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### KEY HIGHLIGHTS

#### Sector Update

##### Aviation – Malaysia

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The aviation sector is poised to record a better operational and financial performance amid pent-up air travel demand. Maintain MARKET WEIGHT. Top pick remains MAHB.

#### Company Results

##### Nestle (Malaysia) (NESZ MK/BUY/RM124.90/Target: RM146.00)

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3Q23: Earnings within expectations. Improved margins off decent sales lift earnings. Upgrade to BUY as bargain valuations emerge.

##### Pavilion REIT (PREIT MK/BUY/RM1.20/Target: RM1.47)

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3Q23: Results above expectations on the return of Chinese tourists.

#### UOBKH Highlights

##### Vitrox Corporation (VITRO MK/BUY/RM7.20/Target: RM8.10)

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3Q23: Below expectations; a longer wait for cyclical recovery.

### TRADERS' CORNER

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Genetec Technology (GENE MK): Technical BUY

RGB International (RGB MK): Technical BUY

### KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,440.60	(1.9)	(0.1)
Bursa Emas	10,631.70	(6.6)	(0.1)
Ind Product	171.86	(0.5)	(0.3)
Finance	16,242.79	6.6	0.0
Consumer	551.49	(1.8)	(0.3)
Construction	186.82	2.3	1.2
Properties	849.25	0.7	0.1
Plantations	6,875.48	(7.1)	(0.1)

### BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	26-Oct-23	% chg
Volume (m units)	3,233	14.3
Value (RMm)	1,987	11.8

By Investor type	(%)	ppt chg
Foreign investors	35.3	4.7
Local retail	25.9	(3.1)
Local institution	38.9	(1.6)

### TOP TRADING TURNOVER / GAINERS / LOSERS

Top Trading Turnover	Price (RM)	Chg (%)	5-day ADT (RM'000)
CIMB Group	5.68	(0.2)	114,455
Malayan Banking	9.00	0.0	61,211
Public Bank	4.17	0.2	46,804
Tenaga Nasional	9.89	0.1	46,685
Hong Leong Bank	19.48	0.0	45,782

#### Top Gainers

UEM Sunrise	0.82	9.3	30,981
YTL Corp	1.40	5.3	45,091
GD Express Carrier	0.21	5.0	242
Eastern & Orient	0.59	3.5	4,065
MRCB	0.43	2.4	13,170

#### Top Losers

Parkson Holdings	0.28	(3.4)	4,871
IOI Properties	1.78	(2.7)	16,670
Axiata Group Bhd	2.35	(2.5)	9,599
Yinson	2.40	(2.4)	12,879
Inari Amertron	2.87	(2.4)	20,581

### OTHER STATISTICS

	26-Oct-23	chg	% chg
RM/US\$	4.79	0.01	0.1
CPO 3rd mth future (RM/mt)	3,762	83.0	2.3

#### Notes:

ADT = Average daily turnover.

Top trading turnover, gainers and losers are based on FBM100 component stocks.

## SECTOR UPDATE

### Aviation – Malaysia

Stronger Performance On All Fronts

The aviation sector continues to post better performance amid robust pent-up demand for air travel post-pandemic. Meanwhile, the continued improvement in operating statistics for both MAHB and CAPITALA also points to a sequentially stronger earnings recovery in 2H23 results. Maintain MARKET WEIGHT. Our top pick remains MAHB which is poised to see a strong rebound in earnings backed by solid passenger throughput.

#### WHAT'S NEW

- MAHB: Group-wide traffic reaches 90% recovery rate.** Malaysia Airports Holdings (MAHB) posted continued operational improvement in Sep 23 as its group-wide traffic reached a 90% recovery rate compared to Sep 19. This is despite a lower recovery rate of 83% in Malaysian operations, mainly shored up by the exceptionally stronger performance in Sabiha Gokcen International Airport (ISG) with the airport's Sep 23 passenger throughput, exceeding the Sep 19 level by 7%. Notably, it also registered a group-wide international passenger count of 5.0m (92.5% of Sep 19 level) which is the highest level on a monthly basis since the pandemic. The rebound in international passenger traffic is expected to be sustained into 4Q23 given that the fourth quarter is a seasonally stronger quarter.
- CAPITALA: 3Q23 operating statistics continue to demonstrate resiliency.** In 3Q23, the group's consolidated airlines (including AirAsia Malaysia, AirAsia Thailand, AirAsia Philippines and AirAsia Indonesia) recorded a stronger load factor of 89% (+3ppt yoy, +1ppt qoq) with passengers carried and seat capacity increasing significantly to 14.7m (+49% yoy, +3% qoq) and 16.5m (+44% yoy, +2% qoq) respectively. The better operating statistics are mainly underpinned by the robust pent-up demand for air travel post-pandemic as well as a higher number of operating aircraft (152 planes) as of end-3Q23 (compared with 146 aircraft in 2Q23 and 103 aircraft in 3Q22).

As of 9M23, the airline's total passengers carried and seat capacity increased to 42.1m and 47.5m respectively. Both 9M23 passengers carried and seat capacity accounted for 70% of our assumptions for full-year 2023, which we deem in line with expectations as we anticipate a better performance in the seasonally stronger 4Q23. Meanwhile, the better airline performance also suggests sequential improvements in 3Q23 earnings, paving the path for an eventual turnaround in the upcoming quarters. On the other hand, we note that its non-aviation divisions also grew tremendously in 3Q23, riding on the increased spending by passengers as well as capacity expansions.

#### ACTION

- Maintain MARKET WEIGHT on the sector.** Our neutral sector rating is premised on our bullish views on MAHB, despite being weighed down by the neutral outlook on Capital A (CAPITALA) amid lingering tussles in exiting the PN17 status. Our top pick for the sector remains MAHB as it is the direct proxy to the recovery in the aviation sector which is poised to see a strong rebound in earnings in the upcoming quarters, backed by solid passenger throughput performance.

