

## WHAT HAPPENED LAST NIGHT

US stocks were lower on Monday, as losses in the healthcare, industrials and communications sectors led shares lower. At the close of the NYSE, the DJIA dropped 0.16%, the S&P 500 index decreased 0.2%, and the NASDAQ Composite index fell 0.07%. Declining stocks outnumbered advancing ones on the NYSE by 1,654 to 1,202 and 112 ended unchanged; on the Nasdaq Stock Exchange, 1,671 advanced and 2,731 declined, while 177 ended unchanged. (Source: WSJ, Bloomberg).

## WHAT'S IN THE PACK

### Singapore Company Update:

**NetLink NBN Trust - IMDA completed review, disappointment in overall return may limit near term upside. Dividend yield remain lush at 6.5%**

(NETLINK SP/BUY/S\$0.815/Target: S\$1.01)

Netlink announced the completion of the IMDA review (effective Apr 24), with prices for residential and NBAP connections dipping slightly. We expect near term share price weakness as total returns in the near term is adversely affected by the review (vs expectation of a higher return to compensate for inflation and higher interest rates). We adjust FY25-26 PATMI marginally by 1-2%. That said, cashflow remains stable and Netlink offers 6.5% dividend yield. BUY. Target Price: S\$1.01...

### China/HK Company Update:

**BYD Company - Downgrade from BUY to SELL on peaking retail sales and piling inventories. Slash target price from HK\$630.00 to HK\$140.00.**

(1211 HK/SELL/HK\$222.20/Target: HK\$140.00)

We downgrade BYD from BUY to SELL, based on: a) peaking retail sales volume, b) piling inventories, c) falling capacity utilisation, and d) mounting pressure to cut prices. We cut 2023-25 EPS estimates for BYD by 2%/37%/51% to Rmb10.49/Rmb9.73/Rmb10.43 respectively based on lower sales volume, ASP and gross margin. Downgrade to SELL. Slash target price from HK\$630.00 to HK\$140.00...

### Singapore Technical Analysis:

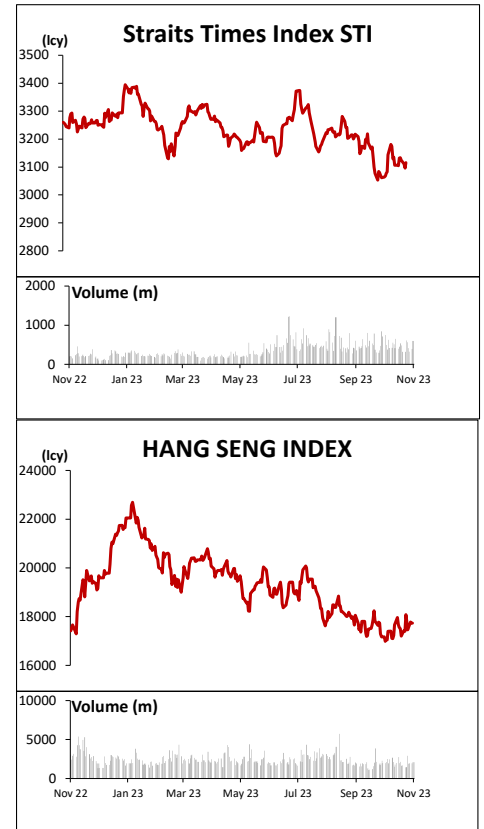
**iFAST Corp (IFAST SP) - Trading BUY**

Price is trading far above the cloud, suggesting a strong bullish uptrend. Conversion and base lines remain in a bullish crossover. MACD is strong and bullish...

**Civmec (CVL SP) - Trading BUY**

Price rebounded from the middle Bollinger band, which is also the 20-day moving average. The 20MA is rising, suggesting potential upside ahead...

