UOBKayHian

Regional Morning Notes

Friday, 15 December 2023

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Please note: This is the final release of the Regional Morning Notes for the year. Production will resume on 2 January 2024. UOB Kay Hian wishes you a blessed Christmas and bountiful New Year.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	37248.4	0.4	3.1	7.0	12.4
S&P 500	4719.6	0.3	2.9	5.0	22.9
FTSE 100	7649.0	1.3	1.8	2.8	2.6
AS30	7627.8	0.4	3.0	4.3	5.6
CSI 300	3352.0	(0.5)	(1.2)	(7.1)	(13.4)
FSSTI	3123.0	0.6	1.6	(0.3)	(3.9)
HSCEI	5573.5	0.4	(0.8)	(10.2)	(16.9)
HSI	16402.2	1.1	0.3	(9.3)	(17.1)
JCI	7176.0	1.4	0.6	3.1	4.7
KLCI	1456.3	0.6	0.9	(0.7)	(2.6)
KOSPI	2544.2	1.3	2.1	2.3	13.8
Nikkei 225	32686.3	(0.7)	(0.5)	(2.5)	25.3
SET	1378.9	1.5	(0.8)	(2.6)	(17.4)
TWSE	17653.1	1.1	2.2	3.1	24.9
BDI	2411	(1.1)	(3.4)	42.8	59.1
CPO (RM/mt)	3632	(0.6)	1.5	(1.1)	(10.3)
Brent Crude (US$/bbl)	77	3.2	3.5	(7.1)	(10.8)

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
Anta Sports	2020 HK	72.45	128.00	76.7
Bank Negara Indonesia	BBNI IJ	5,350.00	5,600.00	4.7
Bumi Serpong	BSDE IJ	1,045.00	1,420.00	35.9
My EG Services	MYEG MK	0.82	1.21	47.6
Yinson	YNS MK	2.50	3.75	50.0
OCBC	OCBC SP	12.47	17.35	39.1
CP ALL	CPALL TB	53.00	76.00	43.4
Indorama	IVL TB	25.00	30.00	20.0

KEY ASSUMPTIONS

GDP (% yoy)		2022	2023F	2024F
US		1.9	2.4	1.0
Euro Zone		3.5	0.5	0.6
Japan		0.9	1.5	1.0
Singapore		3.6	0.9	2.9
Malaysia		8.7	4.0	4.6
Thailand		2.6	2.3	3.6
Indonesia		5.3	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

SECTOR UPDATE

Automobile – China

Weekly: Destocking Kicks Off For EVs

The yoy growth in China's PEV retail sales volume slowed from 40% in Nov 23 to only 8% in 1-10 Dec 23, while PEV wholesale shipment dropped 10% yoy mom during the period, due to destocking. Going into December, OEMs have started to cut production and slash prices further to clear inventories. BYD's retail sales volume fell 1% mom despite the 10% price cuts since 24 Nov 23. Maintain UNDERWEIGHT. Top SELLs: BYD and Ganfeng Lithium.

WHAT'S NEW

- **CPCA: China's PEV retail sales volume grew only 8% yoy in 1-10 Dec 23, vs 40% yoy in Nov 23.** According to China Passenger Car Association (CPCA), China's passenger electric vehicle (PEV) retail sales volume grew 8% yoy/3% mom to 187,000 units in 1-10 Dec 23. The slowdown in China's PEV sales growth was due to a high comparison base. PEVs as a percentage of China's passenger vehicle (PV) retail sales volume reached 39.4% (+0.4ppt yoy/-1.9ppt mom) in 1-10 Dec 23.
- **PEV wholesale shipment plummeted 10% yoy due to destocking.** China's wholesale shipment of PEVs dropped by 10% yoy/2% mom to 194,000 units in 1-10 Dec 23, due to a slowdown in PEV retail sales and destocking. We estimate China's PEV inventory volume at 1.53m units as of 30 Nov 23, of which 1.25m units were in distribution channel and the remaining in factories. That implies nearly 80 days of inventories at dealer level, well above the alert threshold of 45 days. Given the wholesale shipment and retail sales volume as well as an estimated weekly PEV export volume of about 20,000 units in 1-10 Dec 23, PEV inventories in channel should have decreased by 13,000 units or 1%. There is still a long way to go on the road of destocking.
- **Six of the top 15 EV companies in China posted mom sales decline in the week ending 10 Dec 23, including BYD, Wuling, Leapmotor, Deepal, XPeng and Zeekr.** The sales numbers are measured by insurance registrations. Among the 15 names, Tesla, Changan and Aito continued to outperform. On a weekly basis, most names saw wow sales decline during the week, as dealers generally book sales in the last week of every month.
- **BYD's insurance registrations dropped 1% mom and 15% wow to 50,100 units in 4-10 Dec 23 despite the 5-10% price cuts since 24 Nov 23.** By brand, the BYD brand saw a 2.9% mom/13.5% wow decline in insurance registrations to 47,400 units during the week, representing 95% of the company's total insurance registration. Denza's insurance registration declined by 5.6% mom/51.4% wow to 1,700 units. Fang Cheng Bao and Yangwang posted a 38.8%/53.8% wow growth in insurance registration to 719 units/300 units respectively.

UNDERWEIGHT

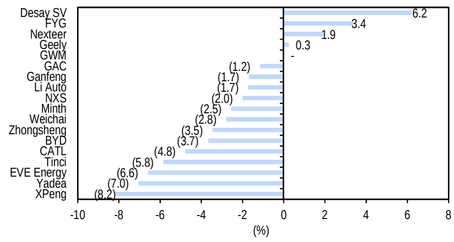
(Maintained)

TOP PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
BYD	1211 HK	SELL	205.20	140.00
Ganfeng Lithium	1772 HK	SELL	26.15	20.00

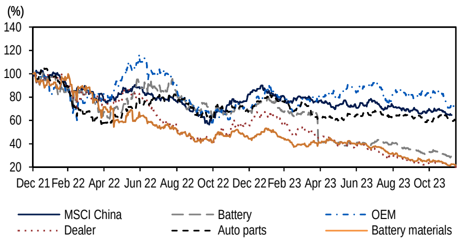
Source: UOB Kay Hian

WEEKLY STOCK PERFORMANCE



Source: Bloomberg

RELATIVE PERFORMANCE OF AUTO STOCKS



Source: Bloomberg

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PEER COMPARISON

Company	Ticker	Rec	Price @ 14 Dec 23 (lcy)	Target Price (lcy)	Upside/(Downside) to TP (%)	Market Cap (US$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	ROE 2024F (%)	Net Gearing (Cash) (%)
BYD	1211 HK	SELL	205.20	140.00	(31.8)	596,236	17.8	19.2	3.9	3.4	17.5	(25.3)
Geely Automobile	175 HK	SELL	7.98	6.00	(24.8)	79,947	18.9	19.7	0.9	0.9	4.6	(26.9)
Great Wall Motors	2333 HK	BUY	10.38	13.50	30.1	90,976	13.3	9.2	1.1	1.0	11.5	(0.4)
Guangzhou Auto	2238 HK	SELL	3.43	3.20	(6.7)	35,621	7.0	8.5	0.3	0.3	3.3	(14.9)
Li Auto Inc	2015 HK	BUY	137.20	190.00	38.5	286,004	29.9	17.8	4.9	3.8	17.7	(103.0)
XPeng	9868 HK	SELL	58.85	18.00	(69.4)	101,540	Loss	Loss	3.9	5.8	(43.3)	(58.3)
Weichai Power	2338 HK	BUY	13.22	17.00	28.6	114,211	11.7	10.0	1.3	1.2	11.7	(57.1)
Fuyao Glass	3606 HK	BUY	36.75	45.00	22.4	95,908	15.5	13.5	2.8	2.6	17.7	(18.3)
Desay SV	002920 CH	HOLD	130.31	135.00	3.6	72,358	49.4	37.5	9.5	7.9	20.8	0.5
Nexteer	1316 HK	SELL	4.81	2.70	(43.9)	12,072	14.6	15.9	0.8	0.7	5.4	(10.1)
Minth	425 HK	BUY	15.32	33.00	115.4	17,799	8.2	6.8	0.9	0.8	11.0	17.9
Ningbo Tuopu	601689 CH	BUY	75.65	105.00	38.8	83,370	39.2	24.1	4.9	4.2	14.9	6.7
Ningbo Xusheng	603305 CH	HOLD	19.64	18.00	(8.4)	13,092	24.9	21.6	2.9	2.6	12.4	(9.9)
CATL	300750 CH	BUY	156.63	250.00	59.6	381,446	18.4	14.5	3.5	2.9	20.9	(46.1)
EVE Energy	300014 CH	SELL	39.35	36.00	(8.5)	80,269	19.6	19.7	2.4	2.1	10.5	37.2
Ganfeng Lithium	1772 HK	SELL	26.15	20.00	(23.5)	52,688	6.9	13.4	0.9	0.9	10.7	7.1
GEM	002340 CH	SELL	5.42	4.40	(18.8)	27,607	44.1	54.4	1.5	1.4	3.4	53.0
Tinci Materials	002709 CH	SELL	22.23	20.00	(10.0)	42,494	16.0	18.2	3.6	3.3	21.9	2.3
Zhongsheng Group	881 HK	SELL	16.76	14.00	(16.5)	40,418	6.4	7.3	0.8	0.7	13.0	38.8
Yadea Group	1585 HK	BUY	13.72	20.00	45.8	41,091	14.9	12.6	4.7	3.8	33.3	(139.1)

Source: Bloomberg, UOB Kay Hian

BYD's monthly insurance registration has hovered around 50,000 units since Jun 23, and its market share by retail sales volume plummeted from a peak of 44% in the week ending 14 May 23 to below 30% since Nov 23. Even after the recent price cuts, retail sales did not rebound, due to the price competition from peers, eg Changan Qiyuan A5 and Wuling Xingguang, and the wait-and-see attitude of customers. Customers are waiting on the side-line for further price cuts. On the other hand, BYD kept pushing inventories to dealers. Monthly wholesale shipment will likely exceed 300,000 units in 4Q23. As a result, inventories are still piling up in distribution channel of BYD, though other OEMs have started to destock since the first week of Dec 23. According to channel checks, BYD's channel inventory-to-sales ratio reached 2.5-3.0 months as of 30 Nov 23, and is approaching three months toward end-23.

In order to clear inventories, BYD extended the promotion from 30 Nov 23 to Dec 23, and further cut prices. Qin Plus DM-i Champion Version, for example, is selling at Rmb89,800, 10% below the initial manufacturer's suggested retail price (MSRP) of Rmb99,800 set upon the debut of the model in Feb 23. In some regions, Qin Plus DM-i is even selling at nearly Rmb80,000. Given the drop in selling price from Rmb99,800 to Rmb89,800 and decline in lithium carbonate prices, the gross margin of Qin Plus DM-i would plunge from 22.0% to 13.5%. Besides, assuming a subsidy of Rmb5,000/vehicle for dealers in Dec 23, BYD would need to incur Rmb1.5b in additional sales and marketing expense in 4Q23, vs 3Q23 net profit of Rmb10.4b. Additionally, we expect wholesale shipment of BYD to drop from 1Q24 due to destocking. All-in, we expect BYD's net profit to drop by 12% qoq to Rmb9.17b in 4Q23 and fall 7% yoy to Rmb28.28b, 29% below consensus, based on lower sales volume estimate of 3m units (flat yoy) and lower margin assumptions.

- **Tesla's insurance registrations fell 11.5% wow but grew 23% mom to 15,400 units during the week ending 10 Dec 23, missing estimates.** Tesla China is supposed to cut exports and allot more production capacity for domestic sales in the last month of every quarter (March, June, September and December). However, Tesla China saw a wow drop in domestic sales in the first week of Dec 23. Tesla's sales in China can be dampened by its newly-announced recall in the US. Tesla on 13 Dec 23 announced that it will recall 2m EVs in the US due to defects of the Fully Self-Driving (FSD) system, covering all its models (Model S, Model X, Model 3 and Model Y) produced from 2015. This can be related to the multiple sudden unintended acceleration (SUA) incidents of Tesla cars. It cannot be ruled out that Tesla will make a recall in China.

- **Li Auto's insurance registrations grew 4% mom and 8% wow to 10,400 units in the week ending 10 Dec 23.** Li Auto's weekly insurance registrations have hovered around 10,000 units since the week ending 15 Oct 23. On the other hand, Aito's insurance registrations spiked from 2,400 units in the week ending 15 Oct 23 to a recent peak of 5,400 units in the week ending 10 Dec 23 (+46% mom/-4% wow). Aito's new model M7 should have taken some market share from Li L7 and other peers. Going forward, further sales growth of Li Auto will hinge on the upcoming new models in 2024, including the company's first battery electric vehicle (BEV) models Mega MPV and L6.

- **XPeng's insurance registrations plunged 33% mom/45% wow to 4,700 units during the week ending 10 Dec 23.** We remain pessimistic on XPeng's earnings outlook, based on the weakening sales momentum, negative gross margin and aggressive price cuts. Additionally, XPeng's brand equity has been tarnished by its failure to deliver on its promise of providing Navigation Guided Pilot (NGP) for the old models and the unsatisfactory results in the recent Autonomous Emergence Braking (AEB) test conducted by Dongchedi.

- **Zeekr's insurance registration declined 5% mom/34.5% wow to 1,900 units in the week ending 10 Dec 23.** This can be attributed to the drop in sales of the flagship model Zeekr 001 under the increasing competition from Aito M7 and the disappointing sales of the new models Zeekr 009 and Zeekr X. Zeekr is under pressure to attain its full-year 2023 sales target of 140,000 units.

- **China's installation volume of EV batteries grew 30.8% yoy/14.3% mom to 44.8GWh in Nov 23; CATL's market share rebounded by 1.2ppt mom to 44%.** According to China Power Battery Industry Innovation Alliance, installation volume of EV batteries in China grew

CHINA WEEKLY PV SALES VOLUME (NOV 23)

	------- Retail sales -------			-- Wholesale shipment --		
('000 units)	Total	PEV	ICE-car	Total	PEV	ICE-car
Daily average						
1-10 Dec 23	48	19	29	46	19	26
yoy % chg	*7*	*8*	*6*	*9*	*(10)*	*29*
mom % chg	*8*	*3*	*12*	*(4)*	*(2)*	*(5)*
wow % chg	*(72)*	*(66)*	*(75)*	*(81)*	*(71)*	*(85)*
Total						
1-10 Dec 23	475	187	288	457	194	263
yoy % chg	*7*	*8*	*6*	*9*	*(10)*	*29*
mom % chg	*8*	*3*	*12*	*(4)*	*(2)*	*(5)*

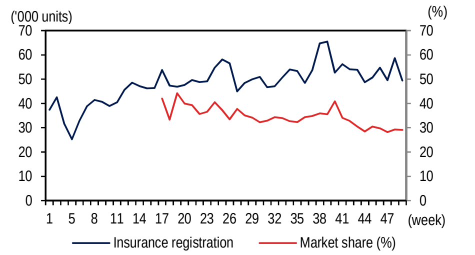
Source: CPCA

WEEKLY INSURANCE REGISTRATIONS BY BRAND

('000 units)	4-10 Dec 23	yoy % chg	mom % chg	wow % chg
BYD brand	47.4	5.8	(2.9)	(13.5)
Denza brand	1.7	280.3	(5.6)	(51.4)
Fang Cheng Bao brand	0.7	n.a.	810.1	38.8
Yangwang brand	0.3	n.a.	1,900.0	53.8
BYD Company	50.1	10.8	(1.1)	(15.1)
Tesla	15.4	18.7	23.2	(11.5)
Wuling	10.4	9.7	(11.1)	(16.1)
Li Auto	10.4	245.2	4.0	8.3
Aion	8.6	n.a.	34.4	(11.3)
Changan	6.1	(27.8)	24.5	(35.8)
VW	5.4	n.a.	12.5	(19.4)
Aito	5.4	106.3	45.9	(3.6)
Leapmotor	3.7	84.3	(7.5)	(14.0)
Nio	2.9	(2.7)	-	(21.6)
Deepal	2.7	n.a.	(15.6)	(6.9)
XPeng	2.6	22.2	(33.3)	(44.7)
Neta	2.1	(27.4)	5.0	(32.3)

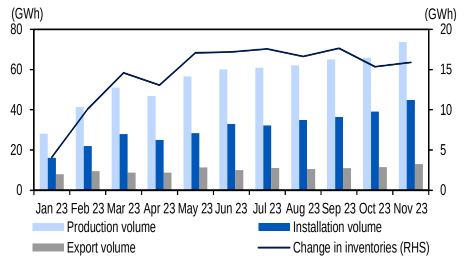
Note: Insurance registration is a gauge on vehicle retail sales volume.
Source: cnevpost.com, Dongchedi

BYD'S WEEKLY INSURANCE REGISTRATION AND MARKET SHARE (2023)



Source: cnevpost.com, Dongchedi

CHANGE IN INVENTORIES OF EV BATTERIES IN CHINA



Source: China Power Battery Industry Innovation Alliance

30.8% yoy/14.3% mom to 44.8GWh. Based on the estimated Nov 23 production volume of 73.7GWh and export volume of 13GWh for EV batteries, the inventories of EV batteries in China increased by 15.9GWh mom to 324.1GWh as of 30 Nov 23, equivalent to 7.2x of Nov 23 installation volume.

