

## Retail Market Monitor

Thursday, 07 December 2023

### WHAT HAPPENED LAST NIGHT

US stocks were lower on Monday, as the losses in the communication services, information technology and materials sectors led shares lower. At the close of the NYSE, the DJIA fell 0.11% while the S&P 500 index was down by 0.54%, and the NASDAQ Composite index slid 0.84%. Falling stocks outnumbered advancing ones on the NYSE by 1,451 to 1,414 and 86 ended unchanged; on the Nasdaq Stock Exchange, 2,359 advanced and 1,954 declined, while 187 ended unchanged. (Source: WSJ, Bloomberg)

### WHAT'S IN THE PACK

#### Singapore Company Results:

**Marco Polo Marine - FY23: Strong earnings beat with dividend surprise and positive outlook.**

(MPM SP/BUY/\$\$0.051/Target:\$0.066)

MPM reported FY23 core earnings of S\$25m (+83% yoy), a strong beat of more than 50% of our estimate due to favourable OSV charter rates...

#### China/HK Sector Updates:

**Internet - Strong pipeline in 2024; ample monetisation opportunities from party games.**

We expect resilient online games sector growth going into 2024, in view of a strong game grossing performance in 3Q23, solid game pipeline with...

**Shipping and Ports - Near-term outlook still subdued; trade volume likely to see a moderate pick-up in 2024. Maintain MARKET WEIGHT. Top pick: CSP (1199 HK/BUY/Target: HK\$6.42).**

Recent economic indicators still point to a slow near-term trade outlook, but global trade could see a moderate reacceleration in 2024...

#### Singapore Technical Analysis:

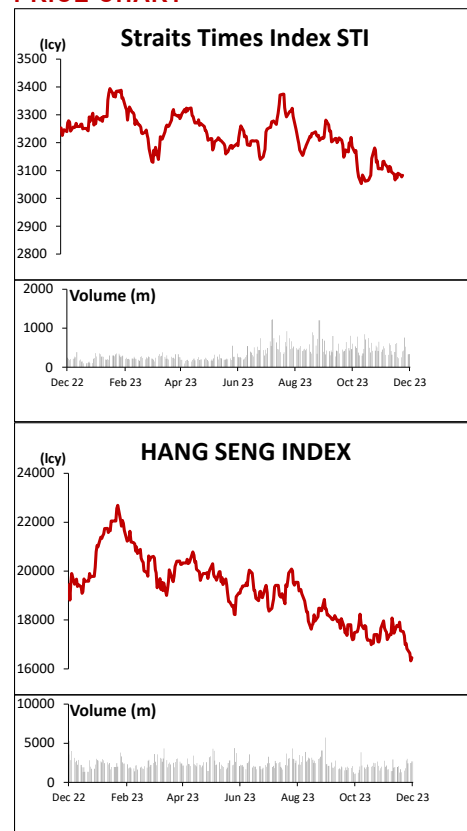
**Venture Corp (VMS SP) - Trading BUY**

The price is trading above the cloud, keeping the uptrend intact. Conversion line is acting as support at the moment. The MACD is bullish and there is a bullish crossover...

**SATS (SATS SP) - Trading BUY**

The chart outlook remains bullish as the price is trading above the cloud. Conversion and base lines remain in a bullish crossover. The MACD is still bullish and a bullish crossover is likely...

### PRICE CHART



### KEY INDICES

	Prev Close	1M %	YTD %
DJIA	36054.4	5.7	8.8
S&P 500	4549.3	4.2	18.5
FTSE 100	7515.4	1.3	0.9
AS30	7386.7	2.9	2.3
CSI 300	3399.6	(6.1)	(12.2)
FSSTI	3087.2	(2.7)	(5.0)
HSCEI	5663.9	(7.0)	(15.5)
HSI	16463.3	(6.8)	(16.8)
JCI	7087.4	3.6	3.5
KLCI	1445.8	(1.2)	(3.3)
KOSPI	2495.4	2.1	11.6
Nikkei 225	33445.9	3.6	28.2
SET	1389.6	(1.3)	(16.7)
TWSE	17360.7	4.1	22.8
BDI	2848	87.0	88.0
CPO (RM/mt)	3655	(0.2)	(9.7)
Brent Crude (US\$/bbl)	74	(12.7)	(13.4)

Source: Bloomberg

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### YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 10.08pt higher to 3,087.24. Among the top active stocks were Seatrium (+1.0%), Singtel (+1.3%), Thai Beverage (+1.0%), Rex International (+1.2%) and Jiutian Chemical (-3.9%). The FTSE ST Mid Cap Index rose 0.7%, while the FTSE ST Small Cap Index was up 0.2%. The broader market saw 339 gainers and 223 losers with total trading value of S\$717.6m.

