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

## KEY HIGHLIGHTS



### KEY INDICES

| | Index | pt chg | % chg |
|---|---|---|---|
| FBMKLCI | 1,448.02 | (0.1) | (0.0) |
| Bursa Emas | 10,722.57 | (2.9) | (0.0) |
| Ind Product | 171.70 | (0.5) | (0.3) |
| Finance | 16,277.91 | (64.0) | (0.4) |
| Consumer | 558.31 | 0.6 | 0.1 |
| Construction | 184.33 | 0.1 | 0.1 |
| Properties | 850.85 | (0.3) | (0.0) |
| Plantations | 7,006.57 | 63.1 | 0.9 |

### BURSA MALAYSIA TRADING & PARTICIPATION

| Malaysia Turnover | 28-Nov-23 | % chg |
|---|---|---|
| Volume (m units) | 3,812 | 23.2 |
| Value (RMm) | 2,388 | 16.2 |

| By Investor type | (%) | ppt chg |
|---|---|---|
| Foreign investors | 34.3 | 4.5 |
| Local retail | 26.3 | (4.2) |
| Local institution | 39.4 | (0.2) |

### TOP TRADING TURNOVER / GAINERS / LOSERS

| Top Trading Turnover | Price (RM) | Chg (%) | 5-day ADT (RM'000) |
|---|---|---|---|
| Top Glove | 0.90 | 2.3 | 119,712 |
| Malayan Banking | 9.05 | (0.1) | 58,403 |
| YTL Power | 2.31 | 0.4 | 53,511 |
| Public Bank | 4.22 | (0.5) | 51,078 |
| CIMB Group | 5.68 | (1.2) | 46,238 |
| **Top Gainers** | | | |
| SapuraEnergy | 0.05 | 11.1 | 277 |
| IOI Properties | 1.75 | 6.1 | 14,607 |
| BAT | 9.35 | 4.2 | 4,388 |
| Supermax Corp | 1.05 | 4.0 | 24,330 |
| Jaya Tiasa Holdings | 0.96 | 3.2 | 1,357 |
| **Top Losers** | | | |
| Velesto Energy | 0.23 | (4.3) | 7,604 |
| Berjaya Auto | 2.34 | (4.1) | 12,781 |
| UEM Sunrise | 0.74 | (3.9) | 12,008 |
| SP Setia | 0.75 | (3.8) | 7,840 |
| Coastal Contracts | 1.68 | (2.9) | 1,345 |

### OTHER STATISTICS

| | 28-Nov-23 | chg | % chg |
|---|---|---|---|
| RM/US$ | 4.67 | (0.01) | (0.2) |
| CPO 3rd mth future (RM/mt) | 3,897 | 6.0 | 0.2 |

*Notes:*
*ADT = Average daily turnover.*
*Top trading turnover, gainers and losers are based on FBM100 component stocks.*

## COMPANY RESULTS

# Farm Fresh (FFB MK)

2QFY24: Gross Margins Finally Rebound But Earnings Disappoint

**Top-line grew encouragingly sequentially, backed by volume sales and the acquisition of Inside Scoop. Gross margins finally rebounded convincingly, but this was curtailed by opex as cumulative earnings fell below expectations. Farm Fresh continues to dominate market share while breaking into new frontiers in the dairy industry. However, its valuations have more than priced in its exciting growth and recovery prospects for now. Downgrade to SELL with a lower target price of RM1.00.**

### 2QFY24 RESULTS

| Year to 31 Mar (RMm) | 2QFY24 | qoq % chg | yoy % chg | 1HFY24 | yoy % chg | Comments |
|---|---|---|---|---|---|---|
| **Revenue** | **198.3** | **6.9** | **22.3** | **383.8** | **25.3** | Sequential growth driven by 7.5% volume sales. |
| **Gross profit** | 52.2 | 58.8 | 31.5 | 85.1 | 9.9 | |
| EBITDA | 30.8 | 57.9 | 29.2 | 50.3 | 4.5 | |
| Pretax profit | 14.3 | 144.0 | 9.1 | 20.2 | -26.1 | |
| **Core PATAMI** | **12.2** | **101.0** | **-7.7** | **18.3** | **-43.2** | Below expectations at 28% and 26% of our and consensus full year estimates. |
| | **(%)** | **qoq ppt chg** | **yoy ppt chg** | **(%)** | **yoy ppt chg** | |
| Gross margin (%) | 26.3 | 8.6 | 1.8 | 22.2 | -4.0 | |
| Opex as % of revenue | -17.8 | -2.3 | -2.0 | -16.6 | 0.1 | |
| EBITDA margin (%) | 15.5 | 5.0 | 0.8 | 13.1 | -3.8 | |
| Effective tax rate (%) | -8.6 | -4.1 | 4.8 | -7.4 | -15.3 | |
| Core margin (%) | 6.2 | 2.9 | -2.0 | 4.8 | -8.4 | |

*Source: Farm Fresh, UOB Kay Hian*

### RESULTS

- **2QFY24 earnings well below expectations.** Farm Fresh saw a 2QFY24 core net profit of RM12.2m (101% qoq, -7.7% yoy). This brought 1HFY24 core earnings to RM18.3m (-3.6% yoy). Cumulative earnings are well below expectations, only accounting for 28% and 26% of our and consensus' full-year earnings estimates respectively. Sales continued to remain robust but the negative deviation arose from margins, weighed by higher opex that dragged on overall earnings.

- **Robust sequential growth, supported by volume sales.** 1QFY24 sales grew 6.9% qoq (+22.3% yoy). Sales was driven by a 6.9% qoq growth in in volume sales and a full quarter's contribution from the Inside Scoop acquisition, which were partially offset by a contraction in sales in Australia. Sales should continue to grow sequentially from the launch of new products (especially growing up milk powder), consolidation of Sin Wah acquisition and penetration into the Philippines.

### KEY FINANCIALS

| Year to 31 Mar (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Net turnover | 502 | 630 | 781 | 934 | 1,101 |
| EBITDA | 86 | 88 | 101 | 165 | 179 |
| Operating profit | 61 | 54 | 59 | 118 | 127 |
| Net profit (rep./act.) | 86 | 59 | 55 | 113 | 127 |
| Net profit (adj.) | 86 | 59 | 55 | 113 | 127 |
| EPS (sen) | 4.6 | 3.2 | 3.0 | 6.1 | 6.9 |
| PE (x) | 28.4 | 41.0 | 44.0 | 21.5 | 19.1 |
| P/B (x) | 4.0 | 3.8 | 3.6 | 3.1 | 2.8 |
| EV/EBITDA (x) | 32.0 | 31.5 | 27.4 | 16.8 | 15.4 |
| Dividend yield (%) | 0.2 | 0.6 | 0.6 | 1.2 | 1.3 |
| Net margin (%) | 17.1 | 9.4 | 7.1 | 12.1 | 11.6 |
| Net debt/(cash) to equity (%) | 42.0 | 49.3 | 46.0 | 38.4 | 32.2 |
| Interest cover (x) | 9.4 | 7.7 | 5.5 | 9.6 | 11.3 |
| ROE (%) | 20.1 | 9.5 | 8.4 | 15.6 | 15.4 |
| Consensus net profit | - | - | 70 | 109 | 132 |
| UOBKH/Consensus (x) | - | - | 0.79 | 1.04 | 0.97 |

*Source: Farm Fresh, Bloomberg, UOB Kay Hian*

## SELL

(Downgraded)

| | |
|---|---|
| Share Price | RM1.31 |
| Target Price | RM1.00 |
| Upside | -23.7% |
| *(Previous TP* | *RM1.10)* |

### COMPANY DESCRIPTION

Homegrown Farm Fresh is the largest integrated dairy producer in Malaysia. Farm Fresh commands more than half of the RTD fresh milk segment. It also looks to expand its exports to the likes of Singapore, Indonesia and the Philippines.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Staples |
| Bloomberg ticker: | FFB MK |
| Shares issued (m): | 1,871.9 |
| Market cap (RMm): | 2,414.8 |
| Market cap (US$m): | 515.9 |
| 3-mth avg daily t'over (US$m): | 0.5 |

**Price Performance (%)**

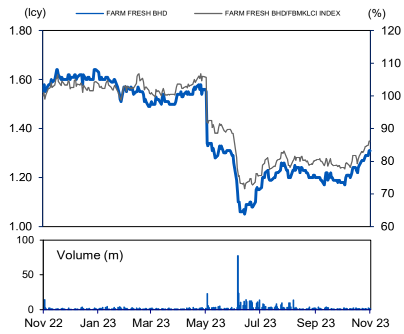
52-week high/low RM1.64/RM1.05

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 9.3 | 2.4 | (17.3) | (17.8) | (19.9) |

| **Major Shareholders** | **%** |
|---|---|
| Loi Tuan Ee and family | 44.5 |
| Agrifood Resources | 11.8 |
| EPF | 5.4 |

| | |
|---|---|
| FY24 NAV/Share (RM) | 0.37 |
| FY24 Net Debt/Share (RM) | 0.16 |

### PRICE CHART




*Source: Bloomberg*

ANALYST(S)

**Philip Wong**

+603 2147 1996

philipwong@uobkayhian.com

- **Exciting pipeline to propel sales.** Going forward, Farm Fresh is on track to: a) commence its Philippines processing facility, b) launch its growing-up milk, c) launch its Inside Scoop consumer packaged goods, d) leverage off the recent Sin Wah acquisition and e) relieve capacity constrain with additional production capacity. These initiatives should underpin our 17.3% revenue growth assumption for FY24.
- **Gross margins finally rebounded, but so did opex.** Overall 2QFY24 gross margin improved by 8.6ppt qoq to 26.3%. This was due to: a) lower cost of whole milk powder (WMP), b) increase in chilled RTD ASPs, and c) margin-accretive Inside Scoop contributions. Gross profit margins should improve further as Farm Fresh secured WMP at a lower cost vis-à-vis its current inventory. 2QFY24 opex spiked to 17.8% of revenue (1QFY24: 15.4%) in tandem with revised staff salary and consolidation of Inside Scoop. As a result, core margins only improved by 2.9ppt to 6.2% as earnings for the quarter doubled qoq but contracted 7.7% yoy.

