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ASEAN

Sector

Banks

ASEAN Banks: Quarterly update.

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INDONESIA

Update

Matahari Department Store (LPPF IJ/HOLD/Rp2,400/Target: Rp2,700)
3Q23 sales still soft with potential recovery in 4Q23.

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MALAYSIA

Results

Top Glove (TOPG MK/HOLD/RM0.755/Target: RM0.820)

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4QFY23: Losses narrowed within expectations, after stripping away one-off impairment. Maintain HOLD with lower target price of RM0.82.

SINGAPORE

Update

Keppel REIT (KREIT SP/BUY/\$\$0.83/Target: \$\$1.06)

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Stability from Singapore and recovery from Sydney.

Mapletree Industrial Trust (MINT SP/BUY/\$\$2.19/Target: \$\$2.76)

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Expansion in Japan supported by asset cycling in Singapore.

THAILAND

Update

Indorama Ventures (IVL TB/BUY/Bt25.00/Target: Bt30.00)

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Share price already reflecting negative outlook.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	33407.6	0.9	(0.3)	(3.4)	0.8
S&P 500	4308.5	1.2	0.5	(3.3)	12.2
FTSE 100	7494.6	0.6	(1.5)	0.2	0.6
AS30	7143.0	0.4	(1.5)	(2.9)	(1.1)
CSI 300	3689.5	(0.3)	0.5	(2.7)	(4.7)
FSSTI	3174.4	0.6	(1.3)	(1.0)	(2.4)
HSCEI	5974.3	1.5	(0.3)	(5.4)	(10.9)
HSI	17486.0	1.6	0.7	(3.9)	(11.6)
JCI	6888.5	0.2	(0.7)	(0.5)	0.6
KLCI	1416.9	0.1	(0.5)	(2.6)	(5.3)
KOSPI	2408.7	0.2	(3.5)	(5.5)	7.7
Nikkei 225	30994.7	(0.3)	(2.7)	(4.9)	18.8
SET	1438.5	(1.0)	(2.2)	(7.0)	(13.8)
TWSE	16520.6	0.4	1.0	(0.3)	16.9
BDI	1929	5.6	13.4	62.6	27.3
CPO (RM/mt)	3622	(1.0)	(1.3)	(5.8)	(10.5)
Brent Crude (US\$/bbl)	87	3.2	(3.8)	(3.8)	1.6

Source: Bloomberg

TOP PICKS

Ticker	CP (1cy)	TP (1cy)	Pot. +/- (%)	
BUY				
BYD	1211 HK	233.80	590.00	152.4
China Duty Free	601888 CH	105.97	138.00	30.2
Bank Neo Commerce	BBYB IJ	298.00	390.00	30.9
Bumi Serpong	BSDE IJ	1,040.00	1,420.00	36.5
HM Sampoerna	HMSP IJ	860.00	1,300.00	51.2
My EG Services	MYEG MK	0.79	1.18	49.4
Yinson	YNS MK	2.37	3.75	58.2
OCBC	OCBC SP	12.85	18.22	41.8
CP ALL	CPALL TB	61.00	78.00	27.9
Indorama	IVL TB	25.25	37.00	46.5

KEY ASSUMPTIONS

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

Source: Bloomberg, UOB ETR, UOB Kay Hian

CORPORATE EVENTS

	Venue	Begin	Close
Corporate Roadshow with United Overseas Bank (UOB SP)	Thailand	10 Oct	10 Oct
NDR with Galaxy Entertainment (27 HK)	Taiwan	10 Oct	12 Oct
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Investor Luncheon with Crystal International Group Limited (2232 HK)	Hong Kong	11 Oct	11 Oct
Analyst Marketing by Jonathan Koh on Singapore Bank and REITs	Thailand	11 Oct	12 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct
Virtual Meeting with China Overseas Land & Investment Ltd (688 HK)	Hong Kong	18 Oct	18 Oct
Post 3Q2023 Results Virtual Meeting with Keppel Pacific Oak US REIT (KORE:SP)	Singapore	19 Oct	19 Oct

SECTOR UPDATE

Banks – Regional

ASEAN Banks: Quarterly Update

Growth in ASEAN is supported by FDI inflows, which are already above pre-pandemic levels. NIMs are expected to remain stable as central banks have completed their rate hike cycles but are maintaining interest rates at current elevated levels in the near term. Maintain OVERWEIGHT on Singapore and Indonesian banks. The formation of the new government is also positive for Thai banks. Our top BUYs are OCBC (Target: S\$18.22), PBK (Target: RM5.10), SCB (Target: Bt130) and BBNI (Target: Rp11,200).

WHAT'S NEW

- **UOBKH ASEAN Banks Index was flat in 3Q23.** In local currency terms, Singapore banks gained 4.7%, followed by Malaysian banks at 4.1%.
- **Singapore: “Higher for longer” narrative gains traction.** US GDP expanded by a resilient 2.1% in 2Q23 (seasonally adjusted annual rate). Crude oil prices have been rising since Saudi Arabia and Russia imposed voluntary cuts in crude oil production in July. US CPI accelerated to 0.6% mom, driven by energy prices in Aug 23. The resultant “higher for longer” narrative caused 10-year Singapore government bond yield to expand 32bp to 3.40% in 3Q23. Competition for fixed deposits has, however, eased with interest rates for fixed deposits currently at 2.7% compared to 3.9% at end-22. Banks' share prices were lifted higher with DBS and OCBC gaining 6.7% and 4.6% respectively.
- **Malaysia: Leading loan growth indicators showed mixed trend.** Loan applications increased by 7.8% yoy in August, in contrast to a 6.6% decrease in July. However, loan approvals decreased by 7.7% yoy vs a 0.5% increase in July. In terms of applications, both households (HH) and businesses (Biz) expanded by 2.0% (July: 2.5%) and 15.2% (July: -16.3%) respectively. Meanwhile, current system loan growth of 4.1% is trending slightly below our full-year 2023 estimates of 4.5%.

OVERWEIGHT

(Maintained)

COUNTRY RATING

ASEAN Banks	OVERWEIGHT
Singapore	OVERWEIGHT
Malaysia	MARKET WEIGHT
Thailand	MARKET WEIGHT
Indonesia	OVERWEIGHT

Source: UOB Kay Hian

TOP ASEAN BANKS PICKS

Company	Rec	Curr	Share Price (lcy)	Target Price (lcy)
OCBC	BUY	S\$	12.81	18.22
Public Bank	BUY	RM	4.06	5.10
SCB X	BUY	Bt	102.50	130.00
BBNI	BUY	Rp	10,325	11,200

Source: UOB Kay Hian

ANALYST(S)

Jonathan Koh, CFA
+65 6590 6620
jonathankoh@uobkayhian.com

Keith Wee Teck Keong
+603 2147 1981
keithwee@uobkayhian.com

Kwanchai Atiphopai, CFA
+662 659 8030
kwanchai@uobkayhian.co.th

Posmarito Pakpahan
+6221 2993 3990
posmarito@uobkayhian.com

PEER COMPARISON – ASEAN BANKS

Company	Ticker	Rec	Price @ 29 Sep 23 (lcy)	Target Price (lcy)	Market Cap (US\$m)	FY	PE		P/B		P/POP		Yield		ROE	
							2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (%)	2023F (%)	2024F (%)
SINGAPORE																
DBS	DBS SP	BUY	33.64	44.35	63,710	12/2022	8.7	8.7	1.48	1.37	7.3	7.1	5.5	5.9	17.1	15.8
OCBC	OCBC SP	BUY	12.81	18.22	42,289	12/2022	8.1	8.0	1.10	1.03	7.1	7.1	6.2	6.2	13.1	12.8
UOB#	UOB SP	NR	28.50	n.a.	35,000	12/2022	8.3	7.9	1.06	1.00	6.3	5.9	6.0	6.3	13.2	13.0
Average							8.4	8.2	1.21	1.13	6.9	6.7	5.9	6.2	14.5	13.9
MALAYSIA																
Affin	ABANK MK	HOLD	2.13	2.14	1,065	12/2022	8.2	7.7	0.38	0.37	5.8	5.5	5.5	5.8	4.6	4.8
Alliance	ABMB MK	HOLD	3.38	3.80	1,115	03/2023	8.0	7.4	0.74	0.70	5.1	4.8	6.3	6.8	9.5	9.8
AMMB	AMM MK	HOLD	3.70	4.00	2,609	03/2023	7.3	6.8	0.64	0.61	5.0	4.6	6.0	6.4	9.0	9.1
BIMB	BIMB MK	HOLD	2.14	1.95	1,033	12/2022	9.2	9.0	0.63	0.61	3.2	3.1	4.9	5.0	7.0	6.8
CIMB	CIMB MK	BUY	5.43	6.00	12,335	12/2022	8.9	8.2	0.84	0.81	5.5	5.1	5.6	6.1	9.8	10.1
HLBK	HLBK MK	HOLD	19.50	21.74	9,004	06/2023	10.6	10.2	1.19	1.11	12.2	12.1	3.0	3.4	11.8	11.3
HL Fin	HLFG MK	HOLD	17.70	19.86	4,318	06/2023	7.3	6.9	0.77	0.70	4.9	4.7	2.7	2.8	11.0	10.7
MAY	MAY MK	HOLD	8.79	9.00	22,580	12/2022	10.9	10.3	1.11	1.06	7.5	7.2	6.9	7.3	10.4	10.6
PBK	PBK MK	BUY	4.06	5.10	16,786	12/2022	11.7	11.1	1.50	1.43	8.9	8.4	4.3	4.5	13.1	13.1
RHB	RHBBANK MK	HOLD	5.43	6.10	4,958	12/2022	8.0	7.6	0.70	0.68	5.9	5.4	6.9	7.3	9.1	9.1
Average							9.0	8.5	0.85	0.81	6.4	6.1	5.2	5.5	9.5	9.6
THAILAND																
BBL	BBL TB	HOLD	167.50	164.00	8,779	12/2022	8.3	7.6	0.60	0.57	3.9	3.8	3.1	3.5	7.4	7.7
KBANK	KBANK TB	HOLD	126.00	145.00	8,197	12/2022	7.3	6.9	0.56	0.53	2.8	2.7	3.0	3.5	7.9	7.9
KKP	KKP TB	BUY	55.25	69.00	1,285	12/2022	6.5	5.3	0.74	0.69	3.0	2.6	4.4	7.4	11.9	13.4
KTB	KTB TB	HOLD	19.00	21.50	7,292	12/2022	6.9	6.7	0.65	0.61	3.3	3.4	3.3	4.3	9.8	9.4
SCB	SCB TB	BUY	102.50	130.00	9,477	12/2022	8.6	7.9	0.72	0.69	3.5	3.3	6.1	6.1	8.5	8.9
TISCO	TISCO TB	HOLD	98.75	106.00	2,171	12/2022	10.8	9.8	1.78	1.72	7.9	7.1	7.2	8.2	16.9	17.9
TTB	TTB TB	HOLD	1.72	1.65	4,575	12/2022	9.7	8.8	0.72	0.68	4.3	4.1	3.1	4.5	7.6	7.9
Average							8.3	7.6	0.82	0.78	4.1	3.8	4.3	5.3	10.0	10.4
INDONESIA																
BBCA	BBCA IJ	BUY	8,825	10,300	70,381	12/2022	22.1	19.5	4.40	3.99	16.5	14.7	2.3	2.8	21.1	21.5
BBNI	BBNI IJ	BUY	10,325	11,200	12,457	12/2022	8.9	7.7	1.28	1.17	5.4	4.8	5.6	6.5	15.1	15.8
BBRI	BBRI IJ	BUY	5,225	6,100	51,231	12/2022	13.1	11.8	2.47	2.34	7.7	7.1	6.1	6.8	19.6	20.4
BBTN	BBTN IJ	BUY	1,220	1,700	1,108	12/2022	4.7	4.2	0.58	0.53	2.0	2.0	3.7	4.3	12.9	13.2
BBYB	BBYB IJ	BUY	310	390	241	12/2022	n.a.	42.6	1.15	1.12	2.0	1.6	n.a.	0.2	(14.2)	2.7
BMRI	BMRI IJ	BUY	6,025	6,500	36,380	12/2022	11.2	9.8	2.16	1.94	6.7	6.0	4.4	5.4	20.5	20.9
BTSP	BTSP IJ	BUY	1,905	2,900	949	12/2022	9.9	6.7	1.61	1.39	4.4	4.1	4.9	5.0	16.9	22.4
Average							11.6	14.6	1.95	1.78	6.4	5.8	4.5	4.4	13.1	16.7

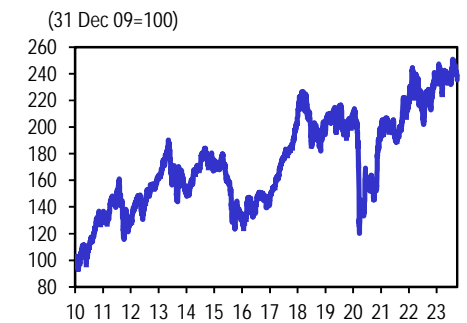
Source: Bloomberg, UOB Kay Hian # Forecast based on consensus estimates.