## PRICE CHART



## KEY INDICES

	Prev Close	1M %	YTD %
DJIA	35333.5	9.0	6.6
S&P 500	4550.4	10.5	18.5
FTSE 100	7460.7	2.3	0.1
AS30	7192.8	2.5	(0.4)
CSI 300	3511.9	(1.4)	(9.3)
FSSTI	3086.4	0.8	(5.1)
HSCEI	6025.2	0.8	(10.1)
HSI	17525.1	0.7	(11.4)
JCI	7013.4	3.8	2.4
KLCI	1448.2	0.4	(3.2)
KOSPI	2495.7	8.4	11.6
Nikkei 225	33447.7	7.9	28.2
SET	1393.4	0.4	(16.5)
TWSE	17137.4	6.2	21.2
BDI	2259	44.5	49.1
CPO (RM/mt)	3793	4.7	(6.3)
Brent Crude (US\$/bbl)	80	(11.5)	(6.8)

Source: Bloomberg

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## YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 8.39pt lower to 3,086.42. Among the top active stocks were Singtel (+1.3%), Seatrrium (+0.9%), Thai Beverage (-3.8%), SIA (+1.0%) and Rex International (-1.2%). The FTSE ST Mid Cap Index fell 0.3%, while the FTSE ST Small Cap Index was down 0.2%. The broader market saw 253 gainers and 308 losers with total trading value of S\$663.7m.

## SINGAPORE

### TOP TRADING TURNOVER

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
DBS Group Holdings	31.74	(0.3)	123.1
Singapore Telecommunications	2.29	1.3	64.3
CapitaLand Ascendas Reit	2.81	(0.7)	37.2
United Overseas Bank	27.21	(0.3)	36.9
Oversea-Chinese Banking Corp	12.65	(0.2)	36.4

### TOP GAINERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Singapore Telecommunications	2.39	5.3	0.2
Hutchison Port Holdings Trust	0.22	2.4	0.0
Keppel Dc Reit	1.94	2.1	7.1
Oue Commercial Real Estate	0.26	2.0	0.9
Lendlease Global Commercial	0.60	1.7	2.7

### TOP LOSERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Thai Beverage	0.51	(3.8)	11.1
Yanlord Land Group	0.59	(3.3)	0.8
Propnex	0.86	(2.8)	0.2
Hongkong Land Holdings	3.27	(2.4)	5.0
Aem Holdings	3.32	(2.1)	7.1

\*ADT: Average daily turnover

## HONG KONG

### TOP TRADING TURNOVER

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Country Garden Holdings Co	0.94	(3.1)	415,636
China Construction Bank-H	4.56	0.0	172,151
Tracker Fund Of Hong Kon-Hkd	17.67	(0.1)	164,804
Bank Of China Ltd-H	2.88	0.3	142,828
Gcl Technology Holdings Ltd	1.12	(3.4)	122,228

### TOP GAINERS

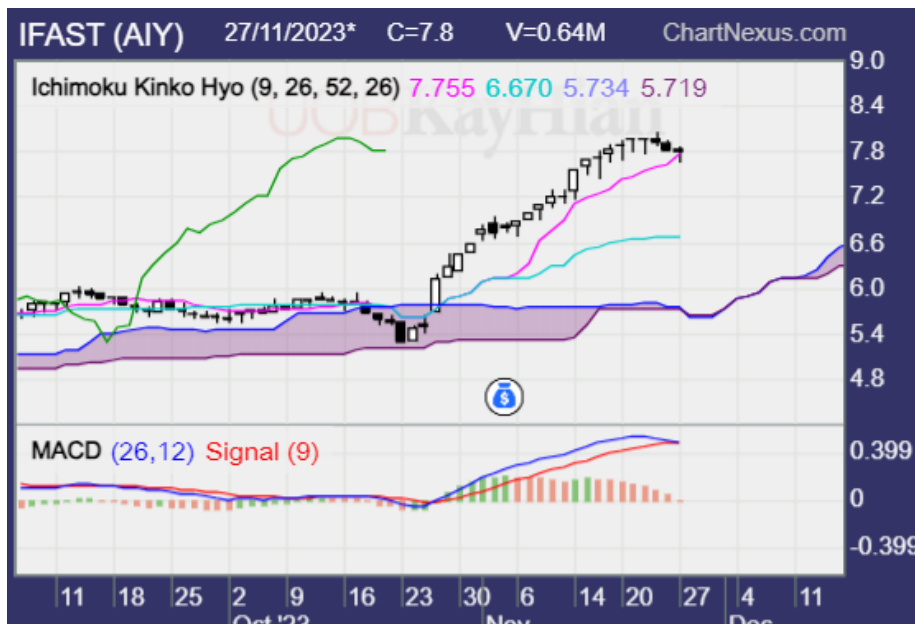
Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Semiconductor Manufacturing	22.20	3.0	35,931
Chow Tai Fook Jewellery Grou	11.04	2.8	13,282
Sunny Optical Tech	71.65	2.7	8,175
Wuxi Biologics Cayman Inc	46.05	2.6	15,289
Techtronic Industries Co Ltd	79.65	2.0	3,837