## STOCK IMPACT

- **WMP hedged at lower cost.** Management indicated that it has secured WMP at US$3,000/MT up till Mar/Apr 24. This is significantly lower than its current inventory cost of US$3,800/MT. Global demand, driven by China, is only expected to firm up in 2H24 and could therefore pose some downside risk when Farm Fresh rolls over its hedge. WMP accounts for close to 49% of its FY24 milk requirements. We estimate for every -1.0% to its hedge cost, FY25 earnings are positively impacted by +0.9%.
- **US dollar hedge expiring.** Farm Fresh's existing US$/RM exposure is hedged until Dec 23 at US$4.50-4.53/RM. Based on the prevailing current forex rate of US$4.76/RM, it is +5.8% vs the current hedge. 25-30% of Farm Fresh's COGS purchases are denominated in US dollars. Based on our earnings sensitivity, every +1% USD/RM deviation from our forex assumption will result in FY25's earnings dropping 1.4%. For now, we have pencilled in a US$4.60/RM assumption for FY25.
- **Competition on the horizon.** F&N and a separate JV (Baladna - largest dairy group in Qatar), FGV Holdings and Touch Group are expected to make significant investments into upstream dairy activity. Over the next 10 years, both these initiatives target to produce 200m and 300m litres of fresh milk respectively, making it a total of 500m litres of fresh milk p.a.

## EARNINGS REVISION/RISK

- We cut our FY24-26 earnings by 15/10/7% to account for lower margins. Downside risks include elevated raw material prices as well as milk quality and yield.

## VALUATION/RECOMMENDATION

- **Downgrade to SELL with a lower target price of RM1.00 (from RM1.10).** Margins are trending in Farm Fresh's favour. However, its valuation pegged to 2024 has fully factored in the upswing in margins. Beyond that, we believe Farm Fresh could face some competition once F&N's dairy project scales up. Moreover, Farm Fresh has shown that its earnings are highly sensitive to commodities prices and thus may not be deserving of premium valuations usually associated with consumer staple companies. Our valuation PE is pegged to 18.3x based on 2024. The current PE peg is based on the average valuations of its direct peers.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

- **Environmental**
  - **Climate action.** A target for a reduction of 25% of greenhouse gas emissions in five years. Also a target of 21% total Scope 1 and Scope 2 emissions reduction by 2026, primarily through the use of renewable energy. Scope 3 emissions represent less than 1% of its GHG emissions and therefore its environmental impact is considered less significant.
- **Social**
  - **Animal health and welfare.** Farm Fresh is the first dairy farm operator in Asia who has earned the internationally recognised Certified Humane certification by Humane Farm Animal Care for its on-farm operations.
- **Governance**
  - **Board balance and composition.** 4 of 7 directors are independent directors, amounting to 57% of its board members.

## KEY ASSUMPTIONS

| | 2024F | 2025F | 2026F |
|---|---|---|---|
| **Revenue (RMm)** | **780.8** | **934.3** | **1100.6** |
| Growth yoy (%) | 19.7 | 17.8 | 16.1 |
| **PATAMI (RMm)** | **113.5** | **127.5** | **137.7** |
| Growth yoy (%) | 105.3 | 12.3 | 8.0 |
| 3-yr CAGR (%) | 9.8 | 29.0 | 35.6 |
| Gross margin (%) | 25.8 | 24.6 | 23.4 |
| EBITDA margin (%) | 19.4 | 18.0 | 16.6 |
| ASP growth yoy (%) | 3.0 | 1.0 | 1.0 |
| Volume growth yoy (%) | 18.5 | 16.6 | 15.0 |

*Source: UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Mar (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| **Net turnover** | **630** | **781** | **934** | **1,101** |
| EBITDA | 88 | 101 | 165 | 179 |
| Deprec. & amort. | 33 | 42 | 47 | 52 |
| EBIT | 54 | 59 | 118 | 127 |
| Total other non-operating income | 9 | 14 | 16 | 19 |
| Associate contributions | 0 | 0 | 0 | 0 |
| Net interest income/(expense) | (11) | (18) | (17) | (16) |
| **Pre-tax profit** | **52** | **54** | **116** | **130** |
| Tax | (2) | (4) | (9) | (10) |
| Minorities | 0 | 5 | 6 | 8 |
| **Net profit** | **59** | **55** | **113** | **127** |
| Net profit (adj.) | 59 | 55 | 113 | 127 |

## BALANCE SHEET

| Year to 31 Mar (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Fixed assets | 414 | 537 | 561 | 587 |
| Other LT assets | 163 | 197 | 207 | 209 |
| Cash/ST investment | 23 | 50 | 17 | 32 |
| Other current assets | 464 | 392 | 444 | 521 |
| **Total assets** | **1,063** | **1,176** | **1,230** | **1,349** |
| ST debt | 93 | 62 | 62 | 62 |
| Other current liabilities | 68 | 105 | 117 | 140 |
| LT debt | 243 | 302 | 252 | 252 |
| Other LT liabilities | 23 | 23 | 23 | 17 |
| Shareholders' equity | 636 | 683 | 774 | 878 |
| **Total liabilities & equity** | **1,063** | **1,176** | **1,230** | **1,349** |

## CASH FLOW

| Year to 31 Mar (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| **Operating** | **(20)** | **121** | **133** | **138** |
| Pre-tax profit | 52 | 54 | 116 | 130 |
| Tax | (2) | (4) | (9) | (10) |
| Deprec. & amort. | 33 | 42 | 47 | 52 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | (114) | 11 | (39) | (50) |
| Other operating cashflows | 10 | 18 | 17 | 16 |
| **Investing** | **1** | **(90)** | **(70)** | **(75)** |
| Capex (growth) | (147) | (90) | (70) | (75) |
| Proceeds from sale of assets | 148 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| **Financing** | **15** | **(4)** | **(96)** | **(48)** |
| Dividend payments | (20) | (14) | (28) | (32) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | 11 | 59 | (50) | 0 |
| Others/interest paid | 24 | (49) | (17) | (16) |
| **Net cash inflow (outflow)** | **(3)** | **27** | **(33)** | **15** |
| **Beginning cash & cash equivalent** | **28** | **23** | **50** | **17** |
| Changes due to forex impact | (2) | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **23** | **50** | **17** | **32** |

## KEY METRICS

| Year to 31 Mar (%) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 13.9 | 12.9 | 17.7 | 16.3 |
| Pre-tax margin | 8.3 | 6.9 | 12.4 | 11.8 |
| Net margin | 9.4 | 7.1 | 12.1 | 11.6 |
| ROA | 5.7 | 4.9 | 9.4 | 9.9 |
| ROE | 9.5 | 8.4 | 15.6 | 15.4 |
| | | | | |
| **Growth** | | | | |
| Turnover | 25.5 | 24.0 | 19.7 | 17.8 |
| EBITDA | 1.7 | 15.0 | 63.4 | 8.7 |
| Pre-tax profit | (20.6) | 3.9 | 114.6 | 12.0 |
| Net profit | (30.6) | (6.9) | 105.3 | 12.3 |
| Net profit (adj.) | (30.6) | (6.9) | 105.3 | 12.3 |
| EPS | (30.6) | (6.9) | 105.3 | 12.3 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 34.6 | 34.8 | 28.9 | 26.4 |
| Debt to equity | 52.9 | 53.4 | 40.6 | 35.9 |
| Net debt/(cash) to equity | 49.3 | 46.0 | 38.4 | 32.2 |
| Interest cover (x) | 7.7 | 5.5 | 9.6 | 11.3 |

## COMPANY RESULTS

# IOI Corporation (IOI MK)

### 1QFY24: Results Within Expectations

**1QFY24 results came in within our expectation with strong qoq growth from both plantation and downstream operations. We expect FY24 earnings to continue to perform with earnings growing yoy on the back of: a) a moderate increase in FFB production, b) lower costs of production, and c) downstream margin improvement. Maintain BUY on IOI with a target price of RM4.80, on the back of its strong operational performance, as well as better-than-peers downstream margin.**

### 1QFY24 RESULTS

| Year to 30 Jun (RMm) | 1QFY23 | 4QFY23 | 1QFY24 | qoq % chg | yoy % chg | Remarks |
|---|---|---|---|---|---|---|
| Revenue | 3,668.7 | 1,950.7 | 2,204.2 | 13.0 | (39.9) | |
| Operating Profit | 616.4 | 201.1 | 286.6 | 42.5 | (53.5) | |
| Plantation | 294.5 | 175.5 | 228.8 | 30.4 | (22.3) | |
| Resource-based Manufacturing | 321.5 | 34.8 | 56.4 | 62.1 | (82.5) | |
| Net Profit | 167.5 | 37.2 | 304.0 | 717.2 | 81.5 | |
| Core Net Profit | 565.5 | 234.3 | 289.8 | 23.7 | (48.8) | Within expectations. |
| **Margins (%)** | | | | | | |
| Operating profit | 16.8 | 10.3 | 13.0 | 2.7 | (3.8) | |
| Plantation | 41.6 | 30.0 | 33.7 | 3.7 | (7.9) | |
| Resource-based Manufacturing | 9.0 | 1.9 | 2.7 | 0.8 | (6.3) | |
| Core net profit | 15.4 | 12.0 | 13.1 | 1.1 | (2.3) | |

*Source: IOI Corporation, UOB Kay Hian*

### RESULTS

- **Results within our expectation.** IOI Corporation (IOI) reported 1QFY24 core net profit of RM290m (+62% qoq, -49% yoy), after excluding net forex translation gain on forex-denominated borrowings of RM7.9m and other one-off items. This accounts for about 20% of our full-year forecast which we deem within our expectation. Yoy earnings came in lower qoq, dragged by lower CPO ASP.

- **Stronger qoq earnings in 1QFY24** were due to:

  a) **Higher FFB production** which had increased by 19% qoq, but partially offset by lower CPO ASP. Having said that, the operating margin for the plantation segment had improved qoq, which we attribute to lower cost of production (especially fertiliser).

  b) **Higher downstream margin** especially from the refining sub-segment and higher share of associate results from Bunge Loders Croklaan.

