UOBKayHian

Regional Morning Notes

Thursday, 02 November 2023

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KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33274.6	0.7	0.7	(0.7)	0.4
S&P 500	4237.9	1.1	1.2	(1.2)	10.4
FTSE 100	7342.4	0.3	(1.0)	(3.5)	(1.5)
AS30	7024.6	0.8	(0.3)	(2.9)	(2.7)
CSI 300	3571.0	(0.0)	1.9	(3.2)	(7.8)
FSSTI	3076.8	0.3	(0.1)	(4.1)	(5.4)
HSCEI	5859.6	(0.0)	0.1	(4.7)	(12.6)
HSI	17101.8	(0.1)	0.1	(4.0)	(13.5)
JCI	6642.4	(1.6)	(2.8)	(4.6)	(3.0)
KLCI	1435.3	(0.5)	(0.5)	1.2	(4.0)
KOSPI	2301.6	1.0	(2.6)	(6.6)	2.9
Nikkei 225	31601.7	2.4	1.1	(0.5)	21.1
SET	1380.0	(0.1)	(1.6)	(6.1)	(17.3)
TWSE	16038.6	0.2	(2.0)	(3.1)	13.4
BDI	1401	(4.0)	(23.5)	(19.3)	(7.5)
CPO (RM/mt)	3560	(1.9)	(1.7)	(3.4)	(12.1)
Brent Crude (US$/bbl)	85	(0.5)	(6.1)	(11.2)	(1.5)

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
Anta Sports	2020 HK	88.35	128.00	44.9
BYD	1211 HK	233.20	630.00	170.2
Bank Neo Commerce	BBYB IJ	216.00	390.00	80.6
Bumi Serpong	BSDE IJ	970.00	1,420.00	46.4
HM Sampoerna	HMSP IJ	895.00	1,300.00	45.3
My EG Services	MYEG MK	0.78	1.18	52.3
Yinson	YNS MK	2.43	3.75	54.3
OCBC	OCBC SP	12.72	17.65	38.8
CP ALL	CPALL TB	55.50	78.00	40.5
Indorama	IVL TB	24.00	30.00	25.0

KEY ASSUMPTIONS

GDP (% yoy)		2022	2023F	2024F
US		2.1	2.0	1.0
Euro Zone		3.5	0.5	0.8
Japan		1.0	1.5	1.0
Singapore		3.6	0.7	3.0
Malaysia		8.7	4.0	4.6
Thailand		2.6	3.1	3.5
Indonesia		5.4	5.1	5.2
Hong Kong		-3.5	4.6	3.0
China		3.0	5.0	4.6
CPO	(RM/mt)	5,088	4,000	4,200
Brent (Average)	(US$/bbl)	99.0	81.0	84.0

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Presentation by Wilmar International (WIL SP)	Malaysia	2 Nov	2 Nov
Virtual Meeting on 1H24 Results with SIA Engineering (SIE SP)	Singapore	6 Nov	6 Nov
1HFY24 Results Virtual Meeting with Singapore Airlines (SIA SP)	Singapore	8 Nov	8 Nov

STRATEGY – GREATER CHINA

Alpha Picks: November Conviction Calls

Concerns of slowing growth momentum weighed on Chinese equities, with MSCI China and the HSI falling 4.4% and 3.9% respectively in October. Despite the show of support from Central Huijin, near-term trading could stay volatile as investors await better macro data or further policy support. We add a mix of defensives and turnaround stocks − COSCO Shipping, CR Mixc, Great Wall Motor, Innovent, Link REIT and NetEase − to our BUY list.

WHAT'S NEW

- **Review of October.** The MSCI China and HSI fell 4.4% and 3.9% respectively in October, bringing ytd declines to 12.9% and 13.5% respectively. Concerns on weaker growth momentum continue to weigh on the market and so far stimulus measures have come in below market expectations. Thus, the show of support by Central Huijin in buying ETFs and shares of major SOEs banks only provided temporary relief. Within our stock picks, Xpeng was the best performer of the month, with a 17.4% return over this period.
- **A year-end rebound** may be taking shape, as increased market support by Central Huijin and further policy easing turns sentiment around. Of the 12.9% ytd decline in the MSCI China index, only 1.6ppt was due to cuts in the 12-month forward EPS estimate. Thus the negative sentiment, or rise in equity risk premium has been a major driver. It will be difficult to time such a turnaround, as such we are adding a mix of defensives and turnaround stocks in the meantime, COSCO Shipping, CR Mixc, Great Wall Motor, Innovent, Link REIT and NetEase to our BUY list.

ACTION

- **Add COSCO Shipping Port (1199 HK) to our BUY list** due to re-acceleration in global demand and the share price downside limited by major shareholder purchases.
- **Add CR Mixc (1209 HK) to our BUY list** as we expect better-than-expected 2023 results.
- **Add Great Wall Motor (2333 HK) to our BUY list** as we expect strong earnings recovery along with the kickstart of a new product cycle.
- **Add Innovent (1801 HK) to our BUY list** due to stronger-than-expected 1H23 results and larger long-term revenue growth potential with its continuous efforts in entering the obesity drug market.
- **Add Link REIT (823 HK) to our BUY list** as we see rising possibility of unit buyback after the 1HFY24 results announcement.
- **Add NetEase (9999 HK) to our BUY list** as we expect NetEase to deliver encouraging re-accelerated grossing growth bolstered by resilient domestic and meaningful improvement in international mobile grossing.
- **Take profit** on Lenovo (992 HK) from our BUY list and Xpeng (9868 HK) from our SELL list.
- **Cut losses** on Baidu (988 HK), CR Land (1109 HK), Giordano International (709 HK), Henlius (2696 HK), PICC P&C (2328 HK), SHKP (16 HK) and Trip.com (9961 HK).
- **Maintain BUY** on Anta (2020 HK), BYD (1211 HK), CATL (300750 CH), Kuaishou (1024 HK) and Moutai (600519 CH).

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Anta	BUY	88.35	128.00	44.9
BYD	BUY	233.20	630.00	170.2
CATL	BUY	187.54	410.00	118.6
COSCO Shipping Port	BUY	4.72	6.00	37.1
CR Mixc	BUY	29.75	49.69	67.0
Great Wall Motor	BUY	11.38	13.50	18.6
Innovent	BUY	45.45	55.00	21.0
Kuaishou	BUY	51.1	100.00	94.2
Link REIT	BUY	35.85	50.70	41.4
Moutai	BUY	1,780.99	2,488.00	39.7
NetEase	BUY	167.8	193.00	15.0

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Oct 23 (%)	To-Date* (%)
Anta	BUY	0.2	0.2
Baidu	BUY	-23.0	-32.8
BYD	BUY	-1.9	3.3
CATL	BUY	-8.6	-19.6
CR Land	BUY	-6.1	-18.3
Giordano International	BUY	-10.4	-21.5
Henlius	SELL	21.3	21.3
Kuaishou	BUY	-19.6	-5.0
Lenovo	BUY	12.8	12.8
Moutai	BUY	-6.3	5.1
PICC P&C	BUY	-11.1	-11.1
SHKP	BUY	-4.1	-4.1
Trip.com	BUY	-3.7	-13.4
Xpeng	SELL	-17.4	-17.4
Hang Seng Index		-3.9	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	4Q22	2022	1Q23	2Q23	3Q23
HSI return	14.9	-15.5	3.1	-7.3	-5.9
Alpha Picks Return					
- Price-weighted	-9.7	-9.4	1.4	-5.5	-0.2
- Market cap-weighted	-1.9	-6.6	2.0	-8.6	-2.1
- Equal-weighted	1.5	-3.8	0.3	-5.9	-2.5

Assumptions for the 3 methodologies:
1) *Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.*
2) *Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.*
3) *Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.*

Source: UOB Kay Hian

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VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 1 Nov 23 (lcy)	Target Price (lcy)	Last Year End	PE 2023F (x)	PE 2024F (x)	PE 2025F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap. (lcy m)	Price/ NTA ps (x)
BUY												
Anta	2020 HK	BUY	88.35	128.00	Dec 22	21.6	18.5	16.0	1.9	29.9	250,262	4.3
BYD	1211 HK	BUY	233.20	630.00	Dec 22	20.4	14.1	10.3	1.0	23.1	256,054	5.8
CATL	300750 CH	BUY	187.54	410.00	Dec 22	19.4	12.5	8.9	1.0	21.9	824,525	5.1
COSCO Shipping Port	1199 HK	BUY	4.72	6.00	Dec 22	7.3	8.1	7.6	5.5	5.1	16,254	0.43
CR Mixc	1209 HK	BUY	29.75	49.69	Dec 22	29.3	23.4	18.5	1.7	18.4	69,616	4.1
Great Wall Motor	2333 HK	BUY	11.38	13.50	Dec 22	15.0	10.3	9.3	2.0	11.5	28,577	2.0
Innovent	1801 HK	BUY	45.45	55.00	Dec 22	n.a	n.a	n.a	0.0	n.a	73,223	5.3
Kuaishou	1024 HK	BUY	51.50	100.00	Dec 22	28.3	15.1	10.0	0	-8.8	224,015	4.5
Link REIT	823 HK	BUY	35.85	50.70	Mar 23	14.9	14.1	13.2	7.1	3.6	91,973	0.5
Moutai	600519 CH	BUY	1,780.99	2,488.00	Dec 22	35.7	30.5	25.6	1.7	41.8	2,237,275	11.8
NetEase	9999 HK	BUY	167.8	193.00	Dec 22	17.7	16.5	18.1	0	23.8	541,115	4.2

Source: Bloomberg, UOB Kay Hian

Anta – BUY (Stella Guo/Ng Jo Yee/Shirley Wang)

- Anta's sales momentum picked up in 3Q23 and was on track to fulfil its 2023 sales targets. During its investor day, the company announced its aim to become the global leader in the sportswear industry by 2030, while targeting to maintain its top position in China's sportswear sector (market share of 19.5%). For Anta brand/Fila/Descente/KOLON, management guided for retail sale CAGR of 10-15%/10-15%/20-25%/30-35% during 2023-26. We stay bullish on Anta given: a) the improving brand equity supported by high exposure of DTC, and b) the company's multi-brand strategy, which allows it to cater to customers' demands from different sporting segments and income groups.

Share Price Catalyst

- Event: Better inventory turnover in 4Q23.
- Timeline: 4Q23.

BYD – BUY (Ken Lee)

- BYD's 3Q23 earnings came in 49% above our estimate at Rmb10.4b (+82% yoy/+53% qoq), with improved production efficiency and a plunge in lithium carbonate prices boosting margins despite the price cuts. Going forward, we expect BYD's earnings to be driven by the new electric vehicle models, including Seal DM-i, Song L, Denza N7/N8, Fang Cheng Bao 5, Yangwang U8/U9; expansion in overseas markets; and decline in lithium carbonate prices. Maintain BUY with target price of HK$630.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

Share Price Catalyst

- Event: a) Growth of monthly EV sales volume, and b) upbeat 4Q23 results.
- Timeline: 4Q23-1Q24.

CATL – BUY (Ken Lee)

- CATL's 3Q23 earnings were dampened by the temporary production halt at Tesla China for launching the revamped Model 3 and Model Y. For 4Q23, we expect earnings to spike 39% qoq to Rmb13.1b, driven by the resumption of production at Tesla Chin and the ramp-up of orders for its new battery products such as Qilin Battery and Shenxing Battery. Additionally, CATL is gaining market share in overseas markets, especially Europe. In the long term, earnings will be driven by the 25% CAGR in global EV sales volume from 2022 to 2030, the launches of brand-new battery products like M3P battery, condensed battery and sodium-ion battery and decline in lithium carbonate prices. Maintain BUY with target price of Rmb410.00 based on 10-year DCF (WACC: 12%/terminal growth: 4%).

Share Price Catalyst

- Event: a) Growth of monthly EV battery shipment, b) drop in lithium carbonate prices, and c) 4Q23 results.
- Timeline: 4Q23-1Q24.

COSCO SHIPPING Ports – BUY (Roy Chen)

- We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput); b) well-diversified investment portfolio across Asia, Middle East and Europe with good asset quality; and c) strong backing from its parent company COSCO SHIPPING Holdings (CSH, 1919 HK), which is China's largest and a globally leading container shipping company with a large cargo flow. Despite the macro uncertainties, CSP's high-grade port/terminal portfolio has shown reasonable resilience, with 3Q23 gross container throughput rising 4.1% yoy and 3Q23 earnings dropping only 4% yoy (due to higher interest costs yoy, which should stabilise going forward). Although global trade outlook is not out of the woods yet, CSP's container volume growth figure should pick up further in the next two quarters, given the low base of 4Q22 and 1Q23.

- On valuation, we deem the share price is undervalued with good dividend; share price downside is limited by major shareholder purchases. Current price implies PE of 7.3x/8.1x on our conservative 2023/24 earnings estimates and leads to decent yields of about 5%. CSP's cash-rich parent CSH has been aggressively accumulating CSP shares in the past one year. Its stake in CSP rose 10% from 51% as of Sep 22 to 61% as of Sep 23, mostly due to share purchases in the open market at disclosed prices ranging from HK$4.73 to HK$6.49. With CSP's stable fundamentals and potential share price support/boost from major shareholder purchases, we think CSP is a safe bet which can reward shareholder nicely with decent dividends while waiting for a turnaround of the global trade outlook.

Share Price Catalyst

- Event: a) Further earnings improvement; b) major shareholder purchases in the open market.

- Timeline: 4Q23-1Q24.

CR Mixc Lifestyle Services (Jieqi Liu/Damon Shen)

- For CR Mixc malls, same store retail sales grew by 26%/24% in Sep 23/9M23 respectively. For 2024, the company targets to achieve 10% same-store sales growth and open 18-20 new malls. Overall, management is confident of achieving its earnings growth target of 40% CAGR in the 14th Five-Year Plan (FYP), underpinned by resilient commercial portfolio and strong competitiveness in the property management segment. The company's cash generating capability remained very strong, with the net operating cash flows/core net profit ratio at 1.60x in 2022. We maintain BUY on CR Mixc Lifestyle Services (CR Mixc LS) with a target price of HK$49.69

Share Price Catalyst

- Event: Better-than-expect 2023 results.

- Timeline: 4Q23-1Q24.

Great Wall Motor (Ken Lee)

- GWM posted upbeat 3Q23 earnings of Rmb3.63b (+42% yoy/+206% qoq), with the launches of new models and slump in lithium carbonate prices boosting ASP and margins despite price competition. We believe GWM should have passed through the toughest period and is set to stage a strong earnings recovery along with the kickstart of a new product cycle. Maintain BUY with target price of HK$13.50 pegged to 12x 2024F PE, on a par with historic mean one-year forward PE.

Share Price Catalyst

- Event: a) Growth in monthly sales, and b) 4Q23 results.

- Timeline: 4Q23-1Q24.

Innovent – BUY (Carol Dou/Sunny Chen)

- Innovent reported stronger-than-expected 1H23 results. We forecast revenue growth of 19.5% yoy and adjusted net loss of Rmb1.0b for 2023, although the anti-corruption campaign may slow revenue expansion of product sales (especially for new products) in 2H23. The company continues to show strength in R&D and commercial performance. It now has 10 commercialised products. Besides receiving marketing approval for TYVYT's seventh indication of EGFR-mutated non-squamous non-small cell lung cancer (NSCLC), it also obtained market approval for two new products in 1H23, namely Equecabtagene Autoleucel (FUCASO, a BMCA-directed CAR-T cell therapy), and tafolecimab injection (SINTBLO, the first domestic anti-PCSK9 monoclonal antibody). Meanwhile, it announced 48-week treatment results of the phase II study of its high dose (9mg) mazdutide (IBI362, a GLP-1/GCGR dual agonist) for obesity in Oct 23, demonstrating robust weigh loss efficacy, multiple metabolic benefits and a favourable safety profile.

- Innovent plans to initiate the phase III clinical study of mazdutide 9mg for obesity by end-23, and expects market launch for mazdutide 6mg in late-24 or early-25. It plans to continuously build strong franchise and expand next-generation pipeline of blockbusters in China's cardiovascular and metabolic (CVM) diseases market with market potential of over Rmb100b. Innovent also established strong capability in improving operating efficiency and diversification of product and R&D portfolios for long-term sustainable growth. It believes its enriched product portfolio will support a steady pharmaceutical product revenue growth in the next few years. Maintain BUY and raise target price from HK$43.00 to HK$55.00, to reflect the company's larger long-term revenue growth potential with its continuous efforts in entering the obesity drug market. The new target price is based on the DCF model with WACC of 11.0% and terminal growth rate of 4%.

Share Price Catalyst

- Event: a) Stronger-than-expected 1H23 results; expecting steady revenue growth in 2023, b) strong R&D performance and continuous business development efforts, and c) new product launches to generate revenue streams.
- Timeline: 2H23.

Kuaishou Technology – BUY (Julia Pan/ Ming San Soong)

- Kuaishou guided a strong 3Q23 top-line growth momentum. Total revenue is projected to grow at high-teens to twenties, with online marketing/live-streaming/other services estimated to ramp up 25%/high single digit/30% yoy respectively. Online marketing services revenue growth is forecasted to exceed 25% yoy, spurred by continuous robust growth of internal ad. Meanwhile, external ad continues to deliver positive yoy growth and improve sequentially from 2Q23 despite a challenging macro environment. Despite weak seasonality in 3Q23, Kuaishou's e-commerce gross merchandise volume (GMV) growth momentum is expected to sustain at 35% yoy, stimulated by comprehensive e-commerce content supply. Also, monthly active customers (MAC) and the number of monthly e-commerce orders saw sequential positive growth, supported by improvements in key opinion leader (KOL) commission distribution and ecosystem development. Daily active users (DAU) is expected to hit 384m in 3Q23. Average daily time spent per DAU on the Kuaishou App is expected to surpass 1Q23's level of 126.8 minutes.
- Continuous optimisation of algorithms and a diverse supply of content during the summer holidays have contributed to high user stickiness on Kuaishou's platform. The Kuaishou e-commerce 11.11 shopping festival officially commenced pre-sales on 18 October. Kuaishou will invest Rmb18b in traffic and Rmb2b in product subsidies for 11.11 this year. The company highlighted that it will not have significant changes to its strategic approach and expects more merchants to come on board for 11.11 this year. For online marketing services, brand advertisers are more aggressive in their preparations for 11.11 this year. Kuaishou also aims to seize further opportunities in verticals such as FMCG and offline services. Through strategies such as "Stream Initiatives", "Fuyao Plan", and "Bestseller Plan", Kuaishou's e-commerce is proactively addressing users' shopping needs, thus enhancing user experience. Maintain BUY on the company with a target price of HK$100.00. Our target price implies 3x 2023F PS. The company is currently trading at 1.5x 12-month forward EV/Sales (11.6x 2024F PE), below its historical mean of 4x.

Share Price Catalyst

- Event: a) Higher monetisation rates across all categories, b) less competition from peers, positive government policies to simulate consumption, and c) lifting of regulations on internet platforms.
- Timeline: 2H23.

Link REIT (Jieqi Liu/Damon Shen)

- LINK REIT will announce 1HFY24 results on 8 November. At the pre-blackout conference call, management shared that: a) operations in 1QFY24 are largely on track. Rental reversion is expected to be in line with expectations, ie positive mid-to-high single digits for Hong Kong retail and slightly negative for China retail; and b) persistently high interest rates would bring both risk (on funding cost and valuation) and M&A opportunities. As DPU yield is higher than the cost of debt (around 8%), unit buyback is becoming a reasonable and yield-accretive option. Thus, we see a rising possibility of unit buyback after the 1HFY24 results announcement. Maintain BUY with a target price of HK$50.70.

Share Price Catalyst

- Event: Unit buyback after results announcement.
- Timeline: 4Q23

Moutai – BUY (Ng Jo Yee/Stella Guo/Shirley Wang)

- We are confident on Moutai's full year revenue growth target of 15% yoy and improving profitability with a net margin expansion of 0.5ppt yoy, driven by: a) rising sales volume of Moutai products from capacity expansion, b) product line extension (such as Moutai 24 Solar Term series and Moutai Chinese Zodiac series), and c) expansion in direct sales channels. Moutai announced that it will take the ex-factory price hike of Feitian Moutai, Five-Star Moutai and other Moutai series products by about 20%, effective from 1 Nov 23. We believe this will further lift 2024 earnings by low-to-mid single digits, and boost investors' sentiment in the near term. Moutai stands out with its strong brand reputation, solid operating cash flow, and earnings visibility. Our DCF-based target price of Rmb2,488 implies 42.6x 2023F PE.