- **CATL remained the largest EV battery manufacturer in China** with installation volume growing 13.5% yoy/17.4% mom to 19.7GWh and market share rebounding 1.2ppt mom to 44% in Nov 23. BYD remained the second largest EV battery manufacturer with installation volume growing 14.1% yoy and falling 0.8% mom to 10.2GWh and market share dropping 3.5ppt mom to 22.8% in Nov 23.
- **Lithium carbonate and spodumene concentrate prices hit two-year lows again this week.** The spot price of lithium carbonate in China and the cost, insurance and freight (CIF) prices of imported spodumene concentrate with 6% lithium carbonate content (SC6) from Australia dropped by 11%/6% wow to two-year lows of Rmb108,000/tonne and US$1,550/tonne respectively on 13 Dec 23. Lithium carbonate prices and imported spodumene concentrate prices have plummeted by 27%/21% over the past month and 79%/72% ytd, due to the slowdown in EV battery production volume and increasing oversupply.

  The drop in lithium carbonate prices hammers the margins of lithium carbonate producers like Ganfeng Lithium and Tinci Lithium, while saving cost for EV companies. However, given that lithium carbonate prices have fallen to low levels, the marginal benefit from further drops in lithium carbonate prices is getting lesser. Given that 30kg of lithium carbonate is used in a 60kWh battery for a battery electric vehicle (BEV), the drop in lithium carbonate price from Rmb500,000/tonne at end-22 to nearly Rmb100,000/tonne currently would save Rmb12,000/vehicle in cost. However, the drop in lithium carbonate price from Rmb100,000/tonne to zero (which is impossible) would only save Rmb3,000/vehicle in cost.

ACTIONS

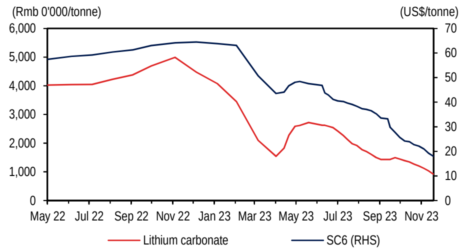
- **Maintain UNDERWEIGHT on China's automobile sector,** based on the expected decline in China's ICE-car sales, slowdown in EV sales, and the intensifying price war. We expect growth in China's EV sales volume to slow from over 30% in 2023 to 17% in 2024, based on the high comparison base and rollback of stimulus. OEMs will face looming margin pressure in 2024, due to stiffening price competition, falling capacity utilisation and lesser room for cost reduction from a further drop in lithium carbonate prices. Our top SELLs are BYD and Ganfeng Lithium.
- **We have a contrarian SELL call on BYD (1211 HK/SELL/Target: HK$140.00)** on the back of peaking retail sales volume, mounting inventory pressure, falling capacity utilisation rate and further price cuts. Its 4Q23 earnings will probably disappoint the market, as the company is slashing prices to clear inventories. Going into 2024, the upcoming destocking will likely drag on wholesale shipments in 1H24, taking the market by surprise. Our target price of HK$140.00 is based on our 10-year DCF (WACC: 19.6%/terminal growth: 4%).
- **Maintain SELL on Ganfeng Lithium (1772 HK/SELL/Target: HK$20.00),** based on the cyclical downturn of lithium carbonate prices over the next 1-2 years.
- **Our BUY calls are in the following order of preference:** CATL, Li Auto, Ningbo Tuopu, Great Wall Motor, Fuyao Glass, Minth, Weichai Power, Yadea.

EV BATTERY INSTALLATION VOLUME BY COMPANY

('000 units)	Nov 23	yoy % chg	mom % chg	11M23	yoy % chg
Installation volume (GWh)					
CATL	19.70	13.5	17.4	145.8	17.4
BYD	10.20	14.1	(0.8)	94.5	58.2
CALB	3.24	62.0	(14.5)	29.8	71.5
EVE	2.05	153.1	0.5	15.1	154.7
Gotion	2.11	64.8	19.9	13.9	15.6
Others	7.50	93.2	64.8	40.6	3.2
Total	44.80	30.8	14.3	339.7	31.4
Market share (%)					
CATL	44.0	(6.7)	1.2	42.9	(5.1)
BYD	22.8	(3.3)	(3.5)	27.8	4.7
CALB	7.2	1.4	(2.4)	8.8	2.1
EVE	4.6	2.2	(0.6)	4.4	2.1
Gotion	4.7	1.0	0.2	4.1	(0.6)
Others	16.7	5.4	5.1	12.0	(3.3)
Total	100.0			100.0	

Source: China Power Battery Industry Innovation Alliance

LITHIUM CARBONATE PRICE AND SPODUMENE CONCENTRATE PRICE (CIF)



Source: oilchem.net

COMPANY UPDATE

Giordano International (709 HK)

Store Expansion Remains On Track

We held an update call with Giordano yesterday. Management notes that its store expansion in emerging markets and Mainland China remains on track, and it has also received some initial interest from traditionally developed markets. For 2024, management remains cautiously optimistic on the business environment and will work to maintain a relatively high net margin through ongoing pricing strategies and stringent cost control. Maintain BUY and a lower target price of HK$3.70.

WHAT'S NEW

- We held an update call with Giordano's management team. Key takeaways are as follows:

STOCK IMPACT

- **Achieving its full-year expansion plan in India.** Giordano India recently achieved its full-year target of opening 50 points-of-sale in 2023 and also announced its expansion plan to double the number of stores to 100 by end-24. Going forward, Giordano will focus on store expansion in both metro and Tier 2-3 cities as well as online channels. Management notes that product offerings in India include slightly more flamboyant colours and patterns as they observe local customers tend to prefer casual wears with a mix of solid colours and more vibrant patterns.

- **Store expansion remains on track.** Management maintains a positive tone on its ongoing emerging markets development and is working to tap into several new markets. In addition, it has also received some initial interest from traditionally developed markets. As such, we expect Giordano's footprint in both emerging markets and developed countries in the future. On the other hand, management remains confident in achieving a net increase in the number of stores in Mainland China in 2H23.

- **4Q23 preview.** Management notes that SEA and Gulf Cooperation Council (GCC) markets are performing as Giordano continues to execute localised marketing strategies across different markets. Meanwhile, the sales of heavy merchandise and winter clothes in Greater China may be slighltly impacted by the warmer weather in 2023.

  On the other hand, management expects wholesale to overseas franchisees to slightly decrease yoy, mainly due to a high-base effect as Giordano shipped more products to overseas franchisees in end-22 in view of potential supply-chain disruptions. However, this should be partially offset by an earlier shipment to overseas franchisees to ensure adequate stocks for the Muslim festival of Ramadan in 2024, which begins in early-Mar 24. This is largely in line with our full-year estimate as we project a 3% yoy decline for revenue from wholesale to overseas franchisees in 2023 of HK$291m.

KEY FINANCIALS

Year to 31 Dec (HK$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,380	3,799	4,085	4,555	5,018
EBITDA	745	853	1,005	1,123	1,249
Operating profit	251	413	528	599	673
Net profit (rep./act.)	190	268	367	413	461
Net profit (adj.)	190	268	367	413	461
EPS (cents)	12.0	17.0	23.2	26.1	29.2
PE (x)	21.6	15.3	11.2	9.9	8.9
P/B (x)	1.7	1.8	1.9	1.9	2.0
EV/EBITDA (x)	5.3	4.6	3.9	3.5	3.1
Dividend yield (%)	6.3	9.0	12.1	12.6	13.5
Net margin (%)	5.6	7.1	9.0	9.1	9.2
Net debt/(cash) to equity (%)	(9.3)	(13.3)	(11.5)	(12.9)	(12.1)
Interest cover (x)	14.8	31.8	38.4	40.6	42.0
ROE (%)	7.8	11.4	16.3	19.1	21.7
Consensus net profit	-	-	366	407	448
UOBKH/Consensus (x)	-	-	1.00	1.01	1.03

Source: Giordano International, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$2.60
Target Price	HK$3.70
Upside	42.2%
(Previous TP	*HK$3.89)*

COMPANY DESCRIPTION

Giordano International, through its subsidiaries, retails and distributes casual apparel and accessories under the Giordano, Giordano Ladies, Giordano Junior, and BSX brands.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	709 HK
Shares issued (m):	1,613
Market cap (Rmbm):	4,194
Market cap (US$m):	538
3-mth avg daily t'over (US$m):	0.7

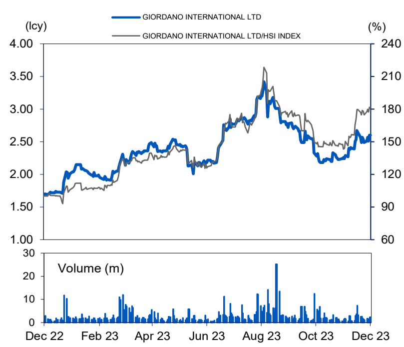
Price Performance (%)

52-week high/low 3.42/1.66

1mth	3mth	6mth	1yr	YTD
16.1	(4.4)	18.7	49.4	50.3

Major Shareholders	%
Sino Wealth International Limited	24.6
FY24 NAV/Share (HK$)	1.58
FY24 Net Debt/Share (HK$)	(0.20)

PRICE CHART



Source: Bloomberg

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- **2024 outlook.** Management remains cautiously optimistic on the business environment in 2024. Looking ahead, Giordano will focus on: a) increasing product selling price as it continues to enhance product quality, b) implementing stringent cost control on rent and staff cost, and c) executing localised marketing campaigns to further upgrade its brand image globally. As such, management is confident in maintaining a relatively high profit margin. This is in line with our estimate of a relatively stable net margin of 9.0%/9.1%/9.2% in 2023-25, vs 9.6% in 1H23 and 7.1% in 2022.

EARNINGS REVISION/RISK

- We slightly lower our revenue forecast by 2%/2%/2% to HK$4,085m/HK$4,555m/ HK$5,018m in 2023-25 and lower net profit forecast by 2%/2%/2% to HK$367m/HK$413m/ HK$461m 2023-25 to reflect the negative impact of unpredictable warmer winter on Mainland China sales.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of HK$3.70 based on 10-year DCF model.** We raise our WACC assumption from 12.0% to 12.5% to reflect a higher equity risk premium in view of a volatile business environment going forward. Giordano currently trades at 9.6x 2024F PE, which is about 1.3SD below its pre-pandemic historical mean at 15.6x in 2014-18. The current price implies 12.1%/12.6% dividend yield in 2023-24, assuming a generous dividend payout of 135%/125% respectively.

SHARE PRICE CATALYST

- Stronger-than-expected overseas expansion.
- Strong same-store sales growth across all regions.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	3,799	4,085	4,555	5,018
EBITDA	853	1,005	1,123	1,249
Deprec. & amort.	440	477	524	576
EBIT	1,293	1,481	1,647	1,824
Associate contributions	-	-	-	-
Net interest income/(expense)	(13)	(14)	(15)	(16)
Pre-tax profit	436	550	620	693
Tax	(107)	(118)	(134)	(151)
Minorities	61	65	73	81
Net profit	268	367	413	461
Net profit (adj.)	268	367	413	461

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	133	157	182	208
Other LT assets	1,898	1,889	1,878	1,865
Cash/ST investment	960	928	1,012	1,052
Other current assets	1,017	1,036	1,104	1,187
Total assets	4,008	4,011	4,176	4,313
ST debt	12	12	12	12
Other current liabilities	1,075	1,152	1,265	1,390
LT debt	0	0	0	0
Other LT liabilities	399	399	399	399
Shareholders' equity	2,317	2,179	2,158	2,088
Minority interest	205	270	343	424
Total liabilities & equity	4,008	4,011	4,176	4,313

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	810	922	991	1,082
Pre-tax profit	436	550	620	693
Tax	(107)	(118)	(134)	(151)
Deprec. & amort.	440	477	524	576
Working capital changes	92	36	2	(15)
Non-cash items	(51)	(22)	(21)	(20)
Other operating cashflows	-	-	-	-
Investing	(76)	(69)	(73)	(76)
Capex (growth)	(66)	(69)	(73)	(76)
Investments				
Proceeds from sale of assets	1	-	-	-
Others				
Financing	(853)	(885)	(835)	(965)
Dividend payments	(292)	(506)	(434)	(531)
Issue of shares	3	-	-	-
Proceeds from borrowings	44	-	-	-
Loan repayment	(199)	-	-	-
Others/interest paid	(409)	(379)	(401)	(434)
Net cash inflow (outflow)	(119)	(32)	83	41
Beginning cash & cash equivalent	1,004	860	828	912
Changes due to forex impact	(25)	-	-	-
Ending cash & cash equivalent	860	828	912	952

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
Gross margin	56.5	58.1	58.1	58.2
Pre-tax margin	11.5	13.5	13.6	13.8
Net margin	7.1	9.0	9.1	9.2
ROE	11.4	16.3	19.1	21.7
Growth				
Turnover	12.4	7.5	11.5	10.2
Gross profit	11.2	10.5	11.6	10.3
Pre-tax profit	58.5	26.2	12.8	11.7
Net profit	41.1	37.0	12.5	11.5
Net profit (adj.)	41.1	37.0	12.5	11.5
EPS	41.0	37.0	12.5	11.5
Leverage				
Debt to total capital	15.6	16.1	16.5	17.3
Debt to equity	24.8	26.4	27.6	29.8
Net debt/(cash) to equity	(13.3)	(11.5)	(12.9)	(12.1)
Interest cover (x)	31.8	38.4	40.6	42.0

COMPANY UPDATE

Prudential (2378 HK)

More Conservative On Growth Outlook

In the pre-blackout call, management indicated that there is no significant change in 4Q23 trend but it remains cautiously optimistic on Prudential's MCV segment and CPL growth outlook in 2024 following the moderation in MCV arrivals and continued sales disruption in China due to regulatory changes. Maintain BUY with a lower target price of HK$140.00 after revising our NBP forecasts to reflect a slower growth trajectory in China.

WHAT'S NEW

- We had a 2023 results pre-blackout call with Prudential this week. Here are the key takeaways from the call.

STOCK IMPACT

- **Banca headwinds persist in China.** The ongoing product mix adjustments and regulatory changes continue to dampen the CITIC Prudential Life's (CPL) annual premium equivalent (APE) sales via bancassurance channel in China. Despite actively negotiating contracts and leveraging long-term relationships with its strategic bank partners like CITIC Bank and Standard Chartered Bank to secure early contract renewals, management is expecting a significant rebound in CITIC Prudential Life's bancassurance sales only after several quarters. With the bancassurance channel contributing 50% of total APE sales in China, we are adopting a more conservative approach to CPL's growth trajectory. In light of the factors above, we cut our APE growth assumptions for CPL in 2024/25 to 10%/13%, from the earlier projections of 20%/20%.

- **Hong Kong MCV segment is normalising.** Management saw insurance sales to mainland China visitors (MCV) continuing to normalise after peaking in April. However, it observed a sequential margin improvement in 2H23, thanks to a product shift towards health and protection products, which have a more favourable margin profile. According to our channel check, MCV arrivals have been reducing recently, reaching only 2.7m in October. This represents a 58.1% recovery compared with 2018 levels, falling short of the progress made in both July and August. Hence, we are now more cautious on the MCV segment's growth outlook in 2024.

- **Domestic growth momentum slows down from a higher base.** Note that Prudential recorded a strong 68% yoy APE growth in 1H23 for the Hong Kong domestic market but management said that the demand has been cooling down and it expects to achieve only moderate growth in 2H23 due to the higher base effect. Despite that, management highlighted that it has significantly outperformed the market and managed to boost its market share to 8.6% as of 3Q23 (previously: 5-6%), driven by high performing distribution and innovative new products.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F	2025F
Gross written premiums	24,217	23,344	25,678	28,246	31,071
Net earned premiums	22,373	21,401	23,541	25,895	28,485
Underwriting profit/(loss)	23,014	21,940	24,134	26,547	29,202
Net profit (rep./act.)	(2,813)	1,007	2,066	2,654	3,011
Net profit (adj.)	2,214	1,007	2,066	2,654	3,011
EPS (US$)	0.8	0.4	0.8	1.0	1.1
PE (x)	13.3	30.0	14.6	11.4	10.0
*P/EV (x)	0.7	0.7	0.7	0.6	0.6
Dividend yield (%)	1.5	1.7	1.4	1.8	0.0
ROE (%)	11.7	5.9	11.6	13.6	14.0
Consensus net profit	-	-	1,851	2,140	2,390
UOBKH/Consensus (x)	-	-	1.12	1.24	1.26

Source: Prudential PLC, Bloomberg, UOB Kay Hian
**P/EV: Price/Embedded Value*

BUY

(Maintained)

Share Price	HK$86.50
Target Price	HK$140.00
Upside	+61.8%
(Previous TP	*HK$150.00)*

COMPANY DESCRIPTION

Prudential Public Limited Company is an international company which provides a wide assortment of insurance and investment products and services. Insurance products include life, accident and health, and property and casualty, as well as fixed and variable

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	2378 HK
Shares issued (m):	2,753.5
Market cap (HK$m):	238,179.5
Market cap (US$m):	30,500.3
3-mth avg daily t'over (US$m):	1.0

Price Performance (%)

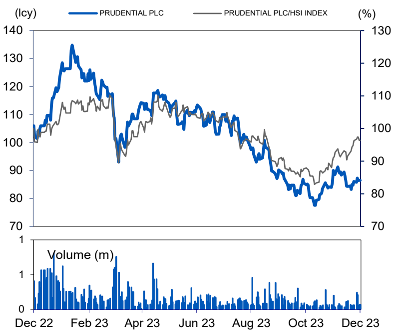
52-week high/low HK$134.80/HK$77.50

1mth	3mth	6mth	1yr	YTD
(3.9)	(1.6)	(23.2)	(18.4)	(19.9)

Major Shareholders	%
-	-
-	-
-	-

FY23 NAV/Share (US$) 7.46

PRICE CHART



Source: Bloomberg

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- **ASEAN market performance.** Overall, the ASEAN market demonstrated resilience in 2H23. Singapore saw a turnaround in APE sales driven by successful new regular premium product launches and the reduced impact of higher interest rate on sales. Indonesia and Malaysia, meanwhile, sustained their growth momentum. Management also said that the consumer sentiment in Vietnam remains relatively depressed but Prudential managed to gain market share and retain its leadership position.
- **More dovish Fed is expected to alleviate some margin pressure.** Prudential's new business profit (NBP) margin contracted by 11ppt to 49% in Sep 23 since the beginning of the rate hike cycle in 2021 due to a higher discount rate applied in new business measurement under European embedded value (EEV) methodology. With the Fed signalling more rate cuts in 2024 and pullback in treasury yield, we expect a gradual recovery in NBP margin, coupled with a more optimised product mix.