### KEY FINANCIALS

| Year to 30 Jun (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Net turnover | 15,579 | 11,584 | 13,720 | 16,427 | 19,670 |
| EBITDA | 2,714 | 2,092 | 2,377 | 2,551 | 2,623 |
| Operating profit | 2,355 | 1,718 | 1,988 | 2,153 | 2,215 |
| Net profit (rep./act.) | 1,725 | 1,114 | 1,617 | 1,777 | 1,869 |
| Net profit (adj.) | 1,944 | 1,465 | 1,617 | 1,776 | 1,867 |
| EPS (sen) | 30.9 | 23.3 | 25.7 | 28.3 | 29.7 |
| PE (x) | 12.9 | 17.1 | 15.5 | 14.1 | 13.4 |
| P/B (x) | 2.3 | 2.2 | 2.1 | 1.9 | 1.8 |
| EV/EBITDA (x) | 9.8 | 12.7 | 11.2 | 10.4 | 10.1 |
| Dividend yield (%) | 3.5 | 3.8 | 3.4 | 3.7 | 3.9 |
| Net margin (%) | 11.1 | 9.6 | 11.8 | 10.8 | 9.5 |
| Net debt/(cash) to equity (%) | 22.7 | 13.4 | 10.9 | 7.2 | 4.6 |
| Interest cover (x) | 21.1 | 18.2 | 24.6 | 27.7 | 31.0 |
| ROE (%) | 16.7 | 10.1 | 13.8 | 14.2 | 13.9 |
| Consensus net profit | - | - | 1,467 | 1,560 | 1,654 |
| UOBKH/Consensus (x) | - | - | 1.10 | 1.14 | 1.13 |

*Source: IOI Corporation, Bloomberg, UOB Kay Hian*

## BUY

### (Maintained)

| | |
|---|---|
| Share Price | RM3.99 |
| Target Price | RM4.80 |
| Upside | +20.3% |

### COMPANY DESCRIPTION

Integrated palm oil player.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Staples |
| Bloomberg ticker: | IOI MK |
| Shares issued (m): | 6,203.7 |
| Market cap (RMm): | 24,752.8 |
| Market cap (US$m): | 5,299.5 |
| 3-mth avg daily t'over (US$m): | 1.7 |

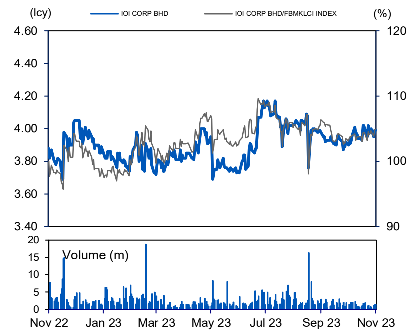
**Price Performance (%)**

52-week high/low RM4.17/RM3.69

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 1.8 | (0.7) | 2.0 | 0.3 | (1.5) |

| **Major Shareholders** | **%** |
|---|---|
| Progressive Holdings SB | 47.9 |
| Employees Provident Fund Board | 11.9 |
| | |
| FY24 NAV/Share (RM) | 1.93 |
| FY24 Net Debt/Share (RM) | 0.21 |

### PRICE CHART




*Source: Bloomberg*

ANALYST(S)

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

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

## STOCK IMPACT

- We expect FY24 earnings to increase yoy, as we anticipate:

  a) **Moderate increase in FFB production for FY24,** despite the continuous accelerated replanting programme in Sabah. The growth will be driven by the sufficient workforce in Peninsular Malaysia and younger age profile. We had pencilled in a 3% FFB production growth for FY24. Note that IOI is the only big-cap plantation company with an improvement in both its FFB yield and oil extraction rate over the past three years albeit weather and labour issues.

  b) **Lower cost of production,** mainly attributed to higher yield and a reduction in expenses related to fertiliser and diesel as compared with FY23.

  c) **Improving downstream margin on the back of:**

     i) **Specialty fats sub-segment:** Higher margin, mainly driven by the newly-acquired refinery facility in North America and the introduction of innovative product applications.

     ii) **Refinery and commodity sub-segment:** Management guided that the margin would remain low or even be negative, due to the stiff competition from Indonesian players. Having said that, we expect some margin improvement for the sub-segment, mainly from better ASP, cost efficient structure and better-quality oil blends which provide competitive edge.

     iii) **Oleochemical sub-segment:** Remains subdued in light of the weak global economic environment and rising geopolitical tensions undermining global trade. Management mentioned that IOI will emphasise on cost control and plant efficiency. The new fatty acid and soap noodle plants would also reduce production costs.

## EARNINGS REVISION/RISK

- Maintain earnings forecast.

## VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM4.80.** We like IOI for its strong operational performance with improving yield and oil extraction rate. On top of that, its higher-than-peers downstream margin would be able to offset some of the pressure from the challenging oleochemical sub-segment.
- The valuation is pegged to 17x FY24F PE for the plantation division, 15x FY24F PE for the resources-based manufacturing division, higher fair value estimate of S$0.70/share for its 32% stake in Bumitama Agri and 18x for the contribution from Loders.

## SHARE PRICE CATALYST

- Better-than-expected CPO prices.
- Higher-than-expected FFB production growth.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

| |
|---|
| • **Environmental** |
| − All Malaysian estates are MSPO-certified, while 96% of the estates are RSPO-certified.<br>− IOI has not been contacted by the US Customs and Border Protection (CBP) regarding its investigation. Nevertheless, IOI will take the proactive step in contacting CBP to confirm the existence of an investigation and offer its cooperation in providing explanation and documents to assist the investigation. |
| • **Social** |
| − Transparent communication and response to any ongoing cases involving the community.<br>− Implementation of programmes related to health, education, medical assistance, and other community enrichment acts. |
| • **Governance** |
| − Transparent governance along with an Anti-Bribery and Anti-Corruption Policy. |

## SOTP-BASED VALUATION

| | PE (x) | RM/share |
|---|---|---|
| Plantations | 17 | 3.28 |
| Manufacturing | 15 | 1.28 |
| Stake in Bumitama<br>(Fair value: S$0.65/share) | - | 0.21 |
| Contribution from Loders | 18 | 0.46 |
| Less: Net Debt | | (0.24) |
| **IOI's fair value** | | **4.77** |

*Source: UOBKH*

## KEY ASSUMPTIONS

| | FY24F |
|---|---|
| **FFB production growth** | 3.0% yoy |
| **CPO Prices** | RM4,200/tonne |

*Source: UOBKH*

## KEY STATISTICS

| | 1QFY24 | qoq % chg | yoy % chg |
|---|---|---|---|
| **Productivity** | | | |
| FFB Yield/Ha | 5.0 | 16.1 | 9.8 |
| OER | 21.8 | 4.3 | 3.8 |
| **Production** | | | |
| FFB | 734,062 | 18.6 | 10.3 |
| CPO | 165,301 | 20.3 | 13.6 |
| **ASP (RM/tonne)** | | | |
| CPO | 3,789 | (8.0) | (15.7) |
| PK | 2,100 | (6.0) | (16.8) |

*Source: IOI*

## PROFIT & LOSS

| Year to 30 Jun (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| **Net turnover** | **11,584** | **13,720** | **16,427** | **19,670** |
| EBITDA | 2,092 | 2,377 | 2,551 | 2,623 |
| Deprec. & amort. | 374 | 389 | 399 | 408 |
| EBIT | 1,718 | 1,988 | 2,153 | 2,215 |
| Total other non-operating income | 0 | 0 | 0 | 0 |
| Associate contributions | 274 | 315 | 362 | 416 |
| Net interest income/(expense) | (115) | (97) | (92) | (85) |
| **Pre-tax profit** | **1,526** | **2,206** | **2,424** | **2,549** |
| Tax | (396) | (573) | (629) | (661) |
| Minorities | (16) | (16) | (18) | (19) |
| **Net profit** | **1,114** | **1,617** | **1,777** | **1,869** |
| Net profit (adj.) | 1,465 | 1,617 | 1,776 | 1,867 |

## BALANCE SHEET

| Year to 30 Jun (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Fixed assets | 8,995 | 9,226 | 9,442 | 9,648 |
| Other LT assets | 3,660 | 3,393 | 3,826 | 4,206 |
| Cash/ST investment | 2,235 | 2,337 | 2,629 | 2,831 |
| Other current assets | 2,691 | 3,459 | 3,305 | 3,384 |
| **Total assets** | **17,582** | **18,414** | **19,202** | **20,070** |
| ST debt | 862 | 862 | 862 | 862 |
| Other current liabilities | 814 | 1,102 | 1,268 | 1,467 |
| LT debt | 2,896 | 2,798 | 2,701 | 2,605 |
| Other LT liabilities | 1,340 | 1,190 | 1,040 | 890 |
| Shareholders' equity | 11,331 | 12,106 | 12,958 | 13,853 |
| Minority interest | 340 | 356 | 374 | 393 |
| **Total liabilities & equity** | **17,582** | **18,414** | **19,203** | **20,070** |

## CASH FLOW

| Year to 30 Jun (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| **Operating** | **2,081** | **1,180** | **1,451** | **1,406** |
| Pre-tax profit | 1,526 | 2,207 | 2,424 | 2,548 |
| Tax | (532) | (573) | (629) | (661) |
| Deprec. & amort. | 374 | 389 | 399 | 408 |
| Working capital changes | 558 | (606) | (457) | (547) |
| Other operating cashflows | 155 | (238) | (286) | (341) |
| **Investing** | **82** | **(90)** | **(89)** | **(88)** |
| Capex (maintenance) | (605) | (605) | (605) | (605) |
| Investments | 0 | 0 | 0 | 0 |
| Proceeds from sale of assets | 172 | 1 | 2 | 3 |
| Others | 514 | 514 | 514 | 514 |
| **Financing** | **(2,503)** | **(988)** | **(1,070)** | **(1,116)** |
| Dividend payments | (869) | (841) | (924) | (971) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 2 | 3 | 4 |
| Loan repayment | (1,585) | (100) | (100) | (100) |
| Others/interest paid | (49) | (49) | (49) | (49) |
| **Net cash inflow (outflow)** | **(341)** | **102** | **292** | **202** |
| **Beginning cash & cash equivalent** | **2,553** | **2,235** | **2,337** | **2,629** |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **2,212** | **2,337** | **2,629** | **2,831** |