- Thailand: Rate hike cycle has come to an end.** The Bank of Thailand (BOT) made an unexpected move to increase the policy rate by 25bp to 2.5% in Sep 23. The BOT justified its decisions based on future economic outlooks. BOT expressed confidence in the country's economic prospects for 2024, projecting a GDP growth of 4.4%, up from the previous estimate of 3.8%. This anticipated growth is largely fuelled by government spending. BOT indicated that the current policy rate of 2.5% is likely to remain stable for the foreseeable future.
- Indonesia: Solid 2Q23 results.** Banks reported solid 2Q23 results by sustaining high ROEs, improving asset quality and maintaining robust CARs. Domestic economic recovery drove high single-digit loan growth and supported further decline in credit costs, despite higher interest rate putting pressure on cost of funds. Digitalisation and enhanced economies of scale helped banks to control their opex. All in all, the combined profit of the big four banks was flat qoq but grew 17.8% yoy.

SPOTLIGHT – OCBC, PBK, SCB and BBNi

- Singapore: Higher interest rates for a longer timeframe.** The Fed left interest rate unchanged during the FOMC meeting on 20 Sep 23 but is likely to hike Fed Funds Rate by another 25bp on 1 Nov 23. It is expected to hold interest rates at restrictive levels until inflation moves sustainably lower towards the objective of 2%. Banks benefit from resilient NIM as interest rates stay higher for longer.
- Banks provide low P/B of 1.13x and sustainably high yield of 6.2% for 2024.** DBS and OCBC have potential to return surplus capital to shareholders as their current CET-1 CAR of 14.1% and 15.4% are above their preferred operating range of 12.5-13.5%. Our top BUY pick is OCBC (Target: S\$18.22) for its new dividend policy with payout ratio at 50%, focus on ASEAN and defensively low 2024 P/B of 1.03x.
- Malaysia: All eyes on NIM.** Despite the Overnight Policy Rate (OPR) having normalised upwards to pre-pandemic levels, the sector's average NIM of 2.04% in 2Q23 remains below the pre-pandemic range of 2.10-2.20%. While we anticipate a modest NIM recovery in 4Q23, several factors are expected to limit further improvement in 2024. These include: a) no expected OPR hikes, b) competition in deposits from digital banks, and c) the potential for further normalisation of the CASA ratio from 29% to the pre-pandemic average of 26%. We have factored in a stable NIM trend in 2024 compared with 2023.
- Current sector valuations at -0.5 SD from historical mean is fair due to absence of new catalysts.** NIMs are predicted to remain flattish with downside risks, while loan growth is expected to slow down. The sector's dividend yields are attractive, surpassing 5%. Credit costs are anticipated to decrease, albeit at a modest rate. We like Public Bank (Target: RM5.10) for its high provision buffers providing scope for potential provision write-backs when macroeconomic conditions permit and CIMB (Target: RM6.00) for strong earnings growth and proxy to potential emerging market inflows.
- Thailand: Expect 3Q23 earnings to decline qoq.** We expect Thai banks to report aggregate net profit of Bt47b in 3Q23, up 4% yoy but down 11% qoq. The qoq decline is primarily attributed to a significant increase in credit costs, brought about by weaker-than-expected economic recovery. Additionally, we project a qoq decrease in the sector's non-interest income in 3Q23, largely driven by sluggish investment gains. On a positive note, the sector's NIM is expected to maintain its upward trend.
- BUY SCB X (SCB TB/Target: Bt130.00)** given its: a) laggard play in terms of share price performance, b) goal to raise ROE to 13-15% in the next 3-5 years, and c) intention to maintain a high dividend payout ratio (last payout ratio was 60%).
- Indonesia: Rising competition to gather third-party funds.** Loan to deposit ratio (LDR) gradually rose to 85.7% in Aug 23 as loan growth outpaced deposit growth. With current reserve requirement (GWM) of 9%, banks are facing rising competition to gather third-party funds. The time deposit rates increased across all tenors by 168.2bp yoy/53.6bp ytd on average. We believe Bank Indonesia could lower GWM before cutting rates as LDR gradually increases to >90% and inflation declines.
- Nevertheless, earnings will continue to grow.** We expect banks to deliver 19.7% yoy net profit growth this year despite pressure on cost of funds. Underpinned by domestic manufacturing optimism and more government spending in 2H23, loan growth will remain expansive. Political campaign for 2024 election will start in Nov 23, which should support purchasing power of the low-income class.

UOBKH ASEAN BANKS INDEX



Source: UOB Kay Hian

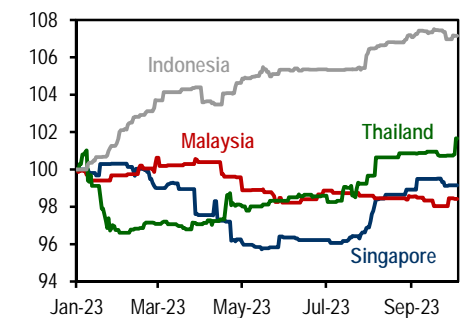
COUNTRY PERFORMANCE

(% chg)	Weighting (%)	1MTH	3MTH	6MTH	1Y	YTD
ASEAN*	100	-3.8	-0.2	-0.6	-0.3	8.0
Singapore#	34	1.1	4.7	0.8	-0.7	5.0
Malaysia#	15	-3.5	4.1	1.3	-3.4	0.7
Thailand#	8	-5.5	-1.0	4.2	-0.9	3.7
Indonesia#	42	-2.6	1.1	7.5	8.1	12.5

*In US\$ terms. #In local currency terms.

Source: UOB Kay Hian

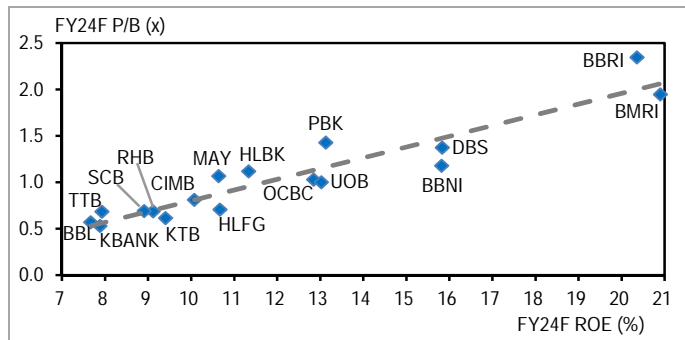
EPS REVISION MOMENTUM



Source: Bloomberg, UOB Kay Hian

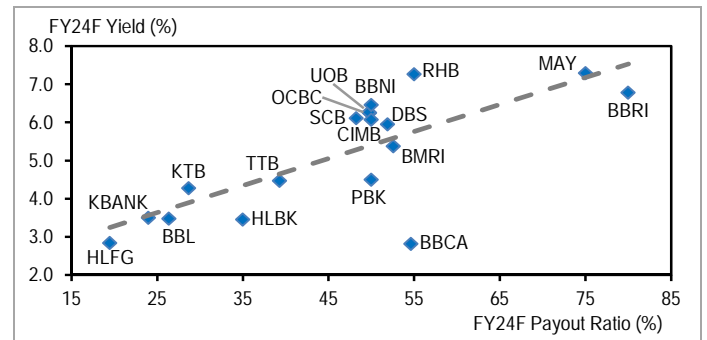
- BUY Bank Negara Indonesia (BBNI IJ/Target: Rp11,200). BBNI showed improving fundamental credit risk profile which resulted in: a) higher CAR ratio, b) higher LaR coverage, and c) lower exposure to SoE construction companies. Focusing on the low-risk loan segment going forward, we expect BBNI to have better earnings quality and gradually recover its ROE to the high-teens.

P/B VS ROE



Source: UOB Kay Hian

DIVIDEND YIELD VS PAYOUT RATIO



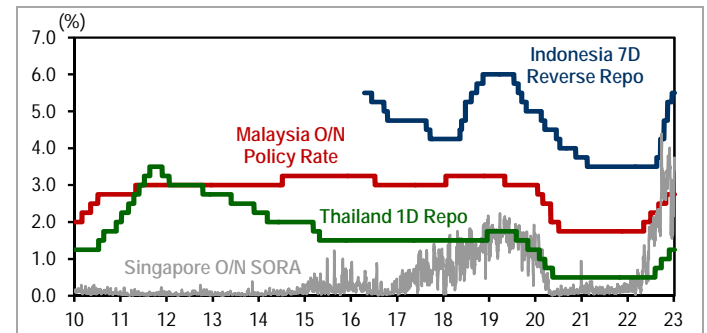
Source: UOB Kay Hian

CONSENSUS ESTIMATES FOR GDP GROWTH

(%)	2020	2021	2022	2023F	2024F
Singapore	-3.9	8.9	3.6	1.0	2.5
Malaysia	-5.5	3.3	8.7	4.0	4.5
Thailand	-6.1	1.5	2.6	3.0	3.6
Indonesia	-2.1	3.7	5.3	5.0	5.0