Share Price Catalyst

- Event: Strong 4Q23 results.
- Timeline: 4Q23-1Q24.

NetEase – BUY (Julia Pan/ Ming San Soong)

- Looking into 2H23, we expect NetEase to deliver encouraging re-accelerated grossing growth bolstered by resilient domestic and meaningful improvement in international mobile grossing. NetEase's domestic and international mobile grossing surged 36% yoy and declined 13% yoy respectively in September. Domestic grossing in 3Q23 rose 40% yoy, primarily contributed by strong monetisation and healthy retention of Justice Mobile, Dunk City Dynasty and Racing Master. We expect the blockbuster mobile game Justice Mobile to sustain the strong growth into 2H23 and generate Rmb6b grossing in 3Q23 and Rmb14.5b for the full year, driven by its healthy retention and improving ARPPU. In view of the rapidly emerging casual and party games market, the rising popularity of Eggy Party continues to be the core growth pillar for the company. Eggy Party reached 100m monthly active users (MAU) in Aug 23, and daily active users (DAU) of Naraka: Bladepoint doubled after it became a free game on 13 July. Furthermore, the company also plans to launch international versions of Eggy Party and Racing Master by the end of 2023.
- We opine that other games such as Where Winds Meet, Naraka: Bladepoint (Mobile) and Project Mugen will facilitate a strong top-line growth for NetEase. We raise our forecasts on NetEase's 3Q23/2023 online game revenue growth forecast to 16%/14% yoy (previous: 13%/10%). We also expect to see solid profitability improvement as NetEase benefits from lower channel cost with ongoing migration to NetEase's proprietary channel. We maintain BUY on the company with target price of HK$193.00 (US$120.00), factoring in the solid online games growth and promising pipeline in the upcoming months. Our target price implies 18x 2023F PE. The company is trading at 15x 12-month forward PE, in line with its historical mean of 16x.

Share Price Catalyst

- Event: a) Strong performance of games pipeline, and b) improving profitability of NetEase Cloud Music.
- Timeline: 2H23.

COMPANY RESULTS

Yum China Holdings Inc (9987 HK)

3Q23: Earnings Missed; Softening Demand Extended Into October

Yum China's 3Q23 results missed consensus estimates mainly due to foreign exchange impact and higher staff costs. Management sees recovery to be non-linear, as demand softened in Sep 23 and extended into Oct 23. According to management, 4Q23 margin may be impacted by a softer demand recovery and wage inflation. Management kept its updated net new store opening target unchanged, and the company has completed 72-83% of the full-year target as of end-Sep 23.

3Q23 RESULTS

Year to 31 Dec (USDm)	3Q23	2Q23	3Q22	yoy %	qoq %	9M23	9M22	yoy %
Revenue	2,914	2,654	2,685	8.5%	9.8%	8,485	7,481	13.4
Cost of sales	(858)	(773)	(787)	9.0%	11.0%	(2,466)	(2,206)	11.8
Gross profit	2,056	1,881	1,898	8.3%	9.3%	6,019	5,275	14.1
Gross profit margin	70.6%	70.9%	70.7%	-0.1ppt	-0.3ppt	70.9%	70.5%	0.4ppt
EBIT	323	257	316	2.2%	25.7%	996	588	69.4
EBIT margin	11.1%	9.7%	11.8%	-0.7ppt	1.4ppt	11.7%	7.9%	3.9ppt
Attributable net profit	244	197	206	18.4%	23.9%	730	389	87.7

Source: Yum China, UOB Kay Hian

RESULTS

- **Earnings miss.** Yum China Holdings (Yum China) reported revenue of US$8.5b (+13.4% yoy) and attributable net profit of US$730m (+87.7% yoy) in 9M23. Operating profit and operating profit margin grew to US$996m (+69.4% yoy) and 11.7% (+3.9ppt yoy). In 3Q23, revenue was US$2.9b (+8.5% yoy, +9.8% qoq), missing consensus estimate by 4%, and attributable net profit was US$244m (+18.4% yoy, +23.9% qoq), missing consensus estimate by 13%. Excluding foreign exchange impact, 3Q23 revenue and attributable net profit were up 13% yoy and 27% yoy respectively. Operating profit margin declined by 0.7ppt yoy to 11.1% in 3Q23, due to higher payroll cost (+1.8ppt yoy) and food & paper cost (+0.4ppt yoy).

- **System sales were up 15% yoy in 3Q23** (vs 2Q23: +32% yoy), due to new unit contribution and same-store sales (SSS) growth of 4% yoy. By brand, KFC/Pizza Hut SSS growth of 4%/2% yoy was driven by 9%/12% yoy same-store traffic growth, offset by 5%/9% yoy decline in average ticket size. Overall same-store sales were 10% below 3Q19 level in 3Q23 (vs -7%/-10% in 1Q23/2Q23).

- **Accelerated store openings in 3Q23.** Yum China opened 500 net new stores (355/130 for KFC/Pizza Hut) in 3Q23 (vs 422 in 2Q23). Total net store opening in 9M23 represented 72-83% of its full-year target of 1,400-1,600. As of end-Sep 23, Yum China had 14,102 restaurants, with KFC/Pizza Hut accounting for 70%/23% of total store count.

KEY FINANCIALS

Year to 31 Dec (USDm)	2018	2019	2020	2021	2022
Net turnover (USDm)	8,415	8,776	8,263	9,853	9,569
Gross Profit (USDm)	1,910	2,046	1,900	2,055	1,706
Operating Profit (USDm)	941	901	961	1,386	629
Net Profit (USDm)	708	713	784	990	442
EPS (cents)	184.0	189.0	201.0	234.0	105.0
P/E (x)	25.2	24.5	23.0	19.8	44.1
Book value per share	7.6	8.2	14.8	16.5	15.5
P/BV(x)	6.1	5.7	3.1	2.8	3.0
EBITDA	1,386	1,774	1,883	2,440	1,772
EV/EBITDA (x)	18.1	14.1	13.3	10.3	14.2
DPS (fen)	42.0	48.0	24.0	48.0	48.0
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Net margin (%)	8.4	8.1	9.5	10.0	4.6
Net debt to equity (%)	(45.8)	17.5	(28.9)	(14.6)	(10.5)
ROE (%)	25.0	23.2	16.9	14.9	6.8
Consensus net profit (USDm)	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: YUM China, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	HK$356.20
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Yum China is a leading restaurant company in China, owning two of China's outstanding Western fast food brands, KFC and Pizza Hut, as well as exclusively rights to Taco Bell, Lavazza, Little Sheep, Huang Ji Huang and others. Yum China had 13,602 restaurants, with 9,562 KFC and 3,072 Pizza Hut stores as of end Jun 23.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9987 HK
Shares issued (m):	414.7
Market cap (HK$m):	147,731
Market cap (US$m):	19205
3-mth avg daily t'over (US$m):	19.0

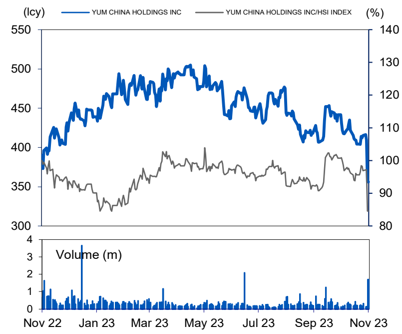
Price Performance (%)

52-week high/low HK$514.50/HK$318.00

1mth	3mth	6mth	1yr	YTD
(19.4)	(25.1)	(25.4)	4.0	(18.9)

Major Shareholders	%
JPMorgan Chase & Co	13.0
Invesco Ltd	8.0
FY23 NAV/Share (USD)	15.63
FY23 Net Debt/Share (USD)	1.97

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Softening demand in Oct 23.** Management observed that the softening demand since Sep 23 extended into Oct 23, noting that post-pandemic recovery is shaping up to be non-linear. Specifically, management saw traffic only picking up in the second half of the Double Festival holidays, as people went home to celebrate Mid-Autumn festival during the first half of the holidays. Furthermore, it saw marginal weakness on spending for its premium products.
- **Ticket size was relatively stable (vs 2019) despite intensifying market competition.** Despite media reports of the weak macro situation in China, Yum China sees growing competition in the chain-store business from both international and domestic players, which management views it positively. Thus, the company has widened its price offerings, from the premium categories (ie premium beef burger) to the entry price offerings (ie pizza below Rmb50 and single-person meal). The yoy drop in ticket size was due to higher promotional activities, lower delivery mix and rebound of the breakfast daypart, which management does not view as a concern. Average ticket size was relatively stable vs 2019's level (up slightly vs 3Q19).
- **Restaurant margins will be mainly determined by sales performance.** Looking ahead, management anticipates a mid-single-digit wage inflation in 4Q23, amid normalised store staff levels and labour shortage in 4Q22. Restaurant margins in 4Q23 could be impacted by softened sales performance and wage cost inflation, in addition to the temporary relief (US$26m) the company received in 4Q22. Furthermore, we understand from management that the company's store opening acceleration may have short-term impact on the company's margin, given the cost of ramping up efforts.

VALUATION/RECOMMENDATION

- **Trading below historical average.** According to Bloomberg, Yum China currently trades at 21.8xx 2023F PE, vs its historical average of 27.5x.

KEY OPERATING DATA

	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Total Revenue - by brand (USDm)	2,097	1,813	1,548	1,692	2,118	2,038	2,331	2,451	2,310	2,087	2,548	2,026	2,561	1,975	2,772	2,517	2,759
KFC	1,546	1,344	1,220	1,260	1,597	1,556	1,783	1,734	1,750	1,596	1,991	1,571	1,992	1,566	2,166	1,954	2,154
Pizza Hut	540	457	322	422	508	469	538	538	546	475	542	443	556	398	591	546	591
Others	11	12	6	10	13	13	10	106	14	16	15	12	13	11	15	17	14
Revenue mix - by brand (%)																	
KFC	73.7%	74.1%	78.8%	74.5%	75.4%	76.3%	76.5%	70.7%	75.8%	76.5%	78.1%	77.5%	77.8%	79.3%	78.1%	77.6%	78.1%
Pizza Hut	25.8%	25.2%	20.8%	24.9%	24.0%	23.0%	23.1%	22.0%	23.6%	22.8%	21.3%	21.9%	21.7%	20.2%	21.3%	21.7%	21.4%
Others	0.5%	0.7%	0.4%	0.6%	0.6%	0.6%	0.4%	4.3%	0.6%	0.8%	0.6%	0.6%	0.5%	0.6%	0.5%	0.7%	0.5%
System sales growth (yoy %)	8%	8%	-20%	-4%	1%	5%	34%	14%	1%	-3%	-4%	-16%	5%	-4%	17%	32%	15%
KFC	10%	10%	-15%	-6%	-1%	3%	24%	14%	-1%	-3%	-4%	-15%	1%	-1%	17%	32%	15%
Pizza Hut	3%	1%	-38%	-12%	-6%	-3%	57%	16%	-6%	-2%	-1%	-14%	1%	-6%	17%	30%	13%
Same-store sales growth (yoy %)	2%	8%	-20%	-4%	1%	5%	34%	5%	1%	-3%	-4%	-16%	-	-4%	8%	15%	15%
KFC	3%	3%	-11%	-10%	-6%	-4%	5%	4%	-8%	-15%	-9%	-16%	-	-3%	8%	15%	4%
1) Transactions				-20%	-10%	-9%	-13%	-14%	-18%	-20%	-14%	-25%	-7%	-16%	6%	21%	9%
2) Average ticket				12%	4%	5%	8%	8%	6%	6%	6%	12%	8%	16%	2%	-5%	-5%
Pizza Hut	1%	-	-31%	-12%	-7%	-5%	38%	11%	-5%	-12%	-5%	-15%	2%	-8%	7%	13%	2%
1) Transactions				-5%	-5%	-2%	2%	9%	-1%	-4%	-3%	-20%	2%	-2%	13%	27%	12%
2) Average ticket				-7%	-1%	-3%	-7%	-11%	-10%	-8%	-2%	6%	0%	-5%	-5%	-11%	-9%
Restaurant margin	17.7%	12.4%	10.7%	13.7%	18.6%	15.1%	18.7%	15.9%	12.2%	7.5%	13.8%	12.1%	18.7%	10.4%	20.3%	16.1%	17.0%
KFC	20.1%	14.7%	13.6%	14.5%	19.4%	16.8%	19.9%	16.8%	13.6%	8.5%	15.2%	13.4%	20.6%	12.7%	22.2%	17.3%	18.6%
Pizza Hut	11.5%	6.6%	0.3%	11.1%	16.5%	10.4%	15.2%	13.1%	8.1%	5.9%	10.7%	8.6%	13.5%	1.8%	14.2%	12.3%	12.7%

Source: Yum China, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (USDm)	2019	2020	2021	2022
Net turnover	8,776	8,263	9,853	9,569
EBITDA	1,774	1,883	2,440	1,772
Depreciation & amortization	(873)	(922)	(1,054)	(1,143)
EBIT	901	961	1,386	629
Total other non-operating income	6	(42)	10	26
Associate contributions	(69)	(62)	44	-
Net interest income/(expense)	(39)	(43)	(60)	(84)
Pre-tax profit	1,003	1,108	1,392	687
Tax	260	295	369	207
Minorities	30	29	33	36
Net profit	713	784	990	442
Net profit (recurrent)	713	784	990	442

BALANCE SHEET

Year to 31 Dec (USDm)	2019	2020	2021	2022
Fixed assets	3,579	3,929	4,863	4,337
Long term investment	-	-	-	680
Other LT assets	1,112	2,010	3,644	2,869
Cash/ST investment	1,046	1,158	1,136	1,130
Other current assets	1,213	3,778	3,580	2,810
Total assets	6,950	10,875	13,223	11,826
ST debt	-	-	-	-
Other current liabilities	1,736	2,067	2,383	2,166
Total current liabilities	1,736	2,067	2,383	2,166
LT debt	1,829	1,943	2,326	1,948
Other LT liabilities	210	394	592	552
Total non current liabilities	2,039	2,337	2,918	2,500
Shareholders' equity	3,077	6,206	7,056	6,482
Minority interest	98	265	866	678
Total liabilities & equity	6,950	10,875	13,223	11,826

CASH FLOW

Year to 31 Dec (USDm)	2019	2020	2021	2022
Operating	1,185	1,114	1,131	1,413
Pre-tax profit	1,003	1,108	1,392	687
Tax	(260)	(295)	(369)	(207)
Depreciation/amortization	(428)	(450)	(516)	(602)
Associates	(69)	(62)	44	-
Working capital changes	(176)	2,346	(536)	(559)
Non-cash items	(30)	(189)	(418)	141
Other operating cashflows	1,145	(1,344)	1,534	1,953
Investing	(910)	(3,109)	(855)	(522)
Capex (growth)	(435)	(419)	(689)	(679)
Investments	-	-	(25)	-
Proceeds from sale of assets	N/A	N/A	N/A	N/A
Others	(475)	(2,690)	(141)	157
Financing	(486)	2,098	(298)	(897)
FA	(181)	(95)	(203)	(202)
Issue of shares	-	2,195	N/A	-
Proceeds from borrowings	-	-	-	-
Loan repayment	-	-	-	-
Others/interest paid	(305)	(2)	(95)	(695)
Net cash inflow (outflow)	(211)	103	(22)	(6)
Beginning cash & cash equivalent	1,266	1,055	1,158	1,136
Changes due to forex impact	(6)	40	15	(53)
Ending cash & cash equivalent	1,055	1,158	1,136	1,130

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
Profitability				
Gross margin	23.3	23.0	20.9	17.8
Pretax margin	11.4	13.4	14.1	7.2
Net margin	8.1	9.5	10.0	4.6
ROA	10.3	8.8	8.2	3.7
ROE	23.2	16.9	14.9	6.8
Growth				
Turnover	4.3	(5.8)	19.2	(2.9)
Gross prrofit	28.0	6.1	29.6	(27.4)
Pre-tax profit	96.2	5.6	14.3	8.4
Net profit	(4.3)	6.7	44.2	(54.6)
Net profit (adj)	(93.5)	(800.0)	(123.8)	160.0
EPS (adj.)	6.2	(10.1)	(171.0)	(100.0)
Leverage				
Debt to total capital	41.1	27.0	26.4	25.1
Debt to equity	69.7	37.0	35.8	33.5
Net debt to equity	17.5	(28.9)	(14.6)	(10.5)
Interest cover (x)	N/A	N/A	N/A	N/A

COMPANY UPDATE

Kweichow Moutai (600519 CH)

Price Hike Of Core Feitian Products To Boost Earnings

Moutai's share price rose 6% yesterday in response to the ex-factory price hike announcement. We estimate the latest hike of about 20% on core Feitian products would boost 2024 profit by 3%, assuming an unchanged shipment volume. We believe this resolves the market's concerns on its growth capability and would further boost investors' confidence with its higher EPS. Moutai remains our top pick in consumer staples. Maintain BUY. Lift target price by about 1% to Rmb2,488.00.

WHAT'S NEW

- **Ex-factory price hikes on Feitian.** On 1 Nov 23, Kweichow Moutai (Moutai) announced that it will take the ex-factory price hike of Feitian Moutai, Five-Star Moutai and other 53% vol Moutai series products by ~20%, effective from 1 Nov 23. This implies that the ex-factory price of Feitian Moutai will increase from Rmb969/bottle to Rmb1,169/bottle. The adjustment does not involve the guided retail price of the company's products.
- **Expected to lift market sentiment and earnings.** To recap, the company has raised the ex-factory price of Feitian Moutai by nine times over the past 23 years, with an average hike of 18% each occasion. In the past, we did not see a direct correlation between price hikes and shipment volume, as shipment volume tends to be more related to the company's limited capacity. As of 1 Nov 23, the wholesale price of Feitian boxed/unboxed stood at Rmb2,915/Rmb2,650, which we think still provides a decent profitability for wholesalers and dealers alike. Share prices typically rose after price hikes in the past, surging by 10-16% in a week and 6-19% in a month, relative to CSI300's 2-7% and 3-11% respective ranges, with the exception of a couple of black swan events. We believe the price hike impact on 2023 earnings will be minimal, as we understand dealers have almost completed the targets for the year. We estimate a 0.1ppt gross profit margin expansion and 3% profit increase in 2024, assuming shipments of Moutai series products to traditional dealers are unchanged (17,000 tonnes), which accounts for 45% of Moutai series shipments in 2022.
- **Peers may not follow suit.** We believe the price hikes provide room for other baijiu companies to hike prices in the future. However, given the sluggish demand for overall baijiu, the weak macro environment and some dealers experiencing a squeeze in profitability, we reckon other baijiu companies, eg Wuliangye and Fenjiu, will take a wait-and-see approach.

EARNINGS REVISION/RISK

- **Earnings revision.** We lift our earnings for 2023 and 2024 by 0.3%/2.7%.
- **Risks.** a) Sharp decline in economic growth, and b) economic recovery being below expectations.

