

WHAT HAPPENED LAST NIGHT

US stocks were higher on Monday, as gains in the consumer discretionary, communication services and industrials sectors led shares higher. At the close of the NYSE, the DJIA gained 0.93% while the S&P 500 index rose 1.06%, and the NASDAQ Composite index advanced 1.20%. Advancing stocks outnumbered falling ones on the NYSE by 2,132 to 758 and 85 ended unchanged; on the Nasdaq Stock Exchange, 2,766 advanced and 1,475 declined, while 198 ended unchanged. (Source: WSJ, Bloomberg)

WHAT'S IN THE PACK

China/HK Strategy Update:

Small-Mid Cap Biweekly - Eyeing VR events in 4Q23; beneficiary: Shenzhen Zhaowei Machinery.

China/HK Sector Update:

Commodities - Weekly: Safe-haven assets rally on flight-to-safety bids.

(DELFI SP/BUY/\$1.29/Target: \$1.71)

The flight to safety and a dovish Fed have continued to weigh on treasury yields, which have declined from its 16-year high to 4.58%. The US' Sep 23 CPI has stoked expectations of another rate hike in ...

China/HK Company Update:

Xtep International Holdings - Expect good sales momentum to continue; potential introduction of investors for new brands to be catalyst.

(1368 HK/BUY/HK\$7.08/Target: HK\$11.00)

The core Xtep brand recorded high-teens% and >30% retail sales yoy growth in 3Q23 and during the Golden Week, mainly driven by volume growth. Management is optimistic that the company will ...

Singapore Results Update:

Aztech Global - 3Q23: Record-high earnings beat expectations; moderately optimistic about outlook.

(AZTECH SP/BUY/\$0.855/Target:\$1.11)

Aztech's 3Q23 record-high earnings of S\$30.9m (+48.6% yoy/+0.5% qoq) beat our forecast, with 9M23 forming 82% of our full-year estimate. IoT devices continued to be a key growth driver, driving ...

Singapore Technical Analysis:

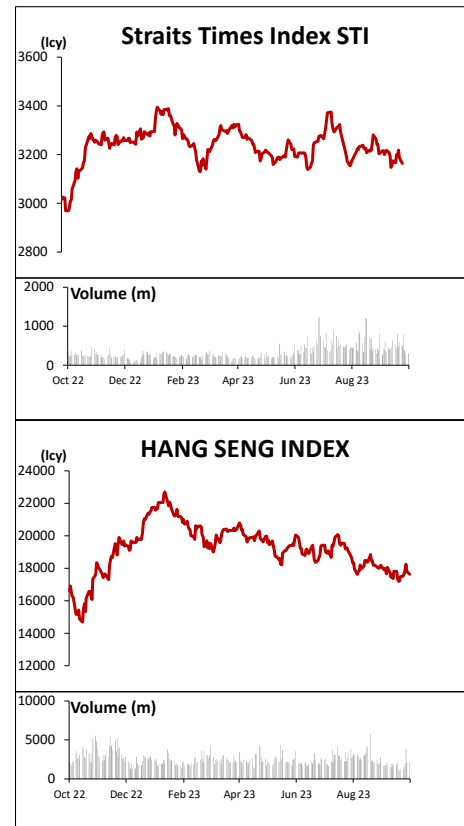
AEM Holdings (AEM SP) - Trading BUY

Price broke and closed above the cloud on 12 Oct 23, turning the chart outlook to bullish. It retested the cloud support yesterday. Conversion and base lines remain in a bullish crossover...

Jardine Cycle & Carriage (JCNC SP) - Trading SELL

Price is trading below the cloud, keeping the downtrend intact. Conversion and base lines remain in a bearish crossover. MACD is bearish and is moving lower...

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	34014.0	(1.7)	2.6
S&P 500	4372.0	(1.8)	13.9
FTSE 100	7630.6	(1.0)	2.4
AS30	7214.6	(3.6)	(0.1)
CSI 300	3626.6	(2.2)	(6.3)
FSSTI	3163.9	(3.6)	(2.7)
HSCEI	6049.8	(4.1)	(9.8)
HSI	17640.4	(3.0)	(10.8)
JCI	6896.3	(1.2)	0.7
KLCI	1439.0	(1.4)	(3.8)
KOSPI	2436.2	(6.3)	8.9
Nikkei 225	31659.0	(5.6)	21.3
SET	1427.1	(7.5)	(14.5)
TWSE	16652.2	(1.6)	17.8
BDI	1972	42.8	30.2
CPO (RM/mt)	3641	(0.1)	(10.1)
Brent Crude (US\$/bbl)	90	(4.2)	4.8

Source: Bloomberg

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YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 21.90pt lower to 3,163.89. Among the top active stocks were Genting Singapore (+0.6%), Yangzijiang Shipbuilding (-3.1%), Seatrium (-1.6%), Frencken (-2.5%) and Rex International (+0.6%). The FTSE ST Mid Cap Index fell 0.7%, while the FTSE ST Small Cap Index was down 0.8%. The broader market saw 231 gainers and 340 losers with total trading value of S\$713.3m.

