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### GREATER CHINA

#### Results

**Kingsoft Corp (3888 HK/BUY/HK\$30.50/Target: HK\$36.00)** Page 2

3Q23: Earnings miss; positive on game pipeline and WPS AI.

**Tongcheng Travel Holdings (780 HK/BUY/HK\$15.14/Target: HK\$21.00)** Page 5

3Q23: Earnings beat; 2024 outlook remains intact despite normalising industry growth.

#### Update

**Hansoh Pharmaceutical Group Company** Page 8

(3692 HK/BUY/HK\$14.54/Target:HK\$17.50)

3Q23: Expects innovative drugs to support significant revenue growth recovery in 2024.

### INDONESIA

#### Results

**Merdeka Copper Gold (MDKA IJ/BUY/Rp2,100/Target: Rp3,000)** Page 11

3Q23: Net profit turnaround on additional nickel capacity; above expectations. Upgrade to BUY.

### MALAYSIA

#### Results

**Inari Amertron (INRI MK/BUY/RM3.00/Target: RM3.60)** Page 14

1QFY24: Results missed expectations, dragged by one-off events. A sequentially stronger quarter is in sight, which will partially make up for the shortfall.

**Kuala Lumpur Kepong (KLK MK/BUY/RM21.52/Target: RM25.90)** Page 17

FY23: Results below expectations mainly due to higher-than-expected investment holdings losses and lower-than-expected CPO ASP.

**Malayan Banking (MAY MK/HOLD/RM9.10/Target: RM9.55)** Page 20

3Q23: Results were largely in line. Earnings were supported by lower provisions and absence of prosperity tax. Pre-provision operating profit was weak, declining 12% yoy.

**MISC (MISC MK/BUY/RM7.22/Target: RM8.80)** Page 23

3Q23: Profits were in line. MISC stands a decent chance of benefitting from green retrofits/ventures, and new LNG demand.

### SINGAPORE

#### Results

**Frencken Group (FRKN SP/BUY/S\$1.08/Target: S\$1.23)** Page 26

3Q23: Results in line; sequential recovery trend continues.

### THAILAND

#### Sector

**Property** Page 29

3Q23: Results wrap-up; multiple headwinds in 2024. Downgrade to UNDERWEIGHT.

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	35273.0	0.5	0.8	6.5	6.4
S&P 500	4556.6	0.4	1.2	7.9	18.7
FTSE 100	7469.5	(0.2)	(0.2)	0.9	0.2
AS30	7277.8	(0.2)	(0.5)	3.5	0.8
CSI 300	3544.4	(1.0)	(1.7)	2.0	(8.5)
FSSTI	3114.9	0.6	(0.5)	2.0	(4.2)
HSCEI	6074.8	(0.0)	(2.1)	3.5	(9.4)
HSI	17734.6	0.0	(1.9)	3.3	(10.3)
JCI	6907.0	(0.8)	(0.7)	2.4	0.8
KLCI	1455.9	(0.5)	(0.7)	1.2	(2.6)
KOSPI	2511.7	0.1	1.0	6.6	12.3
Nikkei 225	33451.8	0.3	(0.2)	7.9	28.2
SET	1414.2	(0.7)	(0.1)	1.1	(15.3)
TWSE	17310.3	(0.6)	1.1	6.5	22.4
BDI	1755	(2.3)	4.0	(14.2)	15.8
CPO (RM/mt)	3832	1.4	2.6	3.8	(5.3)
Brent Crude (US\$/bbl)	82	(0.9)	0.6	(11.4)	(4.9)

Source: Bloomberg

### TOP PICKS

	Ticker	CP (1cy)	TP (1cy)	Pot. +/- (%)
BUY				
Ania Sports	2020 HK	82.30	128.00	55.5
BYD	1211 HK	240.00	630.00	162.5
Bank Neo Commerce	BBYB IJ	250.00	390.00	56.0
Bumi Serpong	BSDE IJ	1,025.00	1,420.00	38.5
HM Sampoerna	HMSP IJ	950.00	1,300.00	36.8
My EG Services	MYEG MK	0.82	1.21	47.6
Yinson	YNS MK	2.48	3.75	51.2
OCBC	OCBC SP	12.82	17.35	35.3
CP ALL	CPALL TB	56.00	76.00	35.7
Indorama	IVL TB	26.00	30.00	15.4

### 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
Regional 1H2024 Strategy Conference	Malaysia	6 Dec	6 Dec

COMPANY RESULTS

**Kingsoft Corp (3888 HK)**

3Q23: Earnings Miss; Positive On Game Pipeline And WPS AI

**Kingsoft's 3Q23 results fell below expectations. Revenue grew 12% yoy to Rmb2.1b, below the street's estimate. Gross margin expanded 2ppt yoy to 81.4%, in line with the street's expectation. Non-IFRS operating profit rose 14% yoy to Rmb449m, while operating margin remained flattish yoy at 22%, driven by improved operating efficiency. Net profit was Rmb28m, down 50% qoq, below our expectation. Maintain BUY with a lower target price of HK\$36.00.**

3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	2Q23	3Q23	qoq % chg	yoy % chg	UOB	Var	Cons	Var
TOTAL REVENUE	1,837	2,193	2,060	(6.1%)	12.1%	2,176	(5.3%)	2,126	(3.1%)
Online Game	832	1,073	961	(10.4%)	15.5%	982	(2.1%)		
Office Software & Others	1,005	1,121	1,098	(2.0%)	9.3%	1,193	(8.0%)		
Cost of services	-371	-362	-383	(5.9%)	(3.2%)	-392	2.2%		
Gross profit	1,466	1,832	1,677	(8.5%)	14.4%	1,784	(6.0%)	1,731	(3.1%)
online game GPM	71%	77%	76%	(1.1 ppt)	4.7 ppt	77%	-1 ppt		
WPS GPM	87%	90%	86%	(3.5 ppt)	(0.7 ppt)	86%	0 ppt		
online game OPM	4%	22%	-7%	(28.6 ppt)	(10.7 ppt)	12%	-18 ppt		
WPS OPM	30%	39%	40%	0.8 ppt	10.4 ppt	30%	10 ppt		
Non IFRS Operating profit	395	767	449	(41.4%)	13.5%	555	(19.1%)	503	(10.8%)
Non-IFRS OPM	22%	35%	22%	(13.2 ppt)	0.3 ppt	26%	(3.7 ppt)		
Net profit	-6,055	57	28	(50.2%)	n.a.	162	-82%		
Diluted EPS (RMB)	-4.44	0.04	0.02	(50.0%)	n.a.	0.00	n.a.		
GPM	79.8%	83.5%	81.4%	(2.1 ppt)	1.6 ppt	82.0%	-1 ppt	81.4%	(0.0 ppt)
Non-IFRS Net margin	26.9%	11.4%	4.0%	(7.4 ppt)	(22.9 ppt)	10.9%	-7 ppt		

Source: Kingsoft Corp Ltd, UOB Kay Hian

RESULTS

• **Online games' revenue growth momentum remains intact.** Kingsoft Corp's (Kingsoft) online games' revenue ramped up by 15% yoy to Rmb961m (vs 2Q23: 17%, 3Q22: -8%) in 3Q23. This was mainly supported by JX3 Online and revenue contribution from Snowbreak: Containment Zone launched in July. However, this was partially offset by a decline in revenue from the existing mobile games such as JX World III and JX I: Gui Lai. The company expects positive growth in games revenue in the following quarters. Full-year guidance for online games' revenue remains unchanged at single-digit yoy growth in view of the intense competitive environment. Operating margin for 2023 is guided to be flat yoy. We forecast 2023/24 online game revenue growth to be 10%/13% respectively, mainly underpinned by solid games pipeline.

• **Subdued Kingsoft Office (KO, or WPS) performance.** KO revenue growth decelerated to 9% yoy at Rmb1.1b (vs 2Q23: +21%. 3Q22: +25%), primarily dragged by a decline in revenue from the domestic institutional licensing business due to a reduction in new purchase orders and localisation solutions. For the individual subscription business, the company's monthly active devices of key products grew 2% yoy to 589m. In 3Q23, Kingsoft invested in independently-developed small- and medium-sized models and formed strategic partnerships with Alibaba Cloud and iFlytek to co-build a digital and intelligent service ecosystem. 3Q23 net profit remained flattish yoy at Rmb28m, attributed to stringent cost control, offset by a rise in AI-related costs.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	6,371	7,637	8,704	10,305	11,777
EBITDA	1,668	2,215	2,495	2,738	3,852
Operating profit	1,361	1,869	2,079	2,130	3,043
Net profit (rep./act.)	395	(6,050)	520	954	1,617
Net profit (adj.)	(228)	711	868	1,318	2,033
EPS (Fen)	(16.3)	49.6	63.5	96.4	148.0
PE (x)	n.m.	56.3	44.0	29.0	18.9
P/B (x)	1.2	1.6	1.5	1.5	1.4
EV/EBITDA (x)	10.2	7.6	6.8	6.2	4.4
Dividend yield (%)	0.0	0.0	0.0	0.0	2.9
Net margin (%)	6.2	(79.2)	6.0	9.3	13.7
Net debt/(cash) to equity (%)	(49.4)	(73.9)	(82.4)	(83.8)	(83.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	1.2	n.a.	2.1	3.7	6.0
Consensus net profit	-	-	643	1,165	1,512
UOBKH/Consensus (x)	-	-	1.35	1.13	1.34

Source: Kingsoft Corp Ltd, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	HK\$30.50
Target Price	HK\$36.00
Upside	+18.0%
(Previous TP)	HK\$40.00)

COMPANY DESCRIPTION

The company is a leading provider of software and internet service.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	3888 HK
Shares issued (m):	1,365.5
Market cap (HK\$m):	41,649.1
Market cap (US\$m):	5,342.4
3-mth avg daily t'over (US\$m):	18.5

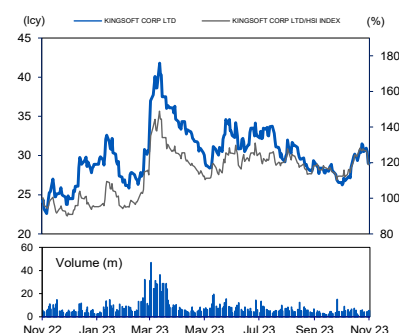
Price Performance (%)

52-week high/low	HK\$41.80/HK\$22.60
1mth	14.9
3mth	4.5
6mth	(1.3)
1yr	22.2
YTD	16.9

Major Shareholders

Lei Jun	22.6
TCH Saffron Ltd	7.8
Pak Kwan Kau	7.3
FY23 NAV/Share (Rmb)	18.40
FY23 Net Cash/Share (Rmb)	15.17

PRICE CHART



Source: Bloomberg

ANALYST(S)

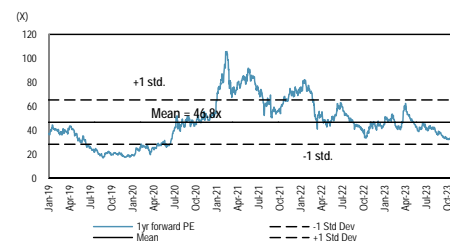
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### STOCK IMPACT

- Margin performance.** Total opex as a percentage of total revenue edged up to 63% in 3Q23 vs 62% in 3Q22, attributed to increased personnel-related expenses. Sales & marketing (S&M) expenses grew 24% yoy, primarily due to the marketing campaigns for newly-launched games.
- Key highlights for online games in 3Q23...** a) In 3Q23, JX Online III underwent updates constantly. In October, it launched the beta test with ultimate graphic quality and a new expansion pack to ensure the ongoing success of the intellectual property (IP); b) World of Sword Origin was released in China in September and received recognition from players. This mobile game was transformed from PC game through optimising and upgrading the graphics and gameplay details while maintaining traditional 2D graphics and classic gameplay; and c) optimisation of the anime game Snowbreak: Containment Zone on an ongoing basis.
- ...and solid pipeline in 2024.** a) The mobile version of JX3 Ultimate has received licence approval and is expected to be launched in 1H24 to achieve accessibility through all platforms. This mobile version of JX Online III will be seamlessly connected with Kingsoft's PC version, expanding the user base and enhancing the overall gaming experience; b) World of Sword Origin has been approved by regulators and is currently slated to launch in 1H24 on PC. We expect this new handheld game to facilitate the activity and online hours of core IP players in 2024; c) a new mecha game titled Code B.R.E.A.K is set to be launched in 2024; and d) in addition to the JX Online III mobile version in 2024, there is another game planned under the JX series, with the exact title yet to be announced.
- WPS business' progress in AIGC monetisation.** KO is set to commence monetisation testing for WPS AI products in Dec 23. KO plans to adopt a differentiated pricing strategy for the products based on testing in mid-December and user feedback for further refinement throughout 1Q/2Q24. KO will progressively unveil all product functions to users and continue to open other co-pilot and insight functions.
- Cloud overview.** For 3Q23, Kingsoft Cloud generated negative revenue growth of 17.5% yoy. public cloud services revenue declined 24.5% yoy, attributed to proactive scaling down of content delivery network services. Enterprise cloud services revenue dropped 2.2% yoy in 3Q23 vs +9.5% yoy in 2Q23, primarily dragged by a continuous focus on selected verticals and high-quality projects. Non-IFRS net loss was Rmb313m in 3Q23, narrowing from a net loss of Rmb315m in 2Q23.

### 12-MONTH FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

### EARNINGS REVISION/RISK

- Earnings Revision:** We keep our 4Q23 revenue forecast largely unchanged but lowered 2023/24 revenue estimates by 1%/5% respectively in view of weaker-than-expected top-line performance from JX III Online and Kingsoft Office in 3Q23. We expect Kingsoft to deliver adjusted net profit of Rmb313m in 4Q23, which should translate to net margin of 13% vs 4% in 4Q22. We forecast 2023/24 revenue to grow 14%/18% yoy, translating to non-IFRS net margin of 10%/13%.
- Risk:** Obsolescence of its flagship PC games and delays in the government software localisation project.

### VALUATION/RECOMMENDATION

- Maintain BUY with a slightly lower target price of HK\$36.00.** We remain cautiously optimistic on the company due to the promising game pipeline coupled with intensified market competition. Our target price implies 34x 2024F PE. The company is currently trading at 24x 12-month forward PE, lower than its historical mean of 47x.

### SHARE PRICE CATALYST

- Share Price Catalyst:** a) Continued launch of expansion packs to support online games growth, and b) growth in WPS revenue from licensed software and subscription services.

### SOTP VALUATION

HK\$(m)	FY2024F revenue	FY24-26F revenue CAGR	FY2024F non-GAAP earnings	Assumed FY2024F PER	Assumed FY2024F EV/SALES	Fair value HK\$(m)	Kingsoft's holding (or share of total revenue)	Fair value per share (HK\$)
Online games	5,148	7%	1,030	5x		5,148	84%	3
WPS	6,175	10%	1,667	28x	9x	55,579	53%	17
Cheetah						473	47%	0
Cloud						9,556	52%	3
<b>Total EV with 20% discount</b>								<b>19</b>
2024F cash per share						21,867		18
<b>Target price (HK\$)</b>								<b>36.00</b>

Source: Kingsoft, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	7,637	8,704	10,305	11,777
EBITDA	2,215	2,495	2,738	3,852
Deprec. & amort.	346	416	609	809
EBIT	1,869	2,079	2,130	3,043
Total other non-operating income	(6,500)	(42)	0	0
Associate contributions	(1,382)	(1,180)	(1,298)	(1,298)
Net interest income/(expense)	292	392	392	412
<b>Pre-tax profit</b>	<b>(5,721)</b>	<b>1,248</b>	<b>1,223</b>	<b>2,157</b>
Tax	379	(228)	(269)	(539)
Minorities	(708)	(500)	0	0
<b>Net profit</b>	<b>(6,050)</b>	<b>520</b>	<b>954</b>	<b>1,617</b>
Net profit (adj.)	711	868	1,318	2,033

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>2,007</b>	<b>1,623</b>	<b>1,067</b>	<b>1,888</b>
Pre-tax profit	(5,721)	1,248	1,223	2,157
Tax	379	(228)	(269)	(539)
Deprec. & amort.	346	416	609	809
Working capital changes	503	1,079	(104)	(127)
Other operating cashflows	6,500	(891)	(392)	(412)
<b>Investing</b>	<b>(513)</b>	<b>519</b>	<b>(308)</b>	<b>(940)</b>
Capex (growth)	(1,146)	(1,306)	(1,546)	(1,767)
Others	632	1,825	1,238	827
<b>Financing</b>	<b>(587)</b>	<b>382</b>	<b>382</b>	<b>402</b>
Dividend payments	0	0	0	0
Others/interest paid	(587)	382	382	402
<b>Net cash inflow (outflow)</b>	<b>907</b>	<b>2,524</b>	<b>1,141</b>	<b>1,350</b>
Beginning cash & cash equivalent	16,190	18,201	20,726	21,867
Changes due to forex impact	1,104	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>18,201</b>	<b>20,726</b>	<b>21,867</b>	<b>23,216</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	1,551	2,465	3,435	4,434
Other LT assets	6,797	4,948	3,677	2,810
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	18,201	20,726	21,867	23,216
Other current assets	5,338	4,351	5,152	5,888
<b>Total assets</b>	<b>31,888</b>	<b>32,490</b>	<b>34,131</b>	<b>36,348</b>
Other current liabilities	4,476	4,568	5,264	5,873
LT debt	0	0	0	0
Other LT liabilities	843	843	843	843
Shareholders' equity	24,625	25,146	26,100	27,717
Minority interest	(469)	(479)	(489)	(499)
<b>Total liabilities &amp; equity</b>	<b>31,888</b>	<b>32,490</b>	<b>34,131</b>	<b>36,348</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	29.0	28.7	26.6	32.7
Pre-tax margin	(74.9)	14.3	11.9	18.3
Net margin	(79.2)	6.0	9.3	13.7
ROA	n.a.	1.6	2.9	4.6
ROE	n.a.	2.1	3.7	6.0
<b>Growth</b>				
Turnover	19.9	14.0	18.4	14.3
EBITDA	32.8	12.6	9.7	40.7
Pre-tax profit	(600.5)	n.a.	(2.0)	76.3
Net profit	(1,630.3)	n.a.	83.4	69.5
Net profit (adj.)	n.a.	22.1	51.8	54.3
EPS	n.a.	28.0	51.8	53.5
<b>Leverage</b>				
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	(73.9)	(82.4)	(83.8)	(83.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

COMPANY RESULTS

Tongcheng Travel Holdings (780 HK)

3Q23: Earnings Beat; 2024 Outlook Remains Intact Despite Normalising Industry Growth

TT reported solid 3Q23 results, with revenue soaring 61% yoy to Rmb3.3b, 3% above consensus expectations. Adjusted net profit was reported at Rmb621m, well above our and consensus estimates. Non-IFRS net margin was 18.8% vs 12.3% in 3Q22, above our and consensus estimates of 18%. 4Q23 revenue is expected to grow 41-46% vs 2019's level (in line with consensus of 44% above 2019), anchored by the Golden Week holidays. Maintain BUY. Target price: HK\$21.00.