Source: CEIC, Bloomberg

POLICY INTEREST RATES



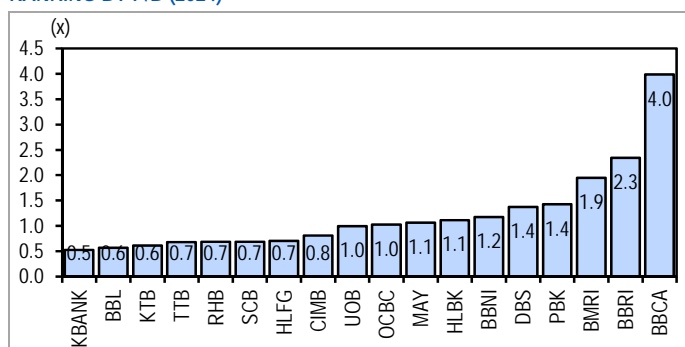
Source: Bloomberg

TOP 10 OUTPERFORMERS AND TOP 10 UNDERPERFORMERS RANKED BY MONTHLY SHARE PRICE PERFORMANCE

TOP OUTPERFORMERS (%)						TOP UNDERPERFORMERS (%)					
BANK	1MTH	3MTH	6MTH	1Y	YTD	BANK	1MTH	3MTH	6MTH	1Y	YTD
BMRI IJ	1.3	15.9	16.4	30.3	21.4	BBRI IJ	(6.7)	(3.7)	8.6	16.6	5.8
TTB TB	(2.3)	14.7	18.6	42.1	22.0	BBCA IJ	(4.6)	(3.6)	0.3	5.4	3.2
BBNI IJ	12.8	12.8	12.2	15.0	11.9	SCB TB	(12.4)	(1.9)	(1.0)	(1.9)	(4.2)
BBL TB	(1.8)	7.0	7.4	21.4	13.2	KBANK TB	(4.9)	(1.6)	(6.3)	(12.8)	(14.6)
DBS SP	0.8	6.7	1.7	3.7	0.7	KTB TB	(2.1)	0.0	13.1	13.8	7.3
CIMB MK	(3.6)	5.4	2.3	5.4	(6.4)	RHBBANK MK	(4.7)	0.2	(2.0)	(2.3)	(6.2)
PBK MK	(1.9)	4.9	2.5	(3.3)	(6.0)	HLFG MK	(3.7)	0.2	(1.9)	(4.0)	(4.8)
OCBC SP	2.2	4.6	2.2	9.4	5.2	MAY MK	(3.3)	0.7	2.7	2.7	1.0
HLBK MK	(1.9)	3.2	(3.7)	(3.8)	(5.2)	UOB SP	(0.1)	2.8	(4.8)	9.1	(7.2)
UOB SP	(0.1)	2.8	(4.8)	9.1	(7.2)	HLBK MK	(1.9)	3.2	(3.7)	(3.8)	(5.2)

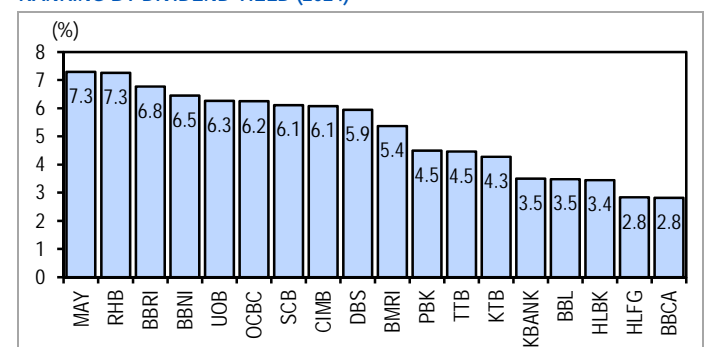
Source: Bloomberg, UOB Kay Hian

RANKING BY P/B (2024)



Source: UOB Kay Hian

RANKING BY DIVIDEND YIELD (2024)



Source: UOB Kay Hian

COMPANY UPDATE

Matahari Department Store (LPPF IJ)

3Q23 Sales Still Soft With Potential Recovery In 4Q23

LPPF stated that sales remained slow in 3Q23 and will recover only in mid-4Q23, ahead of the Christmas season. Suko continued to record a strong performance and will be rolled out in 12 additional stores, up from the current 20 stores for this year. There are 38 new stores in the pipeline and nearly all of LPPF's stores are profitable. LPPF continues to manage its opex and negotiate for favourable rates. Maintain HOLD with a target price of Rp2,700.

WHAT'S NEW

- **3Q23 sales growth remained slow with an expected rebound during Christmas.** After the soft 2023 Lebaran season, Matahari Department Store (LPPF) indicated that sales remained soft in 3Q23. LPPF expects sales to only rebound in mid-4Q23 when consumers start to make purchases for the 2023 Christmas season. For 2024, LPPF sees better opportunities as the Chinese New Year will be earlier, with the election on 14 Feb 24 followed by Easter, favourable Moslem New Year Bonus (THR) and payday.
- **Suko recorded strong performance; expected to be rolled out at 12 additional stores, up from 20 stores currently.** LPPF stated that Suko's products are made of the same materials as Uniqlo's but priced at a 20-25% discount. Suko recorded a strong performance in its current 20 stores, and it will be retailed at an additional 12 stores by the end of 2024. LPPF intends to retail Suko in all its stores in stages and is now testing markets in Tier 1, 2 and 3 stores. Upon success, Suko can also be rolled out in an additional 50 stores in 2024.
- **Mitigating the consumer shift to specialty stores.** Due to the shift in consumer preference to shop in specialty stores, LPPF noted that the struggling department stores are usually of a larger size while its department store size is more of core department store concept. LPPF also mentioned that multi-brand footwear stores are doing well and it has benefitted from having these multi-brand footwear products in its stores. It does not rule out eventually doing a trial specialty store with just Suko products.
- **38 potential new stores in the pipeline with 98-99% current profitability ratio.** Ytd, LPPF has opened nine new stores. It intends to open one additional store by 31 Dec 23. LPPF has 38 stores in the pipeline. Out of its 157 stores, 98-99% are profitable stores.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2021	2022	2023F	2024F	2025F
Net turnover	5,586	6,455	6,828	7,501	8,238
EBITDA	1,418	2,161	2,037	2,271	2,502
Operating profit	1,122	1,848	1,691	1,885	2,065
Net profit (rep./act.)	913	1,383	1,179	1,330	1,473
Net profit (adj.)	913	1,383	1,179	1,330	1,473
EPS (Rp)	313.0	517.7	441.2	497.7	551.2
PE (x)	7.7	4.6	5.4	4.8	4.4
P/B (x)	7.0	11.1	18.0	18.3	13.2
EV/EBITDA (x)	3.6	2.4	2.5	2.3	2.1
Dividend yield (%)	3.6	23.9	25.1	23.9	23.9
Net margin (%)	16.3	21.4	17.3	17.7	17.9
Net debt/(cash) to equity (%)	(65.7)	(61.1)	(71.8)	(125.7)	(145.4)
Interest cover (x)	72.8	10.2	9.3	10.2	11.2
ROE (%)	115.0	174.4	251.8	376.6	351.9
Consensus net profit	-	-	1,150	1,293	1,337
UOBKH/Consensus (x)	-	-	1.02	1.03	1.10

Source: Matahari Department Store, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Rp2,400
Target Price	Rp2,700
Upside	+12.5%
(Previous TP)	Rp3,400)

COMPANY DESCRIPTION

Matahari Department Store is engaged in the retail business for products such as clothes, accessories, bags, shoes, cosmetics and household appliances.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	LPPF IJ
Shares issued (m):	2,260.3
Market cap (Rpb):	5,424.7
Market cap (US\$m):	347.3
3-mth avg daily t'over (US\$m):	0.5

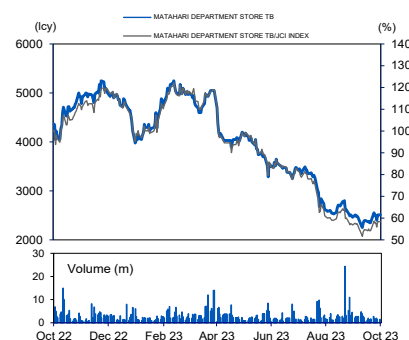
Price Performance (%)

52-week high/low	Rp5,250/Rp2,250
1mth	3.6
3mth	(28.6)
6mth	(52.5)
1yr	(38.3)
YTD	(49.5)

Major Shareholders

	%
Multipolar	19.4
FY23 NAV/Share (Rp)	133
FY23 Net Cash/Share (Rp)	96

PRICE CHART



Source: Bloomberg

ANALYST(S)

Stevanus Juanda
 +6221 2993 3845
 stevanusjuanda@uobkayhian.com

STOCK IMPACT

- **New concept department store MuKu to be launched in 1H24.** LPPF has a new concept department store named Muku, which will be launched in 1H24. Muku is a modern chain of department stores focusing on millennials, young professionals and families. It will have global and regional brands including upcoming designers with affordable/aspirational price points.
- **Continues to manage rental expense and opex.** LPPF continues to manage its opex by continuing to negotiate its rent with landlords. LPPF has been able to obtain lower renewal rates compared with previous rates. In addition, LPPF is managing its staffing cost to be more efficient. Overall, LPPF mentions its current opex cost is similar to that in 2019.
- **Consignment and direct merchandise have similar EBIT margins.** About two-thirds of LPPF sales consist consignment products, which have similar EBIT profit levels as LPPF's direct purchases. LPPF does not have to bear operational costs such as store staffing on consignment products despite earning lower gross margins.

LPPF SUKO BRAND

SU KO
HELLO JAKARTA!
Fun welcome signage

20 Shop-in-shops doing well without marketing spend

Leading Products: "Supima Cotton", "Quick-dry", "Soft-Touch"

Current Categories: Menswear & Ladieswear T-shirt, Woven, Bottom/Top, Knit Top, Outerwear, Dress

Source: LPPF, UOB Kay Hian

EARNINGS REVISION/RISK

- **At this point, no change in our forecast.** We are awaiting LPPF's 3Q23 result to see if we need to adjust our model. In our model, we have incorporated a 14.8% yoy decline in 2023 NPAT.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of Rp2,700.** Our target price is derived using -1SD five-year PE or 5.7x to average 2023F and 2024F EPS. We use -1SD (compared to -0.5x previously) as we believe that given the weak Lebaran sales and 3Q23 sales, LPPF's valuation could be at the current low level in the next six months. We maintain HOLD on LPPF.

LPPF STRATEGIC INITIATIVES

Progress on Strategic Initiatives Continues Building on Green Shoots

Merchandise Transformation

- Strong Initial Performance in 20 Suko Stores, further 12 Suko openings in 2023
- Anyday new private label launches in Q4 as entry-level fighter brand to offset inflationary pressures.
- Denim Shop concept to double, massive opportunity in Active with Nevada Sport and RSH, and in Beauty Category
- House of Characters grouping all licensed partnerships for a compelling childrenswear and young adults collection.
- Large potential remains to further develop private label brands and recruit exclusive consignment vendors

Operational Improvements

- NPS Improved to 74 from 66 in 2022. Personalization and excellent channel operations resulting in growing positive customer feedback
- 8.2 Mn Active members vs. 6.9 Mn last year, contributing to 78% of total sales surpassing pre-pandemic levels.

Store Development & Concepts

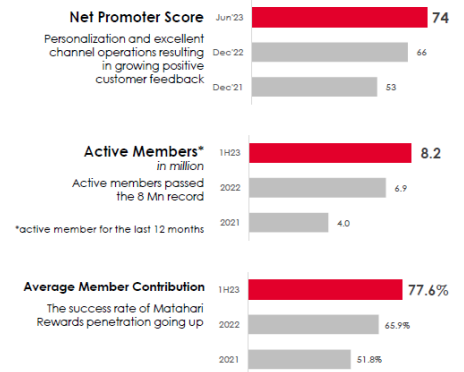
- Store expansion on track to open a minimum of 12 new stores. In aggregate, the new stores performed as planned, performing above the hurdle rate.
- Store Capex repurposed to strategic locations. 1H23 performance for 2022 refurbished stores saw a better growth than non-branded stores: transformation continues.
- MU&KU is our new upper middle multibrand concept ready to present to target developers for late 2023/early 2024 launch.
- Significant opportunity remains for expansion and revised format in tier-3 and other price sensitive markets.

