Monday, 27 November 2023

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#### **GREATER CHINA** Update Link REIT (823 HK/BUY/HK\$39.80/Target: HK\$50.70) Page 2 Takeaways from Shenzhen and Guangzhou property tour. **INDONESIA** Update Nippon Indosari Corpindo (ROTI IJ/BUY/Rp1,180/Target: Rp1,400) Page 5 Sales return to decline to 12-13% in 2024. MALAYSIA Results Sime Darby Plantation (SDPL MK/BUY/RM4.32/Target: RM5.00) Page 8 3Q23: Results within expectations, strong contribution from its Malaysia upstream operation. Tenaga Nasional (TNB MK/HOLD/RM10.00/Target: RM10.70) Page 11 9M23: Below expectations. We cut 2023 net profit by 11% to account for a negative fuel margin. Positively, the negative fuel margin should narrow further in 4Q23. Small-Mid Cap Highlights Oppstar (OPPSTAR MK/BUY/RM1.61/Target: RM2.18) Page 14 1HFY24: Below expectations; sowing seeds for exponential growth. SINGAPORE Update Rex International Holding (REXI SP/SELL/S\$0.17/Target: S\$0.10) Page 17 Not much to cheer about heading into the festive season as production problems at key Yumna field persist. Retain SELL rating. THAILAND Update PTT (PTT TB/BUY/Bt34.50/Target: Bt41.00) Page 20

Expect a qoq drop in 4Q23 core profit, but valuation to be interesting.

#### **KEY INDICES**

|                           | Prev Close | 1D %  | 1W %  | 1M %  | YTD %  |
|---------------------------|------------|-------|-------|-------|--------|
| DJIA                      | 35390.2    | 0.3   | 1.3   | 9.2   | 6.8    |
| S&P 500                   | 4559.3     | 0.1   | 1.1   | 10.7  | 18.7   |
| FTSE 100                  | 7488.2     | 0.1   | (0.2) | 2.7   | 0.5    |
| AS30                      | 7244.1     | 0.1   | (0.2) | 3.3   | 0.3    |
| CSI 300                   | 3538.0     | (0.7) | (0.8) | (0.7) | (8.6)  |
| FSSTI                     | 3094.8     | (0.5) | (1.0) | 1.1   | (4.8)  |
| HSCEI                     | 6041.2     | (2.1) | 1.1   | 1.0   | (9.9)  |
| HSI                       | 17559.4    | (2.0) | 0.6   | 0.9   | (11.2) |
| JCI                       | 7009.6     | 0.1   | 0.5   | 3.7   | 2.3    |
| KLCI                      | 1453.9     | 0.0   | (0.5) | 0.8   | (2.8)  |
| KOSPI                     | 2496.6     | (0.7) | 1.1   | 8.4   | 11.6   |
| Nikkei 225                | 33625.5    | 0.5   | 0.6   | 8.5   | 28.9   |
| SET                       | 1397.4     | (0.7) | (1.3) | 0.7   | (16.3) |
| TWSE                      | 17287.4    | (0.0) | 0.5   | 7.1   | 22.3   |
| BDI                       | 2102       | 13.3  | 15.5  | 34.5  | 38.7   |
| CPO (RM/mt)               | 3827       | (0.4) | (0.5) | 4.1   | (5.5)  |
| Brent Crude<br>(US\$/bbl) | 81         | (1.0) | (0.0) | (8.5) | (6.2)  |
| Source: Bloomberg         | 7          |       |       |       |        |

# TOP PICKS

| I OF FICKS        |          |          |          |              |
|-------------------|----------|----------|----------|--------------|
|                   | Ticker   | CP (lcy) | TP (lcy) | Pot. +/- (%) |
| BUY               |          |          |          |              |
| Anta Sports       | 2020 HK  | 81.25    | 128.00   | 57.5         |
| BYD               | 1211 HK  | 228.40   | 630.00   | 175.8        |
| Bank Neo Commerce | BBYB IJ  | 350.00   | 390.00   | 11.4         |
| Bumi Serpong      | BSDE IJ  | 1,060.00 | 1,420.00 | 34.0         |
| HM Sampoerna      | HMSP IJ  | 985.00   | 1,300.00 | 32.0         |
| My EG Services    | MYEG MK  | 0.80     | 1.21     | 51.3         |
| Yinson            | YNS MK   | 2.45     | 3.75     | 53.1         |
| OCBC              | OCBC SP  | 12.67    | 17.35    | 36.9         |
| CP ALL            | CPALL TB | 55.00    | 76.00    | 38.2         |
| Indorama          | IVL TB   | 25.00    | 30.00    | 20.0         |
|                   |          |          |          |              |

#### **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: Bloomber | g, UOB ETR, UC | )B Kay Hian |       |       |

# CORPORATE EVENTS

|                                     | Venue    | Begin Close |
|-------------------------------------|----------|-------------|
| Regional 1H2024 Strategy Conference | Malaysia | 6 Dec 6 Dec |

#### COMPANY UPDATE

## Link REIT (823 HK)

#### Takeaways From Shenzhen And Guangzhou Property Tour

We visited Central Walk, Liwan Link Plaza and Tianhe Link Plaza on 20-21 Nov 23. LINK REIT strengthened its mix of F&B tenants and shifted to more leisure and entertainment tenants to cater to the latest trend. Both Central Walk Shenzhen and Liwan Plaza saw record daily footfalls. Tenant sales are still below pre-COVID-19 levels due to the weaker performance of retail tenants. We expect the China retail portfolio to improve in 2024 on the adjusted tenant mix and completion of AEI. Maintain BUY. Target price: HK\$50.70.

#### WHAT'S NEW

• We visited Link Central Walk in Shenzhen, Link Plaza in Guangzhou Liwan and Link Plaza in Guangzhou Tianhe on 20-21 Nov 23.

#### **ESSENTIALS**

- Observation of retail trend: a) retail tenants (clothing, etc) and cinemas are facing downward pressure after the pandemic, causing negative rental reversion; b) sales of F&B tenants are resilient; and c) shoppers' demand for leisure and entertainment is notably rising. With such a trend, we think that foot traffic and tenant sales of community malls that focus on dining and experiences are expected to be more resilient.
- Highlights of Link REIT's China portfolio: a) upgrading of key infrastructure (car parks, washrooms, etc) through asset enhancement initiatives (AEI) to set a foundation for attracting good tenants (eg the ROI of AEI on Shenzhen Central Walk is well above 10%); b) adopting "first store" strategy by introducing a brand's first store of country/city/region; c) stabilising F&B proportion and improving the quality of F&B tenants; and d) increasing the proportion of leisure and entertainment tenants and introducing anchor tenants like Meland. These initiatives have led to phenomenal growth in foot traffic, with both Central Walk Shenzhen and Liwan Plaza seeing new record daily footfalls. However, we think the membership system is still relatively weak compared to leading mall operators.

#### STOCK IMPACT

• Expecting improvement of China retail portfolio in 2024 on the adjustment and AEIs done in 2023. The negative impact from the pandemic on the China retail portfolio's NPI and valuation has been reflected in LINK REIT's valuation. Looking forward to 2024, backed by premium locations and strong tenant mix, and with completion of major AEIs, we expect that Link REIT's major retail properties in China can achieve positive retail sales growth, which can help drive positive rental reversion.

#### EARNINGS REVISION/RISK

• We keep our DPU forecast unchanged.

#### **KEY FINANCIALS**

| Year to 31 Mar (HK\$m)        | 2022   | 2023   | 2024F  | 2025F  | 2026F  |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover                  | 11,602 | 12,234 | 13,225 | 13,975 | 14,737 |
| EBITDA                        | 8,348  | 8,634  | 9,287  | 9,814  | 10,349 |
| Operating profit              | 8,264  | 8,545  | 9,191  | 9,713  | 10,242 |
| Net profit (rep./act.)        | 6,894  | 15,451 | 6,582  | 7,096  | 7,710  |
| Net profit (adj.)             | 6,479  | 6,134  | 6,582  | 7,096  | 7,710  |
| EPU (HK\$ cent)               | 307.0  | 240.2  | 254.8  | 271.5  | 291.8  |
| DPU (HK\$ cent)               | 305.7  | 274.3  | 254.8  | 271.5  | 291.8  |
| PE (x)                        | 12.7   | 16.4   | 15.4   | 14.5   | 13.5   |
| Р/В (х)                       | 0.5    | 0.5    | 0.5    | 0.5    | 0.6    |
| DPU YId (%)                   | 7.7    | 6.9    | 6.4    | 6.8    | 7.3    |
| Net margin (%)                | 59.4   | 126.3  | 49.8   | 50.8   | 52.3   |
| Net debt/(cash) to equity (%) | 28.9   | 27.0   | 28.5   | 28.6   | 28.6   |
| Interest cover (x)            | 9.2    | 5.2    | 5.2    | 5.8    | 6.9    |
| ROE (%)                       | 4.3    | 8.8    | 3.6    | 4.0    | 4.3    |
| Consensus DPU (HK\$ cent)     | n.a.   | n.a.   | 259.3  | 273.6  | 290.1  |
| UOBKH/Consensus (x)           | -      | -      | 0.98   | 0.99   | 1.01   |

Source: CIFI Ever Sunshine, Bloomberg, UOB Kay Hian

# BUY

# (Maintained)

| Share Price  | HK\$39.80 |
|--------------|-----------|
| Target Price | HK\$50.70 |
| Upside       | +27.4%    |

#### **COMPANY DESCRIPTION**

Link REIT is the first REIT in Hong Kong and currently the largest in Asia in terms of market capitalisation. Spanning Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Sydney and London, its portfolio comprises mostly retail and office properties.

#### STOCK DATA

| GICS sector                     | Real Estate |
|---------------------------------|-------------|
| Bloomberg ticker:               | 823 HK      |
| Shares issued (m):              | 2,561.9     |
| Market cap (HK\$m):             | 101,964.88  |
| Market cap (US\$m):             | 13,061.01   |
| 3-mth avg daily t'over (US\$m): | 33.8        |

#### Price Performance (%)

| 52-week high/low |             |        | HK\$62.83/ | HK\$35.45 |
|------------------|-------------|--------|------------|-----------|
| 1mth             | 3mth        | 6mth   | 1yr        | YTD       |
| 1.9              | (10.5)      | (26.5) | (24.6)     | (31.9)    |
| Major Sh         | areholde    | rs     |            | %         |
| -                |             |        |            | -         |
| -                |             |        |            | -         |
| -                |             |        |            | -         |
| FY24 NAV         | //Share (HK | \$)    |            | 69.25     |
| FY24 Net         | Debt/Share  | (HK\$) |            | 19.74     |

#### PRICE CHART



Source: Bloomberg

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#### VALUATION/RECOMMENDATION

• Maintain BUY with an unchanged target price of HK\$50.70. Our target price implies 5.0% FY24 dividend yield. Link REIT is currently trading at 6.3% FY24 dividend yield. LINK REIT's resilient portfolio can support NPI growth, and high interest rate risks have been well under control as company has no major debt maturity in the next 12 months. We think company will regain growth momentum.

#### KEY INFORMATION OF PROPERTIES WE VISITED

| Project             | Central Walk   | Link Plaza Liwan   | Link Plaza Tianhe   |
|---------------------|--|--|---|
| City                | Shenzhen   | Guangzhou  | Guangzhou   |
| GFA                 | 83,900 sqm   | 88,727 sqm   | 90,113 sqm  |
| No. of car park     | 741  | 1043   | 1000  |
| Year of opening     | 2007   | 2013   | 2012  |
| Year of acquisition | March 2019   | March 2017   | June 2021   |
| Cost of acquisition | RMB 6,600 million  | RMB4,065 million   | RMB3,205 million  |
| Latest valuation    | RMB4,660 million<br>(4.65% cap rate)   | RMB4,070 million (5.15% cap rate)  | RMB3,050 million (5.15% cap rate)   |
| Positioning         | Destination mall   | Community mall   | Community mall  |
| Tenant mix          | F&B: 38%<br>Retail: 24%<br>Leisure: 13.2%<br>Daily groceries: 5.9%<br>Personal care: 5.4%<br>Others: 13.1% | F&B: 36%<br>Supermarket & department<br>store: 21%<br>Retail: 18%<br>Leisure: 7.9%<br>Personal care: 5.1%<br>Others: 13.3% | F&B: 39%<br>Retail: 21%<br>Leisure: 12%<br>Supermarket & department<br>store: 8.4%<br>Personal care: 7.2%<br>Others: 6.9% |
| Major competitors   | COCO Park, Wongtee<br>Plaza, One Avenue  | Rock Square (Capitaland),<br>Taikoo Li (Swire), Mixc mall<br>(CR Land)   | IGC (SHKP), GT Land Plaza,<br>K11 (NWD)   |
| CAPEX of AEI        | RMB 286 million  | N/A  | ~RMB 200 million (Phase 1)  |
| Completion of AEI   | January 2022   | N/A  | September 2023  |
| Foot traffic        | 30-40K/day during weekday<br>70-80K/day during weekend<br>Peak is 75K/day                                  | ~90K/day during weekday<br>~12K/day during weekend<br>Peak is 180K/day   | Officially re-opened in Nov 2023  |

Source: LINK REIT, UOB Kay Hia

#### **CENTRAL WALK SHENZHEN**



#### Source: UOB Kay Hian

#### LINK PLAZA LIWAN



Source: OOB Kay Hian

#### LINK PLAZA TIANHE



Source: UOB Kay Hian

#### R e g i o n a l Morning Notes

#### **PROFIT & LOSS**

| Year to 31 Mar (HK\$m)           | 2023      | 2024F     | 2025F     | 2026F     |
|----------------------------------|-----------|-----------|-----------|-----------|
| Net turnover                     | 12,234.0  | 13,224.6  | 13,975.1  | 14,737.4  |
| EBITDA                           | 8,633.6   | 9,286.8   | 9,813.9   | 10,349.2  |
| Deprec. & amort.                 | 88.6      | 95.7      | 101.2     | 106.7     |
| EBIT                             | 8,545.0   | 9,191.1   | 9,712.7   | 10,242.5  |
| 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) | (1,774.8) | (1,680.7) | (1,471.4) |
| Pre-tax profit                   | 16,299.0  | 7,566.2   | 8,181.9   | 8,921.1   |
| Тах                              | (1,006.0) | (1,134.9) | (1,227.3) | (1,338.2) |
| Minorities                       | 158.0     | 150.0     | 150.0     | 150.0     |
| Net profit                       | 15,451.0  | 6,581.3   | 7,104.6   | 7,732.9   |

| BALANCE SHEET             |           |           |           |           |
|---------------------------|-----------|-----------|-----------|-----------|
| Year to 31 Mar (HK\$m)    | 2023      | 2024F     | 2025F     | 2026F     |
| Fixed assets              | 1,463.0   | 1,125.1   | 1,057.7   | 986.5     |
| Other LT assets           | 246,622.0 | 237,642.3 | 239,642.3 | 241,642.3 |
| Cash/ST investment        | 13,987.0  | 9,926.4   | 9,383.5   | 8,904.5   |
| Other current assets      | 5,847.0   | 5,141.6   | 5,231.1   | 5,322.0   |
| Total assets              | 267,919.0 | 253,835.4 | 255,314.6 | 256,855.4 |
| ST debt                   | 4,133.0   | 4,133.0   | 4,133.0   | 4,133.0   |
| Other current liabilities | 5,618.0   | 5,719.1   | 6,018.0   | 6,321.5   |