3Q23 RESULTS

(Rmbm)	3Q22	2Q23	3Q23	qoq % chg	yoy % chg	UOB	Var	Cons	Var
Total Revenue	2,048	2,866	3,299	15.1%	61.1%	3,245	1.7%	3,215	2.6%
Transportation ticketing	987	1,495	1,680	12.4%	70.3%	1,687	(0.4%)		
Accommodation	819	1,055	1,127	6.8%	37.7%	1,097	2.8%		
Others	243	316	492	55.5%	102.8%	461	6.7%		
Cost of services	-503	-703	-840	(19.4%)	(67.0%)	-811	(3.5%)		
Gross profit	1,545	2,163	2,460	13.7%	59.2%	2,434	1.1%	2,412	2.0%
Non-IFRS OPM	5%	17%	20%	2.6 ppt	15.3 ppt	18%	0.1 ppt		
Net profit	-90	356	510	43.3%	664.5%	414	23.3%	387	31.9%
Non-IFRS net profit	252	592	621	4.8%	146.5%	569	9.2%	578	7.4%
Non-IFRS diluted EPS	0.11	0.26	0.26	(0.2%)	131.5%	0.23	10.7%	0.17	56.2%
GPM	75.4%	75.5%	74.5%	(0.9 ppt)	(0.9 ppt)	75.0%	(0.5 ppt)	75%	(0.5 ppt)
Non-IFRS NPM	12.3%	20.7%	18.8%	(1.9 ppt)	6.5 ppt	17.5%	1.3 ppt	18.0%	0.8 ppt

Source: Tongcheng Travel, Bloomberg, UOB Kay Hian

RESULTS

• **Strong top-line growth trajectory.** Tongcheng Travel Holdings' (TT) 3Q23 revenue jumped 61% yoy (+60% vs 2019), better than its previous guidance of 53-58%. Transportation ticketing revenue surged 70% yoy (+47% vs 2019) to Rmb1.7b, attributable to a spike in total ticketing volume and improvement in value-added service (VAS) and product offerings. Accommodation reservation revenue ramped up by 38% yoy (63% above 2019) to Rmb1.1b, vs 2Q23's 94% yoy growth, driven by a surge in domestic room nights (+100% growth vs 2019). Average daily rate (ADR) improved from 3Q22, while blended take rate was lower than that of 2022. Revenue from other segments soared by 103% yoy to Rmb492m (+115% vs 2019), propelled by enhanced synergies and optimised marketing promotions.

• **4Q23 outlook remains intact.** TT's top-line is estimated to grow 41-46% in 4Q23 compared with 2019's level to Rmb2.76b-2.85b. The sequential moderation in revenue growth stems from low seasonality and normalised domestic travel demand. We forecast 4Q23/2024 revenue to grow 89%/22% yoy and 45%/92% vs 2019's level. We estimate non-IFRS net profit in 4Q23/2024 at Rmb479m/Rmb2.5b, with net margin of 17%/18%.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	7,538	6,585	11,587	14,169	16,989
EBITDA	1,242	292	2,252	2,669	3,396
Operating profit	895	(24)	1,870	2,280	2,973
Net profit (rep./act.)	723	(146)	1,574	1,893	2,468
Net profit (adj.)	1,313	646	2,196	2,512	3,087
EPS (Fen)	58.4	28.8	94.9	105.4	125.7
PE (x)	23.7	48.2	14.6	13.2	11.0
P/B (x)	2.0	1.9	3.0	2.5	2.0
EV/EBITDA (x)	22.6	96.1	12.5	10.5	8.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	9.6	(2.2)	13.6	13.4	14.5
Net debt/(cash) to equity (%)	(12.7)	(7.9)	(34.7)	(52.4)	(66.7)
Interest cover (x)	n.a.	3.7	n.a.	n.a.	n.a.
ROE (%)	4.9	n.a.	12.2	16.8	17.8
Consensus net profit	-	-	2,127	2,546	3,034
UOBKH/Consensus (x)	-	-	1.03	0.99	1.02

Source: Tongcheng Travel Holdings Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$15.14
Target Price	HK\$21.00
Upside	+38.7%
(Previous TP)	HK\$22.00

COMPANY DESCRIPTION

Tongcheng-Elong is a one-stop OTA for users' travel needs that offers a comprehensive and innovative selection of products and services covering nearly all aspects of travel, including transportation ticketing, accommodation reservation and others.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	780 HK
Shares issued (m):	2,254.9
Market cap (HK\$m):	34,139.8
Market cap (US\$m):	4,379.2
3-mth avg daily t'over (US\$m):	7.6

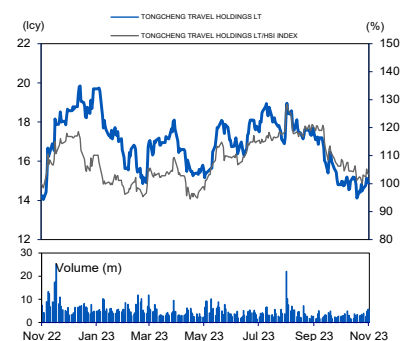
Price Performance (%)

52-week high/low	HK\$19.84/HK\$14.04			
1mth	3mth	6mth	1yr	YTD
2.3	(10.4)	(1.8)	(1.6)	(19.4)

Major Shareholders

Major Shareholders	%
Tencent Holdings Ltd	21.2
Trip.com Group Ltd	20.6
T Rowe Price Group Inc	5.0
FY23 NAV/Share (Rmb)	4.61
FY23 Net Cash/Share (Rmb)	1.60

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Operating metrics and margin performance.** During 3Q23, about 87% of TT's total registered users were from non-first-tier cities in China, and 71% of new paying users on the Weixin platform were from Tier 3 and below cities. 3Q23 average monthly active users (MAU) dropped 20.2% yoy to 224.7m; average monthly paying users (MPU) grew 20% yoy to 44.2m, representing a paying ratio of 19.7% vs 13.1% in 3Q22. Domestic room nights spiked 100% vs 2019's level given the increased popularity of booking hotel stays for a wider range of occasions, such as music festivals and concerts and e-sports events. Air ticketing volume increased more than 30% vs 2019, with international air ticket volume recovering significantly and surpassing that of 2019. TT's gross merchandise value (GMV) rose by 75% yoy to Rmb71b in 3Q23. Gross profit margin inched down 1ppt yoy to 75% while adjusted net margin expanded 6.5ppt yoy to 18.8% on operating leverage.

- 4Q23 segmental breakdown.** For 4Q23, accommodation reservations are expected to surge 35-40% vs 2019's level, moderating from 3Q23, as hotel booking and revenue growth during the Golden Week had been included into 3Q23's figures. In 4Q23, hotel ADR is declining by 2ppt vs 2019, while hotel take rate remains stable at 8.0-8.5%. Transportation ticketing revenue is guided to grow 25-30% from pre-pandemic level. Transportation take rate has elevated to above 3.5%, given TT's shift of focus from ticket booking volume to revenue growth. Revenue from the others segment is guided to soar by 200% vs pre-pandemic levels. Gross margin is expected to maintain at 74-75% in 4Q23. Selling and marketing expense ratio will edge up sequentially to 40% in 4Q23, especially on app store marketing and quality e-portal that will capture emerging growth opportunities. Adjusted net profit is projected at Rmb450m-500m, implying non-IFRS net margin of 17%. Management expects the strong travel demand momentum to sustain into 2024.

- For 2024,** with travel industry growth rate is expected to normalise to 7-8%. TT remains confident in achieving 2-3x of industry growth, mainly driven by: a) increasing online penetration especially with its advantage and large user base in lower tier cities; b) ample growth room for cross-selling products given its 10% cross-selling rate vs TCOM's 20%; and c) upside from outbound travel, which currently only accounts for 1% of total revenue vs 5% in 2019. TT anticipates a faster recovery in outbound travel in 2024. As of end-September, TT's flight capacity had only reached slightly over 15% of 2019's level, representing significant room for growth in 2024. TT is actively exploring untapped markets such as Europe and America.

- Progress in venture into packaged tours.** After TT's acquisition of Tongcheng International Travel Service early this year, continuous efforts are underway to diversify and enhance product offerings. In 3Q23, the domestic package tour revenue growth had recovered to over 60%, with a slight price increase vs 2019. On the other hand, the urban packaged tour revenue only recovered to 20% of 2019's level, but with a significant average package price increase of nearly Rmb0.35.

### EARNINGS REVISION/RISK

- We raise our 4Q23/2023 revenue estimates by 4.5%/1.6% respectively due to the continuous rapid recovery trajectory and penetration into lower-tier cities. We estimate 2023/2024 revenue growth of 76%/22% yoy (57%/92% vs 2019's level) and adjusted net profit margin of 19%/18%.

- Risks:** a) price war and competition may arise given growing market demand, and b) normalisation of domestic travel demand.

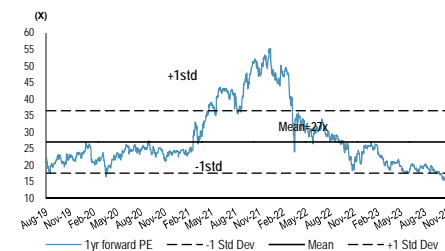
### VALUATION/RECOMMENDATION

- Maintain BUY with a target price of HK\$21.00,** pegged at 23x 2024F PE. Our target price implies PEG of 1x against EPS CAGR of 27% from 2024-27. TT currently trades at 14x 12-month forward PE, 1.3SD below its historical mean of 27x.

### SHARE PRICE CATALYST

- Catalysts:** a) Strong macro recovery, b) 1H24 travel market continues to exhibit strong growth, and c) increasing ARPU driven by long haul travel.

### 12-MONTH FORWARD PE



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	6,585	11,587	14,169	16,989
EBITDA	292	2,252	2,669	3,396
Deprec. & amort.	316	382	389	423
EBIT	(24)	1,870	2,280	2,973
Total other non-operating income	0	0	0	0
Associate contributions	(14)	(16)	0	0
Net interest income/(expense)	(79)	3	0	0
<b>Pre-tax profit</b>	<b>(117)</b>	<b>1,857</b>	<b>2,280</b>	<b>2,973</b>
Tax	(46)	(272)	(388)	(505)
Minorities	18	(10)	0	0
<b>Net profit</b>	<b>(146)</b>	<b>1,574</b>	<b>1,893</b>	<b>2,468</b>
Net profit (adj.)	646	2,196	2,512	3,087

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>1,314</b>	<b>2,279</b>	<b>2,996</b>	<b>3,695</b>
Pre-tax profit	(117)	1,857	2,280	2,973
Tax	(46)	(272)	(388)	(505)
Deprec. & amort.	1	(2)	(1)	0
Working capital changes	991	197	485	607
Other operating cashflows	485	499	619	620
<b>Investing</b>	<b>(78)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capex (growth)	0	0	0	0
Investments	674	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(752)	0	0	0
<b>Financing</b>	<b>(332)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Others/interest paid	(332)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>904</b>	<b>2,279</b>	<b>2,996</b>	<b>3,695</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,046</b>	<b>3,547</b>	<b>5,826</b>	<b>8,822</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>3,547</b>	<b>5,826</b>	<b>8,822</b>	<b>12,517</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	1,598	1,600	1,601	1,602
Other LT assets	13,052	2,434	2,451	2,472
Cash/ST investment	3,547	5,826	8,822	12,517
Other current assets	6,837	8,851	9,205	9,652
<b>Total assets</b>	<b>25,035</b>	<b>18,712</b>	<b>22,079</b>	<b>26,243</b>
ST debt	443	443	443	443
Other current liabilities	5,648	5,012	6,080	7,363
LT debt	1,858	1,858	1,858	1,858
Other LT liabilities	1,021	932	932	932
Shareholders' equity	15,732	10,144	12,443	15,324
Minority interest	332	322	322	322
<b>Total liabilities &amp; equity</b>	<b>25,035</b>	<b>18,712</b>	<b>22,079</b>	<b>26,243</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	4.4	19.4	18.8	20.0
Pre-tax margin	(1.8)	16.0	16.1	17.5
Net margin	(2.2)	13.6	13.4	14.5
ROA	n.a.	7.2	9.3	10.2
ROE	n.a.	12.2	16.8	17.8
<b>Growth</b>				
Turnover	(12.6)	76.0	22.3	19.9
EBITDA	(76.5)	671.2	18.5	27.2
Pre-tax profit	(113.4)	n.a.	22.8	30.4
Net profit	(120.2)	n.a.	20.2	30.4
Net profit (adj.)	(50.8)	239.9	14.4	22.9
EPS	(50.8)	230.0	11.0	19.3
<b>Leverage</b>				
Debt to total capital	12.5	18.0	15.3	12.8
Debt to equity	14.6	22.7	18.5	15.0
Net debt/(cash) to equity	(7.9)	(34.7)	(52.4)	(66.7)
Interest cover (x)	3.7	n.a.	n.a.	n.a.

COMPANY UPDATE

**Hansoh Pharmaceutical Group Company (3692 HK)**

Expects Innovative Drugs To Support Significant Revenue Growth Recovery In 2024

Hansoh Pharma recently entered into an out-licensing agreement with GSK on B7-H4 directed ADC, expecting to receive an upfront payment income of US\$85m. Our channel check indicates that the company also achieved satisfactory results in this round of NRDL price negotiation. The NRDL inclusion of Saint Luolai is expected to support a stronger revenue growth in 2024. Maintain BUY and target price of HK\$17.50.

WHAT'S NEW

- Hansoh Pharmaceutical Group Company (Hansoh Pharma) recently entered into a licence agreement with GlaxoSmithKline Intellectual Property (No. 4) (GSK) on B7-H4 directed antibody-drug conjugate (ADC) for an upfront payment of US\$85m, milestone payments based on relevant milestone events, and tiered royalty income upon commercialisation of the product.
- Our channel check indicates that Hansoh Pharma's three drugs participants of National Reimbursement Drug List (NRDL) price negotiation have all successfully been included in the new edition of NRDL.

WHAT'S NEW

- **Entered into licence agreement with GSK on HS-20089.** Hansoh Pharma recently entered into an agreement with GSK, to grant GSK an exclusive worldwide licence (excluding Mainland China, Hong Kong, Macau, and Taiwan) to develop, manufacture, and commercialise HS-20089. HS-20089 is a novel B7-H4 directed ADC with a topoisomerase inhibitor (TOPOi) payload. The product is under development for the treatment of advanced solid tumour in a phase I clinical study in China. Hansoh Pharma expects to receive an upfront payment of US\$85m and milestone payments of up to US\$1.485b subject to achievement of relevant milestone events with respect to the product. Upon commercialisation of the product, Hansoh Pharma will also receive tiered royalties based on global net sales derived from the territory outside of Mainland China, Hong Kong, Macau and Taiwan. The company has been actively seeking business development (BD) opportunities for its early stage pipelines as part of its globalisation strategy. The HS-20089 deal recognises the potential of the ADC platform and innovation capability of Hansoh Pharma.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	9,935	9,382	9,823	11,030	12,557
EBITDA	3,631	3,389	3,590	4,066	4,653
Operating profit	3,353	3,007	3,181	3,630	4,190
Net profit (rep./act.)	2,713	2,584	2,718	3,102	3,580
Net profit (adj.)	2,713	2,584	2,718	3,102	3,580
EPS (Fen)	45.2	43.6	45.9	52.4	60.4
PE (x)	29.5	30.6	29.1	25.5	22.1
P/B (x)	3.9	3.5	3.2	2.9	2.6
EV/EBITDA (x)	19.4	20.8	19.6	17.3	15.1
Dividend yield (%)	0.5	0.7	0.7	0.8	0.9
Net margin (%)	27.3	27.5	27.7	28.1	28.5
Net debt/(cash) to equity (%)	(33.5)	(37.0)	(35.0)	(40.9)	(46.5)
Interest cover (x)	68.8	58.3	n.a.	n.a.	n.a.
ROE (%)	14.3	12.1	11.4	11.9	12.4
Consensus net profit	-	-	2,758	3,038	3,431
UOBKH/Consensus (x)	-	-	0.99	1.02	1.04

Source: Hansoh Pharma, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$14.54
Target Price	HK\$17.50
Upside	+20.4%

COMPANY DESCRIPTION

Founded in 1995, Hansoh Pharmaceutical Group Company is a leading R&D-driven pharmaceutical company in China.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	3692 HK
Shares issued (m):	5,933.4
Market cap (HK\$m):	86,270.9
Market cap (US\$m):	11,065.2
3-mth avg daily t'over (US\$m):	10.2

Price Performance (%)

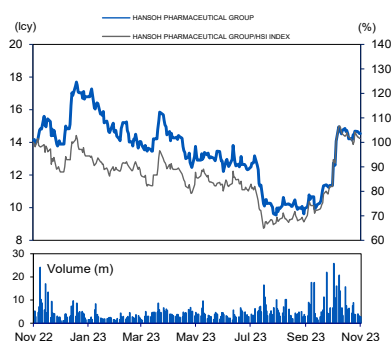
52-week high/low HK\$17.70/HK\$9.55

1mth	3mth	6mth	1yr	YTD
28.0	45.7	10.7	2.8	(2.0)

Major Shareholders

	%
Ms. Zhong Huijuan	65.7
Mr. Cen Junda	16.0
FY23 NAV/Share (Rmb)	4.19
FY23 Net Cash/Share (Rmb)	1.47

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Achieved satisfactory results in 2023 NRDL price negotiation.** Hansoh Pharma has three innovative products, namely, Hengmu, Mailingda, and Saint Luolai, which participated in the 2023 NRDL price negotiation. According to our channel check, the company achieved satisfactory results in this round of NRDL price negotiation. Hengmu and Mailingda renewed their NRDL status with nil or minor price pressure. Saint Luolai (Pegmolesatide), which obtained market approval from NMPA on 30 Jun 23, is a long-acting peptide-based erythropoiesis-stimulating agent (ESA), which promotes the proliferation of red blood cells in the body and is indicated to treat anaemia in chronic kidney disease (CKD) adult patients who have not received ESA and are not on dialysis, as well as who are receiving short-acting erythropoietin treatment and on dialysis. The product was also successfully included in the NRDL with a reasonable price. Currently, all of the seven innovative drugs of the company have been enlisted in 2023 NRDL, which will broaden market access for these products and fuel revenue growth of the company for the next few years.
- Expects innovative drug revenue to grow at over 25% yoy in 2024.** Impacted by GPO price pressure, Hansoh Pharma's generic products saw significant revenue decrease of 18% yoy in 1H23. However, the growth of innovative drug sales remained strong at over 20% yoy in 1H23. We believe the anti-corruption campaign may disrupt drug sales growth in 2H23 and anticipate Hansoh Pharma to report relatively mild overall revenue growth of about 4.7% in 2023. The newly-launched potential blockbuster, Saint Luolai is expected to reach peak sales of Rmb1.5b in the next 4-5 years. Moreover, the company has also collaborated with Antengene Corporation (6996 HK) and obtained the exclusive China commercial rights of Selinexor (XPOVIO, for the treatment of various haematological malignancies and solid tumours) in Aug 23. The new product launches of Saint Luolai and Selinexor are expected to boost revenue from 2H23 and contribute to stronger revenue growth of over 25% yoy for innovative products from 2024.
- Smooth R&D progress, expects innovative products to generate over 80% of total revenue in 2025.** Hansoh Pharma had achieved significant progress in R&D in 1H23. Aside from the successful market launch of Pegmolesatide in 1H23, it also pushed forward various clinical trials into late stage clinical trials. For example, Hansoh Pharma sees smooth progress of Aumoelertinib and expects to receive market approval for its adjuvant therapy in postoperative EGFR-mutated non-small cell lung cancer in 2024. It has quickly moved HS-20094 (the dual GLP-1/GIP receptor agonists for the treatment of type-2 diabetes and obesity) to phase II trials and expects to get market approval in 2026/27. The company targets to have 15 innovative drugs (including new indications) in 2025. It continues to guide for innovative products to contribute approximately 65% of total revenue in 2023, and over 80% in 2025.