KEY FINANCIALS

Year to 31 Dec (RMBm)	2021	2022	2023F	2024F	2025F
Net turnover	109,464	127,554	147,548	173,175	200,954
EBITDA	74,978	87,802	105,651	125,061	145,804
Operating profit	73,753	86,414	104,118	123,449	144,025
Net profit (rep./act.)	52,460	62,716	73,388	87,375	102,879
Net profit (adj.)	52,460	62,716	73,388	87,375	102,879
EPS (Fen)	4,176.1	4,992.6	5,842.1	6,955.5	8,189.7
PE (x)	42.6	35.7	30.5	25.6	21.7
P/B (x)	11.8	11.3	9.4	7.8	6.5
EV/EBITDA (x)	27.3	23.3	19.4	16.4	14.0
Dividend yield (%)	1.2	1.5	1.7	2.0	2.4
Net margin (%)	47.9	49.2	49.7	50.5	51.2
Net debt/(cash) to equity (%)	(94.2)	(77.2)	(85.1)	(89.5)	(93.5)
Interest cover (x)	n.a.	n.a.	3,377.3	7,741.6	5,255.3
ROE (%)	29.9	32.4	33.7	33.2	32.5
Consensus net profit	-	-	73,984	86,694	100,510
UOBKH/Consensus (x)	-	-	0.99	1.01	1.02

Source: Moutai, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rmb1,780.99
Target Price	Rmb2,488.00
Upside	+39.7%
(Previous TP	*Rmb2,470.00)*

COMPANY DESCRIPTION

Kweichow Moutai is a leading baijiu company in China known for its super-premium brand "Feitian Moutai". The company specialises in one of the three most famous distilled liquor types globally. It has the largest market cap among all 18 listed A-share baijiu companies.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	600519 CH
Shares issued (m):	1,256.2
Market cap (Rmbm):	2,237,275.7
Market cap (US$m):	305,655.5
3-mth avg daily t'over (US$m):	555.3

Price Performance (%)

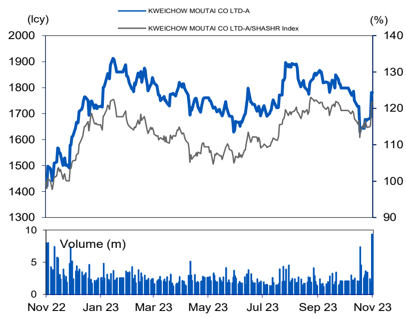
52-week high/low Rmb1,912.90/Rmb1,421.40

1mth	3mth	6mth	1yr	YTD
(1.0)	(5.7)	1.2	23.4	3.1

Major Shareholders	**%**
Kweichow Moutai Group	54.0
Guizhou Province State-owned Capital Operation Co., Ltd.	4.54

FY23 NAV/Share (Rmb)	189.74
FY23 Net Cash/Share (Rmb)	161.44

PRICE CHART



Source: Bloomberg

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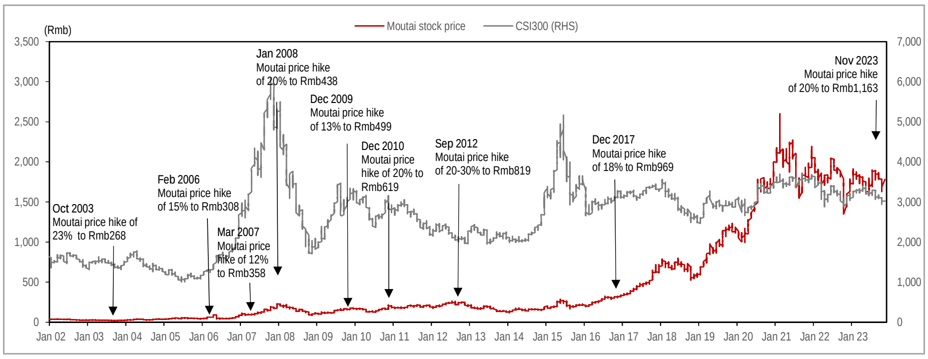
VALUATION/RECOMMENDATION

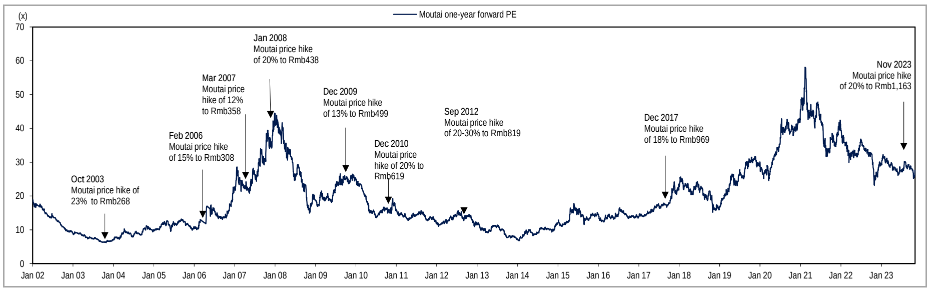
- **Maintain BUY and raise target price by 0.7% to Rmb2,488.00.** The market has been discussing about the ex-factor price hikes for some time as the previous price hike was in early-18 (by +18%). However, we believe the price hike is earlier than the market's expectation. This also removes the market's concerns on a weaker revenue growth next year. Moutai remains our top pick as it has the highest earnings visibility and strong operating cash flow amid the weak external environment. Our DCF-based target price implies 42.6x 2023F PE and 35.8x 2024F PE.

HISTORICAL PRICE HIKES VS MOUTAI SHARE PRICE TREND



Souce: Bloomberg, Mingyue, UOB Kay Hian

MOUTAI ONE-YEAR FORWARD PE



Souce: Bloomberg, Mingyue, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	127,554.0	147,548.4	173,174.7	200,954.1
EBITDA	87,802.1	105,650.6	125,060.9	145,804.1
Deprec. & amort.	1,388.3	1,532.7	1,612.1	1,778.8
EBIT	86,413.8	104,117.9	123,448.8	144,025.3
Total other non-operating income	(178.0)	0.0	0.0	0.0
Associate contributions	63.8	0.0	0.0	0.0
Net interest income/(expense)	1,391.8	(31.3)	(16.2)	(27.7)
Pre-tax profit	87,701.5	104,096.7	123,442.7	144,007.6
Tax	(22,326.4)	(26,024.2)	(30,490.3)	(34,561.8)
Minorities	(2,658.7)	(4,684.3)	(5,577.1)	(6,566.7)
Net profit	62,716.4	73,388.1	87,375.2	102,879.0
Net profit (adj.)	62,716.4	73,388.1	87,375.2	102,879.0

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	19,742.6	20,132.4	19,942.7	19,086.3
Other LT assets	18,010.7	18,010.7	18,010.7	18,010.7
Cash/ST investment	152,378.7	202,805.4	257,294.3	322,858.0
Other current assets	64,232.7	65,090.3	72,634.6	80,876.3
Total assets	254,364.8	306,038.9	367,882.3	440,831.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	49,065.7	55,216.6	62,195.6	71,045.9
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	334.4	334.4	334.4	334.4
Shareholders' equity	197,506.7	238,345.5	287,632.8	345,164.8
Minority interest	7,458.0	12,142.4	17,719.5	24,286.3
Total liabilities & equity	254,364.8	306,038.9	367,882.3	440,831.3

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	36,698.6	83,531.5	90,827.5	107,914.5
Pre-tax profit	87,701.5	104,096.7	123,442.7	144,007.6
Tax	(22,326.4)	(26,024.2)	(30,490.3)	(34,561.8)
Deprec. & amort.	1,443.6	1,532.7	1,612.1	1,778.8
Working capital changes	(29,126.7)	3,926.3	(3,736.9)	(3,310.1)
Other operating cashflows	(993.4)	0.0	0.0	0.0
Investing	(5,536.8)	(2,486.6)	(471.6)	442.4
Capex (growth)	(5,306.5)	(1,922.4)	(1,422.4)	(922.4)
Investments	(31.5)	0.0	0.0	0.0
Proceeds from sale of assets	6.2	0.0	0.0	0.0
Others	(205.0)	(564.2)	950.8	1,364.8
Financing	(57,424.5)	(30,618.2)	(35,867.1)	(42,793.2)
Dividend payments	(57,370.2)	(32,549.3)	(38,087.9)	(45,347.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Others/interest paid	(54.3)	1,931.1	2,220.8	2,553.9
Net cash inflow (outflow)	(26,262.8)	50,426.7	54,488.9	65,563.7
Beginning cash & cash equivalent	178,640.6	152,378.7	202,805.4	257,294.3
Changes due to forex impact	0.9	0.0	0.0	0.0
Ending cash & cash equivalent	152,378.7	202,805.4	257,294.3	322,858.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	68.8	71.6	72.2	72.6
Pre-tax margin	68.8	70.6	71.3	71.7
Net margin	49.2	49.7	50.5	51.2
ROA	24.6	26.2	25.9	25.4
ROE	32.4	33.7	33.2	32.5
Growth				
Turnover	16.5	15.7	17.4	16.0
EBITDA	17.1	20.3	18.4	16.6
Pre-tax profit	17.7	18.7	18.6	16.7
Net profit	19.6	17.0	19.1	17.7
Net profit (adj.)	19.6	17.0	19.1	17.7
EPS	19.6	17.0	19.1	17.7
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(77.2)	(85.1)	(89.5)	(93.5)
Interest cover (x)	n.a.	3,377.3	7,741.6	5,255.3

COMPANY RESULTS

Bank Negara Indonesia (BBNI IJ)

3Q23: Higher Yield, Lower Credit Cost

Net profit was up 7.3% qoq in 3Q23 on the back of a: a) 30bp increase in NIM, b) 3.2% qoq loan growth, and c) 20bp decline in CoC. Yield improvement was due to: a) one-off income from KUR repayment subsidies, and b) impact from loan repricing while asset quality improvement led to lower CoC. CoF may stay elevated in 4Q23, but the government accelerating spending can be a catalyst for a better liquidity environment. BBNI plans to reprice >30% of its loans in Dec 23. Maintain BUY. Target price: Rp5,600.

3Q23 RESULTS

Year to 31 Dec (Rpb)	3Q23	qoq % chg	yoy % chg	9M23	yoy % chg	Comments
Profit & Loss						
Interest Income	15,923	4.2%	15.9%	46,218	17.7%	
Interest Expenses	5,389	6.1%	71.1%	15,082	66.3%	
Net Interest Income	10,534	3.3%	-0.5%	31,136	3.1%	
Non-Interest Income	5,160	8.9%	6.9%	14,650	-2.3%	
Total Income	15,694	5.1%	1.8%	45,786	1.3%	
Operating Expenses	6,752	7.4%	-1.1%	19,544	0.9%	
PPOP	8,942	3.4%	4.1%	26,242	1.6%	
Provision Expenses	2,199	-6.9%	-12.9%	6,710	-24.8%	In line with expectations
Net Profit	5,451	7.3%	11.5%	15,753	15.1%	
Key Metrics (%)	9M23	9M22	yoy % chg	3Q23	qoq % chg	Comments
Loan (Rpt)	671	623	7.8%	671	3.2%	
Deposit (Rpt)	748	685	9.1%	748	-2.3%	
Loan/Deposit Ratio	89.8%	90.9%	-1.1%	89.8%	4.7%	
CASA Ratio	68.6%	70.9%	-2.3%	68.6%	-1.0%	Qoq NIM expansion due to higher yield
NIM	4.6%	4.8%	-0.2%	4.8%	0.30%	
Cost of Fund	2.1%	1.4%	0.7%	2.2%	0.1%	
CIR	41.3%	41.4%	-0.1%	41.5%	0.9%	
NPL Ratio	2.3%	3.0%	-0.7%	2.3%	-0.2%	
NPL Coverage Ratio	324.5%	270.8%	53.7%	324.5%	15.7%	Improving asset quality led to decline in CoC
Credit Cost	1.4%	2.0%	-0.6%	1.3%	-0.20%	
CAR	21.9%	18.9%	3.0%	21.9%	0.3%	
ROAE	15.5%	15.2%	0.3%	15.8%	0.7%	

Source: BBNI

RESULTS

- **3Q23 net profit up 7.3% qoq, in line with expectations.** Bank Negara Indonesia's (BBNI) 3Q22 net profit was up 7.3% qoq (+11.5% yoy) to Rp5.5t. The solid 3Q23 net profit led to 9M23 net profit growth of 15% yoy to Rp15.1t. It was predominantly driven by: a) a 30bp increase in NIM, b) a 3.2% qoq loan growth, and c) a 20bp decline in credit cost (CoC). 9M23 net profit is in line with our and market expectations, accounting for 73% and 75% of our and market full-year 2023 net profit estimates.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net interest income	38,247	41,321	43,287	47,774	51,488
Non-interest income	17,619	20,151	20,912	21,970	23,104
Net profit (rep./act.)	10,899	18,312	21,569	24,855	27,449
Net profit (adj.)	10,899	18,312	21,569	24,855	27,449
EPS (Rp)	292.2	491.0	578.3	666.4	735.9
PE (x)	16.5	9.8	8.3	7.2	6.5
P/B (x)	1.5	1.3	1.2	1.1	1.0
Dividend yield (%)	1.5	4.1	6.0	6.9	7.6
Net int margin (%)	4.6	4.8	4.7	4.8	4.8
Cost/income (%)	44.4	44.0	44.0	43.0	42.8
Loan loss cover (%)	233.6	277.1	275.8	247.8	211.4
Consensus net profit	-	-	21,039	23,931	26,629
UOBKH/Consensus (x)	-	-	1.03	1.04	1.03

Source: Bank Negara Indonesia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Rp4,820
Target Price	Rp5,600
Upside	+18.3%

COMPANY DESCRIPTION

BBNI is a state-owned bank focusing on corporate and SME loans.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	BBNI IJ
Shares issued (m):	37,297.3
Market cap (RMm):	179,773.0
Market cap (US$m):	11,280.9
3-mth avg daily t'over (US$m):	17.7

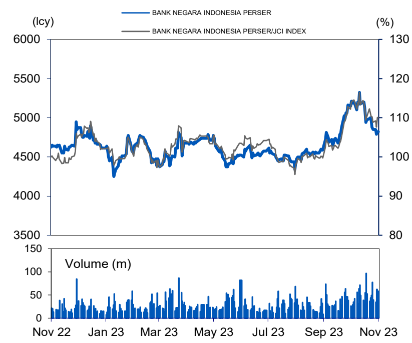
Price Performance (%)

52-week high/low: Rp5,3250/Rp4,250

1mth	3mth	6mth	1yr	YTD
(6.6)	11.1	2.3	2.6	4.5

Major Shareholders	**%**
Republic of Indonesia	60.0
FY23 NAV/Share (Rp)	4,184
FY23 CAR Tier-1 (%)	19.45

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Qoq NIM expanded by 30bp to 4.78% due to higher yield.** Despite pressure from a higher CoF, NIM expanded by 30bp qoq to 4.78% in 3Q23 due to higher yield. Loan yield was up by 24bp to 7.9%, driven by: a) one-off interest income from Kredit Usaha Rakyat (KUR) loan repayment subsidies which is equivalent to 8bp NIM, and b) loan repricing where the most effective date was in Jun and Jul 23. The bank manages the impact of cost of funds by maximising its balance sheet by designing deposit growth to follow loan growth. Loan to deposit ratio (LDR) was at 89.8% in Sep 23.

- **Loan growth accelerated to 7.8% yoy in Sep 23, supported by the low-risk segment which led to a further improvement in the credit profile.** Loan growth accelerated to 7.8% yoy in Sep 23 compared with 4.9% yoy in Jun 23. The bank continued to grow selectively by focusing on lower risk segments. Corporate, personal loan and enterprise loans posted the highest growth of 19.2%,16.8% and 10.2% respectively in Sep 23. As of Sep 23, corporate accounted for 52.1% of its total loans, up from 49.6% in Sep 22. Risk weighted assets (RWA) density continued to decline to 74.3% in Sep 23, indicating an improving risk profile. With lower RWA density, CAR Tier 1 increased to 20.1% in Sep 23 from 19.8% in Jun 23.

- **Improving asset quality led to 20bp qoq decline in CoC.** NPL ratio declined to 2.3% in Sep 23 from 2.5% in Jun 23 and LaR also dropped to 14.4% in Sep 23 from 16.1% in Jun 23. COVID-19 restructured loans outstanding fell 18% qoq (-44% yoy) to Rp33.2% in Sep 23. Improvement in asset quality led to a 20bp qoq decline in CoC. Write-off stood at Rp10.1t, accounting for 1.5% of total loans outstanding. Despite lower CoC and the write-off, NPL coverage remained ample at 325% in Sep 23. Management sees further normalisation of CoC in the next two years. As of Sep 23, BBNI's exposure to Waskita Karya (WSKT) and Wijaya Karya (WIKA) trended down to Rp7.9t and Rp1.3t with provision coverage of 65% and 31% respectively.

- **Declining income from fee and commission income.** BBNI reported a weak core non-interest income (excluding recovery income and premium insurance), down 9.9%, but strong fee income from subsidiaries supported the 3Q23 consolidated non-interest income to decline only 3.2% qoq. 9M23 non-interest income dropped 4.7% to Rp11t, accounting for 24% of total income. Meanwhile, following a higher write-off, nominal recovery income increased 81.2% qoq while recovery rate stood at 30%.

- **Opex remained elevated at 41.5% in 3Q23, to relaunch its mobile app in 2024.** Opex rose by 7.4% qoq as personnel expenses jumped 16.7% qoq and G&A expenses increased 1.8% qoq. Given higher opex, cost to income ratio (CIR) remained elevated at 41.5% in 3Q23. In 9M23, opex growth was flat at 0.9%, bringing CIR to 41.3%, relatively stable compared with 9M22. IT and communication expenses surged 25.3% yoy in 9M23 and 10.8% qoq in 3Q23. It accounted for 5.4% of total opex, up from 4.3% in 9M22. The bank plans to relaunch its rebranded mobile banking in 2024.

EARNINGS REVISION/RISKS

- **Retain 2023/24 earnings estimates.** Higher rates and liquidity tightening could cause CoF to remain elevated in 4Q23, but the governmentt accelerating budget spending in 4Q23 can be a catalyst for a better liquidity environment. We see upside to earnings from: a) the bank's plan to reprice at least Rp250t loans in Dec 23, and b) further CoC normalisation.

- Risk: Adverse macro development, liquidity tightening, worsening asset quality, rate hikes, and higher expenses.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of Rp5,600.** We arrive at 1.3x 2024 P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.5%, and long-term growth: 5%. BBNI is facing transformation by restructuring its loan portfolio and focusing on digitalisation on its front-end and back-end. Re-rating on valuation will be driven by ROAE improvement, for which management targets to reach 18% by 2025. BBNI's ROE has been trending up to 15.5% in 9M23 vs 2.6% in 2020, and is higher than 13.4% in 2019. BBNI is trading at 1.1x, close to its five-year mean historical forward P/B.

