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KEY HIGHLIGHTS

Economics

Economic Activity

Stronger retail sales in Oct 23, but FAI stays weak.

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Longfor Group Holdings (960 HK/BUY/HK\$13.04/Target: HK\$17.68)

Leading developer and TOD mall operator in China's Tier 1 and 2 cities.

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JD.com (9618 HK/BUY/HK\$105.90/Target: HK\$186.00)

3Q23: Tempered top-line growth; 4Q23 outlook to be anchored by resilient 11.11 performance.

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Tencent Holdings (700 HK/BUY/HK\$322.60/Target: HK\$425.00)

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XPeng Inc (9868 HK/SELL/HK\$67.80/Target: HK\$18.00)

3Q23: Net loss topped a record Rmb3,887m. Maintain SELL. Target price: HK\$18.00.

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Samsonite International S.A. (1910 HK): Trading Buy range: HK\$24.00-24.60

Guangzhou Baiyunshan Pharmaceutical (874 HK): Trading Buy range: HK\$20.50-20.80

UOBKH EVENTS

| Date | Corporate/Stock Code | Event |
|--------|--|------------------------------|
| 16 Nov | Expert Talk (Virtual) on China GBA Property Market | Virtual Meeting @ 4:00pm HKT |

CORPORATE AND MACRO CALENDAR

| Date | Country/Region | Economic Indicator |
|--------|----------------|------------------------|
| 20 Nov | China | Nov Loan Prime Rate |
| 27 Nov | China | Oct Industrial Profits |

KEY INDICES

| | Prev Close | 1D % | 1W % | 1M % | YTD % |
|------------------------|------------|-------|-------|--------|--------|
| DJIA | 34991.2 | 0.5 | 2.6 | 3.9 | 5.6 |
| S&P 500 | 4502.9 | 0.2 | 2.7 | 4.0 | 17.3 |
| FTSE 100 | 7486.9 | 0.6 | 1.2 | (1.5) | 0.5 |
| AS30 | 7316.7 | 1.5 | 1.6 | 1.4 | 1.3 |
| CSI 300 | 3607.3 | 0.7 | (0.1) | (0.5) | (6.8) |
| FSSTI | 3132.1 | 0.9 | (1.3) | (1.0) | (3.7) |
| HSCEI | 6204.2 | 4.0 | 2.7 | 2.6 | (7.5) |
| HSI | 18079.0 | 3.9 | 2.9 | 2.5 | (8.6) |
| JCI | 6958.2 | 1.4 | 2.3 | 0.9 | 1.6 |
| KLCI | 1466.8 | 1.0 | 0.2 | 1.9 | (1.9) |
| KOSPI | 2486.7 | 2.2 | 2.7 | 2.1 | 11.2 |
| Nikkei 225 | 33519.7 | 2.5 | 4.2 | 5.9 | 28.5 |
| SET | 1415.2 | 2.1 | 0.2 | (0.8) | (15.2) |
| TWSE | 17128.8 | 1.3 | 2.3 | 2.9 | 21.2 |
| BDI | 1688 | 1.6 | 10.3 | (13.2) | 11.4 |
| CPO (RM/mt) | 3735 | 1.7 | 2.3 | 2.6 | (7.7) |
| Brent Crude (US\$/bbl) | 81 | (1.7) | 1.9 | (10.8) | (5.6) |

Source: Bloomberg

TOP TRADING TURNOVER

| Company | Price (HK\$) | Chg (%) | 5-day ADT (HK\$m) |
|------------------|--------------|---------|-------------------|
| XIAOMI CORP-W | 16.80 | 5.9 | 2,417.0 |
| SMIC | 22.35 | 1.4 | 1,530.4 |
| LI AUTO INC-A | 159.00 | 5.2 | 980.1 |
| WUXI BIOLOGICS C | 50.70 | 6.1 | 956.7 |
| KUAISHOU-W | 58.25 | 3.3 | 846.8 |

TOP GAINERS

| Company | Price (HK\$) | Chg (%) | 5-day ADT (HK\$m) |
|------------------|--------------|---------|-------------------|
| TECHTRONIC IND | 81.75 | 10.5 | 171.6 |
| GDS HOLDING-CL A | 11.26 | 8.5 | 17.6 |
| JD LOGISTICS INC | 9.91 | 8.4 | 44.4 |
| SINOTRUK HK LTD | 16.84 | 8.1 | 34.9 |
| XPENG INC-A SHRS | 67.80 | 7.6 | 791.5 |

TOP LOSERS

| Company | Price (HK\$) | Chg (%) | 5-day ADT (HK\$m) |
|------------------|--------------|---------|-------------------|
| CHINA LITERATURE | 28.50 | (3.1) | 134.5 |
| TRAD CHI MED | 3.61 | (0.3) | 60.6 |
| SINOPHARM-H | 19.66 | 0.3 | 92.6 |
| HAIDILAO INTERNA | 16.80 | 0.4 | 205.8 |
| CHINA RES CEMENT | 1.98 | 0.5 | 13.0 |

*ADT: Average daily turnover

KEY ASSUMPTIONS

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

Source: Bloomberg, UOB ETR, UOB Kay Hian

ECONOMICS – CHINA

Economic Activity

Stronger Retail Sales in Oct 23, But FAI Stays Weak

October's economic data was a mixed bag, as retail sales came in stronger at 7.6% yoy, but FAI growth weakened to 1.1% yoy as property FAI fell 11.1% yoy. Industrial production edged higher to grow 4.6% yoy. Taking the September data into consideration as well, it seems that the economic growth momentum could be bottoming out. The key risk to the recovery is weak FAI, and as such, resolving the local government and real estate financing in the coming months would be critical.

ECONOMIC ACTIVITY DATA (MONTHLY)

| (yoy % chg) | Oct 23 | Consensus | Sep 23 |
|--------------------------------|--------|-----------|--------|
| FAI YTD | 2.9 | 3.1 | 3.1 |
| FAI* | 1.1 | - | 2.3 |
| Property FAI YTD | -9.3 | -9.1 | -9.1 |
| Industrial Production | 4.6 | 4.5 | 4.5 |
| Surveyed Unemployment Rate (%) | 5.0 | 5.0 | 5.0 |
| Retail Sales (Sep 23) | 7.6 | 7.0 | 5.5 |

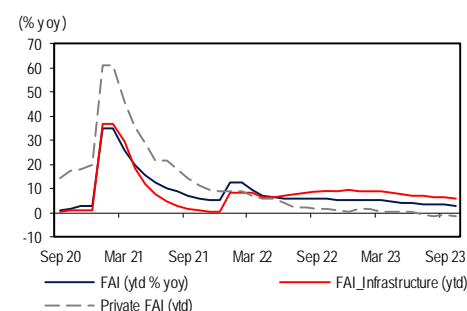
* Estimates by UOBKH

Source: NBS, Wind, UOB Kay Hian

WHAT'S NEW

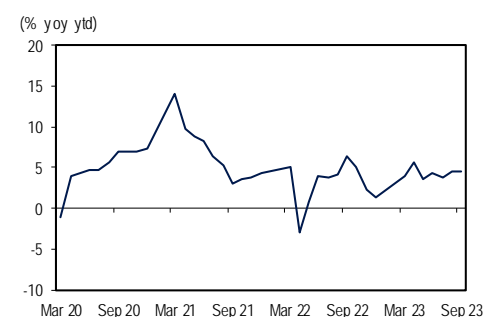
- **Retail sales growth jumped to 7.6% yoy in Oct 23**, above Bloomberg consensus forecast of 7.0% yoy and September's 5.5% yoy. This could have been partly helped by a low base for comparison, brought about by China's COVID-19 lockdown(s) a year ago. Excluding automobiles, retail sales rose 7.2% yoy, and catering activities increased 17.1% yoy. Goods retail sales was up 6.5% yoy, with better sales education and recreation articles, tobacco and alcohol, and handsets.
- **Industrial production growth edged higher to 4.6% yoy**, above September's and market expectations of 4.5% yoy. This was supported by a 10.8% yoy growth in automobile production, and 9.8% yoy growth in electrical machinery and instruments. However, the number of units of industrial robots and microcomputers produced declined 17.7 % yoy and 17.9% yoy respectively. Industrial production has stabilised over the past 2-3 months, but the risk of a further slowdown remains as global manufacturing PMI new orders have stayed below 50% for 16 consecutive months.
- **FAI growth fell to an estimated 1.1% yoy in October**, after briefly rebounding to 2.3% in September, from August's 1.8% yoy. The weakest link is still real estate FAI, which fell 11.1% yoy over the same period. Private FAI fell 4.0% yoy in October, as subdued demand capped the overall need for new capacity.
- **Overall unemployment rate held steady at 5.0%**, with the average number of hours worked remaining unchanged at 48.7, in line with the steady growth in industrial production. Taking the September data into consideration as well, economic growth momentum seems to be bottoming out. A key risk to the recovery is the weak FAI, and as such, resolving the local government and real estate financing in the coming months would be critical.