SINGAPORE

TOP TRADING TURNOVER

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
DBS Group Holdings	33.44	(1.0)	103.9
Oversea-Chinese Banking Corp	13.00	0.2	66.9
United Overseas Bank	28.13	(0.7)	59.4
Singapore Telecommunications	2.38	0.0	38.2
Yangzijiang Shipbuilding	1.58	(3.1)	36.4

TOP GAINERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
QUE REIT	0.23	2.2	0.7
Wing Tai Holdings	1.46	2.1	0.5
Emperador Inc	0.52	2.0	0.4
Mandarin Oriental	1.62	1.3	0.0
Keppel REIT	0.84	1.2	5.6

TOP LOSERS

Company	Price (S\$)	Chg (%)	5-day ADT (S\$m)
AEM Holdings	3.57	(3.3)	6.5
Yangzijiang Shipbuilding	1.58	(3.1)	36.4
DFI Retail Group Holdings	2.30	(2.5)	1.2
Hutchison Port Holdings Trust	0.17	(2.4)	0.8
PropNex	0.83	(2.4)	0.3

*ADT: Average daily turnover

HONG KONG

TOP TRADING TURNOVER

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
China Construction Bank-H	4.63	(0.2)	382,921
Tracker Fund Of Hong Kon-Hkd	18.27	(0.9)	242,847
Bank Of China Ltd-H	2.80	(0.4)	182,246
Country Garden Holdings Co	0.73	(3.9)	166,895
China Petroleum & Chemical-H	4.17	0.2	128,934

TOP GAINERS

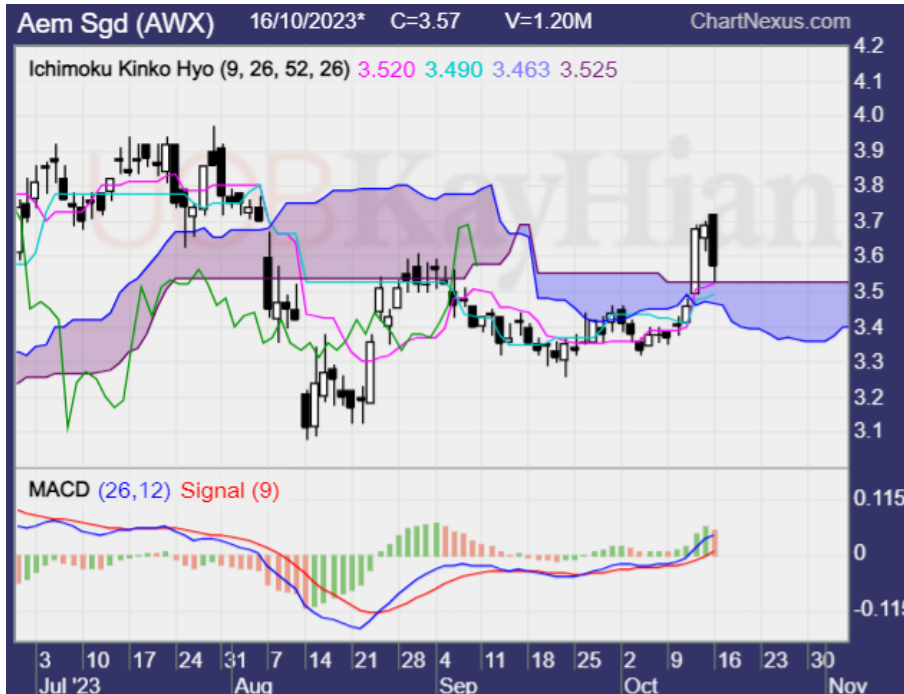
Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Great Wall Motor Co Ltd-H	10.10	4.2	55,770
Smooere International Holding	5.96	2.8	40,088
Yankuang Energy Group Co-H	14.38	1.7	18,111
Enn Energy Holdings Ltd	62.50	1.5	2,005
China Shenhua Energy Co-H	24.95	1.4	10,068

TOP LOSERS

Stock	Price (HK\$)	Chg (%)	5-day ADT (HK\$m)
Ke Holdings Inc-CI A	40.25	(5.0)	156
Haidilao International Holdi	19.78	(4.2)	12,884
Country Garden Holdings Co	0.73	(3.9)	166,895
Li Ning Co Ltd	33.70	(3.7)	17,956
Techtronic Industries Co Ltd	71.10	(3.7)	3,232

*ADT: Average daily turnover

SINGAPORE TRADERS' CORNER



AEM Holdings (AEM SP)