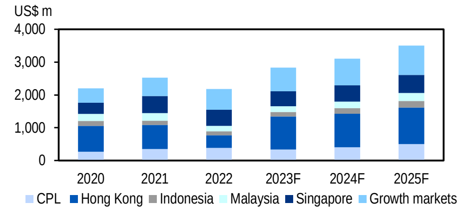
EARNINGS REVISION/RISK

- **We cut our 2023-25 NBP forecasts by 1.2%/9.5%/8.0% respectively** to reflect the lower growth assumption in China due to the sales disruptions in bancassurance channel following the regulatory tightening.

VALUATION/RECOMMENDATION

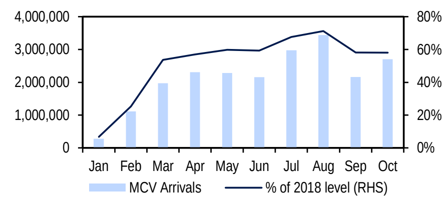
- **Maintain BUY with a lower target price of HK$140.00 to reflect the NBP adjustments.** Our target price implies 1.07x 2024F P/EV, 0.3SD above its historical mean. Although Prudential's current valuation (-1.6SD) still remains relatively attractive, we believe the regulatory headwind in China and lack of short-term catalysts continue to hinder the potential valuation re-rating.

NBP BY GEOGRAPHICAL BREAKDOWN



Source: Prudential, UOB Kay Hian

2023 MCV ARRIVALS IN HONG KONG



Source: Hong Kong Immigration Department, UOB Kay Hian

P/EV BAND

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Gross written premiums	23,344	25,678	28,246	31,071
Chg in unearned prem reserves	(1,943)	(2,137)	(2,351)	(2,586)
Net earned premiums	21,401	23,541	25,895	28,485
Other exp of insurance opss	539	593	652	717
Underwriting profit/(loss)	21,940	24,134	26,547	29,202
Investment income	(30,159)	(33,175)	(36,492)	(40,142)
Interest inc. (Banking ops)	13,697	15,067	16,573	18,231
Other income	539	593	652	717
Pre-tax profit	1,461	2,475	3,104	3,506
Tax	(454)	(409)	(449)	(494)
Net profit	1,007	2,066	2,654	3,011
Net profit (adj.)	1,007	2,066	2,654	3,011
APE	4,393	5,516	5,886	6,387
NBP	2,184	2,835	3,089	3,494

BALANCE SHEET

Year to 31 Dec (US$m)	2022	2023F	2024F	2025F
Cash	5,514	6,065	6,672	7,339
Loans and advances	2,536	2,790	3,069	3,375
Investments (equity & fixed inc)	57,679	63,447	69,792	76,771
Reinsurers' share of ins liabilities	2,807	3,088	3,396	3,736
Associates & JVs	1,915	2,107	2,317	2,549
Fixed assets (incl prop)	419	461	507	558
Other assets	94,182	103,600	113,960	125,356
Total assets	165,942	182,483	200,639	220,611
Assets sold (repo agreement)	582	640	704	775
Insurance contract liabilties	122,263	134,489	147,938	162,732
Other liabilities	25,970	28,514	31,273	34,308
Total liabilities	148,815	163,644	179,915	197,815
Shareholders' funds	16,960	18,656	20,522	22,574
Minority interest - accumulated	167	184	202	222
Total equity & liabilities	165,942	182,483	200,639	220,611

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital-related				
Shareholders' funds/total assets	10.2	10.2	10.2	10.2
Total Assets/equity (x)	9.8	9.8	9.8	9.8
Liquidity				
Liquid assets/short-term liabilities	713.3	713.3	713.3	713.3
Liquid assets/total assets	12.6	12.6	12.6	12.7
Valuation (%)				
P/EV (x)	0.7	0.7	0.6	0.6
NB multiple (x)	0.0	0.0	0.0	0.0
Adjusted P/E (x)	30.0	14.6	11.4	10.0
Dividend Yield	1.7	1.4	1.8	2.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Gross premiums, yoy chg	(3.6)	10.0	10.0	10.0
Net profit, yoy chg	n.a.	105.2	28.5	13.4
ANP, yoy chg	(4.3)	25.6	6.7	8.5
VONB, yoy chg	(13.5)	29.8	8.9	13.1
Profitability				
Reported ROE	5.9	11.6	13.6	14.0
Adjusted ROE	5.9	11.6	13.6	14.0
NBP margin (%)	49.7	51.4	52.4	54.7

Footnotes: *FYP: first year premium; EV: embedded value; NB: new business; NBP: New business profit; APE: Annual premium equivalent*

SMALL/MID CAP HIGHLIGHTS

Solusi Sinergi Digital (WIFI IJ)

Telco Connectivity Revenue Surges 971% yoy In 9M23

Highlights on WIFI: a) underpenetrated fixed broadband penetration in Indonesia (15%); b) targets additional 2,500-3,000km of fibre optic cables (44-61% to current length); c) 70% of WIFI's fibre is located on rail roads (near dense populations), supporting fast deployment. In 9M23, WIFI's NPAT rose 86% yoy, driven by a 24% yoy growth in revenue and 200bp net margin expansion (from 4% in 9M22 to 6% in 9M23). WIFI trades at 11.9x 2023 PE (based on annualised 9M23 net income).

WHAT'S NEW

- **About 85% untapped market penetration for fixed broadband in Indonesia.** Solusi Sinergi Digital (WIFI), which owns 5,274 km of fibre optic, highlighted its capability to penetrate the untapped fixed broadband market in Indonesia, along with its partners (telco and internets service providers). Indonesia's fixed broadband penetration of 15% is still lower than several other countries in the region (Malaysia: 45%, Thailand: 59%, and Vietnam: 95%) according to World Bank, Statista, and WIFI.
- **Around 70% of WIFI's fibre is located near dense populations, supporting fast deployment.** The company's fibre is mostly (4,000 km) located on rail roads on Java Island. This benefitted WIFI as more than 80% of the population in Java is concentrated along the rail roads, according to WIFI. The company estimates its rail road's fibre network could reach 11m households within a 1km radius and 40m of households within around 10km radius.
- **WIFI targets to add 2,500-3,000km of fibre optic cables in 2024…** WIFI plans to focus on developing its connectivity infrastructure business by optimising and increasing the penetration of its Java backbone service. Based on IDX Channel news (28 Nov 23), WIFI aims to develop its fibre optic network by adding 2,500-3,500km (44-61% to existing fibre optic's length) in 2024, especially on rail roads and toll roads.
- **…and estimates telco (connectivity) revenue might contribute 50-60% in the future.** This is based on Kontan news (Sep 2022). WIFI expects the telecommunication (telco) segment to become the main growth supporter of the company's business, aligning with the operation of its fibre optic network. The other segments (advertising and digital products) could also grow thanks to the development of its fibre infrastructure. This is because this infrastructure could support the company in developing more sophisticated digital products. WIFI's revenue is still dominated by its advertising segment (67% of WIFI's 9M23 total revenue), but its telco segment surged 971% yoy in 9M23.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2018	2019	2020	2021	2022
Net turnover	5	37	48	391	461
EBITDA	28	24	40	68	184
Operating profit	28	11	14	21	93
Net profit (rep./act.)	28	3	2	26	58
Net profit (adj.)	28	3	2	26	58
EPS (Rp)	NA	NA	0.5	13.1	28.3
PE (x)	NA	NA	336.2	12.0	5.6
P/B (x)	NA	NA	0.7	0.6	0.6
EV/EBITDA (x)	35.3	41.2	25.3	14.7	5.5
Dividend yield (%)	NA	NA	0.0	NA	NA
Net margin (%)	562.3	7.6	4.7	6.6	12.7
Net debt/(cash) to equity (%)	(2.8)	640.3	9.6	61.1	103.7
Interest cover (x)	NA	0.5	0.5	1.2	2.5
ROE (%)	182.8	9.1	1.0	5.6	10.4
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: WIFI, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	Rp158
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

Solusi Sinergi Digital provides network infrastructure, application and software development, out of home advertising media, and digital advertising solutions.

STOCK DATA

GICS sector	Telecommunication
Bloomberg ticker:	WIFI IJ
Shares issued (m):	2,359.4
Market cap (Rpb):	372.8
Market cap (US$m):	24.1
3-mth avg daily t'over (US$m):	-

Price Performance (%)

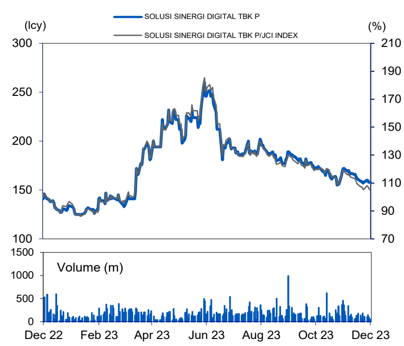
52-week high/low Rp122/Rp280

1mth	3mth	6mth	1yr	YTD
(4.2)	(13.7)	(35.7)	9.0	21.5

Major Shareholders	%
PT Investasi Sukses Bersama	50.1

FY23 NAV/Share (Rp)	-
FY23 Net Debt/Share (Rp)	-

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Competitive advantages from WIFI's fibre location.** WIFI (also named 'Surge') owns 5,724km of fibre, which consists of 4,000km on the railway line, 1,000km on provincial roads, 453km in inner Jakarta, and 271km on toll roads on Java island. The company noted several competitive advantages gained from its unique fibre location:

  a) **Secured stable locations of fibre optic cables.** This is because it requires permits from the rail road/toll road operator to enter the location.

  b) **Cost-efficient infrastructure.** The secured location of fibre optic cables helps to lower the maintenance cost of a fibre network compared with fibre located on typical roadways.

  c) **Relatively fast and efficient network deployment.** This is due to the dense populations near rail roads. Furthermore, the company applied for permits only from the railroads or toll roads providers to roll out fibre there. This is faster than building fibre on typical roadways which require permit from the municipal government and residents around the areas.

  d) **Additional opportunities from base transceiver station (BTS) poles.** The permit acquired by WIFI for the railroads include the permit to build BTS poles (15 metres tall) along the railroads.

  e) **Permit to build edge data centres.** WIFI also has permit to build edge data centres (small sized data centre) at 591 stations along the railroads. Among the 591 stations, WIFI already built edge data centres for 58 stations.

WIFI'S TELCO SEGMENT: REVENUE POTENTIAL

Source: WIFI

- **9M23 net income jumped 86% yoy.** WIFI's net income grew 86% yoy to Rp24b thanks to strong growth in revenue (24% yoy) and a 200bp net margin expansion (from 4% in 9M22 to 6% in 9M23). The company managed to expand its gross margin to 31% in 9M23 from only 10% in 9M22. WIFI's revenue is still dominated by its advertising segment (67% of WIFI's 9M23 total revenue), but its telco segment surged 971% yoy in 9M23. The company mentioned in IDX Channel news (Nov 23) that it completed the development of its railroad's fibre network in 2022. Following is each segment's performance:

  a) **Advertising segment:** Revenue grew 219% yoy in 9M23 with wider gross margin (9M23: 30% vs 9M22: 10%). The segment revenue contribution was 67% (vs 9M22: 26%).

  b) **Telco segment:** This segment's 9M23 revenue skyrocketed 971% yoy. The telco segment booked gross profit of Rp13b in 9M23 (9M22: gross loss of Rp14b). The telco segment's revenue contribution rose to 15% in 9M23 from only 2% in 9M22.

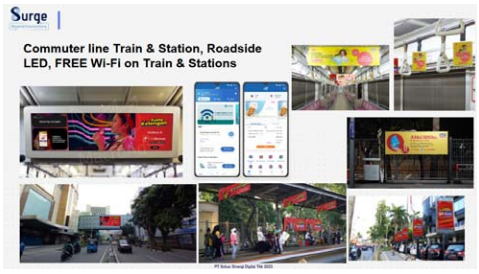
  c) **Digital products segment:** Revenue from digital products decreased 69% yoy in 9M23. 9M23 gross profit also fell 24% yoy. As of 9M23, this segment contributed 18% (9M22: 72%) to WIFI's total revenue.

WIFI'S TELCO SEGMENT: FIBRE OPTIC INFRASTRUCTURE IN JAVA ISLAND

Source: WIFI.

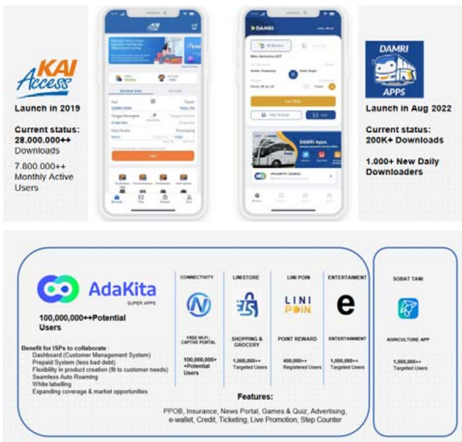
ADVERTISING SEGMENT

WIFI operates Digital Media & Advertising provision in Transportation Sector



Source: WIFI

WIFI'S DIGITAL PRODUCTS SEGMENT



Source: WIFI

PROFIT & LOSS

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Net turnover	37	48	391	461
EBITDA	24	40	68	184
Deprec. & amort.	13	26	47	91
EBIT	11	14	21	93
Total other non-operating income	(0)	(0)	7	(8)
Associate contributions	1	2	3	4
Net interest income/(expense)	(9)	(10)	(4)	(31)
Pre-tax profit	2	3	24	54
Tax	(0)	(2)	0	4
Minorities	1	1	1	0
Net profit	3	2	26	58
Net profit (adj.)	3	2	26	58

BALANCE SHEET

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Fixed assets	93	105	532	1,047
Other LT assets	283	288	268	142
Cash/ST investment	6	26	11	21
Other current assets	37	91	86	198
Total assets	419	511	896	1,408
ST debt	185	40	60	86
Other current liabilities	8	10	27	45
LT debt	30	26	266	570
Other LT liabilities	164	21	27	94
Shareholders' equity	32	414	514	610
Minority interest	1	(0)	2	2
Total liabilities & equity	419	511	896	1,408

CASH FLOW

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Operating	7	(18)	79	55
Pre-tax profit	2	3	24	54
Tax	(0)	(2)	0	4
Deprec. & amort.	13	26	47	91
Working capital changes	(23)	11	7	(73)
Other operating cashflows	16	(56)	(1)	(21)
Investing	(25)	(26)	(264)	(329)
Capex (growth)	(3)	(36)	(298)	(498)
Investments	0	0	0	0
Others	(22)	10	33	169
Financing	23	64	170	284
Dividend payments	0	0	0	0
Proceeds from borrowings	0	83	19	17
Loan repayment	0	0	130	280
Others/interest paid	(2)	(1)	(42)	(28)
Net cash inflow (outflow)	25	(18)	63	16
Beginning cash & cash equivalent	6	20	(16)	10
Changes due to forex impact	1	6	26	11
Ending cash & cash equivalent	6	26	11	21

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
Profitability				
EBITDA margin	66.3	83.2	17.4	39.8
Pre-tax margin	6.1	7.1	6.3	11.7
Net margin	7.6	4.7	6.6	12.7
ROA	0.8	0.5	3.7	5.1
ROE	9.1	1.0	5.6	10.4
Growth				
Turnover	639.9	29.7	723.0	18.0
EBITDA	(14.4)	62.7	72.5	169.4
Pre-tax profit	(92.0)	50.1	628.9	121.2
Net profit	(90.0)	(20.7)	1,068.6	126.5
Net profit (adj.)	(90.0)	(20.7)	1,068.6	126.5
EPS	NA	NA	2,695.7	115.3
Leverage				
Debt to total capital	86.8	13.8	38.7	51.7
Debt to equity	659.9	16.0	63.1	107.1
Net debt/(cash) to equity	640.3	9.6	61.1	103.7
Interest cover (x)	0.5	0.5	1.2	2.5

SECTOR UPDATE

Telecommunications – Malaysia

3Q23 Results Within Expectations; 2024 To Be Range Bound

In 3Q23, both CelcomDigi and TM reported better-than-expected earnings. The key drivers were CelcomDigi's merger savings and TM's positive tax credit. After the results, we project a 2023 sector earnings contraction of 15% yoy to RM4,909m. Key events to look out for in 1H24 include: a) fixed line price competition, b) 80% 5G coverage, c) potential award of DWN, and d) synergistic savings from the merger of Celcom and Digi in 2024-25. Maintain MARKET WEIGHT. Top picks: TIME and TM.