### EARNINGS REVISION/RISKS

- We expect revenue growth to accelerate from 4.7% yoy in 2023 to 12.3% yoy in 2024 and 13.8% yoy in 2025. We also forecast net earnings growth to increase from 5.2% yoy in 2023, to 14.1% yoy in 2024 and further to 15.4% yoy in 2025.
- Key risks include: a) possible failure in R&D and delays in new product launches, b) possible lower-than-expected growth, c) intensifying competition, and d) policy risks, eg, GPO price pressure etc.

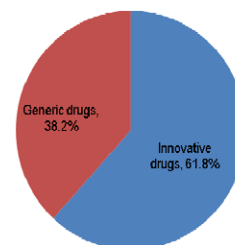
### VALUATION/RECOMMENDATION

- Maintain BUY and target price of HK\$17.50** based on SOTP valuation, comprising: a) HK\$8.10/share at 14x 2023F PE for existing drugs, and b) NAV-derived pipeline value of HK\$9.40/share (10.8% WACC, 3.5% perpetual growth rate).

### SHARE PRICE CATALYSTS

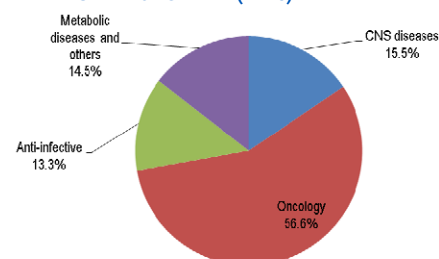
- a) Stronger revenue and earnings growth for 2024, b) continued efforts in R&D and innovative drug launches, and c) productive BD programmes.

### REVENUE CONTRIBUTION OF GENERIC AND INNOVATIVE DRUGS (1H23)



Source: Hansoh Pharma, UOB Kay Hian

### REVENUE BY SEGMENT (1H23)



Source: Hansoh Pharma, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	9,382.4	9,822.8	11,030.0	12,556.7
EBITDA	3,388.7	3,590.3	4,066.3	4,652.9
Deprec. & amort.	382.2	409.1	436.1	463.1
EBIT	3,006.6	3,181.1	3,630.2	4,189.8
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(58.1)	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>2,948.4</b>	<b>3,181.1</b>	<b>3,630.2</b>	<b>4,189.8</b>
Tax	(364.7)	(463.2)	(528.6)	(610.1)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2,583.7</b>	<b>2,717.9</b>	<b>3,101.6</b>	<b>3,579.7</b>
Net profit (adj.)	2,583.7	2,717.9	3,101.6	3,579.7

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>2,741.0</b>	<b>991.9</b>	<b>3,403.9</b>	<b>3,873.6</b>
Pre-tax profit	2,948.4	3,181.1	3,630.2	4,189.8
Tax	(364.7)	(463.2)	(528.6)	(610.1)
Deprec. & amort.	382.2	409.1	436.1	463.1
Working capital changes	463.6	(2,135.2)	(133.8)	(169.2)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(688.5)	0.0	0.0	0.0
<b>Investing</b>	<b>(368.0)</b>	<b>(186.3)</b>	<b>(334.0)</b>	<b>(334.0)</b>
Capex (growth)	(319.0)	(319.0)	(319.0)	(319.0)
Investments	(30.0)	(15.0)	(15.0)	(15.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(19.0)	147.7	0.0	0.0
<b>Financing</b>	<b>(713.3)</b>	<b>(500.0)</b>	<b>(548.9)</b>	<b>(626.4)</b>
Dividend payments	(713.3)	(520.6)	(548.9)	(626.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	0.0	20.6	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>1,659.7</b>	<b>305.7</b>	<b>2,521.0</b>	<b>2,913.2</b>
Beginning cash & cash equivalent	6,718.7	8,378.4	8,684.1	11,205.1
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>8,378.4</b>	<b>8,684.1</b>	<b>11,205.1</b>	<b>14,118.3</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	3,195.6	3,097.2	2,996.1	2,869.9
Other LT assets	974.6	992.7	991.8	988.8
Cash/ST investment	8,378.4	8,684.1	11,205.1	14,118.3
Other current assets	17,453.2	20,473.2	21,005.3	21,678.3
<b>Total assets</b>	<b>30,001.9</b>	<b>33,247.2</b>	<b>36,198.3</b>	<b>39,655.4</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	2,619.5	8,052.2	8,450.6	8,954.4
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	4,735.4	350.8	350.8	350.8
Shareholders' equity	22,646.9	24,844.2	27,396.9	30,350.2
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>30,001.9</b>	<b>33,247.2</b>	<b>36,198.3</b>	<b>39,655.4</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	36.1	36.6	36.9	37.1
Pre-tax margin	31.4	32.4	32.9	33.4
Net margin	27.5	27.7	28.1	28.5
ROA	9.0	8.6	8.9	9.4
ROE	12.1	11.4	11.9	12.4
<b>Growth</b>				
Turnover	(5.6)	4.7	12.3	13.8
EBITDA	(6.7)	5.9	13.3	14.4
Pre-tax profit	(10.7)	7.9	14.1	15.4
Net profit	(4.8)	5.2	14.1	15.4
Net profit (adj.)	(4.8)	5.2	14.1	15.4
EPS	(3.7)	5.3	14.1	15.4
<b>Leverage</b>				
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	(37.0)	(35.0)	(40.9)	(46.5)
Interest cover (x)	58.3	n.a.	n.a.	n.a.

COMPANY RESULTS

Merdeka Copper Gold (MDKA IJ)

3Q23: Net Profit Turnaround On Additional Nickel Capacity; Above Expectations

MDKA booked a turnaround in its 3Q23 net profit of US\$25.4m due to additional production capacity as well as lower qoq interest expenses. 3Q23 EBITDA came in at US\$107m, bringing 9M23 EBITDA to US\$182m (-26.4% yoy), contributing to 84% of our 2023 EBITDA assumption, which is above our expectation. We expect 2023-24 EBITDA of US\$283m (+24.3% yoy) and US\$527m (+86.3% yoy) respectively. Upgrade to BUY with a target price of Rp3,000.

3Q23 RESULTS

Year to 31 Dec (US\$m)	9M23	9M22	yoy (%)	3Q23	2Q23	qoq (%)	yoy (%)
Revenue	1,170	626	86.9	650	306	113	128
Gross Profit	119	144	-17.7	72.5	14.6	397	82.6
EBITDA	182	247	-26.4	107	30.9	247	67.1
Operating Profit	80.5	108	-25.7	62.1	0.4	14,818	86.9
Net Income	-23.8	69.2	-134.4	25.4	-52.3	-149	-192
Profitability	9M23	9M22	yoy (bps)	3Q23	2Q23	qoq (bps)	yoy (bps)
GPM (%)	10.1	23.0	-1,288	11.1	4.8	637	-280
EBITDA margin (%)	15.5	39.5	-2,392	16.5	10.1	640	-605
OPM (%)	6.9	17.3	-1,043	9.5	0.1	941	-212
NPM (%)	-2.0	11.1	-1,308	3.9	-17.1	2,102	1,361

Source: Merdeka Copper Gold, UOB Kay Hian

RESULTS

• **3Q23 net profit of US\$25.4m, turnaround from net loss of US\$52.3m in 2Q23.** Merdeka Copper Gold (MDKA) booked a turnaround in its quarterly net profit due to additional nickel pig iron (NPI) production capacity from Zhao Hui Nickel (ZHN) and nickel matte production from Huaneng Metal Industry (HNMI) as well as lower interest expenses of -11.3% qoq during the quarter. 3Q23 net margin came in at 3.9% (+2,102bp qoq and 1,361bp yoy). Meanwhile, 3Q23 EBITDA came in at US\$107m (+247% qoq; 67.1% yoy) due to additional NPI and nickel matte production capacity as well as EBITDA margin of 16.5% (+640bp qoq; -605bp yoy).

• **3Q23 revenue was US\$650m**, up 113% qoq and 128% yoy due to additional NPI and nickel matte productions. Qoq revenue rose due to higher sales volume of gold, NPI, and nickel matte.

- a) 3Q23 gold sales volume was 49.2koz (+66.4% qoq; +24.4% yoy) with ASP of US\$1,946/oz (-2.7% qoq and +12.7% yoy).
- b) 3Q23 copper sales volume was 3,135 tonnes (-26.6% qoq; -44.3% yoy) with ASP of US\$8,463/tonne (-2.9 qoq and -12.9% yoy).
- c) Meanwhile, NPI sales volume was 22,832 tonnes (+107% qoq) with ASP of US\$13,193/tonne (-6.6% qoq) and nickel matte sales were 13,394 tonnes (+341% qoq) with ASP of US\$16,364/tonne (-4.8% qoq).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	381	870	1,737	2,815	3,048
EBITDA	198	228	283	527	670
Operating profit	91	112	124	349	470
Net profit (rep./act.)	36	58	1.3	121	225
Net profit (adj.)	36	58	1.3	121	225
EPS (US\$ cent)	0.2	0.2	0.0	0.5	0.9
PE (x)	81.7	55.6	2,563.8	26.8	14.4
P/B (x)	3.9	3.2	3.2	2.9	2.4
EV/EBITDA (x)	16.4	14.3	11.5	6.2	4.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	9.5	6.7	0.1	4.3	7.4
Net debt/(cash) to equity (%)	25.5	96.5	139.8	140.4	111.9
Interest cover (x)	17.2	5.4	2.6	3.8	5.0
ROE (%)	5.6	6.6	0.1	11.4	18.2
Consensus net profit	-	-	(0)	98	138
UOBKH/Consensus (x)	-	-	n.m.	1.24	1.63

Source: Merdeka Copper Gold, Bloomberg, UOB Kay Hian

BUY  
(Upgraded)

Share Price	Rp2,100
Target Price	Rp3,000
Upside	+42.9%
(Previous TP)	Rp2,500)

COMPANY DESCRIPTION

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

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	MDKA IJ
Shares issued (m):	24,110.9
Market cap (Rpb):	50,632.8
Market cap (US\$m):	3,250.9
3-mth avg daily t'over (US\$m):	6.2

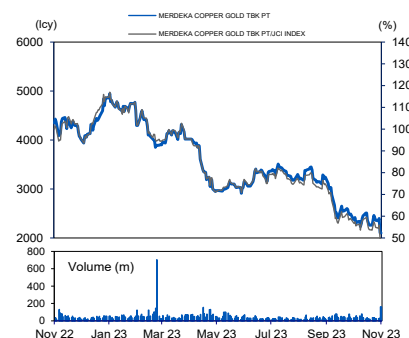
Price Performance (%)

52-week high/low	Rp4,950/Rp2,100			
1mth	3mth	6mth	1yr	YTD
(15.7)	(36.4)	(28.8)	(51.4)	(49.0)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **9M23 revenue came in at US\$1.2b, growing 86.9% yoy** driven by additional revenue of US\$618m from the sale of NPI and nickel matte, from the commissioning of the 50,000 tonnes/year capacity of ZHN smelter and the acquisition of HNMI, a high-grade nickel matte plant, in late-2Q23.
- **9M23 EBITDA fell 26.4% yoy to US\$182m** as MDKA recorded a one-time, non-recurring final insurance claim of US\$42m in 9M22. The lower EBITDA is attributable to lower gold and copper production from Tujuh Bukit Gold and Wetar, and weaker NPI margins. 9M23 EBITDA was above our forecast (84% contribution) but below consensus estimate (62% contribution). We expect 9M23 EBITDA to contribute to 75% of our 2023 EBITDA forecast.
- **9M23 net income recorded a loss of US\$23.8m.** Despite the quarterly net income turnaround, MDKA still suffered a net loss in 9M23 due to lower margins and higher interest expenses as it financed the acquisition of Merdeka Battery Materials foundation assets and construction of the Acid Iron Metal project by utilising debt. The 9M23 bond interest expense was US\$63.4m, soaring 122% yoy mainly due to the interest payment of its continuation bond IV.

### STOCK IMPACT

- **Expect 2023-24 EBITDA of US\$283m (+24.3% yoy) and US\$527m (+86.3% yoy) respectively** as MDKA will have additional revenue from the sales of saprolite ore. We expect MDKA's 2023-24 revenue to come in at US\$1.74b (+99.7% yoy) and US\$2.82b (62.1% yoy) respectively. All in all, we expect 2023-24 net income to come in at US\$1.3m (-97.8% yoy) and US\$121m (+9,474% yoy) respectively as we foresee lower copper production and further margin compression in 4Q23 as nickel prices have softened to below US\$17,000/tonne recently.
- **On track to achieve 2023 production target but lower copper production guidance.** We maintain our 2023 production assumptions, in line with management's guidance as MDKA is optimistic to achieve its 2023 production target. MDKA targets to produce 120,000-140,000 oz of gold with all in sustainable cost of US\$1,100-1,300/oz net of silver credits, lower production target of 14,000-16,000 tonnes of copper with AISC of US\$4.2-5.0/lb, and 57,000-65,000 tonnes of NPI with AISC of US\$12,500-14,000/tonne. We also add assumptions on 2023 nickel matte productions at 28,000-31,000 tonnes and saprolite ore productions of 700,000 wmt.

### EARNINGS REVISION/RISK

- **Earnings revision.** We adjusted up MDKA's 2023-24 EBITDA following the company's better-than-expected 3Q23 results as well as changes in sales volume assumptions.

### EARNINGS REVISION

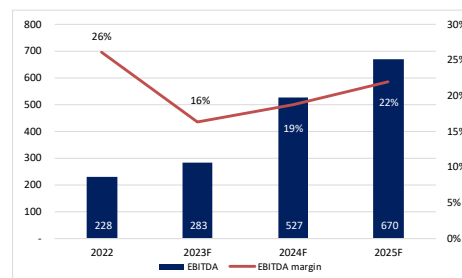
Year to 31 Dec (US\$m)	----- New -----		----- Old -----		----- chg (%) -----		---- Consensus ----		-- Difference (%) --	
	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Gold sales vol (oz)	126	151	126	151	0.0	0.0				
Gold price (US\$/oz)	1,900	1,900	1,900	1,900	0.0	0.0				
Copper sales vol (tonne)	15,000	16,071	17,280	17,280	-13.2	-7.0				
Copper price (US\$/lbs)	3.86	3.86	3.86	3.86	0.0	0.0				
Saprolite ore sales (wmt)	0.70	6.00	0.00	0.00	0.0	0.0				
NPI sales vol (tonne)	60,000	88,000	60,000	88,000	0.0	0.0				
Nickel matte sales vol (tonne)	28,000	50,000	28,000	50,000	0.0	0.0				
LME nickel price (US\$/tonne)	22,525	20,000	22,525	20,000	0.0	0.0				
Revenue	1,737	2,815	1,720	2,550	1.0	10.4	1,670	2,368	4.0	18.9
EBITDA	283	527	216	373	30.9	41.2	294	532	-4.0	-1.0
Net income	1.3	121	8.9	72.5	-85.8	67.4	-0.5	98.2	-359	23.7
EBITDA Margin (%)	16.3	18.7	12.6	14.6	3.7	4.1	17.6	22.5	-1.3	-3.8
Net Margin (%)	0.1	4.3	0.5	2.8	-0.4	1.5	0.0	4.1	0.1	0.2

Source: UOB Kay Hian

### VALUATION/RECOMMENDATION

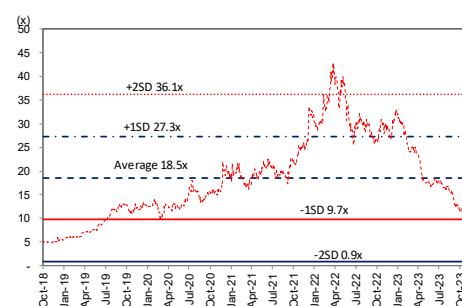
- **Upgrade to BUY with a target price of Rp3,000 (previously: Rp2,500),** based on its SOTP valuation. MDKA is currently trading at near -1.0SD to its five-year average EV/EBITDA of 9.7x 2023F EV/EBITDA. Our SOTP valuation of Rp3,000 implies -0.5SD to its forward 2024 EV/EBITDA of 14.1x. We believe MDKA's expansion into the nickel downstream business will have improvement in terms of profit margins as the SCM mine will ramp up its saprolite ore production in 2024 and there are promising prospects of other projects such as the AIM project, Tujuh Bukit Copper project, and Pani Gold project.