LOAN YIELD

Segment	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Corporate	6.15%	6.25%	6.66%	6.71%	6.96%	7.27%
Medium	6.85%	7.41%	7.06%	7.64%	7.74%	7.86%
Small	9.84%	9.50%	10.23%	9.03%	8.39%	8.94%
Consumer	9.43%	9.34%	9.34%	9.15%	8.39%	8.98%
Rupiah Yield	8.33%	8.19%	8.39%	8.10%	8.03%	8.32%
FX Yield	3.82%	4.69%	5.27%	5.81%	6.07%	6.13%
Blended Loan	**7.43%**	**7.51%**	**7.76%**	**7.65%**	**7.66%**	**7.90%**

Source: BBNI

LOAN GROWTH AND BREAKDOWN

Segment	Sep-22	Sep-23	%yoy	%qoq	% of loan
Corporate private	211.1	251.6	19.2%	5.4%	37.5%
SoE	97.5	97.9	0.4%	2.9%	14.6%
Medium	107.8	107.7	-0.1%	1.7%	16.0%
Enterprise	52.1	57.4	10.2%	3.1%	8.5%
Commercial	55.7	50.3	-9.7%	0.4%	7.5%
Small	96.5	87.3	-9.5%	-2.9%	13.0%
KUR	51.3	46.7	-9.0%	-3.9%	7.0%
SME non-KUR	45.2	40.6	-10.2%	-1.7%	6.0%
Consumer	106.1	119.5	12.6%	3.0%	17.8%
Mortgage	51.9	56.5	8.9%	2.2%	8.4%
Personal Loan	41.4	48.3	16.7%	5.0%	7.2%
Credit Card	12.1	13.5	11.6%	0.0%	2.0%
Others	0.7	1.2	71.4%	0.0%	0.2%
TOTAL	**622.6**	**671.4**	**7.8%**	**3.2%**	**100.0%**

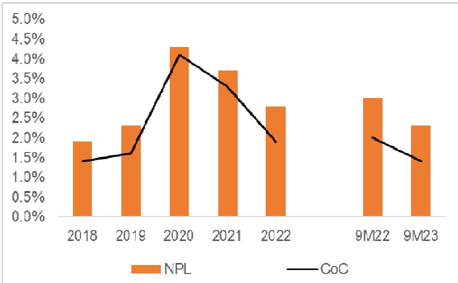
Source: BBNI

ASSET QUALITY BREAKDOWN

(Rpb)	Dec-22	Jun-23	Sep-23	%yoy	%qoq
Current	601.9	601.6	619.9	8.1%	3.0%
Special Mention	22.6	28.1	30.1	13.2%	7.1%
NPL	18	15.8	15.1	-19.7%	-4.4%
Restructured Loan	0				
Current	62.2	59.9	50.6	-31.6%	-15.5%
COVID-19	42.6	33.1	25.8	-47.8%	-22.1%
Non COVID-19	19.6	26.8	24.8	0.8%	-7.5%
Special Mention	19.1	22.8	24.5	8.4%	7.5%
NPL	10.1	7.4	5.8	-44.8%	-21.6%
Total Restructured Loan	91.4	90.1	95.8	-10.6%	6.3%
Total LaR	102.8	103.8	95.8	-19.8%	-7.7%
LaR Ratio	16%	16%	14%	-4.9%	-1.7%
LaR Coverage	49%	47%	51%	8.8%	4.0%
NPL Coverage	278%	309%	325%	53.7%	15.7%

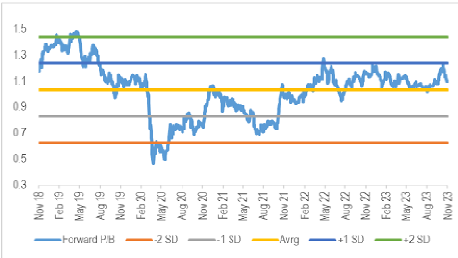
Source: BBNI

COC AND NPL RATIO TREND



Source: BBNI

FIVE-YEAR FORWARD P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Interest income	54,659	60,646	66,007	72,174
Interest expense	(13,338)	(17,359)	(18,233)	(20,686)
Net interest income	41,321	43,287	47,774	51,488
Fees & commissions	9,738	10,225	11,043	11,927
Other income	10,413	10,686	10,927	11,178
Non-interest income	20,151	20,912	21,970	23,104
Total income	61,472	64,198	69,744	74,592
Staff costs	(12,456)	(13,203)	(14,220)	(15,358)
Other operating expense	(14,603)	(15,041)	(15,793)	(16,583)
Pre-provision profit	34,413	35,954	39,730	42,651
Loan loss provision	(11,514)	(8,653)	(8,223)	(7,865)
Other provisions	0	0	0	0
Associated companies	(0)	n.a.	n.a.	n.a.
Other non-operating income	(212)	(89)	(151)	(157)
Pre-tax profit	22,686	27,211	31,357	34,629
Tax	(4,205)	(5,442)	(6,271)	(6,926)
Minorities	(170)	(200)	(230)	(254)
Net profit	18,312	21,569	24,855	27,449
Net profit (adj.)	18,312	21,569	24,855	27,449

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Cash with central bank	82,922	83,115	98,600	97,239
Govt treasury bills & securities	121,292	124,514	131,501	146,137
Interbank loans	67,491	76,261	83,470	91,365
Customer loans	595,854	652,533	709,028	781,920
Investment securities	28,556	33,204	36,235	39,545
Derivative receivables	19,597	19,597	19,597	19,597
Associates & JVs	609	639	671	705
Fixed assets (incl. prop.)	26,549	26,447	26,490	26,358
Other assets	86,966	94,473	100,608	107,163
Total assets	1,029,837	1,110,782	1,206,199	1,310,029
Interbank deposits	15,245	16,450	17,952	19,592
Customer deposits	769,269	830,091	905,877	988,637
Derivative payables	775	3,843	4,036	4,237
Debt equivalents	57,764	60,583	64,096	67,932
Other liabilities	46,586	45,372	45,726	46,098
Total liabilities	889,639	956,340	1,037,686	1,126,495
Shareholders' funds	135,816	150,060	164,131	179,152
Minority interest - accumulated	4,382	4,382	4,382	4,382
Total equity & liabilities	1,029,837	1,110,782	1,206,199	1,310,029

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Tier-1 CAR	18.8	19.5	19.6	19.7
Total CAR	20.6	21.1	21.2	21.3
Total assets/equity (x)	7.6	7.4	7.3	7.3
Tangible assets/tangible common equity (x)	7.6	7.4	7.3	7.3
Asset Quality				
NPL ratio	2.8	2.5	2.5	2.5
Loan loss coverage	277.1	275.8	247.8	211.4
Loan loss reserve/gross loans	7.8	7.0	6.2	5.3
Increase in NPLs	(15.6)	(2.4)	6.6	9.2
Credit cost (bp)	195.0	140.0	125.0	115.0
Liquidity				
Loan/deposit ratio *	84.0	84.5	83.4	83.5
Liquid assets/short-term liabilities	34.3	33.3	33.7	32.9
Liquid assets/total assets	26.4	25.6	26.0	25.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	8.0	4.8	10.4	7.8
Fees & commissions, yoy chg	8.9	5.0	8.0	8.0
Pre-provision profit, yoy chg	10.8	4.5	10.5	7.4
Net profit, yoy chg	68.0	17.8	15.2	10.4
Net profit (adj.), yoy chg	68.0	17.8	15.2	10.4
Customer loans, yoy chg *	12.0	9.5	8.7	10.3
Customer deposits, yoy chg	5.5	7.9	9.1	9.1
Profitability				
Net interest margin	4.8	4.7	4.8	4.8
Cost/income ratio	44.0	44.0	43.0	42.8
Adjusted ROA	1.8	2.0	2.1	2.2
Reported ROE	14.1	15.1	15.8	16.0
Adjusted ROE	14.1	15.1	15.8	16.0
Valuation				
P/BV (x)	1.3	1.2	1.1	1.0
P/NTA (x)	1.3	1.2	1.1	1.0
Adjusted P/E (x)	9.8	8.3	7.2	6.5
Dividend Yield	4.1	6.0	6.9	7.6
Payout ratio	40.0	50.0	50.0	50.0

COMPANY RESULTS

Carlsberg Brewery Malaysia (CAB MK)

3Q23: Margins Squeezed Amid Rising Costs

3Q23 earnings came in below expectations as a combination of lower sales volume and rising costs resulted in margin deterioration at the operational level. However, overall impact was cushioned by the absence of prosperity tax and Lion Brewery's resilient performance. Looking forward, declining sales volume and rising costs signal a softer 2024. Post-results, we lower our target price to RM24.35. While we maintain BUY on long-term value, the group lacks catalysts in the near term.

3Q23 RESULTS

Year to 31 Dec	3Q23 (RMm)	qoq % chg	yoy % chg	9M23 (RMm)	yoy % chg	Comments
Revenue	513.4	1.3	-10.2	1,680.4	-6.6	Sales volume continued to decline as
Malaysia	362.0	-2.6	-14.2	1,203.0	-7.8	Malaysian sales contracted further qoq
Singapore	151.4	12.1	1.0	477.4	-3.5	
Operating Profit	90.2	-17.4	-11.9	308.4	-9.7	
Malaysia	73.8	-10.6	-11.8	244.8	-10.1	
Singapore	16.3	-39.0	-12.9	63.1	-4.6	
Share of Asso.	9.0	34.6	32.6	19.0	26.3	
Pre-tax Profit	97.9	-14.7	-9.8	323.6	-8.9	
Core Net Profit	78.3	-13.2	2.5	253.6	-2.1	
Margin	%	+/- ppt	+/- ppt	%	+/- ppt	
EBIT Margin	17.6	-4.0	-0.3	18.4	-0.6	Margins hit significantly by lower volume and rising costs
Malaysia	20.4	-1.8	0.5	20.3	-0.5	
Singapore	10.8	-9.0	-1.7	13.2	-0.1	
PBT Margin	19.1	-3.6	0.1	19.3	-0.5	
Eff. Tax Rate	-20.0	1.4	9.6	-21.6	5.7	
Core Net Profit	15.3	-2.6	1.9	15.1	0.7	

Source: Carlsberg, UOB Kay Hian

RESULTS

- **Below expectations.** Carlsberg Brewery Malaysia (Carlsberg) reported 2Q23 core profit of RM78.3m (+2.5% yoy, -13.2% qoq). 9M23 core profit came to RM253.6m (-2.1% yoy), accounting for 74% of both our and consensus full-year estimates. We deem this below expectations due to its seasonally stronger 1H which normally accounts for 55-60% of full-year earnings as well as concerns on deteriorating margins. Despite the 1.3% qoq increase in revenue, 3Q23 margins were hit heavily by rising costs and declining local sales volume. An interim DPS of 19 sen was declared, bringing 9M23 DPS to 62 sen (9M22: 66 sen).

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,909	2,412	2,077	2,205	2,311
EBITDA	290	482	439	465	495
Operating profit	247	425	382	406	435
Net profit (rep./act.)	201	307	313	333	355
Net profit (adj.)	201	317	313	333	355
EPS (sen)	65.3	103.1	101.9	108.2	115.5
PE (x)	30.3	19.2	19.4	18.3	17.2
P/B (x)	28.9	41.3	34.1	28.7	24.6
EV/EBITDA (x)	20.9	12.6	13.8	13.0	12.2
Dividend yield (%)	2.8	4.4	4.6	4.9	5.2
Net margin (%)	10.5	12.7	15.1	15.1	15.4
Net debt/(cash) to equity (%)	(20.8)	17.4	(12.9)	(31.7)	(32.5)
Interest cover (x)	118.3	217.4	n.a.	n.a.	n.a.
ROE (%)	106.1	171.0	191.9	170.1	154.4
Consensus net profit	-	-	342	357	376
UOBKH/Consensus (x)	-	-	0.92	0.93	0.95

Source: Carlsberg Brewery Malaysia, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM19.82
Target Price	RM24.35
Upside	+22.9%
(Previous TP	*RM26.50)*

COMPANY DESCRIPTION

Carlsberg manufactures and distributes beer. Its key brands are Carlsberg, Kronenbourg, Somersby and Conor's Stout Porter.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	CAB MK
Shares issued (m):	305.7
Market cap (RMm):	6,059.9
Market cap (US$m):	1,270.0
3-mth avg daily t'over (US$m):	0.4

Price Performance (%)

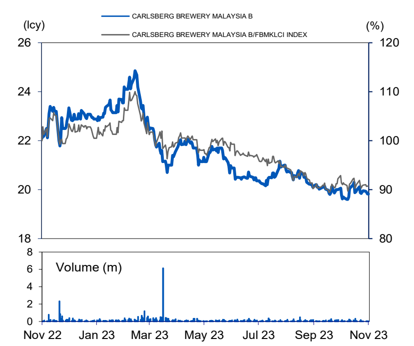
52-week high/low RM24.86/RM19.60

1mth	3mth	6mth	1yr	YTD
(0.9)	(5.6)	(6.2)	(9.7)	(13.4)

Major Shareholders	%
Carlsberg A/S	51.0
AIA	2.9
OCBC	2.7

FY23 NAV/Share (RM)	0.58
FY23 Net Cash/Share (RM)	0.08

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Malaysian sales on the downtrend.** 3Q23 sales contracted 14.2% yoy as consumer sentiment in Malaysia remained muted. However, we opine that the impact at the operational level was lessened slightly by reduced marketing spend as margins actually widened by 0.5ppt yoy. Overall, Malaysian profits still fell 11.8% yoy as the minor margin improvements were largely offset by lower sales volume.

- **Singapore remains relatively muted.** 3Q23 revenue for Singapore grew marginally by 1.0% yoy. However, operating profit was down 12.9% yoy following a 1.7ppt contraction in margins stemming from rising costs of production. Coupled with the fact that Singapore has yet to match pre-pandemic levels of performance, we believe that immediate prospects for the region remain muted as it continues on the slow road to recovery.

- **Lion continues to share.** Contributions from associate company Lion grew 32.6% yoy in 3Q23 amid resilient demand and the strengthening rupee. The Sri Lankan rupee appreciated by 15% against the ringgit compared to the same period last year and has largely stabilised, boding well for Lion's performance going forward.

STOCK IMPACT

- **Headwinds cloud consumer sentiment.** Near-term prospects appear mixed for Carlsberg as macroeconomic factors seem to spell out softer demand going forward. While the stabilising political landscape and lack of new direct taxation or regulation is a positive, declining sales volume and rising cost of living remain major concerns. Coupled with the extended recovery in tourism (which is still only at 70% of pre-pandemic levels), we believe that a full return to form may be slightly further out.

- **New partnership with Sapporo's star.** Alongside its results, Carlsberg announced that it has partnered with Sapporo Breweries (Sapporo) as the exclusive manufacturer and distributor of Sapporo Premium Beer in Malaysia and Singapore beginning 2024. The new partnership is expected to replace the earlier non-renewal of the Asahi distributor agreement. However, given the premium nature of Sapporo's products as well as an expected increase in marketing spend associated with the new launch, impact on earnings may be minimal across 2024-25.

EARNINGS REVISION/RISK

- We lower our 2023-25 earnings forecasts by 8.6%/7.4%5.7% respectively as we account for softer sales volume and crimped margins following rising costs. We also net off the effects of the new Sapporo partnership (ie slightly higher volume and increased costs across 2024-25).

- Downside risks are slower-than-expected recovery in on-trade sales channels and continued inflationary pressure on consumer spending

VALUATION/RECOMMENDATION

- **We lower our target price to RM24.35 (from RM26.50).** Our target price is DCF-based with a WACC estimate of 7.8% and terminal growth rate of 3.0%. It implies 23.9x 2024F PE and offers dividend yields of 4.6-5.2% for 2023-25. Our implied valuation is slightly above -0.5SD to its five-year PE mean.

- **Maintain BUY on long-term value** but near-term prospects continue to be muted. Overall, softer demand and persistent headwinds continue to cloud 2024 and recovery still looks to be a long way out.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

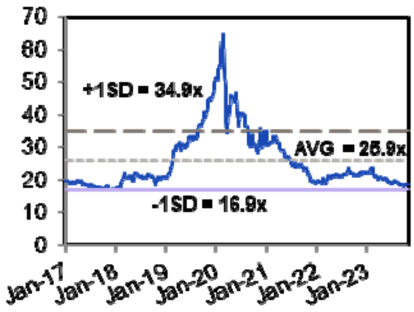
- **Environmental**
  - **Water management.** 50% reduction in water usage at its breweries by 2030.
  - **Emissions.** Zero carbon emissions at its breweries by 2030 and 100% electricity from renewable sources at its breweries by 2022. Zero coal at its breweries.
- **Social**
  - **Product services responsibility.** 100% availability of alcohol-free brews. 100% responsible drinking messaging through packaging and brand activations.
- **Governance**
  - **Board gender diversity.** Board gender composition of 71:29 male-to-female ratio.
  - **Management gender diversity.** Carlsberg has a 53% female representation in its management team.

KEY ASSUMPTIONS

	2023F	2024F	2025F
Sales (RMm)	2077	2205	2311
Malaysia	1571	1679	1763
- yoy Growth (%)	-13.3	6.9	5.0
- Volume Growth (%)	-16.0	4.0	4.0
ASP Growth (%)	3.2	2.7	1.0
Singapore	506	526	547
- yoy Growth (%)	-16.0	4.0	4.0
Core Profit (RMm)	313	333	355
- yoy Growth (%)	-1.1	6.1	6.8
Core Profit Margin (%)	15.1	15.1	15.4

Source: UOB Kay Hian

SIX-YEAR HISTORICAL FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,412	2,077	2,205	2,311
EBITDA	482	439	465	495
Deprec. & amort.	57	58	58	59
EBIT	425	382	406	435
Associate contributions	22	23	24	25
Net interest income/(expense)	(2)	8	7	7
Pre-tax profit	444	412	438	467
Tax	(120)	(88)	(93)	(99)
Minorities	(8)	(11)	(12)	(13)
Net profit	307	313	333	355
Net profit (adj.)	317	313	333	355

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	307	311	316	323
Other LT assets	88	86	86	86
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	91	130	164	167
Other current assets	328	279	294	341
Total assets	814	806	860	917
ST debt	117	107	97	87
Other current liabilities	527	487	506	524
Other LT liabilities	16	16	16	16
Shareholders' equity	148	179	212	248
Minority interest	6	18	29	42
Total liabilities & equity	814	806	860	917

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	357	391	407	399
Pre-tax profit	444	412	438	467
Tax	(120)	(88)	(93)	(99)
Deprec. & amort.	57	58	58	59
Working capital changes	48	9	4	(28)
Non-cash items	0	0	0	0
Other operating cashflows	(73)	0	0	0
Investing	(138)	(60)	(63)	(66)
Capex (maintenance)	(148)	(60)	(63)	(66)
Proceeds from sale of assets	0	0	0	0
Others	9	0	0	0
Financing	(262)	(292)	(309)	(330)
Dividend payments	(333)	(282)	(299)	(320)
Proceeds from borrowings	82	(10)	(10)	(10)
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(11)	0	0	0
Net cash inflow (outflow)	(43)	39	34	3
Beginning cash & cash equivalent	76	91	130	164
Changes due to forex impact	2	0	0	0
Ending cash & cash equivalent	34	130	164	167

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	20.0	21.2	21.1	21.4
Pre-tax margin	18.4	19.8	19.8	20.2
Net margin	12.7	15.1	15.1	15.4
ROA	42.7	38.7	39.9	40.0
ROE	171.0	191.9	170.1	154.4
Growth				
Turnover	26.4	(13.9)	6.2	4.8
EBITDA	66.6	(8.9)	5.7	6.4
Pre-tax profit	71.2	(7.2)	6.1	6.8
Net profit	52.6	2.2	6.1	6.8
Net profit (adj.)	57.7	(1.1)	6.1	6.8
EPS	57.7	(1.1)	6.1	6.8
Leverage				
Debt to total capital	43.1	35.2	28.6	23.1
Debt to equity	79.2	59.7	45.7	35.1
Net debt/(cash) to equity	17.4	(12.9)	(31.7)	(32.5)
Interest cover (x)	217.4	n.a.	n.a.	n.a.

COMPANY UPDATE

Farm Fresh (FFB MK)

Puzzle Pieces Aligning

A recent acquisition should add immense synergies to Farm Fresh's upcoming Inside Scoop product launch. Input cost has been hedged lower, and combined with a well-received ASP revision, this should more than offset a higher USD forex exposure for overall margins to improve. Farm Fresh is further backed by product launches into new segments and markets. However, we believe its exciting prospects are largely priced in at this juncture. Maintain HOLD. Target price: RM1.10.

WHAT'S NEW

- **We recently hosted Khairul Mat Hassan, Farm Fresh's CFO for an online conference call. Here are our key takeaways:**
- **Sin Wah acquisition for its distribution network.** Farm Fresh acquired a 70% stake in Sin Wah Ice Cream (SWIC), an ice cream producer, for RM28m in mid-Oct 23. The acquisition was not announced on Bursa Malaysia as the acquisition did not meet the required reporting threshold. SWIC produces RM1 ice cream products, sold predominantly in 99 Speedmart and Hero Market stores nationwide. SWIC has close to 5,700 drop points/unit freezers, distributed by 22 distribution teams through nine distribution warehouses across Peninsula Malaysia. The ice cream producer has a production capacity of 120,000 pieces of ice cream a day. SWIC has a revenue base of close to RM20m. The acquisition PE is approximately 12.9x. SWIC was acquired primarily for its distribution network in anticipation of Inside Scoop consumer package goods (CPG) rollout in 1Q24.
- **Inside Scoop at your nearest convenience store in 2024.** Inside Scoop's CPG production line (filling and cutting) with an output of 3,000 pieces/hour is due for full completion by end-Dec 23. Product launch and distribution is due for end-Jan 24/early-Feb 24. Farm Fresh is in the midst of commercial discussion with various convenience store chains and petrol marts to secure distribution points for its CPG products. Its products are expected to be positioned for the mass premium segment.
- **WMP hedged at lower cost.** Management indicated that it has secured its whole milk powder (WMP) at US$3,000/MT up until Mar/Apr 24. We estimate that it is 7% lower vis-à-vis its previous hedge. Global demand driven by China is only expected to firm up in 2H24 and it could therefore pose some downside risk when Farm Fresh rolls over its hedge. WMP accounts for close to 49% of FY24 milk requirements. We estimate for every -1.0% to its hedge cost, FY25 earnings are positively impacted by +0.9%.