WHAT'S NEW

- **2023 net profit affected by weak Axiata earnings.** In 3Q23, both CelcomDigi and TM reported better-than-expected earnings. This was driven by CelcomDigi's merger savings and TM's positive tax credit (revenue and EBITDA in line with estimates). After the results announcement, we project 2023 sector earnings contraction of 15% yoy to RM4,909m. The decline is due to Axiata's Link Net loss, weak contribution from NCell and high interest expense. Stepping into 2024, we expect sector earnings to normalise – recovering 15% yoy to RM5,626m (7x EV/EBITDA). Our key assumptions are low single-digit service revenue growth and relatively elevated capex to roll out dual wholesale network (DWN) 5G in Malaysia.
- **Key events to look out for in 1H24** include: a) fixed line price competition – given new packages following a reduction in fibre pricing following the Mandatory Standard Access Pricing (MSAP) implementation, b) roll out of 5G by Digital Nasional (DNB) to achieve the government's target of 80% coverage of populated areas (COPA), c) potential award of DWN by 1H24 to wireless players, and d) synergistic savings from the merger of Celcom and Digi in 2024-25.

ACTION

- **Maintain MARKET WEIGHT.** In 2H23, the sector has underperformed the FBMKLCI by 5%. This is due in part to earnings and balance sheet weakness of Axiata (2H23: -18%) as well as the long drawn 5G DWN headwinds. Stepping into 1Q24, we expect the sector to trade range bound in the absence of key re-rating catalysts. We believe the current valuation is fair and have largely factored in: a) rationale competition – as telcos roll out 5G services to create stickiness in the consumer space, b) positive synergies from the merger of Celcom and Digi, and c) the implementation of DWN. We reiterate MARKET WEIGHT on the sector. We prefer fixed players over wireless.
- **We like TM and Axiata for attractive valuations; TIME offers lush dividends.** Across the region, we notice fixed line operators benefitting from encouraging broadband subscriber growth. In 3Q23, TM – commanding 85% fibre market share in Peninsular Malaysia – reported a slowdown in subscriber growth (5% yoy to 3.1m subscribers). That said, we expect TM to benefit from newly-repriced fibre packages and subscribers should continue to grow from 4Q23 onwards. Naturally, we expect some ARPU dilution and higher churn from the lower end packages. TIME continues to chalk up superior retail revenue growth of 19% yoy (in 3Q23) – driven by higher household penetration given the accelerated fibre network expansion. We expect TIME to maintain cashflow growth trajectory and with a net cash position of RM1.4b (as of end-Sep 23), we expect it to maintain lush dividend yield of at least 6%.

PEER COMPARISON

Company	Tickers	Rec	Share Price 14 Dec 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE FY23F (x)	PE FY24F (x)	EV/EBITDA FY23F (x)	EV/EBITDA FY24F (x)	Dividend Yield FY23F (%)	Dividend Yield FY24F (%)
Axiata	AXIATA MK	HOLD	2.34	2.50	21,479.1	59.7	32.8	4.5	4.4	2.0	2.4
CELCOMDIGI	CDB MK	HOLD	4.08	4.50	47,864.6	41.7	25.4	10.0	9.5	3.0	3.9
Maxis Berhad	MAXIS MK	HOLD	3.81	4.10	29,840.2	23.8	21.1	9.7	9.6	4.2	4.3
Telekom Malaysia	T MK	BUY	5.41	6.00	20,756.9	11.7	13.2	4.3	4.4	3.7	3.2
TIME dotCom	TDC MK	BUY	5.23	6.40	9,659.0	21.2	19.0	11.1	10.6	16.5	6.3

Source: UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR TOP PICKS

Top pick	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
TIME	BUY	6.40	10.6	6.3
TM	BUY	6.00	4.4	3.2

**includes special dividend*
Source: Bloomberg, UOB Kay Hian

CORE NET PROFIT (3Q23)

	3Q23	% chg qoq	% chg yoy
Axiata	127.9	190.0	(65.9)
CelcomDigi	598.0	74.1	25.4
Maxis	287.0	(13.0)	(8.9)
TM	426.7	(16.2)	28.6
TIMEdotCom	106.3	16.4	18.1
Big 2*	885.0	31.4	11.7
Fixed Line	533.0	(11.3)	26.4
Sector Total	1,545.9	17.3	(2.7)

Source: UOB Kay Hian
**Big 2 stands for CelcomDigi and Maxis*

CORE NET PROFIT (9MFY23)

	9M23	% chg yoy	comment
Axiata	255.2	(76.3)	Below
CelcomDigi	1,259.5	(13.6)	Above
Maxis	937.0	(0.5)	Inline
TM	1,464.3	48.2	Above
TIMEdotCom	290.3	4.7	Inline
Big 2	2,196.5	(8.4)	
Fixed Line	1,754.6	38.6	
Sector Total	4,206.3	(11.3)	

Source: UOB Kay Hian

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- **Key risks to our investment thesis** include: a) the reversal of government's decision towards a 5G DWN in Malaysia – which will lead to heightened competition through the proliferation of Mobile Virtual Network Operators (MVNO), and b) earnings eroding for fixed line operators due to stiff competition as a result of MSAP effective 2023.

ESSENTIALS

- **Celcom-Digi merger synergies well into 2024.** The initial estimated cost savings (capex and opex) is approximately RM8b over a five-year period, including an undisclosed terminal value of assets. CelcomDigi is currently working to integrate duplicated network sites and that will pave the way for about 65% of the total savings (rental/electricity/spectrum fee etc). The balance 35% savings will come from IT/digital, centralised procurement, point of sales and dealership expenses. Both Celcom and Digi will be collapsed into a single brand within the next two years, as per MCMC's requirement.

- **5G coverage stood at 70% as of Oct 23….** Malaysia has decided to roll out 5G via DNB until it reaches 80% coverage by end-23. Thereafter, the government has agreed that a new entity can establish a second network, as early as 1Q24. To date, DNB is on track to achieve its target of 80% 5G network COPA by year-end.

- **…as a dual wholesale network is expected by 1H24, we opine.** The regulatory authority plans to divide the current 5G spectrum bands, including 700MHz, 3.5GHz, and 26GHz, equally between two 5G network entities, Entity A and Entity B. Each entity will be allocated 40MHz (paired) of the 700MHz band, 100MHz of the C-band (3.5GHz), and 800MHz of the 26GHz band. However, the timeline for reallocating the spectrum bands is yet to be determined. Meanwhile, Entity B must follow comparable rollout requirements as DNB to achieve the 80% population coverage objective within a specified timeframe.

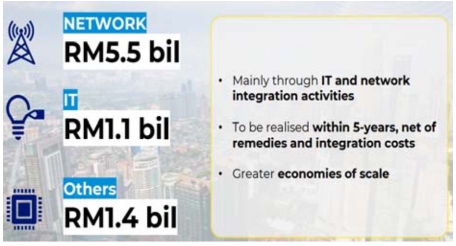
- **Equity in DNB likely in 1Q24.** Meanwhile, telcos are required to show commitment and pour equity into DNB. Five telcos (i.e. CelcomDigi, Maxis, TM, YES, U Mobile) have agreed to a share purchase agreement (SSA) to buy a 70% stake in DNB for RM233m per telco. This is subject to due diligence – which will take place within 8-10 weeks. We expect the SSA to be successfully executed sometime in 1Q24. Capex for telcos is expected to remain at current elevated level as telcos transition from 4G to 5G.

- **Telekom Malaysia (T MK/BUY/Target: RM6.00).** We see compelling risk-reward for the stock as underlying earnings performance remains robust. We expect TM to benefit from newly-repriced fibre packages and subscribers should continue to grow from 4Q23 onwards. Naturally, we expect some ARPU dilution and higher churn from the lower end packages. At our target price, the stock trades at 4.4x 2024 EV/EBITDA (below its mean of 5x EV/EBITDA). The stock offers 4% dividend yield. Maintain BUY with a DCF-based target price of RM6.00.

- **TIME dotCom (TDC MK/BUY/Target: RM6.40)** offers a three-year earnings CAGR of 7% (vs muted sector growth), underpinned by strong home fibre sales and wholesale revenue contribution. TIME embarked on a balance sheet optimisation exercise 18 months ago. The focus is to ensure balance sheet and capital is utilised in the most efficient form. At this juncture, TIME sits on a cash pile of RM1.4b (as of Sep 23). With this excess cash, we expect TIME to continue dishing out lush dividends, rewarding shareholders with attractive dividend yields of 6%. In the longer run, we expect TIME to have an optimal gearing of 1x, from the current net cash position. Maintain BUY with a DCF-based target price of RM6.40 (WACC: 7%, terminal growth: 4%). At our target price, the stock will trade at 14x 2023 EV/EBITDA, +2SD from mean.

- **Axiata (Axiata MK/HOLD/Target: RM2.50).** We expect share price to trade sideways at current levels in the absence of immediate catalysts. That said, closer to RM2 would be a good entry level as the stock trades at low valuation (4x EV/EBITDA), potential spin off of edotco and balance sheet repair (improve net gearing position). Management aims to pay out 10 sen in DPS over 2023-24. That translates to 4% dividend yield.

CELCOMDIGI SYNERGISTIC SAVINGS

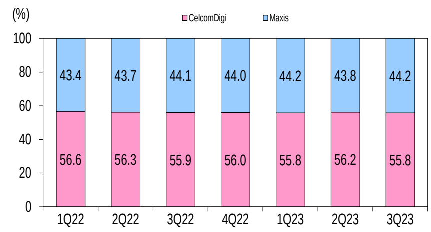


Source: CelcomDigi

MALAYSIA SHIFTS TO DUAL WHOLESALE NETWORK BY 2024

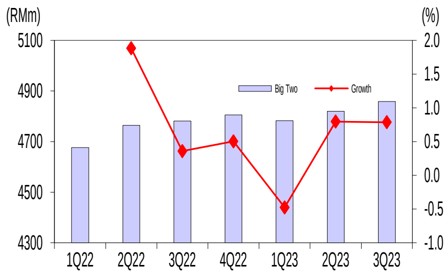
Source: MCMC, UOB Kay Hian

TELCO REVENUE MARKET SHARE



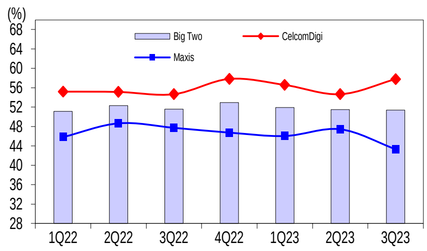
Source: Respective companies

BIG TWO'S QUARTERLY SERVICE REVENUE



Source: Respective companies

QUARTERLY EBITDA MARGIN



Source: Respective companies

COMPANY RESULTS

Astro Malaysia (ASTRO MK)

3QFY24: Below Expectations; Unfavourable Industry Landscape

Astro booked 3QFY24 core net profit of RM42m (-43% yoy, -2% qoq), due to a lower revenue contribution from subscription TV as well as higher-than-expected operating costs. 9MFY24 net profit accounted for 64% of our full-year estimate – below expectation. We downgrade earnings by 3-19% for FY24-26. Maintain HOLD with a lower target price of RM0.32.

3QFY24 RESULTS

Year to 31 Jan (RMm)	3QFY24	qoq % chg	yoy % chg	9M24	yoy % chg
Revenue	828.5	(1.1%)	(6.4%)	2,552.8	(4.3%)
-Subscription/others	666.3	(6.1%)	(2.1%)	2,039.3	(5.5%)
-Adex	98	12.6%	(10.9%)	149.7	(12.1%)
Gross Profit	220.9	(12.8%)	(10.2%)	779.6	(15.6%)
EBITDA	58.1	(39.9%)	(37.4%)	656.6	(20.4%)
EBITDA Margin (%)	22.2%	(3.6%)	(3.5%)	25.7%	(5.2%)
EBIT	58.1	(39.9%)	(37.4%)	335.3	(33.5%)
PBT	(47.3)	n.m.	n.m.	7.9	(96.8%)
Net Profit	(47.1)	n.m.	n.m.	(7.6)	(103.7%)
Core Net Profit	42.0	(2.3%)	(42.5%)	147.0	(50.3%)
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
TV ARPU (RM)	97.4	98.2	98.7	99.1	99.8
Subscribers	5,501	5,490	5,458	5,417	5,365

Source: Astro, UOB Kay Hian

RESULTS

- **3QFY24 results below expectations.** Astro Malaysia's (Astro) headline 3Q24 net loss of RM47.1m was due to Voluntary Separation Scheme (VSS) cost of RM52m and unrealised forex loss of RM43m. Stripping these out, Astro would record 3Q24 core net profit of RM42m (-43% yoy, -2% qoq). The steep yoy decline was mainly due to: a) lower revenue contribution from subscription, b) higher content costs, c) higher staff related costs, d) higher impairment of receivables and e) higher licence, copyright and royalty fees. This brings 9MFY24 core net profit to RM147m, down 50% yoy. Accounting for 64% of our full-year earnings, we deem the results below expectations.
- **Dividends.** Due to a consistently weak consumer climate, no interim dividend was declared this quarter. We forecast FY24 net DPS at 1.5 sen/share, translating to a dividend yield of 4.0%.

KEY FINANCIALS

Year to 31 Jan (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	4,176	3,800	3,322	2,986	2,734
EBITDA	1,286	1,046	1,067	978	898
Operating profit	754	417	368	384	386
Net profit (rep./act.)	461	259	191	202	199
Net profit (adj.)	476	312	191	202	199
EPS (sen)	9.1	6.0	3.7	3.9	3.8
PE (x)	4.0	6.1	10.0	9.4	9.6
P/B (x)	1.7	1.8	1.6	1.5	1.5
EV/EBITDA (x)	4.0	4.9	4.8	5.2	5.7
Dividend yield (%)	18.5	8.2	4.0	4.3	4.3
Net margin (%)	11.0	6.8	5.8	6.8	7.3
Net debt/(cash) to equity (%)	226.1	294.4	222.5	206.2	199.3
Interest cover (x)	7.9	8.2	6.2	5.6	5.0
ROE (%)	41.8	23.6	17.1	16.7	15.7
Consensus net profit	-	-	251	233	264
UOBKH/Consensus (x)	-	-	0.76	0.87	0.75

Source: Astro Malaysia, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM0.365
Target Price	RM0.320
Upside	-12.3%
(Previous TP	*RM0.450)*

COMPANY DESCRIPTION

Pay-TV operator

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	ASTRO MK
Shares issued (m):	5,219.0
Market cap (RMm):	1,904.9
Market cap (US$m):	407.7
3-mth avg daily t'over (US$m):	0.5

Price Performance (%)

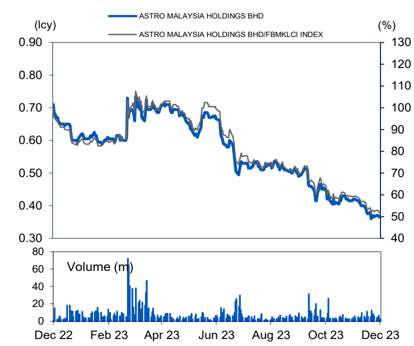
52-week high/low RM0.735/RM0.360

1mth	3mth	6mth	1yr	YTD
(12.0)	(27.7)	(45.9)	(49.0)	(43.8)

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

FY23 NAV/Share (RM)	0.22
FY23 Net Debt/Share (RM)	0.50

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **3QFY24 revenue fell 6% yoy and 1% qoq to RM870m.** TV subscription revenue fell 2% qoq to RM681m. Subscriber base fell 1% qoq and 3% yoy to 5.37m. Positively, 3QFY24 ARPU rose 1% qoq and 3% yoy to RM99.8/month as Astro managed to upsell its packages with better value.
- **Sequentially stronger advertising revenue in 3QFY24.** Advertising revenue improved 13% qoq. Management launched Astro addressable advertising in Jun 22 to offer targeted advertising based on AI data analytics. We believe Astro can monetise data well enough to diversify its revenue stream.
- **Astro has launched the Astro Fibre plan** which allows customers to sign up for stand-alone broadband or content plus broadband bundles. Due to a low base, broadband customers increased by 22% yoy. Astro believes that the bundle packages offered to customers will provide better value and encourage take-up in the longer run.
- **Capex outlook.** For FY24, Astro expects capex spending at RM300m-400m. Key investments in FY23 include: a) technology infrastructure across OOT & digital, TV and video-on-demand, b) customer experience, c) product and service upgrades, and d) set-top boxes provided to customers.

EARNINGS REVISION/RISK

- Downgrade FY24-26 core net profit forecasts by 3-19% to account for higher operating cost due unfavourable industry landscape.