### TOP LOSERS

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Longfor Group Holdings Ltd	14.60	(4.1)	20,632
Country Garden Services Hold	8.04	(3.7)	42,316
Gcl Technology Holdings Ltd	1.12	(3.4)	122,228
Picc Property & Casualty-H	9.18	(3.3)	22,605
Country Garden Holdings Co	0.94	(3.1)	415,636

\*ADT: Average daily turnover

SINGAPORE TRADERS' CORNER



## iFAST Corp (IFAST SP)

Trading Buy Range: S\$6.75-6.77

Last price: S\$7.80

Target price: S\$7.90

Protective stop: S\$6.50

Price is trading far above the cloud, suggesting a strong bullish uptrend. Conversion and base lines remain in a bullish crossover. MACD is strong and bullish. These could increase chances of the stock price rebounding from the base line to move higher.

We see increasing odds of stock price testing S\$7.90. Stops could be placed at S\$6.50.

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

Our institutional research has a fundamental HOLD and target price of S\$6.56.



## Civmec (CVL SP)

Trading Buy Range: S\$0.785-0.790

Last price: S\$0.795

Target price: S\$0.855

Protective stop: S\$0.765

Price rebounded from the middle Bollinger band, which is also the 20-day moving average. The 20MA is rising, suggesting potential upside ahead. The RSI is rising above its neutral level. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$0.855. Stops could be placed at S\$0.765.

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

Our institutional research has a fundamental BUY and target price of S\$1.23.

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FROM THE REGIONAL MORNING NOTES...

## NetLink NBN Trust (NETLINK SP)

IMDA Review Completed With Minor Impact, Expected to Start in FY25

Netlink announced the completion of the IMDA review (effective Apr 24), with prices for residential and NBAP connections dipping slightly. We expect near term share price weakness as total returns in the near term is adversely affected by the review (vs expectation of a higher return to compensate for inflation and higher interest rates). We adjust FY25-26 PATMI marginally by 1-2%. That said, cashflow remains stable and Netlink offers 6.5% dividend yield. BUY. Target Price: S\$1.01.

### SUMMARY OF THE IMDA REVIEW OF NETLINK'S INTERCONNECTION PRICES

	Current Prices*	Revised Prices*	Number of connections in FY18	Number of connections in 1HFY24
Residential End-User Connection	S\$13.80	S\$13.50	1,192,000	1,492,000
Non- Residential End-User Connection	S\$55.00	S\$55.00	43,900	52,600
NBAP Connection*	S\$73.80	S\$70.50	835	2,823
WACC	7%	7%	-	-

Source: NetLink, UOB Kay Hian \*Per connection

### WHAT'S NEW

- Long awaited closure.** Netlink NBN Trust (Netlink) announced the completion of IMDA's most recent review of Netlink's interconnection prices, which resulted in slightly lower prices for residential end-user connections and Non-Building Address Point (NBAP) connections, while prices for non-residential end-user connections remained the same. We understand that the WACC determined remained the same at 7% from the previous review while a capex reserve of S\$40m was set aside for the new pricing period. The revised prices are expected to take effect from 1 Apr 24 (at the start of 1QFY25) and we note that the new prices would not have a material impact on Netlink's FY24 DPU.
- Marginally disappointing, expect near term share price weakness.** Given that connections for all three segments have increased sharply from five years ago, we opine that the drop in prices for residential and NBAP connections was largely due to a higher number of connections. That said, we expect near term share price weakness as total returns in the near term is adversely affected by the review versus street and our expectations of higher returns to compensate for elevated interest rates environment and expected higher cost base from inflationary pressures.
- Possible mid-term review.** Netlink may propose to conduct a mid-term price adjustment in the third year of the pricing period (FY27), in the event of any significant unforeseen changes to cost or demand forecasts. Management noted that upcoming expected interest rate cuts in the short term alone would not trigger a mid-term adjustment and the group would look at other factors such as opex/capex plans before triggering a review.

### KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	378	403	418	426	436
EBITDA	275	291	300	306	313
Operating profit	107	120	123	132	142
Net profit (rep./act.)	104	109	108	116	126
Net profit (adj.)	116	109	108	116	126
EPS (S\$ cent)	3.0	2.8	2.8	3.0	3.2
PE (x)	27.4	29.1	29.5	27.3	25.2
P/B (x)	1.2	1.2	1.3	1.3	1.4
EV/EBITDA (x)	13.5	12.8	12.3	12.1	11.8
Dividend yield (%)	6.3	6.4	6.5	6.6	6.8
Net margin (%)	27.5	27.1	25.8	27.3	28.9
Net debt/(cash) to equity (%)	18.9	20.2	21.9	22.9	24.0
Interest cover (x)	26.3	17.4	14.2	14.2	14.6
ROE (%)	3.8	4.1	4.2	4.7	5.3
Consensus net profit	-	-	107	109	113
UOBKH/Consensus (x)	-	-	1.00	1.07	1.12

Source: NetLink NBN Trust, Bloomberg, UOB Kay Hian

## STOCK IMPACT

- Minor impact to short-term earnings.** In our view, we expect the fall in prices for residential and NBAP connections to have insignificant impact on FY25-26 earnings. The S\$0.30 price reduction for residential connection implies a loss of around S\$5m in annual revenue and would reduce our current FY25-26 PATMI estimates by only 1-2%. Furthermore, given that Netlink has been adding roughly 20,000 new residential connections per year, we expect new revenue contributions of roughly S\$2m (20,000 new customers x S\$13.5 new price x 3-12 months) to partially offset the S\$5m drop in revenue loss from the price reduction in FY25 before returning to pre-price reduction levels by 1HFY26. Also, the S\$3.30 price reduction for NBAP is unlikely to impact earnings given NBAP's small contribution to Netlink's overall annual revenue. Therefore, we reckon that there would be minor earnings impact from the price reduction.
- Dividends to remain unaffected.** Armed with strong annual operating cashflows of around S\$300m, management noted that the group expects distributions (~S\$200m annual distributions) to stay stable despite lower revenue contributions from the residential connections segment. Also, despite higher capex commitments in FY24-25, the group noted that additional capex net from its surplus cash after distribution would be borrowed, backed by the group's strong balance sheet (low 21.5% net gearing).

## EARNINGS REVISION/RISK

- We trim our FY25-26 earnings estimates slightly by 1-2%**, on the back of lower residential and NBAP revenue contributions, while keeping our FY24 earnings estimate unchanged. We now forecast FY24-26 PATMI at S\$107.6m (unchanged), S\$116.3m (S\$118.8m previously) and S\$126.2m (S\$128.8m previously) respectively.

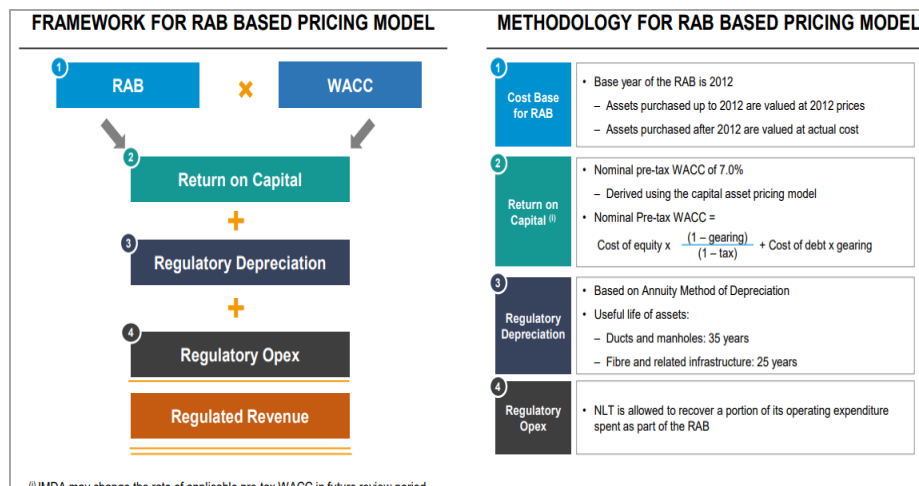
## VALUATION/RECOMMENDATION

- Maintain BUY with the same DCF-based target price of S\$1.01.** (WACC: 6%, terminal growth: 1%). At our target price, the stock trades at around 16x FY24 EV/EBITDA. We continue to see the stock as a good shelter amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions. However, we expect Netlink's share price performance to stay flat in the next three months after the IMDA review as we reckon that the market may take this price reduction negatively. We recommend investors to buy on any further share price weakness for Netlink's ample 6.5% dividend yield.