FIXED ASSET INVESTMENT



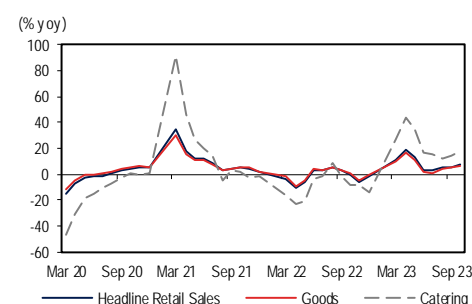
Source: NBS, Wind, UOB Kay Hian

INDUSTRIAL PRODUCTION



Source: NBS, Wind, UOB Kay Hian

RETAIL SALES



Source: NBS, Wind, UOB Kay Hian

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INITIATE COVERAGE

Longfor Group Holdings (960 HK)

Leading Developer And TOD Mall Operator In China's Tier 1 And 2 Cities

Longfor will be a key beneficiary of the government's supportive policies for POEs and the property sector. For 2023/24/25, we expect Longfor to achieve: a) Rmb180b/185b/190b in contracted sales, implying a 1.1%/1.2%/1.3% market share; and b) a 27% CAGR in the retail sales of malls and a 15% CAGR in rental income. Initiate coverage with BUY and an SOTP-based target price of HK\$17.68.

INVESTMENT HIGHLIGHTS

- **Key beneficiary of supportive policies for POEs and property sector.** In Jul 23, China issued the first top-level document indicating support for POEs. At the Politburo meeting, Xi Jinping urged for the easing of demand-side policy as the property sector is at a turning point. Longfor Group Holdings (Longfor) will be the key beneficiary of this round of easing.
- **Rising share of China's new home market.** For the 14th Five-Year Plan (FYP), some core demand drivers (population growth, urbanisation, etc) have decelerated. We estimate basic housing demand at 762m sqm/year for the 14th FYP, 40% less than that of the 13th FYP. Supported by rising upgrading demand, annual new home sales could reach 1,037m sqm, 29.5% less than that of the 13th FYP. We expect Longfor to achieve Rmb180b/185b/190b in contracted sales in 2023/24/25, implying a market share of 1.1%/1.2%/1.3%, backed by solid saleable resources and an above 50% sell-through rate.
- **China's top TOD mall operator to capture value of growing traffic.** The shopping mall industry may see accelerated new openings in 2024, but we expect market share to be further concentrated in the hands of the top mall operators. As a leading transport-oriented-development (TOD) mall operator with 81 malls covering 7.62m sqm GFA under management, Longfor is expected to benefit from the foot traffic recovery in 2023 and beyond. For 2023-25, we expect Longfor's malls to achieve a 27% CAGR in retail sales and 15% CAGR in rental income, backed by an average occupancy cost ratio of 18%.
- **A closer look at the balance sheet.** We used a broader set of indicators to score the resilience of developers' balance sheets. Longfor ranked eighth among the 20 developers on our radar and ranked second among the 10 POE and quasi developers we had selected. We also think Longfor's bond maturity in the coming one year is manageable.

Click [here](#) for Blue Top dated 15 Nov 23

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net turnover | 223,375.5 | 250,565.1 | 215,187.1 | 189,718.4 | 182,160.4 |
| EBITDA | 41,375.0 | 41,066.7 | 33,916.5 | 31,205.5 | 31,387.0 |
| Operating profit | 40,886.4 | 40,629.2 | 33,479.0 | 30,768.0 | 30,949.5 |
| Net profit (rep./act.) | 23,853.7 | 24,362.0 | 19,817.0 | 18,194.8 | 18,230.8 |
| Net profit (adj.) | 21,106.3 | 21,734.6 | 19,817.0 | 18,194.8 | 18,230.8 |
| EPS (Fen) | 352.7 | 361.6 | 315.7 | 289.8 | 290.4 |
| PE (x) | 3.4 | 3.3 | 3.8 | 4.2 | 4.2 |
| P/B (x) | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 |
| EV/EBITDA (x) | 6.9 | 7.0 | 8.4 | 9.2 | 9.1 |
| Dividend yield (%) | 14.1 | 9.4 | 7.9 | 7.2 | 7.2 |
| Net margin (%) | 10.7 | 9.7 | 9.2 | 9.6 | 10.0 |
| Net debt/(cash) to equity (%) | 69.1 | 86.4 | 70.0 | 61.6 | 59.5 |
| ROE (%) | 20.4 | 18.2 | 13.3 | 11.2 | 10.4 |
| Consensus net profit | - | - | 21,075 | 21,603 | 23,759 |
| UOBKH/Consensus (x) | - | - | 0.94 | 0.84 | 0.77 |

Source: Longfor, Bloomberg, UOB Kay Hian

BUY

| | |
|--------------|-----------|
| Share Price | HK\$13.04 |
| Target Price | HK\$17.68 |
| Upside | +35.6% |

COMPANY DESCRIPTION

Longfor Group Holdings is a developer with national coverage. Its main business covers real estate development, commercial investment, long-term rental apartment, property management and smart construction.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Real Estate |
| Bloomberg ticker: | 960 HK |
| Shares issued (m): | 6,591.8 |
| Market cap (HK\$m): | 78,310.1 |
| Market cap (US\$m): | 10,026.8 |
| 3-mth avg daily t'over (US\$m): | 36.8 |

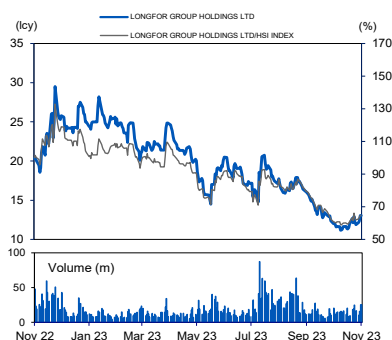
Price Performance (%)

| | | | | |
|------------------|--------|---------------------|--------|--------|
| 52-week high/low | | HK\$29.50/HK\$11.18 | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (8.5) | (32.9) | (42.6) | (15.7) | (51.1) |

Major Shareholders

| | |
|--------------------------------------|-------|
| | % |
| Charm Talent Investment Ltd | 42.95 |
| Junson Development International Ltd | 21.34 |
| FY23 NAV/Share (Rmb) | 26.15 |
| FY23 Net Debt/Share (Rmb) | 18.31 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Longfor will be a key beneficiary of supportive policies on developers' financing.** It is also noteworthy that in Pan Gongsheng's speech on 8 Nov 23, Pan also mentioned that PBOC will stabilise the bank and bond financing for developers and try to meet the financing needs of both SOEs and POEs. We expect to see more positive news on developers' financing. We expect Longfor will be a key beneficiary as a POE with solid debt servicing record and strong balance sheet.

EARNINGS REVISION/RISK

- **Key risks include:** a) PBOC's low cost funding for urban village redevelopment program being weaker than expected; b) regulators' policy support for developers' financing being weaker than expected; and c) worse-than-expected economic slowdown in China.

VALUATION/RECOMMENDATION

- **Initiate coverage with BUY and SOTP-based target price of HK\$17.68.** We expect net profit to fall at a CAGR of 6% during 2023-25, dragged by a contraction in property development. The contribution from recurring income is expected to reach 50% by 2025. We apply a target PE of 9x/3x to recurring earnings and property development earnings. Our target price implies 5.5x 2024F PE, a 5.6% 2024 dividend yield and a 48% NAV discount.
- **SOTP valuation.** As the DP, property investment (IP) and property management (PM) businesses should be valued differently, we adopt the SOTP valuation method. We estimate that 41% of 2024 underlying profit will likely be contributed by recurring income. We conservatively apply a target PE of 9.0x, which implies a CAP rate of 11.1%. 59% of 2024 underlying profit will likely be contributed by the DP business. We apply a target PE of 3.0x to reflect the risks facing POE developers. As a result, we have a target price of HK\$17.68 that implies 5.5x 2024F PE, a 5.6% 2024 dividend yield and a 48% NAV discount.