#### PEER COMPARISON

Company	Ticker	Rec	Share Price 26 Oct 23 (RM)	Target Price (RM)	Market Cap (RMm)	P/E 2024F (x)	P/B 2024F (x)	Yield 2024F (%)
Capital A	CAPITALA MK	HOLD	0.88	0.88	3,708	5.7	n.a.	n.a.
Malaysia Airports Holdings	MAHB MK	BUY	7.32	8.11	12,214	17.4	1.6	2.3

Source: Bloomberg, UOB Kay Hian

## MARKET WEIGHT

(Maintained)

#### MAHB'S SOTP VALUATION

(RMm)	2024
Malaysian operations EBITDA	1,321
EV/EBITDA (x)	10.8
Enterprise value	14,263
Net debt	(3,005)
ISG fair value	1,845
(WACC: 9.0%)	
Est. incremental value from Aeropolis	348
Equity value	13,452
No. of shares (m)	1,669
Equity value (RM)	8.11

Source: MAHB, UOB Kay Hian

#### CAPITALA'S SOTP VALUATION

Segment	Valuation (RMm)
Aviation Group (10x 2024F PE)	6,428
Add: Airasia SuperApp (50% discount on US\$1b valuation)	2,200
Add: BigPay (50% discount on US\$180m valuation)	396
Add: Proceeds from ESOS, RCUIDS and warrants	1,520
<b>Sum-Of-Part valuation</b>	<b>10,544</b>
Less: 50% discount	(5,272)
Diluted no. of shares (million shares)	5,973
<b>Fair value (RM/share)</b>	<b>0.88</b>

Source: Capital A, UOB Kay Hian

#### YTD PERFORMANCE



#### ANALYST(S)

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- **Maintain BUY on MAHB with an unchanged target price of RM8.11.** We value MAHB's Malaysian operations at 10.8x 2024 EBITDA (mean) and ISG operations with the DCF methodology. In the scenario where the passenger service charge is raised by 6.9% in 2024 (as proposed by The Malaysian Aviation Commission earlier), our target price could be higher at RM8.34. Meanwhile, the upcoming finalisation of the regulated asset base framework as well as multiple capacity expansions on the cards may provide further catalysts to the group's earnings growth trajectory.
- **Maintain HOLD on CAPITALA with an unchanged target price of RM0.88.** Our SOTP factored in 50% discounts on AirAsia SuperApp's and Bigpay's fair values (which were derived based on the latest available valuations from previous fundraising exercises) due to the smallish earnings contributions as well as the depressed valuation for technology companies amid a high interest rate environment.

### ESSENTIALS

- **MAHB: Capacity expansions slowly making headway.** The expansion of Penang Airport is gradually making headway as Transport Minister Loke earlier revealed that the government had granted approval for an allocation of RM93m to facilitate land acquisition and infrastructure development for the project. He also said that the project is anticipated to commence in Sep 24, with an estimated project duration of 48 months for completion. Recall that the expansion aims to increase the terminal's annual handling capacity from 6.5m passengers to 12m passengers. The minister also added that other airport expansions in the pipeline may include Kota Kinabalu International Airport and Tawau airport.
- **CAPITALA: Higher fuel costs to erode margins.** The increase in jet fuel prices may erode the airline's profit margins given that around 30-40% of its operating costs come from fuel costs. Note that jet fuel prices have risen by 29% to US\$121.5 per barrel currently from US\$94.3 per barrel as of end-Jun 23. While the higher airfare environment currently may provide a buffer, we believe it would still put upward pressure on CAPITALA's costs and thus derail its earnings recovery momentum.
- **CAPITALA: PN17 regularisation plan hits a bump.** Meanwhile, CAPITALA's PN17 regularisation plan recently hit a bump, having seen its sister company Airasia X's application for PN17 upliftment being rejected by Bursa Malaysia. This sequentially affects CAPITALA as its regularisation plan entails the disposal of its entire aviation operations to AirAsia X via a share swap, thus leading to significant improvements to its financial conditions. CAPITALA had earlier submitted the application to Bursa Malaysia to extend the deadline for the regularisation plan submission to end-23.

With the recent setback, we think further delays in the group's PN17 regularisation plan may be possible given that the group needs to re-evaluate its plans. Financial Times earlier reported that the management may choose to list some of its businesses through Aetherium Acquisition, a Nasdaq-listed special purpose acquisition company. The group is also reportedly planning to raise US\$1b in debt and equity to improve its liquidity conditions. Nevertheless, without proper guidance by the management, we opine it may be just one of CAPITALA's available options.

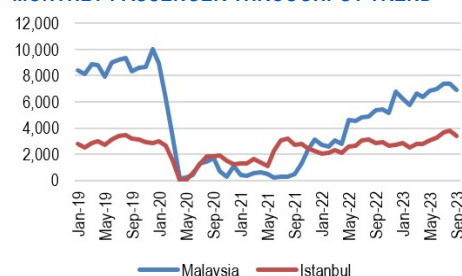
- **Superior share price performance against FBMKLCI.** CAPITALA's share price has appreciated 40.8% ytd, outperforming FBMKLCI (-3.7% ytd) by a palatable 44.5% on the back of the sharp improvement in earnings and operating statistics. Likewise, MAHB (+11.6% ytd) also outperformed FBMKLCI by 15.3%, supported by the recovery in passenger throughput in Malaysia and Turkey. Moving forward, we believe CAPITALA's performance largely hinges on the development of its PN17 regularisation plan while MAHB should continue ride on the steady recovery in passenger throughput.