Trading Buy Range: S\$3.56-3.58

Last price: S\$3.57

Target price: S\$3.94

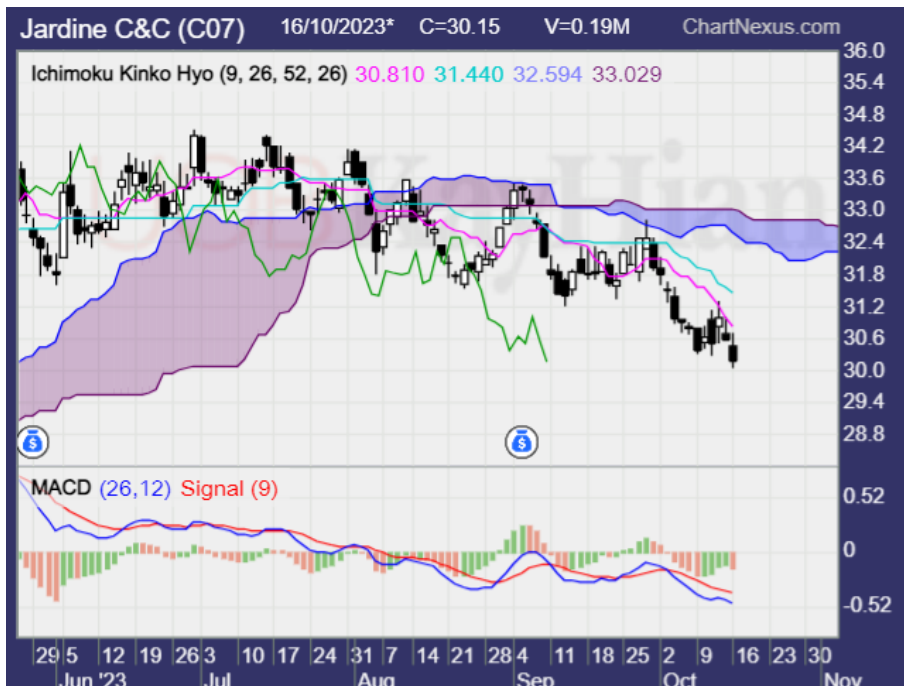
Protective stop: S\$3.42

Price broke and closed above the cloud on 12 Oct 23, turning the chart outlook to bullish. It retested the cloud support yesterday. Conversion and base lines remain in a bullish crossover. MACD is bullish. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$3.94. Stops could be placed at S\$3.42.

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\$3.65.



Jardine Cycle & Carriage (JCNC SP)

Trading Sell Range: S\$30.18-30.20

Last price: S\$30.15

Target price: S\$27.70

Protective stop: S\$31.30

Price is trading below the cloud, keeping the downtrend intact. Conversion and base lines remain in a bearish crossover. MACD is bearish and is moving lower. These could increase chances of the stock price moving lower.

We see increasing odds of stock price testing S\$27.70. Stops could be placed at S\$31.30.

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

ANALYST(S)

Wong Shueh Ting, CFTE

+65 6590 6616

shuehting@uobkayhian.com

FROM THE REGIONAL MORNING NOTES...

Small-Mid Cap Biweekly - China**KEY CALLS****Virtual Reality Plays**

- Meta officially launched the Quest 3 Mixed Reality (MR) headset at Meta Connect 2023 in late-Sep 23 and global shipments began on 10 Oct 23. Compared with Quest 2, Quest 3 boasts: a) an enhanced field of view with a 110 degree field of view, vs Quest 2's 89-96 degree and Quest Pro's 106 degree; b) full-colour pass-through, vs Quest 2's greyscale pass through; and c) lightness of lens, which reduces the thickness of the display module by 40% vs Quest 2.
- 2023 World Conference on VR Industry will be held on 19-20 Oct 23 in Nanchang, China. The conference will present the latest achievements in the VR industry and promote VR applications through forums with topics such as Metaverse, AI models and digital education development. The conference may be a catalyst for key suppliers of VR headsets.
- Future upgrades to VR headsets will focus on providing a more enjoyable user experience through: a) thinner and wider lenses, and b) more accurate inter-pupillary distance (IPD) adjustment to ensure image symmetry and reduce potential vertigo.
- We see Shenzhen Zhaowei Machinery (003021 CH) as a beneficiary of the upcoming VR events. The company is Apple's exclusive supplier of IPD adjustment micro drive modules. Zhaowei's IPD micro drive module improves user experience by automatically measuring the user's pupil distance and focusing on the appropriate pupil distance. It can also adjust the distance according to users' viewing habits.
- The company has recently received an order of IPD micro drive modules for 300,000-400,000 sets of VisionPro, which corresponds to Rmb43m-58m in revenue and represents 3-4% of 2023 consensus' revenue estimates. As the market expects the ASP of VisionPro2's IPD modules to reach US\$55/set (2.8x that of VisionPro), we believe order wins for VisionPro2 will make a more meaningful revenue contribution to Zhaowei in the coming years.
- Catalyst: Roblox's launch on Sony's PlayStation in Oct 23, and China Hi-tech Fair on 9 Nov 23 in Shenzhen.
- Risk: Soft demand for VR headsets amid weakening economies.

Click [here](#) for Blue Top dated 16 Oct 23

UPDATES

Crystal International (2232 HK/NOT RATED/HK\$2.38)

- We hosted a luncheon with Crystal International on 11 Oct 23. Management shared the company's outlook and its strategies to enhance share gains from key customers.
- Management believes its revenue has bottomed out in 1H23 and expects a high single-digit hoh revenue growth in 2H23, compared with US\$1.0b in 1H23. Regarding profitability, Crystal expects a mild increase in gross margin and net margin in 2H23. Management expects the 2024 Summer Olympics to have a positive impact on its sportswear category and remains positive on the outlook for 2024.
- Crystal focuses on share gains from Uniqlo's LifeWear products, which have the potential to achieve sustainable growth in the long term. On the other hand, it targets to enhance its share gains from Lululemon by supplying high-quality new products, such as men's ABC pants in 2H23 and Define jackets in 2024.
- Management previously announced a plan to achieve a 60% dividend payout in the long run, and planned to increase its dividend payout ratio by 5ppt every 1-2 years from 35% in 2022. Currently, Crystal plans to step up the process of raising the dividend payout ratio and achieve its long-term target ahead of schedule.
- Catalyst: Fabric certification from key sportswear customers, such as Under Armour, PUMA and Lululemon.
- Valuation: Trading at 5.1x one-year forward PE, which is about 1SD below its historical mean of 8.4x.

