UOBKayHian

Regional Morning Notes

Wednesday, 20 September 2023

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34381.6	(0.7)	(0.8)	(0.3)	3.7
S&P 500	4423.8	(0.7)	(0.9)	1.2	15.2
FTSE 100	7651.6	(0.0)	1.6	5.4	2.7
AS30	7395.0	(0.4)	(0.1)	0.4	2.4
CSI 300	3720.5	(0.2)	(1.1)	(1.7)	(3.9)
FSSTI	3240.8	(0.7)	0.8	2.1	(0.3)
HSCEI	6235.7	0.4	(0.4)	1.4	(7.0)
HSI	17997.2	0.4	(0.2)	0.3	(9.0)
JCI	6980.3	0.6	0.7	1.8	1.9
KLCI	1457.7	(0.0)	0.3	0.8	(2.5)
KOSPI	2559.2	(0.6)	0.9	2.2	14.4
Nikkei 225	33242.6	(0.9)	2.4	5.7	27.4
SET	1523.0	(0.3)	(1.5)	0.3	(8.7)
TWSE	16636.3	(0.4)	0.4	1.6	17.7
BDI	1526	6.0	23.6	23.4	0.7
CPO (RM/mt)	3694	(0.9)	(0.3)	(4.7)	(8.7)
Brent Crude (US$/bbl)	95	1.0	3.6	12.5	11.0

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	246.60	590.00	139.3
China Duty Free	601888 CH	109.68	138.00	25.8
Bank Neo Commerce	BBYB IJ	350.00	1,000.00	185.7
Bumi Serpong	BSDE IJ	1,025.00	1,420.00	38.5
HM Sampoerna	HMSP IJ	860.00	1,300.00	51.2
My EG Services	MYEG MK	0.81	1.18	46.6
Yinson	YNS MK	2.50	4.05	62.0
OCBC	OCBC SP	12.67	18.22	43.8
CP ALL	CPALL TB	62.25	78.00	25.3
Indorama	IVL TB	27.25	37.00	35.8

KEY ASSUMPTIONS

GDP (% yoy)		2022	2023F	2024F
US		2.1	0.8	1.2
Euro Zone		3.5	0.1	1.0
Japan		1.0	1.0	1.5
Singapore		3.6	0.7	3.0
Malaysia		8.7	4.4	4.6
Thailand		2.6	3.1	3.5
Indonesia		5.4	4.9	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
Virtual Analyst Marketing of S-Reits Sector	Singapore	21 Sep	21 Sep
Analyst Marketing on Malaysia Outlook and Technology Sector	Singapore	26 Sep	27 Sep
14th Asian Gems Conference 2023 (Virtual)	Singapore	10 Oct	13 Oct
Analyst Marketing on Singapore Tech and Mid Caps	Malaysia	17 Oct	19 Oct

SECTOR UPDATE

Property - China

Mild But Continuous Sales Recovery In Tier 1 cities; Removing Of HPRs Will Effectively Unleash Demand In Tier 2 Cities

After relaxing the mortgage policy on 1 September, Tier 1 cities continued to see improvement in the property market last week. Besides, overall new-home sales in 50 cities reported mom increase in Sep 23. In the past week, more Tier 2 cities completely removed purchase restrictions, eg Wuhan, Hefei. We expect to see improvements in market sentiment in Tier 2 cities with bold policy actions. Sales around the National Day holiday will be a focus. Maintain MARKET WEIGHT on China's property sector.

WHAT'S NEW

- China Real Estate Index System (CREIS) released sales data for the week of 11-17 Sep 23.
- Hefei and Wuhan removed home purchase restrictions in all regions on 15 and 19 September respectively.

ESSENTIALS

- **Mild but continuous improvement in property markets in Tier 1 cities.** In the week of 11-17 September, ie the second week after four Tier 1 cities announced that they would be adopting the new definition of first mortgage, the number of second-hand home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growths of 26%/1%/13%/10% respectively, and mom growths of 40%/25%/7%/15% respectively. New home transactions started to pick up, and the number of new home units transacted in Beijing/Shanghai/Guangzhou/Shenzhen recorded wow growths of 24%/10%/31%/22% respectively; we expect to see a pick-up of new-home transactions in Tier 1 cities in the following week.

FIRST-TIER CITIES MARKET SENTIMENT FOR SEPTEMBER (11-17 SEPTEMBER)

	No. of new home sold				No. of 2nd hand home sold			
	11-17 Sep	wow	mom	yoy	11-17 Sep	wow	mom	yoy
BJ	1042	24%	-7%	-44%	3,490	26%	40%	28%
SH	1,652	10%	-39%	-52%	4,209	1%	25%	1%
GZ	1109	31%	19%	-19%	2,129	13%	7%	27%
SZ	613	22%	-10%	-22%	892	10%	15%	106%

Source: Local government housing bureau, UOB Kay Hian

- **New-home sales in 50 cities improved mom in Sep 23.** According to CREIS, GFA sold of new homes in Tier 1 cities increased 19.5% wow and decreased 39.7% yoy. GFA sold of new homes in Tier 2 cities jumped 10.4% wow and fell 15.5% yoy. GFA sold of new homes in Tier 3 and 4 cities rose 10.8% wow and contracted 38.2% yoy. The average weekly sales of new homes in 50 cities in Sep 23 grew 6.8% mom and dropped 32.2% yoy.
- **Sentiment of land markets diverged in Tier 2 cities.** Three land plots in the latest land auctions in Chongqing were all sold at reserve prices. For Xi'an, the investment sentiment remained high. The land premium rate of two land plots was 9.2%. One land plot sold at the top price and Longfor captured it with Rmb1.5b. The other land plot was captured by Yuexiu with 3.7% premium rate.

MARKET WEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
CR LAND	1109 HK	BUY	32.40	47.48
COLI	688 HK	BUY	15.98	25.86

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Current Price 12 Sep 23 (HK$)	Target Price (HK$)	Upside/ (Downside) to TP (%)	Market Cap (HK$ m)	PE 2022F (x)	PE 2023F (x)	P/B 2022F (x)	P/B 2023F (x)	Yield 2022F (%)	Yield 2023F (%)
China Resources Land	1109 HK	BUY	32.40	47.48	46.5	231,042.4	7.9	6.9	0.8	0.7	4.7	5.4
China Overseas Land	688 HK	BUY	15.98	25.86	61.8	174,899.2	6.1	5.1	0.4	0.4	4.9	5.8

Source: Bloomberg, UOB Kay Hian

- **Since Sep 23, local governments have accelerated the pace of policy easing.** This week (11-19 September), more cities have also announced the removal of home purchase restrictions (HPR) in core regions, eg Wuhan, Hefei, and Fuzhou. Besides, Xiamen and Xian also removed HPR in non-core regions.

RECENT PROPERTY EASING POLICIES IN CORE CITIES

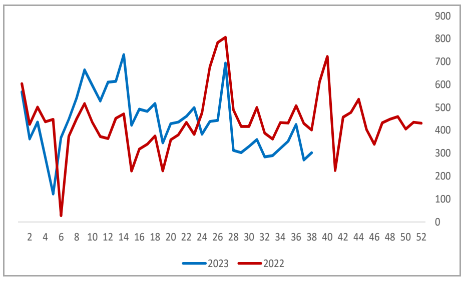
Cities	Implement the New Definition of 1st Home Mortgage	Removed Home Purchase Restrictions in core regions	1st Home Mortgage rate
Beijing	✔		LPR+55BP
Shanghai	✔		LPR+35BP
Guangzhou	✔		LPR-10BP
Shenzhen	✔		LPR+30BP
Hangzhou	✔		LPR-20BP
Tianjin	✔		LPR-40BP
Shijiazhuang	✔		LPR-50BP
Changchun	✔		LPR+5bp
Changsha	✔		LPR-20BP
Chengdu	✔		LPR-20BP
Nanjing	✔	✔	LPR-20BP
Jiaxing	✔	✔	LPR-20BP
Dongguan	✔	✔	LPR-20BP
Foshan	✔	✔	LPR-20BP
Shenyang	✔	✔	LPR-50BP
Dalian	✔	✔	LPR-50BP
Suzhou	✔	✔*	LPR-20BP
Jinan	✔	✔	LPR-20BP
Qingdao	✔	✔	LPR-20BP
Zhengzhou	✔	✔	LPR-50BP
Fuzhou	✔	✔	LPR-50BP
Heifei	✔	✔	LPR-20BP
Wuhan	✔	✔	LPR-20BP

Source: Media reports, UOB Kay Hian. Note: Suzhou removed HPRs in all regions for unit larger than 140sqm

ACTIONS

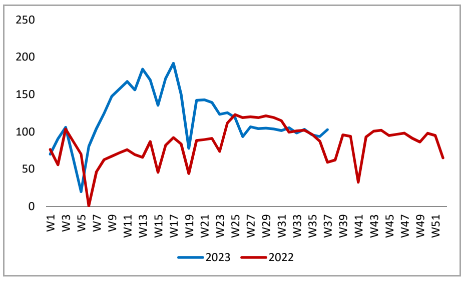
- **Maintain MARKET WEIGHT on China's property sector.** With continuous policy easing on the demand side, we believe supply will have an impact on the strength of market recovery. In Tier 2 cities with relatively sufficient supply, removing home purchase restrictions in core regions will be effective in unleashing demand. We expect to see improvements of market sentiment in cities like Nanjing, Suzhou, Wuhan, Hefei, etc. In Tier 1 cities, we believe developers may be trying to strike a balance between pricing and volume. Thus, we expect the sales recovery to be mild, even though demand is quite resilient there. Overall, we expect a mild sales recovery in Tier 1 and Tier 2 cities in 4Q23. COLI and CR Land remain our top pick.