Digital Capabilities

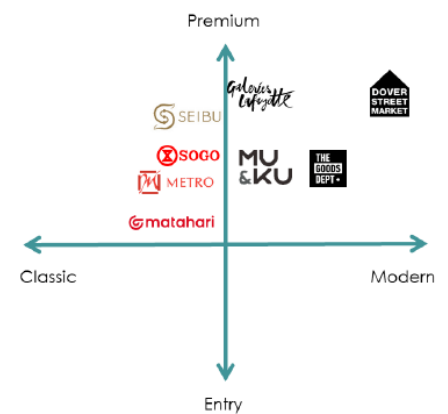
- ETP POS solution rolled out in 59 stores, with national completion in 4Q23, bringing greater merchandise insights, personalized promotion capabilities and the digitization of our CV community and follow on omnichannel momentum
- Bilibili launched in Jul'23; Tokopedia reboot in Aug'23; 2-3 new channels slated by year-end
- OMS & WMS solutions rolled out in 4Q23 / 1Q24

Source: LPPF, UOB Kay Hian

LPPF LOYALTY PROGRAMME

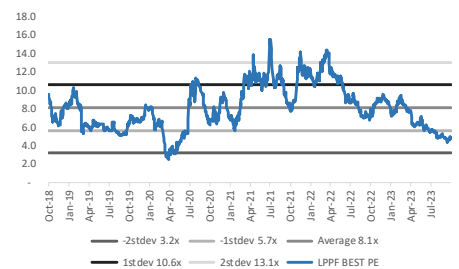


LPPF MUKU STORE POSITIONING



Source: LPPF

FORWARD PE BAND (CONSENSUS) - FIVE YEARS



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Net turnover	6,455	6,828	7,501	8,238
EBITDA	2,161	2,037	2,271	2,502
Deprec. & amort.	313	346	386	438
EBIT	1,848	1,691	1,885	2,065
Total other non-operating income	0.0	0.0	0.0	0.0
Net interest income/(expense)	(211)	(218)	(223)	(224)
Pre-tax profit	1,637	1,474	1,662	1,841
Tax	(254)	(295)	(332)	(368)
Minorities	0.0	0.0	0.0	0.0
Net profit	1,383	1,179	1,330	1,473
Net profit (adj.)	1,383	1,179	1,330	1,473

BALANCE SHEET

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Fixed assets	686	773	928	1,169
Other LT assets	3,619	3,727	3,839	3,954
Cash/ST investment	354	256	440	708
Other current assets	1,092	1,214	1,338	1,472
Total assets	5,750	5,970	6,545	7,303
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	2,356	2,588	2,856	3,143
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	2,814	3,025	3,339	3,673
Shareholders' equity	580	356	350	487
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	5,750	5,970	6,545	7,303

CASH FLOW

Year to 31 Dec (Rpb)	2022	2023F	2024F	2025F
Operating	2,331	1,634	1,860	2,063
Pre-tax profit	1,637	1,474	1,662	1,841
Tax	(254)	(295)	(332)	(368)
Deprec. & amort.	313	346	386	438
Working capital changes	286	(205)	4.3	4.5
Other operating cashflows	349	315	139	148
Investing	(278)	(541)	(653)	(794)
Capex (growth)	(352)	(433)	(541)	(679)
Investments	0.0	0.0	0.0	0.0
Others	74	(109)	(112)	(115)
Financing	(2,360)	(1,192)	(1,023)	(1,001)
Dividend payments	(1,112)	(1,403)	(1,336)	(1,336)
Issue of shares	(296)	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Others/interest paid	(951)	211	313	335
Net cash inflow (outflow)	(307)	(99)	184	268
Beginning cash & cash equivalent	661	354	256	440
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	354	256	440	708

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	33.5	29.8	30.3	30.4
Pre-tax margin	25.4	21.6	22.2	22.3
Net margin	21.4	17.3	17.7	17.9
ROA	23.8	20.1	21.3	21.3
ROE	174.4	251.8	376.6	351.9
Growth				
Turnover	15.5	5.8	9.9	9.8
EBITDA	52.4	(5.8)	11.5	10.2
Pre-tax profit	48.4	(10.0)	12.8	10.7
Net profit	51.5	(14.8)	12.8	10.7
Net profit (adj.)	51.5	(14.8)	12.8	10.7
EPS	65.4	(14.8)	12.8	10.7
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	(61.1)	(71.8)	(125.7)	(145.4)
Interest cover (x)	10.2	9.3	10.2	11.2

COMPANY RESULTS

Top Glove (TOPG MK)

4QFY23: Living To Fight Another Day

Top Glove reported a fifth consecutive quarter of core net losses, albeit narrowed. This is after adjusting for a one-off impairment of RM389m related to the decommissioning of its production lines. Market dynamics remain soft, dampened by declining sales volume and ASPs. Positively, some light was shed from margin expansion following moderating input costs and favourable forex, besides leaner opex after recent capacity rationalisation exercises. Maintain HOLD with a lower target price of RM0.82.

4QFY23 RESULTS

Year to 31 Aug	4QFY23 (RMm)	qoq % chg	yoy % chg	FY23 (RMm)	yoy % chg	Comment
Revenue	475.9	(10.3)	(51.9)	2,257.0	(59.5)	Volume(-9.5% qoq), ASP(-0.5% qoq)
Operating exp.	(883.7)	57.6	(10.2)	(2,846.4)	(46.5)	
EBITDA	(407.8)	1,256.9	(6,438.1)	(589.4)	(203.2)	Includes impairment of RM389m
EBIT	(485.5)	308.5	483.0	(932.4)	(518.6)	Includes impairment of RM389m
Pre-tax profit	(461.9)	233.4	949.0	(898.0)	(345.7)	
Tax	7.9	(56.7)	243.6	11.0	(115.1)	
Net PATAMI	(463.1)	254.7	780.7	(926.6)	(492.7)	Impairment of RM389m in 4QFY23
Core PATAMI	(74.6)	(30.8)	41.9	(515.4)	(318.4)	Within expectations.
	%	+/- ppt	+/- ppt	%	+/- ppt	
EBITDA margin	(85.7)	(80.0)	(86.3)	(26.1)	(36.4)	
EBIT margin	(102.0)	(79.6)	(93.6)	(41.3)	(45.3)	
PBT margin	(97.1)	(71.0)	(92.6)	(39.8)	(46.3)	
Eff. tax rate	(1.7)	11.4	3.5	(1.2)	18.8	
Core margin	(15.7)	4.6	(10.4)	(22.8)	(27.1)	

Source: Top Glove, UOB Kay Hian

RESULTS

- Within expectations.** Top Glove reported a narrowing 4QFY23 core net loss of RM74.6m (-30.8% qoq, +41.9% yoy), despite revenue declining significantly to RM476m (-10.3% qoq). This is after stripping off a one-off impairment of RM389m relating to decommissioning of its production lines. For FY23, cumulative core losses of RM515m were well within expectations, accounting for c.99% and c.100% of our and consensus' full-year estimates respectively.

KEY FINANCIALS

Year to 31 Aug (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	5,573	2,257	3,850	4,893	5,553
EBITDA	602	(163)	482	925	971
Operating profit	254	(506)	134	566	601
Net profit (rep./act.)	236	(927)	98	415	440
Net profit (adj.)	236	(515)	98	415	440
EPS (sen)	2.9	(11.5)	1.2	5.1	5.4
PE (x)	25.9	n.m.	62.5	14.7	13.9
P/B (x)	1.1	1.3	1.3	1.2	1.2
EV/EBITDA (x)	12.5	n.m.	15.6	8.1	7.7
Dividend yield (%)	3.4	(3.9)	0.8	3.4	3.6
Net margin (%)	4.2	(41.1)	2.5	8.5	7.9
Net debt/(cash) to equity (%)	(0.8)	5.6	3.3	(2.8)	(9.2)
Interest cover (x)	136.5	n.a.	27.3	61.7	79.0
ROE (%)	4.1	n.a.	2.1	8.5	8.7
Consensus net profit	-	-	65	265	-
UOBKH/Consensus (x)	-	-	1.49	1.57	-

Source: Top Glove, Bloomberg, UOB Kay Hian

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

HOLD

(Maintained)

Share Price	RM0.755
Target Price	RM0.820
Upside	+8.6%
(Previous TP)	RM0.95)

COMPANY DESCRIPTION

Latex glove manufacturer.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	TOPG MK
Shares issued (m):	8,008.2
Market cap (RMm):	6,046.2
Market cap (US\$m):	1,282.7
3-mth avg daily t'over (US\$m):	6.8

Price Performance (%)

52-week high/low	RM1.22/RM0.625			
1mth	3mth	6mth	1yr	YTD
(3.8)	(11.2)	(26.0)	11.9	(16.6)

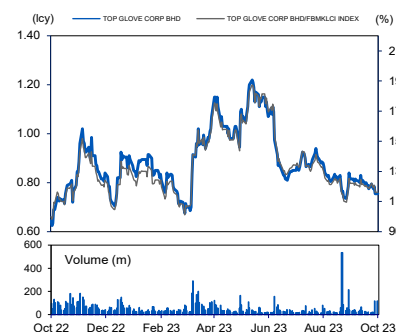
Major Shareholders

	%
Tan Sri Lim Wee Chai	35.5
Firstway United Corp	6.9
EPF	4.9

FY24 NAV/Share (RM) 0.59

FY24 Net Debt/Share (RM) 0.02

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jack Goh
+603 2147 1943
jackgoh@uobkayhian.com

- Operating statistics reflect industry-wide slowdown; ASP and volume sales contracted qoq.** 4QFY23 volume sales softened c.9.5% qoq, mainly due to overall softer demand. Meanwhile, ASP contracted marginally to c.US\$21/'000 pcs (-0.5% qoq) in tandem with cost pass-through from lower raw material prices. Utilisation rate for the quarter remains sluggish at c.31% based on current effective capacity of c.60b pieces annually. Given depressed industry utilisation rates, stiff price competition continues to linger and orders remain smaller due to short delivery times.
- Bottom line losses continue to narrow; likely to break even in upcoming quarter.** 4QFY23 bottom line losses narrowed from -RM108m to -RM75m. This was primarily due to leaner opex as well as moderating natural gas tariffs. Input costs such as nitrile and latex were 8% and 22% lower qoq off reducing feedstock and excess supply. Natural gas tariff also softened by 13% in the quarter and may further decline by an additional 5% from Oct 23 onwards.

STOCK IMPACT

- Industry slowdown seemingly bottomed out through the lens of operating matrix...** With several headwinds filtering through, we reiterate our view that the Malaysian glove sector is heading towards an inflection point. Our thesis is premised on: a) diminishing excess inventories, b) imminent ASP revision, c) moderating input costs, and d) supply rationalisation and capacity reduction escalating supply-demand equilibrium.
- ...but restoration to pre-pandemic earnings dynamic takes time.** Although the worst is over, we believe that Malaysian glove manufacturers will face an upward slope to restore their pre-pandemic profitability, given that the pandemic-induced oversupply and suboptimal utilisation will potentially take another 6-8 quarters to normalise. Furthermore, there is no urgency for distributors to place bulk orders due to short delivery times and sluggish utilisation rates among producers.
- Turnaround plan still in motion.** Top Glove is pursuing its "T6" in its path to recovery. Its six pillars are: a) boosting sales volume with a focus on rubber and surgical gloves, b) enhancing product quality, c) consolidating facilities to focus on efficient factories, d) enhancing people productivity, e) strengthening cashflow position through cost rationalisation (mutual separation scheme of close to 600 employees) and liquidating excess land bank, and f) optimising supply chain by eliminating non-essential expenses and renegotiating procurement contracts.