### SINGAPORE

#### TOP TRADING TURNOVER

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
DBS Group Holdings	31.48	0.1	144.7
United Overseas Bank	27.29	0.2	65.1
CapitaLand Ascendas Reit	2.82	0.0	59.1
Oversea-Chinese Banking Corp	12.61	0.1	57.0
Singapore Telecommunications	2.33	1.3	52.3

#### TOP GAINERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Nio Inc-Class A	7.60	5.7	1.7
ESR-Logos REIT	0.31	3.3	4.9
ComfortDelGro Corp	1.34	3.1	8.6
Wing Tai Holdings	1.34	3.1	0.3
Raffles Medical Group	1.09	2.8	3.1

#### TOP LOSERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
Shangri-La Asia	5.18	(6.0)	0.0
Sri Trang Agro-Industry-For	0.58	(2.5)	0.0
Tianjin Pharmaceutical Da -S	1.97	(2.5)	0.3
UMS Holdings	1.23	(1.6)	3.4
Yangzijiang Shipbuilding	1.49	(1.3)	23.3

\*ADT: Average daily turnover

### HONG KONG

#### TOP TRADING TURNOVER

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Tracker Fund Of Hong Kon-Hkd	16.59	0.8	419,243
Country Garden Holdings Co	0.80	(2.4)	219,076
China Construction Bank-H	4.44	0.5	218,698
Sensetime Group Inc-Class B	1.29	(2.3)	179,337
Bank Of China Ltd-H	2.82	0.4	136,493

#### TOP GAINERS

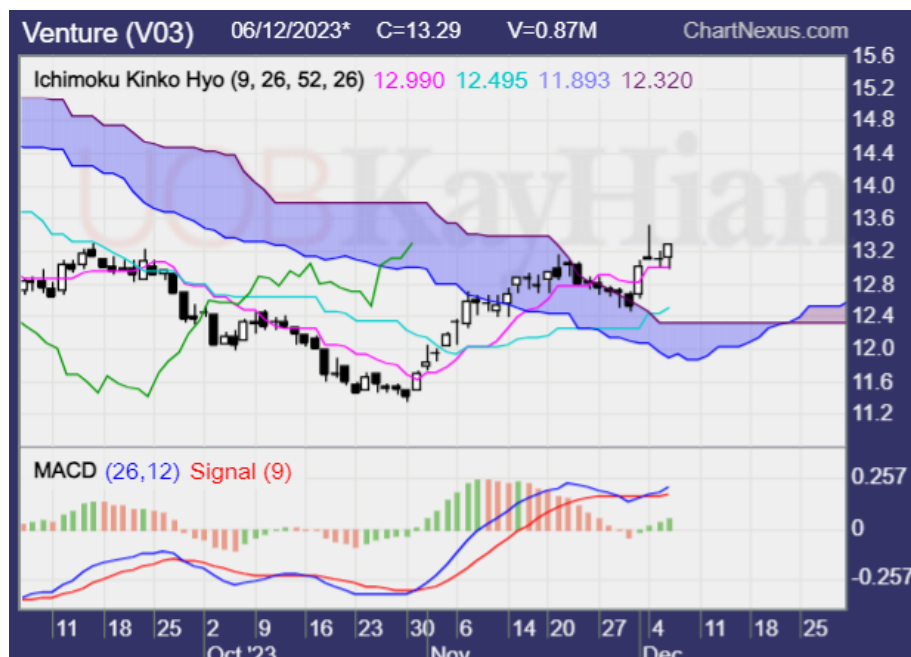
Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Haidilao International Holdi	14.44	4.5	23,330
Wharf Real Estate Investment	25.00	4.2	4,217
Swire Properties Ltd	15.54	4.0	2,826
Sands China Ltd	21.00	4.0	26,619
Esr Group Ltd	9.93	3.9	6,039

#### TOP LOSERS

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
China Mengniu Dairy Co	21.55	(2.5)	30,793
Country Garden Holdings Co	0.80	(2.4)	219,076
Sensetime Group Inc-Class B	1.29	(2.3)	179,337
Sino Biopharmaceutical	3.45	(1.7)	73,161
Petrochina Co Ltd-H	4.97	(1.2)	75,360