NEW HOME SALES VOLUME



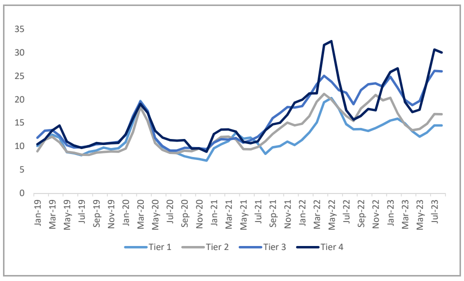
Source: NBS

SECONDARY HOME SALES VOLUME



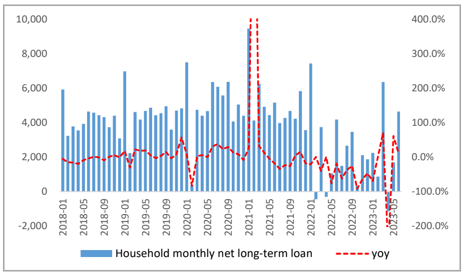
Source: NBS

INVENTORY MONTH



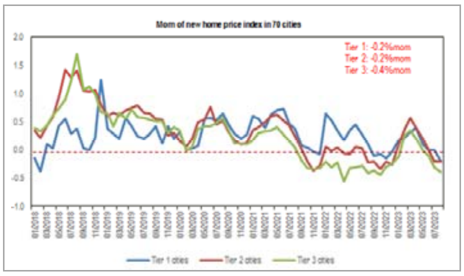
Source: NBS

HOUSEHOLD MONTHLY NEWLY ADDED LONG-TERM LOAN



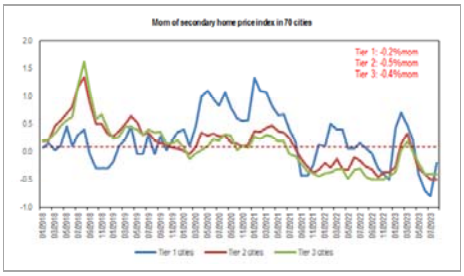
Source: NBS

NEW HOME PRICE INDEX IN 70 CITIES, MOM



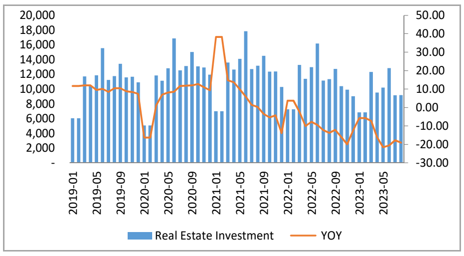
Source: NBS

SECONDARY HOME PRICE INDEX IN 70 CITIES, MOM



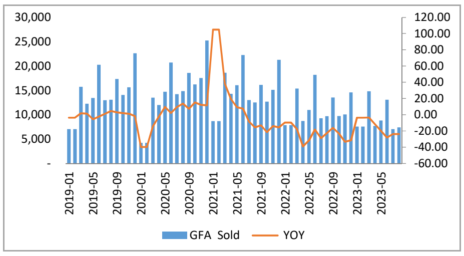
Source: NBS

PROPERTY INVESTMENT SINGLE MONTH YOY



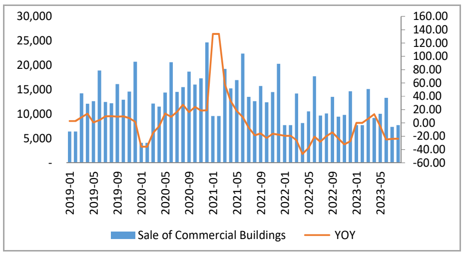
Source: NBS

GFA OF NEW HOME SOLD SINGLE MONTH YOY



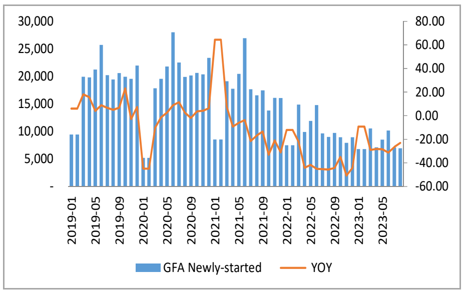
Source: NBS

VALUE OF NEW HOME SOLD SINGLE MONTH YOY



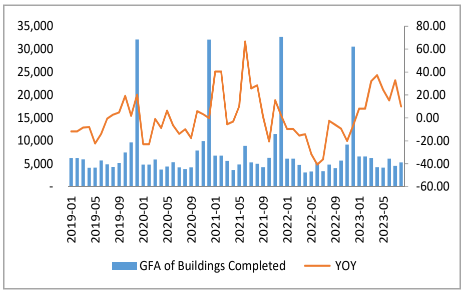
Source: NBS

GFA OF NEW STARTS OF PROPERTY CONSTRUCTION SINGLE MONTH YOY



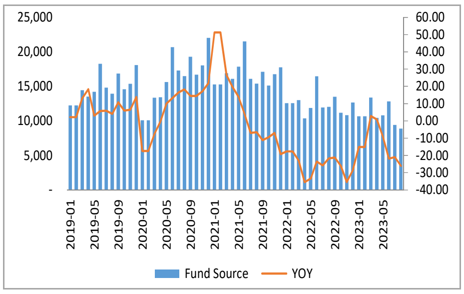
Source: NBS

GFA OF PROPERTY COMPLETION SINGLE MONTH YOY



Source: NBS

FUNDING SOURCE OF DEVELOPERS SINGLE MONTH YOY



Source: NBS

SMALL/MID CAP HIGHLIGHTS

Dayamitra Telekomunikasi (MTEL IJ)

MTEL Expects 2023 EBITDA To Grow 11% yoy With Outer Java Towers As Main Driver

Several highlights on MTEL: a) the company's target of an 11% yoy growth in 2023 revenue and EBITDA, b) 58% of its towers strategically located in outer Java where non-incumbent telco operators are aiming to expand their businesses; c) MTEL carried out a sales-and-leaseback transaction of ISAT's towers in Mar 23. According to Bloomberg, MTEL trades at 10.4-9.5x 2023F-24F EV/EBITDA. This is cheaper than TBIG (12.8-12.3x), but higher than TOWR (9.7-9.2x), according to Bloomberg consensus.

WHAT'S NEW

- **MTEL targeting solid growth of 11% yoy for both 2023 revenue and EBITDA.** This is driven by Dayamitra Telekomunikasi's (MTEL) target to add 5,500 tenants (organic: 4,000; inorganic: 1,500) and 13,000 fibre optic deployment. It also targets to improve its tenancy ratio to around 1.7x (similar to the industry's average) in 2025 from the current 1.5x.
- **Outer Java's tenants grew faster (26% yoy) vs Java's (22% yoy) in 1H23.** Mitratel stated that the its growth would be driven by the rising number of tenants in the its outer Java towers. 58% of MTEL's towers are located in outer Java. In 1H23, MTEL's number of tenants in outer Java grew 26% yoy, faster than Java's growth of 22% yoy.
- **To increase tower revenue contribution from ISAT.** MTEL acquired 997 towers (transaction value of Rp1.65t) under the sales-and-leaseback mechanism from ISAT in Mar 23. MTEL's top revenue-contributing customers as of 1H23 are: Telkom and Telkomsel (65%), Indosat Ooredoo Hutchinson / ISAT (20%), XL Axiata (10%), and others (5%).
- **Overall FTTT market to grow 19% CAGR in 2022-28.** MTEL believes that the fibre optic would complement its tower services in supporting reliable network connectivity for telco operators. The potential spectrum auction for the 700MHz band in 2023 could support further deployment of 5G in Indonesia, which requires fibre infrastructure. MTEL has 27,269 km of fibre optic (22% was acquired in 4Q22), higher than IBST (FY22: 16,642 km), but lower than TOWR (1H23: 189,888 km). The overall market of fibre to the tower (FTTT) is expected to grow 19% CAGR for 2022-28 according to Kearney, TowerXchange and the respective companies.

KEY FINANCIALS

Year to 31 Dec (Rpb)	2018	2019	2020	2021	2022
Net turnover	4,522	5,326	6,187	6,870	7,729
EBITDA	2,107	2,436	3,676	4,890	5,709
Operatin profit	1,148	1,267	1,522	2,432	2,696
Net profit (rep./act.)	450	493	602	1,381	1,785
Net profit (adj.)	450	493	602	1,381	1,785
EPS (Rp)	n.a.	n.a.	n.a.	16.5	21.0
PE (x)	n.a.	n.a.	n.a.	42.0	33.1
P/B (x)	n.a.	n.a.	n.a.	1.7	1.7
EV/EBITDA (x)	34.2	29.6	19.6	14.7	12.6
Dividend yield (%)	n.a.	n.a.	n.a.	1.7	n.a.
Net margin (%)	9.9	9.3	9.7	20.1	23.1
Net debt/(cash) to equity (%)	239.4	108.9	158.2	2.5	33.0
Interest cover (x)	2.3	1.8	2.1	2.7	2.6
ROE (%)	n.a.	9.3	7.6	6.6	5.3
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: MTEL, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	Rp695
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

PT Dayamitra Telekomunikasi (Mitratel) is a fully owned subsidiary of PT Telkom Indonesia (Persero) Tbk. Mitratel provides and manages telecommunication infrastructure since 2008. It has the largest tower portfolio in Indonesia.

STOCK DATA

GICS sector	Telecommunication
Bloomberg ticker:	MTEL IJ
Shares issued (m):	83,539.3
Market cap (Rpb):	58,059.8
Market cap (US$m):	3,775.8
3-mth avg daily t'over (US$m):	1.9

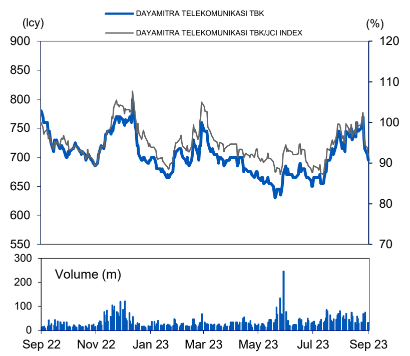
Price Performance (%)

52-week high/low Rp800/Rp620

1mth	3mth	6mth	1yr	YTD
79.9	34.7	64.9	(17.7)	(7.4)

Major Shareholders	%
PT Telekomunikasi Indonesia Tbk.	71.85
-	-
-	-
FY23 NAV/Share (Rp)	-
FY23 Net Debt/Share (Rp)	-

PRICE CHART



Source: Bloomberg

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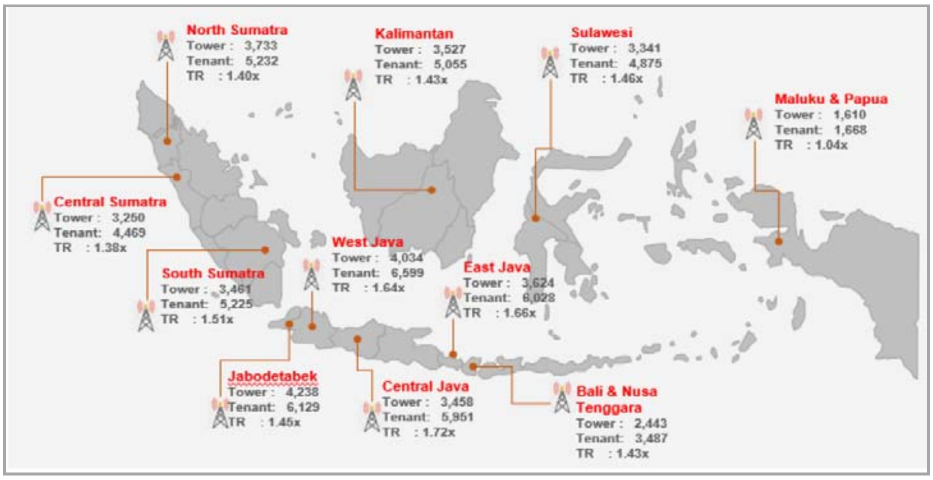
STOCK IMPACT

- **Advantage from early entrance to Outer Java.** One of MTEL's competitive advantages is its stronger position in outer Java compared to other tower providers. The company highlighted that most (58%) of its towers are located in outer Java, while the remaining 42% of its towers are in Java. Furthermore, 64% of MTEL's towers are located in areas with no other competitor tower sites within 500m.

MTEL'S NUMBER OF TOWERS AND TENANTS BASED ON LOCATIONS IN INDONESIA



Source: MTEL

- **Non-tower businesses as additional growth drivers.** Below are several of the other non-tower businesses' outlook according to Kearney, TowerXchange, and respective companies:

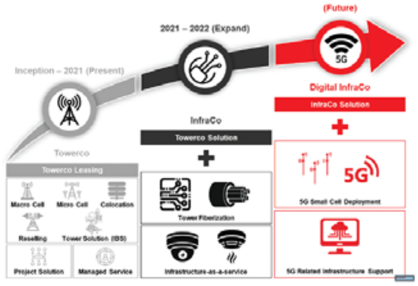
  a) **Fibre business:** Analysis Mason and MTEL expect fibre optic infrastructure to become more critical for telco operators along with the increase in data consumption and network density. MTEL's fibre optic network has already reached around 27,000 km. The fibre optic network of Telkom Indonesia (TLKM; parent company of Telkomsel and MTEL) Group consists not only MTEL's, but also includes the fibre network of TLKM (around 172,000 km), and PT Telekomunikasi Indonesia Internasional ("Telin") (250,140 km submarine cable) based on the available disclosures. The market for FTTT is expected to grow 19% CAGR for 2022-28.

  b) **Power Energy Business (Power-as-a-Service (PaaS)):** There is growing interest in PaaS in the domestic market as telco operators intend to carve out their power back-up business and look for stable energy supply in rural areas. MTEL views its tower would become more attractive would increase by offering tower bundling product with fibre and power service. The Power to the Tower market is expected to increase by 3% CAGR for 2022-28.

  c) **Small cell and indoor antenna (distributed antenna systems (DAS)):** MTEL has In Building Solution Business (IBS) that offers DAS and femtocell, as part of its "smart building" product portfolio, as a solution to telco operators' needs. The small cell and DAS market is expected to rise by 13% CAGR in 2022-28.

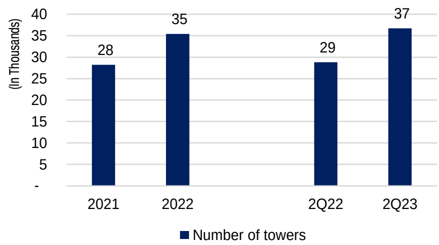
  As of 1H23, tower leasing still dominated MTEL's total revenue with an 84% contribution, while fibre and electrical lease only accounted 2% and less than 1% respectively.

MTEL'S GROWTH STRATEGY



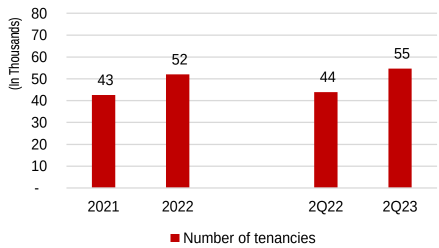
Source: MTEL, UOB Kay Hian.