PROFIT & LOSS

| Year to 31 Mar (HK\$m) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|-----------------|----------------|----------------|----------------|
| Net turnover | 12,234.0 | 13,177.2 | 13,923.8 | 14,519.7 |
| EBITDA | 8,633.6 | 9,440.9 | 10,074.4 | 10,499.1 |
| Deprec. & amort. | 88.6 | 95.4 | 100.8 | 105.1 |
| EBIT | 8,545.0 | 9,345.5 | 9,973.5 | 10,393.9 |
| Total other non-operating income | 9,317.0 | 0.0 | 0.0 | 0.0 |
| Associate contributions | 85.0 | 150.0 | 150.0 | 150.0 |
| Net interest income/(expense) | (1,648.0) | (1,743.8) | (1,792.8) | (1,651.6) |
| Pre-tax profit | 16,299.0 | 7,751.7 | 8,330.8 | 8,892.3 |
| Tax | (1,006.0) | (1,116.9) | (1,200.3) | (1,281.2) |
| Minorities | 158.0 | 150.0 | 150.0 | 150.0 |
| Net profit | 15,451.0 | 6,784.8 | 7,280.4 | 7,761.1 |
| Net profit (adj.) | 6,134.0 | 6,784.8 | 7,280.4 | 7,761.1 |

CASH FLOW

| Year to 31 Dec (HK\$m) | 2023 | 2024F | 2025F | 2026F |
|---|------------------|-------------------|------------------|------------------|
| Operating | 7,934.6 | 9,359.3 | 9,311.3 | 9,619.5 |
| Pre-tax profit | 16,299.0 | 7,751.7 | 8,330.8 | 8,892.3 |
| Tax | (1,006.0) | (1,116.9) | (1,200.3) | (1,281.2) |
| Deprec. & amort. | 88.6 | 95.4 | 100.8 | 105.1 |
| Associates | n.a. | n.a. | n.a. | n.a. |
| Working capital changes | 156.0 | 793.3 | 208.2 | 166.2 |
| Non-cash items | (9,251.0) | 92.0 | 79.0 | 85.5 |
| Other operating cashflows | 1,648.0 | 1,743.8 | 1,792.8 | 1,651.6 |
| Investing | (923.5) | (881.8) | (833.6) | (785.0) |
| Capex (growth) | (29.5) | (31.8) | (33.6) | (35.0) |
| Investments | (1,000.0) | (1,000.0) | (1,000.0) | (1,000.0) |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 106.0 | 150.0 | 200.0 | 250.0 |
| Financing | 4,196.7 | (15,979.2) | (6,035.2) | (6,431.8) |
| Distribution to unitholders | (6,360.0) | (6,560.1) | (7,042.4) | (7,530.2) |
| Proceeds from borrowings | 12,049.0 | 0.0 | 0.0 | 0.0 |
| Loan repayment | 0.0 | (7,525.3) | 3,000.0 | 3,000.0 |
| Others/interest paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | (1,492.4) | (1,893.8) | (1,992.8) | (1,901.6) |
| Beginning cash & cash equivalent | 11,207.7 | (7,501.7) | 2,442.5 | 2,402.6 |
| Changes due to forex impact | 2,779.0 | 13,986.7 | 6,485.0 | 8,927.5 |
| Ending cash & cash equivalent | 0.0 | 0.0 | 0.0 | 0.0 |

BALANCE SHEET

| Year to 31 Dec (HK\$m) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Fixed assets | 1,463.0 | 1,125.3 | 1,058.1 | 988.1 |
| Other LT assets | 246,622.0 | 237,642.3 | 239,642.3 | 241,642.3 |
| Cash/ST investment | 13,987.0 | 6,485.0 | 8,927.5 | 11,330.1 |
| Other current assets | 5,847.0 | 5,135.9 | 5,225.0 | 5,296.0 |
| Total assets | 267,919.0 | 250,388.5 | 254,852.9 | 259,256.5 |
| ST debt | 4,133.0 | 4,133.0 | 4,133.0 | 4,133.0 |
| Other current liabilities | 5,618.0 | 5,700.2 | 5,997.5 | 6,234.8 |
| LT debt | 60,780.0 | 53,254.7 | 56,254.7 | 59,254.7 |
| Other LT liabilities | 8,213.0 | 8,213.0 | 8,213.0 | 8,213.0 |
| Shareholders' equity | 188,940.0 | 179,002.6 | 180,319.7 | 181,636.0 |
| Minority interest | 120.0 | (30.0) | (180.0) | (330.0) |
| Total liabilities & equity | 267,919.0 | 250,388.5 | 254,852.9 | 259,256.5 |

KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|--------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 70.6 | 71.6 | 72.4 | 72.3 |
| Pre-tax margin | 133.2 | 58.8 | 59.8 | 61.2 |
| Net margin | 126.3 | 51.5 | 52.3 | 53.5 |
| ROA | 6.3 | 2.6 | 2.9 | 3.0 |
| ROE | 8.8 | 3.7 | 4.1 | 4.3 |
| Growth | | | | |
| Turnover | 5.4 | 7.7 | 5.7 | 4.3 |
| EBITDA | 3.4 | 9.4 | 6.7 | 4.2 |
| Pre-tax profit | 100.3 | (52.4) | 7.5 | 6.7 |
| Net profit | 124.1 | (56.1) | 7.3 | 6.6 |
| Net profit (adj.) | (5.3) | 10.6 | 7.3 | 6.6 |
| EPU | (21.8) | 9.3 | 6.1 | 5.4 |
| Leverage | | | | |
| Debt to total capital | 25.6 | 24.3 | 25.1 | 25.9 |
| Debt to equity | 34.4 | 32.1 | 33.5 | 34.9 |
| Net debt/(cash) to equity | 27.0 | 28.4 | 28.5 | 28.7 |
| Interest cover (x) | 5.2 | 5.4 | 5.6 | 6.4 |

COMPANY RESULTS

JD.com (9618 HK)

3Q23: Tempered Top-line Growth; 4Q23 Outlook To Be Anchored By Resilient 11.11 Performance

JD's 3Q23 revenue edged up 2% yoy to Rmb248b, in line with our and consensus estimates. Gross profit margin improved 1ppt yoy to 15.6% in 3Q23 on strong 3P business revenue growth. Non-GAAP operating profit soared 13% yoy to Rmb11.1b, translating to non-GAAP operating profit margin of 4.5%. Non-GAAP net profit came in at Rmb10.6b, 14% above consensus estimate, as a result of streamlining of operations. Maintain BUY with a higher target price of HK\$186.00.

3Q23 RESULTS

| Year to 31 Dec (Rmbm) | 3Q22 | 2Q23 | 3Q23 | qoq | yoy | UOBKH | Var | Cons | Var |
|-----------------------|---------|---------|---------|---------|--------|---------|----------|---------|----------|
| Total Net revenue | 243,535 | 287,931 | 247,698 | -14% | 2% | 246,594 | 0.4% | 246,806 | 0.4% |
| Online direct sales | 197,027 | 233,855 | 195,304 | -16% | -1% | 192,525 | 1.4% | | |
| Services and Others | 46,508 | 54,076 | 52,394 | -3% | 13% | 54,069 | -3.1% | | |
| Gross profits | 36,196 | 41,433 | 38,751 | -6% | 7% | 38,541 | 0.5% | 37,769 | 2.6% |
| GPM | 14.9% | 14.4% | 15.6% | 125 bps | 78 bps | 15.6% | 2 bps | 15.3% | 34.1 bps |
| Non-GAAP OP | 9,817 | 8,676 | 11,120 | 28% | 13% | 11,439 | -2.8% | | |
| Non-GAAP OPM | 4.03% | 3.01% | 4.49% | 148 bps | 46 bps | 4.64% | (15 bps) | | |
| GAAP net income | 5,963 | 6,581 | 7,936 | 21% | 33% | 7,022 | 13.0% | | |
| Non-GAAP net income | 10,040 | 8,557 | 10,637 | 24% | 6% | 9,239 | 15.1% | 9,300 | 14.4% |
| Non-GAAP Net Margin | 3.72 | 4.15 | 5.01 | 21% | 35% | 4.42 | 13.2% | | |