\*ADT: Average daily turnover

## SINGAPORE TRADERS' CORNER



### Venture Corp (VMS SP)

Trading buy range: S\$13.16-13.18

Last price: S\$13.29

Target price: S\$14.35

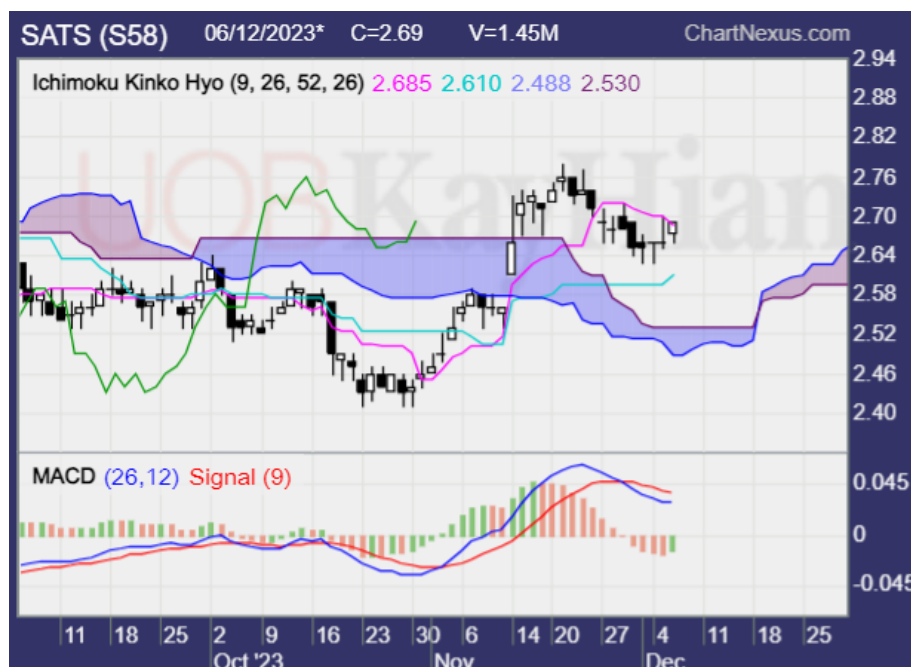
Protective stop: S\$12.80

The price is trading above the cloud, keeping the uptrend intact. Conversion line is acting as support at the moment. The MACD is bullish and there is a bullish crossover. We are likely to see the price continuing to move higher.

We see increasing odds of stock price testing S\$14.35. Stops could be placed at S\$12.80.

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

Our institutional research has a fundamental BUY and target price of S\$14.06.



### SATS (SATS SP)

Trading buy range: S\$2.67-2.68

Last price: S\$2.69

Target price: S\$2.96

Protective stop: S\$2.60

The chart outlook remains bullish as the price is trading above the cloud. Conversion and base lines remain in a bullish crossover. The MACD is still bullish and a bullish crossover is likely. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$2.96. Stops could be placed at S\$2.60.

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

Our institutional research has a fundamental BUY and target price of S\$2.90.

### ANALYST(S)

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**FROM THE REGIONAL MORNING NOTES...**
**Marco Polo Marine (MPM SP)**

FY23: Strong Earnings Beat With Dividend Surprise And Positive Outlook

MPM reported FY23 core earnings of S\$25m (+83% yoy), a strong beat of more than 50% of our estimate due to favourable OSV charter rates. MPM also announced a dividend of 0.1 S cents/share, its first since 2012. MPM expects the utilisation rate of its OSVs to remain robust and charter rates to still appreciate in FY24, while its CSOV which will be completed in 2H24 will help to penetrate the offshore wind sector. We raised FY24 earnings by 55%. Maintain BUY with a 10% higher target price of S\$0.066.

**FY23 RESULTS**

Year to 30 Sep (\$m)	2HFY23	2HFY22	yoy % chg	FY23	FY22	yoy % chg
Revenue	71.2	58.5	21.8	127.1	86.1	47.7
Gross profit	28.0	19.3	45.3	45.7	27.5	66.6
Gross margin (%)	39.3	33.0	+6.3ppt	36.0	31.9	+4.1ppt
Earnings	18.3	10.5	74.1	22.6	21.3	5.8
Core earnings	17.1	11.6	47.4	25.2	13.8	82.6

Source: Marco Polo Marine, UOB Kay Hian

**RESULTS**

- **Strong earnings beat on favourable charter rate and high utilisation rate; dividend came as a positive surprise.** Marco Polo Marine (MPM) has reported FY23 core earnings of S\$25m (+83% yoy), a strong beat of more than 50% of our estimate of S\$16m due to strong improvement of gross margin by 4.1ppt as a result of favourable charter rates for offshore support vessels (OSV) and utilisation rates. On the other hand, MPM declared a dividend of 0.1 S cents/share, supported by its strong net cash position, which increased by 21% yoy to S\$61m (around 30% of market cap). This came as a positive as we did not expect any dividend and this is the first dividend payment since 2012.
- **Robust revenue growth of both ship chartering and shipyard segments.** Revenue from its ship chartering segment increased by 47% yoy to S\$66m due to higher average utilisation and charter rates for its fleet of OSVs. Revenue from its shipyard segment increased by 48% yoy to S\$61m due to higher contract values for repair projects and the commencement of new ship-building projects.
- **Positive outlook and new penetration into the offshore wind sector.** MPM anticipates the utilisation rate of its OSVs to remain relatively robust amid positive demand-supply dynamics. Concurrently, charter rates for OSVs are still expected to appreciate in FY24, albeit at a more moderate pace compared to FY23. MPM's commissioning service operation vessel (CSOV) is currently 34% completed and is expected to be completed in 2H24. This will be MPM's stepping stone to penetrate the Taiwan offshore wind sector.

**KEY FINANCIALS**

Year to 30 Sep (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	86	127	146	159	173
EBITDA	30	40	47	51	40
Operating profit	21	28	34	36	40
Net profit (rep./act.)	21	23	27	29	34
Net profit (adj.)	14	25	27	29	34
EPS (S\$ cents)	0.4	0.7	0.7	0.8	0.9
PE (x)	13.1	7.6	7.1	6.5	5.7
P/B (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	4.9	3.7	3.1	2.9	3.7
Dividend yield (%)	0.0	2.0	2.9	3.9	3.9
Net margin (%)	24.8	17.8	18.4	18.5	19.3
Net debt/(cash) to equity (%)	(35.8)	(35.3)	(35.7)	(43.7)	(55.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.8	14.7	15.0	14.5	14.7
Consensus net profit	-	-	19	21	24
UOBKH/Consensus (x)	-	-	1.41	1.38	1.38