## KEY METRICS

| Year to 30 Jun (%) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 18.1 | 17.3 | 15.5 | 13.3 |
| Pre-tax margin | 13.2 | 16.1 | 14.8 | 13.0 |
| Net margin | 9.6 | 11.8 | 10.8 | 9.5 |
| ROA | 6.1 | 9.0 | 9.4 | 9.5 |
| ROE | 10.1 | 13.8 | 14.2 | 13.9 |
| **Growth** | | | | |
| Turnover | (25.6) | 18.4 | 19.7 | 19.7 |
| EBITDA | (22.9) | 13.6 | 7.3 | 2.8 |
| Pre-tax profit | (35.1) | 44.6 | 9.9 | 5.2 |
| Net profit | (35.4) | 45.1 | 9.9 | 5.2 |
| Net profit (adj.) | (24.6) | 10.4 | 9.8 | 5.1 |
| EPS | (24.6) | 10.4 | 9.8 | 5.1 |
| **Leverage** | | | | |
| Debt to total capital | 24.4 | 22.7 | 21.1 | 19.6 |
| Debt to equity | 33.2 | 30.2 | 27.5 | 25.0 |
| Net debt/(cash) to equity | 13.4 | 10.9 | 7.2 | 4.6 |
| Interest cover (x) | 18.2 | 24.6 | 27.7 | 31.0 |

## COMPANY RESULTS

# Press Metal Aluminium Holdings (PMAH MK)

3Q23: Within Expectations; Earnings Boosted By Higher Associate Income

**9M23 results came in within expectations, with earnings cushioned by higher associate income despite lower revenue. While LME aluminium prices could remain soft due to the subdued economic environment, an improving cost structure with a stronger US dollar could buffer the shortfall. Every US$100/tonne increase to our conservative LME aluminium price assumption of US$2,550/tonne could increase PMetal's earnings by 15% in 2024. Maintain BUY. Target price: RM5.50.**

### 3Q23 RESULTS

| Year to 31 Dec (RMm) | 3Q23 | qoq % chg | yoy % chg | 9M23 | yoy % chg |
|---|---|---|---|---|---|
| **Revenue** | 3,440.6 | (8.5) | (10.5) | 10,270.5 | (12.8) |
| EBITDA | 586.2 | (0.3) | (4.2) | 1,759.6 | (15.5) |
| EBIT | 397.4 | (7.1) | (15.1) | 1,262.6 | (23.9) |
| PBT | 403.3 | (2.2) | (10.3) | 1,208.4 | (25.6) |
| **Net profit** | 306.1 | 0.1 | (3.1) | 893.9 | (22.0) |
| **Core net profit** | 318.3 | 3.6 | (2.1) | 910.4 | (21.9) |
| **Margins** | (%) | qoq ppt chg | yoy ppt chg | (%) | yoy ppt chg |
| EBIT | 11.6 | 0.2 | (0.6) | 12.3 | (1.8) |
| PBT | 11.7 | 0.8 | 0.0 | 11.8 | (2.0) |
| Core net profit | 9.3 | 1.1 | 0.8 | 8.9 | -1.0 |

*Source: Press Metal Aluminium Holdings, UOB Kay Hian*

### RESULTS

- **Within expectations.** Press Metal Aluminium (PMetal) reported 3Q23 core net profit of RM318.3m (+4% qoq, -2% yoy), bringing 9M23 core net profit to RM910.4m (-22%), which accounts for 75% and 70% of our and consensus' full-year estimates respectively. The yoy decline was mainly due to the weakening of aluminium prices while the qoq improvement was due to lower input costs, lower effective tax rate (ETR) and higher contribution from associates (PT Bintan). Meanwhile, net gearing improved further to 0.44x. A third interim single-tier DPS of 1.75 sen was declared, which represents a 47% payout ratio.
- **9M23 sales dropped 13% yoy.** This was due to lower all-in aluminium prices on lower demand (LME aluminium prices: US$2,155/tonne in 3Q23 vs US$2,354/tonne in 3Q22), which was also reflected by its main Japanese ports (MJP) premium at US$107/tonne in 3Q23 (flat yoy; +2% qoq). Core net profit dropped by a wider quantum (-22% yoy) mainly due to higher depreciation (+17.2% yoy).

### KEY FINANCIALS

| Year to 31 Dec (RMm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 10,994 | 15,692 | 14,937 | 16,001 | 16,304 |
| EBITDA | 1,965 | 2,614 | 2,230 | 2,737 | 2,699 |
| Operating profit | 1,534 | 2,038 | 1,766 | 2,253 | 2,196 |
| Net profit (rep./act.) | 1,030 | 1,418 | 1,208 | 1,592 | 1,580 |
| Net profit (adj.) | 1,036 | 1,418 | 1,208 | 1,592 | 1,580 |
| EPS (sen) | 12.8 | 17.3 | 14.7 | 19.4 | 19.3 |
| PE (x) | 38.2 | 28.3 | 33.2 | 25.2 | 25.4 |
| P/B (x) | 10.1 | 6.0 | 5.3 | 4.6 | 4.1 |
| EV/EBITDA (x) | 23.4 | 17.6 | 20.6 | 16.8 | 17.1 |
| Dividend yield (%) | 0.7 | 1.0 | 0.8 | 1.0 | 1.0 |
| Net margin (%) | 9.4 | 9.0 | 8.1 | 9.9 | 9.7 |
| Net debt/(cash) to equity (%) | 145.8 | 66.1 | 52.7 | 40.7 | 30.7 |
| Interest cover (x) | 12.1 | 11.3 | 9.6 | 13.4 | 15.4 |
| ROE (%) | 26.1 | 26.8 | 17.0 | 19.6 | 17.0 |
| Consensus net profit | - | - | 1,505 | 1,830 | 2,052 |
| UOBKH/Consensus (x) | - | - | 0.80 | 0.87 | 0.77 |

*Source: Press Metal Aluminium Holdings, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | RM4.85 |
| Target Price | RM5.50 |
| Upside | +13.4% |

### COMPANY DESCRIPTION

Principally involved in the manufacture and trading of primary aluminium and other aluminium-based products.

### STOCK DATA

| | |
|---|---|
| GICS sector | Materials |
| Bloomberg ticker: | PMAH MK |
| Shares issued (m): | 8,239.6 |
| Market cap (RMm): | 39,962.1 |
| Market cap (US$m): | 8,555.7 |
| 3-mth avg daily t'over (US$m): | 3.6 |

**Price Performance (%)**

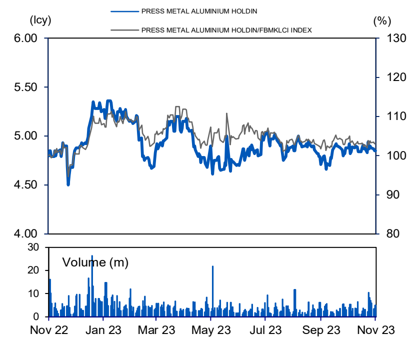
52-week high/low RM5.36/RM4.50

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (0.6) | (0.8) | 2.3 | (0.2) | (0.6) |

| Major Shareholders | % |
|---|---|
| Alpha Milestone Sdn Bhd | 33.8 |
| Koon Poh Ming | 6.2 |
| Koon Poh Weng | 5.7 |

| | |
|---|---|
| FY23 NAV/Share (RM) | 0.92 |
| FY23 Net Debt/Share (RM) | 0.48 |

### PRICE CHART




*Source: Bloomberg*

ANALYST(S)

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

**Ku Wei Xiang**
+603 2147 1916
weixiang@uobkayhian.com

## STOCK IMPACT

- **Softer LME aluminium prices a reflection of cautious sentiment.** 2022 was a rollercoaster ride for LME aluminium, with prices reaching an all-time high of US$3,985/tonne in Mar 22 before ending the year at US$2,380/tonne (2022 average: US$2,700/tonne). The extreme volatility was a result of supply disruption from the Russia-Ukraine war (for high prices) while the other side of the pendulum stemmed from the frail sentiment following the global economy slowdown. While LME aluminium prices hovered around US$2,650/tonne level in Jan 23, prices have retraced to the current level of US$2,155/tonne mainly due to softening demand from building & construction, packaging and extrusion demand. This trend coincided with a global slowdown in car sales during 3Q23, attributed to weaker OEM orders in Europe and elevated interest rates. That said, the likelihood of the rate hike cycle ending, alongside ongoing supply tightness, could form a tailwind for the suppressed LME aluminium prices

- **Favourable raw material costs to support the group's margins.** Notably, there was a slight drop in alumina price (at US$337/tonne in 3Q23 vs US$344/tonne in 2Q23), which led to a favourable alumina-to-aluminium cost ratio of 15.6% in 3Q23. Note that we have already assumed a higher alumina cost ratio at 15-16% of our aluminium spot price assumption. Based on our sensitivity analysis, every US$20/tonne increase to our assumption of US$380/MT would reduce PMetal's earnings by RM137m, assuming no hedging is done on a fixed US$2,400/tonne aluminium price and vice versa. Meanwhile, carbon anode prices remained unchanged at an average Rmb4,975/MT since Jun 23. However, petroleum coke, caustic soda and pitch prices continued to come off in 3Q23. As of end-Nov 23, the group has hedged 30% of its 2023 aluminium price at US$2,300-2,350/tonne for 2023, 30% at US$2,500/tonne for 2024 and 20% at US$2,600/tonne for 2025.

- **Win-win synergy with the strategic offtake arrangement with Glencore.** Note that PMetal and Glencore entered a 10-year alumina supply and aluminium offtake arrangement (follow market prices) on 8 Sep 22. Glencore, a Swiss MNC commodity trading and mining company, is one of the largest globally diversified natural resource companies and the world's largest aluminium trader with footprints in over 35 countries. While such an arrangement supports Glencore's strategy to increase the supply of green aluminium to the global market, the synergistic spillover to PMetal would be the green aluminium premium as well as the value-added products that PMetal can cross sell to Glencore alongside a long-term partnership that stabilises demand-supply for both sides.

## EARNINGS REVISION/RISK

- None.