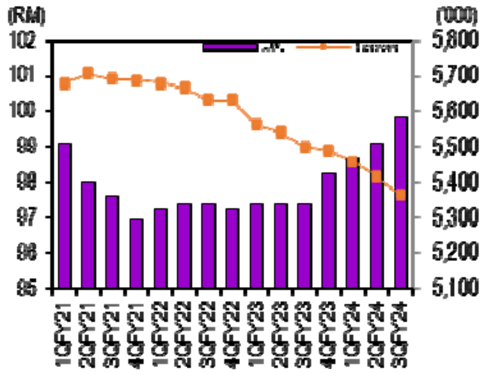
VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower DCF-based target price of RM0.32** (discount rate: 10%, terminal growth rate: -3%). We revised our terminal growth rate from -2% to -3% due to the industry experiencing innovative disruption from OTT streaming media services such as Netflix, Disney Hotstar, etc. Our target price implies 9x FY25F PE, from -1.5SD five-year mean PE of 15x.
- **Key re-rating catalysts** include: a) higher-than-expected dividend payout for FY24, b) higher-than-expected pay-TV ARPU, and c) favourable regulatory outlook in light of the crackdown on piracy.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

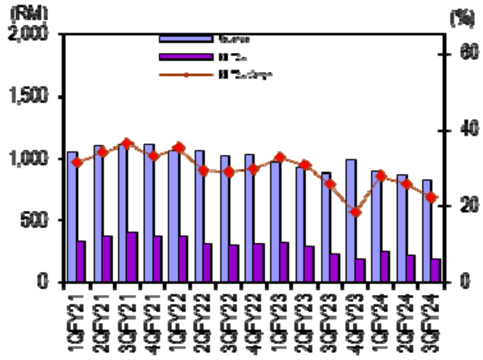
• **Environmental**
- Harvested 1.7m kWh of photovoltaic energy from 4,780 solar panels, saving 964 tCO2e carbon, which is equivalent to planting 24,718 trees. This also helped reduce greenhouse gas emissions by 2% to 25,423 tCO2e in FY21.
• **Social**
- Broadcasted over 16,000 hours of public service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

ARPU AND SUBSCRIBERS



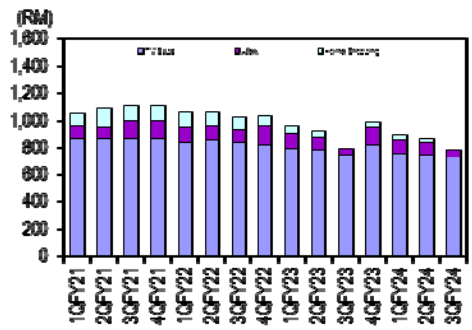
Source: Astro, UOB Kay Hian

REVENUE AND EBITDA



Source: Astro, UOB Kay Hian

REVENUE BREAKDOWN



Source: Astro, UOB Kay Hian

PROFIT & LOSS

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Net turnover	3,800	3,322	2,986	2,734
EBITDA	1,046	1,067	978	898
Deprec. & amort.	629	698	594	511
EBIT	417	368	384	386
Net interest income/(expense)	(128)	(172)	(173)	(179)
Pre-tax profit	289	196	211	207
Tax	(79)	(53)	(57)	(56)
Minorities	49	49	49	49
Net profit	259	191	202	199
Net profit (adj.)	312	191	202	199

BALANCE SHEET

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Fixed assets	2,238	1,888	1,607	1,383
Other LT assets	2,124	2,124	2,370	2,370
Cash/ST investment	159	270	137	124
Other current assets	1,180	1,113	1,066	1,239
Total assets	5,701	5,395	5,179	5,115
ST debt	712	894	894	894
Other current liabilities	961	853	762	696
LT debt	2,601	1,973	1,816	1,816
Other LT liabilities	329	329	329	329
Shareholders' equity	1,071	1,167	1,248	1,297
Minority interest	27	180	131	83
Total liabilities & equity	5,701	5,395	5,179	5,115

CASH FLOW

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Operating	1,308	973	877	811
Pre-tax profit	289	196	211	207
Tax	(79)	(53)	(57)	(56)
Deprec. & amort.	629	698	594	511
Associates	0	0	0	0
Working capital changes	(68)	(40)	(44)	(30)
Other operating cashflows	128	172	173	179
Investing	(466)	(332)	(297)	(277)
Capex (maintenance)	(316)	(349)	(313)	(287)
Others	(150)	17	16	10
Financing	(847)	(531)	(713)	(548)
Dividend payments	(156)	(96)	(121)	(149)
Issue of shares	0	0	0	0
Proceeds from borrowings	604	0	(157)	0
Others/interest paid	(1,294)	(435)	(435)	(398)
Net cash inflow (outflow)	(5)	111	(133)	(13)
Beginning cash & cash equivalent	166	159	270	137
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	160	270	137	124

KEY METRICS

Year to 31 Jan (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	27.5	32.1	32.8	32.8
Pre-tax margin	7.6	5.9	7.1	7.6
Net margin	6.8	5.8	6.8	7.3
ROA	4.7	3.4	3.8	3.9
ROE	23.6	17.1	16.7	15.7
Growth				
Turnover	(9.0)	(12.6)	(10.1)	(8.4)
EBITDA	(18.7)	2.0	(8.3)	(8.3)
Pre-tax profit	(51.0)	(32.3)	7.6	(1.7)
Net profit	(43.8)	(26.3)	5.7	(1.3)
Net profit (adj.)	(34.5)	(38.7)	5.7	(1.3)
EPS	(34.5)	(38.7)	5.7	(1.3)
Leverage				
Debt to total capital	75.1	68.0	66.3	66.3
Debt to equity	309.3	245.7	217.2	208.9
Net debt/(cash) to equity	294.4	222.5	206.2	199.3
Interest cover (x)	8.2	6.2	5.6	5.0

UOBKayHian

COMPANY RESULTS

EcoWorld Development (ECW MK)

FY23: Results Above Expectations

ECW's FY23 net profit grew 15% mainly due to cost-cutting initiatives as well as a higher share of profit from JVs and associates. ECW has secured RM3.6b in sales for FY23 (surpassed its sales target of RM3.5b). The company has set a sales target of RM3.5b for FY24. Maintain BUY. Target price: RM1.26.

FY23 RESULTS

Year to 31 Oct (RMm)	4QFY23	3QFY23	qoq % chg	yoy % chg	FY23	yoy % chg
Revenue	844.5	476.9	77.1	51.0	2,226.9	9.0
Gross Profit	175.1	129.6	35.1	13.1	538.6	9.8
Opex	(109.7)	(51.3)	113.9	39.1	(254.4)	14.0
EBIT	100.5	102.6	(2.0)	1.7	387.8	13.6
Net Interest	(33.3)	(30.4)	9.7	56.0	(122.7)	26.7
Shares of JV & Associates	(47.1)	19.1	(346.5)	(13.4)	87.0	39.6
PBT	20.1	91.3	(78.0)	(12.9)	270.0	19.6
Taxation	(16.8)	(25.0)	(33.0)	(21.1)	(80.7)	17.7
PATAMI	3.3	66.3	(95.0)	85.1	189.3	20.4
Core PATAMI	87.4	66.3	31.7	5.6	273.4	14.8
Margin	%		ppt	ppt	%	ppt
EBIT margin (%)	11.9	21.5	(9.6)	(5.8)	17.4	0.7
PATAMI margin (%)	0.4	13.9	(13.5)	0.1	12.3	0.6

Source: EcoWorld Development, UOB Kay Hian

RESULTS

- **Results above estimates.** Eco World Development (ECW) reported a 4QFY23 core net profit of RM87.4m (+32% qoq, +6% yoy) on revenue of RM845m (+77% qoq, +51% yoy). Cumulatively, FY23 net profit of RM273m (+15% yoy) accounted for around 109% of our and consensus full-year forecasts. The positive deviation was from better-than-expected revenue from sale of industrial properties in Senai, Johor. The improvement in FY23 earnings was mainly due to: a) higher gross profit (on cost savings upon the finalisation of completed phases), as well as b) a higher share of profit from JVs and associate company Eco World International (ECWI) on its improved results.
- We derive RM273m core net profit after excluding exceptional items amounting to RM84m mainly on impairment loss on investment in JVs.
- **Declared 2 sen dividend for this quarter (FY23: 6 sen; FY22: 5 sen),** which implies 65% payout ratio and dividend yield of 6%.

KEY FINANCIALS

Year to 31 Oct (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,044	2,227	2,393	2,584	2,791
EBITDA	282	410	438	468	510
Operating profit	260	388	421	453	500
Net profit (rep./act.)	157	189	294	322	347
Net profit (adj.)	238	273	294	322	347
EPS (sen)	8.1	9.3	10.0	10.9	11.8
PE (x)	12.4	10.8	10.0	9.1	8.5
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	16.4	12.0	11.7	10.9	9.9
Dividend yield (%)	5.0	6.0	6.2	6.4	6.9
Net margin (%)	7.7	11.5	12.3	12.5	12.4
Net debt/(cash) to equity (%)	31.0	25.0	27.5	29.3	32.3
Interest cover (x)	2.9	3.2	4.3	4.4	4.6
ROE (%)	3.3	5.4	6.1	6.5	6.9
Consensus net profit	-	-	267	301	347
UOBKH/Consensus (x)	-	-	1.10	1.07	1.00

Source: EcoWorld Development, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.00
Target Price	RM1.26
Upside	+26.0%
(Previous TP	*RM1.21)*

COMPANY DESCRIPTION

Property developer with exposure in the Klang Valley, Iskandar Malaysia and Penang.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ECW MK
Shares issued (m):	2,944.4
Market cap (RMm):	2,944.4
Market cap (US$m):	630.1
3-mth avg daily t'over (US$m):	0.6

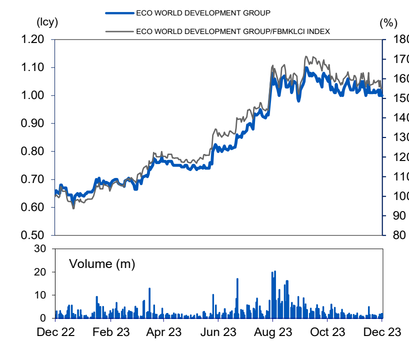
Price Performance (%)

52-week high/low RM1.10/RM0.610

1mth	3mth	6mth	1yr	YTD
(3.8)	0.5	23.5	51.5	55.0

Major Shareholders	%
Sinarmas Harta Sdn Bhd	32.0
Eco World Development Holdings	25.6
Employees Provident Fund	8.3
FY24 NAV/Share (RM)	1.65
FY24 Net Debt/Share (RM)	0.59

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Secured RM500m worth of property sales for Sep-Oct 23,** bringing full-year sales to RM3.605b (surpassing its sales target of RM3.5b). Its industrial development recorded RM1b of sales (29% of FY23 sales) with Iskandar Malaysia contributing 70% of total industrial property sales (RM729m). We believe industrial properties would continue to gain strong traction on the back of rising demand from warehousing and manufacturers, both local and abroad. With approximately 1,175 acres (gross development value (GDV) of RM5.8b) of industrial property landbank still under its purview (with around 68% located in Johor), ECW is well-positioned to capitalise on strong demand for industrial properties.
- **Residential properties recorded RM2b sales** (57% of the total sales for FY23), of which RM860m were from the Iskandar township. Growth momentum in Iskandar Malaysia is expected to remain anchored by extensive infrastructure improvement with the ongoing construction of the Johor Bahru-Singapore Rapid Transit System (RTS). ECW has 3,400 acres of remaining landbank with GDV of RM50.6b, of which the landbank in Johor is around 1,380 acres with GDV of RM11b.
- **ECWI: Achieved RM1.8b sales (also surpassed its target of RM1.4b).** ECWI distributed its first tranche of special dividends amounting RM792m (33 sen/share) on 29 Sep 23, and declared final dividend of RM144m (6 sen/share), bringing total dividend to RM936m, surpassing its earlier estimate of RM900m. For FY24, ECWI targets to sell out all its remaining stocks (about RM650m of completed and nearly-completed stocks that are available for sale) and distribute the excess cash generated back to shareholders.
- **ECW set FY24 sales target at RM3.5b (vs RM3.6b achieved in FY23).** We understand that the lower sales target is to strike a balance between achieving substantial sales figures and ensuring a sustainable and profitable business model. ECW aims to enhance returns by focusing on higher-margin or higher-yield developments per square feet of land. Meanwhile, the focus for FY24 launches will predominantly be on its Duduk series products, with prices below RM500,000. We believe that ECW is well-positioned to surpass its FY24 sales target (our FY24 sales forecast is RM3.6b) driven by attractive product launches (Duduk series and industrial properties).
- **We expect FY24 revenue to increase 7%** driven by: a) an improvement in the recognition of progressive billings, b) more launches now that the prices of raw materials have eased, c) higher unbilled sales of RM3.5b (1.5x cover ratio) and d) completion of several projects (including Huni @ Eco Arden and Se.Ruang @ Eco Sanctuary in 1Q24). We expect net profit to rise by 9% on easing of raw material prices.

EARNINGS REVISION/RISK

- **We raise our EPS forecasts by 10-11% for FY24-25** to reflect better improvement in the recognition of progressive billings (from the higher turnover rate of its Duduk series).

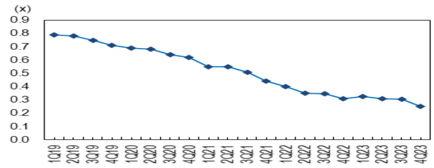
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM1.26** (from RM1.21) as we increase our earnings forecast. Our target price implies 53% discount (largely around its five-year average; current discount: 62% to RNAV) to its RNAV/share of RM2.65. The stock is currently trading at FY24F P/B of 0.6x (within five-year average). In terms of PE, the stock is currently trading at FY24F PE of 10x (below its five-year average of 13.5x). We like ECW for its improving balance sheet and ROE, high dividend yields of 6% as well as its leading position in the property sector.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

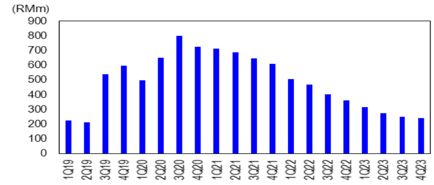
• **Environmental**
- ECW reduced Greenhouse Gas (GHG) emissions by 36% in FY22.
• **Social**
- 100% of ECW's suppliers for building materials and main contractors are local.
• **Governance**
- Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.

NET GEARING LEVEL



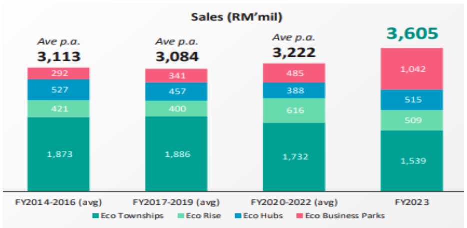
Source: Eco World Development, UOB Kay Hian

COMPLETED INVENTORY LEVEL



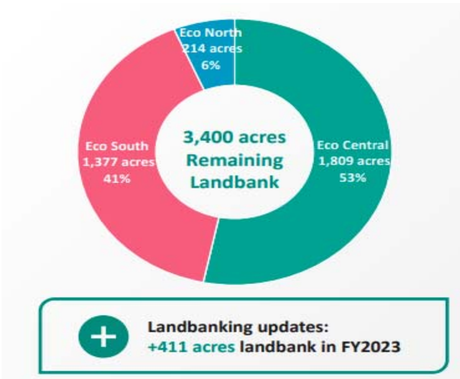
Source: Eco World Development, UOB Kay Hian

PROPERTY SALES



Source: Eco World Development

REMAINING LANDBANK



Source: Eco World Development

ASSUMPTIONS

	FY24F	FY25F	FY26F
Sales (RMb)	3.6	3.7	3.7
Takup rate (%)	70	70	70
EBIT margin (%)	17.6	17.6	17.9

Source: UOB Kay Hian

RNAV TARGET PRICE OF RM1.26/SHARE

NPV of Development Profits	(RMm)
Central Region	1,834.4
Southern Region	819.1
Northern Region	206.4
EcoWorld International (27%)	214.1
Total	3,073.96
Shareholders' Funds	4,738
RNAV	7,812.4
Existing Share base	2,944
RNAV/share	2.65
Discount	53%
Target Price (RM/share)	1.26

Source: Eco World Development, UOB Kay Hian

PROFIT & LOSS

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Net turnover	2,227	2,393	2,584	2,791
EBITDA	410	438	468	510
Deprec. & amort.	22	17	15	14
EBIT	388	421	453	500
Associate contributions	87	59	67	56
Net interest income/(expense)	(123)	(93)	(96)	(99)
Pre-tax profit	270	387	424	457
Tax	(81)	(93)	(102)	(110)
Minorities	0	0	0	0
Net profit	189	294	322	347
Net profit (adj.)	273	294	322	347

BALANCE SHEET

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Fixed assets	135	122	111	101
Other LT assets	6,624	6,824	7,144	7,382
Cash/ST investment	1,362	1,432	1,407	1,491
Other current assets	1,676	1,748	1,831	1,920
Total assets	9,797	10,126	10,493	10,895
ST debt	1,743	1,843	1,943	2,043
Other current liabilities	1,615	1,734	1,867	2,021
LT debt	1,313	1,313	1,313	1,313
Other LT liabilities	378	378	378	378
Shareholders' equity	4,748	4,858	4,992	5,140
Minority interest	0	0	0	0
Total liabilities & equity	9,797	10,126	10,493	10,895

CASH FLOW

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Operating	276	351	374	405
Pre-tax profit	270	387	424	457
Tax	(84)	(93)	(102)	(110)
Deprec. & amort.	11	17	15	14
Associates	(87)	(100)	(109)	(109)
Working capital changes	44	47	50	54
Non-cash items	123	93	96	99
Other operating cashflows	0	0	0	0
Investing	(203)	(104)	(215)	(215)
Capex (growth)	(200)	(100)	(211)	(211)
Capex (maintenance)	(3)	(4)	(4)	(4)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(27)	(177)	(184)	(202)
Dividend payments	(177)	(184)	(188)	(203)
Issue of shares	0	0	0	0
Proceeds from borrowings	273	100	100	100
Others/interest paid	(123)	(93)	(96)	(99)
Net cash inflow (outflow)	46	70	(25)	(13)
Beginning cash & cash equivalent	1,316	1,362	1,432	1,504
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,362	1,432	1,407	1,491

KEY METRICS

Year to 31 Oct (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	18.0	18.3	18.3	18.3
Pre-tax margin	12.1	16.2	16.4	16.4
Net margin	11.5	12.3	12.5	12.4
ROA	2.7	2.9	3.1	3.2
ROE	5.4	6.1	6.5	6.9
Growth				
Turnover	9.0	7.4	8.0	8.0
EBITDA	37.5	6.8	7.0	9.0
Pre-tax profit	19.4	13.3	9.6	7.8
Net profit	18.3	8.8	9.6	7.8
Net profit (adj.)	14.8	8.8	9.6	7.8
EPS	14.8	8.8	9.6	7.8
Leverage				
Debt to total capital	39.2	39.4	39.5	39.5
Debt to equity	64.4	65.0	65.2	65.3
Net debt/(cash) to equity	25.0	27.5	29.3	32.3
Interest cover (x)	3.2	4.3	4.4	4.6

COMPANY RESULTS

Yinson (YNS MK)

9MFY24: In Line, FPSO Performance Can Sustainably Fund Transition Projects

9MFY24 core profit is in line, as the upside on FPSO profits (rate escalations) is able to offset some project hiccups in the non-O&G ventures, while keeping in check the spike in non-O&G opex. Fortunately, some of Yinson's non-O&G businesses have promising potential, even though none are major near-term earnings catalysts yet. Further delivering two more FPSOs (Atlanta and PDB) on time in 2024 will ease its balance sheet position. Retain BUY. Target price: RM3.75.