8,213.0

120.0

60,780.0 56,780.0 56,780.0 56,780.0

8,213.0 8,213.0

(180.0)

188,940.0 178,905.2 180,235.6 181,622.9

267,919.0 253,835.4 255,314.6 256,855.4

(30.0)

8,213.0

(330.0)

#### **CASH FLOW**

| Year to 31 Mar (HK\$m)       | 2023      | 2024F      | 2025F     | 2026F     |
|------------------------------|-----------|------------|-----------|-----------|
| Operating                    | 7,934.6   | 9,200.4    | 9,024.9   | 9,459.1   |
| Pre-tax profit               | 16,299.0  | 7,566.2    | 8,181.9   | 8,921.1   |
| Тах                          | (1,006.0) | (1,134.9)  | (1,227.3) | (1,338.2) |
| Deprec. & amort.             | 88.6      | 95.7       | 101.2     | 106.7     |
| Associates                   | n.a.      | n.a.       | n.a.      | n.a.      |
| Working capital changes      | 156.0     | 806.6      | 209.3     | 212.6     |
| Non-cash items               | (9,251.0) | 92.0       | 79.0      | 85.5      |
| Other operating cashflows    | 1,648.0   | 1,774.8    | 1,680.7   | 1,471.4   |
| Investing                    | (923.5)   | (674.8)    | (765.3)   | (679.6)   |
| Capex (growth)               | (29.5)    | (31.9)     | (33.7)    | (35.6)    |
| 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     | 357.1      | 268.5     | 356.0     |
| Financing                    | 4,197.0   | (12,586.3) | (8,802.5) | (9,258.5) |
| Distribution to unitholders  | (6,360.0) | (6,454.3)  | (6,853.3) | (7,431.2) |
| Issue of shares              | 12,049.0  | 0.0        | 0.0       | 0.0       |
| Proceeds from borrowings     | 262.0     | (4,000.0)  | 0.0       | 0.0       |
| Loan repayment               | 0.0       | 0.0        | 0.0       | 0.0       |
| Others/interest paid         | (1,754.0) | (2,132.0)  | (1,949.2) | (1,827.4) |
| Net cash inflow (outflow)    | 11,208.1  | (4,060.7)  | (542.8)   | (479.0)   |

#### **KEY METRICS**

Other LT liabilities

Minority interest

Shareholders' equity

Total liabilities & equity

LT debt

| Year to 31 Mar (%)        | 2023   | 2024F  | 2025F | 2026F |
|---------------------------|--------|--------|-------|-------|
| Profitability             |        |        |       |       |
| EBITDA margin             | 70.6   | 70.2   | 70.2  | 70.2  |
| Pre-tax margin            | 133.2  | 57.2   | 58.5  | 60.5  |
| Net margin                | 126.3  | 49.8   | 50.8  | 52.5  |
| ROA                       | 6.3    | 2.5    | 2.8   | 3.0   |
| ROE                       | 8.8    | 3.6    | 4.0   | 4.3   |
| Growth                    |        |        |       |       |
| Turnover                  | 5.4    | 8.1    | 5.7   | 5.5   |
| EBITDA                    | 3.4    | 7.6    | 5.7   | 5.5   |
| Pre-tax profit            | 100.3  | (53.6) | 8.1   | 9.0   |
| Net profit                | 124.1  | (57.4) | 8.0   | 8.8   |
| Net profit (adj.)         | (5.3)  | 7.3    | 8.0   | 8.8   |
| EPU                       | (21.8) | 6.1    | 6.7   | 7.6   |
| Leverage                  |        |        |       |       |
| Debt to total capital     | 25.6   | 25.4   | 25.3  | 25.1  |
| Debt to equity            | 34.4   | 34.0   | 33.8  | 33.5  |
| Net debt/(cash) to equity | 27.0   | 28.5   | 28.6  | 28.6  |
| Interest cover (x)        | 5.2    | 5.2    | 5.8   | 7.0   |

#### Monday, 27 November 2023

#### COMPANY UPDATE

# Nippon Indosari Corpindo (ROTI IJ)

Sales Return To Decline To 12-13% In 2024

ROTI mentioned that the high return rate in 3Q23 was a deliberate attempt to boost sales above Rp1t. Going forward, sales return should decline to 13% in 4Q23 and 12-13% in 2024 as products gain more acceptance. ROTI guides for 2023 NPAT of Rp350b and we forecast 2024 NPAT to rise by 19.8% yoy and reach Rp420b. We maintain BUY with a target price of Rp1,400 (18.6% upside).

WHAT'S NEW

- 3Q23 high return rate was a deliberate attempt to drive sales to above Rp1t. Nippon Indosari Corpindo (ROTI) mentioned that the high 15% return rate in 3Q23 was actually a deliberate attempt to drive sales. ROTI is aiming to drives sales over Rp1t and thus it has been filling up the shelf. Sales rose 14.8% qoq from Rp882.8b in 2Q23 and reached Rp1,013.6b in 3Q23. ROTI aims to have sales steady at above Rp1t per quarter while return rate may decline. Sales return is expected to decline to 13% in 4Q23 and for 2024, ROTI expects to be 12-13%.
- Issue in SGA in 3Q23 was due to return rate. 3Q23 selling, general and administrative (SGA) rose 4.5% yoy compared with a 5.3% decline in sales. The rise in SGA expenses in 3Q23 was caused by a 27.7% yoy and 51.4% qoq jump in defective inventory. Excluding this, 3Q23 non-defective inventory only rose by 0.4% yoy, which indicates that operating expense is managed pretty well.
- Daily sales in 4Q23 is stable, rising single digit qoq. ROTI indicates that daily sales in 4Q23 is stable. 4Q23 sales should be rising at low single digit qoq. If sales return rate declines from 15% in 3Q23 to 13% in 4Q23, 4Q23 NPAT growth should be quite encouraging on a qoq basis.
- We forecast Rp350b and Rp420b NPAT for 2023 and 2024 respectively. ROTI guides that 2023 NPAT could come in at Rp350b. We revisited our model and forecast a 2023 NPAT of Rp350b and Rp420b for 2024 NPAT. This level of NPAT translates to an 18.9% decline in 2023 NPAT and 19.8% yoy rise in 2024 NPAT.

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# BUY

(Maintained)

| Share Price  | Rp1,180  |
|--------------|----------|
| Target Price | Rp1,400  |
| Upside       | +18.6%   |
| (Previous TP | Rp1,600) |

#### COMPANY DESCRIPTION

Nippon Indosari Corpindo is the largest bread manufacturer in Indonesia. It dominates mass bread production with its well-known brand Sari Roti.

#### STOCK DATA

| GICS sect  | or  |                                 | Consume | r Staples  |  |
|--|---|---------------------------------|---------|--|--|
| Bloomberg  | g ticker:   |                                 | ROTI IJ |  |  |
| Shares iss   | sued (m)  | :                               |         | 6,186.5  |  |
| Market ca  | p (Rpb):  |                                 |         | 7,300.1  |  |
| Market ca  | p (US\$m  | ı):                             |         | 469.4  |  |
| 3-mth avg daily t'over (US\$m): 0.1<br>Price Performance (%) |   |                                 |         |  |  |
| 52-week hig  | h/low   | Rp1,615/Rp1,170                 |         |  |  |
| j  |   |                                 | ,       | 1 /  |  |
| 1mth   | 3mth  | 6mth                            | 1yr     | YTD  |  |
|  |   | <b>6mth</b><br>(8.2)            | •       | •  |  |
| 1mth   | <b>3mth</b><br>(13.6)   | (8.2)                           | 1yr     | YTD  |  |
| <b>1mth</b><br>(11.6)  | 3mth<br>(13.6)<br>reholder  | (8.2)                           | 1yr     | <b>YTD</b> (10.6)                                |  |
| 1mth<br>(11.6)<br>Major Sha                                  | 3mth<br>(13.6)<br>reholder  | (8.2)<br>r <b>s</b><br>nasional | 1yr     | <b>YTD</b><br>(10.6)<br><b>%</b>                 |  |
| 1mth<br>(11.6)<br>Major Sha<br>Indoritel Mał                 | 3mth<br>(13.6)<br>reholder<br>kmur Interr                           | (8.2)<br>r <b>s</b><br>nasional | 1yr     | <b>YTD</b><br>(10.6)<br><b>%</b><br>25.8         |  |
| 1mth<br>(11.6)<br>Major Sha<br>Indoritel Mak<br>Demeter Ind  | 3mth<br>(13.6)<br>reholder<br>kmur Interr<br>lo Investme<br>estment | (8.2)<br>rs<br>nasional<br>ent  | 1yr     | <b>YTD</b><br>(10.6)<br><b>%</b><br>25.8<br>21.4 |  |

#### **PRICE CHART**



Source: Bloomberg

ANALYST(S)

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#### **KEY FINANCIALS**

| Year to 31 Dec (Rpb)          | 2021  | 2022  | 2023F  | 2024F  | 2025F  |
|-------------------------------|-------|-------|--------|--------|--------|
| Net turnover                  | 3,288 | 3,935 | 4,132  | 4,397  | 4,685  |
| EBITDA                        | 556   | 817   | 699    | 800    | 863    |
| Operating profit              | 410   | 638   | 503    | 584    | 626    |
| Net profit (rep./act.)        | 281   | 432   | 350    | 420    | 457    |
| Net profit (adj.)             | 281   | 432   | 350    | 420    | 457    |
| EPS (Rp)                      | 45.3  | 69.6  | 56.4   | 67.6   | 73.5   |
| PE (x)                        | 26.1  | 17.0  | 20.9   | 17.5   | 16.0   |
| P/B (x)                       | 2.6   | 2.7   | 2.1    | 2.0    | 1.9    |
| EV/EBITDA (x)                 | 11.7  | 8.0   | 9.3    | 8.1    | 7.5    |
| Dividend yield (%)            | 2.7   | 4.1   | 3.3    | 4.0    | 4.4    |
| Net margin (%)                | 8.6   | 11.0  | 8.5    | 9.5    | 9.8    |
| Net debt/(cash) to equity (%) | (8.2) | (3.9) | (22.2) | (22.5) | (24.9) |
| Interest cover (x)            | 16.4  | 20.7  | 17.5   | 25.5   | 33.9   |
| ROE (%)                       | 9.2   | 15.6  | 11.2   | 11.6   | 12.1   |
| Consensus net profit          | -     | -     | 352    | 439    | 504    |
| UOBKH/Consensus (x)           | -     | -     | 1.00   | 0.96   | 0.91   |

Source: Nippon Indosari Corpindo, Bloomberg, UOB Kay Hian

## Regional Morning Notes

#### WHAT'S NEW

- **3Q23 high return rate was a deliberate attempt to drive sales to above Rp1t.** ROTI mentioned that the high 15% return rate in 3Q23 was actually a deliberate attempt to drive sales. ROTI is aiming to drives sales over Rp1t and thus it has been filling up the shelf. Sales rose 14.8% qoq from Rp882.8b in 2Q23 and reached Rp1,013.6b in 3Q23. ROTI aims to have sales steady at above Rp1t per quarter while return rate may decline. Sales return is expected to decline to 13% in 4Q23 and for 2024, ROTI expects to be 12-13%.
- No price increase in 2023 and 2024. ROTI did not raise prices in 2023 and for 2024, it also does not plan to increase prices. ROTI targets a mid-single-digit growth in revenue in 2024, which will be driven by volume.
- Wheat prices are stable. Bogasari lowered its wheat prices in Jul 23, causing a 264bp gross margin expansion in 3Q23 for ROTI. After 3Q23, ROTI mentioned that wheat prices remain stable and we think ROTI could continue to record a high level of gross margin in 4Q23.
- Sensitivity. NPAT is the most sensitive to ASP increases.
  - For every 5.0% rise in ASP and volume, ROTI's 2024 NPAT will rise 40.8%.
  - o For every 5.0% hike in cost, 2024 NPAT will decline 35.4%.
  - For every 5.0% depreciation of the rupiah against the US dollar, 2024 NPAT will fall 19.2%.
  - Flour makes up about 25.0% of COGS, and for every 5.0% rise in flour prices, 2024 NPAT will drop 4.8%.

#### PROFIT SENSITIVITY TO ASP

|           | Change | Sales |       | Op F   | Op Profit |        | Net Income |  |
|-----------|--------|-------|-------|--------|-----------|--------|------------|--|
|           | %      | 2023F | 2024F | 2023F  | 2024F     | 2023F  | 2024F      |  |
| ASP       | +5%    | 5.0%  | 5.0%  | 41.1%  | 37.6%     | 45.9%  | 40.8%      |  |
| Cost      | +5%    | 0.0%  | 0.0%  | -36.1% | -32.6%    | -40.4% | -35.4%     |  |
| Volume    | +5%    | 5.0%  | 5.0%  | 21.8%  | 19.9%     | 24.3%  | 21.6%      |  |
| Rp        | -5%    | 0.0%  | 0.0%  | -19.3% | -17.7%    | -21.6% | -19.2%     |  |
| Wheat     | +5%    | 0.0%  | 0.0%  | -4.8%  | -4.4%     | -5.4%  | -4.8%      |  |
| Packaging | +5%    | 0.0%  | 0.0%  | -2.5%  | -2.3%     | -2.8%  | -2.5%      |  |
| Sugar     | +5%    | 0.0%  | 0.0%  | -0.6%  | -0.5%     | -0.6%  | -0.6%      |  |
| Labour    | +5%    | 0.0%  | 0.0%  | -4.3%  | -3.9%     | -4.8%  | -4.2%      |  |

Source: UOB Kay Hian

#### EARNINGS REVISION/RISK

• We lower our 2023/24 NPAT forecasts by 0.4%/7.0% respectively. With the weakness in 9M23 performance and new guidance from ROTI, we have lowered our 2023 and 2024 NPAT forecasts by 0.4% and 7.0% respectively.