MTEL: NUMBER OF TOWERS



Source: MTEL, UOB Kay Hian

MTEL: NUMBER OF TENANCIES



Source: MTEL, UOB Kay Hian

TOWER PROVIDERS' OPERATIONAL DATA

Tower Provider	Number of Tenants	Number of Towers	Tenancy Ratio	Fiber Optic Length
MTEL	54,718	36,719	1.5	27,269
TOWR	53,771	29,792	1.8	189,888
TBIG	41,318	22,026	1.9	NA
CENT (est.)	15,320	9,387	1.6	664
IBST (est.)	5,791	3,383	1.7	16,642

Source: Respective companies, Bloomberg, UOB Kay Hian

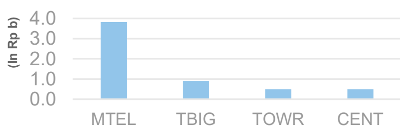
TOWER PROVIDERS' DEBT RATIO

	Net Debt / EBITDA (x)	Total Debt / EBITDA (x)	Net Debt / Equity (%)
MTEL	2.3	2.9	42.3
TOWR	4.8	4.9	290.9
TBIG	5.4	5.6	241.5
CENT	9.7	10.0	NA

Note: CENT's 1H23 equity amount was -Rp817 b (capital deficiency). CENT booked negative bottom-line in 1H23.

Source: Respective companies, Bloomberg, UOB Kay Hian

TOWER PROVIDERS' CASH AS OF 1H23



Source: Respective companies, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Net turnover	5,326	6,187	6,870	7,729
EBITDA	2,436	3,676	4,890	5,709
Deprec. & amort.	1,169	2,154	2,458	3,013
EBIT	1,267	1,522	2,432	2,696
Other income (expenses)	630	810	821	736
Associate contributions	0	0	0	0
Net interest income/(expense)	0	0	0	0
Pre-tax profit	637	712	1,611	1,960
Tax	(144)	(110)	(230)	(175)
Minorities	0	0	0	0
Net profit	493	602	1,381	1,785
Net profit (adj.)	493	602	1,381	1,785

BALANCE SHEET

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Fixed assets	9,984	14,509	20,651	34,852
Other LT assets	1,021	2,706	1,740	1,574
Cash/ST investment	316	347	516	19,133
Other current assets	1,733	2,529	2,378	2,170
Total assets	13,053	20,091	25,285	57,728
ST debt	817	1,676	3,987	2,828
Other current liabilities	2,860	3,255	3,361	3,648
LT debt	6,407	7,094	9,446	17,131
Other LT liabilities	83	335	329	476
Shareholders' equity	2,886	7,731	8,163	33,646
Minority interest	0	0	0	0
Total liabilities & equity	13,053	20,091	25,285	57,728

CASH FLOW

Year to 31 Dec (Rpb)	2019	2020	2021	2022
Operating	893	3,289	4,536	5,127
Pre-tax profit	637	712	1,611	1,960
Tax	(144)	(110)	(230)	(175)
Deprec. & amort.	1,169	2,154	2,458	3,013
Working capital changes	(689)	208	428	686
Other operating cashflows	(80)	325	269	(357)
Investing	(6,295)	(5,181)	(12,597)	(10,893)
Capex (growth)	(4,468)	(4,602)	(12,406)	(10,482)
Investments	0	0	0	0
Financing	(1,827)	(579)	(191)	(411)
Dividend payments	5,409	2,061	26,678	(7,028)
Proceeds from borrowings	(90)	(103)	(2,181)	(966)
Others/interest paid	4,444	0	25,463	(664)
Net cash inflow (outflow)	2,219	6,010	11,194	4,530
Beginning cash & cash equivalent	(1,102)	(3,845)	(7,798)	(13,228)
Changes due to forex impact	(62)	(0)	0	3,300
Ending cash & cash equivalent	7	169	18,617	(12,794)

KEY METRICS

Year to 31 Dec (%)	2019	2020	2021	2022
Profitability				
EBITDA margin	46.6	45.7	59.4	71.2
Pre-tax margin	13.4	12.0	11.5	23.5
Net margin	9.9	9.3	9.7	20.1
ROA	n.a.	3.0	2.7	3.3
ROE	n.a.	9.3	7.6	6.6
Growth				
Turnover	n.a.	17.8	16.2	11.0
EBITDA	n.a.	15.6	50.9	33.0
Pre-tax profit	n.a.	5.4	11.7	126.4
Net profit	n.a.	9.7	22.0	129.4
Net profit (adj.)	n.a..	9.7	22.0	129.4
EPS	n.a.	n.a.	n.a.	n.a.
Leverage				
Debt to total capital	71.5	53.1	62.2	37.2
Debt to equity	250.3	113.4	164.5	59.3
Net debt/(cash) to equity	239.4	108.9	158.2	2.5
Interest cover (x)	2.3	1.8	2.1	2.7

SECTOR UPDATE

Technology – Malaysia

Glass Half Empty Or Half Full? Does Not Matter As Long As It Is Refillable!

Risk-reward calculus is tilting towards the favourable side after a Davis' Double Killing both on the industry's earnings and valuations. Coupled with an imminent cyclical recovery, peakish interest rate cycle and gushing waterfall effect from trade diversion and supply chain entrenchment, we believe the conditions for turning more bullish on the sector are ripe again. We like companies that have strong orderbook backlogs and are frontrunners with structural growth themes. Maintain OVERWEIGHT.

WHAT'S NEW

- **Glass half empty or half full?** On the 2Q23 report cards, while disappointment underwhelmed on a wider rate of 36% (or five out of 14; mostly seen in the EMS sectors), both the earnings disappointment and frail trading sentiment have set valuation right back to mean reversion. Note that BM Tech Index closed lower by 36% since 2022 and -1% ytd as of our time of writing, with most of the tech names under our coverage trading at average to +0.5SD above their five-year mean (from +2SD since end-21). Conditions for turning more bullish on the sector are ripe on a better risk reward calculus, backed by an improving earnings outlook in 2024.

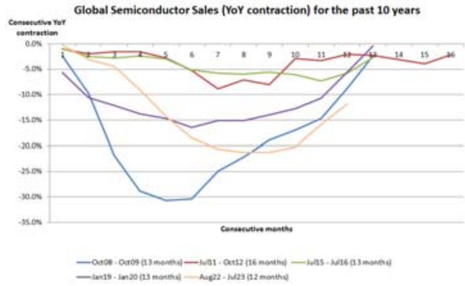
- **Bottoming out from negative territory.** Global semiconductor sales are expected to accelerate by 11.8% yoy in 2024 after sales contraction of 10.3% in 2023, according to WSTS. This reflects decent growth across all segments, led by memory (43.2%, after a sharp drop in 2023), followed by logic (+6.8%) and discrete semiconductors (+6.4%). In our view, this suggests that sales of smartphones and smart devices are expected to rebound strongly. Concurrently, the growth contraction resulting from the global semiconductor sales downcycle is also seeing signs of narrowing, suggesting that the cycle could reverse back to positive growth trajectory again in few months' time. Additionally, our empirical research on the sector cyclicality against the Bursa Malaysia Technology Index also suggests that the index is already on the brink for upswing again after months of consolidation.

- **Look beyond short-term lull.** Local tech players are increasingly seeing more fruition from the waterfall effect following massive capex commitment of the MNC players in Malaysia (which require the local ecosystem support). Our recent channel checks across the technology sub-segments suggest that there are signs of strong recovery towards 2Q24 (across Outsourced Semiconductor Assembly and Test (OSAT) and Electronic Manufacturing Services (EMS) names), while the key MNC customers for these sub-segments are in reportedly back in aggressive ramp-up mode. A few bellwethers in the OSAT, Semiconductor Production Equipment (SPE) and Integrated Engineering Solutions field have recently received instructions to gear up for the coming order pull-in.

OVERWEIGHT

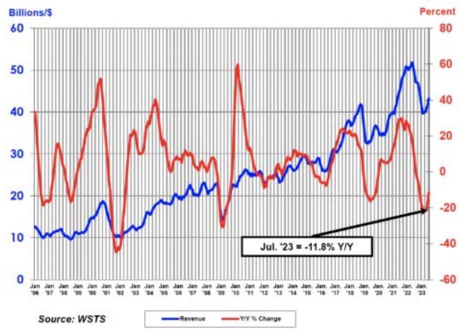
(Maintained)

GLOBAL SEMICONDUCTOR SALES GROWTH DOWNCYCLE FOR THE PAST 15



Source: Semiconductor Industry Association (SIA), UOB Kay Hian

WORLDWIDE SEMICONDUCTOR REVENUES



Source: Semiconductor Industry Association (SIA), UOB Kay Hian

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PEER COMPARISON

Company	Tickers	Rating	Share Price 19 Sep 23 (RM)	Target Price (RM)	Market Cap (RMm)	PE Curr (x)	PE 1Y Fwd (x)	PE 2Y Fwd (x)	EV/EBITDA Curr (x)	EV/EBITDA 1Y Fwd (x)	P/BV 1Y Fwd (x)	Dividend Yield Curr (x)	Dividend Yield 1Y Fwd (x)
Technology – Electronic Manufacturing Services (EMS)													
ATA IMS	AIB MK	SELL	0.36	0.292	433.6	(7.5)	(29.6)	150.0	(15)	8.1	0.6	na	na
CAPE EMS	CEB MK	BUY	1.13	1.68	1043.0	31.1	18.6	12.2	17.0	12.5	2.7	1.2	1.6
NationGate	NATGATE MK	BUY	1.36	1.83	2,820.5	33.1	37.0	18.6	24.1	19.2	3.8	0.0	0.0
SKP Resources	SKP MK	BUY	1.01	1.13	1,578.0	11.0	13.5	10.1	7.0	8.0	1.7	5.7	4.6
VS Industry	VSI MK	BUY	1.01	1.10	3,882.5	21.8	14.7	12.5	10.5	8.0	1.6	2.1	3.1
Technology – Semiconductors (OSAT: Outsourced Semiconductor Assembly and Test, SPE: Semiconductor Production Equipment, Integrated Engineering Solution)													
Coraza Integrated	CORAZA MK	BUY	0.64	0.98	272.6	16.0	33.7	16.4	12.8	10.7	2.8	0.0	0.0
Globetronics	GTB MK	HOLD	1.46	1.63	980.1	21.6	29.9	20.5	11.1	12.9	3.2	4.8	3.2
Greatech	GREATEC MK	BUY	4.34	6.20	5,440.5	40.4	29.9	24.5	35.8	24.2	7.1	n.a	n.a
Inari Amertron	INRI MK	BUY	2.83	3.80	10,586.1	33.0	26.0	23.4	18.9	15.7	4.0	2.9	3.5
Oppstar	OPPSTAR MK	BUY	1.53	2.53	973.4	45.4	33.6	23.1	46.9	37.4	6.3	0.6	0.7
SFP Tech	SFP MK	BUY	1.02	1.20	2,448.0	75.5	51.2	30.4	57.7	42.1	11.4	0.0	0.0
Pentamaster Corp	PENT MK	BUY	5.30	6.20	3,770.0	43.7	38.2	30.1	27.9	20.1	4.3	0.4	0.5
TT Vision	TTVHB MK	BUY	1.23	1.50	575.6	51.5	36.4	28.8	10.7	5.9	6.3	0.0	0.0
Vitrox Corp	VITRO MK	BUY	7.45	8.70	7,042.6	35.1	40.1	30.0	30.5	35.1	7.2	1.2	1.1

Source: Bloomberg, UOB Kay Hian

ACTION

- **Maintain OVERWEIGHT; bottom-up stock picking on a cherry-picking approach to structural growth themes.** Our strategy prescription is premised on stocks with outstanding growth prospects which are the: a) frontrunners of trade diversion, and b) equipment/solution providers for next-generation technologies − ie EV/higher electrification, medical devices and RE.

- **For big-cap exposure, we like Greatech and Pentamaster** for their solid orderbook backlogs (end-August: RM610m for Greatech; >RM600m for Pentamaster) with >50% exposure to high-margin EV and/or RE alongside their respective unique value proposition (strategic exposure in the renewable energy, medical and EV industries offer better dynamics to weather cyclicality vs peers) alongside their robust growth. We also like Inari for its strong recovery in FY24 after a gestation year premised on its new flagship programme, inventory replenishment and fruition of new business collaboration.