9MFY24 RESULTS

Year to 31 Jan (RMm)	3QFY24	qoq % chg	yoy % chg	9MFY24 (RMm)	yoy % chg	Comments
Revenue	2,813.0	(9.6)	61.9	8,944.0	105.0	
EBIT	592.0	(7.9)	40.0	1,736.0	56.0	3Q/ 9MFY24 EPCIC: RM165m/ RM553m
EBIT margin (%)	*21.0%*	*0.4%*	*-2.8%*	*19.4%*	*-6.9%*	3Q/ 9MFY24 FPSO: RM190m/ RM453m
Finance costs	(244.0)	20.8	51.6	(647.0)	59.8	Reflecting higher loan and interest rates
Associates	5.0	(37.5)	(225.0)	9.0	(169.2)	
Pre-tax profit	353.0	(21.4)	36.8	1,098.0	172.5	Qoq increase of RM36m
Reported profit	230.0	0.0	60.8	686.0	160.8	from Anna Nery and JAK
Core profit	224.0	48.3	44.5	489.5	53.9	We add back RM34m solar impairment

**Note: We do not forecast EPCIC FL gains given the complex nature of forecasting construction progress*

Source: Yinson, UOB Kay Hian

RESULTS

- **9MFY24 core profit in line, at 78%/70% of our/consensus forecasts.** 3QFY24 was a relatively "quiet" quarter as there were no major expiries/start up on projects. But, Yinson's non-EPCIC income saw qoq growth, contributed by: a) FPSO Anna Nery (+RM25m), and b) rate escalation for the operation & maintenance of the FPSO John Agyekum Kufuor (+RM11m). Yinson has again maintain its FPSO fleet's solid execution, and this offset the renewable RE segments, which recorded RM4m LBITDA and RM30m loss ytd (1HFY24: RM5m LBITDA; RM27m loss). In our core profit computation, we added back RM34m impairments incurred in 3QFY24 for the Nokh Solar Park in India. The impairment reflects higher costs increases and later-than-expected start date (of the second plant).
- **Balance sheet.** Loan base surged qoq from RM11b to RM14b, and net gearing increased slightly to 1.5x. If the RM1.8b perpetual securities are treated as debt, the adjusted net gearing would reflect 4.3x vs 3.4x qoq. Yinson's adjusted net debt/EBITDA (including associates) went up slightly from 3.7x to 4.3x, but is still very healthy relative to peers and standard covenants of 5x. The loan drawdown was in tandem with its project progress (especially FPSO Anna Nery, FPSO PDB, ad FPSO Agogo) and capex ytd of RM5b-6b (under cash capex classified in operating cash flow for finance lease accounting).

KEY FINANCIALS

Year to 31 Jan (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	3,607	6,324	2,599	3,052	4,291
EBITDA	1,391	1,448	1,938	2,347	3,116
Operating profit	1,086	1,137	1,540	1,890	2,288
Net profit (rep./act.)	401	588	624	798	1,038
Net profit (adj.)	403	467	624	798	1,038
EPS (sen)	11.8	13.6	18.2	23.3	30.3
PE (x)	21.1	18.2	13.6	10.7	8.2
P/B (x)	3.5	2.1	2.0	1.8	1.6
EV/EBITDA (x)	11.4	10.9	8.2	6.7	5.1
Dividend yield (%)	4.0	4.0	4.0	4.0	4.0
Net margin (%)	11.1	9.3	24.0	26.1	24.2
Net debt/(cash) to equity (%)	138.7	136.3	149.8	165.8	166.0
Interest cover (x)	3.6	2.5	3.0	3.1	3.7
ROE (%)	10.1	11.6	10.4	12.8	15.5
Consensus net profit	-	-	703	778	845
UOBKH/Consensus (x)	-	-	0.89	1.03	1.23

Source: Yinson, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.48
Target Price	RM3.75
Upside	+51.0%

COMPANY DESCRIPTION

One of the largest global Floating, Production, Storage and Offloading (FPSO) operators, with Engineering, Construction, Procurement, Installation and Commissioning (EPCIC) capabilities.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	YNS MK
Shares issued (m):	2,906.9
Market cap (RMm):	7,209.0
Market cap (US$m):	1,531.9
3-mth avg daily t'over (US$m):	1.5

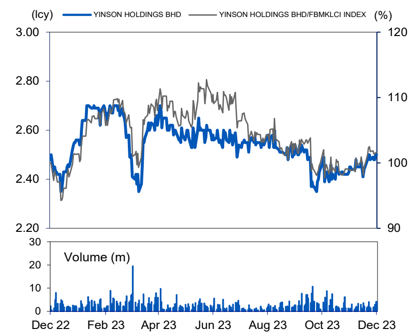
Price Performance (%)

52-week high/low RM2.70/RM2.35

1mth	3mth	6mth	1yr	YTD
2.5	(2.0)	(3.9)	0.4	2.1

Major Shareholders	%
Yinson Legacy	16.6
EPF	16.0
FY24 NAV/Share (RM)	1.25
FY24 Net Debt/Share (RM)	2.66

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Incoming operational FPSOs on track.** The FPSO Atlanta naming ceremony in Dubai was completed recently, and this lends good confidence for the project to be on track for 2024 sailaway, and first oil by Aug 24. FPSO Atlanta has a capacity of 50,000bpd, and its design has many adaptations (such as an efficient carbon management process) that help Enauta execute swiftly a deepwater project from phase zero. The other Brazil FPSO, FPSO Maria Quitera (dubbed as PDB), is also on track for 2024 first oil.
- **Non-O&G projects are also progressing well, and control on costs.** Earlier, one of our key concerns for valuing Yinson (even though we do not forecast EPCIC lump sum revenues/profits), was that the "transition costs" to mature Yinson's non-O&G businesses may become uncontrollable. Fortunately, Yinson Greentech appeared to have "contained" its costs in 3QFY24, as it incurred losses of RM7m/RM20m/RM8m in the first three quarters of FY24. Also, the second Nokh solar plant officially started up on 3 Nov 23, providing new EBITDA of RM12m on top of the existing plant's RM10m. Some other key updates are tabled below.

EARNINGS REVISION/RISK

- **No changes to FY24-26 forecasts.**

VALUATION/RECOMMENDATION

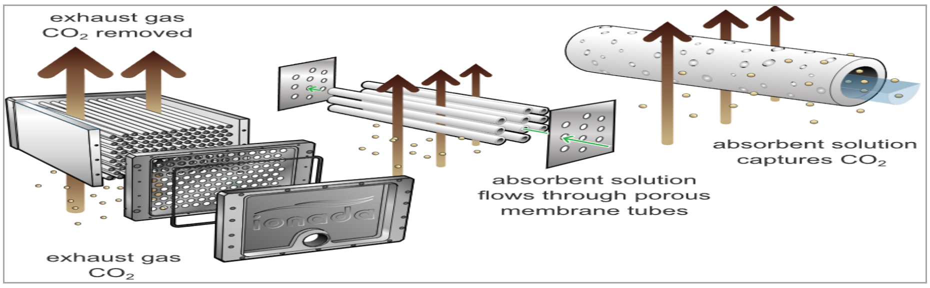
- **Maintain BUY with SOTP-based target price of RM3.75.** This implies 21x FY24F PE, or 8x long-term PE once FPSO Agogo contributes to earnings fully by FY26 (lifting earnings base to about RM2b). We continue to favour Yinson for its execution and bold ESG strategy to be a winner in the energy transition, although we acknowledge current price may remain undervalued, discounted by transition costs and gearing level).

PROGRESS OF NON-O&G/ ENERGY TRANSITION RELATED BUSINESSES

Unit	Description	Important Date
FPSO	To create a **world-first post combustion carbon capture and storage (CCS) plant** on FPSO Agogo. The unit will perform partial capture of CO2 from the gas turbine exhaust, using amine-based capture technology	Jun 23 – appointed Carbon Circle End-Sep 23 – First steel cut 3Q24 – Delivery date
Carbon	Became strategic investor via Series A-round on Ionada – that develops post-combustion carbon capture systems, with high 95% efficiency and with modular concept (suitable for small industries)	
Solar	Inecosolar, an 80% owned subsidiary and a solar player in Indonesia, signed a landmark agreement with Lazada Indonesia to install 396kWp of solar panels at largest logistics facility in Cimanggis, Depok, West Java.	NA
MarineEV	The all-electric cargo vessel, HydroMover, commenced operations for Singapore Port under the Goal Zero Consortium. The passenger craft, HydroGlider is targeted for readiness by end 2023	3Q23 - HydroMover End-23 – HydroGlider
ChargEV	Installed 359 chargers. Note that its sister company, Handal Indah (private unit of the Yinson family), also launched the Kempower chargers. Yinson have roaming agreements with Gentari, JomCharge and Handal Indah	Owns 270 out of 510 charters on roaming in Malaysia. Singapore roaming may add another 600
Renewables	Interested in the renewable energy (RE) export business opportunities, but requires a partner for Battery Energy Storage System (BESS)	NA

Source: UOB Kay Hian

IONADA CARBON CAPTURE TECHNOLOGY

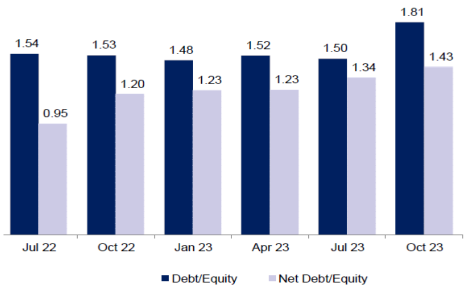


Source: Ionada

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

- **Environmental**
  - **Advanced in carbon (CO2) reduction.** Outlined climate goals roadmap to reach carbon-neutral status by 2030 and net-zero carbon status by 2050.
  - **Advanced in non-O&G diversification.** Targets 3GW renewable energy (RE) pipeline by end-22, and 5-10GW operating portfolio by 2029.
  - **Safety (HSE).** Nil Lost Time Injury (LTI) Frequency in FY21 (FY20: 0.71)
- **Social**
  - Ranked top for active stakeholder engagements with bankers/clients/investors.
- **Governance**
  - Most advanced in self-monitoring and reporting of its environmental contribution.
  - 50% of its board members are independent despite having family representation.

GEARING MOVEMENT, QUARTERLY



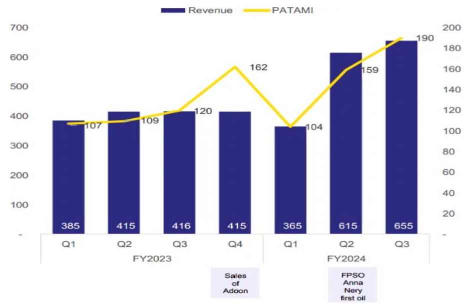
Source: Yinson

SOTP VALUATION @ RM4.30/US$; 8.2% WACC

FY23F	Valuation	RM
FPSO Adoon	DCF (Blended IRR 12%)	0.07
FPSO JAK, firm contract only	DCF (IRR 14%, 74% stake)	0.75
FPSO Helang (Layang), firm	DCF, US$280m capex + US$50m residual value	0.29
FPSO Abigail-Joseph (AJ), firm	DCF (IRR 25%)	0.34
MOPU	11x PE	0.02
Lam Son	Redeployment	0.07
FPSOs Anna Nery and PDB	DCF (IRR 17%, both assume 75% stake)	2.51
FPSO Agogo	DCF (IRR 20%, 85% stake from 100%)	1.41
Enauta, PAJ and others	Include chance of more contract wins	1.22
(-) Minus net debt	Refinanced loan of FPSO JAK, FPSO Helang, and all perpetuals	(2.98)
SOTP (diluted)	RM3.4b shares include warrants conversion	3.75
Implied FY24F PE	-	20.6x
Implied FY26F PE	-	14.3x

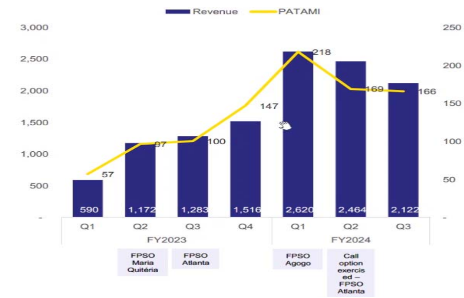
Source: UOB Kay Hian

FPSO NON-EPCIC REVENUE/ INCOME



Source: Yinson

FPSO EPCIC REVENUE/ INCOME



Source: Yinson

PROFIT & LOSS

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Net turnover	6,324	2,599	3,052	4,291
EBITDA	1,448	1,938	2,347	3,116
Deprec. & amort.	312	398	457	828
EBIT	1,137	1,540	1,890	2,288
Total other non-operating income	424	0	0	0
Associate contributions	(16)	(4)	(4)	(4)
Net interest income/(expense)	(577)	(655)	(768)	(846)
Pre-tax profit	847	880	1,117	1,437
Tax	(257)	(224)	(273)	(337)
Minorities	(2)	(33)	(47)	(63)
Net profit	588	624	798	1,038
Net profit (adj.)	467	624	798	1,038

BALANCE SHEET

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Fixed assets	4,266	6,171	8,137	9,222
Other LT assets	11,798	11,298	11,298	11,898
Cash/ST investment	1,507	1,647	1,407	1,116
Other current assets	1,688	1,144	1,194	1,329
Total assets	19,259	20,261	22,036	23,565
ST debt	1,194	1,355	1,531	1,721
Other current liabilities	1,446	1,037	924	1,966
LT debt	8,390	9,404	10,505	10,984
Other LT liabilities	1,767	1,833	2,097	1,320
Shareholders' equity	5,927	6,083	6,412	6,982
Minority interest	535	548	567	592
Total liabilities & equity	19,259	20,261	22,036	23,565

CASH FLOW

Year to 31 Jan (RMm)	2023	2024F	2025F	2026F
Operating	(1,226)	1,602	1,257	1,798
Pre-tax profit	845	880	1,117	1,437
Tax	448	(224)	(273)	(337)
Deprec. & amort.	312	398	457	828
Associates	16	4	4	4
Working capital changes	(3,184)	544	(49)	(135)
Other operating cashflows	338	0	0	0
Investing	(1,056)	(1,697)	(1,824)	(1,800)
Capex (growth)	(1,357)	(2,300)	(2,500)	(2,000)
Investments	301	0	0	0
Others	0	603	676	200
Financing	793	235	327	(289)
Dividend payments	(157)	(343)	(343)	(343)
Issue of shares	0	0	0	0
Proceeds from borrowings	668	1,758	2,007	1,559
Loan repayment	(926)	(1,194)	(1,355)	(1,531)
Others/interest paid	1,208	13	19	25
Net cash inflow (outflow)	(1,489)	140	(240)	(291)
Beginning cash & cash equivalent	2,859	1,507	1,647	1,407
Changes due to forex impact	137	0	0	0
Ending cash & cash equivalent	1,507	1,647	1,407	1,116

KEY METRICS

Year to 31 Jan (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	22.9	74.5	76.9	72.6
Pre-tax margin	13.4	33.9	36.6	33.5
Net margin	9.3	24.0	26.1	24.2
ROA	3.4	3.2	3.8	4.6
ROE	11.6	10.4	12.8	15.5
Growth				
Turnover	75.3	(58.9)	17.4	40.6
EBITDA	4.1	33.8	21.1	32.8
Pre-tax profit	18.3	3.9	26.9	28.6
Net profit	46.7	6.0	27.9	30.1
Net profit (adj.)	15.9	33.5	27.9	30.1
EPS	15.9	33.5	27.9	30.1
Leverage				
Debt to total capital	59.7	61.9	63.3	62.7
Debt to equity	161.7	176.9	187.7	182.0
Net debt/(cash) to equity	136.3	149.8	165.8	166.0
Interest cover (x)	2.5	3.0	3.1	3.7

COMPANY RESULTS

Kimly (KMLY SP)

FY23: Results Slightly Above Expectations; Macro Headwinds Persist

Kimly reported FY23 core PATMI of S$34m (-0.2% yoy), forming 104.5% of our full-year estimate and slightly above expectations. Revenue fell 1.2% yoy, mainly driven by the continued demand normalisation in food delivery. We note that Kimly continued to improve its net cash balance to S$71.4m (+31.3% yoy), providing a buffer against inflationary pressures. Maintain HOLD with a target price of S$0.36.