#### NEW, ORIGINAL AND CONSENSUS FORECASTS

|              | Ne    | W     | Original |       | Difference (%) |       | Street |       | Difference (%) |       |
|--------------|-------|-------|----------|-------|----------------|-------|--------|-------|----------------|-------|
|              | 2023F | 2024F | 2023F    | 2024F | 2023F          | 2024F | 2023F  | 2024F | 2023F          | 2024F |
| Revenue      | 4,132 | 4,397 | 4,173    | 4,587 | -1.0%          | -4.1% | 4,015  | 4,492 | 2.9%           | -2.1% |
| Gross Profit | 2,189 | 2,330 | 2,190    | 2,433 | -0.1%          | -4.3% | 2,150  | 2,420 | 1.8%           | -3.7% |
| Op Profit    | 503   | 584   | 495      | 612   | 1.5%           | -4.5% | 496    | 598   | 1.3%           | -2.4% |
| Net Income   | 350   | 420   | 352      | 451   | -0.4%          | -7.0% | 352    | 439   | -0.4%          | -4.4% |
| Gross Margin | 53.0  | 53.0  | 52.5     | 53.1  | 48             | (7)   | 53.6   | 53.9  | (58)           | (89)  |
| Op Margin    | 12.2  | 13.3  | 11.9     | 13.3  | 30             | (5)   | 12.4   | 13.3  | (19)           | (4)   |
| Net Margin   | 8.5   | 9.5   | 8.4      | 9.8   | 5              | (29)  | 8.8    | 9.8   | (29)           | (23)  |

Source: UOB Kay Hian

#### VALUATION/RECOMMENDATION

• Maintain BUY with a lower target price of Rp1,400. The reduction in our earnings forecast resulted in us reducing our target price from Rp1,600 to Rp1,400. Our target price is derived using the historical five-year -0.5SD PE of 21.1x applied to 2024 EPS as we rolled over our time horizon. With 18.6% upside from the current level, we maintain BUY on ROTI with a target price of Rp1,400.

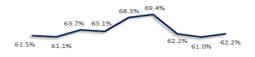
#### Monday, 27 November 2023

#### SALES RETURN RATE



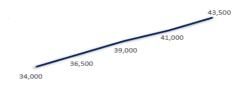
3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23 2Q23 3Q23 Source: ROTI

#### RAW MATERIALS AND PACKAGING



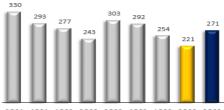
3Q21 4Q21 1Q22 2Q22 3Q22 4Q22 1Q23 2Q23 3Q23 Source: ROTI

#### MODERN TRADE POINT OF SALES



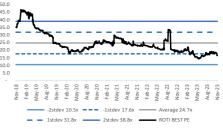


#### QUARTERLY GENERAL TRADE SALES



3q21 4q21 1q22 2q22 3q22 4q22 1q23 2q23 3q23 Source: ROTI

#### FORWARD PE BAND



Source: Bloomberg

# Regional Morning Notes

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| PROFIT & LOSS                    |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
| Year to 31 Dec (Rpb)             | 2022  | 2023F | 2024F | 2025F |
| Net turnover                     | 3,935 | 4,132 | 4,397 | 4,685 |
| EBITDA                           | 817   | 699   | 800   | 863   |
| Deprec. & amort.                 | 179   | 196   | 216   | 237   |
| EBIT                             | 638   | 503   | 584   | 626   |
| Total other non-operating income | (26)  | (13)  | (14)  | (14)  |
| Associate contributions          | 0.0   | 0.0   | 0.0   | 0.0   |
| Net interest income/(expense)    | (39)  | (40)  | (31)  | (25)  |
| Pre-tax profit                   | 573   | 450   | 539   | 587   |
| Тах                              | (141) | (99)  | (119) | (130) |
| Minorities                       | (0.0) | (0.0) | (0.0) | (0.0) |
| Net profit                       | 432   | 350   | 420   | 457   |
| Net profit (adj.)                | 432   | 350   | 420   | 457   |
|                                  |       |       |       |       |

| Year to 31 Dec (Rpb)       | 2022  | 2023F | 2024F | 2025F |
|----------------------------|-------|-------|-------|-------|
| Fixed assets               | 2,494 | 2,528 | 2,537 | 2,538 |
| Other LT assets            | 351   | 483   | 554   | 567   |
| Cash/ST investment         | 627   | 1,361 | 1,319 | 1,375 |
| Other current assets       | 658   | 718   | 813   | 918   |
| Total assets               | 4,130 | 5,090 | 5,223 | 5,399 |
| ST debt                    | 25    | 125   | 108   | 92    |
| Other current liabilities  | 587   | 560   | 608   | 690   |
| LT debt                    | 498   | 444   | 382   | 328   |
| Other LT liabilities       | 339   | 395   | 434   | 459   |
| Shareholders' equity       | 2,681 | 3,566 | 3,692 | 3,829 |
| Minority interest          | 0.1   | 0.0   | 0.0   | 0.0   |
| Total liabilities & equity | 4,130 | 5,090 | 5,223 | 5,399 |

**BALANCE SHEET** 

| CASH FLOW                        |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
| Year to 31 Dec (Rpb)             | 2022  | 2023F | 2024F | 2025F |
| Operating                        | 727   | 991   | 592   | 679   |
| Pre-tax profit                   | 573   | 450   | 539   | 587   |
| Тах                              | (141) | (99)  | (119) | (130) |
| Deprec. & amort.                 | 179   | 196   | 216   | 237   |
| Working capital changes          | (80)  | (28)  | (61)  | (68)  |
| Non-cash items                   | 59    | (18)  | (0.5) | 33    |
| Other operating cashflows        | 136   | 491   | 18    | 20    |
| Investing                        | (185) | 5.9   | (254) | (227) |
| Capex (growth)                   | (200) | (210) | (224) | (238) |
| Investments                      | (2.3) | (1.6) | (1.7) | (1.8) |
| Others                           | 17    | 218   | (28)  | 14    |
| Financing                        | (674) | (249) | (365) | (381) |
| Dividend payments                | (346) | (245) | (294) | (320) |
| Issue of shares                  | (273) | 0.0   | 0.0   | 0.0   |
| Proceeds from borrowings         | (55)  | (3.6) | (71)  | (61)  |
| Others/interest paid             | 0.0   | 0.0   | 0.0   | 0.0   |
| Net cash inflow (outflow)        | (133) | 748   | (27)  | 71    |
| Beginning cash & cash equivalent | 759   | 627   | 1,361 | 1,319 |
| Changes due to forex impact      | 1.3   | (15)  | (15)  | (15)  |
| Ending cash & cash equivalent    | 627   | 1,361 | 1,319 | 1,375 |

| KEY METRICS               |       |        |        |        |
|---------------------------|-------|--------|--------|--------|
| Year to 31 Dec (%)        | 2022  | 2023F  | 2024F  | 2025F  |
| Profitability             |       |        |        |        |
| EBITDA margin             | 20.8  | 16.9   | 18.2   | 18.4   |
| Pre-tax margin            | 14.6  | 10.9   | 12.3   | 12.5   |
| Net margin                | 11.0  | 8.5    | 9.5    | 9.8    |
| ROA                       | 10.4  | 7.6    | 8.1    | 8.6    |
| ROE                       | 15.6  | 11.2   | 11.6   | 12.1   |
|                           |       |        |        |        |
| Growth                    |       |        |        |        |
| Turnover                  | 19.7  | 5.0    | 6.4    | 6.5    |
| EBITDA                    | 47.0  | (14.5) | 14.4   | 7.9    |
| Pre-tax profit            | 52.3  | (21.5) | 19.8   | 8.8    |
| Net profit                | 53.6  | (18.9) | 19.8   | 8.8    |
| Net profit (adj.)         | 53.6  | (18.9) | 19.8   | 8.8    |
| EPS                       | 53.6  | (18.9) | 19.8   | 8.8    |
|                           |       |        |        |        |
| Leverage                  |       |        |        |        |
| Debt to total capital     | 16.3  | 13.8   | 11.7   | 9.9    |
| Debt to equity            | 19.5  | 16.0   | 13.3   | 11.0   |
| Net debt/(cash) to equity | (3.9) | (22.2) | (22.5) | (24.9) |
| Interest cover (x)        | 20.7  | 17.5   | 25.5   | 33.9   |
|                           |       |        |        |        |

#### COMPANY RESULTS

## Sime Darby Plantation (SDPL MK)

3Q23: Results Within Expectations

9M23 results came in within expectations, as we expect a higher profit to be reported in 4Q23. 2024 earnings would be higher yoy, on the back of higher FFB production, lower cost of production and stable downstream operation. Note that SDPL is also exploring some strategic collaborations with China and India companies. We maintain BUY with a target price of RM5.00 in view of the CPO price uptrend, where SDPL's share price performance has a high correlation with CPO prices.

#### 3Q23 RESULTS

| Year to 31 Dec (RMm)       | 3Q23  | qoq % chg | yoy % chg | 9M23   | yoy % chg | Remarks |
|----------------------------|-------|-----------|-----------|--------|-----------|---------|
| Turnover                   | 4,774 | 10.9      | (11.5)    | 13,148 | (14.4)    |         |
| Upstream                   | 2,594 | 22.9      | 11.3      | 7,073  | (5.5)     |         |
| Downstream                 | 4,303 | 10.2      | (12.4)    | 11,667 | (17.7)    |         |
| Operating Profit           | 782   | 91.2      | 41.4      | 1,504  | (39.1)    |         |
| Upstream                   | 547   | 191.0     | 119.7     | 955    | (44.0)    |         |
| Downstream                 | 225   | 81.5      | (43.3)    | 417    | (46.0)    |         |
| Net Profit                 | 1,211 | 218.7     | 179.7     | 1,660  | (15.4)    |         |
| Core Net Profit            | 348   | 29.4      | 5.1       | 698    | (57.4)    |         |
| Margins (%)                |       | +/(-) bps | +/(-) bps |        | +/(-) bps |         |
| Operating profit           | 16.4  | 6.9       | 6.1       | 11.4   | (4.6)     |         |
| Upstream                   | 21.1  | 12.2      | 10.4      | 13.5   | (9.3)     |         |
| Downstream                 | 5.2   | 2.1       | (2.9)     | 3.6    | (1.9)     |         |
| Core net profit            | 7.3   | 1.0       | 1.2       | 5.3    | (5.4)     |         |
| Source: SDPL, UOB Kay Hian |       |           |           |        |           |         |

#### WHAT'S NEW

- Within expectations. Sime Darby Plantation's (SDPL) 3Q23 core net profit came in at RM348 (+29% qoq, +5% yoy), bringing 9M23 core net profit to RM698m (-57% yoy). This accounts for 60% of our full-year forecast where we deem it still within our expectation, as we expect 4Q23 to be the highest quarterly earnings for 2023 on the back of higher CPO ASP and lower cost of production.
  - a) Qoq higher core net profit mainly due:
  - b) Strong improvement from its Malaysia upstream operation where its FFB production surged 43% qoq in 3Q23. We reckon that this was mainly due to the result of its previous rehabilitation practices and more harvesters in the Malaysian estates where yield has improved. This is partially offset by the lower-than-expected production from its Indonesian estates which were affected by the dryness.
  - c) Higher downstream margin, especially from its European operations with strong volumes and firm prices.

#### **KEY FINANCIALS**

| Year to 31 Dec (RMm)          | 2021   | 2022   | 2023F  | 2024F  | 2025F  |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover                  | 18,695 | 21,030 | 19,884 | 22,706 | 22,642 |
| EBITDA                        | 5,051  | 3,563  | 3,310  | 4,535  | 4,298  |
| Operating profit              | 3,720  | 2,190  | 1,903  | 3,108  | 2,851  |
| Net profit (rep./act.)        | 2,336  | 2,069  | 1,174  | 2,036  | 1,856  |
| Net profit (adj.)             | 2,336  | 2,069  | 1,174  | 2,036  | 1,856  |
| EPS (sen)                     | 34.3   | 30.4   | 17.3   | 29.9   | 27.3   |
| PE (x)                        | 12.6   | 14.3   | 25.1   | 14.5   | 15.9   |
| P/B (x)                       | 1.7    | 1.6    | 1.6    | 1.6    | 1.6    |
| EV/EBITDA (x)                 | 7.4    | 10.4   | 11.2   | 8.2    | 8.7    |
| Dividend yield (%)            | 2.4    | 5.3    | 2.4    | 4.1    | 3.7    |
| Net margin (%)                | 12.5   | 9.8    | 5.9    | 9.0    | 8.2    |
| Net debt/(cash) to equity (%) | 33.5   | 30.3   | 36.0   | 35.4   | 32.6   |
| Interest cover (x)            | 68.3   | 29.0   | 27.5   | 35.0   | 34.9   |
| ROE (%)                       | 14.0   | 11.5   | 6.3    | 10.9   | 10.0   |
| Consensus net profit          | -      | -      | 1,093  | 1,393  | 1,555  |
| UOBKH/Consensus (x)           | -      | -      | 1.07   | 1.46   | 1.19   |

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# BUY

#### (Maintained)

| Share Price  | RM4.32 |
|--------------|--------|
| Target Price | RM5.00 |
| Upside       | +15.7% |

#### COMPANY DESCRIPTION

The largest oil palm plantation company in Malaysia.

#### **STOCK DATA**

| GICS sect   | or          | Consum | er Staples |             |
|---|-------------|--------|------------|-------------|
| Bloomberg   | g ticker:   |        | SDPL MK    |             |
| Shares iss  | ued (m)     | :      |            | 6,915.7     |
| Market ca   | p (RMm)     | :      |            | 29,875.9    |
| Market ca   | p (US\$m    | ı):    |            | 6,412.2     |
| 3-mth avg daily t'over (US\$<br>Price Performance (%) |             |        | 5m):       | 2.5         |
| 52-week hig   | h/low       |        | RM         | 4.77/RM3.93 |
| 1mth  | 3mth        | 6mth   | 1yr        | YTD         |
| (4.6)   | (3.6)       | 0.5    | (1.8)      | (7.1)       |
| Major Sha   |             | %      |            |             |
| Skim Amana  | h Saham     | a      | 42.1       |             |
| Employees F   | Provident I |        | 14.0       |             |
| FY24 NAV/S  | hare (RM    |        | 2.70       |             |
| FY24 Net De   | ebt/Share   | (RM)   |            | 0.96        |

#### **PRICE CHART**



Source: Bloomberg

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Source: Sime Darby Plantation, Bloomberg, UOB Kay Hian

## Regional Morning Notes

• Higher yoy earnings were mainly thanks to higher FFB production and lower cost of production.

#### **STOCK IMPACT**

- **Production growth guidance**. Management maintained its production growth guidance for 2023 at mid-single-digit growth where the highest growth would come from Malaysia. This is the result of its rehabilitation practices and more skilled workers in the estates. Management also mentioned that its Malaysia rehabilitation and training for new harvesters programme would complete by Jun 24.
- Lower cost of production. We reckon that the cost of production would be lower in 2024 with higher FFB production and better yield (especially from the Malaysian estates). The fertiliser prices had also dropped by about 20% yoy for 2024.
- **Downstream margin may remain stable**, thanks to its European operations with higher quality refined products which command better pricing. This would be partially offset by the softer demand and lower margin from its Asia Pacific operations.
- Exploring further strategic collaborations. In 2024, SDPL targets to provide India with 1.3m germinated seeds, sourced from its operations in three countries. It is also exploring the possibility of establishing a shortening trading distribution centre in China and utilising existing bonded warehouses as a refined palm oil trading and distribution center as well as applying to become the delivery warehouse of Dalian Commodity Exchange.