- **For small/mid-cap exposure, we like NationGate and SFP** for their alpha growths on strong visibility of better order loadings from their key customers from the supply chain reconfiguration amid trade diversion. Both names are in commercial discussions with new customers which could see earnings contribution as soon as 3Q23. We expect NationGate and SFP to register a two-year net profit CAGR of 30% and 48% respectively from 2022 to 2024, notwithstanding new meaningful contracts pipelines.

ESSENTIALS

- **Enormous potential from trade diversion and supply chain entrenchment.** Corporates and industry veterans that we met were in agreement that the emergence of the MNC players in Malaysia, namely: a) integrated device manufacturers and wafer fabrication equipment suppliers – Infineon, Intel, Lam Research, Applied Materials; b) global manufacturing solution providers – Teradyne, Jabil, Plexus; c) high-end substrate players – Simmtech Holdings, AT&S; and d) OBM– DexCom and e) OEM - Bosch, has resulted in a waterfall effect which is benefitting the local ecosystem, especially the bellwethers with ample capacity.

- **Local OSAT players' sales expected to contract 7% yoy in 2023 before rebounding 11% yoy in 2024.** While higher semiconductor content following the proliferation of EV and autonomous driving is still expected to drive growth, shipments of smartphones continue to see headwinds from weakening demand owing to geopolitical tensions and ongoing supply chain constraints. Note that worldwide smartphone shipments fell 7.8% yoy in 2Q23. This marks the eighth consecutive quarter of decline for the smartphone market, though the rate of decline is slowing compared with previous quarters. Meanwhile on the local front, while smartphone-related OSAT players are still guiding for a softer outlook in 2Q23 and partially 3Q23, we are particularly positive on Inari which we have ascribed a higher valuation of 35.0x (+1SD above mean) to capture the option value of its new prospects.

- **Local equipment makers: Decent growth; orderbook backlog at all-time high.** Although the growth is coming off from a high base, 2023/24 sales growth is still estimated at a decent 7%/22% on the back of the ongoing investment cycle for EV/autonomous driving, medical and RE even after the strong growth of 42% in 2021. This outperforms global benchmarks due to the US-China trade diversion and the entrenchment of manufacturing capabilities. Meanwhile, orderbook backlogs for most of the companies remain healthy but delivery remains a challenge at times due to supply chain disruptions. Nonetheless, the delay was merely a push-out rather than a cancellation.

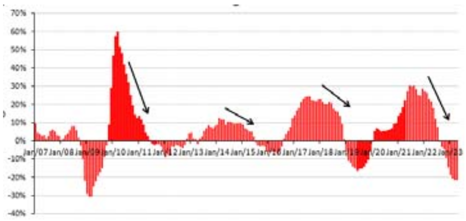
- **Local EMS players: Getting out of the woods; keep a close eye in 2024.** While both the Consumer (c) and Industrial (i) products-related EMS players are still experiencing slowdown in light of the soft demand and supply chain disruption, most of management noted that the current visibility suggests a better 2H23. For the cEMS segment, VS is making a comeback after sales consolidation, while it is also onboarding new prospects to anchor for a strong growth in FY24. Meanwhile for the iEMS segment, while NationGate could see a consolidation in 2023, the trade diversion-related orders could propel its 2024 growth beyond its targeted organic earnings growth of 20-30%. Meanwhile CAPE could be another dark horse that could see at least three new prospects that lands on meaningful earnings contribution as soon as 4Q23.

GLOBAL SEMICONDUCTOR SALES FORECAST

Spring 2023	Amounts in US$M			Year on Year Growth in %		
	2022	2023	2024	2022	2023	2024
Americas	141,136	128,236	150,989	16.2	-9.1	17.7
Europe	53,853	57,253	61,637	12.8	6.3	7.7
Japan	48,158	48,724	52,534	10.2	1.2	7.8
Asia Pacific	330,937	280,881	310,838	-3.5	-15.1	10.7
Total World - $M	574,084	515,095	575,997	3.3	-10.3	11.8
Discrete Semiconductors	33,993	35,904	38,192	12.0	5.6	6.4
Optoelectronics	43,908	45,949	45,881	1.2	4.6	-0.1
Sensors	21,782	20,410	21,575	13.7	-6.3	5.7
Integrated Circuits	474,402	412,832	470,349	2.5	-13.0	13.9
Analog	88,983	83,907	88,902	20.1	-5.7	6.0
Micro	79,073	71,470	75,855	-1.4	-9.6	6.1
Logic	176,578	173,413	185,266	14.0	-1.8	6.8
Memory	129,767	84,041	120,326	-15.6	-35.2	43.2
Total Products - $M	574,084	515,095	575,997	3.3	-10.3	11.8

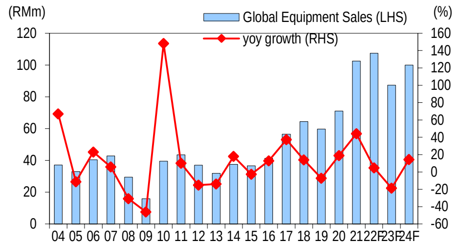
Source: World Semiconductor Trade Statistics (WSTS)

GLOBAL SEMICONDUCTOR SALES (YOY GROWTH)



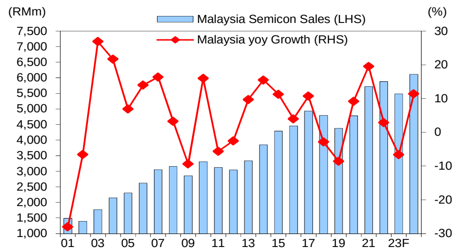
Source: SIA, UOB Kay Hian

GLOBAL EQUIPMENT MAKER SALES (YOY GROWTH)



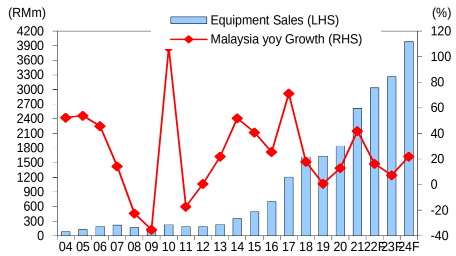
Source: SEMI, UOB Kay Hian

MALAYSIA OSAT SALES GROWTH



Source: Bloomberg, UOB Kay Hian

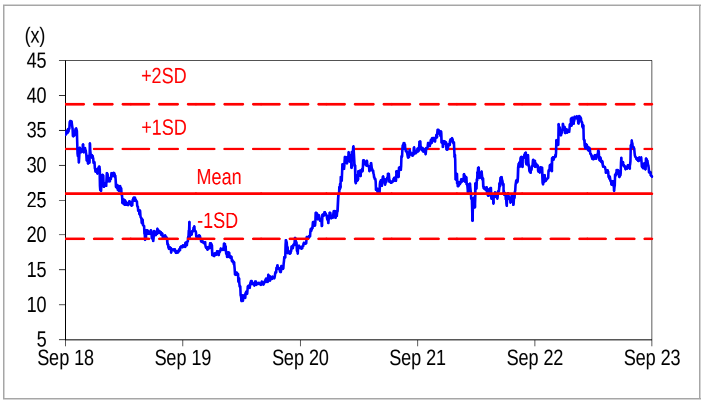
MALAYSIA EQUIPMENT MAKER SALES GROWTH



Source: Bloomberg, UOB Kay Hian

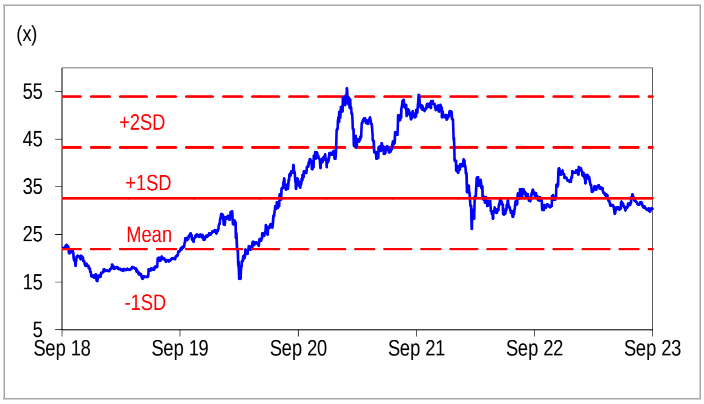
- **Downside risks include:** a) longer-than-expected inflation, b) deeper recession, c) more hawkish US monetary policies, d) slower-than-expected sales, e) higher-than-expected cost, and f) more disruptions caused by the COVID-19 pandemic.

MALAYSIA OSAT FIVE-YEAR PER BAND



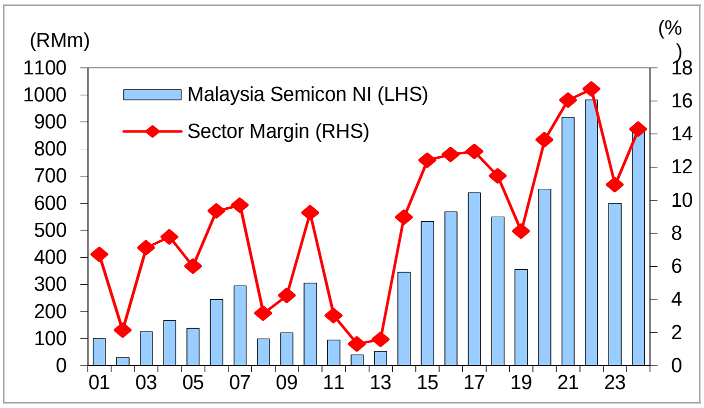
Source: Bloomberg, UOB Kay Hian

MALAYSIA SPE FIVE-YEAR PER BAND



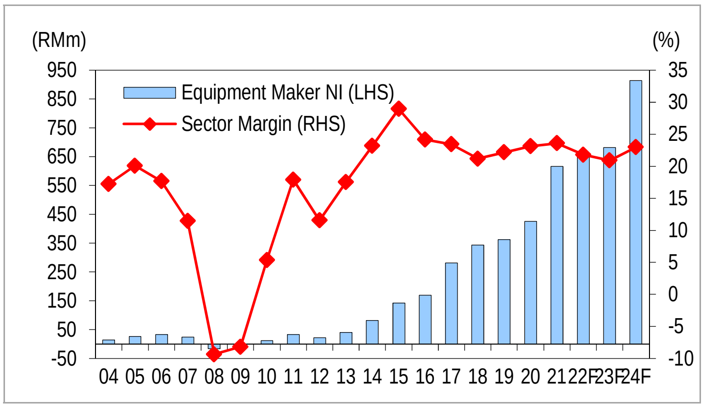
Source: Bloomberg, UOB Kay Hian

MALAYSIA OSAT NET PROFIT AND MARGIN



Source: Bloomberg, UOB Kay Hian

MALAYSIA EQUIPMENT MAKER NET PROFIT AND MARGIN



Source: Bloomberg, UOB Kay Hian

TECHNOLOGY DOWNCYCLE PLOT AGAINST BURSA MALAYSIA TECHNOLOGY INDEX

Source: Bloomberg, UOB Kay Hian

SMALL/MID CAP HIGHLIGHTS

Cape EMS (CEB MK)

A Marriage Cum Double Happiness; Supercharging Growth With A Magical CAPE

We are positive on CAPE's earnings-accretive acquisition of iConn, which allows the group to harvest low hanging fruits from wider market reach, new business opportunities and customer acquisition. Meanwhile, our recent tour to CAPE's manufacturing facilities showed that there continues to be a healthy inflow of trade diversion-related orders. Increase earnings by 17-18% to account for such acquisition. Maintain BUY. Target price: RM1.68.

INVESTMENT HIGHLIGHTS

- **Sowing seeds for future growth.** Cape EMS (CAPE) entered into a conditional stock purchase agreement (SPA) with the Sellers (trustees of the Hidirlar Family Trust and the Rabia Hidirlar Investment Trust, Turker Hidirlar; and Low Kim Teck Henry) for the proposed acquisition of all 50,072 common stocks in iConn Inc for a total cash consideration of US$16.5m (or RM76.6m) subject to the adjustments as set out in the SPA. It has also proposed to undertake a 10% private placement of up to 92.3m new ordinary shares to independent third-party investor(s). The purchase consideration will be funded via a combination of proceeds to be raised either from the proposed private placement, internally generated funds and/or bank borrowings.