EARNINGS REVISION/RISK

- We reduce our FY24-25 earnings by 28% and 6% respectively** as we trim our utilisation rate and ASP forecast in anticipation of a milder-than-expected recovery pace. Key downside risks include: a) softer volume sales, and b) inability to pass through costs.
- We introduce our FY26 earnings forecasts.**

VALUATION/RECOMMENDATION

- Maintain HOLD with lower target price of RM0.82**, which implies 29x 2024 PE (+1.5SD above mean). Our target price also implies 16x PE based on 2025 earnings (-1.SD below mean). Risk-reward for Top Glove appears neutral at this juncture, given that an inflection point was discovered but restoration of the pre-pandemic industry-wide operating matrix requiring more patience.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

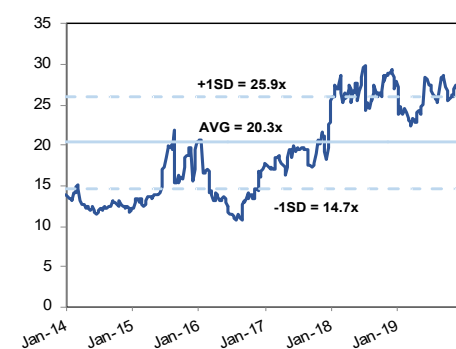
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Water management. To reduce municipal water consumption intensity by 34% to 0.151m³/1,000 pcs gloves by FY25 with the use of in-house water cycling facilities. Energy management. To reduce electricity and natural gas consumption intensity by 26% and 25% by 2025. Social <ul style="list-style-type: none"> Human rights and labour management. Verified by independent third-party consultant that the company is free of all 11 International Labour Organisation (ILO) forced labour indicators. Governance <ul style="list-style-type: none"> Gender diversity. 42% of its board of directors is female.
--

ASSUMPTIONS

	FY24F	FY25F	FY26F
Revenue (RMm)	3,850	4,893	5,553
ASP Growth yoy (%)	15	10	1
EBITDA Margin (%)	14.7	20.7	19.0
PAT (RMm)	98	415	440
Growth yoy (%)	-149	309	5
Margin (%)	2.7	8.5	7.9

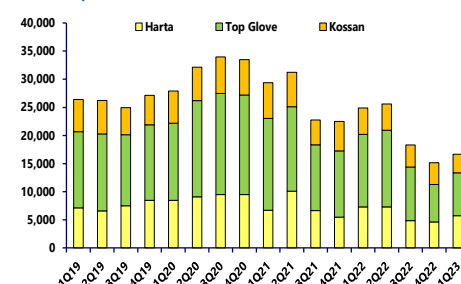
Source: UOB Kay Hian

FIVE-YEAR PRE-PANDEMIC PE BAND



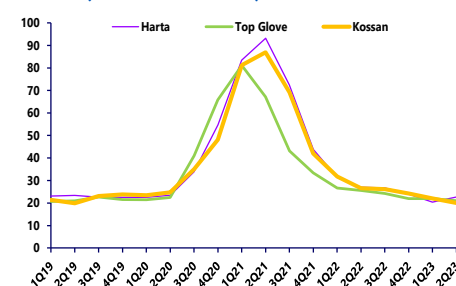
Source: Bloomberg, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS VOLUME SALES (M' PIECES)



Source: Companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS QUARTERLY ASP CHART (USD' 1000 PIECES)



Source: Companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Aug (RMm)	2023	2024F	2025F	2026F
Net turnover	2,257	3,850	4,893	5,553
EBITDA	(163)	482	925	971
Deprec. & amort.	343	348	359	369
EBIT	(506)	134	566	601
Total other non-operating income	(390)	23	23	23
Associate contributions	(6)	(6)	(6)	(6)
Net interest income/(expense)	3	(18)	(15)	(12)
Pre-tax profit	(898)	134	568	606
Tax	11	(36)	(153)	(167)
Minorities	(40)	0	0	0
Net profit	(927)	98	415	440
Net profit (adj.)	(927)	98	415	440

CASH FLOW

Year to 31 Aug (RMm)	2023	2024F	2025F	2026F
Operating	131	374	717	774
Pre-tax profit	(898)	134	568	606
Tax	185	(36)	(153)	(167)
Deprec. & amort.	343	348	359	369
Associates	6	6	6	6
Working capital changes	71	(96)	(77)	(53)
Non-cash items	427	0	0	0
Other operating cashflows	(3)	18	15	12
Investing	(382)	(200)	(200)	(200)
Capex (growth)	(297)	(200)	(200)	(200)
Proceeds from sale of assets	0	0	0	0
Others	(85)	0	0	0
Financing	93	(145)	(301)	(311)
Dividend payments	0	(49)	(207)	(220)
Proceeds from borrowings	155	(79)	(79)	(79)
Loan repayment	(47)	0	0	0
Others/interest paid	(16)	(18)	(15)	(12)
Net cash inflow (outflow)	(158)	28	216	264
Beginning cash & cash equivalent	444	290	318	534
Changes due to forex impact	4	0	0	0
Ending cash & cash equivalent	290	318	534	797

BALANCE SHEET

Year to 31 Aug (RMm)	2023	2024F	2025F	2026F
Fixed assets	3,932	4,010	3,851	3,682
Other LT assets	1,441	1,467	1,467	1,467
Cash/ST investment	290	318	534	797
Other current assets	1,418	1,617	1,757	1,873
Total assets	7,081	7,412	7,609	7,819
ST debt	540	540	540	540
Other current liabilities	403	784	847	910
LT debt	14	(65)	(143)	(222)
Other LT liabilities	205	179	179	179
Shareholders' equity	4,707	4,756	4,963	5,183
Minority interest	1,212	1,217	1,223	1,229
Total liabilities & equity	7,081	7,412	7,609	7,819

KEY METRICS

Year to 31 Aug (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	(7.2)	12.5	18.9	17.5
Pre-tax margin	(39.8)	3.5	11.6	10.9
Net margin	(41.1)	2.5	8.5	7.9
ROA	n.a.	1.3	5.5	5.7
ROE	n.a.	2.1	8.5	8.7
Growth				
Turnover	(59.5)	70.6	27.1	13.5
EBITDA	(127.1)	n.a.	91.7	5.0
Pre-tax profit	(345.7)	n.a.	324.9	6.7
Net profit	(492.7)	n.a.	324.9	6.0
Net profit (adj.)	(492.7)	n.a.	324.9	6.0
EPS	(492.7)	n.a.	324.9	6.0
Leverage				
Debt to total capital	8.6	7.4	6.0	4.7
Debt to equity	11.8	10.0	8.0	6.1
Net debt/(cash) to equity	5.6	3.3	(2.8)	(9.2)
Interest cover (x)	n.a.	27.3	61.7	79.0

COMPANY UPDATE

Keppel REIT (KREIT SP)

Stability From Singapore And Recovery From Sydney

On a same-store-basis, KREIT improved portfolio occupancy by 1.5ppt yoy to 97.0% in 2Q23 by backfilling vacant space ahead of new supply hitting in 4Q23. P/NAV at 0.62x is almost at the low of 0.61x on 23 Mar 20 during the onset of the COVID-19 pandemic. Thus, potential downside from Keppel Corp shareholders selling KREIT units they received in specie could be limited. KREIT provides 2024 distribution yield of 6.9% (CICIT: 6.2%, Suntec: 6.6%). Maintain BUY. Target price: of S\$1.06.

WHAT'S NEW

- Well-positioned in Singapore with vacant spaces backfilled.** Keppel REIT (KREIT) maintained high portfolio occupancy of 94.9% in 2Q23 (improved 0.7ppt qoq and 1.5ppt yoy to 97.0% if we exclude newly-completed Blue & William in Sydney). In Singapore, KREIT has backfilled vacant spaces ahead of new supply from completion of IOI Central Boulevard Towers in 4Q23. Ocean Financial Centre (OFC) (+8.2ppt yoy) and One Raffles Quay (ORQ) were fully occupied at 100% in 2Q23. Committed occupancy improved +0.9ppt yoy to 98.3% for Marina Bay Financial Centre (MBFC) and +2.9ppt yoy to 98.2% for Keppel Bay Tower.
- Maintaining positive rental reversion in 2H23.** KREIT achieved positive rental reversion of 8.1% in 1H23. Average signing rent for Singapore office leases has increased from S\$11.54psf pm in 2022 to S\$12.35psf pm in 1H23. Management guided positive rental reversion at mid- to high-single-digits for its Singapore office portfolio in 2023 despite a high average expiring rent at S\$11.55psf/month for 2H23.
- Sydneysider returning to work in offices.** Several large corporations, including banks, have instructed employees to return and work from their offices. Commuter traffic at train stations within the CBD, such as Circular Quay, Town Hall and Wynyard, already hit 70% of pre-pandemic levels in May 23, the highest since the COVID-19 pandemic started in Feb 20. According to CBRE, rental growth for Sydney was 8.1% yoy in 2Q23, outpacing Melbourne at 1.3% yoy. Vacancy rate for Sydney was more stable at 11.5% (+0.2ppt qoq) compared to 15.0% for Melbourne (+0.9ppt qoq).
- Rising occupancies for Sydney properties.** 8 Chifley Square in Sydney has signed a new government tenant for 100,000sf, which improved occupancy by 5.4ppt to 87.4% in 2Q23. KREIT is also in advanced negotiations with a co-working operator to backfill vacant space at 8 Chifley Square, which has the potential to lift occupancy above 90%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	217	219	236	243	246
EBITDA	110	112	127	133	135
Operating profit	110	112	127	133	135
Net profit (rep./act.)	232	405	137	138	139
Net profit (adj.)	149	137	137	138	139
EPU (S\$ cent)	4.0	3.7	3.6	3.6	3.6
DPU (S\$ cent)	5.8	5.9	5.8	5.7	5.7
PE (x)	20.5	22.5	23.0	23.1	23.2
P/B (x)	0.6	0.6	0.6	0.6	0.7
DPU Yld (%)	7.0	7.1	7.0	6.9	6.9
Net margin (%)	107.0	184.9	57.9	56.8	56.6
Net debt/(cash) to equity (%)	49.1	49.2	52.8	55.1	57.6
Interest cover (x)	3.1	3.5	2.6	2.0	2.0
ROE (%)	4.6	7.7	2.5	2.6	2.7
Consensus DPU (S\$ cent)	n.a.	n.a.	5.9	5.9	6.0
UOBKH/Consensus (x)	-	-	0.98	0.97	0.95

Source: Keppel REIT, Bloomberg, UOB KayHian

BUY
(Maintained)

Share Price	S\$0.83
Target Price	S\$1.06
Upside	+27.7%
(Previous TP)	S\$1.08

COMPANY DESCRIPTION

Keppel REIT invests in quality income-producing commercial real estate in Asia Pacific. Its portfolio with AUM of S\$9.1b comprises predominantly of premium grade A office buildings located in prime business and financial districts in Singapore, Australia (Sydney, Melbourne and Perth), South Korea (Seoul) and Japan (Tokyo).