### SEP-23 PASSENGER THROUGHPUT

million passengers	Sep-23	Sep-22	YoY	Sep-19	vs Sep-19
Malaysia	6.9	5.3	30%	8.4	83%
ISGA	3.4	2.9	18%	3.2	107%
<b>Total</b>	<b>10.3</b>	<b>8.2</b>	<b>26%</b>	<b>11.6</b>	<b>90%</b>

Source: MAHB

### MONTHLY PASSENGER THROUGHPUT TREND



Source: MAHB

### MAHB'S PAX TRAFFIC ASSUMPTIONS

Malaysia	--- Pax Traffic Assumption (as a % of 2019) ---				
	2019	2022	2023F	2024F	2025F
International	53,287	31%	76%	86%	94%
Domestic	51,977	70%	87%	96%	100%

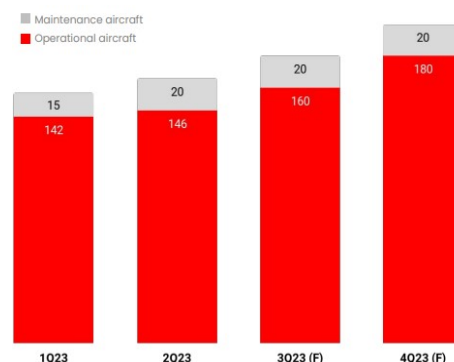
Source: MAHB, UOB Kay Hian

### CAPITALA'S AVIATION OPERATIONAL ASSUMPTIONS

Year to 31 Dec	2022	2023F	2024F	2025F
Pax carried (mil)	24.2	60.5	70.3	72.0
Seat capacity (mil)	28.9	68.2	77.5	79.4
Load factor (%)	84%	88%	90%	90%
ASK (mil)	29,196	78,490	92,865	96,081
RPK (mil)	24,378	69,119	83,636	86,532
Average fare (RM)	195	207	205	197
CASK (sen)	25.7	15.3	16.1	15.9
CASK ex-fuel (sen)	15.6	9.5	10.2	10.0

Source: Capital A, UOB Kay Hian

### CAPITALA'S 2023 FLEET REACTIVATION PLAN



Source: Capital A

## COMPANY RESULTS

### Nestle (Malaysia) (NESZ MK)

3Q23: High Tax Rate Tempers Earnings Growth; Upgrade To BUY

Nestle delivered decent earnings growth, meeting expectations. Domestic sales continue to propel top-line as export sales are moderating from a high base. Improved gross margins more than offset higher opex. Earnings growth was further tempered by its effective tax rate, which should normalise in 4Q23. We upgrade Nestle to a BUY as the slump in its share price has pushed valuations to -1SD to its five-year mean. Upgrade to BUY with an unchanged target price of RM146.00.

#### 3Q23 RESULTS

Year to 31 Dec	3Q23 (RMm)	qoq % chg	yoy % chg	9M23 (RMm)	qoq % chg	Comment
Revenue	1,772.3	1.2	5.3	5,365.6	7.0	Domestic sales growth of 11.5% yoy was offset by softening export sales
Gross profit	562.0	(0.5)	22.5	1,690.0	8.9	
EBIT	215.3	(15.3)	34.5	746.3	5.8	
Profit before tax	200.3	(16.5)	33.9	702.4	3.9	
Tax expense	(66.6)	13.0	80.4	(190.7)	1.0	
Net profit	133.7	(26.1)	18.7	511.8	5.0	
Core net profit	133.7	(26.1)	18.7	512.0	5.0	Within expectations
<b>Margins</b>	<b>%</b>	<b>+/- ppt</b>	<b>+/- ppt</b>	<b>%</b>	<b>+/- ppt</b>	
Gross profit	31.7	(0.5)	4.5	31.5	0.5	Outsized yoy gains but softened marginally qoq
EBIT	12.1	(2.4)	2.6	13.9	(0.2)	
Core net profit	7.5	(2.8)	0.9	9.5	(0.2)	
Effective tax rate	(33.2)	(8.7)	(8.6)	(27.1)	0.8	Cumulative tax rate should normalise by 4Q

Source: Nestle, UOB Kay Hian

#### RESULTS

- Solid quarter.** Nestle Malaysia's (Nestle) 3Q23 core net profit of RM134m (-26.1% qoq, 18.7% yoy) brought 9M23 core profit to RM512m (+5.0% yoy). This is within both our and consensus expectations, with cumulative earnings accounting for 74% and 71% of full-year forecasts respectively. An interim DPS of 70 sen was declared, bringing cumulative 9M23 DPS to 140 sen (9M22: 140 sen). Highlights for the quarter included outsized gross margin gains on a yoy basis to lift cumulative gross margins but high effective tax rate moderated earnings growth.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	5,734	6,664	7,197	7,701	8,155
EBITDA	980	1,104	1,157	1,271	1,386
Operating profit	786	903	945	1,047	1,151
Net profit (rep./act.)	570	620	689	766	823
Net profit (adj.)	578	620	689	766	823
EPS (sen)	246.7	264.5	293.7	326.4	351.0
PE (x)	51.3	47.9	43.1	38.8	36.1
P/B (x)	50.9	47.4	44.9	42.5	40.1
EV/EBITDA (x)	30.2	26.8	25.6	23.3	21.4
Dividend yield (%)	1.9	2.0	2.2	2.4	2.6
Net margin (%)	9.9	9.3	9.6	9.9	10.1
Net debt/(cash) to equity (%)	41.0	76.4	(8.4)	(26.0)	(40.8)
Interest cover (x)	28.0	24.9	31.4	33.6	21.1
ROE (%)	100.0	102.6	107.0	112.6	114.4
Consensus net profit	-	-	721	801	854
UOBKH/Consensus (x)	-	-	0.96	0.96	0.96

Source: Nestle, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	RM124.90
Target Price	RM146.00
Upside	+16.9%

#### COMPANY DESCRIPTION

Manufactures, distributes and exports food and beverage products

#### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	NESZ MK
Shares issued (m):	234.5
Market cap (RMm):	29,687.7
Market cap (US\$m):	6,210.2
3-mth avg daily t'over (US\$m):	2.2