## SHARE PRICE CATALYST

- Key catalysts include:** a) 5G beneficiary – more opportunities arising from mobile operators' fibre network densification demand, b) growth in demand for NBAP connections with the rollout of 5G/Smart Nation initiatives, c) investors seeking defensive yield from Netlink's resilient, predictable, transparent and regulated cash flow, and d) earnings-accretive M&As.

## NETLINK'S RAB PRICING FRAMEWORK



<sup>(1)</sup> IMDA may change the rate of applicable pre-tax WACC in future review period

Source: NetLink, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

## BYD Company (1211 HK)

Downgrade To SELL On Peaking Retail Sales And Piling Inventories

**We downgrade BYD from BUY to SELL, based on: a) peaking retail sales volume, b) piling inventories, c) falling capacity utilisation, and d) mounting pressure to cut prices. We cut 2023-25 EPS estimates for BYD by 2%/37%/51% to Rmb10.49/Rmb9.73/Rmb10.43 respectively based on lower sales volume, ASP and gross margin. Downgrade to SELL. Slash target price from HK\$630.00 to HK\$140.00.**

### WHAT'S NEW

- Peaking retail sales.** BYD's monthly wholesale shipment of passenger electric vehicles (PEV) reach a record high of 301,095 units (+38% yoy/+5% mom) in Oct 23. On the other hand, BYD's monthly insurance registrations (a more accurate gauge of retail sales volume) tumbled by 1.5% mom to 241,600 units in Oct 23. On a weekly basis, BYD's weekly insurance registrations peaked at 65,500 units during the week ending 1 Oct 23 to reach 48,000-55,000 units in Oct-Nov 23, on a par with that of Jun-Sep 23. In fact, BYD's weekly insurance registrations have started to flatten at around 50,000 units since June.
- Falling market share amid stiffening competition from tier-2 EV companies.** The peaking of BYD's retail sales can be attributed to increasing competition from up-and-coming tier-2 EV companies, such as Geely, Guangzhou Auto (GAC) Aion, Li Auto, Changan, Huawei-backed Aito, Great Wall Motor (GWM) and even Volkswagen's (VW), with the launches of multiple competitive EV models, eg Zeekr 001/007/009/X, Galaxy L7/L6/E8, Li L7/Mega, Deepal S7, Qiyuan A05, Aito M7/M9, Fierce Dragon PHEV, etc. By insurance registrations, BYD's share in China's PEV market plunged from a peak of 42.4% in Jan 23 to 33.6% in Oct 23.
- Launches of new models did not boost sales.** BYD has launched 16 new models ytd, but its retail sales have flattened since June while its market share has fallen ytd. This can be attributed to increasing competition and cannibalisation among BYD's own models. BYD currently has 27 PEV models, covering segments such as mini-car, mid- to large-sized vehicles, sedans, SUVs and MPVs, with prices ranging from Rmb70,000 to Rmb1.1m. As such, many of BYD's models have overlapping market positioning, eg Han vs Seal, Song Plus vs Song Pro. BYD's upcoming new models includes Bao 5, which just hit the market on 24 Nov 23, and Song L and Sea Lion, which will be launched on 15 Dec 23 and 1H24 respectively. We do not expect much sales contribution from them. Song L and Sea Lion have a similar market positioning with Tang EV and Denza N7, and Bao 5 is an off-road SUV targeting the niche market

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	216,142	424,061	652,648	681,145	795,003
EBITDA	21,317	42,357	67,317	78,730	94,144
Operating profit	7,209	21,987	35,667	33,281	34,869
Net profit (rep./act.)	3,045	16,622	30,533	28,282	30,307
Net profit (adj.)	1,788	14,421	28,333	26,082	28,107
EPS (fen)	106.7	571.0	1,048.8	973.4	1,043.0
PE (x)	210.2	39.3	21.4	23.0	21.5
P/B (x)	6.9	5.9	4.7	4.1	3.5
EV/EBITDA (x)	28.9	14.6	9.2	7.8	6.6
Dividend yield (%)	0.0	0.5	0.9	0.9	0.9
Net margin (%)	0.8	3.4	4.3	3.8	3.5
Net debt/(cash) to equity (%)	(15.8)	(26.7)	(25.3)	5.8	(37.5)
Interest cover (x)	4.0	(13.6)	(37.8)	(136.7)	(40.4)
ROE (%)	2.4	14.0	22.7	17.5	16.3
Consensus net profit	-	-	29,340	40,004	51,304
UOBKH/Consensus (x)	-	-	1.04	0.71	0.59