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KREIT SP
Shares issued (m):	3,769.7
Market cap (S\$m):	3,128.9
Market cap (US\$m):	2,289.7
3-mth avg daily t'over (US\$m):	4.7

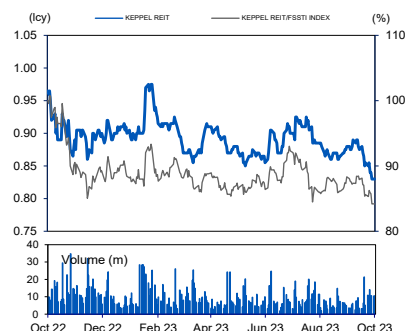
Price Performance (%)

52-week high/low	S\$0.975/S\$0.83			
1mth	3mth	6mth	1yr	YTD
(5.1)	(8.8)	(8.8)	(15.3)	(8.8)

Major Shareholders

Keppel REIT Investment	39.2
FY23 NAV/Share (S\$)	1.32
FY23 Net Debt/Share (S\$)	0.74

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
+65 6590 6620
jonathankoh@uobkayhian.com

- Blue & William started contributing in Apr 23.** Blue & William, a freehold Grade A office building with NLA of 152,128sf in close proximity to North Sydney Train Station, achieved practical completion on 3 Apr 23. It has secured its second tenant from the banking sector and committed occupancy has improved to 37.7%. KREIT is in talks with a few prospective tenants for the remaining office space. The developer Lendlease has provided rental guarantee on unlet space for three years from the date of practical completion, which ensures the property is able to provide NPI yield of 4.5%.
- Prudent capital management.** Aggregate leverage increased 0.5ppt qoq to 39.2% as of Jun 23. All-in interest rate was stable at 2.84% in 2Q23. It has hedged 76% of borrowings to a fixed rate. S\$800m or 22% of its total borrowings are due for refinancing in 2024. We conservatively estimate that average cost of debt would increase by 0.65ppt to 3.5% in 2024.

STOCK IMPACT

- Stability from Singapore and recovery from Sydney.** KREIT is well-positioned as it has backfilled vacant office spaces ahead of competition from new supply from IOI Central Boulevard Towers. Its properties in Sydney, 8 Chifley Square, Pinnacle Office Park and Blue & William benefit from companies tightening on hybrid work arrangements.
- Overhang from distribution in specie.** Keppel Corp has announced a proposed special dividend in specie of 352.4m units in KREIT representing 9.4% of KREIT's total issued and paid-up units. Keppel Corp shareholders will receive one KREIT unit for every five Keppel Corp shares. Keppel Corp's stake in KREIT will drop from 46.5% to 37.1% post the distribution in specie. The proposed distribution in specie has to be approved by Keppel Corp's shareholders during the EGM on 18 Oct 23. Thereafter, KREIT units will be credited to Keppel Corp shareholders' accounts on 7 Nov 23.
- P/NAV near historical low.** KREIT is trading at P/NAV of 0.62x (38% discount to NAV per unit of S\$1.34), which is almost touching the low of 0.61x on 23 Mar 20 at the onset of the COVID-19 pandemic. The potential downside from Keppel Corp shareholders selling the KREIT units they received in specie could be limited due to KREIT's current depressed valuation. Fundamentally, Keppel Corp's distribution in specie of KREIT units has no impact of KREIT's DPU.
- Rewarding unitholders with capital distributions.** Management set aside S\$100m from accumulated capital gains to be distributed over the next five years to mark KREIT's 20th anniversary in 2026. Distributions would be made semi-annually from 2H22 to 1H27 (S\$10m every six months).

EARNINGS REVISION

- We maintain our existing 2023 DPU forecast.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.06 is based on DDM (cost of equity: 6.75%, terminal growth: 1.5%).

SHARE PRICE CATALYST

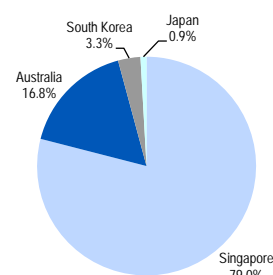
- Resilient rents and capital values for office properties in Singapore.
- Contribution from Blue & William in Sydney kicking in from Apr 23.

KEY OPERATING METRICS – KREIT

	2Q22	3Q22	4Q22	1Q23	2Q23	yoy	qoq
DPU (S cents)	2.97	n.a.	2.95	n.a.	2.90	-2.4%	-1.7%
Occupancy	95.5%	96.8%	96.3%	96.3%	94.9%	-0.6ppt	-1.4ppt
Aggregate Leverage	37.9%	38.4%	38.4%	38.7%	39.2%	1.3ppt	0.5ppt
Average Cost of Debt	1.93%	2.13%	2.29%	2.86%	2.84%	0.91ppt	-0.02ppt
% of Borrowings on Fixed Rates	73.0%	72.0%	76.0%	75.0%	76.0%	3ppt	1ppt
WALE by NLA (years)	6.0	6.1	6.0	5.8	5.7	-0.3yrs	-0.1yrs
Weighted Average Debt Maturity (years)	3.1	2.8	2.7	3.0	2.9	-0.2yrs	-0.1yrs
Rental Reversions	7.5%	9.7%	19.3%	9.3%	8.1%	0.6%	-1.2%
Tenant Retention Rate	89.0%	82.0%	78.0%	98.0%	66.9%	-22.1ppt	-31.1ppt

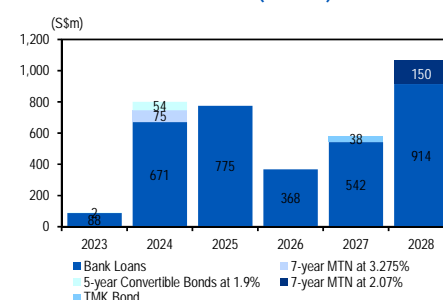
Source: KREIT

AUM BY COUNTRY (JUN 23)



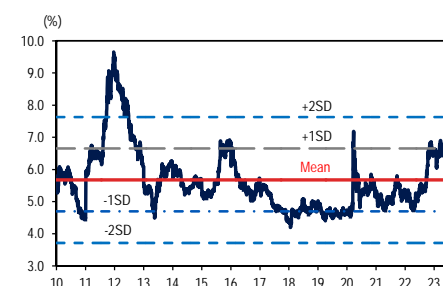
Source: KREIT

DEBT MATURITY PROFILE (JUN 23)



Source: KREIT

DISTRIBUTION YIELD – KREIT



Source: KREIT

P/NAV – KREIT



Source: KREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	219.3	236.2	242.9	245.9
EBITDA	112.5	127.4	132.9	135.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	112.5	127.4	132.9	135.4
Total other non-operating income	1.7	0.0	0.0	0.0
Associate contributions	100.7	92.1	94.1	96.1
Net interest income/(expense)	(32.5)	(49.1)	(66.0)	(69.0)
Pre-tax profit	450.4	170.4	161.1	162.5
Tax	(2.0)	(9.9)	(9.3)	(9.4)
Minorities	(33.6)	(14.4)	(4.4)	(4.4)
Preferred dividends	(9.5)	(9.5)	(9.5)	(9.5)
Net profit	405.4	136.7	137.9	139.2
Net profit (adj.)	137.3	136.7	137.9	139.2

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	4,917.2	4,973.2	4,973.2	4,973.2
Other LT assets	3,720.1	3,720.1	3,720.1	3,720.1
Cash/ST investment	186.4	177.1	185.4	183.9
Other current assets	57.7	63.7	64.0	64.3
Total assets	8,881.4	8,934.1	8,942.6	8,941.5
ST debt	643.7	643.7	643.7	643.7
Other current liabilities	70.6	67.3	67.9	68.7
LT debt	2,208.2	2,350.0	2,440.0	2,520.0
Other LT liabilities	93.6	89.8	90.1	90.5
Shareholders' equity	5,420.9	5,338.9	5,256.6	5,174.2
Minority interest	444.4	444.4	444.4	444.4
Total liabilities & equity	8,881.4	8,934.1	8,942.6	8,941.5

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	162.2	130.5	160.3	163.1
Pre-tax profit	182.4	170.4	161.1	162.5
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(100.7)	(92.1)	(94.1)	(96.1)
Working capital changes	10.4	(3.5)	0.3	0.5
Other operating cashflows	70.2	55.6	93.1	96.2
Investing	(46.4)	26.2	84.1	86.1
Capex (growth)	(155.3)	(55.9)	0.0	0.0
Capex (maintenance)	(10.6)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	119.5	92.1	94.1	96.1
Financing	(111.4)	(166.0)	(236.2)	(250.7)
Distribution to unitholders	(217.0)	(218.7)	(220.2)	(221.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	186.6	141.8	90.0	80.0
Others/interest paid	(81.0)	(89.1)	(106.0)	(109.0)
Net cash inflow (outflow)	4.4	(9.3)	8.3	(1.5)
Beginning cash & cash equivalent	189.3	186.4	177.1	185.4
Changes due to forex impact	(7.3)	0.0	0.0	0.0
Ending cash & cash equivalent	186.4	177.1	185.4	183.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	51.3	53.9	54.7	55.1
Pre-tax margin	205.4	72.2	66.3	66.1
Net margin	184.9	57.9	56.8	56.6
ROA	4.7	1.5	1.5	1.6
ROE	7.7	2.5	2.6	2.7
Growth				
Turnover	1.2	7.7	2.8	1.2
EBITDA	2.0	13.3	4.3	1.8
Pre-tax profit	61.5	(62.2)	(5.5)	0.9
Net profit	74.9	(66.3)	0.9	0.9
Net profit (adj.)	(7.6)	(0.4)	0.9	0.9
EPU	(8.8)	(2.1)	(0.6)	(0.6)
Leverage				
Debt to total capital	32.7	34.1	35.1	36.0
Debt to equity	52.6	56.1	58.7	61.1
Net debt/(cash) to equity	49.2	52.8	55.1	57.6
Interest cover (x)	3.5	2.6	2.0	2.0

COMPANY UPDATE

Mapletree Industrial Trust (MINT SP)

Expansion In Japan Supported By Asset Cycling In Singapore

MINT has successfully expanded to Japan's data centre market. It plans to recycle assets in Singapore through divestment of business park and light industrial buildings to finance the enlargement of scale in Japan. MINT is close to securing a replacement tenant for its data centre at Brentwood, Tennessee when AT&T's lease expires in Nov 23. MINT provides FY24 distribution yield of 6.1% (DCREIT: 7.3% and KDCREIT: 4.9%). **Maintain BUY. Target price: S\$2.76.**

WHAT'S NEW

- **Strategic diversification to Japan's data centre market.** Mapletree Industrial Trust (MINT) is acquiring an effective interest of 98.5% in a newly-built data centre in Osaka, Japan for ¥52.0b (S\$507.9m). The multi-storey data centre is in close proximity to the prime central business district in downtown Osaka. Japan will account for 5.5% of its portfolio valuation after the acquisition. The data centre provides NPI yield of 4%. The acquisition is estimated to be accretive to pro forma FY23 DPU by 2.1% and is expected to be completed in 3Q23.
- The fully-fitted data centre is fully leased to an established data centre operator with a weighted average lease to expiry (WALE) of 20 years. MINT's portfolio WALE weighted by gross rental income is expected to increase from 3.9 years to 4.5 years. The property has NLA of 136,900sf and a 70-year land lease commencing from 1 Oct 20.
- **On the lookout for acquisition of data centres.** Data centres in Japan provide positive yield spread with cap rates of 3-4%. MINT has the right of first refusal from the sponsor Mapletree Investments to acquire the remaining 50% stake in their second data centre, JV Mapletree Rosewood Data Centre Trust (MRODCT), which owns 13 data centres in the US. It is also keen to acquire high-tech, R&D and life science properties.
- **Asset recycling.** MINT is exploring the feasibility of recycling assets in Singapore to finance its expansion for data centres in Japan:
 - Three business park properties at International Business Park (The Strategy and The Synergy) and Changi Business Park (The Signature). Valuation for the three business park properties is S\$543m in aggregate as of Mar 23.
 - Three light industrial buildings valued at S\$53m in aggregate as of Mar 23.