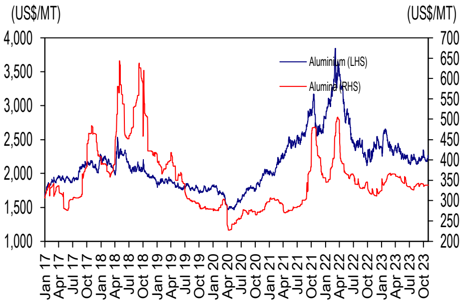
## VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM5.50,** based on 28.0x 2024F PE (which is at its -0.5SD below its five-year forward PE mean). Should aluminium prices swing from our conservative forecast, based on our sensitivity analysis, every US$100/tonne increase to our current spot aluminium price assumption of US$2,550/tonne in 2023 would increase PMetal's earnings by 15% annually, assuming alumina cost of US$395/MT (implies around 15.5% cost ratio) and carbon anode prices of Rmb7,395/MT.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- **Environmental**
  - Smelting plants use electricity generated predominantly from hydroelectric power.
  - To achieve: a) 15/30% GHG reduction by 2025/30 from 2020, b) carbon neutrality by 2050, and c) 10% water withdrawal reduction by 2030 from 2016.
- **Social**
  - Established group-wide targets in FY18 to increase women's participation in managerial positions to 30% and increased females in workforce to 20%.
  - In FY20, the group recorded zero work fatalities, with 24% of managerial roles held by women and 14% of workforce comprised of females.
- **Governance**
  - The company has in place an Anti-Bribery and Anti-Corruption Policy which is in line with Section 17A of the MACC Act 2009.
  - There were zero whistle-blowing and bribery instances in FY20.

## ALUMINIUM AND ALUMINA SPOT PRICES




Source: Bloomberg

## KEY ASSUMPTIONS

| Year to 31 Dec | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Current assumptions** | | | | |
| Production volume (MT p.a.) | 1,080,000 | 1,080,000 | 1,080,000 | 1,080,000 |
| Aluminium spot price (US$) | 2,701 | 2,400 | 2,550 | 2,600 |
| All-in aluminium price (US$) | 2,828 | 2,530 | 2,700 | 2,755 |
| MJP Premium | 127 | 130 | 150 | 155 |
| Alumina (US$/tonne) | 374 | 380 | 395 | 403 |
| EBIT margin (%) | 13.0 | 12.7 | 14.1 | 13.5 |
| US$/RM rate | 4.40 | 4.50 | 4.50 | 4.50 |
| Effective Tax Rate (%) | 9.6 | 11.0 | 11.0 | 11.0 |

Source: PMetal, UOB Kay Hian

## SENSITIVITY ANALYSIS

- **Alumina:** Every US$20/tonne reduction from our alumina assumption of US$380/tonne in 2023 would increase PMetal's earnings by RM135m, assuming that no hedging is done on a fixed US$2,450/tonne aluminium price, and vice versa.
- **Aluminium:** Every US$100/tonne increase to our current spot aluminium price assumption of US$2,450/tonne in 2023 would increase PMetal's earnings by 16% annually, assuming alumina cost of US$380/MT (implies c.16% cost ratio) and carbon anode prices of Rmb7,105/MT.

Source: PMetal, UOB Kay Hian

## PROFIT & LOSS

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **15,692** | **14,937** | **16,001** | **16,304** |
| EBITDA | 2,614 | 2,230 | 2,737 | 2,699 |
| Deprec. & amort. | 576 | 464 | 483 | 502 |
| EBIT | 2,038 | 1,766 | 2,253 | 2,196 |
| Associate contributions | 178 | 169 | 181 | 185 |
| Net interest income/(expense) | (231) | (233) | (204) | (175) |
| **Pre-tax profit** | **1,971** | **1,702** | **2,230** | **2,206** |
| Tax | (190) | (187) | (245) | (243) |
| Minorities | (363) | (307) | (393) | (383) |
| **Net profit** | **1,418** | **1,208** | **1,592** | **1,580** |
| Net profit (adj.) | 1,418 | 1,208 | 1,592 | 1,580 |

## BALANCE SHEET

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 7,183 | 7,019 | 7,300 | 7,581 |
| Other LT assets | 2,573 | 2,903 | 2,781 | 2,644 |
| Cash/ST investment | 460 | 280 | 102 | 14 |
| Other current assets | 5,128 | 5,723 | 6,809 | 7,783 |
| **Total assets** | **15,344** | **15,925** | **16,992** | **18,021** |
| ST debt | 1,554 | 1,254 | 954 | 654 |
| Other current liabilities | 1,602 | 1,582 | 1,678 | 1,754 |
| LT debt | 3,301 | 3,001 | 2,701 | 2,401 |
| Other LT liabilities | 868 | 868 | 868 | 868 |
| Shareholders' equity | 6,649 | 7,543 | 8,721 | 9,891 |
| Minority interest | 1,371 | 1,678 | 2,071 | 2,454 |
| **Total liabilities & equity** | **15,344** | **15,925** | **16,992** | **18,021** |

## CASH FLOW

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **2,115** | **1,428** | **1,501** | **1,559** |
| Pre-tax profit | 1,971 | 1,702 | 2,230 | 2,206 |
| Tax | (162) | (187) | (245) | (243) |
| Deprec. & amort. | 576 | 464 | 483 | 502 |
| Associates | (178) | (169) | (181) | (185) |
| Working capital changes | (337) | (615) | (990) | (897) |
| Other operating cashflows | 245 | 233 | 204 | 175 |
| **Investing** | **(685)** | **(300)** | **(300)** | **(300)** |
| Capex (growth) | (665) | (300) | (300) | (300) |
| Investments | 0 | 0 | 0 | 0 |
| Proceeds from sale of assets | 1 | 0 | 0 | 0 |
| Others | (21) | 0 | 0 | 0 |
| **Financing** | **(1,415)** | **(1,308)** | **(1,379)** | **(1,347)** |
| Dividend payments | (493) | (314) | (414) | (411) |
| Issue of shares | 964 | 0 | 0 | 0 |
| Proceeds from borrowings | 0 | 0 | 0 | 0 |
| Loan repayment | (1,486) | (600) | (600) | (600) |
| Others/interest paid | (401) | (394) | (365) | (337) |
| **Net cash inflow (outflow)** | **15** | **(180)** | **(178)** | **(89)** |
| **Beginning cash & cash equivalent** | **459** | **460** | **280** | **102** |
| Changes due to forex impact | (14) | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **460** | **280** | **102** | **14** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 16.7 | 14.9 | 17.1 | 16.6 |
| Pre-tax margin | 12.6 | 11.4 | 13.9 | 13.5 |
| Net margin | 9.0 | 8.1 | 9.9 | 9.7 |
| ROA | 9.6 | 7.7 | 9.7 | 9.0 |
| ROE | 26.8 | 17.0 | 19.6 | 17.0 |
| | | | | |
| **Growth** | | | | |
| Turnover | 42.7 | (4.8) | 7.1 | 1.9 |
| EBITDA | 33.1 | (14.7) | 22.7 | (1.4) |
| Pre-tax profit | 36.0 | (13.6) | 31.0 | (1.1) |
| Net profit | 37.6 | (14.8) | 31.8 | (0.7) |
| Net profit (adj.) | 37.0 | (14.8) | 31.8 | (0.7) |
| EPS | 34.9 | (14.8) | 31.8 | (0.7) |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 37.7 | 31.6 | 25.3 | 19.8 |
| Debt to equity | 73.0 | 56.4 | 41.9 | 30.9 |
| Net debt/(cash) to equity | 66.1 | 52.7 | 40.7 | 30.7 |
| Interest cover (x) | 11.3 | 9.6 | 13.4 | 15.4 |

## UOBKH HIGHLIGHTS

# Bank Islam Malaysia (BIMB MK/HOLD/RM2.24/Target: RM2.29)

3Q23: Underpinned By Lower Provision

| Year to 31 Dec | 3Q23 (RMm) | 3Q22 (RMm) | yoy % chg | 9M23 (RMm) | qoq % chg |
|---|---|---|---|---|---|
| Net Interest Income | 484.3 | 506.0 | (4.3) | 1,440.9 | 2.3 |
| Fees Income | 58.8 | 59.7 | (1.5) | 175.9 | (1.5) |
| Net Trading Income | 77.0 | 45.9 | 67.6 | 219.9 | 131.5 |
| Other Operating Income | (3.7) | (2.3) | 57.2 | (10.7) | 48.7 |
| Total Income | 616.4 | 609.3 | 1.2 | 1,826.0 | 9.0 |
| Operating Expenses | (350.8) | (335.9) | 4.4 | (1,036.7) | 10.7 |
| Financial Cost | (27.7) | (27.8) | (0.7) | (82.4) | 6.2 |
| PPOP | 237.9 | 245.6 | (3.1) | 706.9 | 7.0 |
| Provision on Loans & Investments | (40.8) | (26.6) | 53.5 | (164.2) | 62.3 |
| PBT | 197.1 | 219.0 | (10.0) | 542.8 | (3.0) |
| Net Profit | 140.5 | 142.9 | (1.6) | 394.8 | 7.9 |
| EPS (sen) | 6.3 | 6.9 | (9.7) | 17.6 | (1.0) |

| Financial Ratios | 3Q23 % | 3Q22 % | yoy ppt chg | 2Q23 % | qoq ppt chg |
|---|---|---|---|---|---|
| NIM | 2.25 | 2.43 | (0.2) | 2.17 | 0.1 |
| Loan Growth | 10.2 | 7.3 | 2.9 | 11.2 | (1.0) |
| Deposit Growth | 2.3 | 12.2 | (9.9) | 2.7 | (0.4) |
| Loan/Deposit Ratio | 89.9 | 84.5 | 5.4 | 90.6 | (0.7) |
| Cost/Income Ratio | 56.6 | 54.9 | 1.7 | 54.6 | 2.0 |
| ROE | 7.6 | 8.5 | (0.9) | 7.5 | 0.1 |
| NPL Ratio | 1.0 | 1.2 | (0.3) | 1.0 | (0.1) |
| Credit Costs (bp) | 24.2 | 17.1 | 7.1 | 37.1 | (12.9) |

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Net Interest Income | 1,907 | 1,959 | 2,052 | 2,161 |
| Non-interest Income | 402 | 466 | 490 | 524 |
| Net Profit (Reported/Actual) | 492 | 535 | 568 | 589 |
| Net Profit (Adjusted) | 492 | 535 | 568 | 589 |
| EPS (sen) | 23.7 | 25.8 | 27.4 | 28.4 |
| PE (x) | 9.5 | 8.7 | 8.2 | 7.9 |
| P/B (x) | 0.7 | 0.7 | 0.6 | 0.6 |
| Dividend Yield (%) | 6.2 | 5.7 | 6.1 | 6.3 |
| Cost to Income Ratio (%) | 35.6 | 35.9 | 36.0 | 35.8 |
| ROE(%) | 7.2 | 7.5 | 7.8 | 7.8 |