#### Price Performance (%)

52-week high/low RM140.00/RM122.60

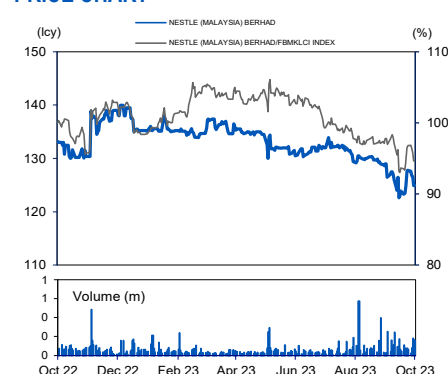
1mth	3mth	6mth	1yr	YTD
(1.7)	(4.2)	(7.3)	(4.5)	(9.6)

#### Major Shareholders

	%
Nestle SA	72.6
Employees Provident Fund	9.3
BlackRock	1.9

FY23 NAV/Share (RM)	2.82
FY23 Net Cash/Share (RM)	0.24

#### PRICE CHART



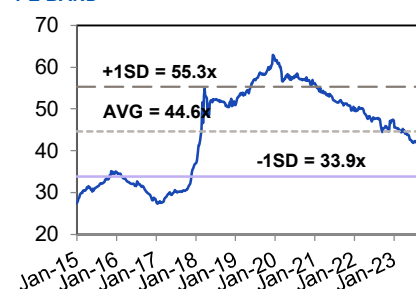
Source: Bloomberg

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- Moderating export sales takes the shine off domestic resiliency.** 3Q23 revenue grew 5.3% yoy. Domestic sales continued to register robust double-digit growth of 11.7% yoy. This more than offset softening export sales, which is moderating off a high base effect. Sales performed well across all commercial channels, anchored by its core products. Its new innovative products were well received by its customers as well. During the quarter, Nestle rolled out: a) dairy-free drinks, Oat and Oat & Almond, and b) ice cream products, namely, MILO Kaw, La Cremeria Mango Sticky Rice and Boba Brown Sugar.
- Spike in effective tax rate masks impressive growth.** 3Q23 gross margins softened sequentially by 0.5ppt to 31.7% and 4.5ppt yoy. Aside from the improved product mix, it could be owing to revised prices easing input cost. The uplift in gross margins was diluted by enlarged opex for the quarter as operating margins only improved 2.6ppt to 12.1% yoy. Effective tax rate spiked to 33.2% for the quarter to bring cumulative tax rate to 27.1%. This moderated 3Q23 core earnings growth to 18.7% yoy. We expect full-year effective tax rate to normalise back to pre-pandemic levels of 23-24%.

### PE BAND



Source: Bloomberg, UOB Kay Hian

### STOCK IMPACT

- Back into a bind.** Sugar, cocoa, CPO and wheat prices have been a mixed bag. CPO and wheat have moderated by -30.0% and -37.5% respectively against 2022's average. This could be offset by sugar and cocoa prices which have gained by 46.8% and 52.8% respectively against 2022's average. These commodities prices could offset one another. But positively, gross margins appear to have stabilised and the worst could be over. Meanwhile, the US dollar has strengthened against the ringgit, at US\$4.787/RM; it is 8.8% higher vis-à-vis 2022's average. We estimate that for every 10% strengthening of the US dollar against the ringgit, Nestle's earnings could be impacted by 2.5%. Given Nestle's centralised group purchasing, hedging and favourable downtrending of prices, the US dollar impact to margins and swing in commodities prices could be weathered over the near term.

### EARNINGS REVISION/RISK

- No changes to earnings.** Upside risks include: a) lower-than-expected operating costs, b) stronger-than-expected recovery in sales, and c) favourable commodities prices. Downside risks are spiralling commodities prices and weakening of the ringgit against the US dollar.

### VALUATION/RECOMMENDATION

- Upgrade to BUY with an unchanged target price of RM146.00.** Nestle's safe haven, defensive qualities are backed by its resilient earnings. It offers a decent three-year earnings CAGR (2022-25) of 9.9%. It currently trades below -1SD to its five-year mean. Nestle offers dividend yields of 2.2-2.6% over 2023-25. Our target price is DCF-based with WACC of 7.4% and terminal growth of 4.9%, which implies 44.7x 2024F PE.

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

<b>Environmental</b> <ul style="list-style-type: none"> <li> <b>Energy management.</b> 100% renewable electricity utilised across all Nestle Malaysia sites. Energy consumption per tonne product was 3.59GJ/t which is a 0.03GJ/t reduction compared with 2021.                 </li> <li> <b>Emission.</b> GHG emissions decreased by 61,274 tonnes, reflecting a 45% reduction at Nestle factories in Malaysia.                 </li> </ul>
<b>Social</b> <ul style="list-style-type: none"> <li> <b>Nutrition and health.</b> Since 2017, 36 and 71 products have undergone added sodium and sugar reduction respectively.                 </li> </ul>
<b>Governance</b> <ul style="list-style-type: none"> <li> <b>Board gender diversity.</b> Male to female ratio of 4:3.                 </li> <li> <b>Board balance and composition.</b> Four board members are independent directors, amounting to 57% of the board members.                 </li> </ul>



## PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>6,664</b>	<b>7,197</b>	<b>7,701</b>	<b>8,155</b>
EBITDA	1,104	1,157	1,271	1,386
Deprec. & amort.	201	213	224	236
EBIT	903	945	1,047	1,151
Associate contributions	1	1	1	1
Net interest income/(expense)	(44)	(37)	(38)	(66)
<b>Pre-tax profit</b>	<b>859</b>	<b>909</b>	<b>1,010</b>	<b>1,086</b>
Tax	(239)	(220)	(245)	(263)
<b>Net profit</b>	<b>620</b>	<b>689</b>	<b>766</b>	<b>823</b>
Net profit (adj.)	620	689	766	823

## CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>512</b>	<b>1,405</b>	<b>1,072</b>	<b>1,148</b>
Pre-tax profit	859	909	1,010	1,086
Tax	(239)	(220)	(245)	(263)
Deprec. & amort.	201	213	224	236
Working capital changes	(339)	467	44	23
Other operating cashflows	29	37	38	66
<b>Investing</b>	<b>(310)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>
Capex (growth)	(312)	(180)	(180)	(180)
Proceeds from sale of assets	n.a.	0	0	0
Others	3	0	0	0
<b>Financing</b>	<b>(377)</b>	<b>(691)</b>	<b>(765)</b>	<b>(848)</b>
Dividend payments	29	(654)	(727)	(782)
Proceeds from borrowings	n.a.	n.a.	n.a.	n.a.
Loan repayment	(302)	0	0	0
Others/interest paid	(104)	(37)	(38)	(66)
<b>Net cash inflow (outflow)</b>	<b>(175)</b>	<b>534</b>	<b>127</b>	<b>120</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>7</b>	<b>8</b>	<b>542</b>	<b>669</b>
Changes due to forex impact	176	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>8</b>	<b>542</b>	<b>669</b>	<b>789</b>

## BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,669	1,709	1,735	1,749
Other LT assets	285	69	69	69
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	8	542	669	789
Other current assets	1,591	1,480	1,584	1,666
<b>Total assets</b>	<b>3,554</b>	<b>3,801</b>	<b>4,057</b>	<b>4,274</b>
ST debt	487	487	487	487
Other current liabilities	1,772	2,159	2,307	2,412
Other LT liabilities	669	494	564	634
Shareholders' equity	626	661	699	740
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>3,554</b>	<b>3,801</b>	<b>4,057</b>	<b>4,274</b>

## KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	16.6	16.1	16.5	17.0
Pre-tax margin	12.9	12.6	13.1	13.3
Net margin	9.3	9.6	9.9	10.1
ROA	19.0	18.7	19.5	19.8
ROE	102.6	107.0	112.6	114.4
<b>Growth</b>				
Turnover	16.2	8.0	7.0	5.9
EBITDA	12.6	4.8	9.8	9.1
Pre-tax profit	14.3	5.7	11.2	7.5
Net profit	8.9	11.0	11.2	7.5
Net profit (adj.)	7.2	11.0	11.2	7.5
EPS	7.2	11.0	11.2	7.5
<b>Leverage</b>				
Debt to total capital	43.7	42.4	41.1	39.7
Debt to equity	77.7	73.7	69.7	65.8
Net debt/(cash) to equity	76.4	(8.4)	(26.0)	(40.8)
Interest cover (x)	24.9	31.4	33.6	21.1

## COMPANY RESULTS

### Pavilion REIT (PREIT MK)

3Q23: Results Above Expectations On The Return Of Chinese Tourists

**PREIT beat expectations in 3Q23, mainly boosted by Pavilion Bukit Jalil's four-month contribution. Higher occupancy and turnover rent (particularly driven by Pavilion KL) have partly cushioned NPI margin compression (from higher operating expenses). DaMen Mall also narrowed its losses. Maintain BUY. Target price: RM1.47.**

#### 3Q23 RESULTS

Year to 31 Dec	3Q23 (RMm)	2Q23 (RMm)	qoq % chg	yoy % chg	9M23 (RMm)	yoy % chg
Revenue	199.2	160.0	24.5	38.7	515.6	24.3
Property Expenses	(77.9)	(59.0)	32.1	45.8	(191.1)	29.5
<b>Net Property Income</b>	<b>121.4</b>	<b>101.0</b>	<b>20.1</b>	<b>34.5</b>	<b>324.5</b>	<b>21.4</b>
Other Income	3.0	2.5	20.9	50.9	8.2	87.2
Trust expenses	(10.9)	(9.0)	20.9	40.6	(28.4)	20.6
Finance costs	(42.9)	(31.6)	35.7	84.1	(100.8)	50.9
<b>PAT</b>	<b>70.6</b>	<b>62.9</b>	<b>12.2</b>	<b>15.4</b>	<b>203.5</b>	<b>12.2</b>
EPU (sen)	1.9	1.9	(1.0)	(4.5)	6.1	3.2
DPU (sen)	0.0	4.4	n.m	n.m	4.4	8.1
<b>Margins</b>	<b>%</b>	<b>%</b>	<b>+/- ppt</b>	<b>+/- ppt</b>	<b>%</b>	<b>+/- ppt</b>
Net property income	60.9	63.1	(2.2)	(1.9)	62.9	(1.5)
PAT	35.4	39.3	(3.9)	(7.2)	39.5	(4.2)

Source: Pavilion REIT, UOB Kay Hian

#### RESULTS

- **Results above expectations.** Pavilion REIT (PREIT) reported 3Q23 revenue of RM199m (+24.5% qoq, +38.7% yoy) and net profit of RM70.6m (+12.2% qoq, +15.4% yoy). Cumulatively, 9M23 net profit of RM203.5m (+12.2% yoy) accounted for 74% and 70% of our and consensus full-year estimates respectively. We deem the results above expectations as we expect a robust 4Q23 from the return of Chinese tourists as well as a seasonally stronger 4Q. The positive deviation was mainly attributable to higher-than-expected contribution from Pavilion Bukit Jalil.
- Excluding Pavilion Bukit Jalil, 3Q23 revenue grew 6% qoq and 7% yoy while NPI grew 6% qoq and 3% yoy thanks to higher portfolio occupancies and higher retail sales on the back of improving consumer sentiment.
- 3Q23 EPU was lower by 1% qoq and 4.5% yoy despite an increase in net profit due to dilution from larger share base from the recent placement. No dividend was declared as PREIT normally declares dividends in the second and final quarters.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	489	570	711	837	893
EBITDA	210	332	410	459	489
Operating profit	209	332	410	459	489
Net profit (rep./act.)	125	398	282	325	357
Net profit (adj.)	126	246	282	325	357
EPU (sen)	4.1	8.1	7.7	8.9	9.8
DPU (sen)	4.4	8.4	7.9	8.3	8.9
PE (x)	29.0	14.8	15.5	13.5	12.3
P/B (x)	0.9	0.9	0.9	0.8	0.8
DPU Yld (%)	3.7	7.0	6.6	6.9	7.4
Net margin (%)	25.6	69.8	39.7	38.9	40.0
Net debt/(cash) to equity (%)	29.8	27.8	32.4	31.5	31.2
Interest cover (x)	2.5	3.9	3.2	3.4	3.7
ROE (%)	3.2	10.0	6.4	6.4	6.6
Consensus DPU (sen)	n.a.	n.a.	7.9	8.4	8.6
UOBKH/Consensus (x)	-	-	1.00	0.99	1.03