#### EARNINGS REVISION/RISK

#### Maintain earnings forecast.

#### VALUATION/RECOMMENDATION

• Maintain BUY with a target price of RM5.00. We see SDPL as a trading BUY in view of the CPO price uptrend, where SDPL's share price performance has a high correlation towards CPO prices. We peg our valuation at 17x 2024F PE, based on -1SD to the sector's five-year mean

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

#### Environmental

 SDPL recently announced that the additional biogas plant would be built in Kedah and Negeri Sembilan. This allows SDPL to work towards its carbon reduction target of 40% by 2030 (current: 18%)

#### Social

 The US Customs and Border Protection says palm oil produced by SDPL is no longer "being mined, produced, or manufactured wholly or in part with the use of convict, forced, or indentured labour".

#### Governance

- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

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#### UPSTREAM CONTRIBUTION BY COUNTRY

| ((RMm)    | 3Q23 | qoq % chg | yoy % chg |
|-----------|------|-----------|-----------|
| Malaysia  | 228  | n.m       | n.m       |
| Indonesia | 212  | 30.1      | (41.9)    |
| PNG       | 107  | 114.0     | 269.0     |
| Total     | 547  | 191.0     | 119.7     |
| 0 0001    |      |           |           |

Source: SDPL

#### **KEY STATISTICS SUMMARY**

|                           | 3Q23  | qoq % chg | yoy % chg    |
|---------------------------|-------|-----------|--------------|
| FFB Production (m tonnes) | 2.45  | 20.5      | 14.1         |
| - Malaysia                | 1.24  | 42.5      | 37.8         |
| - Indonesia               | 0.77  | 13.0      | (1.2)        |
| - PNG                     | 0.45  | (8.2)     | <i>(5.9)</i> |
| CPO ASP (RM/tonne)        | 3,777 | 0.3       | (11.7)       |
| - Malaysia                | 3,993 | (2.5)     | (11.2)       |
| - Indonesia               | 3,319 | 2.5       | 13.9         |
| - PNG                     | 3,965 | 2.0       | (32.2)       |
| Sourco: SDDI              |       |           |              |

Source: SDPL

# Regional Morning Notes

#### **PROFIT & LOSS**

| Year to 31 Dec (RMm)          | 2022   | 2023F  | 2024F  | 2025F  |
|-------------------------------|--------|--------|--------|--------|
| Net turnover                  | 21,030 | 19,884 | 22,706 | 22,642 |
| EBITDA                        | 3,563  | 3,310  | 4,535  | 4,298  |
| Deprec. & amort.              | 1,373  | 1,407  | 1,428  | 1,447  |
| EBIT                          | 2,190  | 1,903  | 3,108  | 2,851  |
| Associate contributions       | 50     | 20     | 21     | 22     |
| Net interest income/(expense) | (123)  | (120)  | (129)  | (123)  |
| Pre-tax profit                | 3,492  | 1,802  | 2,999  | 2,750  |
| Тах                           | (809)  | (451)  | (750)  | (688)  |
| Minorities                    | (195)  | (178)  | (214)  | (207)  |
| Net profit                    | 2,069  | 1,174  | 2,036  | 1,856  |
| Net profit (adj.)             | 2,069  | 1,174  | 2,036  | 1,856  |

| Year to 31 Dec (RMm)       | 2022   | 2023F  | 2024F  | 2025F  |
|----------------------------|--------|--------|--------|--------|
| Fixed assets               | 17,800 | 18,074 | 18,328 | 18,562 |
| Other LT assets            | 6,108  | 6,090  | 6,090  | 6,090  |
| Cash/ST investment         | 635    | 263    | 188    | 538    |
| Other current assets       | 6,604  | 7,325  | 7,381  | 6,689  |
| Total assets               | 31,147 | 31,752 | 31,986 | 31,879 |
| ST debt                    | 2,499  | 2,314  | 2,130  | 1,945  |
| Other current liabilities  | 2,913  | 2,782  | 3,111  | 3,104  |
| LT debt                    | 3,780  | 4,647  | 4,647  | 4,648  |
| Other LT liabilities       | 2,939  | 2,939  | 2,939  | 2,939  |
| Shareholders' equity       | 18,598 | 18,598 | 18,598 | 18,598 |
| Minority interest          | 418    | 472    | 562    | 645    |
| Total liabilities & equity | 31,147 | 31,752 | 31,986 | 31,879 |

# **CASH FLOW**

|         | 2023F   | 2024F  | 2025F  |
|---------|---|--|--|
| 3,640   | 2,076   | 2,900  | 3,213  |
| 3,196   | 1,923   | 3,129  | 2,873  |
| (809)   | (451)   | (750)  | (688)  |
| 1,373   | 1,407   | 1,428  | 1,447  |
| 310     | (376)   | (470)  | 11   |
| (430)   | (427)   | (436)  | (430)  |
| (1,287) | (1,287)   | (1,287)  | (1,286)  |
| (1,681) | (1,681)   | (1,681)  | (1,681)  |
| 0       | 0   | 0  | 1  |
| 380     | 380   | 380  | 380  |
| 14      | 14  | 14   | 14   |
| (2,400) | (1,200)   | (1,715)  | (1,606)  |
| (1,548) | (704)   | (1,221)  | (1,114)  |
| 0       | 0   | 0  | 0  |
| 4,749   | 0   | 0  | 0  |
| (5,180) | (500)   | (500)  | (500)  |
| (421)   | 4   | 6  | 8  |
| (47)    | (411)   | (103)  | 321  |
| 665     | 646   | 263  | 188  |
| 11      | 28  | 28   | 28   |
| 635     | 263   | 188  | 538  |
|         | 3,196<br>(809)<br>1,373<br>310<br>(430)<br>(1,287)<br>(1,681)<br>0<br>380<br>14<br>(2,400)<br>(1,548)<br>0<br>4,749<br>(5,180)<br>(421)<br>(421)<br>(47)<br>665<br>11 | 3,640         2,076           3,196         1,923           (809)         (451)           1,373         1,407           310         (376)           (430)         (427)           (1,287)         (1,287)           (1,681)         (1,681)           0         0           380         380           14         14           (2,400)         (1,200)           (1,548)         (704)           0         0           4,749         0           (5,180)         (500)           (421)         4           (47)         (411)           665         646           11         28 | 3,640         2,076         2,900           3,196         1,923         3,129           (809)         (451)         (750)           1,373         1,407         1,428           310         (376)         (470)           (430)         (427)         (436)           (1,287)         (1,287)         (1,287)           (1,681)         (1,681)         (1,681)           0         0         0           380         380         380           14         14         14           (2,400)         (1,200)         (1,715)           (1,548)         (704)         (1,221)           0         0         0           4,749         0         0           (5,180)         (500)         (500)           (421)         4         6           (47)         (411)         (103)           665         646         263           11         28         28 |

| Year to 31 Dec (%)        | 2022   | 2023F  | 2024F | 2025F |
|---------------------------|--------|--------|-------|-------|
| Profitability             |        |        |       |       |
| EBITDA margin             | 16.9   | 16.6   | 20.0  | 19.0  |
| Pre-tax margin            | 16.6   | 9.1    | 13.2  | 12.1  |
| Net margin                | 9.8    | 5.9    | 9.0   | 8.2   |
| ROA                       | 6.7    | 3.7    | 6.4   | 5.8   |
| ROE                       | 11.5   | 6.3    | 10.9  | 10.0  |
| Growth                    |        |        |       |       |
| Turnover                  | 12.5   | (5.4)  | 14.2  | (0.3) |
| EBITDA                    | (29.5) | (7.1)  | 37.0  | (5.2) |
| Pre-tax profit            | (5.1)  | (48.4) | 66.4  | (8.3) |
| Net profit                | (11.4) | (43.3) | 73.4  | (8.8) |
| Net profit (adj.)         | (11.4) | (43.3) | 73.4  | (8.8) |
| EPS                       | (11.4) | (43.3) | 73.4  | (8.8) |
| Leverage                  |        |        |       |       |
| Debt to total capital     | 24.8   | 26.7   | 26.1  | 25.5  |
| Debt to equity            | 33.8   | 37.4   | 36.4  | 35.4  |
| Net debt/(cash) to equity | 30.3   | 36.0   | 35.4  | 32.6  |
| Interest cover (x)        | 29.0   | 27.5   | 35.0  | 34.9  |

#### Monday, 27 November 2023

#### COMPANY RESULTS

## **Tenaga Nasional (TNB MK)**

3Q23: Results Below Expectation, Negative Fuel Margin To Narrow In 4Q23

The group booked weak 3Q23 core net profit of RM861m (-47% yoy; -10% qoq). This brings 9M23 core net profit to RM2,971m (-27% yoy) – below our expectation but in line with the street's estimate. 9M23 EBITDA margin fell 6ppt to 28% - reflecting Genco negative fuel margin and higher repair & maintenance costs. Consequently, we cut 2023-24 net profit estimates by 11% and 3% respectively. Maintain HOLD with a marginally higher DCF-based target price of RM10.70 as we rollover to 2024.

#### 3Q23 RESULTS

| Year to 31 Dec               | 3Q23<br>(RMm) | 3Q22<br>(RMm) | qoq %<br>chq | yoy %<br>chq | 9M23<br>(RMm) | yoy %<br>chg |
|------------------------------|---------------|---------------|--------------|--------------|---------------|--------------|
| Revenue                      | 13,466        | 12,962        | 1.1          | 3.9          | 39,414.9      | 3.9          |
| Normalised EBITDA            | 3,750         | 4,628         | 3.7          | (19.0)       | 11,168.1      | (14.0)       |
| Normalised EBITDA margin (%) | 27.8          | 35.7          | 0.7          | (7.9)        | 28.3          | (5.9)        |
| Pretax profit                | 1,056         | 1,534         | 94.9         | (31.2)       | 2,699.7       | (40.4)       |
| Net profit                   | 856           | 889           | 161.1        | (3.7)        | 2,186.4       | (17.6)       |
| Core net profit              | 861           | 1,624         | (9.9)        | (47.0)       | 2,971.1       | (26.8)       |
| Operating Matrix             |               |               | qoq %        | yoy %        |               | yoy %        |
| Coal prices (US\$)           | 111.8         | 229.7         | (18.6)       | (51.3)       | 139.9         | (33.3)       |
| Coal consumption             | 8.8           | 8.3           | (1.1)        | 6.0          | 25.2          | 4.6          |
| Gas prices (RM)              | 37.5          | 36.7          | (8.3)        | 2.0          | 41.5          | 23.9         |
| Daily gas allocation         | 831           | 862           | (1.1)        | (3.6)        | 859.0         | (3.8)        |
| Elec. Sales gwth (yoy%)      | 9.6           | 5.9           | 0.7          | 3.7          | 2.7           | (4.5)        |
| Average tariff (sen/kwh)     | 38.0          | 41.6          | (1.0)        | (8.6)        | 37.9          | (1.0)        |

Source: Tenaga, UOB Kay Hian

RESULTS

- **3Q23 net profit below expectations.** Tenaga Nasional (TNB) booked 3Q23 core net profit of RM861m (-47% yoy; -10% qoq). This brings 9M23 core net profit to RM2,971m (-27% yoy). The results are below our expectation but in line with the street's estimate. 9M23 electricity demand grew 3% yoy but EBITDA margin fell 6ppt yoy to 28%. This is due to 9M23 negative fuel margin of RM768m (vs a positive fuel margin of RM917m in 9M22), higher repair & maintenance costs and subsidiary opex.
- Regulated business net returns for 9M23 is RM3,563m. This is premised upon Regulatory Period 3 (RP3) return on asset of 7.3% and an approved capex of RM7b for 2023. 9M23 capex spent on regulated business was RM4.8b, or 69% of approved capex.

| KE۱ | / FI | NAN | ICI | ALS |
|-----|------|-----|-----|-----|
|     |      |     |     |     |

| Year to 31 Dec (RMm)          | 2021   | 2022   | 2023F  | 2024F  | 2025F  |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover                  | 52,630 | 73,183 | 56,307 | 57,505 | 58,413 |
| EBITDA                        | 19,412 | 19,141 | 20,803 | 21,312 | 20,453 |
| Operating profit              | 8,721  | 7,738  | 9,119  | 9,878  | 9,432  |
| Net profit (rep./act.)        | 3,662  | 3,463  | 4,076  | 4,497  | 4,702  |
| Net profit (adj.)             | 5,141  | 4,703  | 4,076  | 4,497  | 4,702  |
| EPS (sen)                     | 90.4   | 82.7   | 71.7   | 79.1   | 82.7   |
| PE (x)                        | 11.1   | 12.1   | 14.0   | 12.6   | 12.1   |
| P/B (x)                       | 1.0    | 1.0    | 1.0    | 1.0    | 1.0    |
| EV/EBITDA (x)                 | 6.4    | 6.5    | 6.0    | 5.8    | 6.1    |
| Dividend yield (%)            | 4.0    | 4.6    | 4.6    | 4.9    | 5.0    |
| Net margin (%)                | 7.0    | 4.7    | 7.2    | 7.8    | 8.0    |
| Net debt/(cash) to equity (%) | 76.5   | 100.8  | 115.4  | 95.5   | 81.6   |
| Interest cover (x)            | 5.6    | 4.5    | 5.0    | 4.9    | 5.5    |
| ROE (%)                       | 6.5    | 6.0    | 7.2    | 8.1    | 8.2    |
| Consensus net profit          | -      | -      | 4,067  | 4,594  | 4,766  |
| UOBKH/Consensus (x)           | -      | -      | 1.00   | 0.98   | 0.99   |

Source: Tenaga Nasional, Bloomberg, UOB Kay Hian

# HOLD

(Maintained)

| Share Price  | RM10.00  |
|--------------|----------|
| Target Price | RM10.70  |
| Upside       | +7.0%    |
| (Previous TP | RM10.40) |

#### COMPANY DESCRIPTION

Generates and distributes electricity in Peninsular Malaysia and Sabah.

#### STOCK DATA

| GICS secto                      | or       |      |      | Utilities   |
|---------------------------------|----------|------|------|-------------|
| Bloomberg                       | ticker:  |      |      | TNB MK      |
| Shares issued                   | ued (m): |      |      | 5,787.3     |
| Market cap                      | (RMm)    | :    |      | 57,873.0    |
| Market cap (US\$m):             |          |      |      | 12,352.1    |
| 3-mth avg daily t'over (US\$m): |          |      | :    | 9.5         |
| Price Performance (%)           |          |      |      |             |
| 52-week high/low                |          |      | RM10 | 0.16/RM8.78 |
| 1mth                            | 3mth     | 6mth | 1yr  | YTD         |
| 1.5                             | 0.0      | 5.0  | 12.2 | 3.8         |

| 1.5        | 0.0                | 5.0 | 12.2 | 3.8   |
|------------|--------------------|-----|------|-------|
| Major Sh   | areholders         | ;   |      | %     |
| Khazanah   | Nasional           |     |      | 22.5  |
| EPF        |                    |     |      | 16.5  |
| Amanah Sa  | aham Nasion        | al  |      | 15.5  |
| FY23 NAV/  | Share (RM)         |     |      | 9.75  |
| FY23 Net D | )<br>Debt/Share (F | RM) |      | 11.15 |

#### **PRICE CHART**



Source: Bloomberg

ANALYST(S)

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- Imbalance cost pass thorough (ICPT) recovery. ICPT cost recovery from the government is encouraging. TNB has received RM2.35b since early-Nov 23 for a period claim for Jul-Sep 23. The balance will be paid by monthly instalments until TNB fully recovers a total of RM4.6b for ICPT under recovery for Jul-Dec 23.
- We are positive on this as it implies the government's commitment towards the incentivebased regulation framework. This paves the way for a healthy balance sheet and sustainable dividend yield of about 5% for TNB.