Source: Marco Polo Marine, Bloomberg, UOB Kay Hian

## STOCK IMPACT

- **Construction of new dry dock to boost ship repair capacity.** MPM recently announced plans to build a 240m Dry Dock 4 in Nov 23, funded by a mix of operational cashflows and external bank financing. This will increase ship repair capacity by up to 25%, allowing MPM to capture growing demand for ship repairs. As of 4QFY23, MPM's shipyard utilisation rate is at 95%. With completion expected in 1QFY25, the dry dock will likely contribute to higher earnings then.
- **Sustaining high shipyard utilisation rates with newbuild contracts secured.** For its shipyard segment, MPM has continued to effectively market its business operations to regional ship owners in Indonesia to undertake more shipbuilding projects, while widening its customer network for ship repair activities to drive revenue growth. This has been demonstrated in its ability to secure newbuild contracts for vessel construction with deliveries scheduled up till 2HFY24.
- **MPM will continue to support the Taiwan offshore wind farm market via its ship chartering business.** It has established a strong foothold in this arena through its joint venture entity, Oceanic Crown Offshore Marine Services Ltd., and the acquisition of PKR Offshore Co. Ltd. last year. MPM recently announced that it has formalised the Vestas Framework Agreement. It will see its CSOV deployed over three years once the vessel is fully constructed. This will provide revenue visibility for MPM's ship chartering division over the medium term.
- **Healthy net cash position provides buffer.** MPM has shown excellent cash management, with a strong net cash position of S\$61m as at end-FY23 (FY22: S\$54m). This provides a comfortable level of support for our valuation.

## EARNINGS REVISION/RISK

- **We have raised our FY24 and FY25 earnings by 55% and 50% respectively,** after raising our revenue forecasts by 13% and 11%, on higher charter rates and utilisation rates. In addition, we have raised our gross margin estimates by 2ppt to 36% for FY24 and FY25 while introducing FY26 estimates.

## VALUATION/RECOMMENDATION

- **Maintain BUY with a 10% higher target price of S\$0.066** after raising our FY24 earnings estimates. We value MPM at an unchanged 1.3x FY24F P/B, in line with +2SD of its historical five-year average on the back of improving charter rates and vessel utilisation rates. MPM currently trades at an attractive 7x FY24 PE (5x ex-cash). Our target price implies a 9x FY24 PE (7x ex-cash).

## SHARE PRICE CATALYST

- Higher-than-expected ship charter rates and vessel utilisation.
- Award of new ship chartering contracts.
- Higher value of repair projects during the year.

FROM THE REGIONAL MORNING NOTES...

## Internet – China

Strong Pipeline In 2024; Ample Monetisation Opportunities From Party Games

We expect resilient online games sector growth going into 2024, in view of a strong game grossing performance in 3Q23, solid game pipeline with multiple popular genres in 2024 as well as continuously favourable regulatory environment. We foresee ample monetisation opportunities from mini games and AIGC application. Netease is our top pick given its strong position in the party games genre and margin improvement due to payment channel migration. Maintain MARKET WEIGHT.

### WHAT'S NEW

- **High monetisation potential of mini/casual games** is evidenced by resilient growth ytd of mini games embedded in Weixin/Douyin/QQ, with 80% of game users being paying users. Monthly active users (MAU) for mini games are expected to top 500m, which is comparable to traditional app games. The fastest-growing genre, party games, is expected to contribute Rmb9.7b to annual grossing in 2023, and is dominated by Eggy Party which has a social network comprising a sticky and younger demographic in 2023. The rising popularity of party games stems from: a) ease of use which enables new users to join in with minimal hindrance, b) being more socially contagious as it encourages players to record videos and share on short-form video platforms like Douyin, and c) a cost-efficient approach focusing on the retention of core users while expanding to a broader user base since the introduction of user-generated content (UGC) editing tools. The party games genre is led by NetEase's Eggy Party, which has had a sticky and younger user demographic ever since its launch. Meanwhile, Tencent's DreamStar offers diversified playing options with UGC tools and lower monetisation value.
- **Tencent Timi Studio's "Dream Star" is set to launch on 15 Dec 23**, with an initial investment of Rmb1.4b. "Dream Star" obtained a license in Jan 23 and was officially unveiled in September. We believe "Dream Star" serves as an important sign of Tencent's continued focus on the party game genre, following its collaboration with Nintendo to introduce Nintendo's party games, coupled with investing in SoSci Technologies, a party game developer. The first investment phase of "Dream Star" will be Rmb1.4b for the construction of the game ecosystem. This includes Rmb1b to be used in building eSports competition, Rmb3b to jointly launch the "Star Dream Partner" content ecology incentive plan with nine content platforms including Bilibili and Douyin. In addition, Rmb10b will be allocated to the "Dream Fund," which will provide comprehensive support to ordinary users interested in game map creation.
- **Progress of Netease's upcoming highly-anticipated titles.** Mission Zero, a 2v4 competitive stealth game featuring camouflage and hunting by NetEase, just completed its latest round of tests on 1 Dec 23 and is preregistered by over 8m users on NetEase's website. Management expects to officially launch it before 2Q24. In addition, management highlighted that Condor Heroes is currently in the final stage of preparation and targets to officially launch the game no later than 2Q24. The preparations and testing for Naraka Bladeport Mobile are fully completed and will be launched upon the receipt of licence approval. As Project Mugen is a highly-anticipated game, NetEase plans to continue investing additional resources in its development to ensure it delivers next-generation quality content.