Source: Pavilion REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.20
Target Price	RM1.47
Upside	+22.9%
(Previous TP)	RM1.40)

#### COMPANY DESCRIPTION

Pavilion REIT is a real estate investment trust. Its portfolio includes the iconic Pavilion Shopping Mall and the Pavilion Office Tower.

#### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	PREIT MK
Shares issued (m):	3,652.3
Market cap (RMm):	4,382.8
Market cap (US\$m):	915.6
3-mth avg daily t'over (US\$m):	0.4

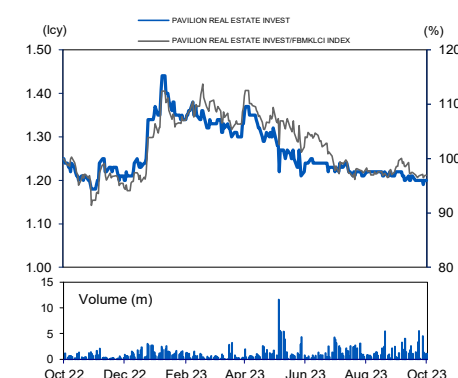
#### Price Performance (%)

52-week high/low			RM1.44/RM1.18	
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(1.6)	(2.4)	(9.8)	(3.2)	(0.8)

#### Major Shareholders

	%
Qatar Investment Authority	27.7
Lim Siew Choon	23.2
Employees Provident Fund	10.6
FY23 NAV/Share (RM)	1.31
FY23 Net Debt/Share (RM)	0.77

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **NPI margin was affected.** 9M23 operating expenses were higher 30% yoy on higher utilities charges as well as higher maintenance (parts replacement) and other operating expenses (related to acquisition cost and marketing expenses). Nonetheless, stronger turnover rent (about 15% of total rental) and rental reversion of 4-5% has partly cushioned the NPI compression.
- **Pavilion KL's 3Q23 revenue was higher 6% qoq and 7% yoy thanks to more tourists from China.** We expect a better 4Q23 as we foresee a higher number of Chinese tourists as well as festivities to spur better tenants' sales. Occupancy was higher at 96% in 3Q23 (2Q23: 93.9%; 3Q22: 90.8%).
- **Full quarter contribution from Pavilion Bukit Jalil.** Pavilion Bukit Jalil reported 3Q23 revenue of RM45m, accounting for 22.6% of total revenue. Occupancy has improved to 85% in 3Q23 (vs 83.6% in 2Q23 and 81.4% in end-Feb 23). Moving forward, management is targeting to increase occupancy towards the 90% level.
- **Pavilion Elite holding steady.** Revenue grew 9% qoq and 17% yoy while NPI jumped 20% qoq and 14% yoy thanks to its improving occupancy rate of 94% (2Q23: 93.6%; 3Q22: 89.9%).
- **Pavilion Tower occupancy remained at 66% at 3Q23.** 3Q23 NPI was lower (-45% qoq, -48% yoy) from lower revenue (-2% qoq; -13% yoy) likely on lower rental reversion as well as higher operating expenses. Nonetheless, as Pavilion Tower's contribution to PREIT is relatively small at 1.1%, the impact to the group's bottom line was marginal.
- **DaMen Mall's losses narrowed.** DaMen Mall continues to post a narrower net property loss of RM1.98m in 3Q23 (2Q23: RM2.2m loss, 3Q22: RM2.7m loss) thanks to an improvement in occupancy rate to 75% (2Q23: 72.2%; 3Q22: 61.1%). Management expects the mall to stabilise and occupancy to improve to 75-80% by year-end.
- **Intermark Mall remained resilient** with revenue growing 4% qoq and 6% yoy, contributed by higher occupancy of 90% (2Q23: 86.9%; 3Q22: 86.1%). NPI margin was 43% in 3Q23, close to pre-COVID-19 margin of 53% (2019).

### EARNINGS REVISION/RISK

- **We increase our net profit and EPU/DPU forecasts by 3-5% for 2023-25** to account for higher rental income from stronger tenants' sales and occupancies.

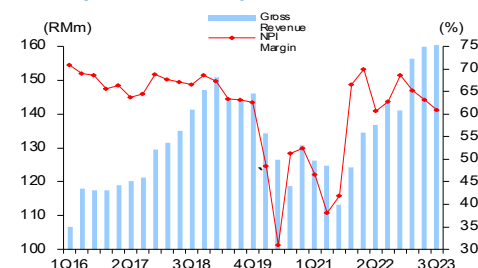
### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM1.47 (from RM1.40),** based on the Dividend Discount Model (required rate of return: 8.4%, terminal growth: 2%), with a 2024 implied yield of 5.6%. We like PREIT as the beneficiary from the return of Chinese tourists. We believe the current valuation is appealing as PREIT's forward yield spread to MGS of 2.51ppt has already widened above 1SD to five-year historical mean (1.36ppt).