KEY FINANCIALS

Year to 31 Mar (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	502	630	739	857	981
EBITDA	86	88	113	180	192
Operating profit	61	54	71	133	140
Net profit (rep./act.)	86	59	65	126	137
Net profit (adj.)	86	59	65	126	137
EPS (sen)	4.6	3.2	3.5	6.8	7.4
PE (x)	25.8	37.2	33.8	17.6	16.2
P/B (x)	3.6	3.5	3.2	2.8	2.5
EV/EBITDA (x)	29.4	28.9	22.5	14.1	13.2
Dividend yield (%)	0.2	0.7	0.7	1.4	1.5
Net margin (%)	17.1	9.4	8.8	14.7	13.9
Net debt/(cash) to equity (%)	42.0	49.3	42.3	32.1	24.3
Interest cover (x)	9.4	7.7	6.1	10.5	12.1
ROE (%)	20.1	9.5	9.9	17.0	16.2
Consensus net profit	-	-	67	107	131
UOBKH/Consensus (x)	-	-	0.97	1.17	1.04

Source: Farm Fresh, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.19
Target Price	RM1.10
Upside	-6.8%

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):	2,227.6
Market cap (US$m):	465.3
3-mth avg daily t'over (US$m):	0.8

Price Performance (%)

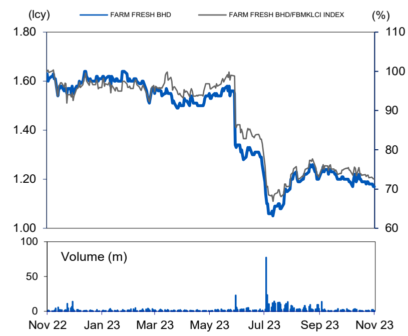
52-week high/low RM1.65/RM1.05

1mth	3mth	6mth	1yr	YTD
(0.8)	2.6	(21.2)	(28.3)	(26.1)

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

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- **A&P should not see a significant spike despite product launches.** Despite the exciting line-up of new product launches and in-roads to a new market (the Philippines), Farm Fresh expects for its A&P (advertising and promotion) expenses to remain relatively controlled at 2-2.5% of revenue. This is in line with its historical A&P spending over the years. Therefore, despite the backloaded new product launches, we do not expect margins to be significantly impacted by A&P spending.

- **Sales appear stable despite ASP hike for chilled products.** Recall that ASPs for chilled products were raised by 5% in July. Management noted that there was no particular frontloading of sales ahead of the revised ASP into 1QFY24. Positively, volume sales did not appear to tail off following the implementation of the revised ASP. Going forward, despite the higher US$ forex against the RM, management is adopting a wait-and-see approach to pricing seeing that its acquisitions (Inside Scoop and Sin Wah) and upcoming product launches are margin-accretive and could well offset the strengthening of the US$ against the RM.

- **USD 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 current hedge. 25-30% of Farm Fresh's COGS purchases are denominated in USD. Based on our earnings sensitivity, for every +1% USD/RM deviation from our forex assumption, FY25 earnings are impacted by -1.4%. For now, we have pencilled in an USD4.60/RM assumption for FY25.

- **School milk programme still ongoing despite no mention in Budget 2024.** During the Malaysia Budget 2024, there was no mention of an allocation to the nation's school milk programme unlike the previous budget. However, management indicated that the programme has been extended to 2024 with a 25% enlarged allocation. We continue to expect Farm Fresh to secure the lion's share of the programme's allocation given Farm Fresh's track record over the past two years as the primary supplier to the programme.

STOCK IMPACT

- **Exciting launches on the horizon.** Farm Fresh has a host of product launches in its pipeline over the next few months. For dairy products, this includes plant-based spoonable yogurt, organic milk, junior culture milk and growing up milk (GUM). The latter is of particular significance seeing that it takes aim at a currently untapped RM2.2b segment. Management believes gaining 5-15% market share of the segment over a 2-3 year horizon is well within its reach. Separately, Farm Fresh is due to commence operations in the Philippines at end-23.

EARNINGS REVISION/RISK

- No changes to earnings. Downside risks include elevated raw material prices as well as milk quality and yield.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.10.** While Farm Fresh offers more exciting growth and avenues of growth relative to its domestic peers, it is balanced by impending competition kicking in over the medium term and potentially displacing Farm Fresh's stranglehold on its dominant market share. Our valuation PE peg to 18.3x is based on 2024. The current PE peg is based on the average valuations of its direct peers.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• **Environmental**
- **Climate action.** Targeting a reduction of 25% of greenhouse gas emissions in five years. Also targeting 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 to earn 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)	738.6	856.9	981.3
Growth yoy (%)	16.0	14.5	13.2
PATAMI (RMm)	125.9	136.7	143.9
Growth yoy (%)	92.6	8.6	5.3
3-yr CAGR (%)	13.7	32.0	30.1
Gross margin (%)	28.7	27.3	25.9
EBITDA margin (%)	22.8	21.3	19.9
ASPs - Malaysia (dairy) (RM/litre)	6.47	6.54	6.60
Volume (m litres)	132	150	168
Growth yoy (%)	14.9	13.4	12.0

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Net turnover	630	739	857	981
EBITDA	88	113	180	192
Deprec. & amort.	33	42	47	52
EBIT	54	71	133	140
Total other non-operating income	9	13	15	17
Associate contributions	0	0	0	0
Net interest income/(expense)	(11)	(18)	(17)	(16)
Pre-tax profit	52	65	130	141
Tax	(2)	(5)	(10)	(11)
Minorities	0	5	6	7
Net profit	59	65	126	137
Net profit (adj.)	59	65	126	137

BALANCE SHEET

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Fixed assets	414	537	561	587
Other LT assets	163	196	206	206
Cash/ST investment	23	73	61	96
Other current assets	464	369	404	463
Total assets	1,063	1,175	1,232	1,352
ST debt	93	62	62	62
Other current liabilities	68	97	104	121
LT debt	243	302	252	252
Other LT liabilities	23	23	23	17
Shareholders' equity	636	690	790	900
Total liabilities & equity	1,063	1,175	1,232	1,352

CASH FLOW

Year to 31 Mar (RMm)	2023	2024F	2025F	2026F
Operating	(20)	146	157	160
Pre-tax profit	52	65	130	141
Tax	(2)	(5)	(10)	(11)
Deprec. & amort.	33	42	47	52
Associates	0	0	0	0
Working capital changes	(114)	25	(28)	(37)
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	(7)	(99)	(50)
Dividend payments	(20)	(16)	(31)	(34)
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)	50	(12)	35
Beginning cash & cash equivalent	28	23	73	61
Changes due to forex impact	(2)	0	0	0
Ending cash & cash equivalent	23	73	61	96

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	13.9	15.3	21.1	19.6
Pre-tax margin	8.3	8.9	15.2	14.4
Net margin	9.4	8.8	14.7	13.9
ROA	5.7	5.8	10.5	10.6
ROE	9.5	9.9	17.0	16.2
Growth				
Turnover	25.5	17.3	16.0	14.5
EBITDA	1.7	28.7	59.7	6.6
Pre-tax profit	(20.6)	25.5	99.2	8.3
Net profit	(30.6)	10.0	92.6	8.6
Net profit (adj.)	(30.6)	10.0	92.6	8.6
EPS	(30.6)	10.0	92.6	8.6
Leverage				
Debt to total capital	34.6	34.6	28.5	25.9
Debt to equity	52.9	52.8	39.8	35.0
Net debt/(cash) to equity	49.3	42.3	32.1	24.3
Interest cover (x)	7.7	6.1	10.5	12.1

SECTOR UPDATE

REITs – Singapore

3Q23: CLAR (In Line); 9M23: PREIT (In Line)

BUY CLAR (Target: S$3.13) for excellence in execution to sustain strong positive rental reversion, maintain high occupancies and orchestrate a string of successive redevelopment projects. BUY PREIT (Target: S$4.19) for rent step-up of 25.3% for Singapore hospitals in 2026 after upgrading MEH to a modern and integrated multi-service medical hub. Maintain OVERWEIGHT on S-REITs.

RESULTS

CapitaLand Ascendas REIT (CLAR SP/BUY/Target: S$3.13)

- CapitaLand Ascendas REIT (CLAR) provided 3Q23 business update:
- **Stable occupancies across Singapore, Australia and the UK/Europe.** Portfolio occupancy was stable at 94.5% in 3Q23. Occupancy rate for Singapore improved 0.4ppt qoq to 92.7%, which is offset by a marginal easing of occupancy rate for Australia and the UK/Europe by 0.5ppt and 0.2ppt qoq respectively to 99.0% and 99.3%. Australia and the UK/Europe remain near full occupancy.
- **Strong positive rental reversion for logistics properties.** CLAR recorded positive rental reversion of 10.2% for leases renewed in multi-tenant buildings in 3Q23 (Singapore: +9.8%, the US: +8.5% and the UK/Europe: +28.8%). Logistics properties registered exceptionally strong rental reversion at 25.5% in Singapore and 28.8% in the UK/Europe due to tight supply and adoption of just-in-case supply chain management. Management expects positive rental reversion at high single digit for full-year 2023.
- **Further expansion in data centres.** CLAR completed the acquisition of two-storey high specification colocation data centre at Watford in North-West London for £125.1m (S$209.4m) on 17 Aug 23. This is CLAR's 5th data centre in the UK. Its data centre portfolio will expand 15% to S$1.5b, representing 9% of its total investment properties. The data centre is 80% occupied by five investment-grade tenants. The acquisition is accretive to pro forma 2022 DPU by 0.7%.
- **Embarked on four redevelopment and convert-to-suit projects.** CLAR has embarked on a S$107m redevelopment to transform two blocks of traditional warehouses with cargo lifts at 5 Toh Guan Road East in Singapore into a modern six-storey ramp-up logistics facility. The redevelopment utilises untapped plot ratio to increase GFA by 71% to 50,920sqm and is scheduled to complete in 4Q25. In total, CLAR has four ongoing redevelopment and convert-to-suit projects (1 Science Park Drive, 27 IBP and 5 Toh Guan Road East in Singapore and 6055 Lusk Boulevard in San Diego, California) worth S$600m to enhance return from its existing portfolio.
- **Coping with higher cost of debt.** Aggregate leverage remains healthy at 37.2% as of Sep 23. Average cost of debt was stable at 3.3%. The debt maturity profile is well-spread with less than 15% of borrowings due for renewal in any single year for the next five years. Interest coverage ratio was healthy at 3.8x.
- **Maintain BUY.** Our target price of S$3.13 is based on DDM (cost of equity: 7.25%, terminal growth: 2.5%).

KEY OPERATING METRICS – CLAR

Year to 31 Dec	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	7.93	n.a.	7.72	n.a.	n.a.	n.a.
Occupancy	94.5%	94.6%	94.4%	94.4%	94.5%	0ppt	0.1ppt
Aggregate Leverage	37.3%	36.6%	38.2%	36.7%	37.2%	-0.1ppt	0.5ppt
Average Cost of Debt	2.2%	2.5%	3.3%	3.30%	3.30%	1.1ppt	0ppt
% Borrowing in Fixed Rates	78.0%	79.4%	77.0%	81.5%	80.6%	2.6ppt	-0.9ppt
WALE by NLA (years)	3.9	3.8	3.8	3.9	3.9	0yrs	0yrs
Weighted Debt Maturity (years)	3.5	3.7	3.2	3.3	3.3	-0.2yrs	0yrs
Rental Reversion	5.4%	8.0%	11.1%	14.2%	10.2%	4.8ppt	-4ppt

*Source: CLAR, UOB Kay Hian * hoh % chg for DPU*

OVERWEIGHT

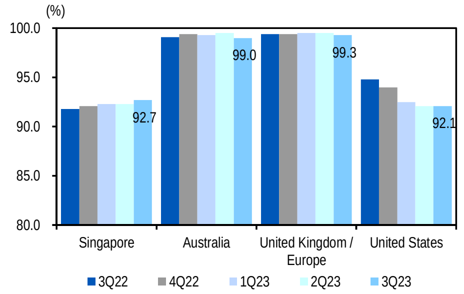
(Maintained)

KEY PICKS

Company	Rec	Share Price (S$)	Target Price (S$)
FEHT	BUY	0.59	0.76
FCT	BUY	2.07	2.42
KREIT	BUY	0.80	1.06
LREIT	BUY	0.51	0.79
MINT	BUY	2.15	2.69

Source: UOB Kay Hian

PORTFOLIO OCCUPANCY



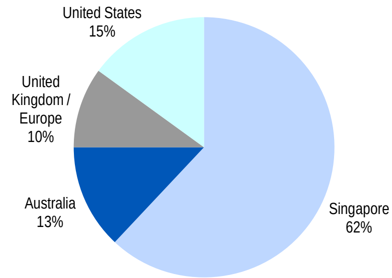
Source: CLAR

POSITIVE RENTAL REVERSIONS

% Change in Renewal Rates	3Q22	4Q22	1Q23	2Q23	3Q23
SINGAPORE	4.4%	6.0%	11.2%	19.5%	9.8%
- Business Space & Life Science	3.2%	1.8%	11.5%	17.9%	6.4%
- Logistics	14.6%	13.1%	23.6%	39.1%	25.5%
- Industrial & Data Centres	2.8%	3.7%	6.4%	9.7%	8.6%
AUSTRALIA	0.2%	n.a.	14.3%	12.9%	n.a.
- Business Space	0.2%	n.a.	18.1%	12.9%	n.a.
- Logistics	n.a.	n.a.	2.0%	n.a.	n.a.
UNITED STATES	48.0%	39.0%	11.3%	11.0%	8.5%
- Business Space	10.6%	30.9%	11.3%	9.5%	8.5%
- Logistics	60.0%	42.6%	n.a.	11.3%	n.a.
UNITED KINGDOWN / EUROPE	n.a.	n.a.	0.0%	n.a.	28.8%
- Data Centres	n.a.	n.a.	0.0%	n.a.	n.a.
- Logistics	n.a.	n.a.	n.a.	n.a.	28.8%
Total Portfolio	5.4%	8.0%	11.1%	18.0%	10.2%

Source: CLAR

PORTFOLIO VALUATION BY GEOGRAPHICAL REGION



Source: CLAR

ANALYST(S)

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Parkway Life REIT (PREIT SP/BUY/Target: S$4.19)

9M23 RESULTS

Year to 31 Dec (S$m)	9M23	yoy % chg	Remarks
Gross Revenue	110.9	+24.6	Positive impact from renewed lease for Singapore hospitals.
Net Property Income	104.5	+26.2	Acquired five nursing homes in Sep 22.
Distributable Income	66.5	+2.8	Includes straight-line rental adjustment.
DPU (S cents)	10.99	+2.8	

Source: PREIT, UOB Kay Hian

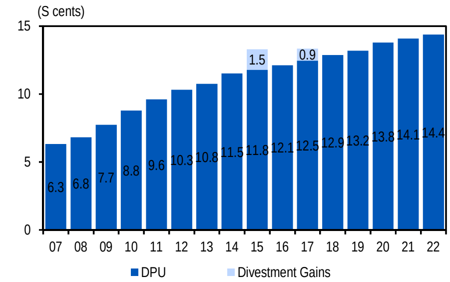
- Parkway Life REIT (PREIT) reported DPU of 10.99 S cents for 9M23 (+2.8% yoy), which is in line with our expectation.
- **Resilient growth from healthcare.** Gross revenue and NPI increased 24.6% and 26.2% yoy respectively in 9M23 due to contribution from five nursing homes acquired in Sep 22 and higher rent from the Singapore properties under the new master lease agreements that commenced in Aug 22, partially offset by depreciation of the Japanese yen against the Singapore dollar. Finance costs surged 110% yoy due to funding for capex and acquisitions and higher interest rates for SGD debts. Distributable income normalised to growth of 2.8% yoy after straight-line rental adjustment.
- **Reaping the fruits from renewal capex.** Singapore hospitals will benefit from rent step-up of 25.3% in 2026 after the completion of Project Renaissance. The S$350m Project Renaissance, jointly funded by sponsor IHH Healthcare and PREIT (PREIT's share in renewal capex is S$150m), will transform Mount Elizabeth Hospital (MEH) into a modern and integrated multi-service medical hub over three years.
- **Further expansion for nursing homes in Japan.** PREIT has completed the acquisition of two nursing homes in the Osaka Prefecture, namely HIBISU Shirokita Koendori and HIBISU Suita, for total consideration price of ¥1,766.4m (S$16.4m) on 27 Oct 23. The two freehold properties are well-located in residential areas in close proximity to central Osaka City. They have long average lease term of 29 years. The acquisition was made at 11.9% below valuation and will be fully funded by JPY debts.
- **Prudent capital management.** PREIT has healthy aggregate leverage of 36% and low all-in cost of debt at 1.32%. Interest coverage ratio is high at 12.8x. There is no long-term debt refinancing needed till Feb 24. PREIT adopts a natural hedge strategy for its Japanese investments to maintain a stable NAV. About 74% of its interest rate exposure is hedged. It uses JPY forward contracts to hedge JPY income till 1Q27.
- **Maintain BUY** and target price of S$4.19 based on DDM (cost of equity: 6.75%, terminal growth: 3.0%).

KEY OPERATING METRICS – PREIT

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % chg	qoq % chg*
DPU (S cents)	n.a.	7.32	n.a.	7.29	n.a.	n.a.	n.a.
Occupancy	99.7%	99.7%	99.7%	99.7%	99.7%	0ppt	0ppt
Aggregate Leverage	34.7%	36.4%	37.5%	35.3%	36.0%	1.3ppt	0.7ppt
Average Cost of Debt	0.72%	1.04%	1.19%	1.19%	1.32%	0.6ppt	0.13ppt
WALE by Gross Revenue (years)	17.2	17.0	16.8	16.7	16.5	-0.7yrs	-0.2yrs
Average Debt Maturity (years)	2.9	3.4	3.1	2.9	2.8	-0.1yrs	-0.1yrs

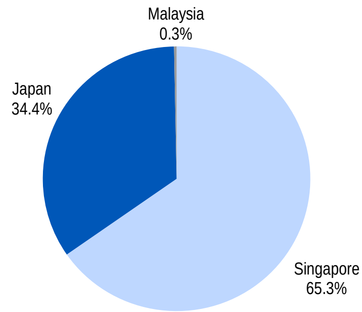
*Source: PREIT, UOB Kay Hian   * hoh % chg for DPU*

UNINTERRUPTED DPU GROWTH SINCE IPO



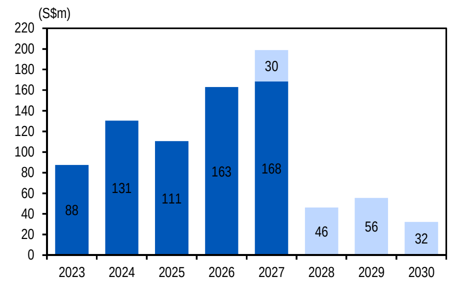
Source: PREIT

ASSET MIX (3Q23)



Source: PREIT

DEBT MATURITY PROFILE (3Q23)



Source: PREIT

ACTION

- BUY CLAR (Target: S$3.13) and PREIT (Target: S$4.19).

SECTOR CATALYSTS

- Hospitality, retail and office REITs benefitting from the reopening of the economy and easing of COVID-19 restrictions in Singapore and around the region.
- Limited new supply for logistics and retail segments in Singapore.

PEER COMPARISON

Name	Ticker	Rec	Price 31 Oct 23	Target Price	Mkt Cap (US$m)	Yield (%) Hist	Yield (%) Curr	Yield (%) Fwd 1Y	Yield (%) Fwd 2Y	Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
CapLand Ascendas	CLAR SP	BUY	2.60	3.13	8,334	6.1	5.9	6.0	6.0	64.3	37.2	1.12
PLife REIT	PREIT SP	BUY	3.36	4.19	1,484	4.3	4.2	4.2	4.3	57.3	35.3	1.44

Source: Bloomberg, UOB Kay Hian

COMPANY RESULTS

Sheng Siong Group (SSG SP)

3Q23: Results In Line; Opportunities Arise With Steady Supply Of HDB Projects

SSG's 3Q23 net profit of S$34.8m (+5.7% yoy) was in line with expectations, with 9M23 forming 72.9% of our full-year estimate. 3Q23 revenue rose 3.7% yoy, due to higher contributions from new stores and stronger comparable same-store sales. SSG also recorded slight improvements in its margins, driven by an improved sales mix. We are of the view that demand will remain resilient in the rising inflationary environment. Maintain BUY. Target price: S$1.97.