KEY FINANCIALS

Year to 31 Mar (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	610	685	707	734	748
EBITDA	409	451	464	483	493
Operating profit	409	451	464	483	493
Net profit (rep./act.)	433	282	374	393	406
Net profit (adj.)	416	388	374	393	406
EPU (S\$ cent)	16.1	14.6	13.6	14.3	14.7
DPU (S\$ cent)	13.8	13.6	13.4	14.2	14.6
PE (x)	13.6	15.0	16.2	15.4	14.9
P/B (x)	1.2	1.1	1.2	1.2	1.2
DPU Yld (%)	6.3	6.2	6.1	6.5	6.7
Net margin (%)	71.0	41.1	52.8	53.6	54.3
Net debt/(cash) to equity (%)	45.6	47.6	47.4	47.2	47.1
Interest cover (x)	5.8	4.6	4.6	4.7	4.8
ROE (%)	9.4	5.3	6.9	7.3	7.5
Consensus DPU (S\$ cent)	n.a.	n.a.	13.3	13.8	14.1
UOBKH/Consensus (x)	-	-	1.01	1.03	1.04

Source: Mapletree Industrial Trust, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.19
Target Price	S\$2.76
Upside	+26.0%
(Previous TP)	S\$2.74

COMPANY DESCRIPTION

MINT invests in a diversified portfolio of income-producing real estate used primarily for industrial purposes in Singapore and income-producing real estate used primarily as data centres worldwide beyond Singapore.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	MINT SP
Shares issued (m):	2,832.9
Market cap (S\$m):	6,204.0
Market cap (US\$m):	4,540.1
3-mth avg daily t'over (US\$m):	7.1

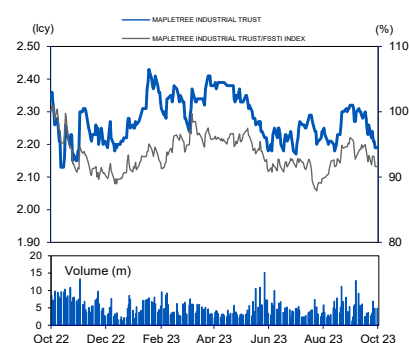
Price Performance (%)

52-week high/low	S\$2.43/S\$2.13			
1mth	3mth	6mth	1yr	YTD
(5.2)	(0.5)	(8.0)	(9.1)	(1.4)

Major Shareholders

Temasek Hldgs	27.3
FY24 NAV/Share (S\$)	1.84
FY24 Net Debt/Share (S\$)	0.92

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
 +65 6590 6620
 jonathankoh@uobkayhian.com

BUSINESS PARK BUILDINGS

PROPERTY	LOCATION	REMAINING TERM OF LEASE (YEARS)	NLA (SF)	VALUATION (\$M)	KEY TENANTS	FY23 GROSS REVENUE (\$M)	AVERAGE OCCUPANCY RATE (%)
The Signature	Changi Business Park	45	343,433	141.7	Huawei	13.6	83.3
The Strategy	International Business Park	45	571,981	279.7	International Dell Global and Becton Dickinson	24.2	91.5
The Synergy	International Business Park	45	282,392	121.9	Lapcorp Development (Asia)	10.0	80.2
Total			1,197,806	543.3		47.8	86.5

Source: MINT

LIGHT INDUSTRIAL BUILDINGS

PROPERTY	REMAINING TERM OF LEASE (YEARS)	NLA (SF)	VALUATION (\$M)	FY23 GROSS REVENUE (\$M)	AVERAGE OCCUPANCY RATE (%)
2A Changi North Street 2	38	65,478	10.9	0.7	86.9
26 Woodlands Loop	32	149,096	25.3	2.6	99.8
45 Ubi Road 1	30	123,339	17.0	2.5	100.0
Total		337,913	53.2	5.8	96.3

Source: MINT

- **Backfilling data centre at Brentwood, Tennessee.** AT&T currently occupies three data centres located at Pewaukee, Brentwood and San Diego. The three data centres have NLA of 1.0m sf, representing 14% of total NLA for MINT's US data centre portfolio (excluding its second data centre JV with sponsor Mapletree Investments). MINT is in advanced negotiations with a potential replacement tenant for its data centre at Brentwood, Tennessee with NLA of 347,515sf (expiry: Nov 23). The new tenant intends to sign a long-term lease for the entire data centre with rental escalation.

DATA CENTRES LEASED BY AT&T

PROPERTY	CITY	STATE	NLA (SF)	VALUATION (US\$M)	FY23 GROSS REVENUE (US\$M)	LEASE EXPIRY
N15W24250 Riverwood Drive	Pewaukee	Wisconsin	142,952	50.6	5.3	Sep 23
402 Franklin Road	Brentwood	Tennessee	347,515	112.0	11.8	Nov 23
7337 Trade Street	San Diego	California	499,402	188.0	16.6	Dec 24
Total			989,869	361.7	33.6	

Source: MINT

- **Optimising cost of borrowings with debt in Japanese yen.** Aggregate leverage increased 0.8ppt qoq to 38.2%. MINT issued two series of notes, ¥6.5b of 1.686% fixed rate notes due 2035 (tenure: 12 years) and ¥10.0b of 1.85% fixed rate notes due 2038 (tenure: 15 years), to fund the acquisition of a data centre in Osaka, Japan (equity: 40%, debt: 60%). Average all-in funding cost was unchanged at 3.5% in 1QFY24. Management expects the funding in Japanese yen to cut all-in funding cost by 20-30bp.

STOCK IMPACT

- **Increasing geographical diversification while adding depth to data centres.** We like MINT's ongoing expansion to acquire data centres in Japan coupled with asset recycling in Singapore, which brings MINT closer to being a pure play on data centres. Tapping on funding in JPY will also reduce its cost of debt.

EARNINGS REVISION/RISK

- We maintain our existing DPU forecast.

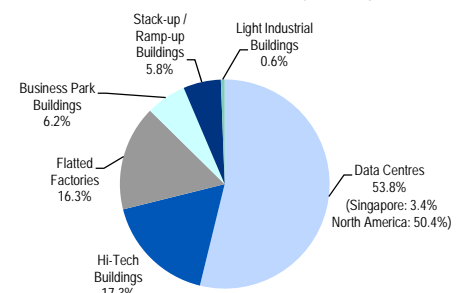
VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$2.76 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

SHARE PRICE CATALYST

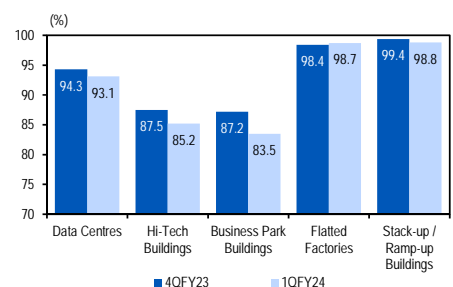
- Growth from data centres located in Singapore and North America.
- Acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments.

PORTFOLIO VALUATION BY AUM (JUN 23)



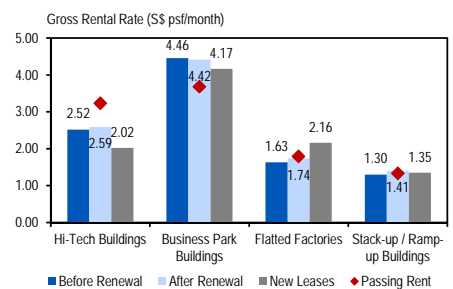
Source: MINT

SEGMENTAL OCCUPANCY RATES



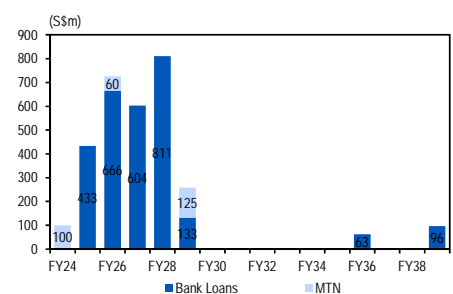
Source: MINT

RENTAL REVISIONS (SINGAPORE)



Source: MINT

DEBT MATURITY PROFILE (JUN 23)



Source: MINT

PROFIT & LOSS

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Net turnover	684.9	707.3	733.7	748.0
EBITDA	450.6	464.0	482.9	493.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	450.6	464.0	482.9	493.2
Associate contributions	67.9	33.1	35.7	38.4
Net interest income/(expense)	(96.9)	(101.5)	(102.9)	(102.9)
Pre-tax profit	315.1	395.6	415.7	428.6
Tax	(23.9)	(12.6)	(12.8)	(12.8)
Minorities	0.0	0.0	0.0	0.0
Preferred dividends	(9.5)	(9.5)	(9.5)	(9.5)
Net profit	281.7	373.6	393.5	406.4
Net profit (adj.)	388.2	373.6	393.5	406.4

BALANCE SHEET

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Fixed assets	7,658.7	7,658.7	7,658.7	7,658.7
Other LT assets	709.1	709.9	710.7	711.5
Cash/ST investment	146.6	154.3	163.4	169.2
Other current assets	32.4	40.3	41.6	42.3
Total assets	8,546.8	8,563.3	8,574.4	8,581.7
ST debt	0.2	0.2	0.2	0.2
Other current liabilities	338.0	343.9	350.1	353.4
LT debt	2,705.0	2,705.0	2,705.0	2,705.0
Other LT liabilities	127.7	135.4	137.5	138.7
Shareholders' equity	5,375.9	5,378.8	5,381.6	5,384.4
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	8,546.8	8,563.3	8,574.4	8,581.7

CASH FLOW

Year to 31 Mar (\$m)	2023	2024F	2025F	2026F
Operating	448.1	450.0	475.6	483.6
Pre-tax profit	397.6	383.0	402.9	415.8
Associates	(67.9)	(33.1)	(35.7)	(38.4)
Working capital changes	16.1	(2.0)	4.8	2.6
Non-cash items	1.0	0.6	0.6	0.6
Other operating cashflows	101.2	101.5	102.9	102.9
Investing	(100.6)	(10.0)	(10.0)	(10.0)
Capex (growth)	(155.0)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	26.1	0.0	0.0	0.0
Others	28.3	0.0	0.0	0.0
Financing	(350.5)	(432.3)	(456.5)	(467.8)
Distribution to unitholders	(225.1)	(370.7)	(390.7)	(403.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(24.4)	0.0	0.0	0.0
Others/interest paid	(101.0)	(61.6)	(65.9)	(64.2)
Net cash inflow (outflow)	(3.0)	7.7	9.0	5.8
Beginning cash & cash equivalent	149.6	146.6	154.3	163.4
Changes due to forex impact	(0.0)	0.0	0.0	0.0
Ending cash & cash equivalent	146.6	154.3	163.4	169.2

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	65.8	65.6	65.8	65.9
Pre-tax margin	46.0	55.9	56.7	57.3
Net margin	41.1	52.8	53.6	54.3
ROA	3.3	4.4	4.6	4.7
ROE	5.3	6.9	7.3	7.5
Growth				
Turnover	12.3	3.3	3.7	2.0
EBITDA	10.3	3.0	4.1	2.1
Pre-tax profit	(33.2)	25.6	5.1	3.1
Net profit	(35.0)	32.6	5.3	3.3
Net profit (adj.)	(6.6)	(3.8)	5.3	3.3
EPU	(9.4)	(7.1)	5.2	3.2
Leverage				
Debt to total capital	33.5	33.5	33.5	33.4
Debt to equity	50.3	50.3	50.3	50.2
Net debt/(cash) to equity	47.6	47.4	47.2	47.1
Interest cover (x)	4.6	4.6	4.7	4.8

COMPANY UPDATE

Indorama Ventures (IVL TB)

Share Price Already Reflecting Negative Outlook

We see an opportunity to accumulate IVL after the share price dropped 12% in the last month due to concerns on earnings outlook, oversupply situation and delay in COD of a PET plant in North America. However, we expect that the share price has already priced in the negative outlook with earnings likely to improve in 4Q23. Maintain BUY. Target price: Bt30.00.