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

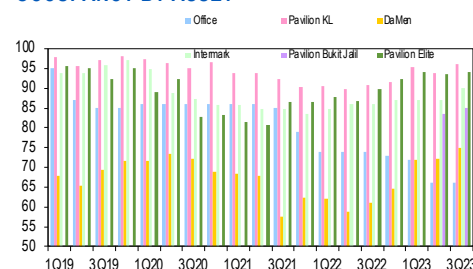
<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- Pavilion KL Mall has secured approximately 20% of renewable energy from Tenaga Nasional to date.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- Increased minimum wage to RM1,500 and this was also extended to our service providers to ensure they comply with the minimum wage policy.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Put in place an Anti-Bribery &amp; Corruption policy as well as its standard operating procedures that provide detailed guidance on eliminating corrupt practices within the business.</li> </ul> </li> </ul>

### REVENUE AND NPI MARGIN



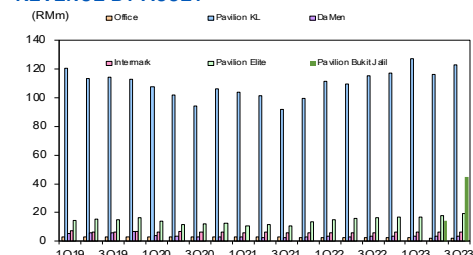
Source: PREIT, UOB Kay Hian

### OCCUPANCY BY ASSET



Source: PREIT, UOB Kay Hian

### REVENUE BY ASSET



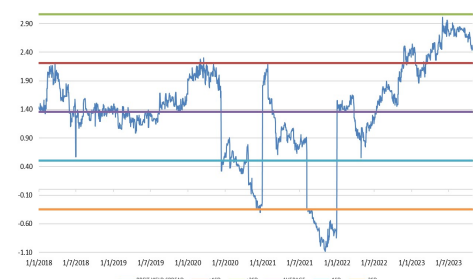
Source: PREIT, UOB Kay Hian

### ASSUMPTIONS

	2023F	2024F	2025F
Portfolio Occupancy (%)	89.4	90.2	92.8
Blended rental step-up (%)	+4.5	+4.5	+4.8

Source: UOB Kay Hian

### FORWARD YIELD SPREAD



Source: Bloomberg, UOB Kay Hian



## PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>570</b>	<b>711</b>	<b>837</b>	<b>893</b>
EBITDA	332	410	459	489
Deprec. & amort.	0	0	0	0
EBIT	332	410	459	489
Associate contributions	0	0	0	0
Net interest income/(expense)	(85)	(128)	(134)	(132)
<b>Pre-tax profit</b>	<b>398</b>	<b>282</b>	<b>325</b>	<b>357</b>
Tax	0	0	0	0
Minorities	0	0	0	0
<b>Net profit</b>	<b>398</b>	<b>282</b>	<b>325</b>	<b>357</b>
Net profit (adj.)	246	282	325	357

## BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	6,045	8,259	8,272	8,286
Other LT assets	1	1	1	1
Cash/ST investment	392	377	562	593
Other current assets	45	56	127	152
<b>Total assets</b>	<b>6,483</b>	<b>8,692</b>	<b>8,962</b>	<b>9,032</b>
ST debt	800	0	0	0
Other current liabilities	185	194	228	243
LT debt	1,394	3,204	3,364	3,375
Other LT liabilities	44	509	0	0
Shareholders' equity	4,060	4,786	5,370	5,414
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>6,483</b>	<b>8,692</b>	<b>8,962</b>	<b>9,032</b>

## CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>362</b>	<b>408</b>	<b>483</b>	<b>500</b>
Pre-tax profit	246	282	325	357
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Associates	0	(1,650)	(550)	0
Working capital changes	25	(2)	24	11
Other operating cashflows	90	1,778	684	132
<b>Investing</b>	<b>(8)</b>	<b>(1,664)</b>	<b>(564)</b>	<b>(14)</b>
Capex (growth)	(14)	(14)	(14)	(14)
Investments	0	(1,650)	(550)	0
Others	5	0	0	0
<b>Financing</b>	<b>(274)</b>	<b>1,238</b>	<b>266</b>	<b>(456)</b>
Distribution to unitholders	(203)	(288)	(302)	(325)
Issue of shares	0	720	550	0
Proceeds from borrowings	190	1,010	160	11
Loan repayment	(170)	0	0	0
Others/interest paid	(91)	(205)	(141)	(142)
<b>Net cash inflow (outflow)</b>	<b>79</b>	<b>(19)</b>	<b>185</b>	<b>31</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>316</b>	<b>395</b>	<b>377</b>	<b>562</b>
Changes due to forex impact	(3)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>392</b>	<b>377</b>	<b>562</b>	<b>593</b>

## KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	58.3	57.6	54.9	54.8
Pre-tax margin	69.8	39.7	38.9	40.0
Net margin	69.8	39.7	38.9	40.0
ROA	6.3	3.7	3.7	4.0
ROE	10.0	6.4	6.4	6.6
<b>Growth</b>				
Turnover	16.6	24.8	17.7	6.7
EBITDA	58.3	23.4	12.0	6.6
Pre-tax profit	217.6	(29.1)	15.2	9.8
Net profit	217.6	(29.1)	15.2	9.8
Net profit (adj.)	95.8	14.5	15.2	9.8
EPU	95.8	(4.8)	15.2	9.8
<b>Leverage</b>				
Debt to total capital	35.1	40.1	38.6	38.5
Debt to equity	33.8	36.8	37.6	37.5
Net debt/(cash) to equity	27.8	32.4	31.5	31.2
Interest cover (x)	3.9	3.2	3.4	3.7