*Source: BIMB, UOB Kay Hian*

### RESULTS

- **3Q23 results: In line.** Bank Islam Holdings (BIMB) reported 3Q23 earnings of RM140.5m (-1.6% yoy, +2.9% qoq) bringing 9M23 earnings to RM394.8m (+7.9% yoy). Results were broadly in line, with 9M23 earnings representing 74% of our full-year estimate.
- **3Q23 earnings declined 1.6% yoy** due to: a) negative Jaws (opex grew quicker than total income by 3ppt), and b) higher provisions (+66%). However, this was cushioned by lower effective tax rate in the absence of the prosperity tax.
- **3Q23 earnings rose 3% qoq** due to: a) lower provision (-33%), and b) higher NIM which expanded 6bp qoq. That said, its growth was partially offset by higher opex (+6%) and effective tax rate (+3ppt).
- **Loans and deposit growth losses momentum.** Financing and deposits growth lost traction to +8.4% yoy (2Q23: +9.3%) and +2.3% yoy (2Q23: +2.8%) respectively.
- **GIL ratio continues to decline but LLC significantly below pre-pandemic levels.** In 3Q23, the group's gross impaired loan (GIL) ratio decreased to 0.97% from 1.03% in 2Q23. This decline was driven by lower GIL formation and a stronger qoq loans growth. Consequently, net credit cost declined to 24bp in 3Q23, down from 37bp in 2Q23, resulting in a 9M23 net credit cost of 33bp, which is broadly in line with our 2024 assumption of 35bp. It is worth noting that despite the current GIL ratio being 0.97%, slightly higher than the pre-pandemic level of 0.86%, the group's loans-loss coverage ratio (LLC) has decreased to 126% from the pre-pandemic average of 170%.

### EARNINGS REVISION/RISK

- No changes.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM2.29 (7.8% ROE, 0.65x 2024F P/B)** from RM1.90 as we roll forward our valuations to 2024. This is below its five-year mean of 0.97x. The discount is fair since its ROE output is 3ppt lower vs its five-year average.

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

## UOBKH HIGHLIGHTS

# Deleum (DLUM MK/BUY/RM0.95/Target: RM1.12)

3Q23: Above Expectations; P&M Continues to Benefit From Inflation & Energy Transition. Upgrade to BUY

| Year to 31 Dec | 3Q23 (RMm) | qoq % chg | yoy % chg | Ytd 2023 (RMm) | yoy % chg |
|---|---|---|---|---|---|
| **Revenue** | **241.8** | **28.6** | **71.3** | **553.3** | **49.4** |
| - Power & Machinery (P&M) | 212.8 | 37.0 | 137.1 | 465.7 | 103.3 |
| - Oilfield Services (OS) | 28.0 | (11.4) | (2.7) | 82.4 | (9.8) |
| - Integrated Corrosion Solution (ICS) | 0.9 | (11.2) | (96.1) | 4.8 | (90.3) |
| **EBIT** | **25.6** | **42.1** | **33.4** | **57.7** | **43.8** |
| - Power & Machinery (P&M) | 31.2 | 80.4 | 156.4 | 64.9 | 147.0 |
| - Oilfield Services (OS) | (3.4) | (252.3) | 155.7 | (3.3) | (156.5) |
| - Integrated Corrosion Solution (ICS) | (2.3) | 43.9 | (127.8) | (3.8) | (136.0) |
| Operating Margin | 10.6% | 1.1% | -3.0% | 10.4% | -0.4% |
| Impairment Loss | 0.0 | Na | Na | 0.0 | Na |
| Net Finance Cost | (0.0) | (68.0) | (75.6) | (0.2) | (68.1) |
| Associates | 1.2 | 0.7 | (40.6) | 4.1 | (17.0) |
| **PBT** | **25.3** | **38.4** | **26.2** | **59.0** | **32.3** |
| Tax | (6.6) | 19.3 | 43.6 | (15.2) | 47.3 |
| **Net Profit** | **12.2** | **25.9** | **3.5** | **31.1** | **9.5** |
| **Core Profit** | **14.9** | **56.4** | **90.9** | **28.8** | **43.4** |
| EPS (sen) | 2.4 | | | 4.5 | |
| DPS (sen) | 2.0 | | | 2.0 | |

| Year | EPS (sen) | Revision (%) | PE (x) |
|---|---|---|---|
| **2023F** | 10.9 | 24.0 | 8.7 |
| **2024F** | 11.7 | 9.8 | 8.1 |
| **2025F** | 12.9 | 8.0 | 7.4 |

*Source: Deleum, UOB Kay Hian*

### RESULTS

- **9M23 core profit beat expectations, comprising 82%/70% of our previous forecasts and consensus'.** This also takes into account that 4Q is historically a strong quarter especially for power and machinery (P&M). P&M's superior performance more than offset the expected setbacks from the ICS and OS segments, due to revenue gaps which resulted from the delays renewing long-term contracts.
- **3Q23 performance by segments:** For P&M, sales of gas turbines were higher yoy at RM169m (2Q23: RM122m, 3Q22: RM61m), and the after sales/retrofits of valves and flow regulators were also higher yoy at RM35m (2Q23: RM26m, 3Q22: RM28m). For the ICS segment, the modification, construction and maintenance (MCM) fell materially to nil (2Q23: RM1m, 3Q22: RM7m), while there was minimal revenue from blasting contracts revenue (in Indonesia) at RM1m (2Q22: RM0m, 3Q22: RM7m). The OS segment, which contains the slickline contracts, continued to be depressed with revenue of only RM25m (2Q23: RM29m, 3Q22: RM27m).
- **The high values for P&M work orders are a pleasant surprise.** We had previously highlighted that the overhaul and retrofit demands of gas turbines and valves will benefit significantly from inflationary pressures and energy transition demands (ie to retrofit greener parts during turnaround periods) by way of its ability to pass down costs to its clients. It is possible that Deleum will benefit on the long-term additional work orders via introducing Solar Turbines' emission reduction value propositions in the next overhaul cycles of its existing >300 customer base, including carbon and methane emission reduction technologies. However, we previously assumed in our forecasts that those benefits will take time to materialise as management guided that P&M revenue base may revert to RM0.4b (from RM0.5b in 2022).
- **ESG: Focusing on specialised technologies for energy transition.** While some O&G companies like Yinson is investing in a lot of non-O&G/decarbonisation businesses to diversify from O&G, Deleum chooses to remain focused on channelling its future capital in selective projects. Deleum's patented Dynamic Sludge Treatment Process, which addresses the problem of wastage of tough tank bottom sludge usually generated from downstream and shipping assets, may reach commercialisation stage. Another promising investment is on CRA Tubular's Titanium line Composite Tubing (TCT), which is a game changer application not only for highly contaminated reservoir completion, but also for carbon capture and storage (CCS) wells. Together with Deleum and Sutera Energy, the consortium aims to establish a manufacturing facility in Malaysia and for commercialisation in 2024.

### EARNINGS REVISION

- **Upgrade 2023-25 earnings forecasts to RM44m/RM47m/RM52m.** Management guided that it has secured enough works to offset the aforementioned revenue gaps in ICS and OS, and can at least match 2022 levels. However, we upgrade our forecast as we assume the better-than-expected P&M income base will be more sustainable.

### VALUATION/RECOMMENDATION

- **Upgrade from HOLD to BUY, new target price of RM1.12 (from RM0.89) is rolled forward to 2024 horizon.** Pegged to unchanged 10x 2024F PE (5% dividend yield), we now believe there is further upside for the stock and its dividend yield, as P&M's resiliency will more than offset the risks of contract renewals for the other upstream services. Also, Deleum is embarking on new growth, while also benefitting from ESG and energy transition trends in its bread-and-butter P&M overhaul business.

ANALYST
**Kong Ho Meng**
+603 2147 1987
homeng@uobkayhian.com

## UOBKH HIGHLIGHT

# Gas Malaysia (GMB MK/HOLD/RM3.14/Target:RM3.07)

3Q23: Within Expectations; NG Volume Falls 6% yoy

| Year to 31 Dec (RMm) | 3Q23 (RMm) | 3Q22 (RMm) | qoq % chg | yoy % chg | 9M23 (RMm) | yoy % chg |
|---|---|---|---|---|---|---|
| **Turnover** | **1,816.8** | **1,816.8** | **(10.1)** | **(2.6)** | **6,277.4** | **15.7** |
| COGS | (1,687.2) | (1,687.2) | (9.7) | 4.4 | (5,851.9) | 20.1 |
| **EBITDA** | **136.2** | **136.2** | **(13.7)** | **(16.2)** | **443.6** | **(6.8)** |
| Pre-tax Profit | 112.5 | 112.5 | (14.7) | (18.9) | 371.0 | (8.0) |
| Tax | (26.4) | (26.4) | (22.5) | (38.8) | (92.0) | (15.5) |
| Reported Net Profit | 86.2 | 86.2 | (11.9) | (9.9) | 279.1 | (5.2) |
| **Core Net Profit** | **86.2** | **86.2** | **(11.9)** | **(9.9)** | **279.1** | **(5.2)** |
| **Margin** | **%** | **%** | **+/- ppt** | **+/- ppt** | **%** | **+/- ppt** |
| EBITDA Margin | 7.5 | 8.7 | (0.3) | (1.2) | 15.3 | 6.5 |
| PBT Margin | 6.2 | 7.4 | (0.3) | (1.2) | 5.9 | (1.5) |
| Net Margin | 4.7 | 5.1 | (0.1) | (0.4) | 4.4 | (1.0) |

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Net turnover | 7,649 | 6,600 | 6,666 | 6,732 |
| EBITDA | 642 | 525 | 530 | 535 |
| Operating Profit | 540 | 420 | 422 | 425 |
| Net Profit (Reported/Actual) | 390 | 318 | 318 | 319 |
| Net Profit (Adjusted) | 390 | 318 | 318 | 319 |
| EPS (sen) | 30.3 | 24.7 | 24.7 | 24.8 |
| PE (x) | 10.3 | 12.7 | 12.7 | 12.6 |
| P/B (x) | 3.2 | 3.0 | 2.9 | 2.8 |
| EV/EBITDA (x) | 5.8 | 7.1 | 7.1 | 7.0 |
| Dividend Yield (%) | 8.2 | 6.7 | 6.7 | 6.7 |

*Source: Gas Malaysia, UOB Kay Hian*

## RESULTS

- **9M23 results in line with expectations.** Gas Malaysia (GMB) booked 3Q23 core net profit of RM86.2m. The 10% yoy decline is a result of a 6% yoy drop in natural gas (NG) volumes sold by the sgroup, higher opex, higher depreciation and higher finance costs. Sequentially, earnings were also lower by 12% in the absence of an adjustment in internal gas cost consumption in 2Q23 (leading to lower cost of sales and higher EBITDA margin) and lower NG margin. Overall, 9M23 net profit of RM279.1m (-5% yoy) is deemed in line with expectations. While 9M23 net profit accounts for 85% of our full-year projection, we expect a weaker 4Q as a result of a gradual decline in NG prices.
- **9M23 NG volume declined 13% yoy on the back of lower industrial customers ytd.** GMB recorded 1,042 industrial customers, out of which, 26 customers are new while four customers expanded its operation. GMB also lost 12 customers who terminated GMES' service. 3Q23 NG volume fell 6% yoy but rose 4% qoq to 37.2m GJ.

