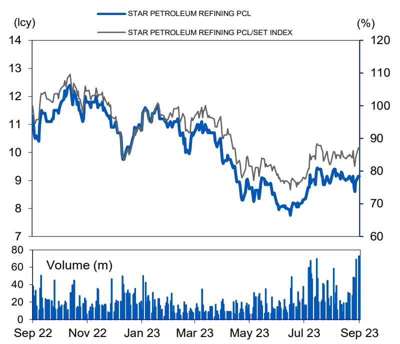
52-week high/low Bt12.40/Bt7.75

1mth	3mth	6mth	1yr	YTD
(1.1)	4.7	(14.8)	(24.2)	(16.4)

Major Shareholders	%
Bang Chak	66
Thai NVDR	11

FY23 NAV/Share (Bt)	7.30
FY23 Net Debt/Share (Bt)	2.11

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Strong net profit for 3Q23.** We roughly estimate 3Q23 core profit at Bt1.6b (3Q22: core profit of Bt1.4b; 2Q23: loss of Bt575m) based on US$9.00/bbl GRM and run rate of 150kbd. This improvement can be attributed to robust oil demand driven by heightened economic activity, coupled with low levels of petroleum product reserves. We also expect inventory gain of around Bt1.5b in 3Q23
- **Expect GRM to soften in 4Q23.** We expect GRM to decrease qoq in 4Q23 due to the high-base effect in 3Q23 and an increase in crude premium. However, we expect GRM to remain stable at a high level between US$5.00 to US$6.00/bbl. This stability will be driven by seasonal demand for diesel as well as jet fuel spread.

EARNINGS REVISION/RISK

- None.

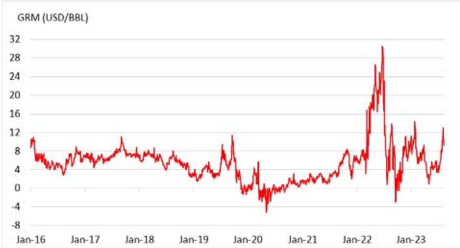
VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of Bt9.00,** based on 14.0x 2023F PE. We expect earnings to make a strong recovery in 3Q23 but soften in 4Q23 due to a lower GRM outlook. We think there is limited upside to share price. We recommend investors switch to ESSO and BCP.
- **GRM sensitivity.** Every US$1/bbl increase in our GRM assumption will increase our 2023 core net profit forecast by Bt2.0b.

SHARE PRICE CATALYST

- 3Q23: Expect a recovery in GRM.

SINGAPORE'S GRM

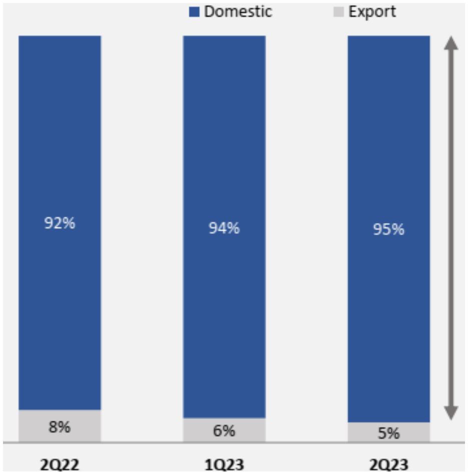


Source: UOB Kay Hian

CRUDE PREMIUM

Source: SPRC

DOMESTIC SALES



Source: SPRC

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	285,264	199,621	215,003	218,165
EBITDA	12,243	6,511	7,913	8,044
Deprec. & amort.	2,603	3,200	3,200	3,199
EBIT	9,640	3,311	4,713	4,845
Total other non-operating income	270	450	520	520
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(316)	(315)	(80)	(81)
Pre-tax profit	9,594	3,446	5,153	5,284
Tax	(1,921)	(689)	(1,031)	(1,057)
Minorities	0	0	0	0
Net profit	7,674	2,757	4,122	4,227
Net profit (adj.)	10,021	2,757	4,122	4,227

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	22,735	21,335	18,135	14,936
Other LT assets	2,295	1,090	1,140	1,140
Cash/ST investment	76	2,905	6,118	8,545
Other current assets	38,182	45,900	46,660	51,660
Total assets	63,288	71,230	72,053	76,282
ST debt	9,731	12,062	12,262	12,262
Other current liabilities	14,173	27,300	23,800	23,800
LT debt	0	0	0	0
Other LT liabilities	677	230	230	230
Shareholders' equity	38,707	31,638	35,761	39,989
Minority interest	n.a.	n.a.	n.a.	n.a.
Total liabilities & equity	63,288	71,230	72,053	76,282

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	(69)	12,101	3,062	2,426
Pre-tax profit	9,594	3,446	5,153	5,284
Tax	(1,921)	(689)	(1,031)	(1,057)
Deprec. & amort.	2,603	3,200	3,200	3,199
Working capital changes	(9,574)	5,409	(4,260)	(5,000)
Other operating cashflows	(772)	735	0	0
Investing	(1,139)	(1,777)	(50)	0
Capex (growth)	(1,119)	(1,800)	0	0
Others	(20)	23	(50)	0
Financing	(1,661)	(7,495)	201	1
Dividend payments	(4,936)	(4,988)	0	0
Proceeds from borrowings	1,677	2,332	200	0
Others/interest paid	1,599	(4,839)	1	1
Net cash inflow (outflow)	(2,869)	2,829	3,213	2,427
Beginning cash & cash equivalent	2,945	76	2,905	6,118
Ending cash & cash equivalent	76	2,905	6,118	8,545

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	4.3	3.3	3.7	3.7
Pre-tax margin	3.4	1.7	2.4	2.4
Net margin	2.7	1.4	1.9	1.9
ROA	12.6	4.1	5.8	5.7
ROE	21.0	7.8	12.2	11.2
Growth				
Turnover	65.4	(30.0)	7.7	1.5
EBITDA	39.4	(46.8)	21.5	1.7
Pre-tax profit	62.3	(64.1)	49.5	2.6
Net profit	61.7	(64.1)	49.5	2.6
Net profit (adj.)	n.a.	(72.5)	49.5	2.6
EPS	n.a.	(72.5)	49.5	2.6
Leverage				
Debt to total capital	20.1	27.6	25.5	23.5
Debt to equity	25.1	38.1	34.3	30.7
Net debt/(cash) to equity	24.9	28.9	17.2	9.3
Interest cover (x)	38.7	20.7	98.9	99.3

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