#### **STOCK IMPACT**

- **3Q23 electricity demand grew 1% qoq** on the back of higher units sold to the industrial and commercial segment. 9M23 electricity demand jumped 3% yoy.
- **3Q23 generation cost fell 31% yoy and 13% qoq.** This mirrored the 51% yoy and 19% qoq drop in coal prices to US\$111.8/MT (2Q23: US\$137.3/MT; 3Q22: US\$229.7/MT). Repair & maintenance costs as well as subsidiary expenses are also higher qoq and yoy.
- Normalised EBITDA margin rose 0.7ppt qoq but fell 8ppt yoy to 27.8%. Apart from higher repair and maintenance costs, earnings were also dragged down by negative fuel margin yoy. Positively, the negative fuel margin has narrowed qoq and we expect improvement in EBITDA from Genco in 4Q23.

#### EARNINGS REVISION/RISK

• Cut 2023-24 net profit by 11% and 3% respectively. We take into account: a) 9M23 negative fuel margin – which is then expected to narrow into 4Q23 and 2024, b) higher repair & maintenance costs, and c) higher subsidiary expenses.

#### VALUATION/RECOMMENDATION

- **Reiterate HOLD** with a marginally higher DCF-based target price of RM10.70/share (discount rate: 8.5%, growth rate: 1%) as we roll over our valuation window to 2024.
- Key re-rating catalysts include: a) allowing TNB the autonomy to change electricity prices by 7% without seeking Cabinet approval every six months, b) listing of a profitable Genco, and c) earnings-accretive M&As.
- Key risks: a) lumpy and unprofitable overseas renewable energy (RE) projects, and b) forex risk to operating cashflow.
- Dividend yield of 4.6% and 4.9% over 2023-24. We expect TNB to pay out 60% of its net profit as dividends. This translates to a sustainable dividend yield of 4.6% and 5.0% over 2023-24.

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

#### Environmental

Besides targeting to have 8,300MW of RE generation capacity by 2025 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emission intensity by 2035 and achieve zero net emission on top of being coal-free by 2050.

#### Social

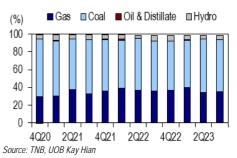
- TNB has donated: a) around RM4.36m to those affected by COVID-19, b) necessary medical supplies, such as ventilators, respirators, and personal protective equipment (PPE) to government hospitals, departments, and agencies totalling RM27.5m in 2020, and c) RM1m for lighting up official security posts during MCO enforcement throughout the nation from Mar-Nov 20.

#### Governance

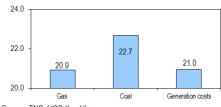
- Good company transparency along with an anti-bribery and whistle-blowing policy.
- Succession planning is also in place.

#### Monday, 27 November 2023

#### **GENERATION MIX**

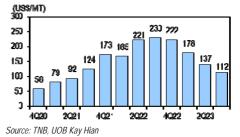


#### **GENERATION UNIT COST (3Q23)**



Source: TNB, UOB Kay Hian

#### QUARTERLY COAL PRICES



#### TNB GREEN JOURNEY



Source: TNB

# Regional Morning Notes

#### **PROFIT & LOSS**

| Year to 31 Dec (RMm)             | 2022    | 2023F   | 2024F   | 2025F   |
|----------------------------------|---------|---------|---------|---------|
| Net turnover                     | 73,183  | 56,307  | 57,505  | 58,413  |
| EBITDA                           | 19,141  | 20,803  | 21,312  | 20,453  |
| Deprec. & amort.                 | 11,403  | 11,684  | 11,434  | 11,022  |
| EBIT                             | 7,738   | 9,119   | 9,878   | 9,432   |
| Total other non-operating income | 966     | 940     | 940     | 940     |
| Associate contributions          | 98      | (298)   | (312)   | (328)   |
| Net interest income/(expense)    | (4,213) | (4,201) | (4,383) | (3,733) |
| Pre-tax profit                   | 5,348   | 5,560   | 6,122   | 6,311   |
| Тах                              | (1,791) | (1,390) | (1,531) | (1,515) |
| Minorities                       | (94)    | (94)    | (94)    | (94)    |
| Net profit                       | 3,463   | 4,076   | 4,497   | 4,702   |
| Net profit (adj.)                | 4,703   | 4,076   | 4,497   | 4,702   |

| CASH FLOW                        |          |         |         |         |
|----------------------------------|----------|---------|---------|---------|
| Year to 31 Dec (RMm)             | 2022     | 2023F   | 2024F   | 2025F   |
| Operating                        |          |         |         |         |
| Pre-tax profit                   |          |         |         |         |
| Тах                              | 2,022    | 2023F   | 2024F   | 2025F   |
| Deprec. & amort.                 | 9,378    | 7,181   | 25,429  | 19,971  |
| Associates                       | 349      | 560     | 6,122   | 6,311   |
| Working capital changes          | (1,791)  | (1,390) | (1,531) | (1,515) |
| Non-cash items                   | 11,403   | 11,684  | 11,434  | 11,022  |
| Other operating cashflows        | (98)     | 298     | 312     | 328     |
| Investing                        | (10,680) | (3,971) | 4,707   | 92      |
| Capex (growth)                   | 0        | 0       | 0       | 0       |
| Investments                      | 10,196   | 0       | 4,383   | 3,733   |
| Others                           | (14,553) | (9,000) | (8,869) | (5,936) |
| Financing                        | (8,445)  | (9,000) | (9,000) | (7,000) |
| Dividend payments                | 3        | 0       | 0       | 0       |
| Issue of shares                  | (6,111)  | 0       | 131     | 1,064   |
| Proceeds from borrowings         | 3,896    | (2,816) | (7,501) | (7,840) |
| Others/interest paid             | (2,616)  | (2,616) | (2,787) | (2,843) |
| Net cash inflow (outflow)        | 277      | 0       | 0       | 0       |
| Beginning cash & cash equivalent | 13,846   | (200)   | (200)   | (200)   |
| Changes due to forex impact      | (7,611)  | 0       | (4,514) | (4,797) |
| Ending cash & cash equivalent    | (1,279)  | (4,635) | 9,059   | 6,195   |

| BALANCE SHEET              |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| Year to 31 Dec (RMm)       | 2022    | 2023F   | 2024F   | 2025F   |
| Fixed assets               | 116,577 | 113,893 | 111,459 | 107,437 |
| Other LT assets            | 44,289  | 43,991  | 43,679  | 43,351  |
| Cash/ST investment         | 4,893   | 259     | 9,318   | 15,513  |
| Other current assets       | 40,163  | 39,140  | 34,567  | 34,892  |
| Total assets               | 205,922 | 197,283 | 199,023 | 201,192 |
| ST debt                    | 13,262  | 13,162  | 13,062  | 12,962  |
| Other current liabilities  | 24,335  | 19,342  | 19,476  | 19,893  |
| LT debt                    | 50,620  | 50,520  | 50,420  | 50,320  |
| Other LT liabilities       | 56,739  | 56,739  | 56,739  | 56,739  |
| Shareholders' equity       | 58,517  | 54,977  | 56,688  | 58,547  |
| Minority interest          | 2,449   | 2,543   | 2,637   | 2,731   |
| Total liabilities & equity | 205,922 | 197,283 | 199,023 | 201,192 |

#### **KEY METRICS**

| Year to 31 Dec (%)        | 2022  | 2023F  | 2024F | 2025F |
|---------------------------|-------|--------|-------|-------|
| Profitability             |       |        |       |       |
| EBITDA margin             | 26.2  | 36.9   | 37.1  | 35.0  |
| Pre-tax margin            | 7.3   | 9.9    | 10.6  | 10.8  |
| Net margin                | 4.7   | 7.2    | 7.8   | 8.0   |
| ROA                       | 1.8   | 2.0    | 2.3   | 2.3   |
| ROE                       | 6.0   | 7.2    | 8.1   | 8.2   |
| Crowth                    |       |        |       |       |
| Growth                    |       |        |       |       |
| Turnover                  | 39.1  | (23.1) | 2.1   | 1.6   |
| EBITDA                    | (1.4) | 8.7    | 2.4   | (4.0) |
| Pre-tax profit            | 12.9  | 4.0    | 10.1  | 3.1   |
| Net profit                | (5.4) | 17.7   | 10.3  | 4.6   |
| Net profit (adj.)         | (8.5) | (13.3) | 10.3  | 4.6   |
| EPS                       | (8.5) | (13.3) | 10.3  | 4.6   |
| Leverage                  |       |        |       |       |
| Debt to total capital     | 51.2  | 52.5   | 51.7  | 50.8  |
| Debt to equity            | 109.2 | 115.8  | 112.0 | 108.1 |
| Net debt/(cash) to equity | 100.8 | 115.4  | 95.5  | 81.6  |
| Interest cover (x)        | 4.5   | 5.0    | 4.9   | 5.5   |

#### SMALL-MID CAP HIGHLIGHTS

# **Oppstar (OPPSTAR MK)**

1HFY24: Below Expectations; Sowing Seeds For Exponential Growth

Results missed expectations owing to the absence of meaningful turnkey project contribution. Cut FY24-25 earnings by 16%/11%. Beyond the temporary blip, we see enormous growth opportunities premised on its multi-pronged strategies, cutting-edge knowhow alongside huge untapped potential augmented by Malaysia's geopolitical neutrality, which could anchor a three-year revenue/core net profit CAGR of 29%/31% from FY23. Maintain BUY. Target price: RM2.18.

#### **1HFY24 RESULTS**

| Versite 21 Mars (DMars) | 2051/24 | ·····       |             | 41151/04 |             |
|-------------------------|---------|-------------|-------------|----------|-------------|
| Year to 31 Mar (RMm)    | 2QFY24  | qoq% chg    | yoy % chg   | 1HFY24   | yoy % chg   |
| Revenue                 | 14.0    | (10.5)      | n.a.        | 28.8     | n.a.        |
| EBITDA                  | 5.1     | (25.5)      | n.a.        | 14.3     | n.a.        |
| EBIT                    | 4.8     | (26.8)      | n.a.        | 14.9     | n.a.        |
| Pre-tax Profit          | 5.1     | (25.5)      | n.a.        | 13.8     | n.a.        |
| Тах                     | -1.1    | (28.7)      | n.a.        | -3.4     | n.a.        |
| Net Profit              | 4.0     | (24.8)      | n.a.        | 10.4     | n.a.        |
| Core Net Profit         | 4.0     | (24.8)      | n.a.        | 10.4     | n.a.        |
| Margins (%)             |         | qoq ppt chg | yoy ppt chg | 49.8     | yoy ppt chg |
| EBITDA                  | 36.4    | (7.3)       | n.a.        | 51.6     | n.a.        |
| EBIT                    | 34.1    | (7.6)       | n.a.        | 47.8     | n.a.        |
| Pre-tax Profit          | 36.3    | (7.3)       | n.a.        | 36.1     | n.a.        |
| Core Net Profit         | 28.6    | (5.4)       | n.a.        | 28.8     | n.a.        |
| 0 0 1 1100 11 11        |         |             |             |          |             |

Source: Oppstar, UOB Kay Hian

#### RESULTS

- Missed expectations. Oppstar reported a softer 2QFY24 core net profit of RM4.0m (-25%) qoq), bringing 1HFY24 core net profit to RM10.4m which made up 37% of our/consensus full-year estimates. The negative deviation was due to the lower-than-expected turnkey project contribution alongside the higher headcount costs.
- · While there are no comparative figures for the corresponding preceding quarter's results as the group was just listed in Mar 23, 1HFY24 revenue and core net profit made up 50%/49% of 2023 revenue and net profit, with strong 1QFY24 contribution offset by a softer 2QFY24. Note that the previous turnkey projects have been fully billed alongside the absence of meaningful turnkey project contribution, hence the gap of lower 2QFY24 revenue (-11% gog). Alongside the higher headcount costs, core net profit dropped 25% gog. Turnkey design services contributed 67.8% (-2.3ppt) of the group's total revenue.

0.6

32.9

-77.3

-181.5

115.1

0.5

37.0

-84.0

15.7

-881 8

0.8

35.4

-89.6

15.9

-134 8

#### **KEY FINANCIALS** 2022 2023 2024F Year to 31 Mar (RMm) Net Turnover 50.6 57.9 68.5 EBITDA 24.0 27 6 29 1 **Operating Profit** 23.2 26.5 27.0 Net Profit 166 20.4 20.6 Net Profit (Adjusted) 16.6 214 24.3 EPS (sen) 2.6 3.4 3.8 47.8 PE (x) 616 42 2 P/B(x)70.9 7.5 6.7 EV/EBITDA (x) 43 1 413 39.9

2025F

101.0

51.9

48 4

37.7

37.7

5.9

27.1

5.8

1.3

374

-85.6

21.3

-241 9

22.7

2026F

125.0

65.8

61.6

48 1

48 1

7.6

213

4.9

184

1.6

38.5

-88.1

-308.0

23.0

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# BUY

(Maintained)

| Share Price   | RM1.61  |
|---------------|---------|
| Target Price  | RM2.18  |
| Upside        | 35.4%   |
| (Previous TP: | RM2.53) |

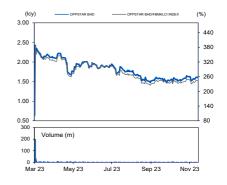
#### **COMPANY DESCRIPTION**

Oppstar is principally involved in the provision of IC design services covering front-end design, back-end design and complete turnkey solutions. It also provides other related services such as post-silicon validation services, training and consultancy services.