## STOCK IMPACT

- No change to earnings estimates.

## RECOMMENDATION

- **Maintain HOLD with a DDM-based target price of RM3.07** (discount rate: 7.8%, growth rate of 1%). At our target price, the stock would trade at 12x 2024F net profit and offer lush dividend yields of close to 7%.

## ANALYST

**Chong Lee Len**
+603 2147 1992
leelen@uobkayhian.com

## UOBKH HIGHLIGHTS

# KLCCP Stapled Group (KLCCSS MK/HOLD/RM6.95/Target: RM7.25)

3Q23: Results Boosted By Strong Hotel Performance

| Year to 31 Dec | 3Q23 (RMm) | 2Q23 (RMm) | qoq % chg | yoy % chg | 9M23 (RMm) | yoy % chg |
|---|---|---|---|---|---|---|
| **Total Revenue** | **401.2** | **394.6** | **1.7** | **7.3** | **1,176.5** | **12.5** |
| Office | 145.6 | 145.4 | 0.1 | 0.3 | 437.4 | 0.3 |
| Retail | 133.3 | 128.5 | 3.8 | (0.2) | 391.5 | 5.9 |
| Hotel | 55.0 | 44.7 | 23.0 | 20.1 | 145.8 | 49.0 |
| Management Services | 86.1 | 95.6 | (10.0) | 25.8 | 259.1 | 30.3 |
| **Operating Expenses** | **(143.2)** | **(143.9)** | **(0.5)** | **19.0** | **(416.5)** | **24.2** |
| **Operating Profit** | **257.9** | **250.8** | **2.9** | **1.7** | **760.1** | **7.0** |
| Office | 127.0 | 127.6 | (0.5) | 1.2 | 383.6 | 0.7 |
| Retail | 108.6 | 104.0 | 4.4 | (5.3) | 319.0 | 4.6 |
| Hotel | 6.8 | 2.5 | 176.7 | 284.3 | 12.0 | n.m. |
| Management Services | 19.2 | 20.8 | (7.7) | 12.5 | 58.7 | 18.6 |
| **Net Profit** | **185.3** | **180.8** | **2.5** | **5.0** | **546.7** | **8.6** |
| EPU (sen) | 10.3 | 10.0 | 2.5 | 5.0 | 30.3 | 8.6 |
| DPU (sen) | 8.8 | 8.8 | (0.1) | 10.0 | 26.1 | 8.8 |

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Net Turnover | 1,459 | 1,483 | 1,562 | 1,634 |
| Operating Profit | 914 | 1,000 | 1,024 | 1,055 |
| Net Profit (Reported/Actual) | 738 | 723 | 750 | 785 |
| Net Profit (Adjusted) | 738 | 723 | 750 | 785 |
| EPU (sen) | 40.9 | 40.0 | 41.6 | 43.5 |
| DPU (sen) | 38.0 | 36.0 | 37.4 | 39.1 |
| PE (x) | 17.0 | 17.4 | 16.7 | 16.0 |
| P/B (x) | 2.5 | 2.4 | 2.4 | 2.4 |
| DPU Yield (%) | 5.5 | 5.2 | 5.4 | 5.6 |
| Net Margin (%) | 50.6 | 48.7 | 48.0 | 48.0 |
| Net Debt/(Cash) to Asset (%) | 9.7 | 7.9 | 6.0 | 4.2 |
| Interest Cover (x) | 12.2 | 16.7 | 19.5 | 24.1 |
| Consensus DPU (sen) | | 38.2 | 39.4 | 41.1 |
| UOBKH/Consensus (x) | | 0.94 | 0.95 | 0.95 |

*Source: KLCCSS, UOB Kay Hian*

### RESULTS

- **Within expectations.** KLCCP Stapled Group (KLCCSS) reported 3Q23 revenue of RM401.2m (+1.7% qoq, +7.3% yoy) and core net profit of RM185.3m (+2.5% qoq, +5.0% yoy). Cumulatively, 9M23 core net profit of RM546.7m (+8.6% yoy) accounts for 73-75% of our and consensus full-year estimates. 9M23 earnings improved on the back of better performances from the hotel segments, spurred by higher occupancies, but overall NPI margin was lower at 64.6% (9M22:67.9%) on higher utilities expenses.
- **Declared 8.8 sen dividend for 3Q23.** 1H23 dividend of 26.1 sen (9M22: 24 sen) represents an annualised yield of 5%.

### COMMENTS

- **Office: Stable.** The office segment remained resilient with full occupancy, and 9M23 NPI margin steady at 87.7%.
- **Retail: 9M23 revenue grew 6% with resilient occupancy rate of 96% while NPI margin held steady at 81.5%.** Positively, we gathered that footfall grew 39% yoy in 9M23, while tenant sales rose 17% yoy. While we expect footfall and tenants' sales to continue improving in tandem with the increase in international tourists entering the country, we think the upside to revenue and earnings is limited as gross turnover rent accounted for only 2-3% of total retail rental income. Furthermore, we understand that rental reversion currently is flattish and expected to be flattish for the rest of the year and may turn positive next year. We believe that the new TRX mall, with its unique 10-acre rooftop public park, may exert competitive pressure on surrounding malls. This feature positions it as a direct competitor to the KLCC Park.
- **Hotel: Gradual improvement.** Mandarin Oriental managed to record a positive profit before tax (PBT) of RM1.7m 3Q23, which narrowed 9M23 losses to -RM3.2m (from RM23m loss for 9M22, RM7.4m loss for 2022). While we project occupancy to improve to around 55% by end-23 (9M23: 52%; end-22: 44%; pre-pandemic: 60-62%), we think the hotel segment will remain loss-making for full-year 2023 on the back of higher utilities cost and occupancy coming in below pre-pandemic average (pre-pandemic hotel PBTs for 2018 and 2019 were RM0.1m and RM0.7m, respectively with 60-62% occupancy levels).
- About 83% of total borrowings are on fixed financing rates (average cost of debt: 4.6%; net gearing: 8.2%). The next major refinancing is in 2024 (RM1.1b or 46% of total borrowings), which we think will increase its financing cost (which we have factored in accordingly).

### EARNINGS REVISION/RISK

- **Unchanged.**

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a slightly higher target price of RM7.25 (from RM7.19)** as we roll forward our valuation to 2024. Our DDM-based target price is based on a required rate of return of 6.8%. We reckon the current valuation is fair as its forward yield spread to MGS of 1.9ppt has narrowed to its five-year historical mean.

ANALYST

**Nazira Abdullah**
+603 2147 1934
nurulnazira@uobkayhian.com

## UOBKH HIGHLIGHTS

# KPJ Healthcare (KPJ MK/BUY/RM1.30/Target: RM1.40)

3Q23: Patient Volume Posts Encouraging Growth.

| Year to 31 Dec | 3Q23 (RMm) | qoq % chg | yoy % chg | 9M23 (RMm) | yoy % chg | Comments |
|---|---|---|---|---|---|---|
| **Revenue** | **925.4** | **15.7** | **14.4** | **2,553.9** | **18.3** | Uplift by inpatient volume: +12% yoy |
| COS | (540.8) | 12.9 | 14.8 | (1,506.7) | 16.1 | |
| **Gross Profit** | **384.6** | **19.9** | **13.7** | **1,047.2** | **21.7** | |
| **EBIT** | **170.4** | **60.6** | **37.9** | **389.1** | **38.1** | |
| Finance Costs | (51.1) | 20.3 | 13.1 | (138.9) | -0.2 | |
| Associates | 13.8 | 41.5 | 0.4 | 33.9 | 0.7 | |
| **Pre-tax Profit** | **133.1** | **81.4** | **44.5** | **284.1** | **61.1** | |
| Tax | (35.8) | | | (77.1) | | |
| **PATAMI** | **59.1** | **22.7** | **9.0** | **158.8** | **53.3** | Broadly within expectations |
| **Margin** | **%** | **+/- ppt** | **+/- ppt** | **%** | **+/- ppt** | |
| Gross Margin | 41.6 | 1.5 | -0.2 | 41.0 | 1.1 | |
| EBIT Margin | 18.4 | 5.1 | 3.1 | 15.2 | 2.2 | |
| Eff. Tax Rate | 26.9 | -0.4 | -7.6 | 27.1 | -6.5 | |
| Net Margin | 6.4 | 0.4 | -0.3 | 6.2 | 1.4 | |

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Revenue | 2,921 | 3,381 | 3,736 | 4,024 |
| EBITDA | 664 | 787 | 852 | 903 |
| EBIT | 399 | 492 | 541 | 574 |
| Net Profit | 167 | 242 | 282 | 312 |
| Core NP | 167 | 242 | 282 | 312 |
| PE (x) | 35.2 | 24.4 | 20.9 | 18.8 |
| Div Yield (%) | 1.5 | 2.0 | 2.3 | 2.6 |
| **Forecast Revision (%)** | | | | |
| Net Profit | - | - | - | - |

*Source: KPJ, UOB Kay Hian*

### RESULTS

- **Broadly within expectations.** KPJ Healthcare (KPJ) reported a 3Q23 net profit of RM59.1m (+22.7% qoq, +9.0% yoy), brining 9M23 net profit to RM159m (53.3% yoy). This is largely within our and consensus expectations, accounting for 67% and 71% of our and consensus full-year forecasts respectively. Earnings should improve sequentially heading into 4Q23 alongside improved gestation of Damansara Specialist Hospital 2 (DSH2) and KPJ Penang (new building block), and the absence of loss-making operations that have been sold off. An interim and special DPS that amounted to 1.3 sen was declared, bringing cumulative DPS to 2.75 sen (9M22: 1.8 sen).