Source: BYD, Bloomberg, UOB Kay Hian



- **Disappointing overseas sales.** BYD is selling PEVs to 54 overseas markets worldwide (excluding the US). BYD's exports more than tripled yoy to 176,000 units in 10M23. However, BYD's 10M23 EV sales in Europe, Southeast Asia, Japan, Australia, New Zealand, Latin America, Israel and Egypt did not manage to exceed 70,000 units. The aforementioned markets jointly contributed over 80% of 1H23 global EV sales excluding China and the US.
- **Inventory piling up.** BYD's monthly wholesale shipment has exceeded the combined number of insurance registrations and exports since Jan 22, boosting inventories by 444,000 units from Jan 22 till Oct 23, of which 58,000 units were at factories and 386,000 units at dealers. Based on an assumed inventory-to-sales ratio of one month as of 31 Jan 22, we estimate BYD's channel inventory-to-sales ratio at over two months as of 31 Oct 23. This would be a problem for BYD, as the company's retail sales volume seems to have peaked since June.
- **BYD is funding inventory accumulation for dealers,** holding the dealership network intact. Back in 2010, BYD did channel stuffing for ICE-cars, squeezing many dealers out of business. It took three years for BYD to recover from the crisis. This time BYD has provided financial supports for dealers to hold excessive inventories. As such, BYD's operating cash flow plunged by 67% yoy/76% qoq, and free cash flow turned negative in 3Q23, as receivable days lengthened from 37 days as of 30 Jun 23 to 48 days as of 30 Sep 23 and contract liabilities days remained flat qoq at 21 days.
- **Destocking in the cards.** Unless BYD continues to finance the inventory build-up for dealers or if retail sales resumes growth, we expect BYD's dealers to start destocking from the beginning of 2024, reducing inventory intakes. Given the >2 months of inventories in channel, there will be limited room for the inventory build-up to sustain. Wholesale shipment will eventually fall to parity with retail sales, and drop even lower.
- **More price cuts to come.** BYD just announced an additional Rmb3,000-10,000 in discounts (5-10%) for its Dynasty Series till 30 Nov 23. Given the inventory glut, we expect the discount to expand further over the next few months.
- **Decline in capacity utilisation rate along with peaking sales and growing capacity.** BYD will expand EV capacity from 3.55m units at end-22 to 4.4m units/6.62m units by the end of 2023/24. BYD's sales are peaking at a time when its new capacity is coming on-stream. That is why BYD is pushing inventories to dealers to absorb the additional capacity. However, as aforementioned, wholesale shipments will eventually fall to parity with retail sales, which will drag capacity utilisation rate. Based on 63,000 units in weekly sales (domestic sales + exports), the annual retail sales would be 3.3m units for the next 12 months, implying 60% capacity utilisation rate in 2024, vs 86% in 2022.
- **Capex to peak in 2024.** Based on the expansion of battery capacity and EV capacity, we expect BYD's capex and R&D expenditure to increase by 30% yoy from Rmb127b in 2023 to Rmb164b in 2024 and drop by 60% yoy to Rmb66b in 2025.

## STOCK IMPACT

- **Maintain our 2023 EV wholesale shipment estimate for BYD at 3m units and cut those for 2024-25 by 25% and 33% to 3.0m units and 3.5m units respectively,** based on the company's peaking retail sales volume and high inventory level.
- **Cut our 2023-25 ASP assumptions for BYD by 2%/6%/12% to Rmb150,000/Rmb150,000/Rmb150,000,** based on the mounting pricing pressure.
- **Trim 2023-25 gross margin assumptions by 1ppt/1ppt/1ppt to 18.4%/17.3%/17.3% respectively,** based on lower ASP and lower capacity utilisation rate.

## EARNINGS REVISION/RISK

- **Cut 2023-25 net profit forecasts and EPS estimates by 2%/37%/51% to Rmb30.53b/Rmb28.28b/Rmb30.31b and Rmb10.49/Rmb9.73/Rmb10.43 respectively,** based on lower sales volume estimate, lower ASP and gross margin assumptions.

## VALUATION/RECOMMENDATION

- **Downgrade from BUY to SELL and cut target price from HK\$630.00 to HK\$140.00** based on lower free cash flow and higher WACC of 19.6% (given higher risk premium) in our 10-year DCF model. Our target price of HK\$140.00 implies 13.5x 2024F PE.

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