#### **STOCK DATA**

| GICS see  | ctor                                       | Semico                      | on Manu  | Ifacturing                 |
|---|--|-----------------------------|----------|----------------------------|
| Bloombe   | rg ticker:                                 |                             | OPPS     | STAR MK                    |
| Shares is   | sued (m)                                   | :                           |          | 636.2                      |
| Market ca   | ap (RMm)                                   | :                           |          | 1,024.3                    |
| Market ca   | ap (US\$m                                  | ı):                         |          | 220.3                      |
|   | g daily t'o <sup>.</sup><br>formance       | ver (US\$m)<br>• <b>(%)</b> | :        | 1.1                        |
| 52-week high/low RM2.43/RM0   |  |                             |          | 43/RM0.63                  |
|   | 0  |                             |          |                            |
| 1mth  | 3mth                                       | 6mth                        | 1yr      | YTD                        |
|   | <b>3mth</b> (4.2)                          | 6mth<br>-                   | 1yr<br>- | <b>YTD</b><br>155.6        |
| <b>1mth</b><br>3.9  |  | -                           | 1yr<br>- |                            |
| <b>1mth</b><br>3.9  | (4.2)<br>areholder                         | -                           | 1yr<br>- | 155.6                      |
| 1mth<br>3.9<br>Major Sh   | (4.2)<br><b>areholder</b><br>Wah           | -                           | 1yr<br>- | 155.6<br><b>%</b>          |
| <b>1mth</b><br>3.9<br><b>Major Sh</b><br>Cheah Hur                            | (4.2)<br><b>areholder</b><br>1 Wah<br>Thai | -                           | 1yr<br>- | 155.6<br><b>%</b><br>21.1  |
| <b>1mth</b><br>3.9<br><b>Major Sh</b><br>Cheah Hur<br>Ng Meng T<br>Tan Chun ( | (4.2)<br><b>areholder</b><br>1 Wah<br>Thai | -<br>'S                     | 1yr<br>- | 155.6<br>%<br>21.1<br>20.1 |

#### **PRICE CHART**



Source: Bloomberg

ANALYST(S)

**Desmond Chong** 

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Source: Oppstar, Bloomberg, UOB Kay Hian

Net Debt/(Cash) to Equity (%)

Dividend Yield (%)

Interest Cover (x)

ROE (%)

Net Margin (%)

## Regional Morning Notes

#### STOCK IMPACT

- On a boiling point of expansion. Out of the gross proceeds of RM104.3m, Oppstar has earmarked RM50m for the expansion of its workforce to: a) support its existing and potential customers, and b) continue developing its human resource capabilities, thereby ensuring its long-term sustainability. Eventually, Oppstar aims to achieve this by increasing its total workforce by 280 (totalling to 500), comprising design engineers (locals or expatriates) for Integrated Circuit design and engineers/technicians for post-silicon validation services, to be based in Penang and Kuala Lumpur. The increase is expected to happen over 36 months. Note that the group's employees stand at 270 now (vs 253 in 1QFY24).
- New collaboration to spearhead growth. Oppstar had on 13 Jul 23 entered into an MOU with Chen Junhua and Shenzhen City Yixin Investment (Yixin) with an intention to jointly establish an investment holding company and an IC-related product company to be based in Shanghai. Chen Junhua is the controlling shareholder of Xiamen KirinCore IOT Technology (XMKC; one of the major customers of Oppstar) while Yixin's main business is to invest in emerging industries such as the IC industry. Note that the MOU will allow the parties to leverage on each other's strengths and expertise and allow the parties to develop and coown the IPs which can potentially create an additional revenue stream for the Oppstar Group. Following that, the holding company, Shanghai Longhuixin Integrated Circuit Group Co. (Longhuixin) has been incorporated in China on 15 Aug 23 with a shareholding stake of 50:45:5 and a paid-up capital of Rmb10m.
- Multi-pronged strategies to aggressively capture sea of opportunities. Besides a wider geographical expansion for its design services, continuous customers engagement for full and IP turnkey and China expansion for product development, the group is also building relationships with foundries for better business traction and sustainability. On this front, it has been gaining traction with a global leading foundry. Additionally, Oppstar has added two new customers (each from NEA and SEA) and is expecting to secure one more SEA customer with earnings traction to follow in subsequent quarters. In the NEA areas, its expansion to Japan is in progress with the group having to obtain the 'haken' licence which allows it to directly hire foreign engineers for projects in Japan. We believe the gap of earnings shortfall could be swiftly closed-up in the next two quarters.
- Forecasting a three-year revenue/core net profit CAGR of 29%/31%, on the back of assuming: a) increasingly higher revenue per engineer on an hourly basis, b) progressively higher utilisation rate on increasing available vs billable time, and c) increasing headcount of design engineers towards FY25. Note that the group's headcount stood at 270 as of 1QFY24. The group has earmarked RM50m for the expansion of its workforce to: a) support the needs of its existing and potential customers, and b) continue developing its human resources capabilities, ensuring its long-term sustainability.

#### EARNINGS REVISION/RISK

• After model updates, we cut our FY24-25 earnings by 16%/11% to account for slower turnkey project contribution.

#### VALUATION/RECOMMENDATION

• Maintain BUY with a lower target price of RM2.18 (from RM2.53), based on a rollover 50.0x 2024F PE. As there are no comparable local listed peers for valuation purposes, our valuation yardstick is based on a 10% premium of its global peers' average two-year forward PE.

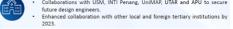
#### Monday, 27 November 2023

#### **FUTURE PLANS**

# Expansion of workforce Iso increase total workforce by 280 design engineers and technicians in der to compete for more ordera/contracts and tap into larger potential customers. to provide further flexibility in managing resources and timely services delivery. Expansing egographical footprint Iso provide denign services and support to the customers as well as to expand the design engineering team. Denotes expansion through investment and acquisitions essing portfolio assets. To tap into demand growth for IC design services / acquire complimentary. To ada in services subje and widen geographical reach and customer base. To applement the IC design business and is expected to increase the Group's review. Complement the IC design business and is expected to increase the customer base. Develop IPS for RISC-V based Soc, IPS for AI and machine gearning applications as well as IP for FIPGA

- learning applications as well as IP for FPGA
   To license these IPs separately or incorporate the IPs into future IC design projects.
- Licensing of IPs to diversify income and improve market profile of the Group.
   To provide a bidding advantage as it is able to shorten the IC design process.

# Collaborations with tertiary institutions Collaborations with USM, INTI Penang, UniMAP, UTAR and APU to secure



Source: Oppstar

#### REVENUE BREAKDOWN BY BUSINESS SEGMENT



Source: Oppstar

# Regional Morning Notes

Monday, 27 November 2023

2023

1.9

0.9

2024F

4.8

0.9

2025F

6.3

0.9

2026F

7.0

0.9

BALANCE SHEET Year to 31 Mar (RMm)

Fixed assets

Other LT assets

| PROFIT & LOSS                 |      |       |       |       |
|-------------------------------|------|-------|-------|-------|
| Year to 31 Mar (RMm)          | 2023 | 2024F | 2025F | 2026F |
| Net Turnover                  | 57.9 | 68.5  | 101.0 | 125.0 |
| EBITDA                        | 27.6 | 29.1  | 51.9  | 65.8  |
| Depreciation & Amortisation   | 1.1  | 2.1   | 3.5   | 4.2   |
| EBIT                          | 26.5 | 27.0  | 48.4  | 61.6  |
| Associate Contributions       |      |       |       |       |
| Net Interest Income/(Expense) | -0.0 | -0.2  | -0.2  | -0.2  |
| Pre-tax Profit                | 26.4 | 26.8  | 48.2  | 61.4  |
| Тах                           | -6.2 | -6.2  | -10.6 | -13.5 |
| Minorities                    | -0.1 | -0.1  | -0.1  | -0.2  |
| Net Profit                    | 20.4 | 20.6  | 37.7  | 48.1  |
| Net Profit (Adjusted)         | 21.4 | 24.3  | 37.7  | 48.1  |

| Cash/ST investment         | 114.7 | 136.5 | 151.7 | 184.1 |
|----------------------------|-------|-------|-------|-------|
| Other current assets       | 18.1  | 7.7   | 16.6  | 16.6  |
| Total assets               | 141.4 | 155.6 | 181.2 | 214.5 |
| ST debt                    | 0.7   | 0.7   | 0.7   | 0.7   |
| Other current liabilities  | 3.7   | 2.2   | 2.9   | 4.3   |
| LT debt                    | 0.0   | 0.0   | 0.0   | 0.0   |
| Other LT liabilities       | 0.3   | 0.3   | 0.3   | 0.3   |
| Shareholders' equity       | 136.6 | 152.3 | 177.2 | 209.0 |
| Minority interest          | 0.0   | 0.0   | 0.0   | 0.0   |
| Total liabilities & equity | 141.4 | 155.6 | 181.2 | 214.4 |
| KEY METRICS                |       |       |       |       |
| Year to 31 Mar (%)         | 2023  | 2024F | 2025F | 2026F |
| Profitability              |       |       |       |       |
| EBITDA margin              | 47.6  | 42.5  | 51.4  | 52.7  |
| Pre-tax margin             | 45.6  | 39.1  | 47.7  | 49.1  |
| Net margin                 | 37.0  | 35.4  | 37.4  | 38.5  |
| ROA                        | 15.2  | 13.2  | 20.8  | 22.4  |
|                            |       |       |       |       |

| CASH FLOW                        |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
| Year to 31 Mar (RMm)             | 2023  | 2024F | 2025F | 2026F |
| Operating                        | 5.6   | 35.0  | 33.1  | 53.7  |
| Pre-tax Profit                   | 26.4  | 26.8  | 48.2  | 61.4  |
| Тах                              | -6.4  | -6.2  | -10.6 | -13.5 |
| Depreciation & Amortisation      | 1.1   | 2.1   | 3.5   | 4.2   |
| Associates                       |       |       |       |       |
| Working Capital Changes          | -15.5 | 12.1  | -8.2  | 1.4   |
| Other Operating Cashflows        | 0.0   | 0.2   | 0.2   | 0.2   |
| Investing                        | -3.2  | -5.0  | -5.0  | -5.0  |
| Capex (Growth)                   | -3.2  | -5.0  | -5.0  | -5.0  |
| Investments                      |       |       |       |       |
| Proceeds from Sale of Assets     | 0.0   | 0.0   | 0.0   | 0.0   |
| Others                           | -0.1  | 0.0   | 0.0   | 0.0   |
| Financing                        | 101.2 | -8.2  | -12.8 | -16.3 |
| Dividend Payments                | 0.0   | -8.2  | -12.8 | -16.3 |
| Issue of Shares                  | 101.8 | 0.0   | 0.0   | 0.0   |
| Proceeds from Borrowings         | 0.0   | 0.0   | 0.0   | 0.0   |
| Loan Repayment                   | 0.0   | 0.0   | 0.0   | 0.0   |
| Others/Interest Paid             | 0.0   | 0.0   | 0.0   | 0.0   |
| Net Cash Inflow (Outflow)        | 103.6 | 21.7  | 15.3  | 32.4  |
| Beginning Cash & Cash Equivalent | 11.2  | 114.7 | 136.5 | 151.7 |
| Changes Due to Forex Impact      | -0.0  | 0.0   | 0.0   | 0.0   |
| Ending Cash & Cash Equivalent    | 114.7 | 136.5 | 151.7 | 184.1 |

| KEY METRICS               |        |        |        |        |
|---------------------------|--------|--------|--------|--------|
| Year to 31 Mar (%)        | 2023   | 2024F  | 2025F  | 2026F  |
| Profitability             |        |        |        |        |
| EBITDA margin             | 47.6   | 42.5   | 51.4   | 52.7   |
| Pre-tax margin            | 45.6   | 39.1   | 47.7   | 49.1   |
| Net margin                | 37.0   | 35.4   | 37.4   | 38.5   |
| ROA                       | 15.2   | 13.2   | 20.8   | 22.4   |
| ROE                       | 15.7   | 15.9   | 21.3   | 23.0   |
|                           |        |        |        |        |
| Growth                    |        |        |        |        |
| Turnover                  | 14.5   | 18.3   | 47.5   | 23.8   |
| EBITDA                    | 14.6   | 5.6    | 78.3   | 26.8   |
| Pre-tax profit            | 14.3   | 1.3    | 80.1   | 27.4   |
| Net profit                | 22.4   | 1.3    | 83.1   | 27.4   |
| Net profit (adj.)         | 29.0   | 13.1   | 55.5   | 27.4   |
|                           |        |        |        |        |
| Leverage                  |        |        |        |        |
| Debt to total capital     | 0.0    | 0.0    | 0.0    | 0.0    |
| Debt to equity            | 0.0    | 0.0    | 0.0    | 0.0    |
| Net debt/(cash) to equity | -84.0  | -89.6  | -85.6  | -88.1  |
| Interest cover (x)        | -881.8 | -134.8 | -241.9 | -308.0 |
|                           |        |        |        |        |

#### COMPANY UPDATE

# **Rex International Holding (REXI SP)**

Not Much To Cheer About Heading Into The Festive Season

Rex's latest production update for Oct 23 did not provide much cause for cheer due to continued travails at its Yumna Field. At present, it is shut down with no visibility as to when production can resume. The Brage Field meanwhile has brought on-stream two new wells; however, we note the lack of disclosure on production numbers. In early-Nov 23, Rex bought a 17% stake in the Brasse Field offshore Norway for an undisclosed sum. Maintain SELL. Target price: S\$0.10.

WHAT'S NEW

KEY EINANCIALS

- Yumna still hobbling towards the company's 20,000bpd production target. In Rex International's (Rex) latest production update for Oct 23, the company disclosed that its Yumna Field in offshore Block 50 in Oman (Rex equity stake: 91.81%) only managed an anaemic 1,304bpd of oil production, declining 20% mom and 65% yoy. The latest problem at Yumna was a production shutdown on 25 Oct 23 due to "damage to the internal pressure containing liner of the newly installed larger flowline". No guidance was given as to when the field, which produced an average of nearly 11,000bpd in 2021, would be re-started. With Yumna continuing to underperform, Rex's average production ytd stands at just over 9,000bpd and is far from its 20,000bpd target.
- Lack of disclosure continues to be an issue. While it is positive that the company's combined production from the Brage and Yme fields in Norway exceeded 10,000bpd in the last week of Oct 23, we highlight that unlike its previous production reports, the company did not present a breakdown of production from these two fields. This may imply that the Yme field continues to experience problems given the higher-than-expected water cuts that have been reported by its operator in the past. Brage meanwhile has remained a strong performer with a new well brought on-stream in late-Oct 23 and another in early-Nov 23, and recently made a 1mmbbl discovery.
- Acquiring long-term production potential. In early-Nov 23, Rex announced that its 91.65%-owned subsidiary Lime Petroleum will be acquiring a 17% stake in the Brasse Field located in the Norwegian sector of the North Sea. Production is expected to start in 2027 and the operator of the field has reported recoverable resources of between 21-29mmboe, of which 25-30% is gas (4mmboe net to Rex). According to Rex, it is unable to disclose the purchase price for Brasse given confidentiality issues. We have not incorporated this acquisition into our financial model given the paucity of information at present; however we note that Rex has indicated that the proximity of the Brasse field will have "significant positive synergies with Brage".

| KEY FINANCIALS                |       |        |       |       |       |
|-------------------------------|-------|--------|-------|-------|-------|
| Year to 31 Dec (US\$m)        | 2021  | 2022   | 2023F | 2024F | 2025F |
| Net turnover                  | 158   | 170    | 196   | 158   | 143   |
| EBITDA                        | 75    | 10     | 38    | 32    | 28    |
| Operating profit              | 73    | 8      | 30    | 30    | 27    |
| Net profit (rep./act.)        | 67    | (1)    | 5     | 8     | 7     |
| Net profit (adj.)             | 118   | 55     | 56    | 50    | 46    |
| EPS (US\$ cent)               | 9.0   | 4.2    | 4.2   | 3.8   | 3.5   |
| PE (x)                        | 1.4   | 3.0    | 3.0   | 3.3   | 3.6   |
| P/B (x)                       | 0.9   | 0.9    | 1.0   | 1.1   | 1.0   |
| EV/EBITDA (x)                 | 3.2   | 23.4   | 6.2   | 7.5   | 8.5   |
| Dividend yield (%)            | 2.9   | 2.9    | 11.7  | 11.7  | 0.0   |
| Net margin (%)                | 42.4  | (0.6)  | 2.3   | 5.3   | 4.8   |
| Net debt/(cash) to equity (%) | (2.7) | (13.5) | 33.8  | 22.7  | 3.0   |
| Interest cover (x)            | 25.6  | 0.7    | 2.1   | 3.4   | 3.0   |
| ROE (%)                       | 42.8  | n.a.   | 2.6   | 5.1   | 4.4   |
| Consensus net profit          | -     | -      | 66    | 48    | 13    |
| UOBKH/Consensus (x)           | -     | -      | 0.85  | 1.04  | 3.47  |

Source: REX International Holding, Bloomberg, UOB Kay Hian

# SELL

(Maintained)

| Share Price  | S\$0.17 |
|--------------|---------|
| Target Price | S\$0.10 |
| Upside       | -40.8%  |

#### **COMPANY DESCRIPTION**

Rex International Holding Limited is a production and exploration oil company with concessions in Norway and Oman.