- **Added capacity adds impetus to inpatient volume growth.** Revenue from Malaysia grew by 15.5% yoy, lifted by higher bed occupancy rate (BOR). Alongside improved BoR, inpatient volume rose by 12% yoy to 93,512 patients. The gestation of KPJ Damansara 2 and a new building in KPJ Penang were the primary drivers. We expect to see a further uplift from further gestation and recovering healthcare tourism. KPJ's other segments (Jeta Garden, KPJ Healthcare University and hospital and management services by KPJ Dhaka) jumped by 39% yoy from the reopening of the economy.

- **Margins firm up slightly sequentially but there is potential for more.** EBIT margin expanded by 5.1ppt qoq thanks to the gain from sale of its Indonesian hospitals. Adjusting for that, operating margins improved by 0.32ppt on a sequential basis to 13.6% in 3Q23. Positive operating leverage from improvement in patient volume marginally lifted operating margins. Further gestation of DSH2 and the likes of Perlis, Bandar Dato' Onn, Batu Pahat and Miri, operating margins are poised to improve more. Hence, we expect margins and earnings to register a sequential improvement. On top of that, the sale completion of Jeta Gardens in 2024 should provide further margin gains for KPJ heading into 2024. On the back of a lower effective tax rate and higher revenue, 3Q23 core earnings grew by 9.9% yoy to RM59.1m.

### EARNINGS REVISION/RISK

- **Unchanged earnings.** Key downside risks include: a) tightening of regulatory policy, b) delay in hospital openings, and c) inability to pass on higher operating costs to customers.

### VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of RM1.40.** We take the opportunity to switch our valuation methodology to a PE basis from an EV/EBITDA as KPJ's hospitals are increasingly mature with more stable earnings. We continue to be encouraged by KPJ's reorganisation plans for its loss-making regional operations, paving the way for improved earnings visibility. In addition, KPJ completed its greenfield operations, allowing for a healthier balance sheet and realisation of its positive operating leverage. Furthermore, it benefits from a positive structural trend and its valuations are undemanding. Our target price is based on a PE peg of 23.0x or its -0.5SD to its five-year mean PE.

### ANALYST

**Philip Wong**
+603 2147 1996
philipwong@uobkayhian.com

## UOBKH HIGHLIGHTS

# UEM Edgenta (UEME MK/HOLD/RM1.01/Target: RM1.04)

3Q23: Margin Squeezed By Higher Operating Costs

| Year to 31 Dec | 3Q23 (RMm) | 2Q23 (RMm) | qoq % chg | yoy % chg | 9M23 (RMm) | yoy % chg |
|---|---|---|---|---|---|---|
| **Revenue** | 721.1 | 719.3 | 0.3 | 11.6 | 2,072.1 | 14.3 |
| Healthcare | 363.3 | 411.1 | (11.6) | 0.1 | 1,120.9 | 3.8 |
| Infrastructure | 262.4 | 212.7 | 23.4 | 23.6 | 696.7 | 27.9 |
| Property & Facility | 60.9 | 55.4 | 9.9 | 38.9 | 160.3 | 47.6 |
| Asset Consultancy | 25.9 | 24.3 | 6.6 | (1.2) | 69.8 | (10.4) |
| **PBT** | 18.0 | 22.0 | (18.3) | 18.9 | 62.4 | 12.8 |
| Healthcare | 13.3 | 21.7 | (38.4) | 2,052.3 | 48.8 | (6.5) |
| Infrastructure | 14.9 | 15.2 | (2.2) | (31.0) | 50.9 | 39.4 |
| Property & Facility | 3.7 | 0.6 | 536.9 | 174.0 | 6.4 | 18.8 |
| Asset Consultancy | 0.5 | 1.6 | (68.5) | (52.1) | 1.4 | (39.4) |
| Associates & JV | 0.3 | 1.4 | (81.4) | (91.9) | 4.0 | (64.0) |
| PATMI | 5.1 | 12.5 | (59.5) | 10.5 | 28.5 | 14.6 |
| **Core PATMI** | 5.8 | 13.4 | (56.8) | (66.2) | 29.6 | (19.0) |
| **Margins** | % | % | +/- ppt | +/- ppt | % | +/- ppt |
| PBT | 2.7 | 3.5 | (0.0) | (0.2) | 3.0 | (0.0) |
| Core Net Profit | 0.9 | 2.1 | 0.5 | 0.6 | 1.4 | (0.6) |

| Year to 31 Dec (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Net Turnover | 2,523 | 2,623.1 | 2,690.4 | 2,760.4 |
| EBITDA | 178 | 203.5 | 234.9 | 240.6 |
| Net Profit (Reported/Actual) | 46 | 49.6 | 68.2 | 72.2 |
| Net Profit (Adjusted) | 59 | 49.6 | 68.2 | 72.2 |
| EPS (sen) | 5.52 | 5.96 | 8.21 | 8.68 |
| PE (x) | 12.3 | 17.1 | 12.6 | 11.9 |
| P/B (x) | 0.5 | 0.5 | 0.5 | 0.5 |

*Source: UEME, UOB Kay Hian*

### RESULTS

- **Below expectations.** UEM Edgenta (UEME) reported a lower core PATMI of RM5.8m (-56.8% qoq, -66.2% yoy), driven by increased cost of sales of RM632.1m (+2% qoq, +10% yoy), higher expenses of RM72.6m (-10.9% qoq, +11% yoy) and lower contribution from associates of RM0.2m (-81.4% qoq, -91% yoy), despite improvement in revenue of RM721.7m (+0.3% qoq, +11.6% yoy). This brought 9M23 core PATMI to RM28.5m (-20.9% yoy), forming 42%/44% of our and consensus full-year estimates. The key deviation against our forecasts was the continued margin compression amid the ongoing inflationary pressure and higher operating costs, especially from the healthcare and property & facility solution (PFS) divisions.
- **Margin squeezed by higher operating costs.** The improvement in revenue was impacted by higher operating costs due to the higher labour cost and rising inflation pressure globally. Its cost of sales increased qoq and yoy. Core net profit margins in 9M23 decreased yoy by 0.6ppt to 1.4%. Margin compression from the healthcare, PFS and AC (*asset consultancy)* divisions was partly offset by the improvement in margins from the infrastructure division. Considering the group's efforts in shifting towards utilizing technology-driven and digitalization solutions for cost management, we believe that the unfavorable macro environment will continue to exert pressure on margins in the near term.

### STOCK IMPACT

- **Positive outlook, but cautious on downside risks.** We expect UEME to secure additional international contracts in 2024 and 2025, leveraging its own opportunities and exposure, thereby making a positive contribution to the expanded orderbook. Currently, its orderbook stands at around RM9.2b which comprises infra services (67%), healthcare support (26%), PFS (5%) and AC (1%), ranging from short- to long-term contracts. Notably, 75% of the new job wins in 1H23 were from the overseas market, as UEME further expands its global presence to the Middle East (Saudi, Dubai), and Asia (Singapore and Taiwan).

### EARNINGS REVISION

- We cut 2023-25 earnings forecasts by 28%/9%/9% respectively after results announcement to reflect the lower-than-expected earnings and the impact of the prolonged inflationary pressure.

### RECOMMENDATION

- **Maintain HOLD with a target price of RM1.04.** Our target price implies 2024F PE of 12.7x (slightly above -1SD PE of 11x). Valuation appears modest but are fair, in our view, given that the persistent margin compression poses a potential risk to earnings. This is compounded by the downside risk of increased operating costs, particularly due to manpower, which constitutes a major portion of costs, and prolonged inflationary pressure. However, the remaining orderbook of RM9.2b, coupled with the ongoing geographical expansion, should support its earnings growth ahead.

ANALYST
**Anas Fitri Ahmad**
+603 2147 1915
anasfitri@uobkayhian.com

**TRADERS' CORNER**


*Source: UOBKH ChartGenie*

## UMedic Group (UMC MK)

Technical BUY with +15.5% potential return

Last price: RM0.775

Target price: RM0.825, RM0.895

Support: RM0.72

Stop-loss: RM0.715

**BUY with a target price of RM0.895 and stop-loss at RM0.715. Based on the daily chart, UMC has climbed up from the support level of RM0.72 to cover back the recent drop. Share price closed above the BBI line yesterday and should continue in its bullish momentum towards our targets at RM0.825 and RM0.895. This bullish signal is supported by the MACD and the DMI which are currently in a bullish crossover.**

Expected timeframe: Two weeks to two months

*Note: Not available for CFD Trading*


*Source: UOBKH ChartGenie*

## Advancecon Holdings (ADVC MK)

Technical BUY on breakout with +24.2% potential return

Last price: RM0.30

Target price: RM0.365, RM0.385

Support: RM0.275

Stop-loss: RM0.27

**BUY on breakout with a target price of RM0.385 and stop-loss at RM0.27. Share price has been consolidating around the immediate support of RM0.275 before yesterday's positive closing above the BBI sets a new tone for the short-term outlook. We expect ADVC to continue to move towards the previous high of RM0.39 once it manages to penetrate above the breakout level of RM0.305. The bullish bias has been established following an uptick in the RSI and a bullish crossover in the DMI.**

Expected timeframe: Two weeks to two months

*Note: Not available for CFD Trading*

ANALYST
**Mohd Fakhrul Asyraq, MSTA, CFTe**
+603 2147 1994
mohdfakhrulasyraq@uobkayhian.com

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