### EBITDA OUTLOOK



Source: MDKA, UOB Kay Hian

### FORWARD EV/EBITDA



Source: Bloomberg, MDKA, UOB Kay Hian

### MDKA'S SOTP

Assets	Method	Ownership	EV (US\$m)
TB Gold & Wetar	DCF	100%	471
BSI, CSI, ZHN, HNMI, AIM	DCF	30%	2,689
SCM	EV/Reserve	31%	1,148
Tujuh Bukit Copper Project	DCF	100%	2,202
Pani Gold Project	EV/Reserve	70%	242
<b>Total EV</b>			<b>6,752</b>
<b>Net cash (debt)</b>			<b>(1,491)</b>
<b>SOTP</b>			<b>5,260</b>
Share Outstanding (m)			24,111
SOTP / share (US\$)			0.22
Final TP			3,000

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	869.9	1,736.8	2,815.4	3,048.3
EBITDA	227.5	282.7	526.5	669.7
Deprec. & amort.	115.9	159.0	177.1	199.8
EBIT	111.6	123.8	349.4	469.9
Total other non-operating income	20.2	15.0	(14.6)	(3.1)
Net interest income/(expense)	(41.9)	(109.1)	(139.6)	(133.3)
<b>Pre-tax profit</b>	<b>89.9</b>	<b>29.7</b>	<b>195.2</b>	<b>333.6</b>
Tax	(25.1)	(7.4)	(48.8)	(83.4)
Minorities	(6.4)	(21.0)	(25.0)	(25.0)
<b>Net profit</b>	<b>58.4</b>	<b>1.3</b>	<b>121.4</b>	<b>225.2</b>
Net profit (adj.)	58.4	1.3	121.4	225.2

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	1,205.9	1,436.2	1,546.5	1,699.5
Other LT assets	1,775.1	1,751.2	1,727.2	1,703.3
Cash/ST investment	443.9	421.0	515.3	605.7
Other current assets	451.8	804.4	1,139.0	1,182.3
<b>Total assets</b>	<b>3,876.7</b>	<b>4,412.7</b>	<b>4,928.0</b>	<b>5,190.7</b>
ST debt	334.3	259.0	508.4	29.7
Other current liabilities	270.3	393.8	517.1	533.3
LT debt	1,077.6	1,565.1	1,586.4	2,086.4
Other LT liabilities	169.7	169.7	169.7	169.7
Shareholders' equity	1,003.2	1,003.4	1,124.8	1,349.9
Minority interest	1,021.6	1,021.6	1,021.6	1,021.6
<b>Total liabilities &amp; equity</b>	<b>3,876.7</b>	<b>4,412.7</b>	<b>4,928.0</b>	<b>5,190.7</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>463.0</b>	<b>(68.8)</b>	<b>87.1</b>	<b>397.9</b>
Pre-tax profit	89.9	29.7	195.2	333.6
Tax	(25.1)	(7.4)	(48.8)	(83.4)
Deprec. & amort.	115.9	159.0	177.1	199.8
Working capital changes	(23.3)	(229.1)	(211.4)	(27.0)
Other operating cashflows	305.5	(21.0)	(25.0)	(25.0)
<b>Investing</b>	<b>(1,127.1)</b>	<b>(371.3)</b>	<b>(278.2)</b>	<b>(343.6)</b>
Capex (growth)	(1,807.3)	(371.3)	(263.4)	(328.8)
Investments	0.0	0.0	0.0	0.0
Others	680.2	0.0	(14.8)	(14.8)
<b>Financing</b>	<b>931.6</b>	<b>417.2</b>	<b>285.4</b>	<b>36.1</b>
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	237.5	0.0	0.0	0.0
Proceeds from borrowings	1,034.0	412.3	270.6	21.3
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(339.9)	4.9	14.8	14.8
<b>Net cash inflow (outflow)</b>	<b>267.5</b>	<b>(22.9)</b>	<b>94.3</b>	<b>90.4</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>185.5</b>	<b>443.9</b>	<b>421.0</b>	<b>515.3</b>
Changes due to forex impact	(9.0)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>443.9</b>	<b>421.0</b>	<b>515.3</b>	<b>605.7</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	26.2	16.3	18.7	22.0
Pre-tax margin	10.3	1.7	6.9	10.9
Net margin	6.7	0.1	4.3	7.4
ROA	2.3	0.0	2.6	4.5
ROE	6.6	0.1	11.4	18.2
<b>Growth</b>				
Turnover	128.3	99.7	62.1	8.3
EBITDA	15.0	24.3	86.3	27.2
Pre-tax profit	58.6	(67.0)	557.4	70.9
Net profit	61.7	(97.8)	9,474.0	85.5
Net profit (adj.)	61.7	(97.8)	9,474.0	85.5
EPS	46.8	(97.8)	9,474.0	85.5
<b>Leverage</b>				
Debt to total capital	41.1	47.4	49.4	47.2
Debt to equity	140.7	181.8	186.2	156.8
Net debt/(cash) to equity	96.5	139.8	140.4	111.9
Interest cover (x)	5.4	2.6	3.8	5.0

COMPANY RESULTS

**Inari Amertron (INRI MK)**

1QFY24: Marginally Below Expectations; Gearing Up For Next Growth Engine

Results missed expectations, dragged by the following one-offs: a) electricity disruption (RM5m loss), b) startup cost (RM1m), and c) yield loss of new products. Cut FY24 earnings by 6%. 2QFY24 could see a stronger comeback on higher ramp-up, which could partially make up for the shortfall. Inari is poised for a strong recovery in FY24 after a gestation year premised on its new flagship programme, inventory replenishment and fruition of new business collaborations. Maintain BUY on Inari. Target price: RM3.60.

1QFY24 RESULTS

Year to 30 Jun (RMm)	1QFY24	qoq % chg	yoy % chg	1QFY24	yoy % chg
Revenue	383.9	28.5	1.8	383.9	1.8
Gross profit	92.3	72.6	(15.8)	92.3	(15.8)
EBITDA	119.8	19.3	(18.9)	119.8	(18.9)
Operating profit	90.4	23.8	(25.1)	90.4	(25.1)
Pre-tax profit	89.7	23.6	(25.9)	89.7	(25.9)
Net Profit	85.0	28.1	(20.0)	85.0	(20.0)
Core Net Profit	85.8	31.9	(13.7)	85.8	(13.7)
Margins (%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross	24.1	6.1	-5.0	24.1	-5.0
EBITDA	31.2	-2.4	-8.0	31.2	-8.0
PBT	23.4	-0.9	-8.7	23.4	-8.7
Core Net Profit	22.4	0.6	-4.0	22.4	-4.0

Source: Inari, UOB Kay Hian

RESULTS

- **Marginally below expectations.** Inari Amertron (Inari) reported 1QFY24 core net profit of RM85.8m (+32% qoq, -14% yoy), which accounts for 21%/22% of our/consensus' full-year forecasts. Note that 1QFY24 headline core net profit was at the lower end of its historical range of 22-31% for its past three years' full-year earnings, on utilisation rate of 75%. If not for the following one-off events of: a) electricity disruption (RM5m loss), b) startup cost (RM1m), and c) yield loss of new products, the results could have fared better.
- **1QFY24 sales inched up by 2% yoy**, with the stronger loading volume in RF (+7%) offset by softer sales in Optoelectronics (-4%) and Generic (-13%) segments. As a result of lower operational efficiency (dragged by the uneventful events) and lower forex gains, core net profit dropped by 14%. Qoq, revenue/core net profit soared 29%/32%, predominantly driven by higher RF revenue (+37%).

KEY FINANCIALS

Year to 30 Jun (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	1,548	1,354	1,583	1,838	2,060
EBITDA	550	463	526	611	685
Operating profit	447	356	414	492	561
Net profit (rep./act.)	391	324	379	450	513
Net profit (adj.)	392	320	379	450	513
EPS (sen)	10.6	8.6	10.1	12.1	13.7
PE (x)	28.3	35.0	29.6	24.9	21.8
P/B (x)	4.4	4.3	4.2	4.1	4.1
EV/EBITDA (x)	17.1	20.3	17.9	15.4	13.7
Dividend yield (%)	3.3	2.7	3.0	3.6	4.1
Net margin (%)	25.3	23.9	23.9	24.5	24.9
Net debt/(cash) to equity (%)	(78.7)	(70.4)	(69.4)	(66.7)	(64.7)
Interest cover (x)	531.8	247.2	n.a.	n.a.	n.a.
ROE (%)	20.2	12.7	14.4	16.8	18.7
Consensus net profit	-	-	399	455	493
UOBKH/Consensus (x)	-	-	0.95	0.99	1.04

Source: Inari Amertron, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.00
Target Price	RM3.60
Upside	+20.0%
(Previous TP)	RM3.80

COMPANY DESCRIPTION

Inari is the largest semiconductor company in Malaysia and a top OSAT supplier for Broadcom's Radio Frequency (RF) components. It also manufactures and assembles optoelectronics and fibre-optics related components.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	INRI MK
Shares issued (m):	3,744.8
Market cap (RMm):	11,234.4
Market cap (US\$m):	2,402.0
3-mth avg daily t'over (US\$m):	4.8

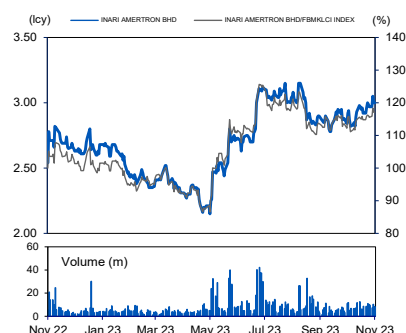
Price Performance (%)

52-week high/low	RM3.15/RM2.15			
1mth	3mth	6mth	1yr	YTD
4.2	(1.3)	35.7	18.6	14.9

Major Shareholders

Insas Berhad	12.8
Kumpulan Wang Persaraan	9.5
Employees Provident Fund	9.3
FY24 NAV/Share (RM)	0.71
FY24 Net Cash/Share (RM)	0.50

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Bottoming out from cyclical weakness; poised for a strong rebound in FY24.** Inari ended its losing streak after the fifth consecutive yoy sales contraction in 4QFY23, thanks to higher loading volumes in RF after a series of inventory adjustments. If not for the one-off electricity disruption, utilisation rate could have been better than 75%. Going into 2QFY24, we gather that utilisation rate increase by 15ppt on continuous ramp-up in its RF segment. We expect revenue growth to resume in FY24 (+17% yoy after accounting for an uneventful 1QFY24), predominantly driven by its RF segment (with the group gearing up for new flagship programme) after a gestation year in FY23. At 24.8x ex-cash FY24 PE (-0.5x below its five-year forward mean) with negative de-ratings (FBMKLCI exclusion and cyclical bottom) being priced in, we see a balanced risk-reward ratio for a favourable entry point.
- First multi-pronged growth strategy; scouting for OSAT jobs in China.** Recall that Inari had on 18 Oct 21 entered into a non-binding MOU with China Fortune-Tech Capital Co. (CFTC) with the intention to set up a JV company in China (CJV) to carry out OSAT manufacturing and related businesses in China for the China market. Amertron International Limited (AIL), an indirect wholly-owned subsidiary of the company, had on 28 Jun 22 entered into a JV contract with CFTC (Yiwu) Equity Investment Fund Partnership (Limited Partnership) and CFTC Equity Investment Management (Beijing) Co. This was done to bring together the strengths and expertise of all parties in carrying out OSAT manufacturing and related businesses in China for the China market under a JV company. The JV will enable Inari to expand and add onto Inari's existing operations in the China market.
- AIL becomes majority shareholder with 54.5%** of the enlarged capital in the JV company. The registered capital of JV company has increased from Rmb770m to Rmb1,691m. As of end-Sep 23, AIL had subscribed for the registered capital amounting to Rmb210.7m by way of cash and Rmb240.6m by transferring 49% of the equity interest in ATK to the JV Company. The subscription for the remaining registered capital of Rmb469.7m comprising Rmb219.3m by way of cash and the transfer of the remaining 51% equity interest in ATK valued at Rmb250.4m to the JV Company are expected to be completed by end-23. Note that Inari has also extended the timeframe for the utilisation of the said proceeds for another 24 months from 30 Jan 24 to 29 Jan 26 to provide additional time for the utilisation of the balance of proceeds on the capex, acquisitions and investments (RM641.6m).

**EARNINGS REVISION/RISK**

- Post model updates, we cut our FY24 earnings by 6% to account for the uneventful 1QFY24.

**VALUATION/RECOMMENDATION**

- Maintain BUY with a lower target price of RM3.60**, based on 35.0x FY24F PE (+1SD above five-year mean forward). Inari is trading at 24.8x ex-cash FY24F PE (-0.5SD below its five-year mean PE), notwithstanding the growth potential from its new venture and M&A activities which could lift its earnings base

**ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES**

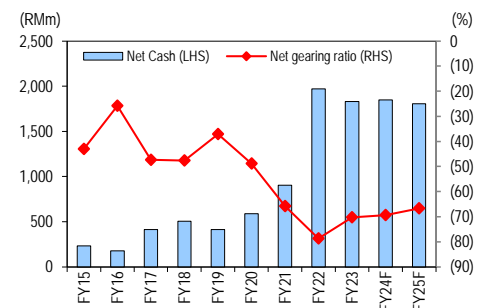
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>Inari has met globally recognised standards and has been qualified for inclusion into the FTSE4Good Bursa Malaysia Index since 22 Jun 20.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>Only foreign workers with legal work permits are hired, while all employees receive at least minimum wages.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>The company has an Anti-Corruption and Bribery Policy in place which complies with all applicable laws, including the MACC Act 2009 (Amendment 2018). No reported incidents of corruption or breaches against policy in 2020.</li> </ul> </li> </ul>
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**REVENUE BY SEGMENT**



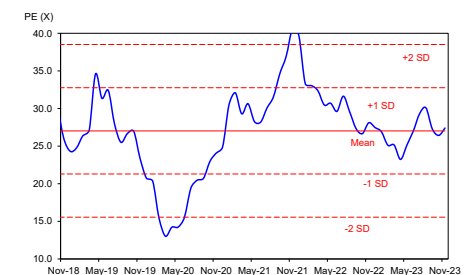
Source: UOB Kay Hian

**NET CASH AND NET GEARING**



Source: Inari, UOB Kay Hian

**FIVE-YEAR FORWARD PE BAND**



Source: Inari, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Net turnover	1,354	1,583	1,838	2,060
EBITDA	463	526	611	685
Deprec. & amort.	107	112	119	124
EBIT	356	414	492	561
Associate contributions	1	1	1	1
Net interest income/(expense)	(2)	0	0	0
Pre-tax profit	356	415	494	562
Tax	(31)	(35)	(42)	(48)
Minorities	(1)	(1)	(1)	(1)
Net profit	324	379	450	513
Net profit (adj.)	320	379	450	513

### CASH FLOW

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Operating	256	467	515	590
Pre-tax profit	356	415	494	562
Tax	(58)	(35)	(42)	(48)
Deprec. & amort.	104	112	119	124
Working capital changes	(148)	(25)	(55)	(48)
Other operating cashflows	2	0	0	0
Investing	(86)	(150)	(150)	(150)
Capex (growth)	(113)	(150)	(150)	(150)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	27	0	0	0
Financing	(301)	(341)	(405)	(461)
Dividend payments	(347)	(341)	(405)	(461)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	46	0	0	0
Net cash inflow (outflow)	(130)	(23)	(40)	(21)
Beginning cash & cash equivalent	1,983	1,869	1,846	1,806
Changes due to forex impact	(22)	0	0	0
Ending cash & cash equivalent	1,831	1,846	1,806	1,785

### BALANCE SHEET

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Fixed assets	509	537	568	594
Other LT assets	19	19	19	19
Cash/ST investment	1,831	1,846	1,806	1,785
Other current assets	608	658	764	856
<b>Total assets</b>	<b>2,967</b>	<b>3,060</b>	<b>3,157</b>	<b>3,254</b>
ST debt	0	0	0	0
Other current liabilities	332	371	421	465
LT debt	0	0	0	0
Other LT liabilities	29	29	29	29
Shareholders' equity	2,603	2,659	2,707	2,761
Minority interest	3	2	0	(1)
<b>Total liabilities &amp; equity</b>	<b>2,967</b>	<b>3,060</b>	<b>3,157</b>	<b>3,254</b>

### KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	34.2	33.2	33.2	33.2
Pre-tax margin	26.3	26.2	26.8	27.3
Net margin	23.9	23.9	24.5	24.9
ROA	11.0	12.6	14.5	16.0
ROE	12.7	14.4	16.8	18.7
<b>Growth</b>				
Turnover	(12.5)	16.9	16.1	12.1
EBITDA	(15.8)	13.7	16.1	12.1
Pre-tax profit	(20.2)	16.7	18.8	13.8
Net profit	(17.2)	17.0	18.9	13.9
Net profit (adj.)	(18.4)	18.5	18.9	13.9
EPS	(19.3)	18.5	18.9	13.9
<b>Leverage</b>				
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	(70.4)	(69.4)	(66.7)	(64.7)
Interest cover (x)	247.2	n.a.	n.a.	n.a.



### COMPANY RESULTS

## Kuala Lumpur Kepong (KLK MK)

FY23: Below Expectations

KLK's 4QFY23 results came in below our expectations, mainly due to higher-than-expected investment holdings losses and lower-than-expected CPO ASP. Earnings improved significantly qoq due to an improvement in the plantation segment's operating margin, but this was partially offset by higher losses from the manufacturing segment. We expect a strong earnings improvement with lower production costs and higher CPO ASP for FY24. Maintain BUY with a target price of RM25.90.

### 4QFY23 RESULTS

Year to 30 Sep (RMm)	4QFY23	qoq % chg	yoy % chg	FY23	yoy % chg	Remarks
Revenue	5,777	13.0	(17.2)	23,648	(12.9)	
EBIT	425	513.7	(38.9)	1,507	(51.9)	
Net finance cost	(104)	0.8	(2.1)	(406)	13.3	
Associate	(19)	230.6	(112.9)	(196)	n.m	
PBT	183	145.3	(74.9)	1,152	(64.2)	
Plantation	417	231.7	(18.7)	1,164	(45.5)	
Manufacturing	(102)	38.5	(146.0)	265	(77.2)	
Property	15	(24.4)	(22.1)	62	(13.2)	
Net Profit	116	38.3	(74.8)	834	(61.5)	
Core Net Profit	332	296.8	(45.1)	942	(60.0)	

Source: Kuala Lumpur Kepong, UOB Kay Hian

### RESULTS

- **Below expectations.** Kuala Lumpur Kepong (KLK) reported core net profit of RM332m (+38% qoq, -75% yoy) for 4QFY23, bringing FY23 core net profit to RM942m (-60% yoy). This is below our and consensus' forecasts, with FY23 core net profit accounting for ~80% of our full-year forecast. The main variance was mainly due to higher-than-expected investment holdings losses and lower-than-expected CPO ASP.
- **Stronger qoq earnings in 4QFY23 mainly thanks to:**
  - Improvement in plantation margin**, which we attribute mainly to lower fertiliser prices and slower fertiliser application.
  - Higher sales volume**, along with higher FFB and CPO production which increased by 28% and 25% qoq respectively.
  - But partially offset by higher losses from the manufacturing segment**, as the oleochemical division was impacted by narrower profit margin and one-time restructuring cost of RM71m incurred by its European operations.