### PEER COMPARISON

Company	Ticker	Rec	Price @ 6-Dec-23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE			P/B			EV/EBITDA			ROE
							2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F
							(x)		(x)	(x)	(x)	(x)	(x)	(x)	(x)	(%)
Tencent	700 HK	BUY	305.6	425	39%	2,905,740	17.3	14.8	13.1	12.6	10.9	9.7	4.4	4.0	3.6	18.0
Netease	9999 HK	BUY	157.0	204	30%	506,287	16.6	15.9	14.6	11.4	10.2	9.2	3.5	3.2	2.9	22.4

Source: Bloomberg, UOB Kay Hian



## STOCK IMPACT

- **Netease remains as our top pick.** We expect NetEase's 2024 performance to continue being propelled by: a) migration to NetEase's proprietary channel, b) higher user retention from three new titles released since June, c) better visibility on its self-developed mobile games pipeline, and d) market share expansion in multi-genre games. Looking into 4Q23, we forecast a 19% yoy growth in online games revenue, propelled by newly launched games Racing Master and Dunk City Dynasty as well as Justice Mobile which has accumulated over 50m registered users.
- **Overview of NPPA game approval.** The National Press and Publication Administration (NPPA) approved 87/87 domestic games in Nov/Oct 23, similar to the 89/88/89 games approved in Sep/Jul/Jun 23. Thus far in 2H23, NetEase has received two game approvals while Tencent Holdings (Tencent) has one game approval. In 1H23, Tencent and NetEase received seven and six licences for domestic games respectively, and two imported game licences each ytd. A total of 873 game licences have been issued ytd, far surpassing the total of 512/755 in 2022/21. Among the new domestic game approvals in November, Tencent received 1 and Netease received 1. This includes Tom Clancy's The Division Resurgence, co-developed by Tencent and Ubisoft. This game is a third-person shooter RPG set in a massive urban open world. A new round of tests in overseas markets was conducted in November. Another approved game was NetEase's Far Beyond the World which is a female oriented virtual ACG love game produced by Leihuo, in which players can start romantic journeys with different male NPCs. The revised version has undergone a confidential offline test, and the number of reservations on the official website and Taptap platform has exceeded 2.11m and 0.25m, respectively.
- **4Q23/2024 outlook remains intact for online games companies.**
- **We forecast Netease's online games revenue to grow 19%/13% yoy in 4Q23/2024.** We expect mobile games revenue growth to remain solid at 22%/14% yoy, driven by strong grossing of legacy titles such as Fantasy Westward Journey Online and hit games including Eggy Party, Identity V and Justice. We think PC games revenue will revitalise and grow by 14%/11% yoy in 2024 vs -8% yoy in 2023. We forecast operating margin to expand 6ppt/2ppt yoy to 24%/28%, primarily underpinned by increasing contributions from its high-margin self-developed titles and migration to structurally lower channel fees.
- **We expect Tencent's international games to rocket while domestic games revenue to decline amid intensified competition.** We estimate online games revenue growth to remain stable at 6.6%/7.7% yoy in 4Q23/2024. For 4Q23/2024, we forecast a 5%/5% yoy growth in domestic game revenue and strong 10%/15% yoy growth in international game revenue. Tencent's online games segment is poised for enhancements with a lineup of 10 domestic titles scheduled for release, with particular excitement surrounding the potential launch of the highly anticipated game, HoK Breaking Dawn. Adjusted net profit is forecasted to surge 40%/12% yoy which translates to net margin of 26%/26%, thanks to optimisation of operating costs.
- **Key things to watch:** a) Increasing competition within the party games genre, with the recent release of Tencent's multi-player party game DreamStar an emerging rival to NetEase's Eggy Party; b) expecting the approval for NetEase's Naraka mobile as well as Tencent's updates from mobile Dungeon & Fighter (mDNF), and c) Tencent mini game migration to the App store.

## EARNING REVISION/RISK

- We leave our estimates largely unchanged.

## VALUATION/RECOMMENDATION

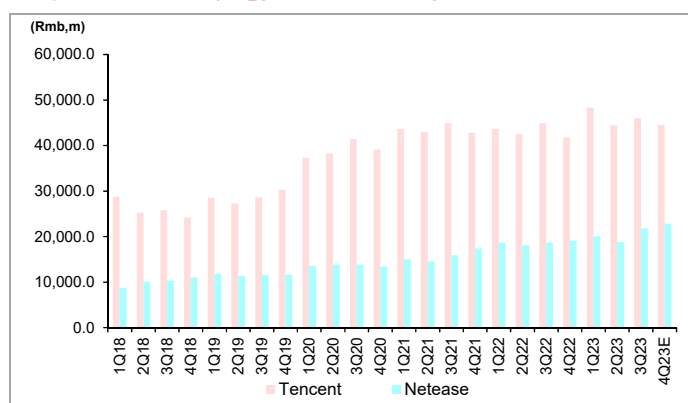
- **Maintain BUY on NetEase Inc (9999 HK) with a target price of HK\$204.00 (US\$127.00),** factoring in the solid online games growth with promising pipeline. We expect to see solid profitability improvement as NetEast benefits from lower channel cost with ongoing migration to NetEase's proprietary channel. Our target price implies 18x 2023F PE. The company is currently trading at 16.5x 12-month forward PE, against its historical mean of 15.7x.