## UOBKH HIGHLIGHTS

### Vitrox Corporation (VITRO MK/BUY/RM7.20/Target: RM8.10)

3Q23: Below Expectations; A Longer Wait For Cyclical Recovery

Year to 31 Dec	3Q23 (RMm)	qoq % chg	yoy % chg	9M23 (RMm)	yoy % chg	Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Revenue	150.0	0.4	(19.2)	432.7	(22.8)	Net Turnover	680	750	613	836	1,000
EBITDA	41.1	(6.9)	(26.8)	122.7	(24.4)	EBITDA	187	219	172	242	289
EBIT	38.6	(7.7)	(28.6)	115.2	(26.1)	Operating Profit	180	210	163	232	279
Finance Cost	(1.1)	3.1	62.6	(3.0)	159.6	Net Profit (Reported/Actual)	169	200	149	216	261
PBT	36.9	(8.8)	(30.4)	112.3	(27.1)	Net Profit (Adjusted)	169	200	149	216	261
Tax	(3.8)	30.0	59.5	(8.8)	276.8	EPS (sen)	17.9	21.2	15.8	22.9	27.7
Net Profit	33.3	(11.7)	(34.6)	103.9	(31.7)	PE (x)	40.1	33.9	45.5	31.5	26.0
						P/B (x)	9.6	7.8	7.1	6.3	5.5
<b>Margins</b>	<b>%</b>	<b>+/- ppt</b>	<b>+/- ppt</b>	<b>%</b>	<b>+/- ppt</b>	EV/EBITDA (x)	34.3	29.3	37.2	26.5	22.2
EBITDA	27.4	(2.2)	(2.9)	28.3	(0.6)	Dividend Yield (%)	0.9	1.3	0.9	1.4	1.7
PBT	24.6	(2.5)	(4.0)	25.9	(1.5)	Net Margin (%)	24.9	26.7	24.4	25.8	26.1
Core Net Profit	22.2	(3.0)	(5.2)	24.0	(3.1)	Net Debt/(Cash) to Equity (%)	(31.1)	(34.1)	(41.6)	(38.6)	(39.8)
						Interest Cover (x)	290.1	103.3	60.3	84.6	101.2
						ROE (%)	26.5	25.3	16.3	21.2	22.6
						Consensus Net Profit	-	-	168	233	274
						UOBKH/Consensus (x)	-	-	0.89	0.93	0.95

Source: Vitrox, UOB Kay Hian

## RESULTS

- **Below expectations.** Vitrox Corporation (Vitrox) reported a soft 3Q23 net profit of RM33.3m (-12% qoq, -35% yoy), bringing 9M23 net profit to RM103.9m (-32%) and accounting for 62%/60% of our/consensus estimates respectively. The negative deviation was mainly due to the demand push-out from its automated board inspection (ABI), amid the extended global economic challenges and a slower-than-anticipated cyclical recovery.
- **9M23 sales decreased 23% yoy**, predominantly dragged by the machine vision system (MVS) segment (-38%) which mainly serves semiconductor customers. On a higher effective tax rate of 8% (vs 9M22 tax expense of 2%), net profit dropped by a larger quantum of 32%. Qoq, revenue inched up 1% sequentially as a much better performance in MVS segment (+61%) was negated by a drop in the lion-share ABI segment (-19%). On an unfavourable product mix and a higher tax rate, net profit decreased 12%.
- **Slower global semiconductor sales growth in 2023.** After the high-teens yoy growth seen in 2022 for the major categories of semiconductor products, slower forecasts have been pencilled in for 2023, particularly for the memory and sensor segments. We believe this stems from an anticipation of demand slowdown in the PC and consumer electronics segment alongside the global consumption slowdown on a high-base effect. While Vitrox could not be fully spared from the industry-wide slowdown (we expect earnings growth consolidation for 2023), the group's book-to-bill ratio is hovering at slightly below 1.0x and on the verge above the parity.
- **Consolidation in 2023 after a record 2022; positioning for a rebound via its strategic segment exposure.** Segment-wise, while its ABI and MVS segments could continue to see sluggish demand for the rest of 2023, the group's efforts in continuous innovation of new products, coupled with its market expansion activities specifically from the automobile, telecommunication infrastructure and high-performance computer segments could lead to better prospects in the subsequent year. We expect the earnings growth to resume in 2024, underpinned by its strategic exposure to high-growth areas, ie the telecommunications infrastructure industry (due to 5G deployment), computing (AI and high performance computing), and automobiles (EV/autonomous driving) which are bottoming out from the cyclical low.

## EARNINGS REVISION/RISK

- After our model updates, we cut 2023-24 earnings estimates by -15% and -8% respectively to account for slower products push-out a prolonged slowdown.

## VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM8.10 (from RM8.70)**, still based on a 35.0x 2024 PE which is at the industry's average five-year mean. We like Vitrox for its structurally well-diversified revenue streams (in terms of geographical exposure, value chain, end-industry exposure and strong customer base), core competencies in vision inspection technology (which could drive a more favourable product mix) and decent earnings growth outlook in the long term (two-year net profit CAGR of 32% after a year of consolidation in 2023).

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### TRADERS' CORNER



Source: UOBKH ChartGenie

### Genetec Technology (GENE MK)

Technical BUY with +19.1% potential return

Last price: RM2.51

Target price: RM2.88, RM2.99

Support: RM2.25

Stop-loss: RM2.24

**BUY with a target price of RM2.99 and stop-loss at RM2.24.** Yesterday, the stock closed at RM2.51, which is above the BBI line. Currently, the 7-day EMA is crossing above the 21-day EMA, which is a bullish signal. This is consistent with the uptick in the RSI and the bullish crossover in the DMI, which suggest stronger buying momentum ahead. We peg our target prices at RM2.88 and RM2.99 in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading



Source: UOBKH ChartGenie

### RGB International (RGB MK)

Technical BUY on breakout with +26.5% potential return

Last price: RM0.31

Target price: RM0.37, RM0.405

Support: RM0.275

Stop-loss: RM0.27

**BUY on breakout with a target price of RM0.405 and stop-loss at RM0.27.** A successful rebound from the major support of RM0.275 has sent the stock higher. Yesterday's closing above the BBI line has kick-started a new up-leg. Given higher trading volumes and positive readings from both the MACD and the DMI, we expect an uptrend from here. Hence, we peg our targets at RM0.37 and RM0.405.

Expected timeframe: Two weeks to two months

Note: Not available for CFD Trading

### ANALYST

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