3Q23 RESULTS

Year to 31 Dec (S$m)	3Q23	3Q22	yoy % chg
Revenue	345.8	333.5	+3.7
Gross profit	105.0	98.1	+6.9
Gross margin (%)	30.3	29.4	+0.9ppt
PATMI	34.8	32.9	+5.7
Net margin (%)	10.1	9.9	+0.2ppt

Source: Sheng Siong Group, UOB Kay Hian

RESULTS

- **Results in line with expectations.** Sheng Siong Group (SSG) reported 3Q23 earnings of S$34.8m (+5.7% yoy, +8.1% qoq), in line with our expectation. The 9M23 PATMI accounts for 72.9% of our full-year estimate. 3Q23 revenue rose by 3.7% yoy due to higher contributions from six new stores opened in 2022 and 9M23 and higher comparable same-store sales. This was partially offset by one store closure in Jul 22 upon lease expiry and lower sales from its China operations (-0.1% yoy).
- **Stable margins despite rising costs.** SSG registered an improved quarterly gross profit margin of 30.3% (+0.9ppt yoy) while net profit margin also improved marginally by 0.2ppt yoy to 10.1%, attributable to ongoing improvements in its sales mix. Other income has also increased by 9.2% yoy to S$2.9m, mainly due to higher government grants. However, administrative expenses saw a substantial S$6.0m (+10.2% yoy) increase during the quarter. This comprised a S$2.2m yoy increase in staff costs and a S$3.9m yoy rise in utility expenses arising from SSG's renewal of its electricity contract at a higher market rate at end-22. In spite of this, the steady margins evinced SSG's strong ability to source its supplies effectively as well as the defensive nature of the company's value-for-money product offerings.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,370	1,339	1,482	1,536	1,590
EBITDA	183	182	185	190	194
Operating profit	162	162	165	171	175
Net profit (rep./act.)	133	133	137	142	146
Net profit (adj.)	133	133	137	142	146
EPS (S$ cent)	8.8	8.9	9.1	9.5	9.7
PE (x)	17.5	17.5	17.0	16.4	16.0
P/B (x)	5.6	5.2	4.7	4.3	4.0
EV/EBITDA (x)	11.0	11.1	10.9	10.6	10.4
Dividend yield (%)	4.0	4.0	4.1	4.3	4.4
Net margin (%)	9.7	10.0	9.3	9.3	9.2
Net debt/(cash) to equity (%)	(58.5)	(60.9)	(65.6)	(70.7)	(75.1)
Interest cover (x)	146.2	n.a.	n.a.	n.a.	n.a.
ROE (%)	33.8	30.8	29.1	27.6	26.2
Consensus net profit	-	-	135	142	146
UOBKH/Consensus (x)	-	-	1.02	1.00	1.00

Source: Sheng Siong Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$1.55
Target Price	S$1.97
Upside	+27.1%

COMPANY DESCRIPTION

Sheng Siong Group is a mass-market supermarket operator in Singapore. It is the third-largest player in Singapore by market share.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	SSG SP
Shares issued (m):	1,503.5
Market cap (S$m):	2,330.5
Market cap (US$m):	1,701.2
3-mth avg daily t'over (US$m):	2.0

Price Performance (%)

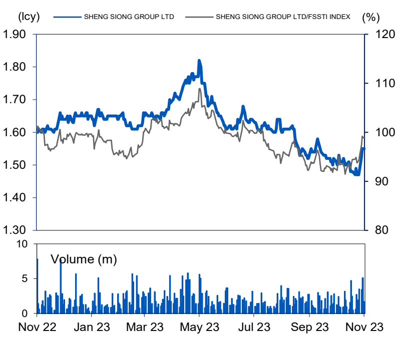
52-week high/low S$1.82/S$1.47

1mth	3mth	6mth	1yr	YTD
2.0	(3.7)	(12.4)	(2.5)	(6.1)

Major Shareholders	%
Sheng Siong Hldgs	29.9
Lim Hock Chee	9.2
Lim Hock Eng	9.1

FY23 NAV/Share (S$)	0.33
FY23 Net Cash/Share (S$)	0.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **New store opening outlook.** SSG opened two new stores in 9M23 and had 69 stores in Singapore as at end-Sep 23, totalling a retail area of 618,349sf (+2.6% yoy). To meet the increasing housing demand, we note that HDB has ramped up the supply of BTO flats by 34.5% from 17,100 to 23,000 from 2021 to 2023, aiming to launch 100,000 flats from 2021-25. This provides more tender opportunities for SSG, as the group continues to seek growth through the continuous expansion of its network of outlets in Singapore. SSG has bid for three tenders with the outcome pending, while five more HDB supermarket locations up for tender over the next six months. In China, its operations remain profitable overall, making up 2.4% of 3Q23 revenue. SSG has recently announced the lease signing for its sixth store in Kunming last month, and expects the store to be operational by 2Q24.

- **Elevated inflationary environment to increase consumer spending.** According to the Ministry of Trade and Industry, core inflation is expected to ease to 2.5-3.0% by Dec 23 and slow to 2.5-3.5% for 2024, while headline inflation is forecast to average around 5% for 2023, and 3-4% for 2024. The sustained inflationary pressures will likely lead to a shift in consumer preferences toward more value-for-money purchases. As consumers cut back on dining out, SSG will stand to benefit from boosted sales. From the latest retail sales index published by Singstat on 5 Oct 23, retail sales of supermarkets and hypermarkets recorded 1.1% yoy and 2.7% mom growth respectively in Aug 23. This is in line with our expectation amid the rising inflationary environment. SSG should continue to enjoy healthy demand with its competitive pricing going forward.

- **Improving favourable sales mix to help mitigate potential higher costs.** The inflationary environment, as well as the return of El Nino raising concerns over food supplies, may cause food prices to rise. However, SSG has demonstrated its capabilities in maintaining margins with its focus on improving its sales mix of higher-margin products, increasing selection and types of house brand products, and deriving gains from supply chain efficiencies.

EARNINGS REVISION/RISK

- We maintain our earnings forecast.

VALUATION/RECOMMENDATION

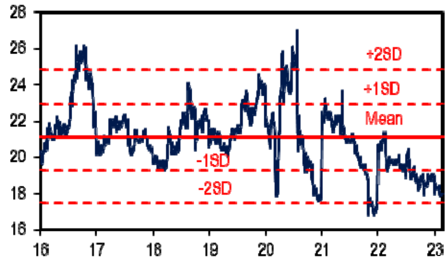
- **Maintain BUY with a target price of S$1.97,** pegged to 21x 2024F EPS, or five-year average mean PE.

SHARE PRICE CATALYST

- Higher-than-expected new-store openings and same-store sales growth.

- Boosted demand arising from inflationary environment and GST hike.

SSG'S PE CHART SINCE 2016



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Net turnover	1,339.5	1,481.9	1,536.0	1,590.2
EBITDA	181.7	185.1	189.9	193.9
Deprec. & amort.	19.5	19.9	19.1	18.4
EBIT	162.2	165.3	170.8	175.5
Net interest income/(expense)	0.9	1.0	1.1	1.1
Pre-tax profit	163.1	166.3	171.8	176.6
Tax	(29.4)	(28.8)	(29.7)	(30.6)
Minorities	(0.3)	0.0	0.0	0.0
Net profit	133.3	137.5	142.1	146.1
Net profit (adj.)	133.3	137.5	142.1	146.1

BALANCE SHEET

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Fixed assets	291.6	281.1	270.8	261.2
Other LT assets	97.3	97.3	97.3	97.3
Cash/ST investment	275.5	323.8	379.0	434.8
Other current assets	120.7	139.9	145.1	150.2
Total assets	785.1	842.1	892.1	943.5
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	265.8	281.4	289.2	297.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	64.1	64.1	64.1	64.1
Shareholders' equity	452.2	493.6	535.8	579.2
Minority interest	2.9	2.9	2.9	2.9
Total liabilities & equity	785.1	842.1	892.1	943.5

CASH FLOW

Year to 31 Dec (S$m)	2022	2023F	2024F	2025F
Operating	166.8	181.9	193.5	198.0
Pre-tax profit	163.1	166.3	171.8	176.6
Tax	(21.2)	(28.8)	(29.7)	(30.6)
Deprec. & amort.	19.5	19.9	19.1	18.4
Working capital changes	(25.7)	(3.6)	2.7	2.8
Non-cash items	(0.0)	0.0	0.0	0.0
Other operating cashflows	31.1	28.1	29.7	30.7
Investing	(5.0)	(5.1)	(5.1)	(5.1)
Capex (growth)	(8.8)	(8.8)	(8.8)	(8.8)
Proceeds from sale of assets	0.1	0.0	0.0	0.0
Others	3.7	3.7	3.7	3.7
Financing	(133.5)	(128.4)	(133.2)	(137.0)
Dividend payments	(94.0)	(96.1)	(99.9)	(102.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(5.0)	0.0	0.0	0.0
Others/interest paid	(34.5)	(32.3)	(33.3)	(34.3)
Net cash inflow (outflow)	28.4	48.3	55.2	55.8
Beginning cash & cash equivalent	246.6	275.5	323.8	379.0
Changes due to forex impact	0.5	0.0	0.0	0.0
Ending cash & cash equivalent	275.5	323.8	379.0	434.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	13.6	12.5	12.4	12.2
Pre-tax margin	12.2	11.2	11.2	11.1
Net margin	10.0	9.3	9.3	9.2
ROA	17.5	16.9	16.4	15.9
ROE	30.8	29.1	27.6	26.2
Growth				
Turnover	(2.2)	10.6	3.6	3.5
EBITDA	(0.5)	1.9	2.6	2.1
Pre-tax profit	1.3	1.9	3.4	2.8
Net profit	0.4	3.1	3.4	2.8
Net profit (adj.)	0.4	3.1	3.4	2.8
EPS	0.4	3.1	3.4	2.8
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(60.9)	(65.6)	(70.7)	(75.1)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

STRATEGY – THAILAND

Alpha Picks: Nov 23 Portfolio (port -4.8%)

Our Alpha Picks did slightly better than the market (-5.0% vs -5.7%) in Oct 23. The global stock market broadly dwindled because of the unexpected Israel-Hamas war, coupled with the record-high US government bond yield since 2007 putting pressure on risky assets. For Nov 23, our picks are BDMS, CPALL, MAJOR, OR, TU and EA.

WHAT'S NEW

- **Portfolio slightly outperformed market in October.** The SET Index declined for the second consecutive month from an ongoing pressure from rising bond yield and the Israel-Hamas conflict. Our portfolio's return slightly beat the benchmark (-4.8% vs -6.1%). The strongest outperformer and only positive gain in the portfolio was MAJOR (+8.60%) due to successful Thai blockbusters expected to drive 4Q earnings. The worst performer were KKP (-10.90%), MINT (-10.40%) and CPALL (-8.70%).
- **Expect a relief rally in November.** Despite uncertainties and risk from the global slowdown in 2024, we are positive for the short term as we expect ongoing disinflation to lower bond yield and allow relief recovery in stock. Also, most of the bad news has been priced in and earnings downgraded risk would significantly fall given that we are entering 4Q23-1Q24 which is usually the high earnings period. Moreover, we expect accelerated economy momentum due to: a) better exports outlook, b) improving consumption from agricultural harvesting period in 4Q23, and c) ongoing tourism growth momentum.
- **Earning yield gap (EYG) signals cheap valuation at current level.** Our EYG model yields a valuation range of the SET Index of 1,403-1,647 based on EYG's 2.50-3.50% (average to -2SD) and Thailand's 10-year bond yield at 3.25%. The model yield analysis resulted in a range of 1,353-1,579 if we put more stress on 10-year yield to 3.50%. The implication of EYG model is the SET Index having an attractive valuation for the level of 1,350-1,400pt.
- **New free float adjusted index suggests more weighting to the bank, healthcare and property sectors.** To reduce bias from low free floated stocks, the SET will introduce a new version of SET50/SET100 index which is free floated adjustment market cap effective in Jan-Jun 24. Based on our calculation, the sectors that may gain more weighting are bank, health and property while it might be unfavourable to the electronics, energy and transportation sectors.
- **Selective BUY on earnings recovery plays.** Most of the stocks in our portfolio are earnings recovery plays or beneficiaries from high earnings season in 4Q23-1Q24. We add EA as market concern on negative CFO is overdone while we drop those which are interesand commodity sensitive (cut losses on TIDLOR, SCB, MINT, KKP).

ACTION

- Cut losses: TIDLOR, SCB, MINT, KKP.
- Take profit: ERW and PTTEP.
- Add EA.

ANALYSTS' TOP ALPHA PICKS*

Analyst	Company	Rec	Performance	Catalyst
Kochakorn Sutaruksanon	BDMS	BUY	(0.9)	Impressive outlook in 3Q23 and benefit from international patients
Kampon Akaravarinchai	CPALL	BUY	(10.9)	Domestic consumption recovery due to more foreign tourists and the election.
Kasemsun Koonara/ Tanaporn Visaruthaphong	EA	BUY	2.38	Negative operating cash flow is likely to continue till 4Q23 but improve from 1Q24 onwards
Tanaporn Visaruthaphong/ Thachasorn Jutagon	MAJOR	BUY	(1.9)	Continued growth momentum in 3Q23.
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	OR	BUY	(16.4)	An increase in marketing margins in 2H23.
Kampon Akaravarinchai	TU	BUY	(6.9)	Expected core profit to improve qoq.
Kochakorn Sutaruksanon	ERW	BUY	7.9	Dropped
Kwanchai Atiphophai/ Thanawat Thangchadakorn	KKP	BUY	(22.1)	Dropped
Kochakorn Sutaruksanon	MINT	BUY	(11.1)	Dropped
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	PTTEP	BUY	2.8	Dropped
Kwanchai Atiphophai/ Thanawat Thangchadakorn	SCB	BUY	(5.3)	Dropped
Kwanchai Atiphophai/ Thanawat Thangchadakorn	TIDLOR	BUY	(18.6)	Dropped
Tanaporn Visaruthaphong/ Benjaphol Suthwanish	TOP	BUY	(8.7)	Dropped

** Denotes a timeframe of 1-3 months and not UOBKH's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as alpha pick
Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Share Price 31 Oct 23 (Bt)	Target Price (Bt)	Upside/ (Downside) to TP (%)
BDMS	26.50	33.00	24.53
CPALL	55.25	78.00	41.18
EA	42.00	81.00	92.86
MAJOR	15.20	18.00	18.42
OR	18.30	29.00	58.47
TU	13.50	17.40	28.89

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Oct 23 (%)	To-date* (%)
BDMS	(0.9)	(0.9)
CPALL	(8.7)	(10.9)
ERW	(5.5)	7.9
KKP	(10.9)	(22.1)
MAJOR	8.6	(1.9)
MINT	(10.4)	(11.1)
OR	(2.1)	(16.4)
PTTEP	(4.1)	2.8
SCB	(3.9)	(5.3)
TIDLOR	(7.7)	(18.6)
TOP	(6.9)	(8.7)
TU	(6.9)	(6.9)
SET Index	(6.1)	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURNS

(%)	2022	1Q23	2Q23	3Q23
SET return	0.7	(3.6)	(6.6)	(2.1)
Alpha Picks Return				
- Price-weighted	4.1	2.2	(1.2)	(1.1)
-Market cap-weighted	4.4	0.8	(0.1)	(1.4)
- Equal-weighted	2.7	0.3	(5.5)	(2.3)

Assumptions for the three methodologies:

1. Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.

2. Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.

3. Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.

Source: UOB Kay Hian

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Bangkok Dusit Medical Services (Kochakorn Sutaruksanon)

- Bangkok Dusit Medical Services (BDMS) is a group of leading private hospitals with a nationwide network offering world-class medical treatment to both local and international patients with new greenfield projects, M&A and digitalisation of healthcare services as key long-term growth drivers.
- We are bullish on BDMS in 3Q23, with earnings to set a new quarterly record high as 3Q is the high season for Middle Eastern patients. The continuous recovery in the number of international arrivals will also benefit BDMS in the wellness segment (BDMS Wellness Clinic) as well as Mövenpick BDMS Wellness Resort, which is well-prepared for increasing arrivals. In addition, BDMS is also one of the beneficiaries of the new policy by Beijing's government to cover expenses for assisted reproduction technology from 1 Jul 23, including in-vitro fertilisation (IVF). However, we are cautious on: a) the normalisation of pent-up demand from patients
- Maintain BUY with a target price of Bt33.00 based on DCF methodology (WACC: 7.3%, terminal growth 3.6%). We favour BDMS due to its earnings resilience in 2Q23, which is the off-season, and the possibility of a new quarterly record-high earnings in 3Q23. In addition, BDMS has the least downside risk among its peers due to its greatest diversification of patient bases. The target price corresponds to 39x 2023F PE and 37x 2024F PE, respectively, close to -1SD to its five-year pre-COVID-19 historical average.

Share Price Catalyst

- Event: Strong growth of the wellness industry and support from the Thai government to promote Thailand as a medical hub, synergies created with BDMS' hospital network and the digital healthcare ecosystem, better-than-expected recovery in the number of international patients, and accretive M&A deals.
- Timeline: 2H23.

CPALL (Kampon Akaravarinchai)

- CP All (CPALL) is the operator of Thai 7-Eleven stores, controlling more than 50% of the convenience store market in Thailand.
- We are still positive on 2H23 earnings growth momentum. We expect 2H23 earnings to continue improving yoy, driven by the strong top-line growth from both the convenience stores and wholesale businesses. Also, the pressure from higher electricity costs is expected to be lower on a yoy basis. MAKRO was already refinancing all of the short-term USD loans with THB loans in Apr 23. Therefore, we believe that the interest expenses have already peaked in 1H23. Overall, 2023 earnings should grow by 25% yoy, driven by the aforementioned factors.
- Maintain BUY on CPALL with a target price of Bt78.00. Our target price is pegged to 42x 2023F PE or 1SD above its 10-year historical mean. We believe CPALL will be one of the biggest beneficiaries of the resumption in tourist arrivals and better consumption in suburban areas. The overhang on MAKRO's cost of funds in US dollar-debt is also gradually easing, and management guided that all of its US dollar-denominated loans will be converted to Thai baht by 2023. Although we expect consensus to revise down its earnings forecast for CPALL, we like the company's long-term growth outlook and believe that this is a good accumulation opportunity.

Share Price Catalyst

- Event: Better-than-expected gross profit margin improvement in 2Q23 and lower SGA-to-sales following the lower fuel adjustment charge (FT) rate.
- Timeline: 2H23.

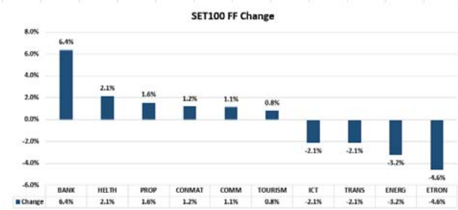
EARNING YIELD GAP – SENSITIVITY ANALYSIS

		Thailand 10Y government bond yield							
EPS 2023F	EYG	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	Note
94.73	4.25%	1,403	1,353	1,307	1,263	1,222	1,184	1,148	+1SD EYG
	4.00%	1,457	1,403	1,353	1,307	1,263	1,222	1,184	
	3.75%	1,516	1,457	1,403	1,353	1,307	1,263	1,222	
	3.50%	1,579	1,516	1,457	1,403	1,353	1,307	1,263	Mean EYG
	3.25%	1,647	1,579	1,516	1,457	1,403	1,353	1,307	
	3.00%	1,722	1,647	1,579	1,516	1,457	1,403	1,353	-1 SD EYG
	2.75%	1,804	1,722	1,647	1,579	1,516	1,457	1,403	
	2.50%	1,895	1,804	1,722	1,647	1,579	1,516	1,457	
	2.25%	1,994	1,895	1,804	1,722	1,647	1,579	1,516	
	2.00%	2,105	1,994	1,895	1,804	1,722	1,647	1,579	
	1.75%	2,229	2,105	1,994	1,895	1,804	1,722	1,647	

1432 32%

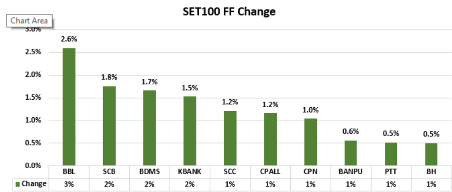
Source: UOB Kay Hian

SET100 FREE FLOAT AJUSTED – SECTOR



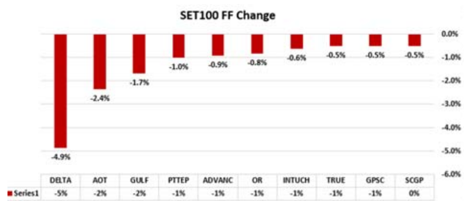
Source: UOB Kay Hian

SET100 FREE FLOAT AJUSTED - GAINER



Source: UOB Kay Hian

SET100 FREE FLOAT AJUSTED – LOSER



Source: UOB Kay Hian

Energy Absolute (Tanaporn Visaruthaphong, Kasemsun Koonnara)

- Energy Absolute (EA) and its subsidiaries operate three businesses: a) biodiesel, b) renewable power plants, and c) battery and electric vehicles.
- We reiterate a positive view on earnings, which are expected to hit a new record high in 2023. EA is expected to see minor impacts from the cut in FT rate, 1-2% of our 2023 earnings assumption. Negative operating cash flow is likely to continue till 4Q23 but improve from 1Q24 onwards. 3Q23 earnings are expected to increase yoy and qoq. Maintain BUY. Target price: Bt81.00.
- Maintain BUY on EA with a target price of Bt81.00. We value EA's renewable power plant business at Bt40.10/share, based on DCF. The cash flow is discounted to 2023. We value the biodiesel business at Bt1.00/share, assuming 20x 2023F PE. In addition, the battery and EV business is valued at Bt39.60/share.