Giordano International (709 HK/BUY/HK\$2.33/Target: HK\$3.89)

- Giordano's 3Q23 revenue came in at HK\$869m, down 1% yoy, largely in line with management's previous guidance of flattish yoy growth in the quarter. The decline in revenue was mainly due to: a) a traditionally low season in 3Q in Southeast Asian markets, b) earlier Hajj Muslim Festival in 2Q23, and c) adverse weather in Greater China.
- 9M23 revenue rose 3% yoy to HK\$2,839m, representing 68% of our 2023 estimate of HK\$4,155m. Same-store sales growth in 3Q23 and 9M23 came in at +0.5% yoy and +9.0% yoy respectively.
- We expect stronger sales in 4Q23 on the back of: a) franchised store expansion in Mainland China, especially from October onwards; b) continued overseas franchisee expansion; and c) a traditionally peak season in 4Q.
- Catalyst: Faster-than-expected Mainland China franchised store additions in 4Q23 and strong same-store sales growth in 4Q23.
- Valuation: Trading at 8.7x 2024F PE, which is about 2SD below its pre-pandemic mean of 15.6x in 2014-18.

FROM THE REGIONAL MORNING NOTES...

Commodities – China

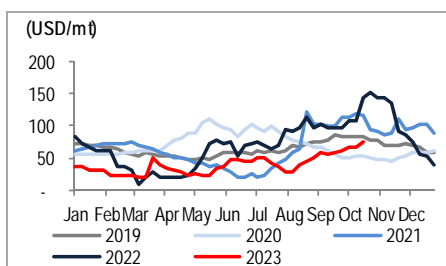
Weekly: Safe-Haven Assets Rally On Flight-to-safety Bids

The flight to safety and a dovish Fed have continued to weigh on treasury yields, which have declined from its 16-year high to 4.58%. The US' Sep 23 CPI has stoked expectations of another rate hike in Dec 23. More Chinese steel mills are commencing plant maintenance amid deteriorating margins, which has weighed on iron ore demand prospect. Resumption of construction activities remains still slower than expected, with weekly rebar/cement consumption still down 18% and 36% yoy respectively.

WHAT'S NEW

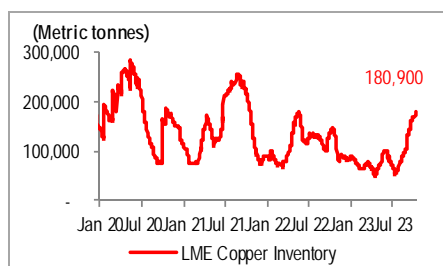
- **Base metals (maintain MARKET WEIGHT):** Flight to safety amid escalation of geopolitical tensions.
 - COMEX gold/LME copper three-month futures were +5.3%/-1.2% wow to US\$1,927 per t oz/US\$7,949 per mt.
 - Gold prices were supported by the growing demand for safe-haven assets given the escalation of geopolitical tensions. The flight to safety and dovish comments from the Fed officials last week have dragged 10-year treasury yields down from its 16-year high of 4.78% to 4.58% on 11 October. Copper is also facing headwinds from the rising inventory and looming worries about global growth outlook under the “higher for longer” environment.
 - The US' Sep 23 CPI came in slightly above expectations at +3.7% yoy (consensus: +3.60% yoy), stoking expectations of another rate hike by the end of the year. The US dollar index was up 0.7% to 106.65 subsequent to the data release. According to CME FedWatch Tool, market is still pricing in 93.8% odds of the Fed maintaining interest rate at 5.25-5.50% on 1 Nov 23, but sees a higher probability of a 25bp rate hike in Dec 23 at 28.8% probability (9 October: 24.4%).
 - This week, the market's focus will be on: a) Federal Reserve Chair Jerome Powell's speech (20 October), ahead of the US central bank's blackout period begins before the next interest rate decision, and b) the release of Fed Beige Book (19 October). Also, China will be releasing 3Q23 GDP numbers (18 October), Sep 23 industrial production (18 October), Sep 23 retail sales (18 October), new home prices (19 October).

CHINA YANGSHAN COPPER PREMIUM



Source: Bloomberg, UOB Kay Hian

LME COPPER INVENTORY



Source: Bloomberg, UOB Kay Hian

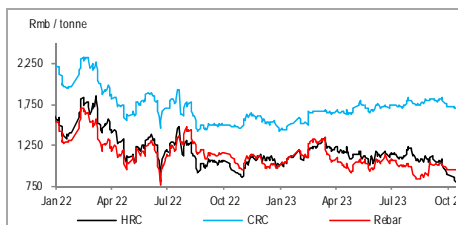
PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Oct 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	2024F (x)	P/B 2023F (x)	2024F (x)	EV/EBITDA 2023F (x)	2024F (x)	ROE (%)
Anhui Conch	914 HK	BUY	19.72	28.30	43.5	132,675.6	8.2	7.6	0.5	0.5	7.9	7.0	6.4
Baosteel	600019 CH	BUY	5.90	7.10	20.3	131,347.0	12.7	9.4	0.6	0.6	5.4	4.6	5.2
CR Cement	1313 HK	HOLD	2.06	3.10	50.5	14,384.9	7.6	5.9	0.3	0.3	6.8	5.5	3.8
Zijin Mining	2899 HK	BUY	11.76	15.00	27.6	334,739.6	12.5	10.7	2.7	2.3	10.3	9.0	23.7