FY23 RESULTS

Year to 30 Sep (S$m)	FY23	FY22	yoy% chg	2HFY23	yoy% chg	hoh% chg
Revenue	313.9	317.7	(1.2)	158.4	(1.6)	1.9
Gross Profit	88.9	91.5	(2.9)	46.4	6.0	9.2
Operating Profit	48.6	47.0	3.4	24.4	13.2	0.4
Headline PATMI	36.5	34.0	7.2	17.8	15.0	(4.6)
Core PATMI	34.0*	34.0	(0.2)	17.8	15.0	11.0
Gross Margin (%)	28.3	28.8	(0.5ppt)	29.3	2.1ppt	2.0ppt
Core PATMI Margin (%)	10.7*	10.7	0.0ppt	11.2	1.6ppt	(0.8ppt)

*Source: Kimly, UOB Kay Hian, *Excluding one-off gain of S$2.5m from confectionery business disposal*

RESULTS

- **Slightly above expectations.** For FY23, Kimly reported slightly lower revenue of S$313.9m (-1.2% yoy) but higher headline PATMI of S$36.5m (+7.2% yoy), forming 99.2% and 104.5% of our full-year forecasts respectively. Excluding the S$2.5m gain on disposal of Kimly's confectionery business in 1HFY23, core PATMI was flat yoy (-0.2% yoy). Revenue decline was largely due to several food stall closures and lower contributions from existing food stalls, following the easing of COVID-19 restrictions. Gross margins also fell slightly by 0.5ppt yoy, as a result of rising wages along with higher cleaning and gas expenses, offset by lower food ingredient and utilities costs. Cost of sales as a percentage of revenue increased by 0.5ppt yoy to 71.7% in FY23.
- **Better sequential performance.** FY23 was driven by a steady 2HFY23, where revenue (-1.6% yoy; +1.9% hoh) and core PATMI (+15.0% yoy; +11.0% hoh) improved sequentially. This was driven by more contributions from newly-opened coffeeshops and food stalls, offset by lower food delivery revenue and closures of underperforming stalls.
- **Decent dividend yield.** Similar to 2HFY22, Kimly declared a final dividend of 1.12 S cents/share (FY22: 1.12 S cents/share), taking FY23 total dividends to 1.68 S cents/share (FY22: 1.68 S cents/share). This implies a dividend payout ratio of 57.2% (FY22: 61.4%) and decent yield of around 5%.

KEY FINANCIALS

Year to 30 Sep (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	318	314	328	345	362
EBITDA	53	55	55	59	63
Operating profit	47	49	49	53	58
Net profit (rep./act.)	39	41	43	46	50
Net profit (adj.)	39	41	43	46	50
EPS (S$ cent)	3.1	3.3	3.4	3.7	4.0
PE (x)	10.1	9.5	9.2	8.5	7.8
P/B (x)	2.4	2.2	2.0	1.8	1.7
EV/EBITDA (x)	6.1	6.0	5.9	5.5	5.1
Dividend yield (%)	5.3	5.3	5.7	6.2	6.8
Net margin (%)	12.2	13.2	13.0	13.4	13.8
Net debt/(cash) to equity (%)	(33.6)	(40.4)	(64.3)	(85.3)	(103.4)
Interest cover (x)	13.8	25.4	34.7	37.3	40.1
ROE (%)	26.3	24.5	23.0	22.6	22.3
Consensus net profit	-	-	36	38	37
UOBKH/Consensus (x)	-	-	1.19	1.23	1.33

Source: Kimly, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S$0.315
Target Price	S$0.360
Upside	+14.3%

COMPANY DESCRIPTION

Kimly operates and manages coffee shops and food courts. The company offers prepared foods and drinks for on-premise consumption. Kimly serves customers in Singapore.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	KMLY SP
Shares issued (m):	1,240.6
Market cap (S$m):	390.8
Market cap (US$m):	293.6
3-mth avg daily t'over (US$m):	0.0

Price Performance (%)

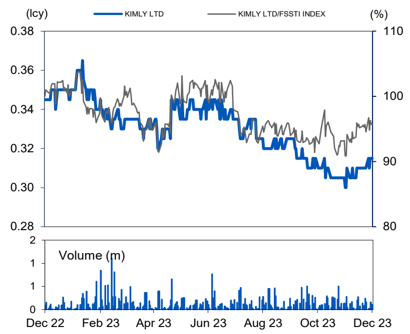
52-week high/low S$0.365/S$0.300

1mth	3mth	6mth	1yr	YTD
3.3	(3.1)	(8.7)	(8.7)	(10.0)

Major Shareholders	**%**
Lim Hee Liat	41.6
Peh Oon Kee	8.6
Ng Lay Beng	6.0

FY24 NAV/Share (S$)	0.16
FY24 Net Cash/Share (S$)	0.10

PRICE CHART



Source: Bloomberg

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- **Cash war chest.** Kimly improved its strong balance sheet and boasts a net cash position of S$71.4m at end-FY23 (end-1HFY23: S$53.9m, end-2HFY22: S$54.4m). Armed with a strong balance sheet along with strong operating cashflows due to its cash-generative business, Kimly has continued to maintain its policy of paying out more than 55-60% of annual earnings, which would imply a decent dividend yield of 5-7% moving forward.

- **Mixed segmental performance.** The fall in overall FY23 annual revenue was largely due to lower food retail segment revenue (-3.9% yoy), dragged by a decline in food delivery revenue, the closure of five Tenderfresh restaurants/underperforming stalls and the disposal of the confectionery business. This was partially offset by higher contributions from the outlet management segment (+2.7% yoy), backed by three new coffeeshop openings in FY23, higher rental income, increased revenue from cleaning services and increased sales of beverages and tobacco products.

STOCK IMPACT

- **Facing a challenging macroeconomic environment.** The F&B industry is no stranger to inflation, with rising ingredient and labour costs. Manpower shortage continues to plague the sector. The government's Progressive Wage Model (PWM) for F&B employees, introduced to uplift low wages, came into effect from 1 Mar 23 (start- 2HFY23). With such enactments, F&B industry players, including Kimly, will be impacted and would likely face margin compression in FY24.

EARNINGS REVISION/RISK

- **We adjust our FY24-25 PATMI estimates slightly while adding our FY26 estimates.** Our new FY24/25/26 PATMI forecasts are S$36.9m (S$37.9m previously), S$40.5m (S$39.5m previously) and S$44.2m respectively.

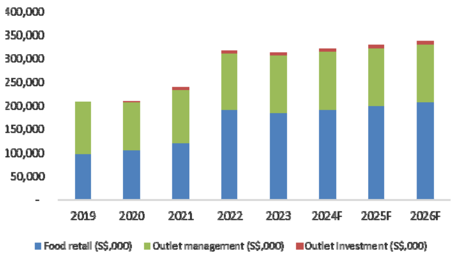
VALUATION/RECOMMENDATION

- **Maintain HOLD with a PE-based target price of S$0.36,** pegged to 12x (-0.5SD below mean) FY24F PE due to increasing costs from inflationary pressures. We have rolled over our valuation base year to 2024.

SHARE PRICE CATALYST

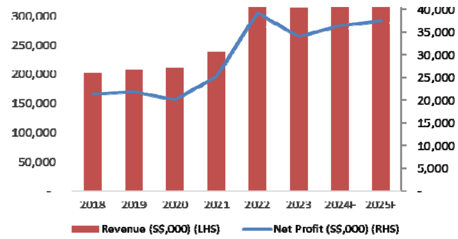
- Earnings-accretive M&As.

ANNUAL SEGMENTAL REVENUE



Source: Kimly, UOB Kay Hian

ANNUAL REVENUE AND NET PROFIT



Source: Kimly, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (S$m)	2023	2024F	2025F	2026F
Net turnover	313.9	328.2	344.6	361.8
EBITDA	54.6	54.7	58.9	63.3
Deprec. & amort.	6.0	5.8	5.8	5.8
EBIT	48.6	48.9	53.1	57.5
Net interest income/(expense)	(2.1)	(1.6)	(1.6)	(1.6)
Pre-tax profit	46.5	47.3	51.5	55.9
Tax	(7.9)	(7.6)	(8.2)	(9.0)
Minorities	2.8	2.8	2.8	2.8
Net profit	41.4	42.5	46.1	49.8
Net profit (adj.)	41.4	42.5	46.1	49.8

BALANCE SHEET

Year to 30 Sep (S$m)	2023	2024F	2025F	2026F
Fixed assets	145.6	107.4	69.4	31.8
Other LT assets	83.2	82.2	81.3	80.3
Cash/ST investment	89.1	142.6	199.3	259.3
Other current assets	16.0	22.4	23.4	24.6
Total assets	333.8	354.5	373.5	395.9
ST debt	0.8	0.8	0.8	0.8
Other current liabilities	89.0	92.1	92.1	94.1
LT debt	16.9	16.9	16.9	16.9
Other LT liabilities	44.6	44.6	44.6	44.6
Shareholders' equity	176.5	194.1	213.0	233.5
Minority interest	6.1	6.1	6.1	6.1
Total liabilities & equity	333.8	354.5	373.5	395.9

CASH FLOW

Year to 30 Sep (S$m)	2023	2024F	2025F	2026F
Operating	82.8	80.9	86.6	92.2
Pre-tax profit	46.5	47.3	51.5	55.9
Tax	(7.9)	(7.6)	(8.2)	(9.0)
Deprec. & amort.	6.0	5.8	5.8	5.8
Associates	0.0	0.0	0.0	0.0
Working capital changes	(94.8)	(96.6)	(98.6)	(101.0)
Non-cash items	(0.2)	0.0	0.0	0.0
Other operating cashflows	133.2	131.9	136.1	140.5
Investing	(0.9)	(5.3)	(5.5)	(5.8)
Capex (growth)	(5.0)	(5.3)	(5.5)	(5.8)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	3.9	0.0	0.0	0.0
Financing	(70.5)	(22.2)	(24.3)	(26.5)
Dividend payments	(20.9)	(22.2)	(24.3)	(26.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Others/interest paid	(49.7)	0.0	0.0	0.0
Net cash inflow (outflow)	11.4	53.5	56.8	59.9
Beginning cash & cash equivalent	77.6	89.1	142.6	199.3
Ending cash & cash equivalent	89.1	142.6	199.3	259.3

KEY METRICS

Year to 30 Sep (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	17.4	16.7	17.1	17.5
Pre-tax margin	14.8	14.4	14.9	15.5
Net margin	13.2	13.0	13.4	13.8
ROA	12.0	12.4	12.7	12.9
ROE	24.5	23.0	22.6	22.3
Growth				
Turnover	(1.2)	4.6	5.0	5.0
EBITDA	3.0	0.2	7.5	7.5
Pre-tax profit	7.6	1.8	8.8	8.6
Net profit	6.8	2.8	8.2	8.1
Net profit (adj.)	6.8	2.8	8.2	8.1
EPS	6.7	3.3	8.2	8.1
Leverage				
Debt to total capital	8.8	8.1	7.5	6.9
Debt to equity	10.0	9.1	8.3	7.6
Net debt/(cash) to equity	(40.4)	(64.3)	(85.3)	(103.4)
Interest cover (x)	25.4	34.7	37.3	40.1

SECTOR UPDATE

Retail – Thailand

Market Is Too Pessimistic, Good Time For Accumulation

We think that the market is too pessimistic on the retail sector. We foresee that the correction in the retail sector is a good accumulation opportunity given that: a) sector earnings are set to grow 17.6% yoy, b) most of the negative factors have already been revealed, and c) foreign ownership is low and valuations are attractive. Our top pick: CPALL. Maintain OVERWEIGHT.

WHAT'S NEW

- **Domestic consumption still on recovery path.** Although there are concerns on the overall domestic consumption due to many negative newsflows such as the El Nino impact, fiscal budget delay, and slowdown in consumption sentiment, we think that the market might be too pessimistic on the whole picture. Looking back, private consumption in 1Q-3Q23 still showed solid growth of 5.8%/7.8%/8.1%, respectively. Currently, we still see an upward trend in consumer confidence and signs of recovery in rural income. We see a pickup in farm income in 2H23 from better exports and weaker-than-expected El Nino impact. Also, Thailand's current water storage in key reservoirs still remain higher than the El Nino period in 2015-16 and 2019 by around 24%. Therefore, we expect positive trends in both macro and rural consumptions in 2024.
- **Government stimulus to be another economic driver in 2024.** We foresee the government launching many direct and indirect policies to boost domestic consumption and support the local cost of living. The direct policy approaches will be: a) easy E-Receipt policy, which allows spenders to claim expenses for Bt50,000 to be a tax refund, and b) Bt10,000 digital wallets for 50m people aged over 16 years nationwide. On the other hand, the indirect policy approaches will be in many dimensions. The government has allowed bars and nightclubs in four provinces to open until 4am from 2am previously; the government is also considering abolishing duty free on arrival in Thailand. Apart from this, we see measures to tackle shark loan issues and the reduction of electricity costs.
- **Continuous sector earnings growth in 2024.** For Oct-Nov 23 same store sales (SSS) momentum of the retail sector, most of the home related and construction material retailers were in negative range following fiscal budget delay. However, grocery retailers still delivered flattish to positive SSS growth. We expect the 2023-24 sector earnings to grow 12.5% and 17.6% yoy on the back of organic SSS growth in grocery retailers and strong improvement of home retailers. Also, assuming new potential fuel tariff rate (FT rate) of Bt4.20/unit, 2024's FT rate will reduce by 10% yoy.

ACTION

- **Maintain OVERWEIGHT.** Although there are some concerns on short-term consumption momentum, we are still positive on the retail sector in 2024. We expect to see sector earnings improvement in 2024 on the back of better SSSG and gross margin. We believe this should be a good accumulation opportunity due to attractive valuation and low foreign ownership level. Our top pick is CPALL.

OVERWEIGHT

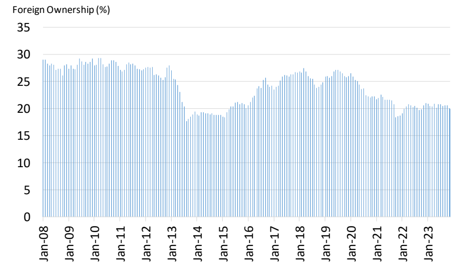
(Maintained)

OUR TOP PICKS

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
CP ALL	CPALL TB	BUY	51.00	76.00

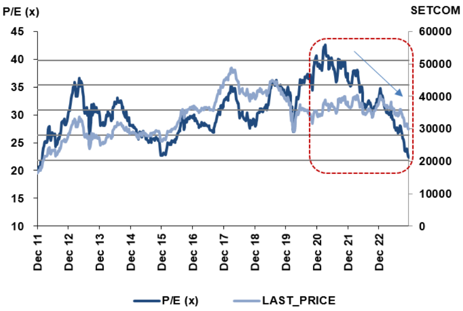
Source: UOB Kay Hian

SECTOR FOREIGN OWNERSHIP



Source: SETSMART

RETAIL SECTOR'S PE BAND



Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Market Cap (US$m)	Net profit 2022 (Btm)	Net profit 2023F (Btm)	Net profit 2024F (Btm)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	ROE 2023F (%)	ROE 2024F (%)
Berli Jucker	BJC TB	HOLD	24.40	31.50	2,714	5,010	4,263	5,244	19.5	22.9	18.6	0.8	0.8	3.4	4.1
COM7	COM7 TB	BUY	21.80	32.50	1,452	3,038	3,135	3,547	17.2	16.7	14.8	5.8	4.9	38.2	35.4
CP All	CPALL TB	BUY	51.00	76.00	12,715	13,272	16,654	20,100	34.5	27.5	22.8	4.1	3.7	5.6	6.4
Home Product Center	HMPRO TB	BUY	11.90	16.00	4,344	6,217	6,614	7,039	25.2	23.7	22.2	6.0	5.7	26.3	26.3
	Sector				21,225				29.5	25.4	21.6	4.2		11.8	12.2

Source: UOB Kay Hian

OCT-NOV 23 SAME-STORE-SALES GROWTH TREND

Company	Description	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	Oct-23	Nov-23
Home & Construction Material Sellers										
DOHOME	Home improvement and Construction material	25.1%	12.6%	6.6%	-9.8%	-9.0%	-9.9%	-7.1%	3.0%	-9.0%
ILM inc.elec	Furniture	11.0%	13.4%	34.3%	4.3%	9.3%	9.1%	13.1%	10.0%	10.0%
HMPRO	Home improvement	4.0%	-1.0%	16.5%	2.9%	5.8%	4.9%	-3.6%	-8.0%	-5.0%
Mega Home		8.6%	-4.8%	6.0%	flat	-1.0%	-2.0%	-1.5%	-11.0%	-5.0%
Malaysia		-11.0%	66.0%	100.0%	12.0%	7.0%	-11.0%	-6.0%	0.0%	0.0%
GLOBAL	Home improvement and Construction material	7.3%	1.5%	4.3%	-2.2%	-8.7%	-9.5%	-12.0%	-12.0%	-12.0%
Retailers & Wholesalers										
MAKRO	Wholesalers	1.0%	7.4%	8.9%	8.0%	10.8%	6.0%	3.2%	0.0%	3.5%
Lotus	Hypermarket and Convenience store	-1.3%	-2.1%	-0.6%	2.5%	0.5%	-0.9%	2.5%	5.0%	5.0%
CPALL	Convenience Store	13.0%	14.2%	22.1%	15.0%	8.0%	7.9%	3.5%	3.0%	3.0%
BJC exc B2B	Hypermarket, Convenience store and Manufacturer	2.8%	4.4%	-0.5%	6.1%	5.8%	4.8%	2.1%	2.5%	-2.5%
Multiformat										
CRC*	Fashion, Hardline and Food	11.0%	24.0%	43.0%	9.0%	13.0%	4.0%	0.0%	-2.5%	2.5%
CRC Fashion		22.0%	56.0%	84.0%	14.0%	31.0%	14.0%	6.0%	2.5%	
CRC Hardline		6.0%	2.0%	27.0%	-8.0%	0.3%	-2.0%	-6.0%	-3.5%	
CRC Food		5.0%	18.0%	22.0%	17.0%	8.0%	-2.0%	-3.0%	-2.5%	

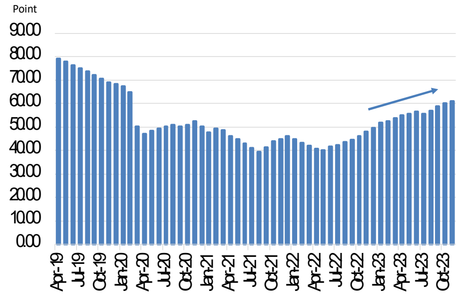
Source: Respective companies, UOB Kay Hian

- **Solid spending on 2024 Motor Expo car sales.** Thailand Motor Expo is a motor show event where dealers and brands will hold car sales promotions or release new car models. The event will be organised only once a year. For 2023, the event was held on 29 Nov-11 Dec 23. The total car and motorcycle sales were 53,248 and 7,323 units respectively, up 45.2% and 21.1% yoy. The car sales were significantly higher than pre-COVID-19 levels. This could be an indicator of an improvement in consumer purchasing power and better consumption mood for local consumers.