- **Earnings-accretive acquisition with profit guarantee terms.** iConn which is headquartered in California, with a wholly-owned subsidiary in China is involved in the provision of virtual manufacturing and design for manufacturing, engineering and sourcing. It has a diversified customer portfolio which includes the top global MNCs. Note that iConn comes with profit guarantee terms of an aggregate of US$8m (about RM37.1m) for the period commencing 1 Jan 24-31 Dec 26, with the Sellers to make up for the shortfall should the aggregate PAT fall below this amount during these periods. With the consideration of US$16.5m (or RM76.6m), the acquisition PE of 6.1x on an average profit amount per year appears to be earnings-accretive even after the private placement exercise (if any).

- **A marriage cum double happiness.** Note that iConn is also an existing customer and supplier of the Cape, where CAPE provides EMS to iConn for technology-based access points and mechanical apparatus for life science and advanced medical equipment. In addition, iConn is the Cape EMS Group's supplier for electrical interconnect components that the Cape EMS Group uses for its other customers. iConn's unbilled purchase orders stood at US$7.6m (or about RM35.3m). We understand that such acquisition enables the group to expand its range of services under its EMS segment, thereby improving its appeal to existing and potential customers. With iConn's strong design capabilities and involvement in customers' product infancy stage, this allows CAPE to gain first mover advantage and traction with customers who are looking to scale for mass production.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2024F
Net turnover	344.3	438.0	647.4	821.7	907.8
EBITDA	41.3	67.8	92.0	140.4	149.0
Operating profit	30.7	49.5	69.8	114.9	123.5
Net profit (rep./act.)	26.3	33.5	49.5	85.2	91.4
Net profit (adj.)	26.3	33.5	56.1	85.2	91.4
EPS (sen)	2.8	3.6	6.1	8.4	9.0
PE (x)	39.7	31.1	18.6	13.5	12.6
P/B (x)	6.2	5.3	2.7	2.1	1.9
EV/EBITDA (x)	25.4	15.5	11.4	7.5	7.1
Dividend yield (%)	0.0	-1.2	1.6	2.2	2.4
Net margin (%)	7.6	7.7	8.7	10.4	10.1
Net debt/(cash) to equity (%)	31.5	49.9	2.0	-18.8	-27.2
Interest cover (x)	-5.8	-5.7	-7.3	-10.3	-10.1
ROE (%)	15.5	17.2	14.5	15.5	14.9

Source: CAPE, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.13
Target Price	RM1.68
Upside	+48.7%
(Previous TP	*RM1.60)*

COMPANY DESCRIPTION

CAPE EMS is principally an investment holding company and is involved in electronics manufacturing services. Through its subsidiaries, it is also involved in aluminium die casting and electronics manufacturing services, and supply of electronic products and related activities.

STOCK DATA

GICS sector	Electrical Components
Bloomberg ticker:	CEB MK
Shares issued (m):	923.0
Market cap (RMm):	1,043.0
Market cap (US$m):	222.9
3-mth avg daily t'over (US$m):	0.3

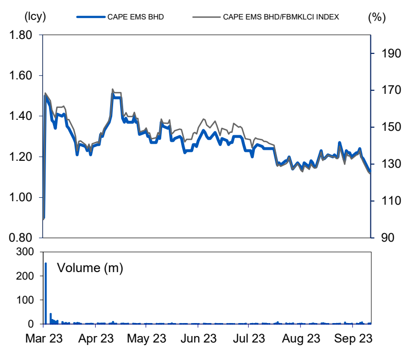
Price Performance (%)

52-week high/low RM1.51/RM0.90

1mth	3mth	6mth	1yr	YTD
(1.7)	(14.4)	-	-	25.6

Major Shareholders	%
Tee Kim Chin	40.6
Fortress Capital	16.7
Tee Kim Yok	13.8
2022 NAV/Share (RM)	0.55
2023 Net Cash/Share (RM)	(0.01)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Reaping fruits with frontier manufacturing technology.** Our positive conviction is reaffirmed following the recent eye-opening visit on its cleanroom setup cum fully automated operation for its key customer. While management keeps its lips tight on the potential prospects, impression from such operation suggests that more advanced EMS jobs could be reaped with such setup amid the prospering trade diversion opportunities. Management has also shared that the ramp-up indications this key customer could lead to its production lines being doubled, with CAPE being the lion share supplier for this key customer. Note that 40% of the IPO proceeds have been allocated partially to support such orders in flow.

- **Strong pipeline to turbocharge growth.** Despite a strong pipeline visibility from its existing key customers (as evidenced in its record high profit in 1Q and 2Q), CAPE remains aggressive in scouting for new prospects that best fit into its mid-volume high mix model. Besides promising growth prospects from: a) its wire communication equipment (riding on a new replacement cycle and new markets penetration; from initial 120,000 units to 400,000 units now), and b) Customer A (consumer electronics products; carries the highest gross margin; volume could more than double following its synergistic M&A activities), the group is eyeing for at least three new prospects that could see meaningful earnings contribution as soon as 4Q23. These products are related to the LED lighting and EV charging station, renewable energy devices, IoT control modules (US-based MNC leading in communication standards) and others.

- **Underappreciated gem with a palatable PEG valuation.** While indications from the outstanding purchase orders alongside promising prospects suggest a higher utilisation rate which could spearhead record profit beyond 2023, we believe that its intrinsic value might have not been fully appreciated. On our forecasted three-year revenue/core net profit CAGR of 25%/32% which have not fully accounted the blue-sky from new prospects mentioned above, CAPE is only trading at an implied 2024F PE which is at a 20-31% discount to its closest peers in the industrial EMS segment. Note that the industries where its key customers are operating are experiencing secular growth demand but partially constrained by geopolitical trade war. Hence its customer supply chain relocation has prompted CAPE to expand its capacity and improve its service offerings.

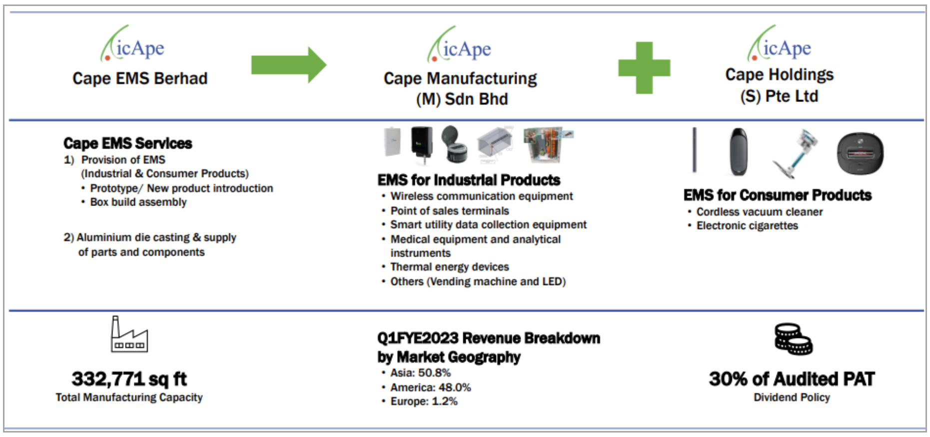
EARNINGS REVISION/RISK

- We increase our 2024 earnings by 17-18% to account for earnings contribution from iConn and enlarged our share base by 10% to account for the private placement.

VALUATION/RECOMMENDATION

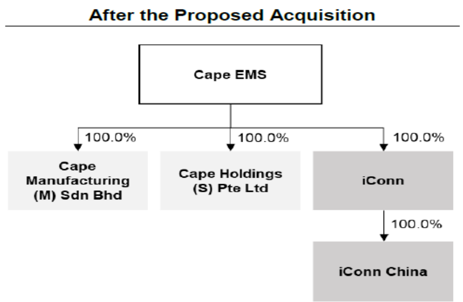
- **Maintain BUY with a higher target price of RM1.68,** based on 20.0x 2024F PE, which is at a 10% discount to its closest industry peers' average forward PE. Trading at an undemanding 13.5x FD 2024F PE which is at 20-31% below its peers, we see ample upside from here and we also expect a three-year net profit CAGR of 40% from 2022.

COMPANY AT A GLANCE



Source: CAPE

GROUP STRUCTURE POST EXERCISE



Source: CAPE

EXISTING MANUFACTURING FACILITIES

Source: CAPE

FUTURE EXPANSION OF OPERATIONS FACILITIES

Source: CAPE

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net Turnover	438.0	647.4	821.7	907.8
EBITDA	67.8	92.0	146.8	161.2
Depreciation & Amortisation	18.3	22.2	32.0	37.7
EBIT	49.5	69.8	114.9	123.5
Associate Contributions				
Net Interest Income/(Expense)	(8.7)	(9.6)	(11.1)	-12.2
Pre-tax Profit	40.8	60.2	103.7	111.3
Tax	(7.3)	(10.8)	(18.5)	-19.9
Minorities	0.0	0.0	0.0	0.0
Net Profit	33.5	49.5	85.2	91.4
Net Profit (Adjusted)	33.5	56.1	85.2	91.4

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed Assets	217.4	291.0	440.6	422.9
Other LT Assets	16.9	16.9	16.9	16.9
Cash/ST Investment	41.3	131.0	94.9	170.1
Other Current Assets	207.9	276.4	361.5	389.2
Total Assets	484.3	716.1	914.7	999.9
ST Debt	64.4	64.4	64.4	64.4
Other Current Liabilities	98.3	139.5	172.3	193.5
LT Debt	74.2	74.2	74.2	74.2
Other LT Liabilities	52.4	52.4	52.4	52.4
Shareholders' Equity	195.0	385.6	551.4	615.3
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities & Equity	484.3	716.1	914.7	999.9

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	20.6	46.7	64.9	122.6
Pre-tax Profit	40.8	60.2	103.7	111.3
Tax	(3.8)	(10.8)	(18.5)	(19.9)
Depreciation & Amortisation	18.3	22.2	32.0	37.7
Associates				
Working Capital Changes	(46.2)	(27.6)	(56.4)	(11.9)
Other Operating Cashflows	11.6	2.6	4.1	5.4
Investing	(12.8)	(95.8)	(105.0)	(20.0)
Capex (Growth)	(16.0)	(95.8)	(105.0)	(20.0)
Investments				
Proceeds from Sale of Assets	3.2	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(19.9)	138.9	80.6	(27.4)
Dividend Payments	(13.0)	(16.8)	(25.6)	(27.4)
Issue of Shares	0.0	155.7	106.1	0.0
Proceeds from Borrowings	26.3	0.0	0.0	0.0
Loan Repayment	(6.1)	0.0	0.0	0.0
Others/Interest Paid	(15.1)	0.0	0.0	0.0
Net Cash Inflow (Outflow)	(12.0)	89.7	40.5	75.2
Beginning Cash & Cash Equivalent	37.8	25.7	115.4	155.9
Changes Due to Forex Impact	(0.1)	0.0	0.0	0.0
Ending Cash & Cash Equivalent	25.7	115.4	155.9	231.1

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
Profitability				
EBITDA Margin	15.5	14.2	17.9	17.8
Pre-tax Margin	9.3	9.3	12.6	12.3
Net Margin	7.7	8.7	10.4	10.1
ROA	6.9	6.9	9.3	9.1
ROE	17.2	14.5	15.5	14.9
Growth				
Turnover	27.2	47.8	26.9	10.5
EBITDA	64.2	35.7	59.6	9.8
Pre-tax Profit	61.1	47.5	72.2	7.3
Net Profit	27.7	47.5	72.2	7.3
Net Profit (Adjusted)	27.7	67.2	51.9	7.3
EPS	27.7	67.2	38.1	7.3
Leverage				
Debt to Total Capital	28.6	19.4	15.2	13.9
Debt to Equity	71.1	35.9	25.1	22.5
Net Debt/(Cash) to Equity	49.9	2.0	7.9	(5.1)
Interest Cover (x)	(5.7)	(7.3)	(10.3)	(10.1)

COMPANY UPDATE

Singapore Post (SPOST SP)

Becoming More Expensive to Send Letters

Due to a secular decline in postal volumes and increased operating costs, SPOST is set to increase postal rate rates by 64.5% starting Oct 23. We reckon that the DPP segment is set to bottom out in 1HFY24 and recover close to breakeven for FY24. However, we do expect postal volumes to continue falling as more mail users switch to online alternatives. Maintain HOLD with a higher PE-based target price of S$0.515.