- **Maintain BUY on Tencent Holdings (700 HK) with a target price of HK\$425.00** as we roll over our SOTP valuation to 2024. Tencent is confident on its mini game development and expects the upcoming new game licence approval to stimulate further innovation. Our target price implies 24x 2024PE. The company currently trades at 15x 12-month forward PE, 1.7SD below its historical mean of 27x.

## SECTOR CATALYST AND RISK

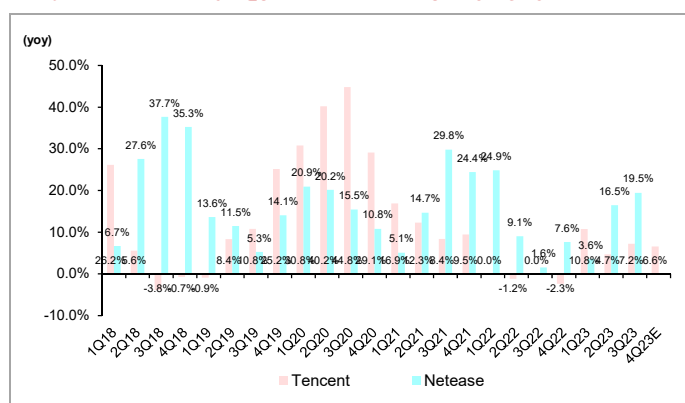
- **Catalysts:** a) Increasing user stickiness, b) continued improvement in the number of paying users, and c) launch of new game genres and expansion packs.
- **Risks:** a) Regulatory changes (ie further restriction on time/money spent), and b) fewer players trying to gain market share via unconventional distribution channels.

## TENCENT AND NETEASE QUARTERLY REVENUE



Source: Tencent, Netease, UOB Kay Hian

## TENCENT AND NETEASE QUARTERLY REVENUE YOY GROWTH



Source: Tencent, Netease, UOB Kay Hian

## ONLINE GAME COMPANIES

Company	Tickers	Currency	Year End	Price @	Market	PE			EV/EBITDA			EV/Sales			ROE
				6 Dec 23 (LC\$)	Cap (LC\$m)	2023F (x)	2024F (x)	2025F (x)	2023F (x)	2024F (x)	2025F (x)	2023F (x)	2024F (x)	2025F (x)	2024F (%)
HK-listed Chinese Internet & game companies															
Tencent	700 HK	HKD	12/2022	305.6	2,905,740	17.3	14.8	13.1	12.6	10.9	9.7	4.4	4.0	3.6	18.0
NetEase Inc	9999 HK	HKD	12/2022	157.0	506,287	16.6	15.9	14.6	11.4	10.2	9.2	3.5	3.2	2.9	22.4
Kingsoft Corp	3888 HK	HKD	12/2022	24.3	33,114	47.9	24.0	18.9	6.0	4.9	4.1	1.8	1.5	1.3	5.1
IGG	799 HK	HKD	12/2022	3.2	3,786	n.a.	6.5	4.4	n.a.	4.2	2.2	0.4	0.4	0.4	18.5
Netdragon	777 HK	HKD	12/2022	14.6	7,778	7.1	6.4	5.7	4.2	3.6	3.1	0.7	0.6	0.6	11.9
Bilibili	9626 HK	HKD	12/2022	87.5	36,315	n.a.	n.a.	46.1	n.a.	33.9	11.4	1.2	1.0	0.9	n.a.
XD	2400 HK	HKD	12/2022	11.8	5,650	25.7	13.3	9.5	10.4	6.2	4.7	0.9	0.8	0.7	16.2
Average						16.7	11.4	16.0	8.9	10.5	6.3	1.8	1.6	1.5	15.3
US-listed global Internet & game companies															
Microsoft	MSFT US	USD	12/2022	369.1	2,743,545	35.3	30.4	26.0	24.3	20.8	17.8	11.9	10.4	9.1	33.5
Electronic Arts	EA US	USD	03/2023	137.8	37,069	20.1	18.0	16.5	14.8	13.6	13.0	4.9	4.7	4.4	22.2
Take-Two	TTWO US	USD	03/2023	157.6	26,796	48.4	24.5	18.5	34.1	20.5	16.3	5.4	4.1	3.6	6.0
Average						34.6	24.3	20.3	24.4	18.3	15.7	7.4	6.4	5.7	20.6
Other game companies															
Nintendo	7974 JT	JPY	03/2023	6,813.0	8,847,975	18.9	21.6	21.7	13.1	15.0	14.8	4.3	4.4	4.2	18.6
Sony	6758 JT	JPY	03/2023	12,630.0	15,929,359	17.4	15.8	14.4	9.1	8.6	8.2	1.5	1.5	1.5	12.3
Nexon	3659 JT	JPY	12/2022	3,155.0	2,701,482	22.4	20.8	18.4	14.2	12.4	11.2	4.9	4.4	4.1	13.0
Ubisoft	UBI FP	EUR	03/2023	25.0	3,188	95.5	14.3	12.5	5.2	4.3	3.7	2.1	1.9	1.8	10.0
Ncsoft	036570 KS	KRW	12/2022	268,000.0	5,883,678	26.0	18.6	14.4	15.7	10.4	7.8	2.4	2.1	1.8	8.8
Bandai Namco	7832 JT	JPY	03/2023	2,821.5	1,879,119	19.1	17.6	16.2	10.2	9.3	8.5	1.6	1.5	1.4	14.6
Average						24.7	16.8	15.7	10.8	9.3	8.6	2.5	2.3	2.2	12.2