#### **STOCK DATA**

| GICS sector                     | Energy  |
|---------------------------------|---------|
| Bloomberg ticker:               | REXI SP |
| Shares issued (m):              | 1,302.3 |
| Market cap (S\$m):              | 220.1   |
| Market cap (US\$m):             | 164.3   |
| 3-mth avg daily t'over (US\$m): | 3.2     |
|                                 |         |

#### Price Performance (%)

| 52-week h | nigh/low      |        | S\$0.240/S\$0.12 |        |  |
|-----------|---------------|--------|------------------|--------|--|
| 1mth      | 3mth          | 6mth   | 1yr              | YTD    |  |
| (4.5)     | 7.6           | (1.2)  | (26.5)           | (21.4) |  |
| Major Sh  | nareholder    | s      |                  | %      |  |
| Limea Ltd |               |        |                  | 34.7   |  |
| Bevoy Inv | estment Ltd   |        |                  | 6.0    |  |
| FY23 NA\  | //Share (US\$ | 5)     |                  | 0.13   |  |
| FY23 Net  | Debt/Share (  | (US\$) |                  | 0.04   |  |

#### **PRICE CHART**



Source: Bloomberg

ANALYST(S)

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## Regional Morning Notes

#### **STOCK IMPACT**

• Money not well spent. Nearly 1.5 years after the successful hook-up and commissioning of the new floating storage tanker and Mobile Offshore Production Unit (MOPU) at its key Yumna asset offshore Oman, production remains problematic. Prior to the upgrades, Rex had guided for the new facility to double its liquids processing capacity to 30,000bpd. However since Jun 22, production was 1,300bpd prior to the recent shutdown vs production of 7,500-10,600bpd in the six months prior to the change-out of the MOPU. We understand that this is partly attributable to the lack of availability of jack-up rigs offshore Oman to service the problematic field. With a number of Middle Eastern national oil companies having tied up such assets, and the prohibitive cost of bringing in rigs from Europe or Asia, we believe that Yumna will continue to face production issues in the near to medium term.

#### EARNINGS REVISION/RISK

 No changes to our earnings forecasts. However, we highlight downside risk to earnings given the company's continued poor production performance. Higher interest expense will also hit its bottom line given that as at end-1H23, it had net debt of US\$58.7m vs net cash of US\$27.0m at end-1H22.

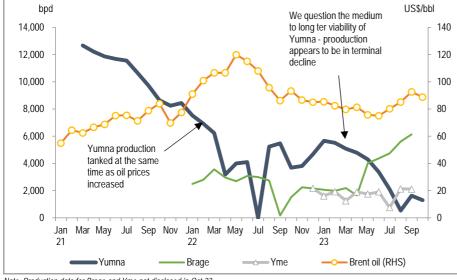
#### VALUATION/RECOMMENDATION

• We retain our SELL rating with a target price of \$\$0.10. While upstream oil & gas companies are traditionally valued using a discounted cash flow methodology, we have elected to use a target 0.5x P/B multiple instead due to our diminished confidence in the company's ability to execute on its oil production targets. On the asset valuation side, Rex currently trades on an EV/boe of US\$16.90 per barrel which appears attractive relative to current oil prices.

#### SHARE PRICE CATALYST

- · Refraining from related-party transactions in sectors that are unrelated to oil and gas.
- · Better consistency and reliability in delivering oil production numbers.
- Removal of the opacity surrounding its spending on M&A and capex items.

#### MONTHLY PRODUCTION FROM REX'S THREE KEY FIELDS VS BRENT OIL PRICE



Note: Production data for Brage and Yme not disclosed in Oct 23 Source: Rex International

#### Monday, 27 November 2023

#### POOR PRODUCTION AT KEY YUMNA FIELD

| Month   | bopd   | Mgmt commentary   |
|---------|--------|---|
| Mar 21  | 12,672 | MOPU upgraded to handle 30kbd of *liquids<br>processing*, wells tested at 20kbd during the<br>month |
| Apr     | 12,210 | Nil   |
| May     | 11,858 | Nil   |
| Jun     | 11,682 | Nil   |
| Jul     | 11.552 | Nil   |
| Aug     | 10,655 | Production choked back: annual calibration of   |
| Aug     | 10,033 | safety valves/upgrades to transfer pumps  |
| Sep     | 9.709  | Production choked back: planned maintenance   |
|         |        | & reservoir management  |
| Oct     | 8,640  | Production choked back: planned maintenance   |
|         |        | & reservoir management  |
| Nov     | 8,234  | Production choked back: planned maintenance   |
| D       | 0.410  | & reservoir management  |
| Dec     | 8,440  | Production choked back: planned maintenance   |
| Jan 22  | 7.518  | & reservoir management<br>Production choked back: planned maintenance                               |
| Jdll ZZ | 7,010  | & reservoir management  |
| Feb     | 6,919  | Change out of the MOPU at Yumna   |
| Mar     | 6.227  | Change out of the MOPU at Yumna   |
| Apr     | 3,178  | Change out of the MOPU at Yumna   |
| •       |        | 0   |
| May     | 4,000  | No data announced for Yumna in May -<br>production estimated by UOBKH                               |
| Jun     | 4,097  | Replacement of flowline at Yumna  |
| Jul     | 0      | Change out of the MOPU at Yumna   |
| Aug     | 5,236  | Changed out damaged flowline at the Yumna MOPU  |
| Sep     | 5,474  | NA  |
| Oct     | 3,678  | Reduced production at Yumna due to drilling activities  |
| Nov     | 3,811  | Reduced production at Yumna due to drilling activities  |
| Dec     | 4,673  | Reduced production at Yumna due to drilling activities  |
| Jan 23  | 5.664  | NA  |
| Feb     | 5,515  | NA  |
| Mar     | 5.076  | NA  |
| Apr     | 4,782  | NA  |
| May     | 4,702  | NA  |
| ,       |        |   |
| Jun     | 3,364  | Yumna unplanned shutdown on 29/6/23   |
| Jul     | 2,093  | Yumna-3 unplanned electrical failure of ESP;  |
| Δυσ     | 533    | Yme compressor related issues<br>Flowline issue at Yumna  |
| Aug     |        |   |
| Sep     | 1,620  | NA  |
| Oct     | 1,304  | Flowline issue at Yumna. Well shut down from<br>25 Oct  |

Note: Oil production numbers and management comments relate only to Yumna,

Source: Rex International

# Regional Morning Notes

**PROFIT & LOSS** Year to 31 Dec (US\$m) 2022 2023F 2024F 2025F Net turnover 158 143 170 196 EBITDA 10 38 32 28 Deprec. & amort. 2 9 1 1 EBIT 8 30 30 27 Total other non-operating income (1) (2) (2) (2) 0 0 Associate contributions 0 0 Net interest income/(expense) (14) (18) (9) (9) Pre-tax profit (7) 10 19 15 Тах 7 (4) (9) (7) Minorities (1) (1) (2) (1) Net profit (1) 5 8 7 Net profit (adj.) 55 50 56 46

| Year to 31 Dec (US\$m)     | 2022 | 2023F | 2024F | 2025F |
|----------------------------|------|-------|-------|-------|
| Fixed assets               | 39   | 35    | 33    | 33    |
| Other LT assets            | 398  | 384   | 366   | 351   |
| Cash/ST investment         | 116  | 53    | 72    | 97    |
| Other current assets       | 125  | 158   | 134   | 125   |
| Total assets               | 677  | 631   | 605   | 605   |
| ST debt                    | 14   | 31    | 31    | 31    |
| Other current liabilities  | 130  | 77    | 77    | 77    |
| LT debt                    | 78   | 81    | 76    | 71    |
| Other LT liabilities       | 267  | 255   | 254   | 254   |
| Shareholders' equity       | 177  | 174   | 155   | 161   |
| Minority interest          | 12   | 12    | 12    | 12    |
| Total liabilities & equity | 677  | 631   | 605   | 605   |

#### **CASH FLOW**

| Year to 31 Dec (US\$m)           | 2022  | 2023F | 2024F | 2025F |
|----------------------------------|-------|-------|-------|-------|
| Operating                        | 170   | (19)  | 66    | 48    |
| Pre-tax profit                   | (7)   | 10    | 19    | 15    |
| Тах                              | 7     | (4)   | (9)   | (7)   |
| Deprec. & amort.                 | 2     | 9     | 1     | 1     |
| Associates                       | 0     | 0     | 0     | 0     |
| Working capital changes          | 66    | (87)  | 23    | 9     |
| Non-cash items                   | 1     | 0     | 0     | 0     |
| Other operating cashflows        | 101   | 54    | 31    | 30    |
| Investing                        | (137) | (32)  | (31)  | (28)  |
| Capex (growth)                   | (1)   | 0     | 0     | 0     |
| Investments                      | (1)   | 1     | 0     | 0     |
| Others                           | (135) | (33)  | (31)  | (28)  |
| Financing                        | 22    | (11)  | (16)  | 5     |
| Issue of shares                  | 0     | 0     | 0     | 0     |
| Proceeds from borrowings         | 0     | 17    | 0     | 0     |
| Loan repayment                   | (50)  | (17)  | (5)   | (5)   |
| Others/interest paid             | 72    | (12)  | (11)  | 10    |
| Net cash inflow (outflow)        | 54    | (62)  | 18    | 25    |
| Beginning cash & cash equivalent | 61    | 116   | 53    | 72    |
| Changes due to forex impact      | 1     | 0     | 0     | 0     |
| Ending cash & cash equivalent    | 116   | 53    | 72    | 97    |

# **KEY METRICS**

**BALANCE SHEET** 

| Year to 31 Dec (%)        | 2022    | 2023F | 2024F  | 2025F  |
|---------------------------|---------|-------|--------|--------|
| Profitability             |         |       |        |        |
| EBITDA margin             | 5.9     | 19.5  | 20.0   | 19.3   |
| Pre-tax margin            | (3.9)   | 4.9   | 12.0   | 10.7   |
| Net margin                | (0.6)   | 2.3   | 5.3    | 4.8    |
| ROA                       | n.a.    | 0.7   | 1.4    | 1.1    |
| ROE                       | n.a.    | 2.6   | 5.1    | 4.4    |
|                           |         |       |        |        |
| Growth                    |         |       |        |        |
| Turnover                  | 7.5     | 15.2  | (19.5) | (9.1)  |
| EBITDA                    | (86.5)  | 280.0 | (17.4) | (12.3) |
| Pre-tax profit            | (109.5) | n.a.  | 98.1   | (19.1) |
| Net profit                | (101.5) | n.a.  | 85.4   | (17.7) |
| Net profit (adj.)         | (53.6)  | 1.8   | (10.3) | (8.8)  |
| EPS                       | (53.6)  | 1.8   | (10.3) | (8.8)  |
|                           |         |       |        |        |
| Leverage                  |         |       |        |        |
| Debt to total capital     | 32.8    | 37.6  | 39.0   | 37.0   |
| Debt to equity            | 52.1    | 64.6  | 69.1   | 63.3   |
| Net debt/(cash) to equity | (13.5)  | 33.8  | 22.7   | 3.0    |
| Interest cover (x)        | 0.7     | 2.1   | 3.4    | 3.0    |
|                           |         |       |        |        |

#### COMPANY UPDATE

# PTT (PTT TB)

Expect A gog Drop For 4Q23 Core Profit, But Valuation To Be Interesting

The tone from the analyst meeting was neutral. PTT has updated the progress of the Future Energy & Beyond project. It aims to increase profit to 30% of total net profit in 2030. Despite the short-term challenges stemming from a decline in core profit expectations in 4Q23, PTT's stock price remains appealing, featuring favourable dividend yields. Maintain BUY. Target price: Bt41.00.

WHAT'S NEW

- The tone from PTT's analyst meeting was neutral.
- Progress of the Future Energy & Beyond business group. The progress of projects within the Future Energy & Beyond business group is in line with PTT's business plan to increase the profit share from this business segment to 30% by 2030. Currently, the progress is as follows:
- a) Arun Plus (ARUN+) has partnered with Kwang Yang Motor Company Limited group (KYMCO group) to create a JV named Aionex, (Arun Plus holds 51%, KYMCO group holds 49%). The primary focus of Aionex is the manufacturing and marketing of two-wheel electric vehicles and 300 ionex electric motorcycle battery switching stations (ionex Energy Stations) by 2025.
- b) Nutra Regenerative Protein Co (NRPT), a JV between Innobic (Asia) Co and NR Instant Protein Co (NRF), began operating Plant & Bean (Thailand) which produces protein food from plants (plant-based food) with advanced production technology from England and it will be the largest factory in the ASEAN region. The first phase will start with a production capacity of 3,000 tonnes in 4Q23. The factory will be able to increase production capacity to a maximum of 25,000 tonnes.
- c) Global Power Synergy (GPSC) stands as the flagship of PTT Group's electricity business, and it is proud to present that Avaada Energy Private (Avaada Energy), a leading operator in the renewable energy sector in India (with GPSC holding 42.93% of shares through Global Renewables Synergy (GRSC)), has successfully secured a bid for a solar power project with a capacity of 1.4 gigawatts (GW) which includes a long-term power purchase agreement. Presently, Avaada Energy has total production capacity of 8.76 GW, while the long-term goal is to increase production capacity to 15.0 GW in 2030.