WHAT'S NEW

- **Long-awaited postage rate hike.** To combat rising operating costs and declining domestic letter & mail volumes, Singapore Post (SPOST) announced changes to its domestic postage rates with the rate for standard regular mail increasing by 64.5%/20 S cents to 51 S cents starting 9 Oct 23 (early-3QFY24). The last increment was implemented nine years ago and has been kept largely constant since then. This announcement was made after SPOST initiated a strategic review of its domestic postal & parcel (DPP) segment after posting its first ever annual operating loss of S$15.9m in FY23 and around S$15m loss in 1QFY24. SPOST noted that the group continues to work with IMDA to conduct a structural review of the postal business and formulate a longer-term strategy.

- **Return to profitability.** The postal rate hike is line with our earlier expectations as we opined that the 1-3% postal rate increase in Jan 23 was insufficient to cover elevated operating costs driven by inflationary pressures. With the postal rate hike, we now reckon that the DPP segment has reached a bottom. Based on our FY24 estimates, we now expect the DPP segment to breakeven for FY24. In our view, the additional revenue from the hike would likely flow down to the bottom line, given no incremental increase in operating costs. Assuming a 10% yoy secular decline in domestic postal volumes for FY24 and no sharp increase in operating costs, we now expect the DPP segment to recover close to breakeven for FY24, implying S$22m-25m operating profit in 2HFY24.

- **Double-edged sword.** The postal rate hike follows global industry trends whereby national postal carriers have done multiple basic postal rate hikes to combat declining volumes. Some examples include the UK's Royal Mail (around 30% increase in two years), the United States Postal Service (about 32% increase since 2019, 10% increase in the last six months) and the NZ Post (around 30% hike in 2023). We initially expected SPOST to follow suit and implement gradual 5-8% rate increases. We reckon that the sharp 64.5% hike may be too aggressive, likely hastening postal volume decline as mail users cut down on higher mailing costs. It was reported that Singapore businesses account for more than 80% of mail users, with the average user sending less than one letter a month. Given the short time frame (2-3 weeks) to adjust to the rate hike, we think that businesses would be quick to jump to greener and online alternatives. We expect to see a sharper decrease in mailing volumes for 2HFY24, partially offsetting additional revenue from the rate hike.

KEY FINANCIALS

Year to 31 Mar (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,666	1,872	1,746	1,865	1,972
EBITDA	182	172	199	250	280
Operating profit	105	89	113	165	197
Net profit (rep./act.)	83	25	55	85	105
Net profit (adj.)	88	32	55	85	105
EPS (S$ cent)	3.9	1.4	2.4	3.8	4.6
PE (x)	12.8	34.5	20.5	13.1	10.7
P/B (x)	0.9	1.0	1.0	1.0	0.9
EV/EBITDA (x)	6.8	7.2	6.2	4.9	4.4
Dividend yield (%)	3.6	1.2	2.0	2.8	3.6
Net margin (%)	5.0	1.3	3.1	4.6	5.3
Net debt/(cash) to equity (%)	18.1	9.3	6.1	3.2	(2.6)
Interest cover (x)	27.8	7.6	28.8	30.1	77.3
ROE (%)	5.7	1.8	3.9	6.1	7.3
Consensus net profit	-	-	45	74	89
UOBKH/Consensus (x)	-	-	1.21	1.15	1.19

Source: SPOST, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S$0.495
Target Price	S$0.515
Upside	+4.0%
(Previous TP	*S$0.440)*

COMPANY DESCRIPTION

Singapore Post (SPOST) is the national postal service provider in Singapore. The company provides domestic and international postal and courier services including end-to-end integrated mail solutions covering data printing, letter-shopping.

STOCK DATA

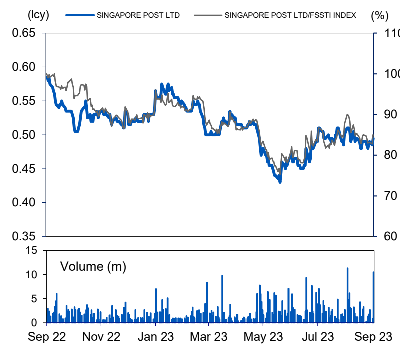
GICS sector	Industrials
Bloomberg ticker:	SPOST SP
Shares issued (m):	2,250.0
Market cap (S$m):	1,113.7
Market cap (US$m):	816.3
3-mth avg daily t'over (US$m):	1.0

Price Performance (%)

52-week high/low				S$0.585/S$0.430
1mth	**3mth**	**6mth**	**1yr**	**YTD**
79.9	34.7	64.9	(17.7)	(7.4)

Major Shareholders	%
Singtel	22.0
Alibaba Group	14.6
-	-
FY24 NAV/Share (S$)	0.50
FY24 Net Debt/Share (S$)	0.04

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Next steps.** Assuming that the upcoming postal rate hike is insufficient, we do expect additional postal rate adjustments to stem the decline in DPP profitability. Postage rates are still expected to increase by 1-2 cents in Jan 24 from an earlier postal adjustment announced in Dec 22. We also expect SPOST to consolidate its postal branches and multiple sorting centres, achieving greater economies of scale and lower overhead costs. Management noted that there would be no relaxation of postal service standards which would have reduced operating costs.

- **No nationalisation.** In our view, a divestment of its letter & mail postal business to the Singaporean government is still unlikely in the near to medium term. Similar to global national postal peers, postal rate adjustments have been used globally as a first step in addressing the secular decline in letter & mail delivery volumes and ensuring profitability for their respective letter & mail segments. SPOST has not adjusted rates since 2014 and is only now catching up.

EARNINGS REVISION/RISK

- **We increase our FY24-26 PATMI estimates,** on the back of the upcoming postal rate adjustment while lowering overall margin assumptions from higher operating costs. We now forecast FY24-26 PATMI at S$54.5m (S$46.5m previously), S$85.1m (S$73.3m previously) and S$104.9m (S$94.5m previously) respectively.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher PE-based target price of S$0.515 (S$0.440 previously),** pegged to the same PE 21.3x multiple, SPOST's average long-term mean PE, to FY24 PATMI estimates. Despite a near-term solution to SPOST's mailing segment woes, we are still uncertain over the success of the postal rate hike given the sharp increase in mailing costs, coupled with the lack of clarity over SPOST's group strategic review.

- However, based on our SOTP valuation, we value SPOST at S$0.78, with the logistics and property segments valued at about S$1.8b. Assuming a S$1 valuation for the mailing segment, we would value SPOST at S$0.67. We think that the market is severely undervaluing both the logistics and mailing segments given that SPOST's current market cap is only around S$1.1b.

SHARE PRICE CATALYST

- Better-than-expected IPP volumes.

- Lower-than-expected decline in domestic postal volumes.

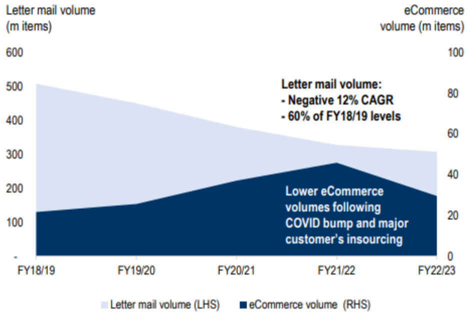
PREVIOUS DOMESTIC POSTAL RATES

LOCAL POSTAGE RATES (inclusive of prevailing GST)				
Weight Step Up to	Basic			Tracked[3]
	Mail (Letter / Postcard[1] / Printed Paper[2])			Mail (Letter / Postcard[1] / Printed Paper[2])
	Registered Service (Singapore): An optional sign-for service. Fee: $2.27 + Prevailing postage rate. Available for Basic Mail (Singapore) only.			
	Standard Regular (C5, C6 & DL size envelope)	Standard Large (Up to C4 size envelope)	Non-Standard	
20g	$0.31	$0.60	$0.60	$2.60
40g	$0.38			$2.65
100g			$0.90	$2.90
250g		$0.90	$1.15	$3.20
500g		$1.15	$1.70	$3.45

Size	Maximum Dimensions	Maximum Weight	Basic Package	Tracked Package
Package	324 x 229 x 65mm	2kg	$1.55	$2.00

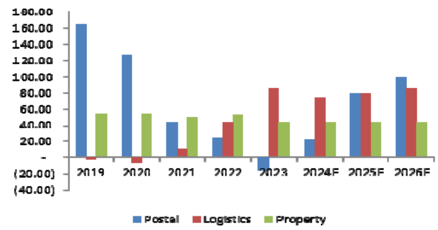
Source: SPOST, UOB Kay Hian

DECLINING E-COMMERCE AND LETTER MAIL VOLUMES



Source: SPOST, UOB Kay Hian

SEGMENTAL OPERATING PROFIT BREAKDOWN (S$M)



Source: Bloomberg, UOB Kay Hian

NEW DOMESTIC POSTAL RATES

Source: SPOST, UOB Kay Hian

SOTP VALUATION

Business	Valuation (S$m)	Value ps (S$)	Remarks
Mail	254.9	0.11	5.7x FY24F EV/EBITDA
Logistics	952.2	0.42	7.9x FY24F EV/EBITDA
Property	880.0	0.39	Cap rate of 5.0%
Gross value	2,087.0	0.93	
Less: Net debt (cash)	81.7		
Less: Perpetuals	251.5		
Less: Minority stake	(4.5)		
Net value	1,758.2		
No. of shares	2,249.6		
Target price (S$)	$0.78		

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Net turnover	1,872.3	1,746.1	1,865.3	1,971.8
EBITDA	171.5	198.7	249.6	279.6
Deprec. & amort.	82.4	86.1	84.2	82.3
EBIT	89.1	112.6	165.4	197.3
Total other non-operating income	9.3	(5.0)	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(22.7)	(6.9)	(8.3)	(3.6)
Pre-tax profit	68.0	100.7	157.1	193.7
Tax	(29.2)	(43.3)	(67.6)	(83.3)
Minorities	(14.1)	(2.9)	(4.5)	(5.5)
Net profit	24.7	54.5	85.1	104.9
Net profit (adj.)	32.4	54.5	85.1	104.9

BALANCE SHEET

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Fixed assets	386.9	350.8	316.6	284.4
Other LT assets	1,687.3	1,687.3	1,687.3	1,687.3
Cash/ST investment	495.7	566.9	753.5	836.5
Other current assets	267.8	248.6	263.0	275.8
Total assets	2,837.8	2,853.6	3,020.5	3,084.1
ST debt	1.4	1.4	1.4	1.4
Other current liabilities	718.5	704.7	695.5	704.2
LT debt	623.0	649.5	797.7	797.7
Other LT liabilities	120.6	120.6	120.6	120.6
Shareholders' equity	1,381.7	1,382.0	1,405.4	1,454.8
Minority interest	(7.4)	(4.5)	(0.0)	5.5
Total liabilities & equity	2,837.8	2,853.7	3,020.5	3,084.1

CASH FLOW

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Operating	115.7	155.8	158.5	192.1
Pre-tax profit	68.0	100.7	157.1	193.7
Tax	(32.8)	(43.3)	(67.6)	(83.3)
Deprec. & amort.	82.6	86.1	84.2	82.3
Associates	(0.0)	0.0	0.0	0.0
Working capital changes	(8.2)	5.4	(23.5)	(4.2)
Non-cash items	6.1	6.9	8.3	3.6
Investing	(27.2)	(44.7)	(43.4)	(42.0)
Capex (growth)	(28.4)	(50.0)	(50.0)	(50.0)
Investments	(18.7)	0.0	0.0	0.0
Proceeds from sale of assets	9.1	0.0	0.0	0.0
Others	10.8	5.3	6.6	8.0
Financing	126.8	(39.9)	71.5	(67.1)
Dividend payments	(33.3)	(22.6)	(31.6)	(40.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	160.1	(17.3)	103.1	(26.4)
Net cash inflow (outflow)	215.3	71.2	186.7	83.0
Beginning cash & cash equivalent	280.4	495.7	566.9	753.5
Ending cash & cash equivalent	495.7	566.9	753.5	836.5