### KEY FINANCIALS

Year to 30 Sep (RMm)	2021	2022	2023	2024F	2025F
Net turnover	19,916	27,149	23,648	26,996	31,121
EBITDA	2,831	4,277	2,579	3,407	3,507
Operating profit	2,197	3,346	1,613	2,500	2,592
Net profit (rep./act.)	2,258	2,166	834	1,648	1,712
Net profit (adj.)	1,765	2,357	942	1,648	1,711
EPS (sen)	163.6	218.4	87.3	152.7	158.3
PE (x)	13.2	9.9	24.6	14.1	13.6
P/B (x)	2.0	1.6	1.6	2.2	2.0
EV/EBITDA (x)	11.5	7.6	12.6	9.5	9.2
Dividend yield (%)	4.6	4.7	1.8	3.5	3.7
Net margin (%)	11.3	8.0	3.5	6.1	5.5
Net debt/(cash) to equity (%)	44.6	45.6	51.6	78.8	69.0
Interest cover (x)	15.3	14.4	7.9	9.4	9.1
Consensus net profit	-	-	-	1,371	1,473
UOBKH/Consensus (x)	-	-	-	1.20	1.15

Source: Kuala Lumpur Kepong, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM21.52
Target Price	RM25.90
Upside	+20.4%

### COMPANY DESCRIPTION

Plantation company also engaged in downstream manufacturing and property development.

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	KLK MK
Shariah Compliant:	Yes
Shares issued (m):	1,078.4
Market cap (RMm):	23,207.9
Market cap (US\$m):	4,962.1
3-mth avg daily t'over (US\$m):	4.1

### Price Performance (%)

52-week high/low RM23.50/RM20.60

1mth	3mth	6mth	1yr	YTD
(3.9)	(5.5)	(5.6)	1.0	(3.8)

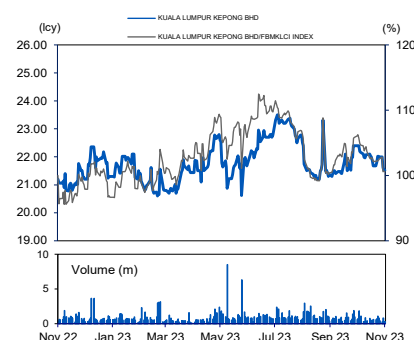
### Major Shareholders

	%
Batu Kawan Bhd	47.0
Employees Provident Fund Board	11.1

FY24 NAV/Share (RM) 9.92

FY24 Net Debt/Share (RM) 7.81

### PRICE CHART



Source: Bloomberg

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- **FY23 earnings came in lower yoy**, mainly dragged by lower CPO and palm kernel ASP despite better sales volume and production. Profit of the manufacturing segment also fell sharply by 77% yoy due to lower profit contribution from its oleochemical division, which offset the higher profit from the refineries and kernel crushing operation.

### STOCK IMPACT

- **FFB production growth for FY24.** We remain conservative on KLK's FFB production growth for FY24, factoring in 1% yoy growth as we expect lower growth from its Indonesia estate. This projection considers the anticipated lower growth from its Indonesian estate due to ongoing rehabilitation efforts of the acquired assets. We expect a more substantial contribution to materialise in the subsequent years as these rehabilitation efforts take effect.
- **Better downstream margin, but still challenging for FY24.** We expect a slightly better downstream margin in FY24 mainly thanks to higher ASP. Having said that, we believe that downstream operations may continue to face challenges, especially its oleochemical division, which may continue to see thin margins due to strong pricing competition from the Indonesian integrated players and new China new oleochemical entrants. Besides that, management also mentioned that its Europe operations could also face significant challenges in the form of persistently high energy costs and sluggish demand.
- **FY24 core net profit to increase 75% yoy.** We expect FY24 earnings to rise significantly with strong margin expansion, mainly on the back of:
  - a) **Stronger CPO ASP for FY24**, with an expected 15% yoy increase.
  - b) **Lower cost of production**, mainly due to lower fertiliser prices which have dropped by 40-50% yoy.
  - c) **Slightly better sales volume**, as we expect demand in destination countries to recover, especially China and India.

### EARNINGS REVISION/RISK

- Maintain earnings forecasts.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM25.90.** We peg our valuation at 17x FY24F PE.

### SHARE PRICE CATALYST

- Better-than-expected CPO prices.
- Higher-than-expected FFB production.
- Sustainable demand and margins for downstream products.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified.</li> <li>- Committed to no deforestation, no peat land and no exploitation.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Smallholders' development and best practices training programme.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.</li> </ul> </li> </ul>

### OPERATIONAL STATISTICS

	4QFY23	qoq % chg	yoy % chg
FFB production ('000 tonnes)	1,494	27.6	6.1
CPO production ('000 tonnes)	359	25.3	8.4
CPO ASP (RM/tonne)	3,476	(4.0)	(8.9)

Source: KLK

### PBT MARGIN

Margin:	4QFY23	Qoq % chg (+/- bps)	Yoy % chg (+/- bps)
PBT	3.2	1.7	(7.3)
Plantation	19.8	8.8	(15.1)
Manufacturing	(1.3)	0.4	(5.1)
Core net profit	5.7	4.1	(2.9)

Source: KLK

### PROFIT & LOSS

Year to 30 Sep (RMm)	2022	2023	2024F	2025F
<b>Net turnover</b>	27,149	23,648	26,996	31,121
EBITDA	4,277	2,579	3,407	3,507
Deprec. & amort.	931	966	908	915
EBIT	3,346	1,613	2,500	2,592
Total other non-operating income	178	168	166	171
Associate contributions	184	(196)	195	201
Net interest income/(expense)	(297)	(326)	(363)	(383)
<b>Pre-tax profit</b>	<b>3,219</b>	<b>1,152</b>	<b>2,498</b>	<b>2,581</b>
Tax	(781)	(162)	(599)	(619)
Minorities	(272)	(156)	(250)	(250)
<b>Net profit</b>	<b>2,166</b>	<b>834</b>	<b>1,648</b>	<b>1,712</b>
Net profit (adj.)	2,357	942	1,648	1,711

### CASH FLOW

Year to 30 Sep (RMm)	2022	2023	2024F	2025F
<b>Operating</b>	<b>2,673</b>	<b>1,978</b>	<b>989</b>	<b>2,316</b>
Pre-tax profit	3,219	1,152	2,498	2,581
Tax	(885)	(644)	(599)	(619)
Deprec. & amort.	931	966	908	915
Working capital changes	(578)	400	(1,669)	(406)
Other operating cashflows	(15)	103	(148)	(155)
<b>Investing</b>	<b>(2,472)</b>	<b>(1,609)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Capex (growth)	(1,252)	(1,555)	(1,000)	(1,000)
Capex (maintenance)	0	0	0	0
Investments	(783)	0	0	0
Proceeds from sale of assets	10	9	0	0
Others	(436)	(54)	0	0
<b>Financing</b>	<b>(738)</b>	<b>(713)</b>	<b>(112)</b>	<b>(144)</b>
Dividend payments	(1,252)	(1,078)	(824)	(856)
Issue of shares	0	0	0	0
Proceeds from borrowings	3,055	1,012	1,012	1,012
Loan repayment	(2,535)	(562)	(300)	(300)
Others/interest paid	(6)	(85)	0	0
<b>Net cash inflow (outflow)</b>	<b>(537)</b>	<b>(344)</b>	<b>(123)</b>	<b>1,173</b>
Beginning cash & cash equivalent	3,083	2,615	2,298	2,175
Changes due to forex impact	60	19	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,605</b>	<b>2,289</b>	<b>2,175</b>	<b>3,348</b>

### BALANCE SHEET

Year to 30 Sep (RMm)	2022	2023	2024F	2025F
<b>Fixed assets</b>	<b>12,123</b>	<b>12,906</b>	<b>13,030</b>	<b>13,122</b>
Other LT assets	6,272	7,740	7,641	7,657
Cash/ST investment	2,852	2,500	2,175	3,348
Other current assets	7,653	6,981	4,473	5,417
<b>Total assets</b>	<b>30,263</b>	<b>30,126</b>	<b>27,320</b>	<b>29,544</b>
ST debt	2,173	2,891	2,591	2,291
Other current liabilities	2,975	2,240	2,378	2,712
LT debt	7,209	7,003	8,018	9,031
Other LT liabilities	1,830	1,849	2,036	2,224
Shareholders' equity	14,312	14,341	10,705	11,561
Minority interest	1,765	1,825	2,075	2,325
<b>Total liabilities &amp; equity</b>	<b>30,263</b>	<b>30,126</b>	<b>27,320</b>	<b>29,544</b>

### KEY METRICS

Year to 30 Sep (%)	2022	2023	2024F	2025F
<b>Profitability</b>				
EBITDA margin	15.8	10.9	12.6	11.3
Pre-tax margin	11.9	4.9	9.3	8.3
Net margin	8.0	3.5	6.1	5.5
Net profit (adj.)	33.6	(60.0)	75.0	3.8
<b>Leverage</b>				
Debt to total capital	36.9	38.0	45.4	44.9
Debt to equity	65.6	69.0	99.1	97.9
Net debt/(cash) to equity	45.6	51.6	78.8	69.0
Interest cover (x)	14.4	7.9	9.4	9.1

### COMPANY RESULTS

## Malayan Banking (MAY MK)

3Q23: Risk To Reward Well Balanced

Maybank's 3Q23 net profit was in line, underpinned by the absence of the prosperity tax and lower provisions. However, NIM compression and weaker non-interest income impacted the group's pre-provision operating profit which declined 12% yoy in 3Q23. Maintain HOLD with a higher target price of RM9.55 (1.16x 2024F PBV, 10.5% ROE) from RM9.00 after rolling forward our target price to 2024. The group is trading at 0.5SD below its mean P/B valuations which we deem to be fair.

### RESULTS

- In line.** Malayan Banking (Maybank) reported 3Q23 net profit of RM2,358.0m (+12.3% yoy, flattish qoq), bringing 9M23 earnings to RM6,962.0m (+20.9% yoy). Results were in line, with 9M23 earnings representing 76% and 75% of our and consensus full-year estimates respectively. 9M23 earnings grew 20.9% yoy underpinned by: a) absence of the prosperity tax, b) two-fold rise in non-interest income on a strong recovery in treasury income to RM1.4b from a loss of RM800m in 9M22, and c) a 54% yoy decline in provisions partly offset by negative operating Jaws as opex outpaced revenue growth by 6ppt which resulted in a 2% yoy decline in pre-provision operating profit.
- Qoq.** 3Q23 earnings were flattish as a 11.3% qoq decline in pre-provision operating profit was offset by a 40% qoq decline in provisions. Pre-provision operating profit was impacted by a 25% qoq decline in non-interest income and negative operating Jaws with revenue declining 9ppt more than opex. The decline in non-interest income was due to a sharp contraction in treasury-related income (-92% qoq) but partly offset by stronger fee income on stronger commission income.
- Yoy.** 3Q23 earnings rose 12.3% yoy attributed to: a) absence of the prosperity tax, and b) a 27% yoy decline in provisions. Pre-provision operating profit contracted 11.7% yoy due to 33bp compression in NIM and negative operating Jaws with revenue declining 5ppt more than opex.
- NIM compression continued.** NIM declined 5bp qoq (2Q23: -5bp qoq) on the back of more aggressive wholesale deposit gathering which tends to be more expensive than retail deposits. This resulted in a 25bp slippage in 9M23 NIM vs our full-year forecast of -20bp assumption. Management expects NIM to start stabilising in 4Q23 and does not expect any further changes to the overnight policy rate (OPR) in the near term.
- Loans growth stable.** Loans grew 5.1% yoy in 3Q23 vs 5.2% yoy in 2Q23. Growth was anchored by auto (+9% yoy) and residential loans (+7% yoy) while working capital loans grew a modest 2% yoy and purchase of securities contracted 10% yoy on weaker demand for Amanah Saham loans. We have pencilled in a 5.0% group loans growth for 2023.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net interest income	12,034	13,834	12,524	12,834	13,297
Non-interest income	5,842	6,367	7,700	8,115	8,524
Net profit (rep./act.)	8,066	8,235	9,091	9,606	10,136
Net profit (adj.)	8,066	8,235	9,091	9,606	10,136
EPS (sen)	71.7	73.2	80.9	85.4	90.2
PE (x)	12.7	12.4	11.3	10.7	10.1
P/B (x)	1.2	1.2	1.2	1.1	1.1
Dividend yield (%)	6.4	6.4	6.7	7.0	7.4
Net int margin (%)	2.4	2.5	2.3	2.3	2.3
Cost/income (%)	45.3	46.4	50.1	50.3	50.5
Loan loss cover (%)	107.8	127.4	125.5	136.8	150.0
Consensus net profit	-	-	9,330	9,849	10,399
UOBKH/Consensus (x)	-	-	0.97	0.98	0.97

Source: Malayan Banking, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM9.10
Target Price	RM9.55
Upside	+4.9%
(Previous TP)	RM9.00

### COMPANY DESCRIPTION

The largest banking group in Malaysia in terms of asset size. Maybank also has sizeable exposure to foreign markets, with foreign loans, mainly in Singapore and Indonesia, making up 33% of its loan base

### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	MAY MK
Shares issued (m):	12,060.2
Market cap (RMm):	109,748.2
Market cap (US\$m):	23,438.9
3-mth avg daily t'over (US\$m):	16.4

### Price Performance (%)

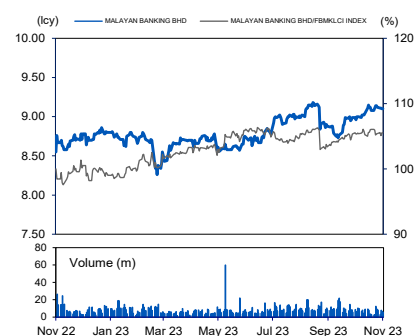
52-week high/low	RM9.18/RM8.26			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.2	1.0	6.1	6.6	4.6

### Major Shareholders

AmanahRaya Trustees Berhad	37.2
Employees Provident Fund Board	13.5
Permodalan Nasional Berhad	6.8

FY23 NAV/Share (RM)	7.90
FY23 CAR Tier-1 (%)	17.74

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **Asset quality relatively stable, reinforced by adequate provision buffers.** In 3Q23, the group's gross impaired loans (GIL) ratio slightly decreased to 1.42% (from 1.47% in 2Q23) largely due to write-off of selective corporate GILs in Malaysia. Domestically, GIL ratio declined to 1.30% (from 1.34% in 2Q23) due to write-offs, while Singapore and Indonesian operations experienced increases to 0.7% (from 0.61% in 2Q23) and 4.45% (from 4.06% in 2Q23) respectively. Singapore witnessed some deterioration in business banking GIL, and Indonesia saw an uptick in corporate GIL. However, we are not overly concerned, given the group's adequate provisioning reflected in the loans loss coverage ratio (LLC) of 127%, compared with the pre-pandemic average level of 75%.
- **Credit cost in line with expectations.** Net credit cost declined to 30bp in 3Q23 (from 38bp in 2Q23) due to provision write-back of a specific corporate borrower. This brings 9M23 net credit cost to 31bp (9M22: 45bp), which is broadly in line with management's 30-35bp guidance and our 32bp assumption. Management alluded that net credit cost is expected to come in at the lower end of management's guidance in 2023.
- **Opex growth has started to normalise downwards.** In 2Q23, opex showed a more modest increase of 2.3% yoy (compared with +18.2% yoy in 2Q22), contributing to a 10.6% yoy growth in 9M23. This was influenced by the absence of significant backdated collective agreement adjustments on union salaries that had impacted opex in 1H23. Overall, we anticipate opex growth to remain elevated at 9% yoy in 2023 before reverting to more sustainable levels of 5-6% in 2024-25.
- **Outlook.** Management has retained its key 2023 guidance of: ROE: 10.5-11.0%, NIM: -25bp and net credit cost guidance of 30-35bp.

### EARNINGS REVISION

- Unchanged.

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM9.55 (1.16x 2024F P/B, 10.5% ROE)** from RM9.00 after rolling forward our valuations to 2024. The stock is currently trading at -0.5SD from its historical mean P/B which we deem to be fair. Given our expectation of a more risk on environment in 1H24 on the back of peakish interest rate cycle in developed markets, we think that CIMB has a better scope to outperform, given its higher beta and cheaper valuations.