Source: Bloomberg, UOB Kay Hian



FROM THE REGIONAL MORNING NOTES...

## Shipping And Ports – China

Near-term Outlook Still Subdued; Trade Volume To Pick Up Moderately In 2024

Recent economic indicators still point to a slow near-term trade outlook, but global trade could see a moderate reacceleration in 2024, as the US inventory destocking may come to an end, giving rise to restocking needs by mid-24. This could support Chinese ports' throughput growth. For container shipping, overcapacity remains an overhang on freight rates in 2024, subduing container shipping players' earnings outlook. We prefer ports (OVERWEIGHT) to container shipping (MARKET WEIGHT). Top pick: CSP.

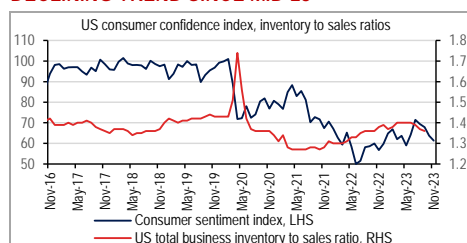
### WHAT'S NEW

- Update on several economic indicators for global trade outlook and sector statistics.
- COSCO SHIPPING Holdings (CSH) has accelerated the purchase of COSCO SHIPPING Ports (CSP) shares from the open market, raising its stake in the latter to 65% as of Dec 23.

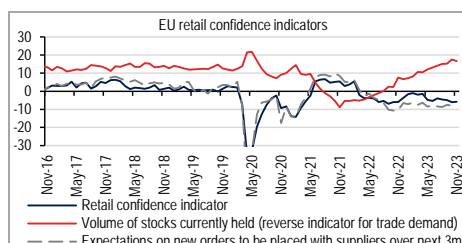
### ESSENTIALS

- **Recent economic indicators still point to a slow near-term global trade outlook; but looking beyond near-term pessimism, the US inventory-to-sales ratio has returned to more normalised levels, giving hope for inventory restocking by mid-24.**
  - China's official and Caixin manufacturing PMIs stood at 49.4 and 50.7 respectively in Nov 23 (Oct 23: 49.5 and 49.5), sending mixed signals about China's manufacturing activities. Official PMI new export order sub-index, a more direct indicator of export activities, dropped mom to 46.3 in Nov 23 (Oct 23: 46.8), indicating that the export activities of China's manufacturing enterprises are still contracting. Import sub-index stood at 47.3 in Nov 23, deteriorating marginally from Oct 23's 47.5.
  - Global manufacturing PMI, a composite index compiled by S&P Global and JP Morgan tracking 29 major manufacturing economies, improved marginally to 49.3 in Nov 23 (Oct 23: 48.8). The new export orders sub-index of 48.1 in Nov 23 still indicated contracting export activities of manufacturing economies, albeit at a slower rate compared to Oct 23's 47.5.
  - Retail confidence in the EU has stayed weak in recent months, with a rising number of retailers surveyed indicating that they have sufficient inventory stocks and hence less urgent needs to place new orders with their suppliers. The US consumer sentiment slowed down for the fourth consecutive month in Nov 23, due to weaker expectations on business conditions.
  - One leading factor that has turned more favourable is the US total business inventory-to-sales ratio, which has been on a declining/normalising trend since mid-23. Sep 23's reading of 1.33 was largely comparable to pre-pandemic levels. We are hopeful that, giving it another 1-2 quarters for consumptions to pare down inventory stocks further, the US' inventory restocking may pick up by mid-24, bolstering global trade demand.