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	9.2	11.4	13.4	14.2
Pre-tax margin	3.6	5.8	8.4	9.8
Net margin	1.3	3.1	4.6	5.3
ROA	0.9	1.9	2.9	3.4
ROE	1.8	3.9	6.1	7.3
Growth				
Turnover	12.4	(6.7)	6.8	5.7
EBITDA	(5.8)	15.9	25.6	12.0
Pre-tax profit	(36.7)	48.0	56.0	23.3
Net profit	(70.3)	120.9	56.0	23.3
Net profit (adj.)	(63.0)	68.3	56.0	23.3
EPS	(63.0)	68.3	56.0	23.3
Leverage				
Debt to total capital	31.2	32.1	36.2	35.4
Debt to equity	45.2	47.1	56.9	54.9
Net debt/(cash) to equity	9.3	6.1	3.2	(2.6)
Interest cover (x)	7.6	28.8	30.1	77.3

STRATEGY – THAILAND

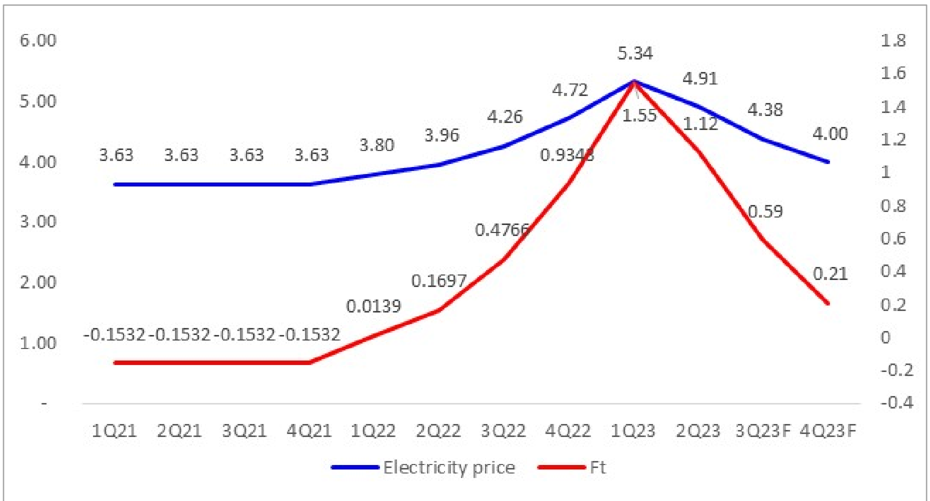
Cut In FT Rate To Benefit The Retail And Hotel Sectors

PTT is the only company who bears the cost related to the unexpected third cut in electricity tariff early this week. Based on our calculation, PTT's cashflow should drop by Bt6.2b-15.1b. The unexpected tariff cut also resulted in lower margins for SPP operators. In the energy space, PTTEP is the safe haven under the new energy policy. Most beneficiaries will be in the hotel and retail sectors due to a cost reduction (utility cost accounts for 2.5-9.0% of total cost). Top picks: CPALL and ERW.

WHAT'S NEW

- **Third cut in FT rate.** The Cabinet announced a third cut in fuel tariff (FT) rate, (a part of electricity tariff to reflect the fuel cost adjustment for generating electricity) by Bt0.11 per unit. As a result, the average electricity price for the country will be Bt3.99/unit (-15% yoy and -15% qoq), effective from Sep to Dec 23.
- The Energy Regulatory Commission's (ERC) meeting on 28 July announced the first FT cut for the period of Sep-Dec 23 by Bt0.25/unit to Bt0.6689/unit. This means the average tariff was down to Bt4.45/unit from Bt4.70/unit. Last week, the government had reduced the average electricity price from Bt4.45/unit to Bt4.10/unit (implying the second FT cut by Bt0.35/unit for the same period).
- Under the second FT cut, the government requested The Electricity Generating Authority of Thailand (EGAT) to continue subsidising the electricity cost. EGAT has been subsidising the electricity cost since Sep 21 and loss peaked at Bt138b before declining to Bt111b currently.

FT AND ELECTRICITY PRICES (BT/UNIT)



Source: UOB Kay Hian

TOP BUYS

Company	Share Price 18 Sept 23 (Bt)	Target Price (Bt)	Upside/ (Downside) To TP (%)
CPALL	63.25	78.00	23.3
ERW	5.65	6.20	9.7
PTTEP	168.00	182.00	8.3

Source: UOB Kay Hian

SECTOR RATINGS

Sector	UOBKH Rating
Energy	MARKET WEIGHT
Hotel	MARKET WEIGHT
Retail	OVERWEIGHT

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec.	Last Price 18 Sept 23 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	EPS Growth 2023F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
CP All	CPALL TB	BUY	63.25	78.00	23.3	16,096	42.8	34.1	28.3	23.1	1.3	5.1	1.5	5.6
The Erawan Group	ERW TB	BUY	5.65	6.20	9.7	725	n.a.	39.2	31.7	na	-0.1	3.9	1.1	10.9
PTT Exploration and Production	PTTEP TB	BUY	168.00	182.00	8.3	18,894	9.4	10.9	9.3	0.8	-0.8	1.4	4.8	13.5

Source: UOB Kay Hian

ENERGY (MARKET WEIGHT)

- **PTT still the national service company.** Based on our channel check, it is likely that PTT Pcl. (PTT TB/BUY/Target: Bt41.00) needs to bear the cost related to the third FT cut by reducing the gas price charged to power operators and seek a reimbursement in the next period (Jan to Apr 24). However, there are no details on how this mechanism works and how much PTT needs to bear. The government may assume PTT's gas price charged to power operators during Sep-Dec 23 at Bt304 per million British Thermal Unit (MMBTU) compared with the Bt350/MMBTU gas price estimated by PTT. If it is the case, we believe PTT will bear Bt6.2b–15.1b for this additional FT cut. Based on accounting standards, PTT should book this additional Bt6.2b–15.1b as an account receivable transaction and not affect its profit and loss statement. However, this Bt6.2b-15.1b will hurt PTT's cashflow.

- **PTT Exploration and Production (PTTEP TB/BUY/Target: Bt182.00) – No impact from populist policy.** PTTEP stands to directly profit from the hike in crude oil prices. The Dubai crude oil price in 3Q23 witnessed a 16% rise compared with end-2Q23. The optimistic outlook is attributed to announcements made by Saudi Arabia and Russia, indicating extensions of production cuts amounting to 1.3m barrels per day (bpd), effective from the end of September to end-December. Furthermore, the US strategic oil reserves (SPR) reached its lowest point in 40 years at 350m barrels over the past four weeks. This level is equivalent to a life reserve of just 15-17 days, significantly below the historical average of 27-30 days. This suggests the likelihood of the US increasing its oil purchases to bolster its reserves. PTTEP's stock price exhibits a correlation that aligns with crude oil prices as high as 87%.

- **Insignificant impact to IPP.** We do not expect independent power producers (IPP) to be affected by higher or lower gas costs. Under the power purchase agreements (PPA) of IPPs, the risk of fuel prices will be passed through to EGAT and revenues are mostly secured on long-term contracts, which guarantee IPPs a minimum income.

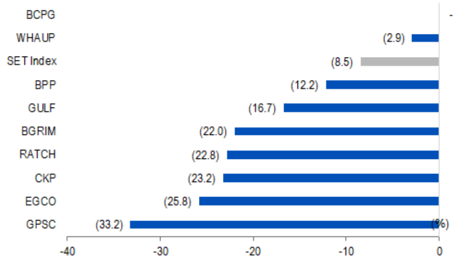
- **Lower margins ahead for SPP.** After witnessing a remarkable margin performance in the Thai power sector in 1H23, we turn more pessimistic on the sector's margin outlook starting from September onwards. Despite our anticipation of a significant reduction in feed gas costs, dropping from an average of Bt404/MMBTU in 2Q23 to Bt350/MMBTU in 4Q23 (a 14% decrease that aligns with our and market expectations), sector margins face increasing pressure due to the sharp decline in FT introduced by the new government. The FT rate for has been decreased from Bt0.9119/unit during May-Aug 23 to Bt0.2019/unit (cut by Bt0.71/unit) during Sep-Dec 23. The much higher cut in FT figures leads to a high possibility for the market to cut 2023-24 earnings forecasts for both small power producers (SPP) and renewable operators including (BGRIM TB/BUY/Target: Bt50.00), Global Power Synergy (GPSC TB/BUY/Target: Bt70.00) and Energy Absolute (EA TB/BUY/Target: Bt81.00).

- **Expect small impact to EA.** Given the unexpected sharp decline in FT rate, we think that EA should be less affected than other renewable producers. EA still has subsidies in its current tariff (called "Adder"). We estimate minor impacts on our 2023 earnings forecast of 1-2% as our assumptions are too conservative, and the negative impact from the cut in FT should be offset by upside risk from the ramp-up in revenues in the EV business in 2H23.

- **Sensitivity of FT cut.** We ran a sensitivity analysis on earnings impact of fluctuations in gas costs and FT charges on SPPs. We conclude that BGRIM and GPSC are the most affected by fluctuations in gas costs and FT changes. Every Bt0.01/unit change in FT charges would impact their earnings by around 0.8% (impact on GULF: around 0.2%) while every Bt1.0/MMBTU change in gas prices would impact BGRIM's and GPSC's earnings by around 0.7% and 0.4% respectively (impact on GULF: about 0.1%).

- **Top pick: GULF.** The utilities sector's price has corrected by 6% since Aug 23, significant underperforming the SET index, due to concerns on the FT cut policy. However, we like Gulf Energy Development Pcl. (GULF TB/BUY/Target: Bt63.00) as we do not expect significant impact from the FT cut policy due to more proportion of IPP in portfolios. Additionally, we expect GULF to post a healthy core profit in 2023 on the back of: a) a full-year contribution from its Gulf Sriracha power plant, b) commercial operation of the 1,300-

YTD SHARE PRICE PERFORMANCE (%)

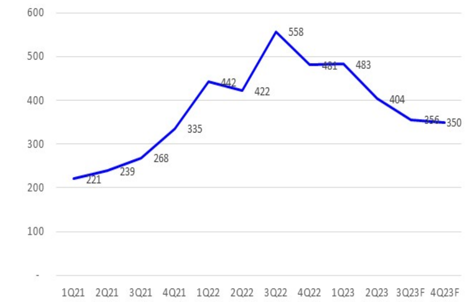


Source: UOB Kay Hian

POWER INDEX (%)

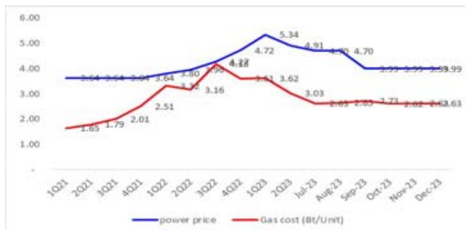
Source: UOB Kay Hian

SPP GAS PRICE (Bt/MMBTU)



Source: UOB Kay Hian

SQUEEZE MARGIN OUTLOOK (BT/UNIT)



Source: UOB Kay Hian

FT SENSITIVITY

Company	2023 core profit (Btm)	Earnings impact if Ft charge goes down Bt0.01/unit (Btm)
BGRIM	2,474	(21)
EA	9,152	(3)
GPSC	4,993	(30)
GULF	17,144	(60)

Source: UOB Kay Hian

MW Gulf Pluak Daeng power plant which is in the pipeline, and c) potential upside from M&As.

HOTEL (MARKET WEIGHT)

- **Expect positive sentiment on the hotel sector.** Utility expenses account for 4-9% to sales for hotel stocks under our coverage. Ranking the beneficiaries from biggest to smallest should be Asset World Corporation Pcl (AWC TB/HOLD/Target: 5.30), The Erawan Group Pcl (ERW TB/BUY/Target: Bt6.20), Central Plaza Hotel Pcl (CENTEL TB/HOLD/Target: Bt50.00), and Minor International Pcl (MINT TB/BUY/Target: Bt42.00). AWC stands out as the primary beneficiary due to its office business, which incurs higher utility expenses compared with its hotel business (utility expense to sales for office business: 13%, hotel business: 7%). ERW follows as the second most significant beneficiary, being a pure-play hotel operator with substantial revenue exposure in Thailand (utility expense to sales for the hotel business: 7%). CENTEL and MINT, both having food businesses with lower utility expenses than the hotels business. (utility expense to sales for food business: 4%). Therefore, CENTEL and MINT are ranked after AWC and ERW. MINT is expected to be the smallest beneficiary since it has the least exposure to Thailand. Additionally, based on our sensitivity analysis, a 10% reduction in electricity prices would result in a 7% increase in 2024 earnings for AWC, 6% for ERW, 5% for CENTEL, and 2% for MINT.