### 3Q23 RESULTS

Profit & Loss (RMm)	3Q23	3Q22	yoy % chg	9M23	qoq % chg	Remarks
Net Interest Income	3,167.0	3,463.3	(8.6)	9,602.9	(6.8)	
Islamic Banking	1,876.9	1,996.0	(6.0)	5,519.0	1.6	
Fees & Commissions	49.7	781.1	(93.6)	1,675.9	(31.1)	
Net insurance income	(158.8)	181.7	(187.4)	(827.9)	(172.0)	
Net trading income	976.7	120.7	709.1	2,315.6	(392.9)	
Other Operating Income	838.6	578.9	44.9	2,098.7	81.8	
Total Income	6,750.1	7,121.7	(5.2)	20,384.2	3.6	
Operating Expenses	(3,297.2)	(3,210.5)	2.7	(9,769.8)	10.6	
PPOP	3,452.9	3,911.2	(11.7)	10,614.4	(2.1)	
Provisions	(440.2)	(599.6)	(26.6)	(1,362.0)	(27.6)	
Writeback/(Impairment)	98.1	(241.6)	(140.6)	152.5	(121.4)	
Associate	45.6	29.6	53.8	177.1	44.4	
PBT	3,156.4	3,099.7	1.8	9,582.0	14.4	
<b>Net Profit</b>	<b>2,358.1</b>	<b>2,100.0</b>	<b>12.3</b>	<b>6,962.0</b>	<b>21.0</b>	
EPS (sen)	21.0	18.7	12.2	61.9	20.9	
DPS (sen)	0.0	0.0	n.a.	29.0	3.6	
BVPS (RM)	7.55	7.04	7.3	7.49	5.8	
Financial Ratios (%)	3Q23	3Q22	yoy chg (ppt)	2Q23	qoq chg (ppt)	
Loan Growth, yoy	(1.7)	2.0	(3.8)	2.3	(4.1)	
Deposit Growth, yoy	1.4	0.9	0.5	0.6	0.8	
Loan/Deposit Ratio	95.2	93.8	1.4	94.7	0.5	
Cost/Income Ratio	48.8	45.1	3.8	46.8	2.1	
ROE	10.4	9.9	0.5	10.6	(0.2)	
Gross Impairment Loan Ratio	1.5	1.7	(0.2)	1.5	0.0	
Credit Costs (bp)	29.6	40.8	(11.3)	37.1	(7.5)	
CET-1 CAR	15.4	13.8	1.6	16.0	(0.6)	

Source: Maybank, UOB Kay Hian

### KEY ASSUMPTIONS

(%)	2023F	2024F	2025F
Loan Growth	5.0	5.2	5.5
Credit Cost (bp)	32.0	30.0	29.0
ROE	10.2	10.5	11.0

Source: Maybank, UOB Kay Hian

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Green loan commitment.</b> To provide RM50b in sustainable financing by 2025.</li> <li>- <b>Zero new coal financing.</b> Transition all stakeholders to zero carbon emission by 2050.</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Board and upper management gender diversity.</b> Maintained 25% female directors on the Board and 40% female senior management.</li> <li>- <b>Enhanced financial inclusion to B40.</b> Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities especially the B40 consumers.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Composition of independent directors.</b> Composition of Independent Directors (INED) – 75%.</li> </ul> </li> </ul>
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Source: Maybank, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Interest income	21,628	22,669	23,813	25,103
Interest expense	(7,793)	(10,145)	(10,979)	(11,806)
Net interest income	13,834	12,524	12,834	13,297
Fees & commissions	3,343	3,543	3,685	3,795
Other income	3,024	4,157	4,430	4,729
Non-interest income	6,367	7,700	8,115	8,524
Income from Islamic banking	7,414	7,933	8,647	9,425
<b>Total income</b>	<b>27,615</b>	<b>28,157</b>	<b>29,596</b>	<b>31,246</b>
Staff costs	(7,504)	(8,629)	(9,233)	(9,972)
Other operating expense	(5,304)	(5,474)	(5,645)	(5,821)
Pre-provision profit	14,808	14,054	14,717	15,453
Loan loss provision	(2,189)	(1,969)	(1,942)	(1,980)
Other provisions	(596)	0	0	0
Associated companies	131	139	147	156
Other non-operating income	0	0	0	0
Pre-tax profit	12,153	12,224	12,922	13,629
Tax	(3,780)	(2,880)	(3,050)	(3,211)
Minorities	(138)	(252)	(267)	(281)
<b>Net profit</b>	<b>8,235</b>	<b>9,091</b>	<b>9,606</b>	<b>10,136</b>
Net profit (adj.)	8,235	9,091	9,606	10,136

### OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Capital Adequacy</b>				
Tier-1 CAR	15.5	17.7	17.1	16.4
Total CAR	15.2	23.5	23.0	22.5
Total assets/equity (x)	10.9	11.1	11.3	11.6
Tangible assets/tangible common equity (x)	11.8	12.0	12.2	12.4
<b>Asset Quality</b>				
NPL ratio	1.6	1.5	1.7	1.6
Loan loss coverage	127.4	158.4	143.2	157.2
Loan loss reserve/gross loans	2.3	2.4	2.5	2.5
Increase in NPLs	(16.6)	1.8	18.7	(2.5)
Credit cost (bp)	37.3	32.0	30.0	29.0
<b>Liquidity</b>				
Loan/deposit ratio	90.0	89.3	89.0	88.9
Liquid assets/short-term liabilities	11.5	11.7	11.4	11.1
Liquid assets/total assets	8.4	8.6	8.4	8.2

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Cash with central bank	13,777	18,459	19,419	20,487
Govt treasury bills & securities	49,540	50,531	51,541	52,572
Interbank loans	16,096	16,257	16,420	16,584
Customer loans	575,387	600,455	631,364	665,839
Investment securities	181,550	194,701	208,761	223,793
Derivative receivables	24,687	24,687	24,687	24,687
Associates & JVs	2,207	2,207	2,207	2,207
Fixed assets (incl. prop.)	3,319	3,485	3,659	3,842
Other assets	81,249	85,717	90,565	95,839
<b>Total assets</b>	<b>947,813</b>	<b>996,498</b>	<b>1,048,622</b>	<b>1,105,849</b>
Interbank deposits	51,894	53,451	55,054	56,706
Customer deposits	639,396	672,645	709,640	748,670
Derivative payables	27,874	27,874	27,874	27,874
Debt equivalents	13,067	13,067	13,067	13,067
Other liabilities	126,664	137,466	147,767	160,932
<b>Total liabilities</b>	<b>858,896</b>	<b>904,503</b>	<b>953,403</b>	<b>1,007,250</b>
Shareholders' funds	85,957	88,782	91,739	94,838
Minority interest - accumulated	2,960	3,213	3,480	3,761
<b>Total equity &amp; liabilities</b>	<b>947,813</b>	<b>996,497</b>	<b>1,048,622</b>	<b>1,105,849</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Growth</b>				
Net interest income, yoy chg	15.0	(9.5)	2.5	3.6
Fees & commissions, yoy chg	(8.1)	6.0	4.0	3.0
Pre-provision profit, yoy chg	6.3	(5.1)	4.7	5.0
Net profit, yoy chg	2.1	10.4	5.7	5.5
Net profit (adj.), yoy chg	2.1	10.4	5.7	5.5
Customer loans, yoy chg	6.2	4.4	5.1	5.5
Customer deposits, yoy chg	3.5	5.2	5.5	5.5
<b>Profitability</b>				
Net interest margin	2.5	2.3	2.3	2.3
Cost/income ratio	46.4	50.1	50.3	50.5
Adjusted ROA	0.9	0.9	0.9	0.9
Reported ROE	9.6	10.4	10.6	10.9
Adjusted ROE	9.6	10.4	10.6	10.9
<b>Valuation</b>				
P/BV (x)	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.3	1.2	1.2
Adjusted P/E (x)	12.4	11.3	10.7	10.1
Dividend Yield	6.4	6.7	7.0	7.4
Payout ratio	79.2	75.0	75.0	75.0

### COMPANY RESULTS

#### MISC (MISC MK)

9M23: Core Profits In Line Despite Slightly Weaker Tanker Rates

9M23 core performance was expectedly strong due to the resilient crude tanker markets (albeit dropping slightly qoq). Unlike other shipowners that purchase new ships aggressively, MISC remains conservative in capital management (dividend payments), while ensuring it delivers on existing projects (like Mero-3). Given its balance sheet and branding, MISC stands a decent chance of benefitting from green retrofits/ventures, and new LNG demand. We retain our forecasts. Maintain BUY and target price of RM8.80.

#### 3Q23 RESULTS

Year to 31 Dec	3Q23 (RMm)	qoq % chg	yoy % chg	YTD FY23 (RMm)	yoy % chg	Comments
Revenue	3,365.1	(5.2)	(6.9)	9,993.4	3.1	
-LNG	860.6	11.5	8.9	2,388.3	57.1	Higher relet/ spot rates
-Petroleum	1,210.1	(0.7)	(4.4)	3,640.4	80.8	Time charter rates remained strong
-Offshore, heavy engineering	1,253.9	(17.7)	(18.0)	3,857.7	55.6	
EBIT	649.9	22.3	(36.9)	1,231.3	14.4	
-LNG	427.9	2.2	20.5	933.9	51.1	Higher average rates
-Petroleum	296.2	(8.9)	(37.1)	(14.1)	(103.5)	Higher spot mix (spot rates declined)
-Offshore, heavy engineering	(42.2)	(71.0)	Na	1,231.3	14.4	US\$40m-50m MMHE provision
Impairment losses	Na	Na	Na	Na	Na	US\$20m provision for Benchamas 2
Finance cost	(186.7)	5.7	8.2	(539.6)	14.1	
Associates	1.4	(26.3)	(105.5)	75.6	(563.8)	One off FL gain in 1Q23
Pre-tax profit	464.6	37.0	(44.5)	1,431.4	16.9	
Income tax	(65.9)	280.9	327.9	(99.8)	148.9	
Net profit	430.4	(5.0)	(47.6)	1,496.2	27.0	Core profit exclude provisions from
Core profit	546.8	(9.1)	1.8	1,733.5	20.6	MMHE, Benchamas, Mero-3 gains

Source: MISC, UOB Kay Hian \*Note: Malaysia Marine & Heavy Engineering

#### RESULTS

- **9M23 core earnings deemed in line, at 76%/77% of our/consensus forecasts.** We excluded in 3Q23 a near US\$10m finance lease (FL) gains for FPSO Mero-3 (1H23: US\$10-15m), RM50m cost provisions for MMHE's projects that faced delays and cost escalation, and US\$20m provisions for the FSO Benchamas HSE incident. MISC Berhad's (MISC) performance was a clean quarter that correlated to the industry's conditions ie a) crude tanker earnings remaining profitable despite a qoq decline in industry spot rates, b) rising LNG demand, and c) on-track execution on FPSO Mero-3.
- **Revert to interim DPS of RM0.07 (2Q23: RM0.10).** Although the MMHE provision is the main culprit behind slightly lower EBITDA of RM3.3b in 3Q23, MISC is trading very carefully to invest in O&G or non-O&G projects. This is also consistent with our view that MISC will benefit from market opportunities in gas, green fuels and vessel redeployment.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	10,672	13,867	14,455	15,010	15,029
EBITDA	3,898	5,132	5,056	5,254	5,268
Operating profit	1,948	3,102	2,800	2,836	2,708
Net profit (rep./act.)	1,831	1,823	2,285	2,339	2,328
Net profit (adj.)	1,319	2,214	2,285	2,339	2,328
EPS (sen)	29.6	49.6	51.2	52.4	52.2
PE (x)	24.4	14.6	14.1	13.8	13.8
P/B (x)	0.9	0.9	0.8	0.8	0.8
EV/EBITDA (x)	11.8	8.9	9.1	8.7	8.7
Dividend yield (%)	4.6	4.6	4.6	4.6	4.6
Net margin (%)	17.2	13.1	15.8	15.6	15.5
Net debt/(cash) to equity (%)	26.6	28.6	33.5	31.8	33.0
Interest cover (x)	9.3	7.9	7.4	6.6	6.9
ROE (%)	5.5	5.1	6.0	6.0	5.9
Consensus net profit	-	-	2,305	2,401	2,554
UOBKH/Consensus (x)	-	-	0.99	0.97	0.91

Source: MISC Berhad, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM7.22
Target Price	RM8.80
Upside	+21.9%

#### COMPANY DESCRIPTION

Shipping Company

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MISC MK
Shares issued (m):	4,463.7
Market cap (RMm):	32,228.2
Market cap (US\$m):	6,883.0
3-mth avg daily t'over (US\$m):	2.6

#### Price Performance (%)

52-week high/low RM7.56/RM6.97

1mth	3mth	6mth	1yr	YTD
0.4	2.0	(2.2)	0.3	(3.7)

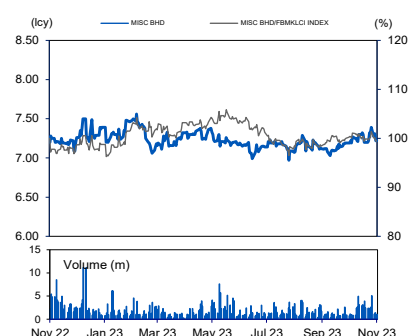
#### Major Shareholders

	%
Petroleum Nasional Bhd	62.7
Employees Provident Fund	12.2

FY23 NAV/Share (RM) 8.57

FY23 Net Debt/Share (RM) 2.87

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Petroleum term mix remained high at 85%, vs 88% qoq.** Spot exposure by fleet was: Very Large Crude Carriers (VLCC) (25%), Aframax (7%), and Suezmax (22%). In 2Q23, the spot days exposure was: VLCC (28%), Aframax (11%), and Suezmax (3%). Industry spot rates declined materially throughout 2Q23 due to a series of OPEC+ cuts. Long-term rates were still resilient and at all-time highs, driven by higher tonne-mile demand and recalibration of crude trade flows.
- Mero-3 construction now at 87% completion rate, financially speaking.** Construction progress alone is at 92% completion rate, and on track for the 1Q24 sailaway and May 24 delivery targets. Financially speaking, in 9M23, about US\$273m out of the US\$2.1b FPSO capex (1H23: RM194m) was recognised as work-in-progress working capital. This is essentially the cash capex done for the construction progress, and under FL accounting, this item is classified as an operating cash flow. FPSO Mero-3's remaining capex value yet to be recognised amounts to RM1.6b (2022: RM2.2b).
- Total capex incurred for 9M23 is close to RM3.2b (1H23: RM2.4b).** Note that this includes the RM1.2b cash capex for the FPSO and RM2b (non-FPSO). As per our theme, while other shipowners are aggressively ordering greener newbuilds (albeit at a high cost) in the yards, MISC is taking a more conservative approach. A pleasant surprise came from the expiring Steam Turbine LNG tankers which were earlier perceived to be impossible to redeploy, and are now able to "gain new life" for projects like Pengerang LNG, or sale-and-leaseback agreements. It is possible for MISC to manage the vessel residual value, and identify a portion of its fleet up for expiry for new redeployment. MISC also confirmed it is bidding for Qatar's new LNG newbuilds (our base case assumption is to secure three).
- ESG updates: Greener ventures.** MISC has been actively involved in not just green ammonia and dual-fuel LNG engines, but also penetrating the Liquid Carbon Carrier (LCO2) and storage industry. While being mindful of its capital constraints, we would not rule out possibilities of MISC roping in partners, or considerations for spin-offs.
- ESG updates: CII.** 2024 marks the first year for global vessels to operate after attaining an annual operating Carbon Intensity Indicator (CII) for their performance in 2023. The CII is one of the major green rules mandated by International Maritime Organisation (IMO). We understand that MISC is still conducting its vessel review but guides that if any, the additional opex and capex p.a. to the group is US\$20m-30m.

**EARNINGS REVISION/RISKS**

- Retain forecasts.** We continue to expect resilient strength in petroleum earnings, and this should more than offset LNG earnings base decline in 2024, before rising again in 2025. MISC should enjoy a step-up in 2025's cash flow and earnings from Mero-3's new contribution, at US\$100m on a gross basis although MISC intends to divest 50% stake. This implies the company is expecting 2025 EBITDA to be as high as US\$1.2b

**VALUATION/RECOMMENDATION**

- Retain BUY with target price of RM8.80,** implying 17x 2024F PE (at +1SD to five-year average PE band). We believe MISC deserves to trade at the top end, from the angle of strong EBITDA from an upcycle in petroleum earnings, followed by a step-up in long-term earnings base from Mero-3 (to compensate for the cyclical nature of tankers), and further contract wins (MISC still has room to absorb projects before breaching the 3x net debt/EBITDA ratio limit by rating agencies; our forecast: 2.7x).
- From an industry perspective, vessel rates are at multi-year highs due to supply tightness vs demand. From a P/B perspective, MISC (at our target price) appears to be trading at a discount to its pure crude tanker peers worldwide. The peers are all trading at a very inexpensive 4-5x forward PE but at 1.3-1.4x P/B, which also reflects the more persistent bullishness of the crude tanker upcycle. Hence, it is possible that markets have yet to digest the full impact of the LNG and crude tanker market opportunities.

**ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES**

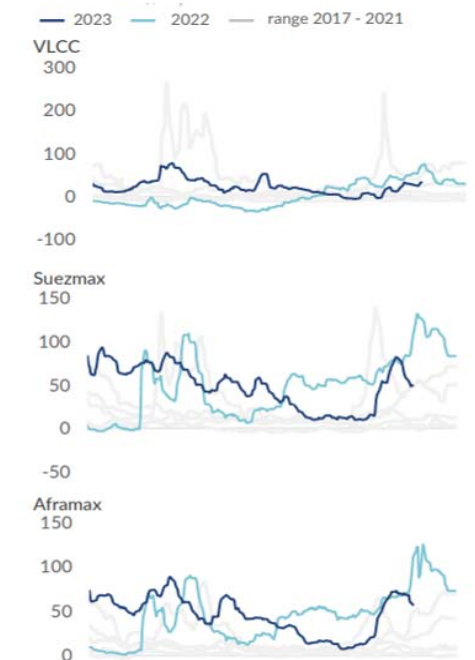
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Carbon (CO2) reduction.</b> Adding new vessels with LNG-dual/ ammonia fuel to meet net-zero emission by 2050 (50% reduction of greenhouse gas by 2030).</li> <li>- <b>Promoting circular economy via green ship recycling.</b> Aims to avoid wastage while disposing aged vessels that do not meet carbon reduction criteria.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Diversity.</b> &gt;20 nationalities; &gt;40% female proportion among onshore staff.</li> <li>- <b>Safety (HSE).</b> Lost Time Injury Frequency (LTIF) remains low at 0.08 (2021: 0.15).</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Achieved 5/5 rating (FTSE4Good)</b> for governance &amp; supply chain management.</li> </ul> </li> </ul>
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**PBT SEGMENTAL BREAKDOWN**

US\$m	3Q23	2Q23	3Q22
<b>PBT</b>	<b>100.0</b>	<b>78.0</b>	<b>91.0</b>
LNG	73.0	76.0	67.0
Petroleum	52.0	60.0	16.0
Offshore	(15.0)	27.0	(11.0)
MMHE	(22.0)	(87.0)	5.0

Source: MISC presentation

**CRUDE TANKER TCE EARNINGS (US\$'000/DAY)**



Source: Allied Shipping Research

**LONG-TERM TANKER RATES STILL RESILIENT**

Baltic tanker indices	17 Nov	w-o-w %	last 12 months		
			min	avg	max
BDTI	1,317	-5.4%	713	1,268	2,496
BCTI	826	5.1%	563	931	2,143
<b>VLCC</b>					
VLCC-TCE	\$/day \$ 33,375	25.2%	\$ 5,934	\$ 24,945	\$ 77,648
1 year period	\$/day \$ 45,500	0.0%	\$ 36,500	\$ 41,236	\$ 50,000
<b>Suezmax</b>					
Suezmax-TCE	\$/day \$ 49,932	-15.3%	\$ 9,442	\$ 55,526	\$ 132,006
1 year period	\$/day \$ 43,500	0.0%	\$ 36,250	\$ 40,759	\$ 45,000
<b>Aframax</b>					
Aframax-TCE	\$/day \$ 57,186	-16.5%	\$ 7,552	\$ 51,495	\$ 125,722
1 year period	\$/day \$ 41,000	0.0%	\$ 32,500	\$ 41,632	\$ 50,000

Source: Allied Shipping Research

**SOTP BREAKDOWN (AT RM4.4/US\$) SEGMENTAL FORECASTS**

Segments	Valuation	RM/share	(RMm)	2023F	2024F	2025F
LNG	DCF, 8.2% WACC	3.17	Revenue	14,455.2	15,009.9	15,028.5
Petroleum	1.2x P/B	2.95	LNG	3,007.2	3,019.6	3,159.1
MMHE	Based on RMO.70 TP (66.5%)	0.16	Petroleum	4,582.6	4,774.1	4,515.1
Gumusut	1x (no more cash flow discount)	1.65	MMHE	2,230.0	2,815.0	3,020.0
Kikeh (51%)	1x P/B	0.18	Offshore	4,635.4	4,401.2	4,334.3
FPSO Mero 3	JV DCF, lesser 10% discount	0.38	EBIT	2,799.8	2,836.0	2,708.0
Other offshore	0.9x P/B	0.05	LNG	1,383.3	1,419.2	1,453.2
(-) Net debt	LNG (RM5b); others RM4b	(0.99)	Petroleum	939.3	947.4	775.4
(+) New contracts	Potential contracts: FPSO and LNG	1.25	MMHE	13.7	29.2	35.9
SOTP	18x 2024F PE	8.80	Offshore	463.5	440.1	443.5