Source: Bloomberg, UOB Kay Hian

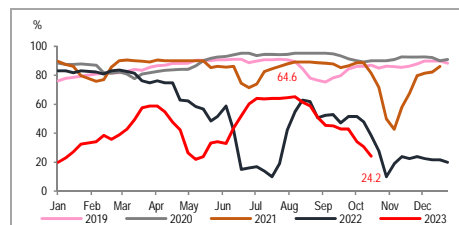
- **Steel (maintain UNDERWEIGHT):** Moderating steel production activities weighed on iron ore demand prospect.
 - **Iron ore prices corrected on moderating demand outlook.** SGX iron ore futures stayed flattish at US\$114.29 (-0.5% wow/-2.2% mom). Iron ore prices remained under pressure as Chinese steel mills are seeing moderating output given the further deterioration of margins in recent weeks. Sentiment was also dragged by a 4.9% mom decline in China's Sep 23 iron ore import volume. Spot prices of rebar/hot-rolled coil (HRC)/cold-rolled coil (CRC) as at 13 Oct saw wow changes of -0.1%/-2.2%/-0.4%.
 - **Continued deterioration of steel mills' margins.** Weekly average of HRC steel-raw materials spread slumped another 11.3% from pre-holiday levels to Rmb825 per tonne, mainly due to the recent slump in steel products' prices and an uptick in iron ore and coke prices. Mysteel's survey indicated that only 24.22% out of the 247 sampled steel mills are currently profit-making (-6.54ppt wow).

STEEL-RAW MATERIAL SPREADS



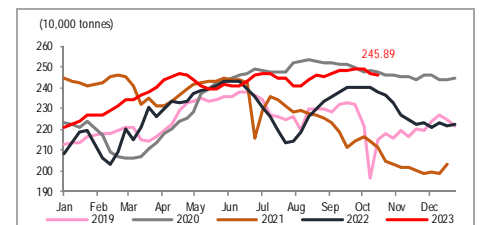
Source: Bloomberg, UOB Kay Hian

RATIO OF PROFIT-MAKING OUT OF 247 SAMPLED STEEL MILLS



Source: Wind, UOB Kay Hian

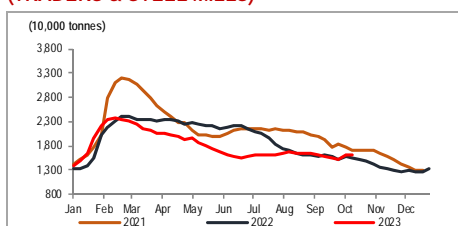
247 SAMPLED STEEL MILLS DAILY AVERAGE MOLTEN IRON OUTPUT



Source: Wind, UOB Kay Hian

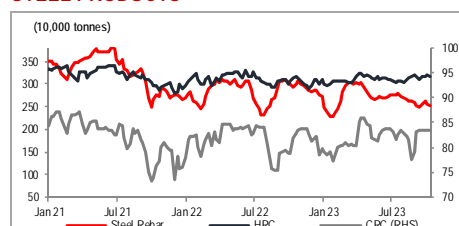
- **Steel production moderated further.** According to Mysteel's survey on 247 sampled steel mills, daily average molten iron production (for the week ended 13 October) was 2.4589m tonnes (-0.43% wow), and blast furnace capacity utilisation ratio was down 0.39ppt wow to 91.9%. More steel mills which were loss-making have commenced maintenance work and halted productions. Weekly output of five major steel products slowed to 9.1821m tonnes (-0.6% wow).
- **Flattish steel products' inventory; post-holiday rebar consumption -17.5% yoy.** Overall steel inventory based on Mysteel's survey was down 0.57% wow to 16.03 tonnes (+2.7% yoy). Weekly steel apparent consumption rebounded by 12.9% wow to 9.2734m tonnes (-6.8% yoy). Post-holiday recovery of rebar's consumption was rather slow, with weekly consumption at 2.6866m tonnes (-17.5% yoy).
- China's Sep 23/9M23 Komatsu excavator working hours was reported at 90 hours/781 hours respectively, down 9.7% and 4.2% yoy. Sep 23's working hours were flat mom, which indicated no meaningful pick-up in construction activities, and is in line with the declining trend of rebar's apparent consumption at -11.4% yoy.

INVENTORY OF FIVE MAJOR STEEL PRODUCTS (TRADERS & STEEL MILLS)



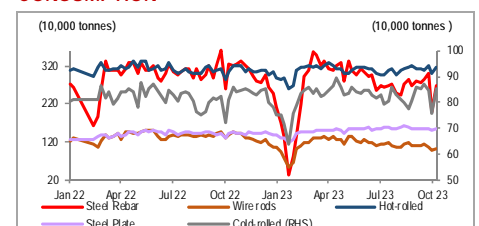
Source: Wind, UOB Kay Hian

WEEKLY PRODUCTION OUTPUT OF MAJOR STEEL PRODUCTS



Source: Wind, UOB Kay Hian

STEEL PRODUCTS WEEKLY APPARENT CONSUMPTION



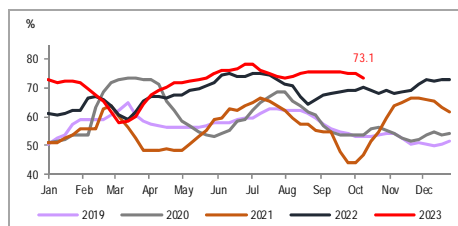
Source: Wind, UOB Kay Hian

- **Cement (maintain MARKET WEIGHT):** Margins recovery on correction of thermal coal prices; weekly shipment still 3% below pre-holiday levels.
 - **Fourth consecutive week of price rebound.** National average PO42.5 cement prices (bulk) continued its upward trend, rising 0.5% wow to Rmb361.00 per tonne. Average cement prices for the eastern/central/southern regions saw changes of flat/-0.9%/flat wow. Cement-coal spread declined by 0.9% from pre-holiday levels given the spike in

thermal coal prices. However, as thermal coal prices have started to reverse down since last week, coupled with the rebound of cement prices, we believe the spread should expand further.