Source: JD.com, UOB Kay Hian

RESULTS

- 3Q23 top-line growth remained under pressure amid weak seasonality.** JD.com's (JD) 3Q23 revenue showed decelerated growth of 1.7% yoy vs 7.6% yoy in 2Q23, in line with management's previously guided range. Electronics and home appliances' revenue delivered flattish growth (2Q23: +11%), dragged by the delayed release of new iPhones and Huawei's supply shortage. General merchandise's revenue declined 2% yoy (2Q23: -9%) primarily due to strong recovery in supermarket growth which is expected to sustain into 4Q23. Marketplace and ad revenue edged up 3% (2Q23: +9%) as 3P advertising revenue sustained its double-digit growth in 3Q23 due to increased engagement of new merchants, but this was partially offset by a decline in 3P commission revenues. JD Retail revenue remained flat yoy in 3Q23 while EBIT grew 1% yoy. This translates to EBIT margin of 5.2%, improving sequentially from 3.2% in 2Q23 as a result of strategic refocus.
- Promising 2024 outlook underpinned by supermarket category.** JD's target to achieve double-digit revenue growth for 2024 remains unchanged. JD is confident in outpacing the national total retail sales of consumer goods in 2024. Despite challenges in the supermarket category in 2023 due to restructuring, post-pandemic recovery, and a high base in the previous year, JD anticipates gradual recovery and normalisation to a healthy growth trajectory. JD continues to refine the product categories mix, enhance the sales channel structure and bolster operational capabilities. JD highlighted that the supermarket category remains a crucial driver for expansion in the long term, and it is projected to outpace the overall online retail market in 2024.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|-----------|-------------|-------------|-------------|-------------|
| Net turnover | 951,592.2 | 1,046,236.0 | 1,082,131.9 | 1,176,554.6 | 1,269,204.5 |
| EBITDA | (720.7) | 684.2 | 53,399.9 | 61,942.5 | 76,068.7 |
| Operating profit | 4,141.0 | 18,344.0 | 34,219.3 | 41,674.3 | 54,521.5 |
| Net profit (rep./act.) | (3,543.2) | 9,009.0 | 28,098.9 | 30,593.7 | 39,336.6 |
| Net profit (adj.) | 17,223.5 | 28,570.0 | 37,382.6 | 38,135.8 | 45,504.8 |
| EPS (Fen) | 553.7 | 899.0 | 1,179.3 | 1,168.0 | 1,353.1 |
| PE (x) | 17.8 | 10.9 | 8.3 | 8.4 | 7.3 |
| P/B (x) | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 |
| EV/EBITDA (x) | n.m. | 466.6 | 6.0 | 5.2 | 4.2 |
| Dividend yield (%) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Net margin (%) | (0.4) | 0.9 | 2.6 | 2.6 | 3.1 |
| Net debt/(cash) to equity (%) | (20.9) | (11.9) | (20.6) | (31.7) | (41.7) |
| Interest cover (x) | n.a. | 0.3 | n.a. | 23.6 | 36.7 |
| ROE (%) | n.a. | 4.2 | 12.3 | 11.9 | 13.4 |
| Consensus net profit | - | - | 32,429 | 36,932 | 42,724 |
| UOBKH/Consensus (x) | - | - | 1.15 | 1.03 | 1.07 |

Source: JD.com, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative EV/EBITDA reflected as "n.m."

BUY

(Maintained)

| | |
|---------------|-------------|
| Share Price | HK\$105.90 |
| Target Price | HK\$186.00 |
| Upside | +75.6% |
| (Previous TP) | HK\$183.00) |

COMPANY DESCRIPTION

JD.com is the leading online direct sales player in China.

STOCK DATA

| | |
|---------------------------------|------------------------|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | 9618 HK |
| Shares issued (m): | 2,756.6 |
| Market cap (HK\$m): | 332,845.5 |
| Market cap (US\$m): | 42,635.3 |
| 3-mth avg daily t'over (US\$m): | 156.6 |

Price Performance (%)

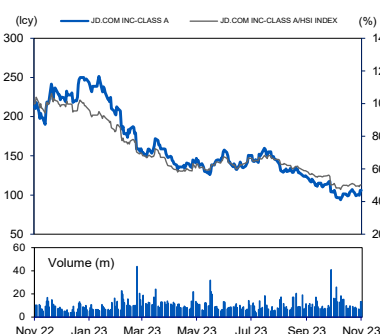
52-week high/low HK\$251.40/HK\$93.90

| 1mth | 3mth | 1mth | 3mth | 1mth |
|------|--------|--------|--------|--------|
| 1.6 | (25.5) | (24.9) | (51.3) | (51.9) |

Major Shareholders

| | % |
|---------------------------|-------|
| Walmart Inc | 10.5 |
| Vanguard Group Inc | 3.4 |
| BlackRock Inc | 3.2 |
| FY23 NAV/Share (RMB) | 76.61 |
| FY23 Net Cash/Share (RMB) | 15.78 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Margin overview.** Gross margin expanded 1ppt in 3Q23 despite its investment in low price strategy and user experience (such as extended free shipping service). Non-GAAP operating margin inched up 46bp yoy to 4.5%, given continuous investment to encourage a stronger user engagement. EBIT margins of the JD Retail/JD Logistics/new business segments came in at +5.2%/+1%/-3.7%, vs +3.2%/+1.2%/24.6%, in 3Q22. The operating loss of new business was primarily attributed to scaling back of JD's international business.
- **Better visibility on 4Q23 performance.** According to data from the National Bureau of Statistics (NBS), China's e-commerce gross merchandise volume (GMV) for physical goods grew 5% yoy in October. In terms of category, communication equipment and home appliances grew significantly by 14.6% and 9.6% yoy in Oct 23 respectively, mainly driven by pre-sales for 11.11. As such, we forecast 4Q23 revenue growth at 2.7% yoy, mainly supported by reinvestment in the merchant ecosystem and new user acquisition. We estimate revenue growth of 3% yoy in 2023, with JD Retail revenue growth at 1.6% yoy. The gap between growth in total revenue and JD Retail's revenue will be narrowed as the acquisition impact of Deppon will be fully digested in 2H23. JD saw 3P GMV contribution to the total Rmb10b discount programme increase to over 60%.
- **Encouraging trends in user shopping behavior.** JD PLUS maintained double-digit growth in its number of members, with members continuing to show higher loyalty and strong spending power. Annual ARPU was 8x of that of non PLUS members in 3Q23. In view of the shift in consumer behaviour to more rational consumption, the strategic increase in product diversity from merchants and the reduction of the free shipping threshold have resulted in accelerated growth in the number of orders, particularly those with low average order value, surpassing the overall order volume growth.
- **Overview of 11.11 performance; Yanxi LLM boosts efficiency in 11.11.** The JD Procurement and Sales Manager Live-streaming initiative was one of the key highlights during 11.11. As of 11 Nov 23, JD's transaction volume, order volume and user engagement had reached all-time highs. JD's live broadcast sales were exceptionally popular, with the total number of views surpassing 380m. We estimate JD to deliver GMV growth of c.4% yoy for its 11.11 campaign. Management highlighted that it will balance growth and margin by improving efficiency, optimising procurement costs, expanding product selection and enhancing various services. During 11.11, JD also enhanced its three major merchant tools by using Yanxi LLM, which encompasses multi-modal digital humans, intelligent outbound calling, and Jingxiaozi customer service.

EARNINGS REVISION/RISK

- We raise our 4Q23/2023 revenue forecasts marginally by 1%/1%, factoring in the solid demand recovery across electronics and home appliances products seen during 11.11. We trim our 4Q23 non-GAAP net profit by 1% and raise our 2023 non-GAAP net profit by 17%. For full-year 2023/24, we forecast a 3%/9% yoy revenue growth. We expect 2024 adjusted net profit to edge up 2% yoy, translating to net margin of 3.2% (vs 2023: 3.5%).
- **Risks:** Intensified competition from PDD in the fresh produce and the fast-moving consumer goods segment, and slowing GMV growth and weaker consumption sentiment.

VALUATION/RECOMMENDATION

- **Maintain BUY with a slightly higher target price of HK\$186.00 (US\$50.00) as we roll our valuation base forward to the next 12 months.** Our target price implies 13.6x 12-month forward PE. JD is trading at 10.6x 12-month forward PE.

SHARE PRICE CATALYST

- a) Strong new user growth, b) continued margin expansion with improved operating efficiency, and c) further extension of logistics services to internal and external customers.

VALUATION

| 2023-24F | Revenue (Rmbm) | EBITDA (Rmbm) | EV/EBITDA (x) | To JD (HK\$) | JD stake | To JD (20% discount) | HK\$/share | % of TP value |
|-----------------------------------|-------------------|------------------|------------------|-----------------|----------|-------------------------|------------|------------------|
| JD Retail | 991,609 | 39,664 | 5 | 198,322 | Majority | 178,490 | 56 | 30% |
| JD Logistics (mkt cap) | | | | 60,834 | 81% | 39,421 | 12 | 7% |
| JD Digital/Industrial/Real estate | | | | 109,620 | 37% | 32,448 | 13 | 7% |
| JD Health (mkt cap) | | | 3x (PS) | 70,194 | 67% | 37,624 | 12 | 6% |
| Key Investments | | | | | | 30,067 | 9 | 5% |
| Net cash | | | | 250,453 | | 250,453 | 84 | 45% |
| SOTP value | | | | 689,423 | | 568,502 | 186 | |