- **Top pick: ERW.** We still like ERW as: a) it is a pure play hotel operator, b) it has high domestic revenue contribution, c) its hotel revenue concentration in Bangkok benefits from the shopping trend, and d) it has a substantial market share of Chinese tourists.

RETAIL (OVERWEIGHT)

- **Lower FT rate to increase sector's profitability.** Regarding aforementioned FT rate reduction, we expect positive sentiment to retail sectors in terms of both costs reduction and better consumer purchasing power. We expect CP ALL Pcl. (CPALL TB/BUY/Target: Bt78.00) and Berri Jucker Pcl (BJC TB/BUY/Target: Bt43.00) to be the largest beneficiaries following the highest utility expenses contribution to total cost of 2.5% as there are food product categories. The smallest beneficiary will be COM7 Pcl. (COM7 TB/BUY/Target: Bt41.00) and Home Product Center Pcl (HMPRO TB/BUY/Target: Bt17.00) with only 0.4% and 1.5% of utility expenses to total cost, respectively. Based on our sensitivity analysis, if we assume that 2024's FT rate remains at Bt3.99/unit, the average FT rate will decrease by 14.6% yoy from average FT rate of Bt4.67/unit in 2023. We expect an upside of 1%/2.3%/7.8%/8.2% on COM7/HMPRO/BJC/CPALL's 2024 earnings forecast. This policy should mitigate the impact of potential minimum wage hike in 2024.

- **Top pick is CPALL (Target: Bt78.00).** This FT rate reduction should partially mitigate the impact of potential wage hike in 2024. Also, we are still positive for the retail sector as we expect the Bt10,000 digital wallets will be allowed to be used in modern trade stores. Our top pick is CPALL as the company will be the key beneficiary from the government stimulus next year including digital wallet and lower cost of living.

SECTOR UPDATE

Food – Thailand

Seeing The Light At The End Of The Tunnel For The Food Sector

We reckon that the swine prices have already bottomed out. We expect to see policies to tackle the low swine prices and reduce raw material costs from the Pig Board meeting. Also, we foresee a reduction in illegally imported pork due to the less profit room for pork importers. Although 3Q23 food sector earnings are expected to be sluggish, we expect to see a strong qoq recovery in 4Q23. Our top pick is CPF. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Pig Board meeting to tackle low swine prices.** Thailand's Pig Board will hold its first meeting under the new minister of agriculture today. The Pig Board meeting will consist of the new minister of agriculture, other representatives from the ministry and the private sector. There is newsflow that there will be four agendas: a) current production situation of domestic swine, b) production cost, c) the supply and demand situation, and d) measures to improve swine prices stabilisation such as interest subsidy to improve swine farmer liquidity and subsidise live pig exports.
- **Proposals from private sector.** There are key proposals from the Swine Raisers Association of Thailand including: a) policies to reduce feed costs, and b) reduce swine breeders for large farms with over 1,000 breeders by 5-10%. Although we expect to see measures to tackle the low swine prices, we do not expect outright breeder reduction policy for large-scale farms, with the worst case being a volunteer basis for farmers to reduce the breeding of swine breeders. We expect illegal imported pork restriction, costs reduction, and liquidity supporting to be launched.
- **The worst swine prices already passed.** Given the government's restriction and less arbitrage benefits, these should disincentivise illegal pork imports to Thailand. Also, as we move toward the high season of consumption in 4Q23 and given 2024's government stimulus policy, we expect to see a recovery in domestic swine prices which will also be positive to chicken prices as a substitute meat.
- **Food sector earnings to show strong qoq recovery in 4Q23.** We expect the sector earnings in 3Q23 to be unexciting, pressured by the lower livestock prices in 3Q23 and expensive raw material inventory. The key drag will be from Charoen Pokphand Food (CPF). For seafood and pet food operators like Thai Union (TU), we expect to see some qoq earnings recovery in 3Q23, driven by the recovery in i-Tail Corporation (ITC) and higher ASP adjustment. However, we expect to see the significant earnings improvement in 4Q23 on a qoq basis following: a) an improvement in domestic livestock prices toward the upcoming high season, b) higher benefit from cheaper raw material, and c) gross profit margin improvement. Also, we expect continuous operation improvement in TU, driven by higher ASPs with downward costs and recovery in the pet food business.

ACTION

- **Maintain MARKET WEIGHT.** We maintain the sector weighting as a result of unexciting 3Q23 momentum. However, we are more positive on the food sector following the better 4Q23-2024 earnings outlook and we also think that the market is too negative on the sector outlook. Our top pick is CPF following the earnings recovery and that share prices have priced in most of the negative news. We also rolled over the target prices of **TU and GFPT to 2024 with a target price of Bt17.40 and Bt15.50** respectively and **upgrade TU to BUY**. These are based on the PE valuation and peg to historical PE mean.

MARKET WEIGHT

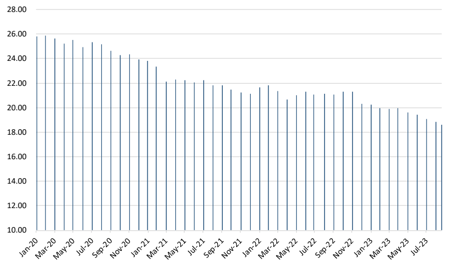
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
Charoen Pokphand	CPF TB	BUY	21.20	26.00

Source: UOB Kay Hian

FOREIGN OWNERSHIP



Source: Set, UOB Kay Hian

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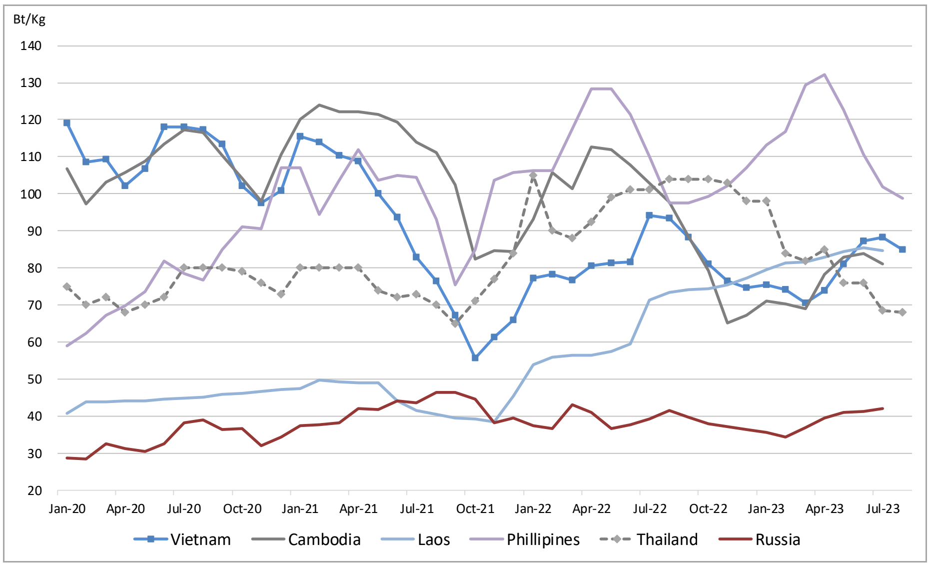
PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Market Cap (US$m)	Net profit 2022 (Btm)	Net profit 2023F (Btm)	Net profit 2024F (Btm)	PE 2022 (x)	PE 2023F (x)	PE 2024F (x)	P/B 2022 (x)	P/B 2023F (x)	P/B 2024F (x)
Charoen Pokphand	CPF TB	BUY	21.20	26.00	5,172	13,970	263	12,043	13.1	692.9	15.2	0.8	0.7	0.1
GFPT	GFPT TB	BUY	10.70	15.50	380	2,044	1,211	1,347	6.6	11.1	10.0	0.8	0.7	7.1
Thai Union	TU TB	BUY	14.20	17.40	1,920	7,138	4,844	5,934	9.5	14.0	11.4	0.8	0.8	5.5
Food&Agri					7,471	23,152	6,319	19,323	11.8	483.8	13.9	0.8	0.8	1.8

Source: Bloomberg, UOB Kay Hian

- **End of arbitrage benefit for illegal pork importers.** We expect the illegal imported pork situation to ease on the back of the government restriction policy and relatively lower swine prices to Europe and neighbouring countries. Based on 2H22, European and Brazil swine prices were trading at Bt50-65/kg, compared with Thailand swine prices of Bt100-105/kg which are almost double. However, the current domestic swine prices are trading at only Bt65-70/kg, slightly higher than European and Brazil of Bt50-70/kg. Therefore, we expect dramatically lower arbitrage benefit for illegal pork imported to Thailand. Also, the arbitrage gap between neighbouring countries and Thailand has been narrowing as well.

MONTHLY SWINE PRICES TREND IN REGIONAL COUNTRIES

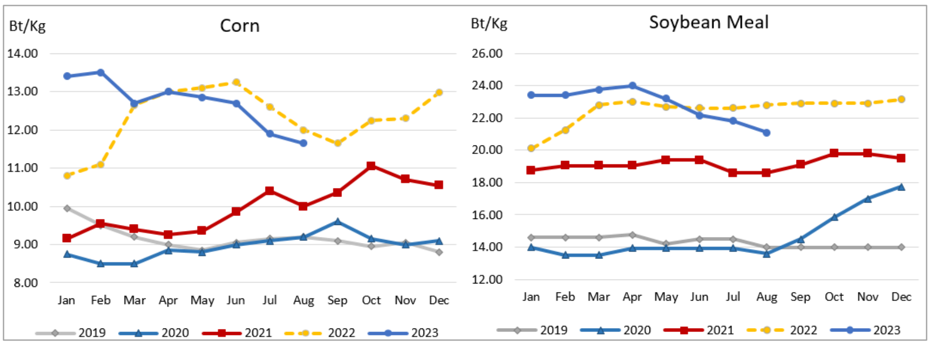


Source: CPF, UOB Kay Hian

- **Lower raw material costs.** Currently, the raw material costs pressure is gradually easing. Both soybean meal and corn prices were down by 7.2% and 8.4% qoq, respectively to Bt21.45/kg and Bt11.78/kg. Also, both slightly declined on a yoy basis. We expect soybean meal prices to be on a downward trend following higher global production and ending stocks forecasts, compared with last year according to United States Department of Agriculture (USDA). We also expect corn prices to weaken toward the domestic harvest season in 4Q23.

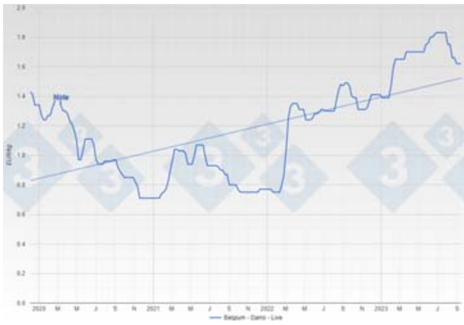
- **Food sector is under-owned.** The food sector is among one of the sectors being pressured by lower foreign ownership, which declined from 25.8% in Jan 20 to to 18.6% on 18 Sep 23. The food sector index was down by 7% and 19% since Jan 20 and the peak in Sep 21. Therefore, given the sector earnings recovery in 4Q23, we expect less negative pressure from this angle.

DOWNWARD RAW MATERIAL COSTS TREND



Source: CPF, UOB Kay Hian

BELGIUM SWINE PRICES

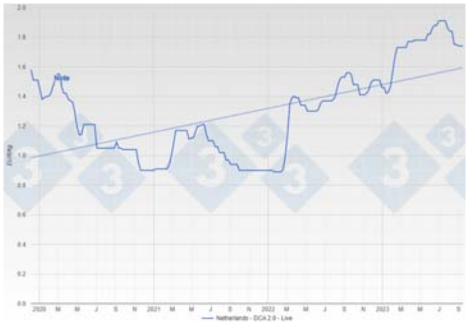


Source: Pig333

SPAIN SWINE PRICES

Source: Pig333

NETHERLANDS SWINE PRICES



Source: Pig333

BRAZIL SWINE PRICES

Source: Pig333

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