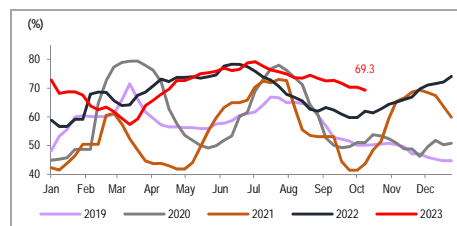
- **Post-holiday weekly shipments up 6.5%.** According to 100NJZ's survey conducted on 250 cement enterprises, weekly cement shipment volume for the week of 4-10 Oct 23 was 5.56m tonnes (+6.5% wow/-35.9% yoy). By region, the eastern/central/southern regions' shipment volumes were +8.0%/+8.0%/+4.0% wow (-40.7%/-32.4%/-43.9% yoy) respectively. Shipment for infrastructure projects was 2.18m tonnes (+5.8% wow/-16.5% yoy). Although construction activities are recovering, they have yet to return to pre-holiday levels, partly dragged by the rainy weather in the eastern and central regions.
- **Inventory level pressure has started easing; still at a historical high.** Based on 100NJZ's survey on 274 cement enterprises, clinker production capacity utilisation declined to 53.42% last week (+4.27ppt wow). National average cement storage capacity ratio was down 1.9ppt wow to 73.1%. Eastern and southern regions both saw inventory digestion at -1.1ppt/-3.9ppt to 69.3/74.2% respectively.

CEMENT STORAGE CAPACITY RATIO – NATIONAL AVERAGE



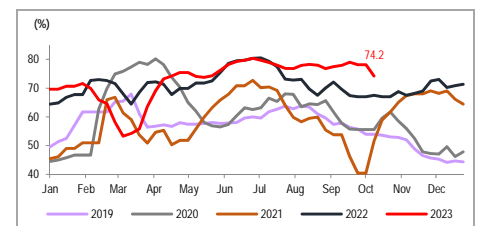
Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – EAST CHINA



Source: Wind, UOB Kay Hian

CEMENT STORAGE CAPACITY RATIO – CENTRAL-SOUTH CHINA



Source: Wind, UOB Kay Hian

ESSENTIALS

- **We maintain MARKET WEIGHT on the base metals sector.** A hawkish Fed and strong US dollar have continued to weigh on metal prices. We are concerned on global copper demand given the prospects of a prolonged high interest rate environment and gloomy global economic outlook, especially with China's property sector remaining in the doldrums. The release of China 3Q23 GDP numbers should give more clarity on the demand outlook on copper. The downcycle is likely to last until 2H24, while the rebound in crude oil prices would also inflate miners' production costs and erode margins.
- **We maintain MARKET WEIGHT on the cement sector.** We expect construction activities to continue to normalise in the following weeks as the weather condition improves and construction activities resume after the long holidays. However, we are still concerned about: a) the high inventory level, as it could cap the upside of the price recovery, and b) the intensifying competition given the slower-than-expected demand recovery. We expect share prices to be under pressure in the following weeks as companies are expected to release weak 3Q23 results.
- **We maintain UNDERWEIGHT on the steel sector.** Given the steep deterioration of steel mills' margins, we should see further moderation of steel mills' production output. We are still concerned about the demand for long products as construction activities remained lacklustre even during the peak season. We have also yet to see meaningful pick-up in property sales in recent weeks even after the authorities announced a series of easing measures. Steel mills are generally pessimistic on the demand prospects for 4Q, with steel prices expected to be under pressure in the coming weeks.

FROM THE REGIONAL MORNING NOTES...

Xtep International Holdings (1368 HK)

Expect Good Sales Momentum To Extend; Potential Introduction Of Investors For New Brands As Catalyst

The core Xtep brand recorded high-teens% and >30% retail sales yoy growth in 3Q23 and during the Golden Week, mainly driven by volume growth. Management is optimistic that the company will achieve >30% retail sales yoy growth in 4Q23 and the full-year targets. New brands performed better than management's expectations. The potential introduction of investors for new brands will drive the stock's re-rating, in our view. Maintain BUY and target price of HK\$11.00.

WHAT'S NEW

- Xtep International Holdings (Xtep) announced its 3Q23 operational updates.