Source: JD.com, UOB Kay Hian

EV/SALES BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|---------------|---------------|---------------|---------------|
| Net turnover | 1,046,236 | 1,082,132 | 1,176,555 | 1,269,204 |
| EBITDA | 684 | 53,400 | 61,943 | 76,069 |
| Deprec. & amort. | (17,660) | 19,181 | 20,268 | 21,547 |
| EBIT | 18,344 | 34,219 | 41,674 | 54,522 |
| Total other non-operating income | (3,438) | 2,295 | 0 | 0 |
| Net interest income/(expense) | (2,418) | 1,281 | (2,621) | (2,073) |
| Pre-tax profit | 12,488 | 37,795 | 39,053 | 52,449 |
| Tax | (4,176) | (9,130) | (8,459) | (13,112) |
| Minorities | 697 | (567) | 0 | 0 |
| Net profit | 9,009 | 28,099 | 30,594 | 39,337 |
| Net profit (adj.) | 28,570 | 37,383 | 38,136 | 45,505 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|--|-----------------|-----------------|-----------------|-----------------|
| Operating | 57,819 | 40,418 | 60,271 | 69,083 |
| Pre-tax profit | 12,488 | 37,795 | 39,053 | 52,449 |
| Tax | (4,176) | (9,130) | (8,459) | (13,112) |
| Deprec. & amort. | (17,660) | 19,181 | 20,268 | 21,547 |
| Associates | 2 | 3 | 4 | 5 |
| Working capital changes | 28,477 | (7,429) | 9,409 | 8,199 |
| Other operating cashflows | 38,688 | (3) | (4) | (5) |
| Investing | (54,026) | (21,643) | (23,531) | (25,384) |
| Capex (growth) | (4,476) | (21,643) | (23,531) | (25,384) |
| Capex (maintenance) | 0 | 1 | 2 | 3 |
| Investments | (27,484) | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 1 | 2 | 3 |
| Others | (22,066) | (2) | (4) | (6) |
| Financing | 1,180 | (56,659) | (3,200) | (3,200) |
| Dividend payments | 0 | 1 | 2 | 3 |
| Issue of shares | 4,454 | 0 | 0 | 0 |
| Proceeds from borrowings | 26,479 | (56,659) | (3,200) | (3,200) |
| Loan repayment | 0 | 1 | 2 | 3 |
| Others/interest paid | (29,753) | (2) | (4) | (6) |
| Net cash inflow (outflow) | 4,973 | (37,884) | 33,540 | 40,499 |
| Beginning cash & cash | 70,767 | 78,861 | 46,780 | 80,320 |
| Changes due to forex impact | 8,924 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 78,861 | 46,780 | 80,320 | 120,819 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 55,080 | 57,542 | 60,805 | 64,642 |
| Other LT assets | 189,096 | 189,096 | 189,096 | 189,097 |
| Cash/ST investment | 78,861 | 46,780 | 80,320 | 120,819 |
| Other current assets | 272,213 | 275,606 | 287,675 | 299,434 |
| Total assets | 595,250 | 569,024 | 617,896 | 673,991 |
| ST debt | 0 | 0 | 0 | 0 |
| Other current liabilities | 266,561 | 262,525 | 284,003 | 303,961 |
| LT debt | 53,459 | (3,200) | (6,400) | (9,600) |
| Other LT liabilities | 1,107 | 1,107 | 1,107 | 1,108 |
| Shareholders' equity | 213,956 | 242,622 | 273,216 | 312,553 |
| Minority interest | 60,167 | 60,167 | 60,167 | 60,167 |
| Total liabilities & equity | 595,250 | 569,024 | 617,896 | 673,991 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|---------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 0.1 | 4.9 | 5.3 | 6.0 |
| Pre-tax margin | 1.2 | 3.5 | 3.3 | 4.1 |
| Net margin | 0.9 | 2.6 | 2.6 | 3.1 |
| ROA | 1.7 | 4.8 | 5.2 | 6.1 |
| ROE | 4.2 | 12.3 | 11.9 | 13.4 |
| Growth | | | | |
| Turnover | 9.9 | 3.4 | 8.7 | 7.9 |
| EBITDA | n.a. | 7,705.1 | 16.0 | 22.8 |
| Pre-tax profit | n.a. | 202.7 | 3.3 | 34.3 |
| Net profit | n.a. | 211.9 | 8.9 | 28.6 |
| Net profit (adj.) | 65.9 | 30.8 | 2.0 | 19.3 |
| EPS | 62.4 | 31.2 | (1.0) | 15.8 |
| Leverage | | | | |
| Debt to total capital | 16.3 | (1.1) | (2.0) | (2.6) |
| Debt to equity | 25.0 | (1.3) | (2.3) | (3.1) |
| Net debt/(cash) to equity | (11.9) | (20.6) | (31.7) | (41.7) |
| Interest cover (x) | 0.3 | n.a. | 23.6 | 36.7 |

COMPANY RESULTS

Tencent Holdings (700 HK)

3Q23: Earnings Beat Driven By Meaningful Margin Expansions

Tencent's 3Q23 results are in line with our expectations. Revenue grew 10.4% yoy to Rmb154.6b, in line with consensus estimates. Gross margin expanded 5.2ppt yoy to 49.5%, better than consensus forecasts. Non-GAAP operating profit surged 35.6% yoy, and non-GAAP OPM expanded 6.7ppt yoy to 35.9%, beating our estimates. Non-IFRS net profit increased 39.3% yoy, 12.4% above consensus forecasts, given a positive revenue mix shift. Maintain BUY with a slightly higher target price of HK\$425.00.

3Q23 RESULTS

| Year to 31 Dec (Rmbm) | 3Q22 | 2023 | 3Q23 | UOBKHE | QoQ | YoY | Var | Cons | Var |
|---------------------------|---------|---------|---------|---------|----------|----------|----------|---------|----------|
| Revenue | 140,093 | 149,208 | 154,625 | 157,274 | 3.6% | 10.4% | -1.7% | 154,885 | -0.2% |
| Social networking | 29,827 | 29,711 | 29,748 | 30,303 | 0.1% | -0.3% | -1.8% | | |
| Online games | 42,900 | 44,500 | 46,000 | 46,945 | 3.4% | 7.2% | -2.0% | | |
| Online ads | 21,443 | 25,003 | 25,721 | 27,356 | 2.9% | 20.0% | -6.0% | | |
| Fintech and Cloud | 45,923 | 49,994 | 53,156 | 52,671 | 6.3% | 15.8% | 0.9% | | |
| Gross profit | 61,983 | 70,840 | 76,523 | 73,006 | 8.0% | 23.5% | 4.8% | 73,400 | 4.3% |
| Non-GAAP Operating profit | 40,907 | 50,122 | 55,483 | 45,821 | 10.7% | 35.6% | 21.1% | | |
| Non-GAAP net income | 32,254 | 37,548 | 44,921 | 38,777 | 19.6% | 39.3% | 15.8% | 39,977 | 12.4% |
| GPM | 44.2% | 47.5% | 49.5% | 46.4% | 2.0 ppts | 5.2 ppts | 3.1 ppts | 47.4% | 2.1 ppts |
| Non-GAAP OPM | 29.2% | 33.6% | 35.9% | 29.1% | 2.3 ppts | 6.7 ppts | 6.7 ppts | | |
| Non-GAAP NPM | 23.0% | 25.2% | 29.1% | 24.7% | 3.9 ppts | 6.0 ppts | 4.4 ppts | 25.8% | 3.2 ppts |

Source: Tencent, UOB Kay Hian

RESULTS

- Elevated momentum in domestic game revenue; international games remain intact.** Tencent Holdings' (Tencent) online games revenue growth came in at Rmb46b in 3Q23 (+7.2% yoy, +3.4% qoq), driven by the 5% yoy growth in domestic game revenue and solid international games (28.9% of game revenue) growth of 14% yoy (or +7% yoy, excluding the impact of currency fluctuations), primarily propelled by the strong performance of PUBG Mobile, Goddess of Victory: NIKKE, Valorant and Triple Match 3D. Domestic game revenue growth was supported by new games such as PC titles Valorant and Lost Ark and the meaningful recovery in legacy games such as Honour of Kings and DnF. The company is confident in its mini-game development and expects the upcoming new game license approval to stimulate further innovation.
- Encouraging growth trajectory in online ad revenue.** Online advertising revenue saw moderated growth of 20% and came in at Rmb25.7b, driven by Weixin's robust closed-loop advertising ecosystem. Revenue from mini-programs, video accounts, official accounts and WeCom grew 30% yoy and accounted for over 50% of Weixin advertising revenue. The local services and FMCG categories also delivered notable demand growth in advertising. Despite rising advertising for long-form video content, the slightly slower ad revenue growth stems from negative seasonality for e-commerce advertising spending during 3Q23.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 560,118 | 554,552 | 616,929 | 686,910 | 769,655 |
| EBITDA | 324,617 | 272,470 | 208,393 | 222,959 | 253,780 |
| Operating profit | 271,620 | 235,706 | 171,029 | 184,995 | 215,216 |
| Net profit (rep./act.) | 224,822 | 188,243 | 121,330 | 148,052 | 164,828 |
| Net profit (adj.) | 123,788 | 115,649 | 156,576 | 175,529 | 195,614 |
| EPS (Fen) | 1,269.8 | 1,183.5 | 1,617.1 | 1,812.8 | 2,016.3 |
| PE (x) | 23.6 | 25.3 | 18.5 | 16.5 | 14.9 |
| P/B (x) | 3.5 | 4.0 | 3.2 | 2.8 | 2.4 |
| EV/EBITDA (x) | 9.0 | 10.7 | 14.0 | 13.1 | 11.5 |
| Dividend yield (%) | 0.5 | 0.5 | 0.7 | 0.8 | 0.8 |
| Net margin (%) | 40.1 | 33.9 | 19.7 | 21.6 | 21.4 |
| Net debt/(cash) to equity (%) | (12.2) | 2.6 | 2.0 | (6.0) | (12.9) |
| Interest cover (x) | 45.6 | 29.1 | 17.3 | 20.6 | 23.5 |
| ROE (%) | 29.8 | 24.6 | 15.0 | 15.4 | 15.0 |
| Consensus net profit | - | - | 149,188 | 176,162 | 200,843 |
| UOBKH/Consensus (x) | - | - | 1.05 | 1.00 | 0.97 |

Source: Tencent Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|-------------|
| Share Price | HK\$322.60 |
| Target Price | HK\$425.00 |
| Upside | +31.7% |
| (Previous TP) | HK\$420.00) |

COMPANY DESCRIPTION

The company is one of the largest comprehensive internet service providers.