WHAT'S NEW

- **Key takeaway from plastic recycling factory visit.** We visited Indorama Ventures' (IVL) plastic recycling factory in Nakhon Pathom Province near Bangkok. The facility is IVL's only recycling plant in South East Asia with annual capacity of 95,000 tonnes/year, turning post-consumer polyethylene terephthalate (PET) bottles into recycled PET resins (rPET) and fibres. We are impressed by its operational efficiency and believe that the facility is one of the key supports for IVL's recycling target in 2030. Note that IVL has set a target of recycling 1.5m tonnes of PET by 2030 from 0.4m tones currently.
- **Impact from prolonged industry de-stocking in 3Q23.** IVL is facing the negative impact from supply pressure reflecting inventory destocking in PET/PTA products and huge capacity addition from China, which will put pressure on both EBITDA margin and production volume. The integration of PET/PTA spread in Asia was significantly decreased to US\$121/tonne in Aug 23 from US\$196/tonne in 2Q23 while integration of PET/PTA spread in Europe was down to US\$345/tonne in Aug 23 compared to the average of US\$411/tonne in 2Q23. However, the integration of PET/PTA spreads should show signs of improvement from 4Q23 due to production cuts implemented in response to the current spread, which is operating below breakeven levels in many facilities.
- **Construction delay in PET plant in North America.** Last week, IVL made an announcement regarding the temporary suspension of construction activities for the Corpus Christi Polymers (CCP) integrated PTA-PET plant in Texas (IVL holds a 33% stake). This decision was due to the challenging economic conditions characterised by rising costs, elevated interest rates and labour shortages. The CCP was formed in 2018 as a joint venture between IVL, Far Eastern New Century and Alpek, following the purchase of an unconstructed facility from M&G Resins. The plant was expected to produce 1.1m tonnes/year and 1.3m tonnes/year of PET and PTA respectively with expected completion in 2025. Note that we have excluded this plant from our assumptions due to uncertainty surrounding the construction timeline.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	468,108	656,266	564,591	588,514	615,942
EBITDA	59,374	72,423	48,649	62,990	67,692
Operating profit	37,637	49,529	22,004	33,346	35,048
Net profit (rep./act.)	26,288	31,006	5,334	12,927	13,832
Net profit (adj.)	21,887	34,561	5,334	12,927	13,832
EPS (Bt)	3.9	6.2	1.0	2.3	2.5
PE (x)	6.4	4.1	26.3	10.9	10.1
P/B (x)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (x)	5.8	4.7	7.1	5.4	5.1
Dividend yield (%)	4.0	6.4	2.4	3.2	3.2
Net margin (%)	5.6	4.7	0.9	2.2	2.2
Net debt/(cash) to equity (%)	124.5	119.5	108.7	107.3	104.4
Interest cover (x)	8.6	7.6	3.6	4.5	5.1
ROE (%)	18.4	18.0	2.9	6.9	7.2
Consensus net profit	-	-	9,434	16,957	22,641
UOBKH/Consensus (x)	-	-	0.57	0.76	0.61

Source: Indorama Ventures, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt25.00
Target Price	Bt30.00
Upside	+20.0%
(Previous TP)	Bt37.00)

COMPANY DESCRIPTION

IVL is one of the world's largest polyester chain makers with a total production capacity of 17m tonnes.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	IVL TB
Shares issued (m):	5,614.6
Market cap (Btm):	140,363.8
Market cap (US\$m):	3,786.2
3-mth avg daily t'over (US\$m):	15.1

Price Performance (%)

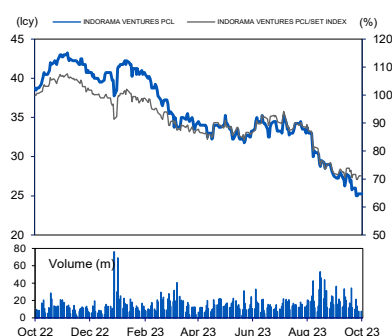
52-week high/low	Bt43.25/Bt25.00			
1mth	3mth	6mth	1yr	YTD
(13.8)	(27.5)	(27.5)	(36.3)	(38.7)

Major Shareholders

	%
Lohia family	66.0
Bangkok Bank	4.8

FY23 NAV/Share (Bt)	32.83
FY23 Net Debt/Share (Bt)	35.69

PRICE CHART



Source: Bloomberg

ANALYST(S)

Arsit Pamaranont
 +662 659 8317
 arsit@uobkayhian.co.th

STOCK IMPACT

- **Expected weaker earnings in 3Q23F.** IVL will announce its 3Q23 results on 10 Nov 23. As mentioned above, we preliminarily expect IVL to post a core profit of only Bt76m, which is lower than the market's previous estimate of Bt1.0-1.5b due to weaker integrated PET/PTA spread. We believe consensus will again be aggressive in cutting their 2023 earnings forecasts and target prices.

3Q23 RESULTS PREVIEW

Year to 31 Dec (Btm)	3Q23F	3Q22	2Q23	yoy % chg	qoq % chg	9M23F	9M22	yoy % chg
Revenue	134,190	178,782	137,419	(25)	(2)	408,188	333,698	22
Core EBITDA	11,502	22,303	13,060	(48)	(12)	36,180	47,483	(24)
Inventory gain/(loss)	1,825	(3,795)	(1,643)	(148)	(211)	(1,209)	11,039	(111)
Reported EBITDA	13,327	19,349	11,054	(31)	21	34,589	60,526	(43)
Net income	1,901	8,137	411	(77)	362	3,335	34,348	(90)
Core Profit	76	10,341	2,016	(99)	(96)	4,171	23,810	(82)
EPS	0.34	1.45	0.07	(77)	362	0.59	6.12	(90)

Source: Indorama Ventures, UOB Kay Hian

- **Slow recovery in 4Q23-2024.** Despite low season PET demand during the winter season, we expect positive earnings outlook on IVL in 4Q23. As mentioned above, we anticipate that the integration of PET/PTA spreads will show signs of improvement from 4Q23, reflecting production cuts implemented in response to the current spread, which is operating below breakeven levels in many facilities.

EARNINGS REVISION/RISK

- We revise down our 2023F core profit by 62% to Bt5.3b (from Bt14.0b), reflecting our expectations of weak earnings in 2H23.

VALUATION/RECOMMENDATION

- **Maintain BUY with a new target price of Bt30.00**, based on 13x 2024F PE. We apply the mean of its five-year historical average P/E. We believe the stock has already priced in weak 3Q23F profits.

SHARE PRICE CATALYST

- **4Q23:** Earnings recovery.

2023- KEY OPERATING NUMBERS

Year to 31	3Q23F	3Q22	2Q23	yoy	qoq
Production vol ('000 tonnes)	3,600	3,816	3,640	(6)	(1)
core EBITDA/tonne	90	159	104	(43)	(14)

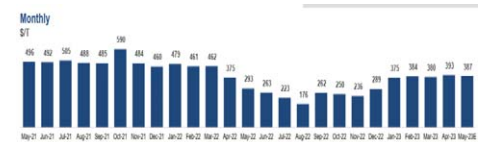
Source: IVL, UOB Kay Hian

ASIA INTEGRATED PET/PTA SPREAD



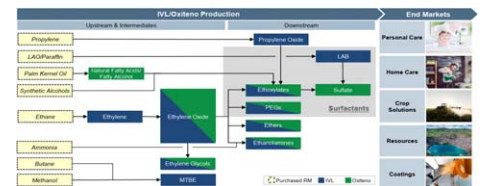
Source: IVL

MEG SPREAD



Source: IVL

IVL AND OXITENO PORTFOLIOS



Source: IVL, UOB Kay Hian

MTBE PRICE



Source: IVL

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	656,266	564,591	588,514	615,942
EBITDA	72,423	48,649	62,990	67,692
Deprec. & amort.	22,893	26,644	29,644	32,644
EBIT	49,529	22,004	33,346	35,048
Total other non-operating income	146	3,000	2,300	2,300
Associate contributions	(23)	30	30	30
Net interest income/(expense)	(9,548)	(13,518)	(13,850)	(13,212)
Pre-tax profit	40,104	11,516	21,826	24,166
Tax	(5,774)	(1,382)	(3,929)	(4,833)
Minorities	(3,324)	(4,800)	(4,970)	(5,500)
Net profit	31,006	5,334	12,927	13,832
Net profit (adj.)	34,561	5,334	12,927	13,832

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	39,569	63,627	58,072	55,978
Pre-tax profit	40,104	11,516	21,826	24,166
Tax	(5,774)	(1,382)	(3,929)	(4,833)
Deprec. & amort.	22,893	26,644	29,644	32,644
Working capital changes	(16,992)	44,043	15,500	9,500
Non-cash items	(3,324)	(4,800)	(4,970)	(5,500)
Other operating cashflows	2,661	(12,395)	1	1
Investing	(60,318)	(34,764)	(54,272)	(50,000)
Capex (growth)	(51,847)	(30,000)	(50,000)	(50,000)
Investments	(8,471)	(4,764)	(4,272)	0
Others	n.a.	n.a.	n.a.	n.a.
Financing	25,745	(40,424)	(8,299)	(5,299)
Dividend payments	(10,106)	(7,018)	(7,299)	(7,299)
Issue of shares	6,321	0	0	0
Proceeds from borrowings	29,530	(33,406)	(1,000)	2,000
Others/interest paid	n.a.	n.a.	n.a.	n.a.
Net cash inflow (outflow)	4,996	(11,561)	(4,498)	679
Beginning cash & cash equivalent	16,215	21,211	9,650	5,152
Ending cash & cash equivalent	21,211	9,650	5,152	5,831

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	320,630	323,986	344,341	361,697
Other LT assets	87,540	92,145	97,700	98,700
Cash/ST investment	21,211	9,650	5,152	5,831
Other current assets	194,497	167,033	166,250	171,750
Total assets	623,878	592,814	613,443	637,977
ST debt	65,025	29,619	22,619	22,619
Other current liabilities	137,176	154,000	167,000	180,000
LT debt	178,388	180,388	186,388	188,388
Other LT liabilities	42,404	42,000	45,000	48,000
Shareholders' equity	185,990	184,306	189,934	196,467
Minority interest	14,896	2,501	2,502	2,503
Total liabilities & equity	623,878	592,814	613,443	637,977

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	11.0	8.6	10.7	11.0
Pre-tax margin	6.1	2.0	3.7	3.9
Net margin	4.7	0.9	2.2	2.2
ROA	5.3	0.9	2.1	2.2
ROE	18.0	2.9	6.9	7.2
Growth				
Turnover	40.2	(14.0)	4.2	4.7
EBITDA	22.0	(32.8)	29.5	7.5
Pre-tax profit	14.7	(71.3)	89.5	10.7
Net profit	17.9	(82.8)	142.3	7.0
Net profit (adj.)	57.9	(84.6)	142.3	7.0
EPS	57.9	(84.6)	142.3	7.0
Leverage				
Debt to total capital	54.8	52.9	52.1	51.5
Debt to equity	130.9	113.9	110.0	107.4
Net debt/(cash) to equity	119.5	108.7	107.3	104.4
Interest cover (x)	7.6	3.6	4.5	5.1

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