Share Price Catalyst

- Timeline: 4Q23.

Major Cineplex Group (Tanaporn Visaruthaphong/ Thachasorn Jutaganon)

- Major Cineplex Group (MAJOR) is a cinema operator with related businesses like bowling, karaoke, rentals, cinema media and film distribution.
- We are anticipating sustained growth in admission revenue in 3Q23 through strong box office performance. We expect sustained growth in admission revenue for 2023, building on the momentum generated by upcoming blockbuster releases in 3Q23. Notable titles like Aquaman and the Lost Kingdom, Mission: Impossible - Dead Reckoning Part One, The Marvels, Barbie, Oppenheimer and a Thai movie named Long Live Love are poised to drive this recovery. Looking ahead to 4Q23, earnings outlook might slightly drop qoq due to off-season movies.
- Maintain BUY on MAJOR with a lower target price of Bt18.00 (previous: Bt23.00). We roll over our valuation to 2024 and de-rate valuation from mean PE to -1SD PE to reflect earnings that might be softer from 1H23 due to off-season movies. Our target price is based on 13x 2024F PE and -1SD to its five-year PE mean. We still like MAJOR due to many blockbuster movies in 3Q23. The stock is also less impacted by advertising expenditure compared with other players in the media industry.

Share Price Catalyst

- Event: More blockbuster movies, growth in cinema advertising income, recovery in the economy that could accelerate consumer spending, and a higher level of GDP.
- Timeline: 2H23.

PTT Oil And Retail Business (Tanaporn Visaruthaphong/Benjaphol Suthwanish)

- PTT Oil And Retail Business (OR) operates an integrated oil and non-oil retailing platform both in Thailand and abroad, including the sales and distribution of petroleum products and other products in retail and commercial marketing, coffee shops, other food and beverage outlets, convenience stores and space management offerings.
- We expect core profit to continue growing in 2Q23. This positive outlook is supported by increased oil sales and the expectation of marketing margin not being lower than 1Q23. According to the Energy Policy and Planning Office (EPPO) report, the marketing margin for diesel fuel in Bangkok in Apr 23 was Bt1.9/litre, surpassing the figures recorded in Feb 23 (Bt1.66/litre) and Mar 23 (Bt1.86/litre). This suggests a positive trend in marketing margins, and we expect 2Q23 marketing margin to be at least as high as 1Q23.
- Maintain BUY with a target price of Bt29.00, based on a five-year average PE of 24x. The projected outlook seems reasonable, with improving marketing margins, increased oil

sales volume and the alleviation of pressure from the oil fund. These factors have the potential to facilitate a sustained growth in OR's earnings in the forthcoming two quarters.

Share Price Catalyst

- Event: An increase in marketing margin will improve earnings.
- Timeline: 2023.

Thai Union Group (Kampon Akaravarinchai)

- Thai Union Group (TU) manufactures and exports frozen and canned seafood, including canned food, frozen food and snacks. It is also involved in pet food, value added product and animal feed.
- We foresee continuous qoq earnings recovery. We expect TU's 4Q23 earnings to see a qoq recovery, as its US and EU customers are restocking inventory, which will benefit TU's top-line. Also, we expect to see a gross margin recovery following higher ASPs and lower raw material costs. Overall, we still maintain our forecast of 2023 net profit declining by 32% yoy, mainly pressured by weak operations in 1H23. For 2024, we estimate a net profit growth of 22.5% yoy, driven by higher ASPs, a decline in costs, and a recovery in the pet food business.
- Maintain BUY with a target price of Bt17.40. We peg the forward PE target to TU's five-year mean of its latest PE band, which is equivalent to 14.5x. Our target price is based on 2024 EPS. We expect TU's earnings momentum to improve on a qoq basis in 2H23 and 2024 following lower raw material costs and a sales recovery.

Share Price Catalyst

- Event: Stronger-than-expected 2H23 earnings recovery momentum, and b) a significant improvement in TU's profitability from lower raw material costs.
- Timeline: 2H23 and 2024.

VALUATION

Company	Ticker	Rec.	Last Price 31 Oct 23 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	EPS Growth 2023F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Bangkok Dusit Medical Services	BDMS TB	BUY	26.50	33.00	24.53	11,689	33.4	31.1	29.5	7.3	4.3	4.5	2.2	14.1
CP All	CPALL TB	BUY	55.25	78.00	41.18	13,775	37.4	29.8	24.7	25.5	1.2	4.5	1.7	5.6
Energy Absolute	EA TB	BUY	42.00	81.00	92.86	4,348	20.6	17.1	16.8	20.3	0.8	3.3	0.7	20.2
Major Cineplex Group	MAJOR TB	BUY	15.20	18.00	18.42	377	53.9	15.2	11.9	255.9	0.1	2.1	6.6	12.4
PTT Oil And Retail Business	OR TB	BUY	18.30	29.00	58.47	6,095	21.2	14.9	14.2	41.9	0.4	0.9	2.0	6.5
Thai Union Group	TU TB	BUY	13.50	17.40	28.89	1,744	9.0	13.3	10.9	(32.1)	(0.4)	0.8	4.2	5.5

Source: UOB Kay Hian

SECTOR UPDATE

Media – Thailand

3Q23 Results Preview: Dim Outlook To Persist For Another Quarter

The media companies under our coverage are expected to achieve a net profit of Bt298m in 2Q23, reflecting flat yoy growth and a 59% qoq decline. The yoy earnings growth was mainly driven by the performance of MAJOR, while the qoq earnings growth was supported by ONEE. We maintain MARKET WEIGHT on the sector due to a sluggish economy, global political conflict, and uncertainties in the Thai stimulus package, which could lead to advertising budget cuts by many agencies.

WHAT'S NEW

- **Recovery of earnings remains feeble.** We project that media companies under our coverage, including Bec World (BEC), One Enterprise (ONEE), and Major Cineplex (MAJOR), will collectively report a net profit of Bt298m in 3Q23 (flat yoy, -59% qoq), mixing positive and negative direction. On a yoy basis, MAJOR is expected to outperform its peers by skyrocketing 192% yoy due to deferred tax and a low base in 3Q22 as the company booked loss from Major Cineplex Lifestyle Leasehold Property Fund (MJLF). Meanwhile, BEC's and ONEE's earnings should shrink 47% yoy and 8% yoy respectively due to soft revenue and gross margin. On a qoq basis, ONEE's earnings would be outstanding due to higher revenue, expanded gross margin, and lower SG&A-to-sales. MAJOR's earnings also should drop due to a high base of 2Q22's earnings from a gain from the M Pictures (MPIC) divestment and BEC's earnings is anticipated to decline due to lower revenue and higher SG&A-to-sales. In contrast, ONEE's earnings are projected to improve by 25% qoq due to higher revenue and gross margin and low SG&A-to-sales.
- **Challenging period lies ahead for TV broadcasters in 4Q23 and 2024.** We believe the media sector, especially TV broadcaster players may not see a strong recovery, due to the sluggish economy and global political conflict, which will lead to domestic and international agencies lowering adex and soft average advertising income per minute. Note that average advertising income of BEC in 3Q23 was around Bt58m, dropping 22% yoy and flattening qoq. The utilisation rate of BEC in 3Q23 should be around 70%, close with 3Q22 and 2Q23. Thus, we expect revenue of BEC and ONEE in 3Q23 at Bt978m (-13% yoy and 9% qoq) and Bt757m (flat yoy and qoq) respectively.
- **MAJOR's 3Q23 revenue should drop, but recover firmly in 4Q23.** In 3Q23, revenue of Major Cineplex (MAJOR) is expected to flatten yoy and drop qoq due to a lower number of movies releases from the off-season. Note that movies lined up for screening in 3Q23 include: a) Mission: Impossible – Dead Reckoning Part (Bt85m), b) Oppenheimer (Bt68m), c) Meg 2: The Trench (Bt68m), d) Long Live Love (Bt65m), and e) Barbie (Bt54m), which have combined revenue of Bt340m (-20% yoy and -40% qoq). Regarding this, we expect MAJOR to expose admission revenue of Bt817m (-5% yoy, -30% qoq). In contrast, we believe 4Q23's revenue will resume solid growth due to impressive revenue of two Thai movies named The Undertaker and Thee Yod, which is a collaboration between BEC and MAJOR.
- **Still adore cinema players due to remarkable success of Thai films.** We found that The Undertaker's revenue has now reached Bt700m within a month, becoming the highest grossing Thai movie in a decade. Moreover, there was a release of another Thai horror movie named Thee Yod, which grossed Bt39m on the first day of release. This movie broke the record of Pee Mak, which used to be the movie that had the highest revenue on the first day of release at Bt21m. Currently, Thee Yod has hit Bt300m. Moreover, there are many blockbuster movies in the pipeline, such as The Marvels, Hunger Games, and Aquaman. Given this, we anticipate that the revenue for 4Q23 could come close to the peak season of movies in 2Q23, reaching Bt500m-600m.

ACTION

- **Maintain MARKET WEIGHT on the media sector with ONEE and MAJOR as our top picks.** We maintain MARKET WEIGHT on the media sector mainly due to concerns on TV adex direction due to a cloudy outlook of the stimulus policy of the new government and the

MARKET WEIGHT

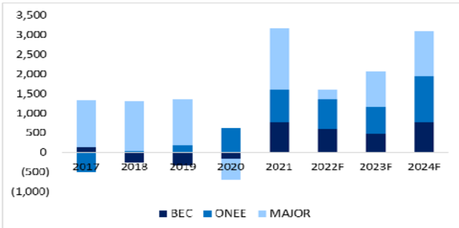
(Maintained)

OUR TOP PICK

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
Major Cineplex Group	MAJOR TB	BUY	15.20	18.0
The One Enterprise	ONEE TB	BUY	3.76	6.2

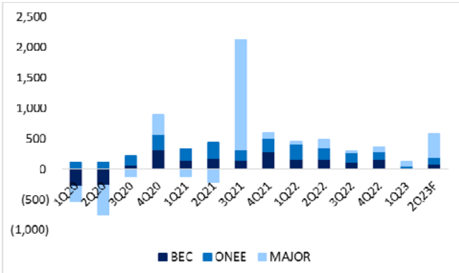
Source: UOB Kay Hian

NET PROFIT OUTLOOK IN 2023F



Source: BEC, ONEE, MAJOR, UOB Kay Hian

NET PROFIT OUTLOOK IN 2Q23F



Source: Nielsen, UOB Kay Hian

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Thachasorn Jutaganon

sluggish economy and political tension leading to reduced budget spending of many agencies. Considering these factors, we advise investors to consider TV broadcaster stocks that have a diversified portfolio in many businesses like ONEE. In addition, we also recommend cinema players like MAJOR due to a promising outlook in 4Q23 from on-season movies and the remarkable success of Thai films.

3Q23 RESULTS PREVIEW

	3Q23F	3Q22	2Q23	yoy(%)	qoq(%)
Revenue (Btm)					
BEC	1,151	1,302	1,149	(11.6)	0.2
ONEE	1,650	1,627	1,561	1.4	5.7
MAJOR	1,742	1,719	2,268	1.3	(23.2)
Total	4,542	4,648	4,978	(2.3)	(8.7)
Net profit (Btm)					
BEC	59	111	75	(47.1)	(21.3)
ONEE	151	164	121	(7.6)	25.2
MAJOR	88	21	532	325.2	(83.5)
Total	298	296	728	0.7	(59.1)
Gross margin (%)					
BEC	27.5	29.6	74.9	(2.1)	(1.4)
ONEE	39.3	40.7	121.0	(1.4)	1.5
MAJOR	28.7	31.6	532.5	(2.9)	(4.1)
Total	33.5	33.6	28.7	(0.2)	4.8
SG&A-to-revenue (%)					
BEC	19.0	17.2	18.7	1.8	0.3
ONEE	30.5	29.7	30.0	0.8	0.5
MAJOR	41.4	41.1	30.1	0.3	11.3
Total	27.4	27.7	30.4	(0.2)	(2.9)

Source: BEC, ONEE, MAJOR, UOB Kay Hian

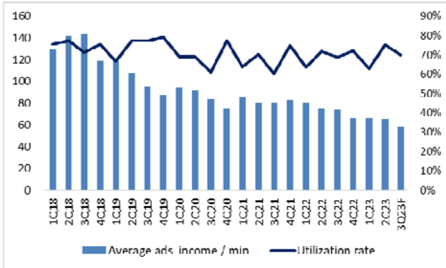
3Q23 EARNINGS OUTLOOK

- **BEC: Earnings expected to plunge again in 3Q23.** We expect BEC to post 3Q23 earnings of Bt59m (-47% yoy, -21% qoq). Earnings should still drop yoy and qoq, pressured by softer revenue, squeezed gross margin, and lower SG&A-to-sales. Revenue is anticipated to come in at Bt1.2b, dropping 12% yoy and 15% qoq chiefly contracted by advertising revenue from lower average advertising income per minute of around Bt58m in 3Q23 (-22% yoy, flat qoq) and flat utilisation rate of approximately 70% in this quarter. Copyright revenue should be flat, but increase qoq, moving the same direction with a number of drama sales. Gross margin should be around 27.5%, dropping 2.1 ppt yoy and 0.2 ppt qoq due to poorer product mix. SG&A-to-sales should be around 19.5% (+1.9 ppt yoy, +0.6 ppt qoq) due to rising market activity.

- **ONEE: Astonishing qoq earnings growth in 3Q23.** We estimate 3Q23 earnings at Bt151m (-8% yoy, +25% qoq). Yoy earnings should decline due to lower revenue and higher SG&A-to-sales. Meanwhile, qoq earnings performed well, underpinned by robust revenue, expanded gross margin, and squeezed SG&A-to-sales. Revenue is forecasted to improve 10% yoy and 13% qoq, mainly supported by revenue from: a) events and concerts from a higher number of events in both domestic and foreign countries, b) copyright from more content and better selling prices, and c) artiste management from the positive sentiment of content in 2Q23. In terms of advertising revenue, it should be flat yoy and qoq due to adding more airtimes on Saturday. Gross margin is expected to come in at 39.8%, dropping 0.9 ppt yoy due to a higher number of content, but increasing 0.8 ppt qoq thanks to stronger revenue.

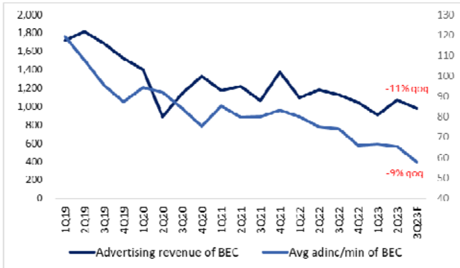
- **MAJOR: Softer earnings due to lower line-up of movies.** We expect MAJOR to post 3Q23 net profit of Bt88m, increasing 325% due to low base from loss of MJLF in 3Q22, but dropping 84% qoq due to the high base from one-time item that the company gained from the MPIC divestment in 2Q22. Core profit on a yoy basis should skyrocket 97% yoy, but drop 34% qoq. 3Q23 revenue should be flat yoy and decrease 24% qoq, pressured by admission, concession, rental, and movie content revenues. For admission revenue, it is expected to drop 5% yoy and 30% qoq to Bt817m due to fewer number of movies released. Given this,

AVERAGE ADS INCOME PER MINUTES AND UTILISATION RATE OF BEC



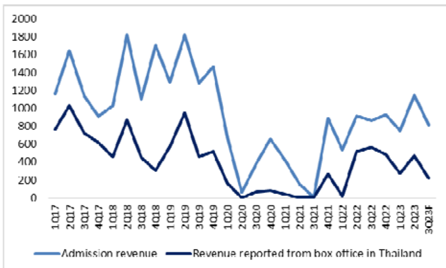
Source: BEC, UOB Kay Hian

BEC'S ADVERTISING REVENUE AND AVERAGE ADS INCOME PER MINUTES



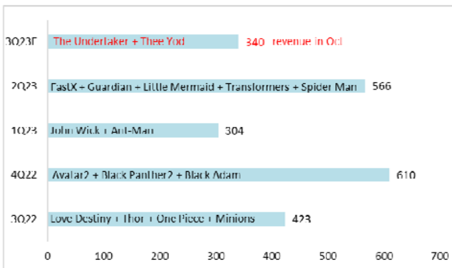
Source: BEC, UOB Kay Hian

CORRELATION OF REVENUE OF BOX OFFICE IN THAILAND AND ADMISSION REVENUE



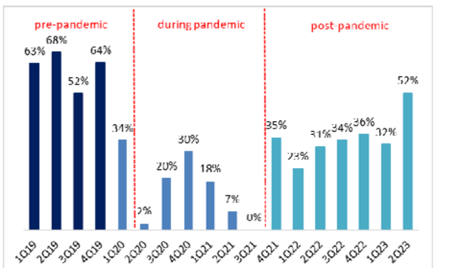
Source: Box Office Mojo, MAJOR, UOB Kay Hian

BLOCKBUSTER REVENUE (2Q23)



Source: MAJOR, UOB Kay Hian

OUR FORECASTED OCCUPANCY RATE



Source: MAJOR, UOB Kay Hian

concession revenue is also expected to drop 5% yoy and 32% qoq to Bt450m, riding on admission revenue. Gross margin should be around 28.7% (-2.9 ppt yoy, -4.2 ppt qoq) due to lower revenue and higher rental expenses. SG&A-to-sales should rise 1.8 ppt yoy, 6.5 ppt qoq to29.3% due to higher marketing cost.

EARNINGS REVISION

- **BEC.** We revised our 2023-24 earnings forecasts up by 52% and 51% respectively mainly to factor in lower revenue and softer gross margin from lower average advertising income per minute. We also revise up SG&A-to sales, riding on softer revenues.

EARNINGS REVISION

	------------------ 2023F	------------------		------------------ 2024F	------------------	
(Btm)	New	Old	%Chg	New	Old	%Chg
Revenue	4,698	4,900	-4%	4,765	5,216	-9%
Average advertising income / min	61.00	65.00	-6%	65.0	73.0	-11%
Net profit	228	471	-52%	326	663	-51%
Gross profit margin (%)	25.8	28.1	-2.3	27.2	32.2	-5.0
SG&A-to-sales (%)	18.5	16.9	1.6	18.7	18.2	0.5

Source: BEC, UOB Kay Hian

VALUATION

- **BEC: Maintain HOLD with a lower target price of Bt5.50 (previous: Bt8.20).** We roll over valuation to 2024. Our target price is based on 34x 2024F PE, in line with the domestic media industry's 2024F +1SD PE. We recommend HOLD on BEC and revise down the target price due to the cloudy outlook of advertising revenue from soft TV adex and the company also lowered the target revenue of copyright.

- **ONEE: Maintain BUY with a higher target price of Bt6.20 (previous: Bt5.50).** Our target price is based on 21x 2024F PE, in line with the domestic media industry's 2024F PE mean. We expect ONEE's 4Q23 outlook to be underpinned by the variety of revenue streams. Moreover, ONEE has the highest price upside among its peers.