STOCK IMPACT

- **Expect >30% retail sell-through in 4Q23.** The core Xtep brand achieved high-teens% retail sell-through yoy growth in 3Q23, with sales momentum showing a sequential improvement trend (Jul 23: >10%/Aug 23: mid-to-high-teens%/Sep 23: ~25-30%). With: a) the good sales trend extending into the Golden Week, recording >30% yoy growth, b) more de-stocking promotions ahead, and c) the low base (high-single-digit yoy decline in 4Q22), management expects retail sell-through to reach >30% yoy growth in 4Q23, and is confident that the company will achieve the full-year sell-through target of 20-25% yoy growth. Furthermore, with the recovery in consumer sentiment, management has turned more optimistic and expects the company to achieve 20% revenue yoy growth in 2024.
- **Volume-driven same-store sales growth of about 8%.** Management attributed the sell-through growth to: a) on-track store expansion (core Xtep brand stores saw 130 net additions by end-2Q23 vs annual planned net additions of ~200), with more ninth-generation stores to be opened, and b) 7-8% same-store sales growth, which was mainly driven by volume growth. The core Xtep brand's average per store monthly sales currently stands at Rmb190,000-195,000, and management aims to boost the average per store monthly sales to Rmb300,000 in the long term by upgrading the store format.
- **Discounts to deepen but inventory turnover to improve in 4Q23.** Discounts deepened by low-single-digit qoq to 25-30% (vs ~25% in 2Q23 and 25-30% in 3Q22), given the rising competition in the sportswear industry and the company's promotional efforts to digest winter stocks carried over from last year. Although discounts will further deepen in 4Q23, management aims to maintain the discounts ~30% off in 4Q23. Inventory turnover improved sequentially to 4.5-5 months by end-3Q23 (vs <5 months by end-2Q23). With continuous destocking efforts, management targets to improve the inventory level to ~4 months by end-4Q23, and lower the inventory value to <Rmb2b in 2023.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	10,013	12,930	15,473	18,248	21,426
EBITDA	1,550	1,688	2,195	2,525	2,860
Operating profit	1,396	1,464	1,942	2,262	2,587
Net profit (rep./act.)	908	922	1,234	1,458	1,675
Net profit (adj.)	908	922	1,234	1,458	1,675
EPS (Fen)	35.5	35.7	46.8	55.3	63.5
PE (x)	18.6	18.5	14.1	12.0	10.4
P/B (x)	2.2	2.1	1.9	1.7	1.6
EV/EBITDA (x)	10.9	10.0	7.7	6.7	5.9
Dividend yield (%)	2.9	2.5	3.4	4.0	4.6
Net margin (%)	9.1	7.1	8.0	8.0	7.8
Net debt/(cash) to equity (%)	(14.8)	0.6	(6.2)	(9.4)	(11.2)
Interest cover (x)	24.5	18.5	20.5	26.4	28.4
ROE (%)	11.9	11.1	13.9	15.1	15.9
Consensus net profit	-	-	1,159	1,432	1,733
UOBKH/Consensus (x)	-	-	1.07	1.02	0.97

Source: Xtep Int'l Holdings, Bloomberg, UOB Kay Hian

- **Potential introduction of investors for new brands to be catalyst.** New brands performed better than management's expectations, with average per store monthly sales of K-Swiss/Palladium/Saucony reaching Rmb300,000/Rmb200,000/Rmb300,000 respectively. We expect the potential introduction of investors for K-Swiss and Palladium to happen by the end of this year, probably in early-November at the earliest.

EARNINGS REVISION/RISK

- **No earnings revisions.**
- **Risks include:** a) lower-than-expected sales recovery; and b) higher A&P expenses.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK\$11.00.** We are optimistic that Xtep's good sales momentum will extend into 4Q23, given Xtep's value-for-money features and the recent recovery in consumer sentiment. We believe that the potential introduction of investors for new brands, which might happen sometime in early-November at the earliest, will be near-term catalysts for the company. The stock is trading at 14.1x 2023F PE, 0.25 SD below five-year historical average.

XTEP RETAIL SELL-THROUGH GROWTH RATE (YOY)

	Retail sell-through growth	Retail discount (% off)	Retail inventory turnover
1Q21	(+) Mid-fifties	25-30%	4.5 months
2Q21	(+) 30-35%	20-25%	4 months
3Q21	(+) Mid-teens	20-25%	4 months
4Q21	(+) 20-25%	20-25%	4 months
1Q22	(+) 30-35%	~ 25%	4 months
2Q22	(+) Mid-teens	25-30%	~4.5 months
3Q22	(+) 20-25%	25-30%	4.5-5 months
4Q22	(-) High-SD	~ 30%	~5.5 months
1Q23	(+) ~ 20%	25-30%	<5 months
2Q23	(+) High-teens	~ 25%	<5 months
3Q23	(+) High-teens	25-30%	4.5-5 months

Source: Xtep, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Aztech Global (AZTECH SP)

3Q23: Record-High Earnings Beat Expectations; Moderately Optimistic About Outlook