#### **KEY FINANCIALS**

| Year to 31 Dec (Btm)                 | 2021      | 2022      | 2023F     | 2024F     | 2025F     |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net turnover                         | 2,258,818 | 3,367,203 | 2,570,493 | 2,634,409 | 2,699,914 |
| EBITDA                               | 378,028   | 480,495   | 372,380   | 377,869   | 381,276   |
| Operating profit                     | 231,238   | 313,165   | 208,397   | 217,165   | 223,786   |
| Net profit (rep./act.)               | 108,363   | 91,175    | 91,160    | 98,445    | 103,087   |
| Net profit (adj.)                    | 100,790   | 160,536   | 91,160    | 98,445    | 103,087   |
| EPS (Bt)                             | 3.5       | 5.6       | 3.2       | 3.4       | 3.6       |
| PE (x)                               | 9.8       | 6.2       | 10.9      | 10.1      | 9.6       |
| P/B (x)                              | 0.9       | 0.9       | 0.9       | 0.9       | 0.8       |
| EV/EBITDA (x)                        | 3.9       | 3.1       | 4.0       | 3.9       | 3.9       |
| Dividend yield (%)                   | 5.8       | 5.8       | 5.8       | 6.0       | 6.2       |
| Net margin (%)                       | 4.8       | 2.7       | 3.5       | 3.7       | 3.8       |
| Net debt/(cash) to equity (%)        | 53.8      | 67.4      | 44.6      | 44.3      | 43.2      |
| Interest cover (x)                   | 13.4      | 13.0      | 9.7       | 11.0      | 11.9      |
| ROE (%)                              | 10.8      | 8.4       | 8.2       | 8.7       | 8.7       |
| Consensus net profit                 | -         | -         | 100,999   | 102,554   | 109,846   |
| UOBKH/Consensus (x)                  | -         | -         | 0.90      | 0.96      | 0.94      |
| Source: PTT, Bloomberg, UOB Kay Hian |           |           |           |           |           |

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# BUY

(Maintained)

| Share Price  | Bt34.50 |
|--------------|---------|
| Target Price | Bt41.00 |
| Upside       | +18.8%  |

#### **COMPANY DESCRIPTION**

PTT is a Thailand-based oil & gas company engaged in the upstream petroleum, downstream petroleum, coal business and other related businesses.

#### STOCK DATA

| GICS sector  | or                                     |                     |                    | Energy                          |
|--|--|---------------------|--------------------|---------------------------------|
| Bloomberg  | ticker:                                |                     |                    | PTT TB                          |
| Shares iss   | ued (m)                                | :                   |                    | 28,563.0                        |
| Market cap   | o (Btm):                               |                     | ę                  | 992,564.1                       |
| Market cap   | o (US\$m                               | ı):                 |                    | 28,186.6                        |
| 3-mth avg<br>Price Perfo                               |  | · ·                 | n):                | 51.0                            |
| 52-week high   | n/low                                  |                     | Bt36               | .25/Bt29.50                     |
| 4  | 0                                      | 0                   | 4                  |                                 |
| 1mth   | 3mth                                   | 6mth                | 1yr                | YTD                             |
| 4.5  | (4.1)                                  | <b>6mtn</b><br>11.2 | 1 <b>yr</b><br>4.5 | <b>YTD</b><br>4.5               |
|  | (4.1)                                  | 11.2                | -                  |                                 |
| 4.5  | (4.1)                                  | 11.2                | -                  | 4.5                             |
| 4.5<br>Major Shar                                      | (4.1)<br>reholder                      | 11.2                | -                  | 4.5<br>%                        |
| 4.5<br><b>Major Shar</b><br>MOF                        | (4.1)<br>reholder                      | 11.2                | -                  | 4.5<br>%<br>51.2                |
| 4.5<br><b>Major Shar</b><br>MOF<br>Vayupak Fun         | (4.1)<br>reholder                      | 11.2                | -                  | 4.5<br>%<br>51.2<br>15.3        |
| 4.5<br><b>Major Shar</b><br>MOF<br>Vayupak Fur<br>NVDR | (4.1)<br>reholder<br>nd 1<br>hare (Bt) | 11.2<br>rs          | -                  | 4.5<br>%<br>51.2<br>15.3<br>3.0 |

#### **PRICE CHART**



Source: Bloomberg

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## Regional Morning Notes

• NGV business' loss has decreased. We have a positive view after the announcement of an increase in the selling price of NGV gas for all customer groups until the end of 2023. As a result, the loss in the NGV business decreased significantly, with a loss of Bt672m in 3Q23 (vs a loss of Bt1.3b in 2Q23 and a loss of Bt4.2b in 2Q23).

#### STOCK IMPACT

- Expect core profit in 4Q23 to decrease qoq. While profits from the gas separation plant business (GSP) have been consistently increasing qoq due to a rise in gross profit attributed to lower production costs and increased sales volume, we expect a qoq decrease in core profit for 4Q23, as: a) gas sales volume is expected to decline due to the seasonal demand for gas within the electricity generation sector; b) there is a significant decrease in profit sharing from investments in the petrochemical and refinery businesses (P&R), and oil station business, primarily influenced by a decline in the gross refinery margin (GRM), spread of petrochemical and marketing margin; c) the current price of Dubai crude oil is under US\$80.0/bbl, a decrease from the average of US\$93.0/bbl in Sep 23. Consequently, the operating results for 4Q23 are expected to reflect a stock loss, reversing the significant stock gains seen in the P&R businesses during 3Q23, and d) there is an increase in selling, general, and administrative expenditures due to seasonality.
- Core profit trend in 2024 continues to grow. Despite the anticipated weakness in core profit for 4Q23 due to seasonality, we expect a qoq recovery in 1Q24 from the increase in gas sales volume in the power generation sector. The sustained growth of the Thai economy for 2024 is on an upward trajectory. As a result, we expect core profit in 2024 to increase 8% yoy. This optimistic outlook is supported by sustained high crude oil prices driven by global oil demand which is expected to increase by 1.3m barrels per day in 2024. Notably, 46% of this demand growth is attributed to the increased demand for oil from China, which is experiencing economic recovery, the continued implementation of the OPEC+ production reduction policy, and the US policy interest rate cut. Consequently, we are maintaining our assumption for crude oil prices at US\$84.0/bbl, (vs US\$81.0/bbl in 2023).

EARNINGS REVISION/RISK

#### • None.

#### VALUATION/RECOMMENDATION

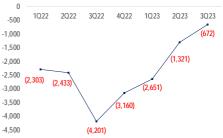
• Maintain BUY with an SOTP-based target price of Bt41.00. Our positive view on PTT remains strong, primarily due to its appealing valuation and dividend potential. Currently, PTT's stock is trading at a P/B of 0.87x, and we anticipate the company will maintain an average dividend yield of 6.0% over the next three years, reaching this level by 2023-25. Additionally, our expectations are for PTT to distribute dividends of Bt2.0/share and Bt2.1/share in 2023/24 (based on a dividend payout ratio at 60%). As for the top picks in the energy sector, we prefer PTT Exploration and Production (PTTEP TB/Target: Bt200.00) and ESSO (ESSO TB/Target: Bt15.00).

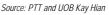
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#### **INCREASED NGV PRICES**

| Туре                         | NGV Price (Bt/Kg)   | Period             |  |  |
|------------------------------|---------------------|--------------------|--|--|
| Taxi                         | From 13.62 to 14.62 | 16 Jun - 31 Dec-23 |  |  |
| Public car                   | From 17.59 to 18.59 | 16 Jun - 31 Dec-23 |  |  |
| General car                  | From 18.59 to 19.59 | 16 Sep - 31 Dec-23 |  |  |
| Source: PTT and UOB Kay Hian |                     |                    |  |  |

#### PERFORMANCE IN NGV BUSINESS





#### **BUSINESS OUTLOOK (2024)**



Source: PTT and UOB Kay Hian

#### PROJECT UPDATE



#### Source: PTT and UOB Kay Hian

#### 2024 PRODUCT PRICE OUTLOOK



#### SOTP VALUATION

|                                 | Share<br>Holding | Fair Value<br>(Bt/share) | Value<br>(Btm) | Value<br>(Bt/share) | Methodology                   |
|---------------------------------|------------------|--------------------------|----------------|---------------------|-------------------------------|
| Gas Business (PTT's Operations) | 100.0%           |                          | 589,906        | 20.7                | DCF @ WACC 7.0% G =1%         |
| (-) Net Debt (PTT Only)         |                  |                          | -215,184       | -7.5                |                               |
| 1) PTT - Equity Value           |                  |                          | 374,722        | 13.1                |                               |
| 2) Associates and Subsidiaries  |                  |                          |                |                     |                               |
| PTTEP                           | 65.3%            | 182.00                   | 471,745        | 16.5                | 5-yrs regional PE mean of 10x |
| TOP                             | 48.0%            | 68.00                    | 72,912         | 2.6                 | 5-yrs regional PE mean of 11x |
| IRPC                            | 48.1%            | 2.20                     | 21,601         | 0.8                 | PBV -1.0 S.D. of 0.6x         |
| PTTGC                           | 48.2%            | 41.00                    | 89,067         | 3.1                 | PBV -1.0 S.D. of 0.6x         |
| GPSC                            | 55.2%            | 70.00                    | 109,014        | 3.8                 | DCF Valuation                 |
| OR                              | 75.0%            | 29.00                    | 261,000        | 9.1                 | 5-yes avg. PE mean of 24x     |
| 3) Affiliates                   |                  |                          |                |                     |                               |
| Others Affiliates               |                  |                          | 76,008         | 2.7                 |                               |
| Total                           |                  |                          |                | 52                  |                               |
| Discount to NAV (2021-2022)     |                  |                          |                | -20%                |                               |
| PTT's TP (UOB Kay Hian)         |                  |                          |                | 41                  |                               |

Source: PTT and UOB Kay Hian

# Regional Morning Notes

#### **PROFIT & LOSS**

| Year to 31 Dec (Btm)          | 2022      | 2023F     | 2024F     | 2025F     |
|-------------------------------|-----------|-----------|-----------|-----------|
| Net turnover                  | 3,367,203 | 2,570,493 | 2,634,409 | 2,699,914 |
| EBITDA                        | 480,495   | 372,380   | 377,869   | 381,276   |
| Deprec. & amort.              | 167,330   | 163,983   | 160,703   | 157,489   |
| EBIT                          | 313,165   | 208,397   | 217,165   | 223,786   |
| Associate contributions       | 5,849     | 6,426     | 6,586     | 6,750     |
| Net interest income/(expense) | (37,091)  | (38,208)  | (34,409)  | (32,127)  |
| Pre-tax profit                | 212,562   | 176,616   | 189,343   | 198,409   |
| Тах                           | (90,462)  | (52,985)  | (56,803)  | (59,523)  |
| Minorities                    | (30,925)  | (32,471)  | (34,095)  | (35,799)  |
| Net profit                    | 91,175    | 91,160    | 98,445    | 103,087   |
| Net profit (adj.)             | 160,536   | 91,160    | 98,445    | 103,087   |

| CASH FLOW                        |           |           |           |           |
|----------------------------------|-----------|-----------|-----------|-----------|
| Year to 31 Dec (Btm)             | 2022      | 2023F     | 2024F     | 2025F     |
| Operating                        | 191,700   | 346,163   | 324,543   | 329,554   |
| Pre-tax profit                   | 212,562   | 176,616   | 189,343   | 198,409   |
| Тах                              | (90,462)  | (52,985)  | (56,803)  | (59,523)  |
| Deprec. & amort.                 | 167,330   | 163,983   | 160,703   | 157,489   |
| Working capital changes          | (178,970) | 58,549    | 31,299    | 33,178    |
| Other operating cashflows        | 81,241    | 0         | 0         | 0         |
| Investing                        | (186,690) | (37,891)  | (285,298) | (277,174) |
| Investments                      | (188,292) | (253,203) | (246,415) | (232,595) |
| Others                           | 1,602     | 215,312   | (38,883)  | (44,579)  |
| Financing                        | 50,668    | (201,113) | (112,933) | (122,304) |
| Dividend payments                | (85,923)  | (57,126)  | (54,696)  | (59,067)  |
| Issue of shares                  | n.a.      | n.a.      | n.a.      | n.a.      |
| Proceeds from borrowings         | 136,591   | (143,987) | (58,237)  | (63,237)  |
| Net cash inflow (outflow)        | 55,678    | 107,160   | (73,688)  | (69,924)  |
| Beginning cash & cash equivalent | 312,730   | 340,054   | 447,214   | 373,525   |
| Changes due to forex impact      | (28,354)  | 0         | 0         | 0         |
| Ending cash & cash equivalent    | 340,054   | 447,214   | 373,525   | 303,601   |

| BALANCE SHEET              |           |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|
| Year to 31 Dec (Btm)       | 2022      | 2023F     | 2024F     | 2025F     |
| Fixed assets               | 1,499,330 | 1,588,550 | 1,674,262 | 1,749,367 |
| Other LT assets            | 875,440   | 367,646   | 408,318   | 454,731   |
| Cash/ST investment         | 340,054   | 447,214   | 373,525   | 303,601   |
| Other current assets       | 700,809   | 627,172   | 605,785   | 583,009   |
| Total assets               | 3,415,632 | 3,030,582 | 3,061,890 | 3,090,708 |
| ST debt                    | 163,995   | 78,241    | 83,241    | 88,241    |
| Other current liabilities  | 428,546   | 413,459   | 423,371   | 433,773   |
| LT debt                    | 924,943   | 866,710   | 803,473   | 735,235   |
| Other LT liabilities       | 364,456   | 71,974    | 73,763    | 75,598    |
| Shareholders' equity       | 1,110,365 | 1,115,188 | 1,158,937 | 1,202,957 |
| Total liabilities & equity | 3,415,632 | 3,030,582 | 3,061,890 | 3,090,708 |

#### **KEY METRICS**

| Year to 31 Dec (%)        | 2022   | 2023F  | 2024F | 2025F |
|---------------------------|--------|--------|-------|-------|
| Profitability             |        |        |       |       |
| EBITDA margin             | 14.3   | 14.5   | 14.3  | 14.1  |
| Pre-tax margin            | 6.3    | 6.9    | 7.2   | 7.3   |
| Net margin                | 2.7    | 3.5    | 3.7   | 3.8   |
| ROA                       | 2.8    | 2.8    | 3.2   | 3.4   |
| ROE                       | 8.4    | 8.2    | 8.7   | 8.7   |
|                           |        |        |       |       |
| Growth                    |        |        |       |       |
| Turnover                  | 49.1   | (23.7) | 2.5   | 2.5   |
| EBITDA                    | 27.1   | (22.5) | 1.5   | 0.9   |
| Pre-tax profit            | (3.2)  | (16.9) | 7.2   | 4.8   |
| Net profit                | (15.9) | 0.0    | 8.0   | 4.7   |
| Net profit (adj.)         | 59.3   | (43.2) | 8.0   | 4.7   |
| EPS                       | 59.3   | (43.2) | 8.0   | 4.7   |
|                           |        |        |       |       |
| Leverage                  |        |        |       |       |
| Debt to total capital     | 41.5   | 37.1   | 34.6  | 31.9  |
| Debt to equity            | 98.1   | 84.7   | 76.5  | 68.5  |
| Net debt/(cash) to equity | 67.4   | 44.6   | 44.3  | 43.2  |
| Interest cover (x)        | 13.0   | 9.7    | 11.0  | 11.9  |
|                           |        |        |       |       |

## Monday, 27 November 2023



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Monday, 27 November 2023

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