STOCK DATA

| | |
|---------------------------------|------------------------|
| GICS sector | Communication Services |
| Bloomberg ticker: | 700 HK |
| Shares issued (m): | 9,507.9 |
| Market cap (HK\$m): | 3,067,254.4 |
| Market cap (US\$m): | 392,895.2 |
| 3-mth avg daily t'over (US\$m): | 649.8 |

Price Performance (%)

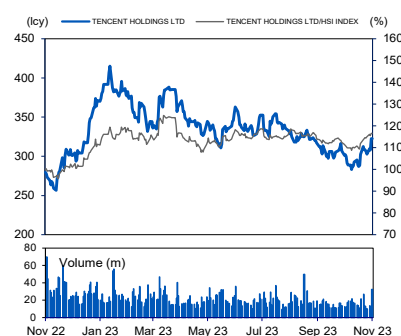
52-week high/low HK\$415.00/HK\$256.44

| 1mth | 3mth | 6mth | 1yr | YTD |
|------|-------|-------|------|-----|
| 5.1 | (3.0) | (5.4) | 17.9 | 1.7 |

Major Shareholders

| | % |
|---------------------------|-------|
| Naspers | 26.2 |
| Ma Huateng | 7.5 |
| Vanguard Group Inc | 3.0 |
| FY23 NAV/Share (Rmb) | 94.46 |
| FY23 Net Debt/Share (Rmb) | 1.85 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- FBS segment.** The fintech and business services' (FBS) segment delivered accelerated revenue growth of 16% yoy (3Q22: +4% yoy, 2Q23: +15%) to Rmb52b. Fintech services recorded double-digit yoy growth in 3Q23, supported by heightened commercial payment activities and higher revenues from wealth management services. Business Services achieved an accelerated yoy revenue growth vs 2Q23, benefitting from cloud services restructuring undertaken in prior periods, as well as higher e-commerce technology service fees within video accounts.
- Social network revenue remained flattish at Rmb29.7b**, resulting from revenue growth from long-form video and music subscriptions, app-based in-game virtual item sales and mini-game platform service fees, offset by revenue declines from music-related and game-related live streaming services
- Margins expansion across the board.** Gross profit was Rmb76.5b, up 23% yoy with gross margin expanding 5.2ppt yoy to 49.5%. By segment, VAS gross margin grew 3.8ppt yoy to 55.5%, on reduced costs associated with music-related and game-related live streaming services. Online advertising gross margin was 52.3% vs 46.3% in 3Q22, as a result of long-form video cost optimisation. Fintech and business services' gross margin increased 8.4ppt yoy to 38.3% due to increased commercial payment activities. Adjusted operating margin improved by 7ppt yoy to 35.9%, thanks to optimisation of operating costs.
- Upgrades of Hunyuan LLM and AI applications in online advertising.** On 26 Oct 23, Tencent's Hunyuan LLM underwent a comprehensive update which made it accessible to the public. In 3Q23, Tencent expanded its advertising AI models with more parameters to increase targeting and attribution accuracy, and Tencent believes that the LLM has generated tangible revenue for its advertising business. Tencent's future focus of LLM will be in empowering its Software as a Service (SaaS) and Platform as a Service (PaaS). From the user's perspective, it serves as an application gateway connecting to a vast user base.

EARNINGS REVISION/RISK

- We trim our 4Q23/2023 revenue estimates by 1%/1% respectively.** We model revenue growth of 11% in 2023, driven by yoy growth of 7.3%/23%/16%/4% in online game/advertising/FBS/social network revenue. We raise our non-GAAP net profit forecasts for 4Q23/2023 by 6%/6%, implying a 40%/35% yoy growth with net margin of 26%/25% respectively. For full-year 2024, we expect revenue growth to remain intact at 11% yoy. We estimate 2024 non-GAAP net profit to grow 12% yoy, translating to net margin of 26%.
- Risks:** Regulatory risks and slowing growth from game revenue.

VALUATION/RECOMMENDATION

- We maintain BUY on Tencent with a slightly higher target price of HK\$425.00** as we roll over our SOTP valuation to 2024. Our target price implies 24x 2024PE. The company currently trades at 16x 12-month forward PE, 1.6SD below its historical mean of 27x.

SHARE PRICE CATALYST

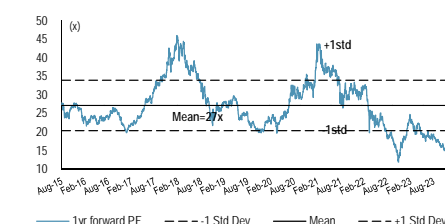
- a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.

SOTP DETAILS

| | 2023F | | | | | | | |
|--|----------------|-------------------|---------------|---------------|-------------------|-----------------------------------|--------------------------------|---------------------------|
| (Rmbm) | Revenue | Non-GAAP earnings | Valuation | Value (lcy b) | % Tencent holding | Est. fair value to Tencent (Rmbb) | Fair value to Tencent (US\$ b) | Fair value / share (HK\$) |
| Online game (PC + Mobile game) | 197,256 | 66,629 | 15x PE | 999 | 100% | 999 | 143 | 114 |
| Social networking (QQ + Weixin VAS) | 131,042 | 44,263 | 15x PE | 664 | 100% | 664 | 95 | 75 |
| Online ads (Portal + Video + Social ads) | 116,667 | 30,412 | 16x PE | 487 | 100% | 487 | 70 | 55 |
| Payment | 187,348 | 37,470 | 18x PE | 674 | 100% | 674 | 97 | 77 |
| Cloud | 54,596 | | 5x PS | 273 | 100% | 273 | 39 | 31 |
| Total EV | 444,966 | 178,774 | 12x PE | 2,150 | 100% | 2,150 | 262 | 352 |
| 2024F cash per share (HK\$) | | | | | | | | 11 |
| Target price (HK\$) | | | | | | | | 425 |