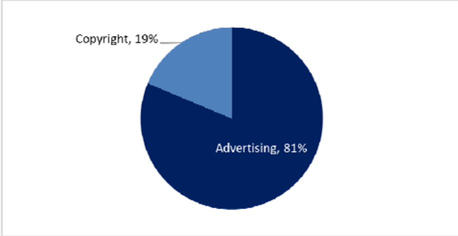
- **MAJOR: Maintain BUY with a target price of Bt18.00.** Our target price is based on 13x 2024F PE and -1SD to its five-year PE mean. We still like MAJOR as we expect to see strong 4Q23 earnings due to a high number of movies released — both blockbusters and Thai movies. Also, the stock is also less impacted by adex compared with other players in the media industry.

SECTOR CATALYSTS

- **For TV broadcaster players:** Solid economic growth, strong consumer spending, robust TV adex, and impressive content of dramas, news, and series.

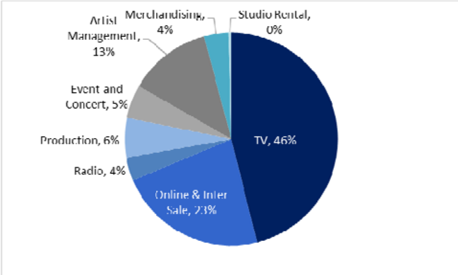
- **For cinema operators:** Strong line-up of blockbuster movies, growth in cinema adex, and higher number of cinema-goers.

BEC'S REVENUE PROPORTION (2023)



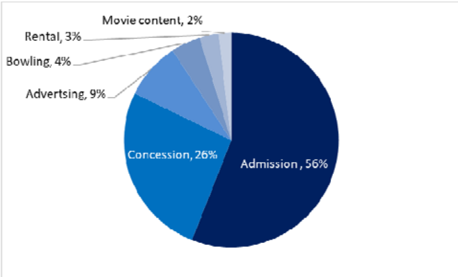
Source: BEC, UOB Kay Hian

ONEE'S REVENUE PROPORTION (2023)



Source: ONEE, UOB Kay Hian

MAJOR'S REVENUE PROPORTION (2023)



Source: MAJOR, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	EPS CAGR 2022-24F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Bec World	BEC TB	HOLD	5.40	5.5	1.9	300	26.0	47.4	33.1	(11.5)	(1.0)	2.6	1.7	3.7
Major Cineplex Group	MAJOR TB	BUY	15.20	18.0	18.4	377	53.9	15.2	11.9	112.9	0.1	2.1	6.6	12.4
The One Enterprise	ONEE TB	BUY	3.76	6.2	64.9	249	12.0	17.9	14.7	(9.7)	(0.5)	1.2	2.2	6.8
Sector						926	33.6	26.3	19.5			2.0	3.9	8.1

Source: UOB Kay Hian

SECTOR UPDATE

Hotel – Thailand

3Q23 Results Preview: RevPar Of All Hotel Operators To Normalise To 2019's Levels

The combined profit of hotel stocks was Bt2.9b (+43% yoy, -14% qoq), dragged down by global plays (MINT). Meanwhile, the earnings of domestic plays improved qoq, with CENTEL improving the most, followed by ERW and AWC. Looking ahead, the earnings of domestic plays should continue to rise, thanks to a seasonal impact and supportive policies. Our top picks are ERW and CENTEL. MARKET WEIGHT on the sector.

WHAT'S NEW

- **3Q23 earnings of domestic plays are likely to improve qoq.** We estimate the combined net profit of hotel stocks under our coverage at Bt3.9b (-29% yoy, -16% qoq), while the combined core profit should stand at Bt2.9b (+43% yoy, -14% qoq). The improvement in yoy earnings is driven by all hotel operators. However, a decline in qoq earnings is dragged down by the global player Minor International (MINT) due to the seasonal impact of hotels in Europe. Meanwhile, the core earnings of domestic plays (Asset World Corporation (AWC), Central Plaza Hotel (CENTEL), and The Erawan Group (ERW)) are likely to increase qoq, thanks to a continued increase in international arrivals to Thailand (+96% yoy, +10% qoq, 27% below pre-COVID-19 levels).
- **All hotel operators' RevPar should normalise to pre-COVID-19 levels.** In terms of RevPar performance, MINT is expected to stand out the most (40% above pre-COVID-19 levels), followed by ERW (17% above pre-COVID-19 levels), CENTEL (3% above pre-COVID-19 levels), and AWC (normalised to pre-COVID-19 levels). For MINT and ERW, their earnings in 3Q23 are likely to exceed pre-COVID-19 levels by 77% for MINT and 260% for ERW. Meanwhile, 3Q23 earnings of CENTEL and AWC are expected to remain below 2019 levels by 36% for CENTEL and 27% for AWC due to the weak performance of hotels in Maldives and expenses incurred for opening new hotels. However, in terms of qoq earnings growth in 3Q23, the ranking would be: CENTEL (+47% qoq), ERW (+5% qoq), AWC (+3% qoq), and MINT (-17% qoq). CENTEL has the strongest growth due to its low base earnings in 2Q23, resulting from recognising expenses for opening a new hotel.
- **Choose domestic plays for 4Q23 and 1Q24.** The earnings of domestic plays (AWC, CENTE, ERW) are likely to outperform, driven by the high season of travel in Thailand and the continued influx of international tourists, along with supportive policies (visa exemptions and extended lengths of stay). Specifically, hotels in upcountry Thailand will be more attractive than hotels in Bangkok due to changes in the mix of nationalities and an increase in the foreign visitor recovery rate in upcountry areas, rising from 79% in 2Q23 to 90% in 3Q23 (vs the decrease of foreign visitor recovery rate in Bangkok from 105% in 2Q23 to 95% in 3Q23). Meanwhile, the earnings of the global player (MINT) are likely to underperform due to the low season of travel in Europe.

ACTION

- **Maintain MARKET WEIGHT; our top picks are ERW and CENTEL.** Despite the slower-than-expected recovery in the number of Chinese visitors, this is expected to be partially offset by an increase in visitors from other countries and supportive visa policies. We choose ERW as our top pick due to its continued robust earnings performance. Additionally, we have a positive outlook for CENTEL as its earnings hit a bottom in 2Q23.

MARKET WEIGHT

(Maintained)

OUR TOP PICK

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
Central Plaza Hotel	CENTEL	BUY	45.00	52.00
The Erawan Group	ERW	BUY	5.20	6.50

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	EPS CAGR 2022-24F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Asset World Corp	AWC TB	HOLD	3.46	5.30	53.2	3,073	28.7	94.6	62.8	(32.4)	(1.4)	1.3	0.4	1.4
Central Plaza Hotel	CENTEL TB	BUY	45.00	52.00	15.6	1,686	152.6	45.5	30.9	122.2	0.2	3.1	0.9	6.8
The Erawan Group	ERW TB	BUY	5.20	6.50	25.0	654	n.a.	36.1	30.2	na	(0.1)	3.6	1.2	10.9
Minor International	MINT TB	BUY	28.00	42.00	50.0	4,349	34.7	27.0	20.6	29.8	0.9	1.9	1.2	6.5
Sector						9,762	50.9	52.1	36.3			2.0	0.9	5.2

Source: UOB Kay Hian

3Q23 KEY PERFORMANCE

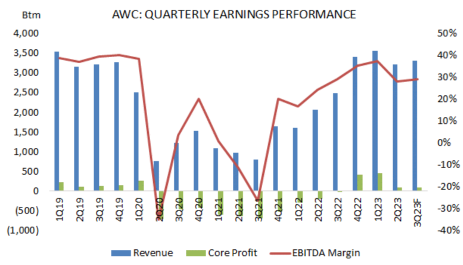
	3Q19	3Q22	4Q22	1Q23	2Q23	3Q23F	yoy chg	qoq chg	To Pre-COVID
Occupancy rate									
AWC	77%	53%	64%	68%	63%	64%	11.0 ppt	1.5 ppt	83.5%
CENTEL	75%	55%	66%	77%	65%	68%	13.3 ppt	3.7 ppt	91.4%
ERW	74%	69%	79%	81%	80%	81%	12.6 ppt	1.7 ppt	110.4%
MINT	74%	68%	63%	59%	70%	71%	3.0 ppt	1.0 ppt	95.9%
Avg	74%	66%	65%	64%	70%	72%	5.4 ppt	1.3 ppt	96.7%
ADR (Bt/night)									
AWC	4,571	4,920	5,697	6,100	5,367	5,400	9.8%	0.6%	118.1%
CENTEL	3,825	4,122	4,728	5,223	4,314	4,330	5.0%	0.4%	113.2%
ERW	1,661	1,521	1,760	1,794	1,709	1,762	15.9%	3.1%	106.1%
MINT	3,763	5,122	5,009	4,645	5,842	5,450	6.4%	-6.7%	144.8%
Avg	3,544	4,566	4,505	4,305	5,089	4,814	5.4%	-5.4%	135.8%
RevPar									
AWC	3,487	2,608	3,618	4,152	3,356	3,456	32.5%	3.0%	99.1%
CENTEL	2,858	2,148	3,122	4,025	2,792	2,956	37.6%	5.9%	103.4%
ERW	1,223	1,045	1,391	1,459	1,361	1,433	37.1%	5.3%	117.1%
MINT	2,773	3,476	3,176	2,737	4,118	3,870	11.3%	-6.0%	139.5%
Avg	2,627	3,026	2,947	2,745	3,584	3,451	14.1%	-3.7%	131.4%
SSSG (%)									
CENTEL	-8.4%	43.0%	12.0%	8.0%	5.0%	0.0%	-43.0 ppt	-5.0 ppt	
MINT	-3.7%	16.6%	4.4%	11.4%	8.1%	-2.0%	-18.6 ppt	-10.1 ppt	
Avg	-6.1%	29.8%	8.2%	9.7%	6.6%	-1.0%	-30.8 ppt	-7.6 ppt	

Source: Respective companies, UOB Kay Hian

3Q23 EARNINGS PREVIEW

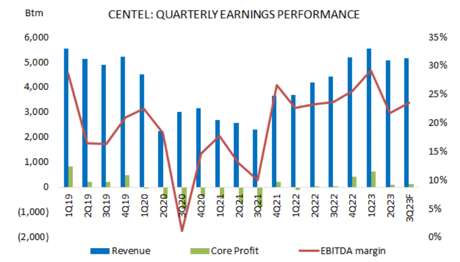
- **AWC: RevPar is close to normalised levels.** We expect AWC to report a net profit of Bt1.1b (+12% yoy, +2% qoq) in 3Q23, while core profit should stand at Bt89m (+1,406% yoy, +3% qoq), fuelled by robust ADR in hotel operations. For hotel operations, occupancy has improved slightly but still remains below normalised levels of 64% in 3Q23 (vs 63% in 2Q23, 53% in 3Q22, and 77% in 3Q19). Additionally, ADR continues to rise by 10% yoy, remaining flat qoq and exceeding pre-COVID-19 levels by 18%. Therefore, RevPar in 3Q23 is expected to increase by 33% yoy, 3% qoq, reaching its normalised levels. For the retail and office businesses, occupancy rate for Asiatique (accounting for 4% of revenue) is expected to improve yoy but decline qoq to 60% in 3Q23 (vs to 66% in 2Q23, 37% in 3Q22, and 89% in 3Q19) due to the end of Disney Village events.
- **CENTEL: RevPar exceeds 2019 levels by 3% despite weak hotel performance in the Maldives.** The company is expected to report a net profit and core profit of Bt132m (+2,127% yoy, +47% qoq), mainly underpinned by an improvement in hotel performance, especially in Bangkok. For the hotel operations, the portfolio's RevPar has increased by 38% yoy, 6% qoq, and is 3% above pre-COVID-19 levels. RevPar in Bangkok is likely to outperform the most (34% above pre-COVID-19 levels), followed by RevPar in upcountry areas (13% above pre-COVID-19 levels). Meanwhile, RevPar for hotel performance in the Maldives remains weak (42% below pre-COVID-19 levels) due to the reopening of other countries within the region and losing market share to guesthouses. Furthermore, the new hotel performance in Japan (opened 1 Jul 23) shows impressive figures with an occupancy rate of 67%. For food operations, same-store sales growth (SSSG) remains flat yoy.
- **ERW: RevPar continues to surpass 2019 levels by 17% due to good recovery of Bangkok hotels.** ERW is expected to report a net profit for 2Q23 at Bt132m (+1,250% yoy, -7% qoq), while the core profit should be Bt127m (+954% yoy, +5% qoq), standing above 2019 earnings for two consecutive quarters. Despite an expense associated with hotel investment in Japan at Bt20m, this should be partially offset by robust hotel performance in all segments, with an occupancy rate of 81% in 3Q23 (vs 80% in 2Q23, 69% in 3Q22, and 10% above pre-COVID-19 levels). ADR increased by 16% yoy, 3% qoq, and being 6% above pre-COVID-19 levels. As a result, the portfolio's RevPar should continue to improve by 37% yoy, 5% qoq, and being 17% above pre-COVID-19 levels.
- **MINT: RevPar surpasses 2019 levels by 40%, driven by hotels in Europe.** We expect MINT to report a net profit and core profit of Bt2.5b in 3Q23 (+25% yoy, -17% qoq), driven mainly by the hotel business, especially in Europe and Thailand. RevPar for hotels in Europe (65% of hotel business revenue) is expected to outperform the most (+11% yoy, -4% qoq,

AWC QUARTERLY EARNINGS PERFORMANCE



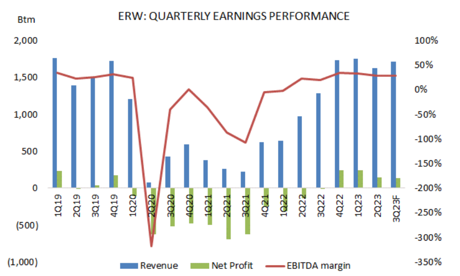
Source: AWC, UOB Kay Hian

CENTEL QUARTERLY EARNINGS PERFORMANCE



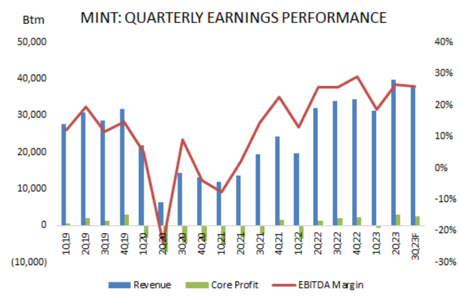
Source: CENTEL, UOB Kay Hian

ERW QUARTERLY EARNINGS PERFORMANCE



Source: ERW, UOB Kay Hian

MINT QUARTERLY EARNINGS PERFORMANCE



Source: MINT, UOB Kay Hian

35% above pre-COVID-19 levels), followed by Thailand (+25% yoy, +2% qoq, normalised to pre-COVID-19 levels). However, RevPar for hotels in the Maldives continues to underperform (-25% yoy, -23% qoq, 12% below pre-COVID-19 levels). For the food business, SSSG is likely to drop slightly by 2% yoy due to a high base from pent-up consumption following the full reopening of the countries.

3Q23 RESULTS PREVIEW

	3Q22	2Q23	3Q23F	yoy chg	qoq chg
Core revenue (Btm)					
AWC	2,479	3,216	3,302	33.2%	2.7%
CENTEL	4,430	5,057	5,156	16.4%	1.9%
ERW	1,283	1,623	1,713	33.5%	5.5%
MINT	33,930	39,738	37,786	11.4%	-4.9%
Total	42,122	49,635	47,956	13.9%	-3.4%
Core profit (Btm)					
AWC	(7)	86	89	1,406.4%	2.7%
CENTEL	6	90	132	2,126.8%	46.5%
ERW	(15)	121	127	954.4%	5.3%
MINT	2,011	3,005	2,504	24.5%	-16.7%
Total	1,995	3,303	2,853	43.0%	-13.6%
Net profit (Btm)					
AWC	1,026	1,122	1,146	11.7%	2.2%
CENTEL	(78)	121	132	269.4%	9.6%
ERW	(12)	142	132	1249.4%	-6.7%
MINT	4,608	3,255	2,504	-45.7%	-23.1%
Total	5,545	4,639	3,916	-29.4%	-15.6%
EBITDA margin (%)					
AWC	29.0%	28.1%	29.1%	0.1 ppt	1.0 ppt
CENTEL	23.6%	21.7%	23.6%	0.0 ppt	1.9 ppt
ERW	20.3%	29.0%	28.9%	8.6 ppt	-0.1 ppt
MINT	25.5%	26.5%	26.0%	0.4 ppt	-0.5 ppt
Total	25.4%	26.2%	26.0%	0.7 ppt	-0.1 ppt

Source: Respective companies, UOB Kay Hian

SECTOR CATALYSTS

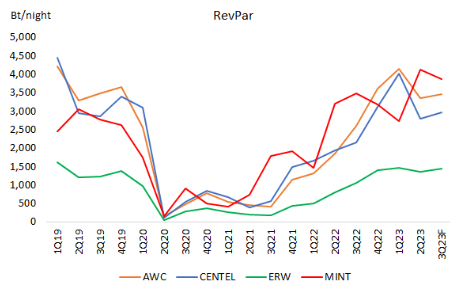
- **Additional approvals of visa exemptions**. After the Cabinet approved free visas for Chinese and Kazakhstani tourists and extended the length of stay for Russian tourists, the Thai Cabinet gave the green light for visa exemptions for two additional countries on 31 Oct 23, namely India and Taiwan. The effective date will begin on 10 Nov 23 and continue until 10 May 23 (six months), with a maximum length of stay of 30 days. Although this policy is expected to boost the number of tourists in the short term, the average spending and length of stay for Indian and Taiwanese tourists are below the overall average. Thus, we are only slightly positive on the recent visa exemption policy for Indian and Taiwanese visitors. We expect ERW to benefit the most, with contributions from Indian guests at 6%, followed by CENTEL at 4%.

SUMMARY BOOSTING POLICY FOR TOURISM INDUSTRY

	-------------------- Policy details --------------------			------------------------- 2019 -------------------------			
Countries	Boosting Policy	Effective date	Approval length of stay (days)	Contribution in 2019	Avg. length of stay (days)	Spending per trips (compare to total avg.)	Recovery rate of tourists arrivals in 2023
China	Visa exemption	25 Sep 23 - 29 Feb 23	30	28%	8	1%	29%
Kazakhstan	Visa exemption	25 Sep 23 - 29 Feb 23	30	Less than 1%	na	na	na
Russia	Extend length of stay	1 Nov 23 - 30 Apr 23	90	4%	17	44%	102%
India	Visa exemption	10 Nov 23 - 10 May 23	30	5%	7	-17%	79%
Taiwan	Visa exemption	10 Nov 23 - 10 May 23	30	2%	8	-12%	88%

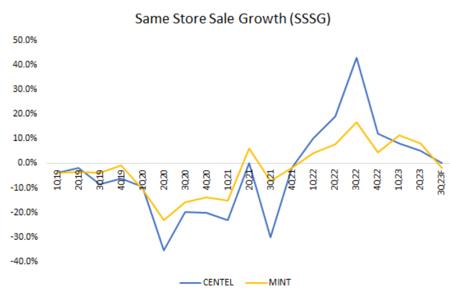
Source: MOTS, UOB Kay Hian

REVPAR COMPARISON BY QUARTER



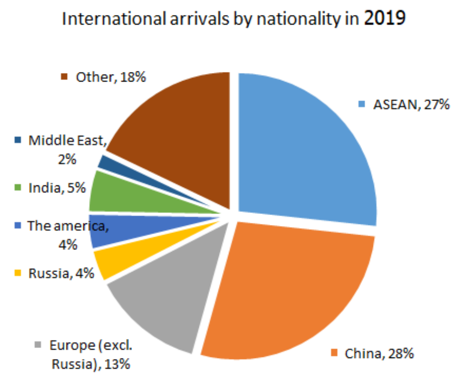
Source: Respective companies, UOB Kay Hian

SSSG COMPARISON BY QUARTER



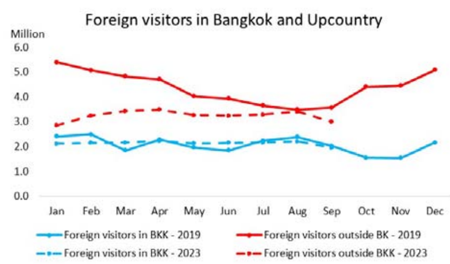
Source: Respective companies, UOB Kay Hian

SHARE OF INTERNATIONAL ARRIVALS IN 2019



Source: MOTS, UOB Kay Hian

FOREIGN VISITORS



Source: MOTS, UOB Kay Hian

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