- **Tourism recovery still a sector tailwind.** Although international tourist arrivals were lower than our previous expectation, we still expect a good recovery pace in 2024. As of 10 Dec 23, the number of international tourists was 25.7m, lower than the Bank of Thailand's (BOT) previous estimates of 29m. However, the BOT expects 2024 tourist arrivals to grow 21.9% from 28.3m in 2023 to 34.5m in 2024. Therefore, we expect the tourist resumption to be one of the retail sector's catalyst in the next year.

- **An update on Bt10,000 digital wallets policy.** Currently, the Ministry of Finance has submitted a special loan bill to the Council of State for assessment, emphasising its urgent basis. Two potential outcomes exist. Firstly, should the Council of State endorse the loan bill, subsequent submission to parliament is expected without significant hurdles. We expect in this case the digital wallets should be effective in May 24. Secondly, on the other hand, the Council of State declines approval of the Bt500b loan bill, delays in policy execution are anticipated, possibly prompting revisions in budgetary scale and terms. However, we remain a confident of the digital wallets policy coming to fruition, given the government's commitment and intention to push this policy forward.

THAILAND CONSUMER CONFIDENCE INDEX (CCI)

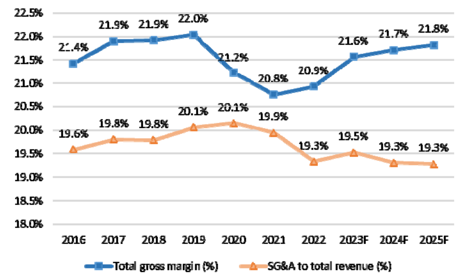


Source: UTCC

THAILAND WATER STORAGE LEVEL

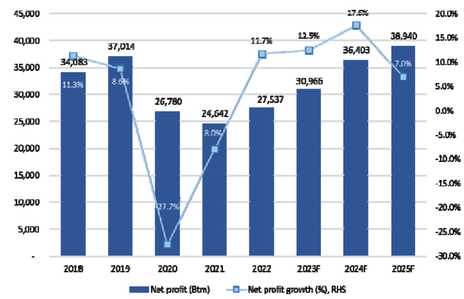
Source: Egatwater

RETAIL SECTOR PROFITABILITY



Source: UOB Kay Hian

RETAIL SECTOR EARNINGS



Source: UOB Kay Hian

COMPANY UPDATE

PTT Exploration & Production (PTTEP TB)

Five-Year Investment Plan (2024-28)

PTTEP announced a five-year investment plan amounting to US$32.6b, aiming for a 5% CAGR in sales volume. Despite an uptick in this investment plan compared with the previous plan, this was partly due to some projects being postponed from 2023, including an increase in new projects. Major projects like the Erawan project are proceeding as scheduled, although the Mozambique LNG project has postponed its gas production plan to 1H28. Maintain BUY. Target price: Bt200.00.

WHAT'S NEW

- **The tone from PTT Exploration & Production's (PTTEP) analyst meeting was positive.**
- **Five-year Plan: Investment strategy.**

  a) **Drive value:** To enhance PTTEP's core business by accelerating the projects under development to produce petroleum as planned, especially the SK405B project in Malaysia and the liquefied natural gas (LNG) project in Mozambique that will gradually begin production in 2027-28, including maintaining petroleum production levels and controlling production costs as well as expand investment in the gas and oil businesses.

  b) **Decarbonise:** PTTEP is committed to achieving the goal of net-zero greenhouse gas emissions by 2050 (EP Net Zero 2050). To align with this objective, investment decisions will prioritise the greenhouse gas emissions factor, including developing technology to reduce greenhouse gas emissions from the production process, particularly through a project focused on capturing and storing carbon dioxide (Carbon Capture and Storage - CCS). In the five-year investment plan, the investment in this project is approximately US$516m, with important projects being the CSS Project in the Arthit Project and the SK410B Project in the Lang Labah (LLB) production area, which are expected to have a total investment of US$300m.

  c) **Diversify:** PTTEP established AI and Robotics Ventures Co. (ARV) to invest in the renewable energy business. PTTEP set an investment target of US$602m for 2024-28. In addition, within the new low carbon business group, PTTEP has allocated another investment budget of US$2.02b, (excluded in the five-year investment plan) to invest in: a) the a) Offshore Renewables project, b) providing business services in the application of carbon dioxide capture and storage technology (CCS as a Service), c) Carbon Capture and Utilization (CCU) and d) hydrogen fuel.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	219,068	331,350	295,398	326,737	317,730
EBITDA	160,693	253,734	234,966	252,122	243,444
Operating profit	90,399	170,566	132,805	139,620	117,361
Net profit (rep./act.)	38,864	70,901	72,437	79,400	66,076
Net profit (adj.)	42,888	90,721	72,437	79,400	66,076
EPS (Bt)	10.8	22.9	18.2	20.0	16.6
PE (x)	13.2	6.2	7.8	7.1	8.6
P/B (x)	1.4	1.3	1.2	1.1	1.0
EV/EBITDA (x)	3.6	2.3	2.4	2.3	2.4
Dividend yield (%)	3.5	6.5	6.3	7.0	7.0
Net margin (%)	17.7	21.4	24.5	24.3	20.8
Net debt/(cash) to equity (%)	12.7	2.3	1.8	3.2	7.8
Interest cover (x)	24.8	30.9	28.4	31.8	30.7
ROE (%)	9.8	16.7	15.7	15.9	12.4
Consensus net profit	-	-	74,811	70,658	66,768
UOBKH/Consensus (x)	-	-	0.97	1.12	0.99

Source: PTT Exploration & Production PCL, Bloomberg, UOB Kay Hian

BUY
(Maintained)

Share Price	Bt142.50
Target Price	Bt200.00
Upside	+40.4%

COMPANY DESCRIPTION

PTTEP explores for crude oil and natural gas, develops fields for production.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	PTTEP TB
Shares issued (m):	3,970.0
Market cap (Btm):	565,722.9
Market cap (US$m):	15,805.8
3-mth avg daily t'over (US$m):	51.4

Price Performance (%)

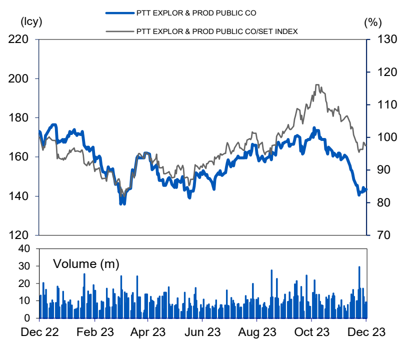
52-week high/low Bt176.50/Bt136.00

1mth	3mth	6mth	1yr	YTD
(10.9)	(14.7)	(6.3)	(18.6)	(19.3)

Major Shareholders	%
PTT	64.8
NVDR	6.2
Social Security Office	2.0

FY23 NAV/Share (Bt)	120.44
FY23 Net Debt/Share (Bt)	2.22

PRICE CHART



Source: Bloomberg

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FIVE-YEAR PLAN: INVESTMENT

	2023F	2024F	2025F	2026F	2027F	2028F
Five-Year Plan: Investment (US$,m)						
Old	5,481	6,127	6,447	5,969	5,076	
New	4,892	6,721	7,509	7,268	5,772	5,305
%Change	*-11%*	*10%*	*16%*	*22%*	*14%*	
Five-Year Plan: Production and Sales Volume (KBOED)						
Old	470	510	535	531	550	
New	463	505	523	534	521	587
%Change	*-1.5%*	*-1.0%*	*-2.2%*	*0.6%*	*-5.3%*	

Source: PTT Exploration & Production PCL, UOB Kay Hian

- **Five-year investment plan (2024-28) totalling US$32.6b.** PTTEP set a target for average petroleum sales growth of 5.0% per year with a five-year investment plan and a budget of US$32.6b for 2024-27. There will be an investment increase of 10-22% from the previous plan, especially in 2024. This is partly due to a) increased operating costs following the direction of crude oil prices and increased petroleum drilling activities, including the cost of drilling rigs and ships; b) some projects plan being postponed from 2023. In 2023, PTTEP has revised down its capex by 11%, especially for projects in Malaysia, including the Sabah K project and Sarawak project; and c) investment in new projects, namely the Abu Dhabi Offshore 2 Phase 1 project and the SK405B project in Malaysia, which are expected to gradually start production in 2H25 and 2027, respectively.

- **Postpone gas production plan from Mozambique LNG project to 1H28.** PTTEP expects to enter the construction stage in 1Q24 and start production in 1H28, postponed from the original plan to begin in 2027. However, it expects to set up an impairment in 4Q23 of approximately US$150m-200m. However, 2028 will be the year when several important projects begin production, including the SK410B project, Lang Lebah production field, the Algeria Hassi Bir Rekaiz Phase 2 project, as well as the Mozambique LNG project, which will result in petroleum sales in 2028 at 587 thousand barrels of oil equivalent per day (KBOED)

- **Erawan project progressing as planned.** Currently, the Erawan Project's production capacity is 400 million cubic feet per day (MMSCFD). PTTEP expects to increase this to 500-550 MMSCFD by Feb-Mar 24, maintaining the production target of 800 MMSCFD by Apr 24.

- **PTTEP's strong financial.** As of end-3Q23, PTTEP had substantial cash on hand of Bt111b. Additionally, debt to equity is low, standing at only 0.31x. Looking ahead, we anticipate an average annual EBITDA of Bt239b in 2024-27, accounting for annual investments. This projection leaves us with a free cash flow at less than Bt85b per year. This financial strength not only enhances PTTEP's capacity for investments but gives it options such as paying additional dividends.

STOCK IMPACT

- **We expect 4Q23 core profit to be stable qoq based on PTTEP's guidance in 4Q23.** Sales volume was 479 KBD, up 2.44% qoq from increased domestic sales from the projects in Erawan, Bongkot, Pailin and B8/32. ASPs experienced a qoq increase due to the gas price adjustment in the Malaysia-Thailand Joint Development Area project, aligning with the high sulphur fuel oil (HSFO) prices, sufficient to compensate for the decrease in crude oil prices. Qtd, crude oil prices stand at US$85.33/bbl, down 1.63% qoq. EBITDA margin in 4Q23 is expected to increase from 74% in 3Q23, partly due to increased revenue and production costs per unit that are expected to remain stable qoq.

EARNINGS REVISION/RISK

- **None.**

VALUATION/RECOMMENDATION

- **Maintain BUY with a 2024 target price of Bt200.00,** based on average five-year regional forward PE of 10x. We maintain our positive outlook on crude oil prices for the rest of 2023 and 2024. As for the top picks in the energy sector, we prefer PTT Exploration and Production (PTTEP TB/Target: Bt200.00) Thai oil (TOP TB/Target: Bt68.00) and Bangchak Sriracha Refinery (BSRC TB/Target: Bt15.00).

KEY ASSUMPTION 2023-24

	2023F	2024F
Avg. Fx (Bt/US$)	35.5	34.5
Dubai Curde Oil Price (US$/bbl)	81.0	84.0
Gas Price (US$/MMBTU)	6.1	5.8
Liquid Price (US$/bbl)	78.0	81.0
Unit Cost (US$/BOE)	27.0	27.0
Sales Volume (KBOED)	464	505
Net Profit (Btm)	72,437	79,400
EPS (Bt per share)	18.25	20.00
Valuation		
10xPE		200

Source: PTTEP, Bloomberg and UOB Kay Hian

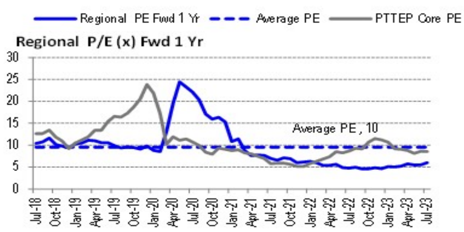
FIVE-YEAR PLAN: INVESTMENT

Source: PTTEP, Bloomberg and UOB Kay Hian

5-YEARS PLAN: PRODUCTION AND SALES VOLUME

Source: PTTEP, Bloomberg and UOB Kay Hian

FIVE-YEAR REGIONAL FORWARD PE BAND



Source: PTTEP, Bloomberg and UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	331,350	295,398	326,737	317,730
EBITDA	253,734	234,966	252,122	243,444
Deprec. & amort.	83,168	102,161	112,502	126,083
EBIT	170,566	132,805	139,620	117,361
Associate contributions	668	701	736	773
Net interest income/(expense)	(8,218)	(8,271)	(7,930)	(7,930)
Pre-tax profit	143,196	125,235	132,426	110,204
Tax	(72,295)	(52,798)	(53,026)	(44,128)
Minorities	0	0	0	0
Net profit	70,901	72,437	79,400	66,076
Net profit (adj.)	90,721	72,437	79,400	66,076

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	410,614	402,224	442,940	496,407
Other LT assets	262,408	234,978	258,888	252,017
Cash/ST investment	122,324	113,175	105,363	79,370
Other current assets	74,519	70,937	78,602	79,255
Total assets	869,864	821,314	885,793	907,049
ST debt	10,479	0	0	0
Other current liabilities	104,137	48,377	53,962	53,357
LT debt	121,999	121,999	121,999	121,999
Other LT liabilities	166,129	148,103	163,815	159,300
Shareholders' equity	442,422	478,137	521,318	547,695
Total liabilities & equity	869,864	821,314	885,793	907,049

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	164,916	122,420	189,821	190,902
Pre-tax profit	143,196	125,235	132,426	110,204
Tax	(72,295)	(52,798)	(53,026)	(44,128)
Deprec. & amort.	83,168	102,161	112,502	126,083
Working capital changes	(30,141)	(52,178)	(2,081)	(1,257)
Other operating cashflows	40,987	0	0	0
Investing	(58,760)	(84,367)	(161,415)	(177,194)
Investments	(61,755)	(93,771)	(153,218)	(179,550)
Others	2,995	9,404	(8,197)	2,356
Financing	(69,958)	(47,201)	(36,219)	(39,700)
Dividend payments	(28,670)	(36,722)	(36,219)	(39,700)
Proceeds from borrowings	(41,288)	(10,479)	0	0
Net cash inflow (outflow)	36,198	(9,149)	(7,813)	(25,992)
Beginning cash & cash equivalent	85,528	122,324	113,175	105,363
Changes due to forex impact	598	0	0	0
Ending cash & cash equivalent	122,324	113,175	105,363	79,370

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	76.6	79.5	77.2	76.6
Pre-tax margin	43.2	42.4	40.5	34.7
Net margin	21.4	24.5	24.3	20.8
ROA	8.6	8.6	9.3	7.4
ROE	16.7	15.7	15.9	12.4
Growth				
Turnover	51.3	(10.9)	10.6	(2.8)
EBITDA	57.9	(7.4)	7.3	(3.4)
Pre-tax profit	78.1	(12.5)	5.7	(16.8)
Net profit	82.4	2.2	9.6	(16.8)
Net profit (adj.)	111.5	(20.2)	9.6	(16.8)
EPS	111.5	(20.2)	9.6	(16.8)
Leverage				
Debt to total capital	22.1	19.5	18.3	17.6
Debt to equity	29.9	25.5	23.4	22.3
Net debt/(cash) to equity	2.3	1.8	3.2	7.8
Interest cover (x)	30.9	28.4	31.8	30.7

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