Source: UOB Kay Hian

12-MONTH FORWARD PE BAND



PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|----------------|----------------|----------------|----------------|
| Net turnover | 554,552 | 616,929 | 686,910 | 769,655 |
| EBITDA | 272,470 | 208,393 | 222,959 | 253,780 |
| Deprec. & amort. | 36,764 | 37,364 | 37,964 | 38,564 |
| EBIT | 235,706 | 171,029 | 184,995 | 215,216 |
| Associate contributions | (16,129) | 3,337 | 0 | 6,917 |
| Net interest income/(expense) | (9,352) | (12,017) | (10,815) | (10,815) |
| Pre-tax profit | 210,225 | 162,349 | 174,179 | 211,318 |
| Tax | (21,516) | (39,013) | (26,127) | (46,490) |
| Minorities | (466) | (2,007) | 0 | 0 |
| Net profit | 188,243 | 121,330 | 148,052 | 164,828 |
| Net profit (adj.) | 115,649 | 156,576 | 175,529 | 195,614 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|------------------|-----------------|-----------------|------------------|
| Operating | 146,091 | 84,474 | 177,133 | 199,201 |
| Pre-tax profit | 210,225 | 162,349 | 174,179 | 211,318 |
| Tax | (21,516) | (39,013) | (26,127) | (46,490) |
| Deprec. & amort. | 36,764 | 37,364 | 37,964 | 38,564 |
| Working capital changes | (32,605) | (62,203) | 1,932 | 6,625 |
| Other operating cashflows | (46,777) | (14,024) | (10,815) | (10,815) |
| Investing | (104,871) | (85,449) | (93,992) | (103,508) |
| Capex (growth) | 0 | 0 | 0 | 0 |
| Others | (104,871) | (85,449) | (93,992) | (103,508) |
| Financing | (59,953) | 855 | (4,719) | (6,601) |
| Dividend payments | (14,048) | (13,125) | (17,769) | (19,920) |
| Issue of shares | (138,828) | 3,121 | 3,277 | 3,441 |
| Proceeds from borrowings | 9,352 | 12,017 | 10,815 | 10,815 |
| Others/interest paid | 83,571 | (1,158) | (1,042) | (938) |
| Net cash inflow (outflow) | (18,733) | (120) | 78,423 | 89,092 |
| Beginning cash & cash equivalent | 167,966 | 156,739 | 156,619 | 235,042 |
| Changes due to forex impact | 7,506 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 156,739 | 156,619 | 235,042 | 324,133 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Fixed assets | 85,731 | 80,071 | 73,911 | 67,251 |
| Other LT assets | 926,411 | 980,156 | 1,042,344 | 1,113,948 |
| Cash/ST investment | 156,739 | 156,619 | 235,042 | 324,133 |
| Other current assets | 409,250 | 333,815 | 367,906 | 405,914 |
| Total assets | 1,578,131 | 1,550,661 | 1,719,202 | 1,911,247 |
| ST debt | 11,580 | 10,422 | 9,380 | 8,442 |
| Other current liabilities | 422,624 | 392,545 | 428,568 | 473,201 |
| LT debt | 163,668 | 163,668 | 163,668 | 163,668 |
| Other LT liabilities | 197,399 | 197,399 | 197,399 | 197,399 |
| Shareholders' equity | 721,391 | 894,186 | 1,027,746 | 1,176,095 |
| Minority interest | 61,469 | 61,469 | 61,469 | 61,469 |
| Total liabilities & equity | 1,578,131 | 1,550,661 | 1,719,202 | 1,911,247 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|--------|-------|--------|
| Profitability | | | | |
| EBITDA margin | 49.1 | 33.8 | 32.5 | 33.0 |
| Pre-tax margin | 37.9 | 26.3 | 25.4 | 27.5 |
| Net margin | 33.9 | 19.7 | 21.6 | 21.4 |
| ROA | 11.8 | 7.8 | 9.1 | 9.1 |
| ROE | 24.6 | 15.0 | 15.4 | 15.0 |
| Growth | | | | |
| Turnover | (1.0) | 11.2 | 11.3 | 12.0 |
| EBITDA | (16.1) | (23.5) | 7.0 | 13.8 |
| Pre-tax profit | (15.3) | (22.8) | 7.3 | 21.3 |
| Net profit | (16.3) | (35.5) | 22.0 | 11.3 |
| Net profit (adj.) | (6.6) | 35.4 | 12.1 | 11.4 |
| EPS | (6.8) | 36.6 | 12.1 | 11.2 |
| Leverage | | | | |
| Debt to total capital | 18.3 | 15.4 | 13.7 | 12.2 |
| Debt to equity | 24.3 | 19.5 | 16.8 | 14.6 |
| Net debt/(cash) to equity | 2.6 | 2.0 | (6.0) | (12.9) |
| Interest cover (x) | 29.1 | 17.3 | 20.6 | 23.5 |

COMPANY RESULTS

XPeng Inc (9868 HK)

3Q23: Net Loss Tops A Record Rmb3,887m

XPeng's 3Q23 net loss topped a record Rmb3,887m (+64% yoy, +39% qoq), worse than our and consensus estimates, due to sustained negative gross margin despite a plunge in lithium carbonate prices and the unexpected Rmb972m in fair value loss on derivative liabilities. We expect XPeng's bottom line to be weighed by price cuts. We maintain our 2023-25 net loss estimates at Rmb13.14b/Rmb7.85b/Rmb6.17b respectively. Maintain SELL. Target price: HK\$18.00.

3Q23 RESULTS

| Year to 31 Dec (Rmbm) | 3Q22 | 2Q23 | 3Q23 | yoy % chg | qoq % chg | 9M23 | yoy % chg |
|---------------------------------------|---------|---------|---------|-----------|-----------|---------|-----------|
| Deliveries ('000 units) | 29,570 | 23,205 | 40 | 35.3 | 72.4 | 120,757 | 75.1 |
| ASP (Rmb'000/unit) | 211 | 191 | 196 | (7.1) | 2.8 | 131 | (55.3) |
| Net profit per vehicle (Rmb'000/unit) | (80.4) | (120.9) | (97.1) | 20.9 | (19.6) | (74.8) | (23.9) |
| Total revenue | 6,823 | 5,063 | 8,530 | 25.0 | 68.5 | 17,626 | (18.8) |
| Total gross profit | 923 | (197) | (228) | (124.7) | 15.5 | (358) | n.a. |
| Overall gross margin (%) | 13.5 | (3.9) | (2.7) | (16.2) | 1.2 | (2.0) | (14.2) |
| EBIT | (2,177) | (3,090) | (3,161) | 45.2 | 2.3 | (8,836) | 42.8 |
| EBIT margin (%) | (31.9) | (61.0) | (37.1) | (32.9) | 3.1 | (50.1) | (21.6) |
| Net profit | (2,376) | (2,805) | (3,887) | 63.6 | 38.6 | (9,028) | 33.2 |
| Net margin (%) | (34.8) | (55.4) | (45.6) | (19.1) | 2.5 | (51.2) | (20.0) |

Source: XPeng, UOB Kay Hian

RESULTS

- 3Q23 net loss topped a record Rmb3,887m (+64% yoy, +39% qoq), bigger than our estimate of Rmb3b and consensus estimate of Rmb2.75b. Despite the 35%/72% qoq rebound in deliveries, net loss increased by 39% qoq in 3Q23, with price cuts pressuring margins.**
- Results miss lies in margins and fair value loss on derivative liabilities.** Gross margin only edged up by 1.2ppt qoq to -2.7% in 3Q23, still in negative trajectory despite the halving of lithium carbonate price during the quarter. EBIT margin rose 3.1ppt qoq to -37.1% in 3Q23 due to drop in the R&D expenses/revenue ratio and SG&A/revenue ratio. Operating loss increased 2% qoq to Rmb3,161m.

The unexpected Rmb972m in fair value loss on derivative liabilities boosted net loss by 39% qoq to Rmb3,887m.

XPeng achieved positive free cash flow of >Rmb1b in 3Q23, as accounts and notes payable surged by Rmb5.26b during the quarter, covering the operating loss. As such, all the cash came from suppliers.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|---------|---------|----------|---------|---------|
| Net turnover | 20,988 | 26,855 | 29,019 | 51,862 | 61,335 |
| EBITDA | (5,742) | (7,295) | (11,594) | (5,785) | (3,663) |
| Operating profit | (6,579) | (8,706) | (13,435) | (7,977) | (6,211) |
| Net profit (rep./act.) | (4,863) | (9,139) | (13,136) | (7,848) | (6,174) |
| Net profit (adj.) | (4,863) | (9,139) | (13,136) | (7,848) | (6,174) |
| EPS (fen) | (284.1) | (533.1) | (766.2) | (457.8) | (360.2) |
| PE (x) | n.a. | n.a. | n.a. | n.a. | n.a. |
| P/B (x) | 2.4 | 2.7 | 4.3 | 6.3 | 10.4 |
| EV/EBITDA (x) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Price/Sales (x) | 4.8 | 3.8 | 3.5 | 1.9 | 1.6 |
| Dividend yield (%) | - | - | - | - | - |
| Net margin (%) | (23.2) | (34.0) | (45.3) | (15.1) | (10.1) |
| Net debt/(cash) to equity (%) | (88.0) | (58.3) | (35.5) | (27.9) | 8.2 |
| Interest cover (x) | n.a. | n.a. | n.a. | n.a. | n.a. |
| ROE (%) | (12.7) | (23.1) | (43.3) | (39.5) | (48.1) |
| Consensus net profit | - | - | (10,330) | (7,318) | (4,315) |
| UOBKH/Consensus (x) | - | - | n.a. | n.a. | n.a. |

Source: XPeng, Bloomberg, UOB Kay Hian

SELL

(Maintained)

| | |
|--------------|-----------|
| Share Price | HK\$67.80 |
| Target Price | HK\$18.00 |
| Upside | -70.5% |

COMPANY DESCRIPTION

XPeng develops, manufactures and sells smart EVs under the brand XPeng in China.