Source: Allied Shipping Research



### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	13,867	14,455	15,010	15,029
EBITDA	5,132	5,056	5,254	5,268
Deprec. & amort.	2,030	2,257	2,418	2,560
EBIT	3,102	2,800	2,836	2,708
Total other non-operating income	(551)	n.a.	n.a.	n.a.
Associate contributions	(25)	226	356	451
Net interest income/(expense)	(651)	(687)	(793)	(769)
<b>Pre-tax profit</b>	<b>1,874</b>	<b>2,339</b>	<b>2,399</b>	<b>2,390</b>
Tax	(39)	(49)	(50)	(50)
Minorities	(12)	(5)	(10)	(12)
<b>Net profit</b>	<b>1,823</b>	<b>2,285</b>	<b>2,339</b>	<b>2,328</b>
Net profit (adj.)	2,214	2,285	2,339	2,328

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>2,994</b>	<b>2,918</b>	<b>4,491</b>	<b>5,218</b>
Pre-tax profit	1,874	2,339	2,399	2,390
Tax	(2,138)	(2,138)	(763)	(50)
Other operating cashflows	3,258	2,718	2,855	2,877
<b>Investing</b>	<b>(1,943)</b>	<b>(3,610)</b>	<b>(1,270)</b>	<b>(4,165)</b>
Capex (growth)	(2,294)	(3,960)	(4,620)	(4,515)
Others	351	351	3,351	351
<b>Financing</b>	<b>(1,992)</b>	<b>(1,790)</b>	<b>(1,262)</b>	<b>(1,276)</b>
Others/interest paid	(1,992)	(1,790)	(1,262)	(1,276)
<b>Net cash inflow (outflow)</b>	<b>(941)</b>	<b>(2,482)</b>	<b>1,959</b>	<b>(223)</b>
Beginning cash & cash equivalent	7,952	7,134	4,653	6,613
Changes due to forex impact	123	1	1	1
Ending cash & cash equivalent	7,134	4,653	6,613	6,391

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	24,286	26,266	28,576	30,833
Other LT assets	25,634	24,545	22,615	21,973
Cash/ST investment	7,134	4,653	6,613	6,391
Other current assets	5,611	7,178	7,448	7,457
<b>Total assets</b>	<b>62,665</b>	<b>62,641</b>	<b>65,252</b>	<b>66,654</b>
ST debt	3,606	2,640	3,080	3,010
Other current liabilities	5,162	4,699	4,878	4,880
LT debt	14,256	14,844	15,960	16,562
Other LT liabilities	1,337	1,337	1,337	1,337
Shareholders' equity	37,459	38,271	39,137	39,992
Minority interest	846	850	860	872
<b>Total liabilities &amp; equity</b>	<b>62,665</b>	<b>62,641</b>	<b>65,252</b>	<b>66,654</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	37.0	35.0	35.0	35.1
Pre-tax margin	13.5	16.2	16.0	15.9
Net margin	13.1	15.8	15.6	15.5
ROA	3.0	3.6	3.7	3.5
ROE	5.1	6.0	6.0	5.9
<b>Growth</b>				
Turnover	29.9	4.2	3.8	0.1
EBITDA	31.7	(1.5)	3.9	0.3
Pre-tax profit	5.6	24.8	2.6	(0.4)
Net profit	(0.5)	25.4	2.4	(0.5)
Net profit (adj.)	67.8	3.2	2.4	(0.5)
EPS	67.8	3.2	2.4	(0.5)
<b>Leverage</b>				
Debt to total capital	31.8	30.9	32.3	32.4
Debt to equity	47.7	45.7	48.6	48.9
Net debt/(cash) to equity	28.6	33.5	31.8	33.0
Interest cover (x)	7.9	7.4	6.6	6.9

### COMPANY RESULTS

## Frencken Group (FRKN SP)

3Q23: Results In Line; Sequential Recovery Trend Continues

**Frencken's 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) were in line with expectations, with 9M23 earnings accounting for 74% of our full-year estimate. 3Q23 revenue grew 3% qoq but fell 6% yoy as all segments saw revenue declines, except for medical (+20% yoy) and analytical & life sciences (+22% yoy). Frencken expects stable revenue in 2H23 vs 1H23 and will continue focusing on its programmes for customers to ensure it is well-positioned to recover. Maintain BUY. Target: S\$1.23.**

### 3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	% chg (yoy)	2Q23	% chg (qoq)
Revenue	184.4	195.3	(5.6)	178.5	3.3
Net Profit	7.1	11.0	(35.5)	6.9	2.9
Gross margin (%)	12.4	13.7	(1.3ppt)	12.4	-
Net margin (%)	3.9	5.6	(1.7ppt)	3.9	-

Source: Frencken, UOB Kay Hian

### RESULTS

- 3Q23 earnings of S\$7m (-30% yoy/+3% qoq) are in line with expectations.** Frencken Group (Frencken) reported earnings that are in line with our forecast, with 9M23 earnings of S\$19m (-48% yoy) accounting for 74% of our full-year estimate. 3Q23 earnings saw a qoq recovery of around 3%, as Frencken continues its sequential recovery trend since 2Q23.
- Revenue declined across four segments, while that for medical and analytical & life sciences rose.** Frencken's 3Q23 revenue grew 3% qoq but the drop of 6% yoy was led by declines in the industrial automation (-64% yoy), semiconductor (-11% yoy), consumer & industrial electronics (-4% yoy) and automobile (-6% yoy) segments. In the semiconductor space, sales to a key customer in Europe was higher yoy in 1H23. However, this was insufficient to compensate for the decline in sales in Asia. Sales in the medical (+20% yoy) segment grew due to higher sales to a significant European customer, while sales of the analytical & life science segment rose 22% yoy.
- Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23 and it continues to focus on programmes for existing and new customers.** Frencken expects to post stable revenue in 2H23 vs 1H23. Its outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: higher revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, Frencken will continue to focus on its programmes for existing and new customers to ensure it is well-positioned for a recovery in the global economy and technology sector.

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	792	828
EBITDA	87	82	54	75	80
Operating profit	64	54	24	44	48
Net profit (rep./act.)	59	52	26	42	46
Net profit (adj.)	59	52	26	42	46
EPS (S\$ cents)	13.8	12.1	6.0	9.7	10.7
PE (x)	7.9	8.9	18.0	11.1	10.1
P/B (x)	1.2	1.2	1.1	1.1	1.0
EV/EBITDA (x)	4.3	4.5	6.8	4.9	4.6
Dividend yield (%)	3.8	3.4	1.7	2.7	3.0
Net margin (%)	7.7	6.6	3.5	5.2	5.5
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	62.2	22.8	16.2	20.7	21.2
ROE (%)	16.5	13.5	6.5	9.9	10.1
Consensus net profit	-	-	25	40	49
UOBKH/Consensus (x)	-	-	1.02	1.03	0.93

Source: Frencken, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.08
Target Price	S\$1.23
Upside	+13.5%

### COMPANY DESCRIPTION

Frencken is a global integrated technology solutions company. The group provides ODM and OEM services for the automotive, healthcare, industrial, analytical & life sciences and semiconductor industries.

### STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	FRKN SP
Shares issued (m):	427.0
Market cap (S\$m):	461.2
Market cap (US\$m):	343.8
3-mth avg daily t'over (US\$m):	3.0

### Price Performance (%)

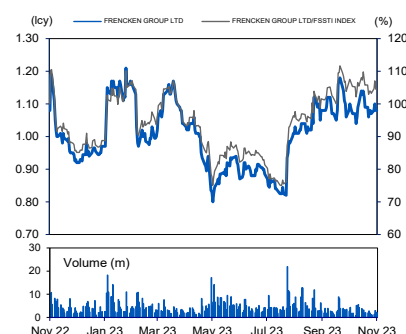
52-week high/low S\$ 1.21/S\$ 0.800

1mth	3mth	6mth	1yr	YTD
1.9	6.9	29.3	2.9	14.3

### Major Shareholders

	%
Dato' Gooi Soon Chai	23.5
FY23 NAV/Share (S\$)	0.94
FY23 Net Cash/Share (S\$)	0.22

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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STOCK IMPACT

• **Long-term growth supported by diversified segments and new programmes.** Frencen has built long-term customer relationships with multinational companies that are leaders in their own fields. Backed by its diverse exposure to multiple market segments in the high technology industry and the strength of its balance sheet, Frencen is confident of weathering the current headwinds and will continue to focus on investments in programmes for existing and new customers. This will ensure that Frencen is well-positioned to capitalise on a recovery in the global economy and technology sector. Frencen has continued strong new product introduction and first article engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans the semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

EARNINGS REVISION/RISK

• We maintain our financial forecasts.

VALUATION/RECOMMENDATION

• **Maintain BUY and target price of S\$1.23**, pegged to 12.6x 2024F PE, based on 1SD above mean PE. The +1 SD in our PE multiple peg is to capture the Frencen's earnings cycle, which is approaching a trough, and an improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencen has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

SHARE PRICE CATALYST

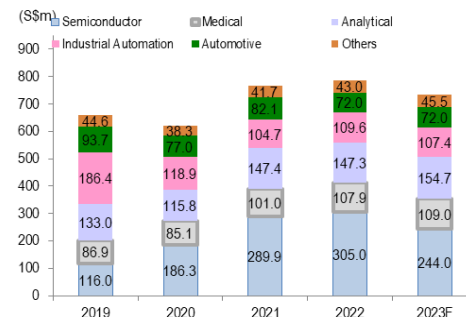
• Higher-than-expected factory utilisation rates and better cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 22 Nov 23 (TC)	Market Cap (USD)	2023F PE (x)	2024F PE (x)	2023F PB (x)	2024F PB (x)	2023F EV/EBITDA (%)	2024F EV/EBITDA (%)	ROE 2023F (%)	Yield 2023F (%)
Frencen	FRKN SP	SGD	1.08	344	18.0	11.1	1.1	1.1	8.9	6.4	6.5	1.7
SGX-listed peers												
Venture	VMS SP	SGD	13.05	2,826	14.1	13.5	1.3	1.3	8.5	8.2	9.4	5.7
AEM	AEM SP	SGD	3.49	804	78.5	14.2	2.2	2.0	28.4	10.3	2.8	0.3
UMS	UMSH SP	SGD	1.26	630	14.1	10.9	2.3	2.1	9.2	7.3	17.0	4.3
Average					35.6	12.9	1.9	1.8	15.3	8.6	9.7	3.5
Semiconductor (39% of Frencen's 2022 sales)												
Asml Hol	ASML NA	EUR	622.2	273,257	31.9	31.8	20.1	18.1	26.2	25.9	70.4	1.0
Intel Corp	INTC US	USD	43.64	183,986	45.9	23.3	1.8	1.8	18.3	12.6	2.7	1.6
Kulicke & Soffa	KLIC US	USD	49.64	2,816	49.1	24.3	2.4	n.a.	26.6	17.2	4.8	1.5
Benchmark Elec	BHE US	USD	25.33	904	12.5	11.8	0.8	0.8	7.5	7.0	6.9	2.6
Average					34.9	22.8	6.3	6.9	19.7	15.7	21.2	1.7
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	76.06	15,911	n.a.	293.7	n.a.	n.a.	108.2	28.0	n.a.	3.7
Western Digital	WDC US	USD	46.24	14,993	n.a.	n.a.	1.4	1.5	n.a.	251.5	(15.0)	0.0
Average					n.a.	293.7	1.4	1.5	108.2	139.8	(15.0)	1.8
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	482.39	186,382	22.4	21.9	4.0	3.7	19.9	19.8	18.4	0.3
Oxford Instruments	OXIG LN	Gbp	2140	1,551	20.2	19.0	0.0	0.0	n.a.	n.a.	17.1	0.9
Koninklijke Philips	PHIA NA	EUR	19,256	19,481	15.4	13.2	1.4	1.4	8.7	8.2	4.1	4.5
Siemens Healthineers	SHL GR	EUR	50.66	62,253	37.5	22.8	3.2	2.8	19.5	15.5	8.0	1.9
Average					23.9	19.2	2.1	2.0	16.0	14.5	11.9	1.9
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	13.125	3,498	10.7	5.9	0.8	0.7	3.2	2.9	7.3	3.6
Visteon	VC US	USD	118.23	3,288	17.4	12.8	4.4	3.7	7.7	6.6	26.5	0.0
Thyssenkrupp	TKA GR	EUR	6.99	4,741	n.a.	9.7	n.a.	0.3	n.a.	1.1	n.a.	2.1
Bosch	BOS IN	INR	20851.4	7,380	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.3
Denso	6902 JP	JPY	2374.5	50,153	14.5	13.1	1.5	1.4	7.7	7.0	10.5	2.2
Johnson Contr	JCI US	USD	52.53	35,737	14.8	13.3	2.1	2.0	11.3	10.5	14.0	2.7
Average					14.3	10.9	2.2	1.6	7.5	5.6	14.6	2.0

Source: Bloomberg, UOB Kay Hian

REVENUE BY SEGMENT (2019-23)



Source: Frencen, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>786.1</b>	<b>732.5</b>	<b>791.7</b>	<b>828.3</b>
EBITDA	82.2	54.3	75.1	80.4
Deprec. & amort.	27.8	29.8	31.2	32.6
EBIT	54.3	24.5	43.9	47.8
Total other non-operating income	12.3	10.4	10.5	11.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(3.6)	(3.4)	(3.6)	(3.8)
<b>Pre-tax profit</b>	<b>63.0</b>	<b>31.6</b>	<b>50.8</b>	<b>55.9</b>
Tax	(11.4)	(5.7)	(9.1)	(10.1)
Minorities	0.2	(0.2)	(0.1)	(0.1)
<b>Net profit</b>	<b>51.9</b>	<b>25.6</b>	<b>41.5</b>	<b>45.8</b>

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>37.8</b>	<b>74.7</b>	<b>60.0</b>	<b>70.1</b>
Pre-tax profit	63.0	31.6	50.8	55.9
Tax	(8.9)	(9.4)	(6.9)	(9.2)
Deprec. & amort.	27.8	29.8	31.2	32.6
Working capital changes	(16.6)	22.8	(15.1)	(9.1)
Non-cash items	(27.5)	0.0	0.0	0.0
<b>Investing</b>	<b>(44.5)</b>	<b>(22.7)</b>	<b>(22.7)</b>	<b>(22.7)</b>
Capex (growth)	(42.6)	(23.0)	(23.0)	(23.0)
Proceeds from sale of assets	1.2	0.0	0.0	0.0
Others	(3.1)	0.3	0.3	0.3
<b>Financing</b>	<b>(30.4)</b>	<b>(45.9)</b>	<b>(5.1)</b>	<b>(10.1)</b>
Dividend payments	(17.6)	(15.5)	(7.7)	(12.5)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	11.6	(26.5)	6.8	6.7
Others/interest paid	(24.4)	(3.9)	(4.2)	(4.4)
<b>Net cash inflow (outflow)</b>	<b>(37.1)</b>	<b>6.1</b>	<b>32.2</b>	<b>37.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>192.6</b>	<b>167.0</b>	<b>177.0</b>	<b>212.5</b>
Changes due to forex impact	11.5	4.0	3.3	3.6
<b>Ending cash &amp; cash equivalent</b>	<b>167.0</b>	<b>177.0</b>	<b>212.5</b>	<b>253.4</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Fixed assets</b>	<b>166.5</b>	<b>159.7</b>	<b>151.5</b>	<b>142.0</b>
Other LT assets	26.3	26.6	26.9	27.2
Cash/ST investment	167.0	177.0	212.5	253.4
Other current assets	365.4	322.9	357.1	374.5
<b>Total assets</b>	<b>725.2</b>	<b>686.2</b>	<b>748.0</b>	<b>797.1</b>
ST debt	107.7	81.2	88.1	94.8
Other current liabilities	182.2	172.4	189.8	194.9
LT debt	1.1	1.1	1.1	1.1
Other LT liabilities	37.7	24.1	27.9	32.1
Shareholders' equity	391.9	402.9	436.7	470.0
Minority interest	4.5	4.5	4.5	4.5
<b>Total liabilities &amp; equity</b>	<b>725.2</b>	<b>686.2</b>	<b>748.2</b>	<b>797.4</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	10.5	7.4	9.5	9.7
Pre-tax margin	8.0	4.3	6.4	6.8
Net margin	6.6	3.5	5.2	5.5
ROA	7.3	3.6	5.8	5.9
ROE	13.5	6.5	9.9	10.1
<b>Growth</b>				
Turnover	2.5	(6.8)	8.1	4.6
EBITDA	(5.9)	(33.9)	38.3	7.0
Pre-tax profit	(10.6)	(49.9)	61.0	10.1
Net profit	(11.7)	(50.6)	62.0	10.3
Net profit (adj.)	(11.7)	(50.6)	62.0	10.3
EPS	(11.7)	(50.6)	62.0	10.3
<b>Leverage</b>				
Debt to total capital	21.5	16.8	16.8	16.8
Debt to equity	27.8	20.4	20.4	20.4
Net debt/(cash) to equity	(14.8)	(23.5)	(28.2)	(33.5)
Interest cover (x)	22.8	16.2	20.7	21.2

SECTOR UPDATE

Property – Thailand

3Q23: Results Wrap-up; Multiple Headwinds In 2024

The property stocks under our coverage reported disappointing results (-29% yoy, -16% qoq) in 3Q23, below our expectations by 5%, mainly due to decreased earnings from most developers except AP and ORI. We expect a qoq improvement in 4Q23 earnings. However, developers still face multiple headwinds in 2024, including uncertainties over the stimulus packages. Downgrade to UNDERWEIGHT.

WHAT'S NEW

- Weak earnings in 3Q23.** Property stocks under our coverage reported a combined net profit of Bt6.2b (-29% yoy, -16% qoq) in 3Q23. 9M23 sector earnings decreased 17% yoy. The decelerated earnings growth was mainly due to softened performance from most developers under our coverage except AP Thailand (AP) and Origin Property (ORI), reflecting: a) weak presales, and b) decreased backlogs. The sector's transfers declined 11% yoy, pressured by homebuyers' delayed decisions and lower backlogs. In addition, the mid- to low-end segment transfers were pressured by higher cancellation and rejection rates. Sector residential gross margin decreased 200bp yoy, pressured by: a) the increased proportion of low-rise transfers, and b) a higher proportion of fixed costs.
- Expect performances to improve in 4Q23.** In 4Q23, the presales momentum is expected to be more robust due to increased economic activities and the introduction of substantial projects. The sector's core profit is projected to increase qoq but decrease yoy, with the qoq improvement attributed to two main factors: a) developers' backlogs scheduled to transfer in 4Q23, and b) the launch of new projects, especially in the low-rise segment with ready-to-move units.
- Multiple headwinds in 2024.** On the demand side, homebuyers will face slow economic recovery and high interest rates. Meanwhile, we expect unattractive stimulus packages for the residential sector in 2024. The extension of reducing transfer and mortgage fees is the most feasible option, but the impact would be limited. Regarding the supply side, developers will experience higher competition and increased cost of funds. Also, the tightening bank policy and environmental impact assessment (EIA) issues might delay project launches.