### US TOTAL BUSINESS INVENTORY-TO-SALES IN A DECLINING TREND SINCE MID-23



Source: US Census Bureau, University of Michigan



Source: Eurostat

### PEER COMPARISON

Segment	Company	Ticker	Rec	Price @ 6 Dec 23 (HK\$)	Target Price (HK\$)	Upside to TP (%)	Market Cap (US\$m)	PE 2024F (x)	PE 2025F (x)	Yield 2024F (x)	Yield 2025F (x)	P/B FY24F (x)	ROE 2024F (%)	ROE 2025F (%)	Net Gearing (%)
Port	COSCO SHIPPING Ports	1199 HK	BUY	5.48	6.42	17.1	2,500	9.4	8.8	4.2	4.5	0.42	4.5	4.7	30.7
	China Merchants Port	144 HK	BUY	10.24	13.97	36.4	4,504	7.9	7.6	5.7	6.0	0.40	5.2	5.2	26.4
Container Shipping	COSCO SHIPPING Hldg	1919 HK	BUY	7.07	9.14	29.3	14,548	10.7	10.6	4.7	4.8	0.52	5.0	4.9	(40.4)
	Orient Overseas Intl	316 HK	HOLD	93.90	94.10	0.3	7,939	12.9	13.8	3.9	3.6	0.68	5.4	4.9	(58.4)

Source: Bloomberg, UOB Kay Hian

## Retail Market Monitor

Thursday, 07 December 2023

- **Ports: Closing 2023 with low single-digit throughput growth, expecting mid-single-digit earnings growth in 2024.** Container throughput of Chinese ports recorded a 2.9% yoy growth in Oct 23. For 10M23, container throughput of Chinese ports rose 4.9% yoy, led by ports/terminals with higher domestic and RCEP trade exposure (eg Qingdao, Tianjin, Dalian, Beibu Gulf ports, etc). Within our coverage, container throughput of CSP and China Merchants Port (CMP) rose 3.1% and 1.5% respectively on the yoy comparable basis (excluding the impacts from disposals/acquisitions) in 10M23, on track to meeting their guidance of low-single-digit container throughput growth for the full year. The slightly faster growth of CSP than CMP reflects its overall better asset quality, in our view. Looking into 2024, we expect the overall Chinese port segment to achieve mid-single-digit earnings growth for the core port operations, driven by low-to-mid single-digit throughput growth and low-single-digit ASP adjustments for port handling charges, though earnings performances of individual port companies would vary, depending on their respective trade exposure and specific corporate events (eg M&As, restructuring, etc).
- **Container shipping: Overcapacity remains an overhang on freight rates; core earnings in for significant yoy decline in 2024.** After 15 months of sharp declines, container freight rates have largely stabilised since mid-23. The latest reading of the China Containerised Freight Index (CCFI), a proxy reflecting both spot and contract freight rates for containers sailing out of China, stood at 858 as of 1 Dec 23, very close to Dec 19's (pre-pandemic) levels. We do not foresee a meaningful rebound for ocean freight rates in 2024, as capacity of new container vessels scheduled for deliveries in 2024 (equivalent to 9.1% of existing capacity) is estimated to outpace demand growth (+2.2% yoy), exacerbating the segment's overcapacity. Driven by the expected lower average freight rates yoy and taking into consideration container shipping companies' high operating leverage, we forecast a 60% yoy earnings decline in 2024 for the container shipping companies under our coverage.

### EARNINGS REVISION

- We have fine-tuned our projection for CMP, lifting its 2023/24/25 net profit estimates by 3.3%/0.7%/0.5% to HK\$5,587m/HK\$5,215m/HK\$5,427m, reflecting Shanghai International Port Group's (CMP's 28% associate) better-than-expected 3Q23 financial performance.

### ACTION

- **Maintain MARKET WEIGHT; prefer ports over container shipping.** Despite the subdued near-term outlook, negatives are likely priced in with most of shipping and port companies trading at benign valuations. We prefer ports over container shipping for ports' more stable earnings outlook. While container shipping companies' valuations are expected to be supported by their significant net cash positions (equivalent to over 80% of their market caps), we do not foresee meaningful organic re-rating catalysts for container shipping companies in the near term.
- **Rolling over valuation basis to end-24.**

### UPDATED VALUATION FOR CONTAINER SHIPPING AND PORT COVERAGE

Company	Old target	New target	Valuation basis for new target price
CSP (1199 HK)	HK\$6.00	HK\$6.42	10.3x 2025 PE, pegged to port segment historical mean PE
CMP (144 HK)	HK\$13.33	HK\$13.97	10.3x 2025 PE, pegged to port segment historical mean PE
CSH (1919 HK)	HK\$8.76	HK\$9.14	0.68x 2024 P/B, 2SD below container shipping segment historical mean P/B
OOIL (316 HK)	HK\$92.00	HK\$94.10	0.68x 2024 P/B, 2SD below container shipping segment historical mean P/B

Source: Bloomberg, UOB Kay Hian

- **CSP (1199 HK/BUY/Target: HK\$6.42) is our top pick.** We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput), b) well-diversified investment portfolio with good asset quality, c) strong backing from its parent company CSH, which is China's largest and a globally leading container shipping company with large cargo flows.

- **Major shareholder purchase is a key catalyst, bolstering CSP's valuation.** CSP's cash-rich parent company CSH has been aggressively buying CSP shares in the open market over the past one year, at prices ranging between HK\$4.68-6.49/share. As a result, CSH's shareholding in CSP has risen from 51% in Sep 22 to 65% in Dec 23 (3% was purchased in the last one month). Given CSH's: a) huge cash pile, b) needs to support earnings performance in the container shipping downcycle, and c) investment/acquisition strategy focusing on network assets, we believe that CSH would continue to accumulate CSP's shares in the near-to-medium term, potentially bolstering CSP's valuation.

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