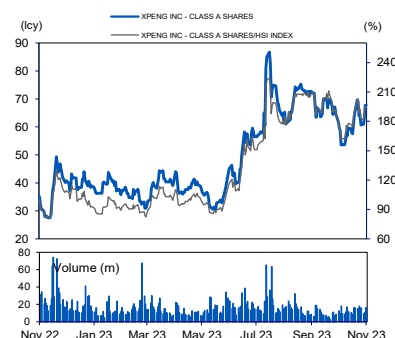
STOCK DATA

| | |
|---------------------------------|------------|
| GICS sector | Automobile |
| Bloomberg ticker: | 9868 HK |
| Shares issued (m): | 1,714 |
| Market cap (HK\$m): | 116,235 |
| Market cap (US\$m): | 14,902 |
| 3-mth avg daily t'over (US\$m): | 76.4 |

Price Performance (%)

| | | | | |
|---------------------------|------|------|---------------------|-------|
| 52-week high/low | | | HK\$96.30/US\$25.85 | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 10.1 | 4.5 | 79.1 | 92.9 | 64.0 |
| Major Shareholders | | | | % |
| Mr. He Xiaopeng | | | | 20.34 |
| FY23 NAV/Share (Rmb) | | | | 15.5 |
| FY23 Net Cash/Share (Rmb) | | | | 5.7 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Maintain 2023-24 delivery estimates at 140,000 units/280,000 units/350,000 units.** Management guided for 4Q23 revenue at between Rmb12.7b (+147% yoy, +49% qoq) and Rmb13.6b (+165% yoy, +59% qoq), and deliveries at between 59,500 units (+168% yoy, +49% qoq) and 63,500 units (+186% yoy, +59% qoq). The 4Q23 growth in deliveries will be driven by the production ramp-up of G6. XPeng will roll out an all-electric seven-seat MPV X9 targeting families on at the Guangzhou Auto Show on 17 Nov 23, and start the deliveries from the beginning of 2024. Additionally, XPeng has just acquired the smart electric vehicle (EV) business from Didi, and will launch an A-segment electric car at around Rmb150,000 under a new brand by 3Q24. As for the partnership with Volkswagen (VW), XPeng is developing a new electric SUV based on the same platform with G9 for VW.

- **We maintain our 2023-25 ASP assumptions at Rmb190,000/Rmb175,000/Rmb165,000 and gross margin assumptions at -5%/2.5%/3.3% respectively.** We remain cautious on XPeng's ASP and margin outlook given the 20% price cut on new G9 vs the old one, the intensifying price competition and deteriorating sales mix.

EARNINGS REVISION/RISK

- **We maintain our 2023-25 net loss forecasts at Rmb13.14b/Rmb7.85b/Rmb6.17b respectively.**
- **Risks** include intense competition in China's smart EV industry, fluctuations in raw material cost and chip shortage.

VALUATION/RECOMMENDATION

- **Maintain SELL with a target price of HK\$18.00**, based on our 10-year DCF (WACC: 20.5%; terminal growth: 4%).

SHARE PRICE CATALYSTS

- Disappointing monthly deliveries.
- Announcements of price cuts.

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|---------|----------|---------|---------|
| Net turnover | 26,855 | 29,019 | 51,862 | 61,335 |
| EBITDA | (7,295) | (11,594) | (5,785) | (3,663) |
| Depreciation & amortization | (1,842) | (2,192) | (2,548) | (2,912) |
| EBIT | (9,139) | (13,136) | (7,848) | (6,174) |
| Total other non-operating income | (906) | (299) | (129) | - |
| Associate contribution | - | - | - | - |
| Net interest income/(expense) | 927 | 299 | 129 | 37 |
| Pre-tax profit | (9,118) | (13,136) | (7,848) | (6,174) |
| Tax | (25) | - | - | - |
| Minorities | - | - | - | 1 |
| Net profit | (9,139) | (13,136) | (7,848) | (6,174) |
| Net profit (recurrent) | (9,139) | (13,136) | (7,848) | (6,174) |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|---------|----------|----------|----------|
| Operating | (8,232) | (7,992) | 1,121 | (147) |
| Pre-tax profit | (9,118) | (13,136) | (7,848) | (6,174) |
| Tax | - | - | - | - |
| Depreciation/amortization | 1,411 | 1,842 | 2,192 | 2,548 |
| Associates | - | - | - | - |
| Working capital changes | (2,709) | 3,302 | 6,778 | 3,480 |
| Non-cash items | 2,185 | - | - | - |
| Other operating cashflows | - | - | - | - |
| Investing | 4,846 | (5,100) | (5,100) | (5,100) |
| Capex (growth) | (4,276) | (5,000) | (5,000) | (5,000) |
| Investments | - | - | - | - |
| Proceeds from sale of assets | - | - | - | - |
| Others | 9,122 | (100) | (100) | (100) |
| Financing | 4,846 | (5,100) | (5,100) | (5,100) |
| Dividend payments | - | - | - | 1 |
| Issue of shares | - | - | - | - |
| Proceeds from borrowings | 6,801 | 1,000 | 10,000 | 18,000 |
| Loan repayment | (682) | (1,000) | (1,000) | (10,000) |
| Others/interest paid | (1,273) | (5,100) | (14,100) | (13,101) |
| Net cash inflow (outflow) | 3,079 | (13,092) | 5,021 | 2,753 |
| Beginning cash & cash equivalent | 11,635 | 14,714 | 1,622 | 6,644 |
| Changes due to forex impact | 462 | - | - | - |
| Ending cash & cash equivalent | 14,714 | 1,622 | 6,644 | 9,397 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------|--------|--------|--------|--------|
| Fixed assets | 10,607 | 14,332 | 17,633 | 20,509 |
| Other LT assets | 17,357 | 16,889 | 16,497 | 16,174 |
| Cash/ST investment | 14,714 | 1,622 | 6,644 | 9,397 |
| Other current assets | 28,813 | 31,092 | 39,882 | 43,890 |
| Total assets | 71,491 | 63,936 | 80,656 | 89,968 |
| ST debt | 2,419 | 2,419 | 11,419 | 19,419 |
| Other current liabilities | 21,696 | 27,277 | 42,844 | 50,331 |
| LT debt | 6,468 | 6,468 | 6,468 | 6,468 |
| Other LT liabilities | 3,998 | 3,998 | 3,998 | 3,998 |
| Shareholders' equity | 36,911 | 23,775 | 15,927 | 9,752 |
| Minority interest | - | - | - | - |
| Total liabilities & equity | 71,491 | 63,936 | 80,656 | 89,968 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|-----------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | (27.2) | (40.0) | (11.2) | (6.0) |
| Pretax margin | (34.0) | (45.3) | (15.1) | (10.1) |
| Net margin | (34.0) | (45.3) | (15.1) | (10.1) |
| ROA | (13.3) | (19.4) | (10.9) | (7.2) |
| ROE | (23.1) | (43.3) | (39.5) | (48.1) |
| Growth | | | | |
| Turnover | 28.0 | 8.1 | 78.7 | 18.3 |
| EBITDA | n.a. | n.a. | n.a. | n.a. |
| Pre-tax profit | n.a. | n.a. | n.a. | n.a. |
| Net profit | n.a. | n.a. | n.a. | n.a. |
| Net profit (adj.) | n.a. | n.a. | n.a. | n.a. |
| EPS | n.a. | n.a. | n.a. | n.a. |
| Leverage | | | | |
| Debt to total capital | 13.1 | 14.7 | 22.8 | 29.3 |
| Debt to equity | 25.4 | 39.4 | 115.4 | 270.5 |
| Net debt to equity | (58.3) | (35.5) | (27.9) | 8.2 |
| Interest cover (x) | n.a. | n.a. | n.a. | n.a. |

TRADERS' CORNER



Chart by Bloomberg

Samsonite International S.A. (1910 HK)

Trading Buy range: HK\$24.00-24.60

Last price: HK\$24.60

Target price: HK\$25.50/HK\$26.00

Protective stop: Breaks below HK\$22.80

Stock Highlights:

In 3Q23, net sales increased 21.1% to US\$957.7m. Profit attributable to the equity holders surged 98.2% to US\$115.4m.

Technical View:

Share price formed a small double bottom pattern in November, and is now hovering near its 10-day (light blue) and 20-day (orange) moving averages. It is restricted by the 50-day moving average (red) at the moment. The 14-day RSI has formed a succession of higher lows and is now around 48, indicating that momentum has gradually strengthened. The MACD line is higher than the signal line, showing a bullish crossover.

Average timeframe: Around two weeks.



Chart by Bloomberg

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (874 HK)

Trading Buy range: HK\$20.50-20.80

Last price: HK\$20.85

Target price: HK\$21.50/HK\$22.00

Protective stop: Breaks below HK\$19.60

Stock Highlights:

In 9M23, income from operations increased 6.2% to Rmb58.185b. Net profit attributable to the shareholders of the company jumped 9.1% to Rmb3.791b.

Technical View:

Share price rebounded after hitting a low on 26 Oct 23, and is now near its 10-day (light blue) and 20-day (orange) moving averages. The 14-day RSI diverged from the share price in October. It is currently near the midline level of 50, around 47, and the momentum has gradually strengthened. The MACD line is higher than the signal line, showing a bullish crossover. If the share price holds firmly above the 10-day moving average, it could rise further.

Average timeframe: Around two weeks.

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