ACTION

- Downgrade to UNDERWEIGHT.** Demand for new residential units saw a slowdown, and we expect unattractive stimulus packages. Meanwhile, developers still face multiple headwinds, such as rate hikes, tightening bank policies and rising minimum wages. We recommend selective BUY, and we believe the market leader or big players are more advantageous than the mid-small developers amid multiple headwinds. We still consider AP as our top pick.

UNDERWEIGHT  
(Downgraded)

SECTOR PICKS

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
AP (Thailand)	AP TB	BUY	11.00	13.50
Supalai	SPALI TB	BUY	17.90	24.20

Source: Bloomberg, UOB Kay Hian

ANALYST(S)

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PEER COMPARISON

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)	Upside (%)	Market Capitalization (Btm)	PE			EPS Growth			ROE 2023F (%)	Div Yield 2023F (%)
							2022 (x)	2023F (x)	2024F (x)	2022 (%)	2023F (%)	2024F (%)		
AP (Thailand)	AP TB	BUY	11.00	13.50	23	34,605	5.9	5.5	5.7	29.4	7.5	-4.0	16.3	6.4
Land and Houses	LH TB	BUY	7.80	9.00	15	93,208	11.2	13.1	12.8	19.8	-14.1	1.7	13.6	6.5
LPN Development	LPN TB	SELL	3.90	3.35	-14	5,671	9.3	12.2	11.8	104.0	-23.5	3.6	3.9	4.3
Origin Property	ORI TB	BUY	8.70	11.20	29	21,351	5.7	6.2	5.9	18.2	-9.0	5.9	16.6	7.2
Pruksa Holding	PSH TB	SELL	12.20	9.20	-25	26,700	9.6	11.2	10.9	17.8	-14.4	3.0	5.2	7.4
Quality Houses	QH TB	HOLD	2.18	2.38	9	23,357	9.8	9.3	9.5	43.5	5.3	-2.0	8.9	7.1
Supalai	SPALI TB	BUY	17.90	24.20	35	34,960	4.3	6.2	5.2	15.6	-30.9	19.3	11.5	5.7
Sector							6.2	7.5	7.0	22.4	-12.5	4.3	11.0	6.5

Source: UOB Kay Hian

### 2023 RESULTS WRAP-UP

	3Q22	2Q23	3Q23	yoy (%)	qoq (%)	9M22	9M23	yoy (%)
<b>Residential revenue (Btm)</b>								
AP	8,689	9,009	9,765	12.4	8.4	28,930	27,919	(3.5)
LH	7,505	5,010	4,451	(40.7)	(11.2)	22,830	14,293	(37.4)
LPN	3,726	1,173	1,397	(62.5)	19.1	7,050	3,850	(45.4)
ORI	2,881	1,812	3,162	9.8	74.5	8,836	7,125	(19.4)
PSH	6,430	5,650	5,306	(17.5)	(6.1)	17,211	16,985	(1.3)
QH	2,143	2,120	1,993	(7.0)	(6.0)	6,027	5,704	(5.4)
SPALI	11,068	8,089	7,089	(36.0)	(12.4)	24,576	20,819	(15.3)
<b>Total</b>	<b>42,441</b>	<b>32,863</b>	<b>33,163</b>	<b>(21.9)</b>	<b>0.9</b>	<b>115,460</b>	<b>96,695</b>	<b>(16.3)</b>
<b>Core profit (Btm)</b>								
AP	1,322	1,607	1,687	27.7	5.0	4,685	4,747	1.3
LH	988	487	268	(72.9)	(44.9)	3,178	1,174	(63.1)
LPN	236	87	104	(55.9)	19.3	575	336	(41.5)
ORI	620	620	790	27.4	27.5	1,699	2,103	23.8
PSH	555	262	26	(95.4)	(90.2)	1,399	817	(41.6)
QH	233	231	211	(9.4)	(8.4)	571	582	2.1
SPALI	2,749	1,701	1,191	(56.7)	(30.0)	6,002	3,972	(33.8)
<b>Total</b>	<b>6,704</b>	<b>4,995</b>	<b>4,278</b>	<b>(36.2)</b>	<b>(14.4)</b>	<b>18,110</b>	<b>13,731</b>	<b>(24.2)</b>
<b>Net profit (Btm)</b>								
AP	1,419	1,544	1,696	19.6	9.8	4,723	4,719	(0.1)
LH	2,249	1,450	1,185	(47.3)	(18.2)	6,320	3,989	(36.9)
LPN	236	87	104	(55.9)	19.3	575	336	(41.5)
ORI	848	873	1,000	18.0	14.6	2,741	2,671	(2.5)
PSH	619	1,038	392	(36.8)	(62.3)	1,601	2,082	30.1
QH	640	669	634	(1.0)	(5.3)	1,740	1,896	8.9
SPALI	2,749	1,701	1,191	(56.7)	(30.0)	6,002	3,972	(33.8)
<b>Total</b>	<b>8,759</b>	<b>7,362</b>	<b>6,202</b>	<b>(29.2)</b>	<b>(15.8)</b>	<b>23,700</b>	<b>19,665</b>	<b>(17.0)</b>
<b>Residential gross margin (%)</b>								
AP	32.4	36.3	34.2	1.8	(2.1)	32.4	35.3	2.9
LH	32.0	29.0	26.3	(5.6)	(2.7)	32.8	28.1	(4.7)
LPN	20.3	21.4	22.0	1.7	0.6	21.1	22.5	1.4
ORI	35.6	31.8	23.6	(12.0)	(8.2)	35.4	28.8	(6.6)
PSH	32.0	31.7	30.5	(1.5)	(1.1)	31.7	32.2	0.5
QH	32.1	31.9	31.0	(1.2)	(0.9)	33.3	32.0	(1.3)
SPALI	39.6	35.0	36.6	(3.1)	1.5	39.5	35.9	(3.6)
<b>Total</b>	<b>33.3</b>	<b>33.0</b>	<b>31.3</b>	<b>(2.0)</b>	<b>(1.7)</b>	<b>33.5</b>	<b>32.6</b>	<b>(0.8)</b>
<b>SG&amp;A to total revenue (%)</b>								
AP	20.1	18.6	18.1	(2.0)	(0.5)	17.6	18.8	1.2
LH	13.8	16.1	17.5	3.7	1.4	13.4	17.4	4.0
LPN	14.0	14.3	14.7	0.6	0.4	14.2	14.3	0.1
ORI	15.7	22.8	16.3	0.7	(6.5)	16.1	19.4	3.3
PSH	19.0	22.2	23.8	4.8	1.6	18.7	21.9	3.2
QH	19.7	20.7	21.2	1.6	0.6	21.7	22.2	0.5
SPALI	10.1	11.7	13.7	3.6	2.0	11.2	13.1	1.8
<b>Total</b>	<b>15.4</b>	<b>17.5</b>	<b>17.8</b>	<b>2.5</b>	<b>0.3</b>	<b>15.5</b>	<b>18.0</b>	<b>2.5</b>

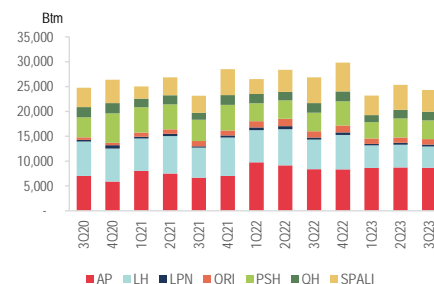
Source: Respective companies, UOB Kay Hian

- Disappointing results in 3Q23.** The property sector reported a combined net profit of Bt6.2b in 3Q22 (-29% yoy, -16% qoq), with the sector results below our estimates by 5%. Meanwhile, its combined core profit was Bt4.3b (-36% yoy, -14% qoq). The weak performances were due to decreased earnings from most developers under our coverage, especially LH and SPALI, while AP and ORI were outstanding in 3Q23. Overall, the sector's transfers decreased 11% yoy in 3Q23 due to homebuyers' delayed decisions and lower condo backlogs. The sector experienced a decrease in residential gross margin, down 200bp from the previous year. This decline can be attributed to: a) a rise in the percentage of low-rise transfers, and b) an increase in fixed costs.

### RISK

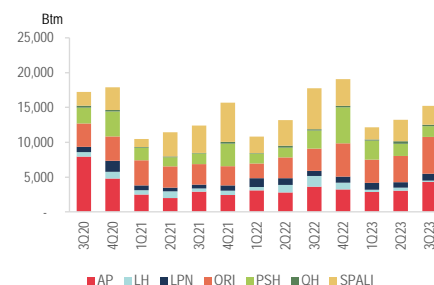
- Delay in project launches and completions, tightening of bank policies, rising cost, labour shortages, interest rate hikes and weaker-than-expected economic growth.

### LOW-RISE TRANSFER SOFTENED FOLLOWING WEAK PRESALES



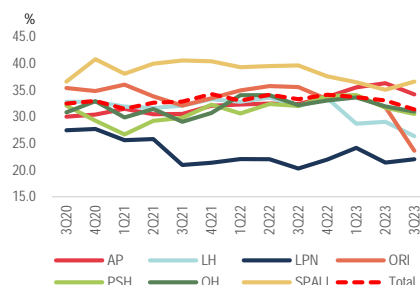
Source: Respective companies, UOB Kay Hian

### HIGH-RISE TRANSFER PRESSURED BY LOWER BACKLOGS



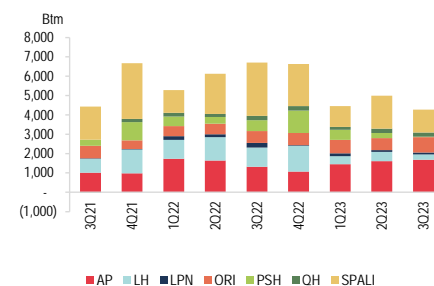
Source: Respective companies, UOB Kay Hian

### RESIDENTIAL GROSS MARGIN AFFECTED BY PRODUCT MIX AND INCREASED FIXED COSTS



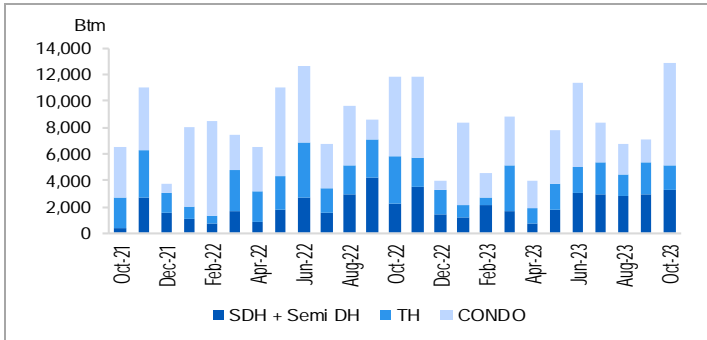
Source: Respective companies, UOB Kay Hian

### CORE PROFIT: EARNINGS EXPECTED TO IMPROVE QOQ, BUT DECREASE YOY



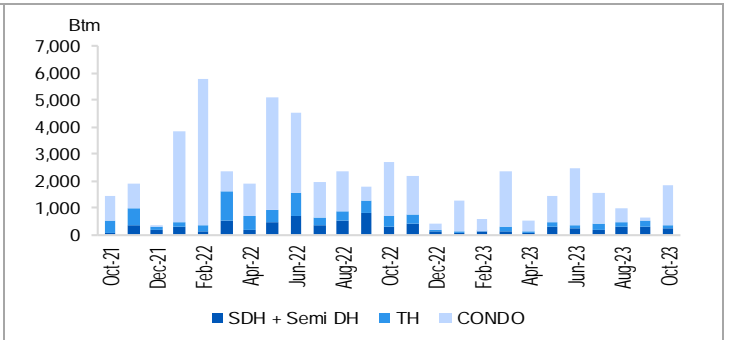
Source: Respective companies, UOB Kay Hian

### TOTAL NEW UNITS LAUNCHED



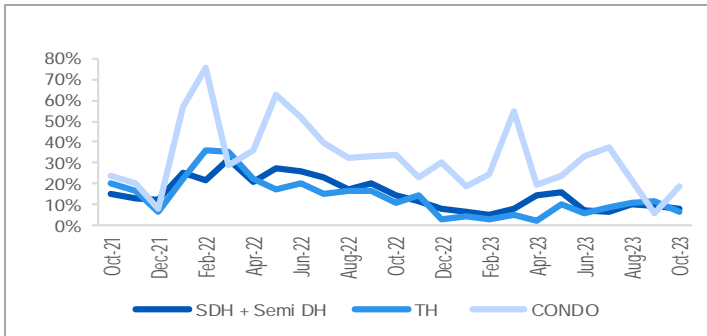
Source: AREA, UOB Kay Hian

### UNITS SOLD OF NEW LAUNCHES



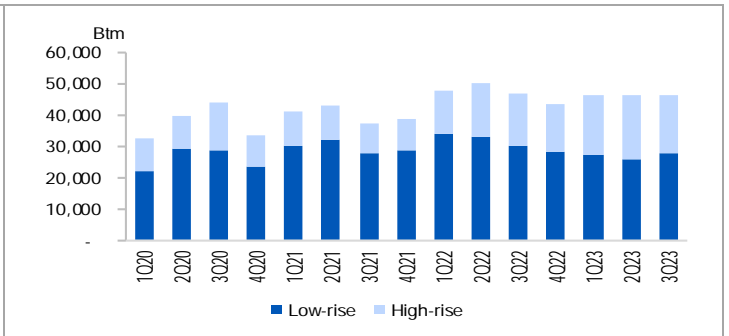
Source: AREA, UOB Kay Hian

### 10M23 TAKE-UP RATES DECREASED TO 17% FROM 36% IN THE SAME PERIOD OF THE PREVIOUS YEAR



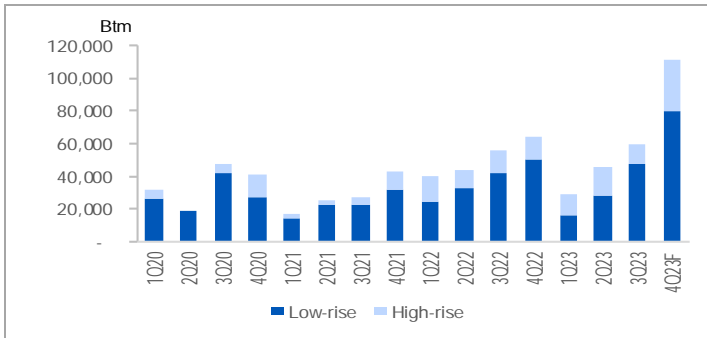
Source: AREA, UOB Kay Hian

### 9M23 PRESALES SEE A SLOWDOWN BY 4% YOY, MAINLY DUE TO THE LOW-RISE SEGMENT



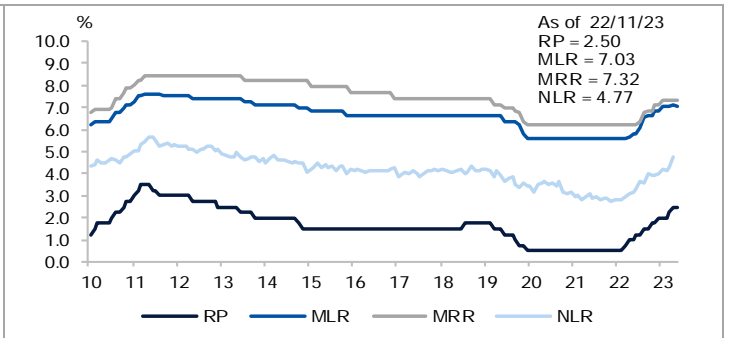
Source: Respective companies, UOB Kay Hian

### EXPECT SUBSTANTIAL PROJECT LAUNCHES IN 4Q23 FROM DEVELOPERS UNDER OUR COVERAGE



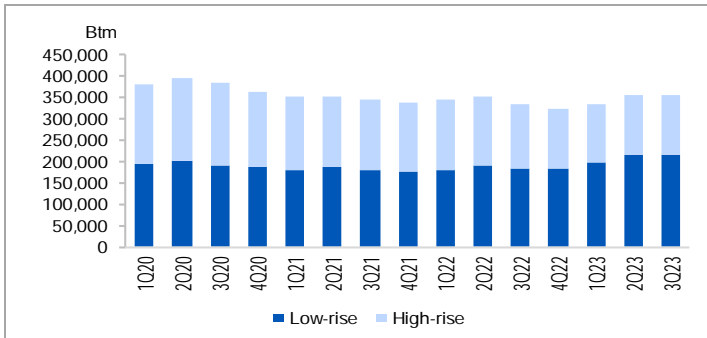
Source: Respective companies, UOB Kay Hian

### THAILAND INTEREST RATES STAND HIGHER THAN THE PRE-COVID AND ARE EXPECTED TO REMAIN HIGH



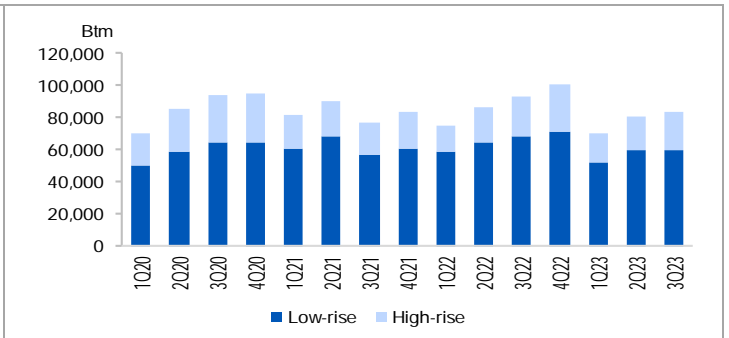
Source: Bank of Thailand, UOB Kay Hian

### OUTSTANDING OF PRE-FINANCE LOANS FOR REAL ESTATE SECTOR, FOCUSING ON THE LOW-RISE SEGMENT



Source: Bank of Thailand, UOB Kay Hian

### AMOUNT OF NEW MORTGAGE LOANS IN 9M23 DECREASED 8% FROM THE SAME PERIOD OF THE PREVIOUS YEAR



Source: Bank of Thailand, UOB Kay Hian

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