Aztech's 3Q23 record-high earnings of S\$30.9m (+48.6% yoy/+0.5% qoq) beat our forecast, with 9M23 forming 82% of our full-year estimate. IoT devices continued to be a key growth driver, driving an 11.1% yoy revenue growth. Orderbook remained healthy at S\$322m as of 16 Oct 23, of which the majority is planned for completion in 2023. Amid the volatile environment, the outlook remains cautiously optimistic. Maintain BUY with an 11% higher target price of S\$1.11 after raising our EPS forecasts.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	yoy % chg	2Q23	qoq % chg
Revenue	283.4	242.4	+16.9	227.0	+24.8
PBT	43.7	26.2	+66.8	35.5	+23.1
PBT margin (%)	15.4	10.8	+4.6ppt	15.6	-0.2ppt
Net profit	30.9	20.8	+48.6	29.5	+0.5
Net margin (%)	10.9	8.6	+2.3ppt	13.0	-2.1ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 3Q23 earnings above expectations.** Aztech Global's (Aztech) 3Q23 net profit of S\$30.9m (+48.6% yoy/+0.5% qoq) is a record high and exceeded our forecast. 9M23 net profit of S\$73.8m (+15.9% yoy) accounts for 82% of our full-year estimate. The strong results came from a 10.7% yoy growth in revenue, driven by sales of IoT devices and data-communication products. Aztech also enjoyed greater economies of scale, higher interest income and lower net fair value loss on its foreign exchange contracts. Despite higher income tax expenses incurred due to a S\$5.5m one-time deferred tax provision from an overseas subsidiary's retained earnings, Aztech recorded an improvement in net margin to 10.9% (+2.3ppt yoy).
- Orderbook remains resilient with normalised lead time.** Aztech has secured a total of \$322.7m orders as at 16 Oct 23 (vs S\$595m as of 21 Jul 23). Majority of these are scheduled for completion in 2023 across Aztech's manufacturing facilities in Dongguan, China and Johor, Malaysia. Post pandemic, order lead time has normalised from 9-12 months to 2-3 months. Aztech continues to actively engage its customers and suppliers to manage forecasts and component requirements.
- Moderately optimistic on business outlook.** As the external environment remains volatile and fraught with geopolitical tensions, Aztech remains cautiously optimistic about its near-term business prospects. The operating environment remains challenging with higher interest rates, inflationary cost pressures and foreign currency fluctuations. Aztech continues to strengthen its balance sheet, with net cash of S\$215.4m as at end-Sep 23 (32.6% of market cap), and stringent cost and foreign exchange management.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	624	820	875	904	921
EBITDA	91	142	127	135	139
Operating profit	81	134	116	128	131
Net profit (rep./act.)	74	67	95	105	107
Net profit (adj.)	74	67	95	105	107
EPS (S\$ cents)	10.0	8.7	12.3	13.5	13.8
PE (x)	8.6	9.8	7.0	6.3	6.2
P/B (x)	2.2	2.3	1.8	1.5	1.4
EV/EBITDA (x)	4.3	2.7	3.1	2.9	2.8
Dividend yield (%)	5.8	5.3	6.5	7.1	7.3
Net margin (%)	11.9	8.2	10.9	11.6	11.6
Net debt/(cash) to equity (%)	(63.8)	(74.3)	(73.5)	(83.6)	(95.2)
Interest cover (x)	134.2	n.a.	217.3	640.6	1,042.4
ROE (%)	44.5	23.3	29.1	26.3	23.4
Consensus net profit	-	-	91	101	105
UOBKH/Consensus (x)	-	-	1.04	1.04	1.02

Source: Aztech Global, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **New Pasir Gudang Facility commences production.** After the acquisition of the 300,000sf Pasir Gudang Facility was completed in Apr 23, Aztech commenced production in 3Q23. With this and its other facilities in Malaysia and China, Aztech's total production requirements are met. The additional capacity at Pasir Gudang has lifted Aztech's total manufacturing built-up area to 846,000sf for growth and for production diversification to meet the needs of customers.
- **New product line to capture market growth.** On 28 Aug 23, management announced its vision technology product line launch under its Kyla brand. The two new products are power-over-Ethernet internet protocol (IP) CCTV, which targets Singapore's pre-school educational segment, and digital microscope. Aztech intends to launch these products overseas by end-23. According to Verified Market Research, the video surveillance market is projected to reach US\$157.1b by 2030 (7-year CAGR of 12.9%). This portfolio allows Aztech to capture market demand for high quality vision technology at an opportune time. Aztech's new product line is therefore likely to contribute to earnings growth moving forward.

EARNINGS REVISION/RISK

- **We have raised our 2023/24/25 revenue forecasts by 3%/5%/5%**, on the back of its better-than-expected results and steady orderbook. Accordingly, our net profit estimates are increased by 5%/7%/7% for the same period.

VALUATION/RECOMMENDATION

- **Maintain BUY and 11% higher target price of S\$1.11**, pegged to 8.2x 2024F EPS. This is based on Aztech's long-term mean PE. We have rolled over our valuation base year to 2024. We continue to like Aztech as it is a proxy to high-growth IoT products, for which we believe orders will continue to grow in 2024.

SHARE PRICE CATALYST

- Steady order wins.
- Better-than-expected forex gain and cost management.
- Interim dividend surprise.

PEER COMPARISON

Company	Ticker	Price @ 16 Oct 23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA 2023 (x)	ROE 2023 (%)	Yield 2023 (%)
				2023 (x)	2024 (x)	2023 (x)	2024 (x)			
Singapore Peers										
AEM	AEM SP	3.57	911	805	n.a.	12.5	2.3	2.0	0.2	0.0
Frencken	FRKN SP	1.15	284	359	19.2	11.8	1.2	1.1	6.5	1.6
Fu Yu	FUYU SP	0.129	102	71	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UMS	UMSH SP	1.31	555	641	14.7	11.3	2.4	2.2	17.0	4.1
Valuetronics	VALUE SP	0.525	170	158	9.5	8.6	0.9	0.8	9.7	4.2
Venture Corp	VMS SP	12.07	3,196	2,562	12.5	12.0	1.2	1.2	9.8	6.2
Average					13.9	11.3	1.6	1.5	8.6	3.2
Malaysia Peers										
V.S. Industry	VSI MK	0.965	732	785	20.1	15.8	1.7	1.6	8.5	2.1
ATA IMS	AIB MK	0.335	66	85	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Skp Resources	SKP MK	0.98	315	323	13.6	10.8	1.6	1.5	12.8	3.8
Average					16.9	13.3	1.7	1.5	10.6	2.9
Aztech	AZTECH SP	0.855	407	482	7.3	6.8	1.8	1.6	27.8	6.1

Source: Bloomberg, UOB Kay Hian

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